ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 167 Number 4680 New York, N. Y., Thursday, March 11, 1948 Price 30 Cents a Copy

It's Time to Recognize Inflation!

By THOMAS I. PARKINSON*
President, The Equitable Life Assurance Society of the U. S.

Asserting fiscal officials and many bankers aid in concealing inflation from public, Mr. Parkinson lays recent inflationary trend to gold supply and expanding bank credit. Denies more bank credit is needed to maintain government bond prices, and wants U. S. gold buying curbed.

In other countries which have experienced inflation in recent years, the prices of commodities and of equities have gone upward in line with the inflation and sometimes have exceeded it. Yet prices in this country in the past 10 years, in spite of their obvious rise, have lagged far behind the pace of our inflation.

T. I. Parkinson

What explains this difference in our experience compared with that, for example, of France and Italy? The most obvious answer is that in those countries they know what inflation is and in this country we don't know; and our fiscal officials, and many of our

(Continued on page 33)

*A statement by Mr. Parkinson distributed by Continental Press Syndicate, Brightwaters, N. Y.

Taxes and Government Spending

By HON. EUGENE D. MILLIKEN*
U. S. Senator from Colorado

Holding no government activity, whether old or new, should be allowed to claim sanctuary against sensible economy, Sen. Millikin points out, fixed commitments arising from war and postwar conditions makes impossible massive reduction in expenditures. Criticizes President's budget and spending policy, and says substantial economies can be achieved with Executive cooperation. Sees need of tax reduction to support formation of risk capital, and calls attention to sluggish action of stock market under boom conditions. Reveals harshness of steeply progressive income tax rates, and says "we shall not long be able to endure our taxing irrationalities."

There is more than a tenuous connection between my theme of "Taxes and Government Spending" and the overriding theme of this meeting, "The United States in the World Today."

It seems quite clear that our influence in the world today derives in the main from our help to the world in its relief and reconstruction problems, from our existing and potential military strength and the opportunities which we are at liberty to offer for the marketing here of foreign products.

Eugene D. Millikin

Manifestly, these factors of influence enhance or disintegrate in gear with the state of our Nation's economic health. And this

(Continued on page 26)

*An address by Sen. Millikin before the Economic Club of New York, New York City, March 4, 1948.

See PICTORIAL INSERT for pictures taken at 22nd Annual Dinner of the New York Security Dealers Association.

Market Forecasting

By EDMUND W. TABELL*
Market Analyst, Shields & Company
Members of New York Stock Exchange

Mr. Tabell, in presenting problem of when to buy or sell and what to buy and sell, describes methods used in studying causes and effects. Says statistical approach is mainly a study of causes, and technical approach, i.e., evaluating prices, is concerned mostly with analysis of effects. Explains various methods of forecasting trends and upholds practicability of Dow Theory. Analyzes present market situation and holds though we are still in a bear market, "time is running out for the bears." Concludes rails represent outstanding purchase at present.

Whether you are buying securities for investment or for speculation, there are two questions that are uppermost in your mind. One is, when to buy or sell; and the other is, what to buy or sell. Each of those questions is of equal importance. You might buy, let us say, General Motors. General Motors is a well entrenched, successful company. But you can buy General Motors or Allied Chemical or American Telephone or the securities of other successful companies at the wrong time. That is why the "when" approach is important. But the "what" to buy approach is equally impor-

Edmund W. Tabell

(Continued on page 34)

*Stenographic transcript, prepared for the "Chronicle," of a lecture delivered by Mr. Tabell before the Small Investors Forum, Columbia University, New York City, March 4, 1948.

EDITORIAL

As We See It

Central Banking—in 1948

About a dozen years ago, in one of the very last of his long list of contributions to financial sanity in this country, the late H. Parker Willis wrote:

"Nothing is more discouraging in the economic history of the past twenty-four years than the lush growth of erroneous, not to say, absurd economic and financial ideas among the political administrators who had happened to acquire great power. In every dictatorship of the sort, an inevitable necessity is found to be that of placating the discontent of large groups of citizens. Where such discontent is due to supposedly high prices, or the difficulty of borrowing at banks, the remedy that naturally suggests itself is that of making credit cheap and abundant, that all may be able to buy freely; or in rarer cases, of curbing credit in order to bring about a decline in prices. In such cases central banking becomes merely an adjunct to a dynasty of political dictators who desire to bring about an artificial redistribution of purchasing power and wealth. The future of central banking in

(Continued on page 25)

Market Effect of Large Accrued Dividend Payment

A Study in Economic Behavior

By O. K. BURRELL
Professor of Business Administration, University of Oregon

Prof. Burrell analyzes the effects of payment of large accumulated dividends under present taxation laws and stock market behavior. Concludes buying and selling in stock market is not invariably based upon calm and conservative value analyses and that those who sell stocks in advance of substantial payment on dividend arrearage in order to convert dividend into a capital gain may safely do so without fear others in similar circumstances will defeat their own purposes.

That a stock should decline in price on the ex dividend date by an amount equal to the dividend is a widely accepted belief. If X Utility Co. preferred is worth $115 per share the day before the ex dividend date, it is logical that it should sell at $95 the day it sells "ex" a $20 dividend. Twenty dollars per share has simply been subtracted from the former value. The price of $115 represented the value of the stock as a continuing investment plus the dividend. That the stock would decline from $115 to $95 on the ex dividend date seems almost as inevitable as gravity.


O. K. Burrell

Nevertheless, there is some reason to suppose that such market action is not at all inevitable. This reason has to do with the income tax on dividends. Dividends are not deemed to accrue as interest does. If an individual purchased a share of X Utility Preferred at 115 the day before the ex dividend date and received the $20 dividend, the entire amount would be taxable as ordinary income. A high bracket taxpayer who held X Utility Preferred might find it advantageous to sell the stock just prior to the ex dividend date and perhaps to repurchase on or shortly after this date.

If the stock had been held for more than 6 months and if the cost was less than 115, this would have the effect of converting what would otherwise be ordinary income and taxable at full rates into a long-term capital gain, taxable at an effective rate not to exceed 25%. Even if a loss were involved a high bracket taxpayer might find it advantageous to sell. If he waited more than 30 days to repurchase, he would not only avoid the accretion to ordinary income but in addition would have a capital loss which might be applied against other capital gains or applied (up to $1,000) against ordinary income or carried forward for similar application for five years. Even if the stock were repurchased within less than 30 days the accretion to ordinary income would be avoided, although the capital loss would not be deductible under the wash sale rule. The non-deductible capital loss would, however, be added to the cost basis of the repurchased stock and thus in effect carried forward.

It would appear that a strong incentive exists for middle and upper bracket taxpayers to sell stocks about to pay a large dividend and possibly to repurchase shortly after the ex-dividend date. If this is true, it is possible that the resulting competition of sellers immediately before the ex-dividend date and of buyers shortly after the ex-dividend date may prevent stocks about to pay a sizable dividend from declining

(Continued on page 28)

No Likelihood of Credit Stringency in 1948

By WILLIAM HURD HILLYER

Remarking that current bank loans are below 1929 level despite four-fold increase in bank deposits, Mr. Hillyer contends business borrowers do not face danger of a growing stringency of loanable funds. Points out credit conditions are easier than in period preceding 1920-21 recession, and banks now, through heavy government bond holdings, have ample means of obtaining added cash reserves. Sees no need to fear deflation spectre at present.

Now that bankers have tempered the optimism of their annual reports with more than a customary degree of caution, those millions of borrowers upon whom a bank normally depends for dividends are wondering what 1948 will bring them. They are particularly apprehensive because they can find no fitting parallel for present conditions. Contradictory warnings of deflation and inflation, from authorities Federal and professional, have further built up in the business mind a feeling of inescapable crisis. Meanwhile, with commodity markets in a down-slide, the bankers' utterances yield little more by way of guidance than the familiar dictum that this will be a tough year calling for exceptional courage. Fortunately there are figures, past and present, which resolve much of the confusion and provide bank borrowers of all categories with a basis upon which the forthcoming year may be judged.


William H. Hillyer

Let us first examine the lending ability of our banks. It is a fact, generally overlooked, that the aggregate of bank loans in this country are below the 1929 high level, despite a fourfold increase in adjusted demand deposits (not including government and intra-bank balances). As is evident from Table "A" herewith, the loan volume is still comparatively *low* on a 20-year average, as *related to deposits and potential reserves.* Emphasis upon the recent rise of "business" loans, as distinguished from loans to brokers and others on collateral security, has obscured a number of significant facts.

(1) Brokers' loans were roundly eight million dollars in 1929, as compared with only a million and a half at present. More currently, commercial loans (including open-market paper) have about doubled since 1943, rising from $7,770,000,000 at the end of that year to $14,760,000,000 in 1947. This has taken place while brokers' loans, after rising from $614,000,000 at the close of 1941 to above $3,100,000,000 in 1945, fell back to $1,500,000,000 where they have since remained stationary. Loans of all descriptions "for purchasing or carrying securities" have risen only $700,000,000 during the 6½-year period. Such retardation in collateral loans has made room for a corresponding rise in real estate mortgages and consumer credit, which have increased respectively from $4,700,000,000 to $8,200,000,000 and from near zero in 1941 to above five billion dollars at this writing. In other words, the placing of securities trading on a near-cash basis since 1932 has relaxed the pressure all around, so that there is more money available for all classes of borrowers.

(2) No borrowing category need suffer because banks lack funds. Commercial banking institutions are obtaining reserves from sources that were denied them in the 1929-32 stringency: through gold imports. The gold stock of our banking system was approximately four billion dollars in 1929 to support $40 billions of loans; whereas today we have $23 bil-

(Continued on page 30)

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, March 11, 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.

Measurement of Financial Sentiment

By LESTER V. PLUM
Economist, Calvin Bullock

Posing question: are present price-earnings ratios so low that the market could resist a decline in business earnings, Mr. Plum traces changes in financial sentiment and their effects on stock market prices since 1881. Points out influence of mass psychology on market trends, and concludes periods of optimism have apparently tended to become shorter, but wider in amplitude. Holds it would be too conservative to assume that 1929 crash could not happen again, or that peak of 1929 bull market cannot be again attained.

Most students would agree that market levels are influenced by earnings but that superimposed on this important factor is the element of market psychology. Philosophically speaking, it is probably impossible to measure states of psychology. But frequent references to the fact that current price earnings ratios are too low or too high imply that the analyst knows what is normal. If we could devise a criterion of normal price-earnings ratios based on historical evidence, variations above and below this normal could then be used as a rough index of basic changes in market sentiment over the past. Such evidence should be of some value in answering the $64 question today: Are present price-earnings ratios so low that the market could resist a decline in earnings? Even if past experience provides no simple pattern but only some indication of relative probabilities this is a firmer foundation for prediction than mystical attempts to read the mythical mind of the market.

Lester V. Plum

In seeking for a concept of normal price-earnings ratios one must remember that the rate at which current earnings are capitalized is influenced by more than one factor; (1) the prospect of future earnings; (2) the yield obtainable on high-grade fixed income securities; (3) the past record of established earning power; (4) the random variations in optimism and pessimism occasioned by wars, new-era psychology, financial stringency, and so forth. The first and last factors are reflections of the very psychological states which we wish to measure. And the influence of basic changes in psychology probably dwarfs the effect on the market of changes in yield from fixed income securities. This leaves the factor of established earning power as the one major factor which should **normally** affect price-earnings ratios.

Everyone is acquainted with the axiom of the conservative investor that earnings which are inflated above normal are worth a lower multiple of current earnings than those which are normal or subnormal. The concept of normal earning power must rest largely on judgment, but this judgment will be influenced in turn largely by the record of the past. Therefore, the rate at which current earnings are capitalized should be related somehow to the level of current earnings in terms of the past, say a percentage of the average of the preceding decade.

The Cowles Commission studies provide statistics going back to 1871. If one extends these statistics to the present by use of the Standard and Poor composite index and reasonable estimates of earnings on that index in the most recent years, a long period of time is available for study. Unfortunately, the statistics available are on an annual basis and do not permit detailed analysis of turning points within months or quarters. But an unbiased statistical correlation between annual price-earnings ratios and the amount by which current earnings are inflated or deflated relative to the preceding 10 years does reveal the existence of a definite relationship.

In discovering the existence of a relationship certain accepted statistical procedures have been used to minimize the influence of subjective judgment and personal bias. But the exact nature of the normal relationship can be established only after making certain arbitrary assumptions. This is particularly necessary to handle extreme cases, such as those occurring in 1932 and 1933, where the number of cases is too small to rely on the statistical concept of an average.

The basic assumption made is that the level of stock prices will indeed **normally** move up and down with current earnings, but less than proportionate to the change in earnings. The dampening effect of the historical record of normal earning power is assumed to be particularly strong when earnings are extremely deflated or inflated in terms of the past record. The reason is that while current earnings affect present yields, even the investor will give weight to potential capital gain or loss when stock prices go very low or high.

By computing variations in price-earnings ratios from the estimated normal a rough index of speculative sentiment over the past 67 years may be presumed to be available. A study of this index yields a variety of conclusions.

In the first place, as might be expected, no simple repetitious pattern is revealed. There is indeed unmistakable evidence of the influence of random variations in psychology caused by

(Continued on page 24)

The Benelux Union: A Step Towards European Integration?

By HEDY D. JELLINEK
Research Department, Federal Reserve Bank of New York

Federal Reserve official says customs union between Belgium, Luxembourg and the Netherlands has universal interest as indicator of workability of European economic integration. Asserts while Benelux has good chance for success, long period of adjustment will be required to solve differences in price structures, agricultural systems, and over-all economic policies.

During the discussions on the Marshall Plan, the idea of a customs union for Europe made its appearance several times as one of the possible remedies for Europe's ills. It was mentioned officially in the General Report of the Committee of European Cooperation, published in September 1947, but the Committee concluded that "no customs union can be brought into full and effective operation by a stroke of the pen" and that "a customs union, particularly between several large and highly industrialized countries involves complex technical negotiations and adjustments which can only be achieved by progressive stages over a period of years." While no agreement was reached in Paris on the question of a customs union for Western Europe, a study group was nevertheless set up by some of the governments represented on the Committee under the leadership of the Belgium-Luxembourg economic union and the Netherlands. This study group held its first meeting in Brussels in the middle of November, where it discussed some of the problems confronting the customs union between Belgium, Luxembourg, and the Netherlands.

Hedy D. Jellinek

This customs union popularly called "Benelux," is being generally watched as an indicator of the workability of European economic integration. Actually, the Benelux Union is blessed with circumstances so unusually favorable as to lessen its value as a criterion, since success in this case would not automatically indicate success in the case of other European nations bent on reaching the same goal. Its failure, on the other hand, would immediately eliminate all hopes entertained for a customs union elsewhere. While not a perfect standard of comparison, the Benelux experiment is nevertheless a highly useful example of the problems involved in regional economic collaboration and eventual integration. For this reason, it appears worthwhile to analyze its various aspects and to attempt an evaluation of its chances for success.

Background

The Benelux customs union is the result of a convention concluded by the three governments-in-exile on Sept. 5, 1944. This accord provided for the formation of a customs union as a first step towards the realization of complete economic union between the three countries.

The idea of integrating the economies of the Belgo-Luxembourg economic union and the Netherlands is not new, but dates back to the separation of Belgium from Holland in 1830, prior to which this area had been a single economic unit. Since the latter part of the nineteenth century several attempts towards reintegration have been made, all of them abortive. The last was the Ouchy agreement of 1932, in which the three countries agreed to lower their tariffs progressively in each other's favor, with a reduction of 10% foreseen each year until a general reduction of 50% had been achieved. This effort was doomed by the objections raised to it by the British and American Governments, who demanded most-favored-nation treatment under that agreement. A final attempt to revive it in 1937 failed. Nothing further was done until 1944 when the governments-in-exile of Belgium and the Netherlands returned once more to the project.

The aftermath of the war has underscored the reasons for economic union between the three countries. Economically weakened and with some of their foreign markets either partially or totally eliminated, especially Germany, they are now hoping to widen considerably their markets for each other's products by abolishing customs barriers between their borders, and eventually to narrow the gap left by the disappearance of the vast German market. Another important advantage is the improvement in their international bargaining position that will undoubtedly result from their becoming the fourth ranking area in international trade. Once in a stronger competitive position on the world market, they hope to win for themselves some of the markets formerly supplied by German industry. Thus, by regional cooperation leading to eventual integration, they hope to gain both the immediate advantage of increased production expected to result from the fusion of the Belgian-Luxembourg economic union and the Netherlands into a single market, and the long-run benefits to be reaped from a stronger position on the world market.

Scope of the Union

It should be noted at the outset in order to avoid a misunderstanding common on this subject, that the economic entity of Benelux which started operations on Jan. 1, 1948 is far from being an economic union, and cannot yet be called even a full customs union. It does, however, represent the first stage in a planned evolution, outlined in some detail as early as 1944, that is designed to reach eventually the state of full economic integration.

In this first stage, a common customs tariff *vis-a-vis* the rest of the world will come into force in the Benelux area, and the collection of duties against its members will be entirely eliminated. That this is not equivalent, however, to a customs union in the fullest sense of the word is apparent from the continued maintenance of customs frontiers between the participating countries. To illustrate, imports into the Netherlands from France will not be subject to customs procedures at the Franco-Belgian frontier,

(Continued on page 24)

Shortcomings of World Bank

By ROBERT S. BYFIELD
Member, New York Stock Exchange

Writer points out World Bank as set up at Bretton Woods can successfully operate only when anchored in a firm foundation of sound political and economic conditions. Holds it practically impossible for Bank not to be influenced by political considerations, and foresees need for its adherence to international cartels and other interventionist policies, if security of its loans is to be protected. Looks upon Bank as government-subsidized private corporation.

That the International Bank for Reconstruction and Development, popularly known as the World Bank, has been relegated to a subordinate position in filling the world's economic and financial needs in this transition era is already well known. Since July, 1944, when the Bank and its coordinate institution, the International Monetary Fund, were formulated at the Bretton Woods Conference, V-E and V-J days have come and gone. The Western world has had a look at the postwar period and the result has been anything but pleasing. The military victories over the Axis Nations have turned sour on our hands. International good-will and cooperation, the prerequisites for reestablishing international trade, rebuilding shattered economies and reorganizing bankrupt currency systems, are non-existent.

Robert S. Byfield

The world as it is in 1948 could scarcely have been accurately visualized at Bretton Woods in 1944, but the conference at that time was itself the culmination of over two years of work on the part of British and American Treasury experts. Stabilization plans had previously been made public both by Lord Keynes in London and by Dr. Harry White of the U. S. Treasury in Washington.

U. S. participation in the Bank and the Fund was provided for by Congress in July, 1945, at which time the National Advisory Council on International Monetary and Financial Problems was also established. This is a coordinating agency for representatives of the United States on the Bank, the Fund, the Export-Import Bank of Washington, and various other lending agencies of the Government.

By December 27th of that year sufficient countries had accepted the Articles of Agreement of the Bank to put them into effect. All important countries except Russia and New Zealand are now members.

In view of the world-wide unpredictable events since Bretton Woods, it is of interest to recall the chief purposes of the Bank as announced at that time:

(1) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes.

(2) To promote private foreign investments by means of guarantees or participations in loans and other investments made by private investors and to provide financing out of its own resources if private capital were not available on reasonable terms.

(3) To promote long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments.

(4) In short, its objectives are to promote the international flow of all types of capital for productive purposes.

A careful analysis of the foregoing goals leads us to the conclusion that, worthy and necessary as they are, their achievement on any scale such as was envisaged at Bretton Woods must await the redress of basic maladjustments in the international scene.

The Bank is a monetary organization—a financial plan. It cannot of itself create monetary stability, for its successful functioning must be based on monetary stablity which in turn must be anchored in a firm foundation of sound political and economic conditions.

These do not exist.

Everyone knows that banks cannot fight wars, but it is apparently not understood that even a gigantic institution of this kind cannot be effective under the tumultuous conditions of a "cold" war.

It is conceded that these observations may be controversial, but perhaps our point may be illustrated if we compare European post-war reconstruction to the building of a house.

The first task is to develop a proper mental attitude; that is, a will to build. Then comes the foundation and the erection of the basic structural elements.

These may be likened to political and financial stability including the creation of sound currency systems, and it goes without saying, the primary appeasement of hunger and basic housing needs.

Thereafter will come the installation of the plumbing, heating and electrical components which are admittedly essential to the proper functioning of the habitation.

These are comparable to the Bank, the Fund and other phases of the more advanced stages of rehabilitation and reconstruction. But this type of analogy does not go far enough.

The builders of our mythical house have employed Mr. Capitalism, a contractor with great experience, but who of late has had tough sledding. They haven't given him anything like a free

(Continued on page 23)

The State of Trade and Industry

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

Moderate improvement was noted in total industrial output last week with production for the most part well above the level prevailing in the similar week of 1947.

Order backlogs suffered some slight contraction as was true of previous weeks, though demand for most manufactured goods continued to be substantial.

Industrial users of steel and steel products experienced some difficulty in an attempt to fill their requirements, notwithstanding the fact that steel ingot output continued to advance for the second successive week. Most producers, however, were able to obtain an adequate supply of raw materials and were bothered little by labor disputes.

* * *

In the automotive industry, according to Ward's Automotive Reports, the industrial gas shutdown is reflected in preliminary totals for February, which list only 274,694 cars and 109,525 trucks made in the U. S., for an aggregate of 384,219. This is only slightly higher than the 379,158 made in the same month last year and well below the 424,872 turned out during January.

The trade authority reported that February compilations for Canada bring the total output for both countries to 400,582, and estimated production to date this year at 952,212 vehicles.

The turnout last week, Ward's declared, probably would have exceeded the preceding week's, if General Motors had not been forced to cut back because of sheet steel shortages. G. M. plants in this country made only an estimated 39,720 cars and trucks the past week, far below the 47,000 shown in revised figures for the preceding week.

* * *

There were 11,000 stock companies incorporated in the United States during January, 1948, according to the latest compilation by Dun & Bradstreet, Inc. This represented an increase of 874, or 8.6%, from the December figure of 10,126 and was the highest total for any month since January, 1947, when 12,112 new businesses were incorporated. The January, 1948, figure was 9.2% below the January, 1947, total and 15.4% below the record-breaking high of 13,006 in January, 1946.

Nearly one-half of the 11,000 January charterings were concentrated in the five States of California, Illinois, New Jersey, New York, and Ohio. New York had 2,747 incorporations, the highest number for any individual state, while California was second with 840 and Illinois was third with 629; in fourth and fifth positions were Ohio and New Jersey with 504 and 415, respectively.

* * *

Growing evidence of a tightening in credit is being reflected by banks and, states "Business Week" magazine, in its current editorial, "Bankers are not only edging up interest rates and want quicker repayment, but have also turned cautious about the kinds of loans they will grant regardless of rates and terms. In New York, some of the big banks not long ago were scuffling with each other to make term loans at 1½% to 2%, and now they are happy to leave that business to the insurance companies. Southern bankers are beginning to cock a wary eye at the textile industry and in the Far West, the recent spill in commodity prices has set bankers hurriedly looking over loans that depend directly or indirectly on inventories of raw materials."

For the banking system as a whole, states the magazine, there are at least four things that help explain the new policy. The first is the mildly restrictive measures that the Federal Reserve Board has applied to the money markets under the leadership of Marriner S. Eccles. The second is the repeated warnings for caution in lending policies from federal and state bank supervisory authorities. Third in order, the campaign for voluntary restraint now being conducted by the American Bankers Association, and fourth, a general uneasiness among bankers over the rapid increase in loans to business and agriculture in the past two years.

* * *

The dollar volume of retail trade rose slightly during the week and remained moderately above the level of the like period a year ago. Favorable weather in some areas and promotional sales of spring merchandise stimulated consumer buying. Shoppers continued to insist upon good quality and moderate prices. Easter apparel and articles for home sewing attracted considerable attention.

Wholesale volume increased slightly in the week with a sharp rise in buyer attendance at the wholesale centers. Some retailers restricted their purchasing to current needs while awaiting the consumer reaction to goods already in stock.

STEEL OUTPUT SCHEDULED AT 96.6% OF CAPACITY

The steel gray market this week is on the wane. High premium prices that obtained no more than a week ago are finding few if any takers this week. Steel consumers who a month ago were anxious to buy steel at gray market prices are staying away from such sources in droves, according to "The Iron Age," national metalworking weekly, in its current review of the steel market.

While it is true that a considerable amount of steel is still being sold in the premium market at higher than mill prices, the crackup in the super gray market will begin to filter down, states the trade paper. Already conversion deals which utilize ingots purchased on the outside and processed into flat-rolled material are falling apart in those instances where third quarter demand was involved.

Conversion operations for the first and second quarters of this year are still being held intact, but beyond that date there is a wall of silence which is causing first class jitters for ingot makers who have supplied the raw material, the magazine adds.

Automotive companies are the chief factors in putting up resistance against conversion deals beyond the second quarter of this year. One of the large automotive companies has even broken up its conversion plans for the second quarter and spewed its unconverted material into the open market for sale—with few takers, notes "The Iron Age."

It is now certain that hundreds of steel fabricators who were

(Continued on page 39)

Observations . . . .

By A. WILFRED MAY

"THE MARKET" VERSUS STOCKS

As usual, much of the current investment comment insists on referring to "the market" rather than to stocks. This error, which is like overlooking the truism that a nation is a composite of diverse individuals, is particularly acute under present conditions.

A. Wilfred May

The high degree of selectivity of the market is quantitatively evidenced by the actual divergent movements of individual equities and groups. The long-term record shows that since 1929, although the Dow-Jones average has declined by almost 50%, 185 individual issues are now selling above their former peaks. 147 stocks are higher than in both 1929 and their 1937 bull market highs, while 38 issues are higher than 1929 but lower than 1937. Likewise over the shorter term, since the beginning of 1947, although the Dow-Jones average of industrial shares has fluctuated within the unusually narrow limits of a 7% range around the median, and shows a mere net decline of 5½% in the interval, nevertheless individual issues have advanced and others declined by as much as 50%. This has likewise applied to groups, as for example in the wide declines in the motion picture and distilling industries, and contrariwise in advances in petroleum, steel, agricultural machinery, and storage battery stocks.

The Dow-Jones industrials are now selling at about nine times their 1947 earnings, whereas a multitude of other equities are obtainable at four-to-five times earnings. Similar is the latters' contrast with the comparatively low 5½% dividend yield on the D-J companies. And even among the stocks comprising the Average, disparities in capital appreciation and dividend performance are notable.

Thus far this year we note that aircraft and airline issues have out-performed the averages, and practically each day a number of new highs and lows for the year are being simultaneously registered.

Inspection of investment company portfolios will attest to the contrasting dynamism and decadence of different sections of the securities market. For today's net result of these expert managers having used the most painstaking and informed judgment is typically manifested by a component of desirable issues combined with those that have gone stale. Thus, the discounts of 10 to 40% at which all but one of the closed-end trusts are now selling in the market, reflect the public's realization of trust managers' difficulties in combating the selectivity element which obstructs their policy of consistently attempting to "beat the market" with capital gains.

Qualitative Selectivity

Unfortunately for the lazy speculator, much more must be done than practicing his selectivity on a statistical basis. At the close of his splendid annual report for 1947 President F. C. Crawford (former NAM President) wisely cautions: "We wish that we might confine this report to the statistical comparisons that mark 1947 as our outstanding peacetime year. However, while these tangible results do justify a measure of satisfaction, we cannot overlook the uncertainties that are an inherent part of today's conditions." Mr. Crawford then goes on to cite the corporate risks arising from inflated wages, prices, inventories and slow deliveries. Not only are these factors impossible to measure quantitatively, but they vary from industry to industry, and even from company to company within a single industry. Most textile, meat, and retail companies have not been able to escape from the devotion of cash earnings and reserves to unit-expanded and high-priced inventories, with impaired liquidity—in contrast to rails and utilities. Such sharp balance sheet differentiations also frequently occur between companies within an industry, and must be scrutinized by the intelligent investor.

"New Era" vs. Cyclical Companies

At this postwar stage of our economy the long-term investor or speculator must take note of likely "New Era" attributes of some industries, as against the cyclical nature of other reported earnings —despite the fact that in many cases *both* categories are priced at very low price-earnings ratios. Included in the former group may well be the aircrafts, liquors, certain chemicals, and possibly even railroads; and in the latter declining category: retail stores, coppers, and oils. If our diagnosis is correct, the former shares will rise over the long-term while the latter are falling.

And of course the variegated incidence of a Defense Economy must be carefully taken into account.

* * *

In any event, and irrespective of the course of the domestic and world's political and economic events, and the manner of their repercussions on the investment markets, it is becoming increasingly evident that the thorough security analyst, concerning himself with selective appraisal of individual issues, rather than with a fantastic concept of "the market" as a whole, will be indispensable!

Wm. D. Riggs Honored By Staff of "Chronicle"

William Delaney Riggs, business and advertising manager of the "Commercial and Financial Chronicle," was honored by the "Chronicle's" employees, for his 50 years of continuous service, with a dinner given at Miller's Restaurant on March 9. A gift was presented to Mr. Riggs by his associates at the gathering.

Among those attending were: Herbert D. Seibert, editor and publisher of the "Chronicle"; William D. Seibert, President, and other officials and members of the staff. A number of former "Chronicle" employees from the financial district also were present.

Mr. Riggs comes of a long line of newspaper men. His brother, Charles C. Riggs, Chairman of Lamborn & Co., formerly was associated with the "Chronicle."

The Dynamic Aviation Scene

By SELIG ALTSCHUL*

Financial Consultant, Congressional Aviation Policy Board

Congressional adviser defines in detail legislative status of air defense program. Asserts despite pressure for general budget curbs, Congress will find it impossible to resist pressure for increased aircraft appropriations. In airline and manufacturing industries Mr. Altschul looks for long-term prosperity, dominated by very high degree of selectivity between companies.

I want to make it clear that I speak in a private capacity and not as an official spokesman of the Congressional Aviation Policy Board. We prepared certain studies for the guidance of the Board; some of our recommendations were accepted, others were not.

Selig Altschul

The final responsibility of the report rests with the Board itself. It is a fine report and must be viewed as a constructive contribution to the aviation development of the country. It was a great privilege to have participated in the proceedings leading to the final product.

To be most helpful to you today, I would like to discuss only a few of the more important recommendations of the Board along with such observations and background that I may be able to properly disclose and which may be of interest to you.

It is extremely important to dispell some widespread misconceptions as to what the Board did or did not recommend. Newspaper reports have fostered the popular belief that the Board called for a five year aircraft procurement program ranging upwards to about $17 billion.

This simply isn't so.

All the Board did, was to *disclose* the statement of requirements prepared by the Navy and Air Forces separately, and summarized under so-called Plans A and B. At no time, however, does the Board endorse or recommend such proposals.

The failure of the Secretary of Defense to formulate a master plan has been a major hinderance to the Board. Perhaps this is one reason why the Board refrained from making specific recommendations as to the level of aircraft expenditures.

This same information was requested from the Secretary of Defense by the President's Air Policy Commission in July, 1947, but at no time was it forthcoming. It is small wonder that the Congressional group was very much displeased.

The Board significantly declared that it "notes with deep concern that the 1948-49 armed services budgets are in amounts arbitrarily allocated by the Bureau of the Budget. They do not even approximate the stated requirements of the services."

In a strong recommendation, the Board urges the Joint Chiefs of Staff, through the Secretary of Defense, to present to the President and the Congress, not later than June 30 1948, a realistic national program. The main determination is to effect the adoption of unified plans.

In other words, the ball has been passed to the Joint Chiefs of Staff. They will be forced to advance more definite plans as to what a unified aircraft program should entail.

And you may feel certain that the Joint Chiefs of Staff will really bestir themselves in this direction.

The request for action comes from a Congressional group and it is the Congress which makes the appropriations. The Secretary of Defense will be forced to justify his requests in the 1949 budget and is hardly in a position to ignore the Board's repeated admonitions.

Another compelling reason for the Board's reluctance to take a stand on the level of aircraft expenditures may be found in the jealously guarded prerogatives of Congressional appropriation committees. It is easy for an outside group to propose large expenditures but it is something else again for a number of Congressmen to try to tell other Congressmen what to do.

The Congressional Air Policy Board also took a realistic view of the relationship defense expenditures occupy in the total Federal Budget.

It is for this reason, that some attempt was made to estimate and project all budget elements. Included are estimates for Universal Military Training and the Marshall Plan. The inclusion of such items, however, is no indication of their endorsement by the Board any more than approval of Plans A or B.

The Two Plans

Now, what are Plans A and B and what do they mean?

Simply this, the Air Force and Navy submitted, separately, their conceptions of requirements under two sets of conditions.

Plan A summarizes the initial strength necessary to wage an effective air *offensive* against a major enemy. Plan B is slightly less ambitious, primarily without a reserve, and is intended to permit a *defensive* military action.

Plan B would require a combined aircraft procurement program of 63 million pounds annually for the next five years. Plan A would step aircraft production to an average of 111 million pounds annually during this five-year period. By contrast, in the

(Continued on page 32)

*An address by Mr. Altschul before N. Y. Society of Security Analysts, March 9, 1948.

A Stock Market Paradox

By J. ALLEN HARVEY*

Mr. Harvey, noting general business is at peak while stock market is at bottom, looks for improvement when public faith is reestablished in our economy and current plethora of uninvested funds flows into corporate equities.

We find business at peak levels, and its counterpart, the stock market, at almost the bottom of a two-year downward move, with very little public faith in our corporate form of economy. We spent $250 billion to win the war, and it looks like another $50 billion to maintain the peace. We have wages at an all-time high, both in amount and on an hourly rate, and yet the babies need shoes.

Joshua Allen Harvey

As a result of Government deficit financing to the tune of well over $200 billion in order to finance the war, we have a plethora of funds out with the public and resting in many different places. Of this amount, over $28 billion is floating. An over-supply of money, like an over-supply of water must find some place to flow, and it will not play hide and seek in a rock. As likely as not the market level of our common stock equities may present us with another paradoxical picture by moving up, while business in its inscrutable way eliminates the cancerous spots in our economy while dropping to a lower level of activity. Should this happen many counselling services and the so-called economic experts will have to do a nimble bit of crawfishing with the failure of their prognostications of a much lower market level for common stocks. Look at the paradoxical picture of our business level of activity and our market averages of common stock of the Dow-Jones Industrial Average since the end of the war in August, 1945:

	Dow-Jones Indust. Avgs.	FRB Level of Business Activity	Times Earnings
Aug. 17, 1945	164.38	186	---
May 29, 1946	212.50 + 29%	159 — 14%	22.8
May 17, 1947	163.21 — 23%	185 + 16%	8.5
Feb. 10, 1948	165.65	191	9.5

Who will give odds this pattern will not continue for the year 1948?

Our capitalistic corporate form of economy was the most important single factor contributing to winning the war and must, of necessity, be the most important factor in combating any world-wide communistic move. When the public's faith is re-established in our form of economy, then the plethora of funds will flow into our corporate equities. If at this time these equities are selling at 10 times earnings rather than at 20 times so much faster the flow. It will not be because of inflation psychology that this will happen. Just the opposite. They will flow there because it is a place of safety where they will produce earnings and income and, above all else, they will represent a part ownership of our country's resources.

*Mr. Harvey is associated with the St. Louis office of A. G. Edwards & Sons, members New York Stock Exchange.

Regulations T and U Amended

In a press statement issued by the Board of Governors of the Federal Reserve System on March 9, it is stated that effective April 1, 1948, the Board of Governors of the Federal Reserve System has made technical amendments to its Regulations T and U in order to permit a customer to make substitutions in an undermargined account (one having a margin of less than 75%) without having to supply additional margin. Such substitutions in an account may be made, for example, by the sale of one security and the purchase of another. Previously such substitutions were limited by the rule that the proceeds of sales of securities in an undermargined account be used to the extent necessary to increase the margin on the remaining securities until it is on the 75% basis. The amendments do not add to the amount of credit available for stock market transactions under existing regulations.

The text of Regulation T, relating to substitutions, as amended, reads as follows:

"No withdrawal of cash or registered or exempted securities shall be permissible if the account, after such withdrawal, would have an adjusted debit balance exceeding the maximum loan value of the securities in the account, except that (1) cash may be withdrawn upon the deposit in the account of securities having maximum loan value at last as great as the amount of such cash, or (2) securities may be withdrawn upon the deposit in the account of cash, securities, or both, such that the **maximum loan value** of the securities deposited (plus the amount of any cash deposited) is at least as great as the **maximum loan value** of the securities withdrawn, and the current market value of the securities deposited (plus the amount of any cash deposited) is at least as great as the **current market value** of the securities withdrawn."

From Washington Ahead of the News

By CARLISLE BARGERON

When it comes to being ridiculous there are no two groups in our heterogeneous midst to exceed the Washington correspondents and their publishers. In fact, when they get out of their original role they can be more absurd than the usual run.

Carlisle Bargeron

Just now there is a recrudescence of their excitement of a few months ago over the issuance of orders by the White House that the subordinates in government had to quit prattling to newspapermen. At the time, publication of the order raised an outcry of censorship. Then last Saturday night at the White House Correspondents' Annual Dinner, the Raymond Clapper award of $500 was given to Nat Finney of the Cowles newspapers for "exposing" this government censorship attempt.

Mr. Truman gracefully presented the award; then apparently said in an aside to Mr. Finney, in effect, that this was the first time he had ever known a reporter to get a prize for a story from the fourth assistant to the third assistant of something. The outcry against government censorship was revived. Mr. Truman's thrust, it is said, shows his pique at being thwarted in his effort to impose censorship. If it were not for the alertness of the free American press, they say, Mr. Truman would certainly put this censorship over. Long live the American free press.

It sounds good but it is the bunk.

I have forgotten the phrasing of the original White House order if I ever saw it. But I knew quite well at the time what its objective was. It was intended to put an end to the practice, ever since the New Deal got underway, of subordinates feeding poison to columnists and other newspapermen against their superiors. The columnists have thrived on this reprehensible crew; I am surprised that the other newspapermen would be concerned over an effort to limit these subordinates' disloyalty.

It is not a situation of the superiors being crooks and the subordinates being boiling-over patriots who can't keep silent at what they know to be going on. It is a case of the lower levels being saturated with left-wing bright young minds who seek to steer their superiors in the way they think they should go, by feeding smear stuff to the columnists. In many instances they are paid: their tattle-tale stuff bought and paid for.

Manifestly, the youngster's stuff has to be one-sided, gleaned from the narrow post of a corporal in the trenches, with no understanding of the broader purpose of his superior.

The situation which flourished under Roosevelt and which kept official Washington in a continual stew, before Pearl Harbor and afterwards, which kept up a constant conflict and bickering when men should have been working together, took a new twist after Truman's ascension to the throne. Then it came to be used as a smear against the conservatives whom Truman placed around him: Byrnes, Snyder, Steelman, for example.

It is this situation which the White House tried to get at, and if the publishers and the correspondents insist the underlings of government should be permitted to run to them with over-the-fence gossip against their superiors, they are on unsound ground.

I, for one, do not care if every employee in the government is prohibited by decree from talking with me. That is not censorship.

Censorship is something that must be applied against me to constitute censorship. I have no complaint against any obstacles which may be put in my path against getting the news. When I am told I can't write the news I get, that is censorship.

And I must say that I would certainly look askance at some underling who sought to feed me poison against his boss. I must say, too, that none of them has ever attempted to peddle his stuff with me. They know who to peddle it with.

I have friends, of course, who tell me of things but they are not doing it with a view to getting their bosses in a scandal.

The truth is that Mr. Truman was justifiably disgusted over the award to Mr. Finney. These newspaper awards to Washington correspondents have come to be left-ist rackets. I say this freely because I got one myself once.

There are three of them a year, I believe: The Pulitzer Prize, one given by the Atlantic City Chamber of Commerce and the one in the name of Clapper. I have never known a correspondent to get one of these awards who did not deserve recognition, including myself, but not for the particular job for which he got the award.

Mr. Finney is certainly capable of recognition, but my guess is that he was just about as surprised to get it for this job as the next one. This is true of Mr. Burt Andrews of the "Herald-Tribune," who got some sort of an award recently for an "exposure" of a Mr. Blank's experiences before the Civil Service Loyalty Board, and of Mr. Edward T. Follard of the Washington "Post," who got the last Pulitzer award for a series of stories on some Klan-like group in Georgia, having a membership of at least 100 people.

W. L. Canady & Co. Formed in New York

Announcement is made of the formation of W. L. Canady & Co., Inc., to transact a general business in investment securities. The firm will maintain offices at 52 Wall Street, New York City.

Mr. Canady was formerly President of Paul & Co., Inc. of Philadelphia, maintaining his headquarters in New York City. The New York office of the latter firm has been closed, with Mr. Canady resigning to form his own firm.

Now French, Rogers & Co.

HOUSTON, TEX.—The firm name of R. D. French & Co., City National Bank Building, has been changed to French, Rogers & Co. Principals of the firm remain the same.

Russell, Long & Burkholder

LEXINGTON, KY.—The name of Russell & Long, 257 West Short Street, has been changed to Russell, Long & Burkholder.

Problems of Foreign Aid Program

By HON. LEO E. ALLEN*

Chairman, Rules Committee, House of Representatives
Congressman from Illinois

Warning we are not building new wealth or repairing war waste, head of powerful House Rules Committee stresses aim of present Congress to bring about a sensible balanced government by checking carefully appropriations. Defends outlays for Marshall Plan as avoiding larger future national defense costs, but warns we must safeguard economy and efficiency of foreign aid granted, and demand international cooperation and efficiency, also economy and honesty of highest order to keep costs down.

At Gettysburg, over 80 years ago, Abraham Lincoln said: "The World Will Little Note, Nor Long Remember What We Say Here, But It Will Never Forget What They Did Here." The Great President was speaking to a patriotic group who had met to pay honor to the men who had given their lives on that battlefield, in order that this nation should not perish from the earth.

Leo E. Allen

As at Gettysburg, we meet here with equal patriotism, feeling a deep sense of gratitude that we are privileged to share in the great responsibilities that confront every American. Truly, this should call to our minds the statement made by Benjamin Franklin, when he, along with others, was ardently struggling with the formation of the Constitution. The mob in the streets called "Franklin what are you trying to give us?" He turned to them and replied scornfully; "A Republic—if you can keep it."

We should remind ourselves constantly that such men have projected our republic—at the same time challenging us: "Can you keep it?"

As we meet here in true Americanism we must be mindful there are scores of other meetings throughout our nation that are being held with an entirely different motive. They would tear down the pillars which have given our people more liberty, freedom, contentment than possessed by any people since the beginning of time. In order for us to remain successful, it will require the greatest perseverance, patriotism, and vigilance on the part of all of us.

Hard work, individual initiative, and just rewards for labor, made this nation great, and can keep this nation great. The question is—shall the people work and prosper under our system of free enterprise, or follow the teachings of those favoring varying kinds of "isms"—and stagnate under that kind of leadership.

For three centuries, work was the creed of Americans. The early settlers had to work to survive. The founders of this nation had to work, or there could have been no nation.

Honor went to those who achieved success in any field by hard work. Carnegie and Schwab in the field of steel—Hill and Gould in the field of railroads—Ford and Chrysler in the field of transportation — Burbank and Lowden in the field of agriculture—Morse and Bell in the field of communication—Armour and Swift in the field of packing.

Out of our industry there was created an industrial structure which stands unparalleled in history. The nation could afford the luxuries of churches, schools, hospitals, and numerous social institutions and associations. Every small town, as well as large cities, had newspapers and other vehicles of information and free expression of opinion.

Danger of Not Building New Wealth

Our danger is that while we are consuming our savings of the past in wars, relief, and aids, we are not presently building new wealth. As our savings decrease—and the national debt is the best example of the decrease—prices rise, wages grow meaningless because of higher prices, and the tax burden becomes an unbearable impediment to new development and greater output.

With the end of recent hostilities, many people thought that everything was accomplished—that they could sit back to a life of happiness and contentment. That just couldn't be. How could it—with the destruction of over a trillion dollars in property. An amount that would build a million dollar hospital, fully equipped, for every city, village and hamlet throughout the world. An amount that would build a $3,000 home for every family throughout the world. An amount that would send every high school graduate to college for the next ten centuries. So I say to you—our work has but begun.

War settles nothing. War achieves no economic benefits for any people—whether they be the conquered or the conquerors. War merely demonstrates man's inability to govern his passions and selfishness.

The position of the United States in the world today has become that of a fountain head and a hitching post for all other democratic, or semi-democratic, nations in the world. A fountain head, because they rely upon us largely for the raw materials to supply their industry—or for manufactured goods to supplement their own manufacture. We are a hitching post, because almost every democratic nation looks to us as an anchorage for their storm tossed economies. Therefore, any major disturbance in the national economy of the United States might be like an "Economic Atomic Bomb" setting off a chain reaction which could easily destroy not only the economies—but the governments of all the nations which have anchored their destinies to ours. Whether we like it or not, this is our position in the world today. It is a position of grave responsibility, and one which requires statesmanship and sagacity. There is wide divergence in opinions on how we can best discharge our responsibilities in the international field. My own opinion is, that above all, if we are to help others we must be certain that our own economy is safe. If American economy fails, world economy fails.

Economy Functions of Rules Committee

United States economy and the Committee on Rules of The House of Representatives go hand in hand. The Rules Committee of which I am Chairman is responsible for most legislation that is considered by The House. Conversily we are accountable for most proposed legislation that never reaches that destination. During the past session of Congress thousands of bills and resolutions were introduced in Congress—all with some merit. Frequently I receive letters asking me why the Rules Committee has held up certain measures. Often the particular bills may have considerable merit. I am certain I need not say that if we passed out all bills with some merit, and they were enacted into law, national expenditures would exceed government revenue by many tens of billions of dollars. You ask many people—are you for the biggest army, the biggest navy, the biggest air force, the biggest marine corps in the world?—and their reply is "Yes." You ask them if they favor spending billions of dollars for atomic bomb development, scientific research regarding methods for modern warfare, a large army and navy reserve, national guard, R. O. T. C., and universal military conscription—and their reply is "Yes." You ask them if they favor taking care of our veterans through college subsistence and on-the-job training at a cost of billions—their answer is "Yes." You ask them if they favor adequate care for the disabled veterans, their widows and orphans—their answer is "Yes." You ask them if they believe the old people should be provided for comfortably, the answer is "Yes." You ask them if they favored the British Loan, The Greek Turkey Loan, The Interim Aid Measure—and their answer is "Yes." You ask them if they favor the Marshall Plan—and their answer is "Yes." You ask them if they favor Federal grants for airports, roads, and education and many say "Yes." Naturally all favor paying the interest on our national debt amounting to over five billions of dollars per annum.

All of these measures, along with many others have received the most careful attention of the Rules Committee. Obviously, if all of these bills were enacted into

(Continued on page 31)

*An address by Congressman Allen before the Economic Club of New York, New York City, March 4, 1948.

Tax Reduction Essential to Obtain Risk Capital

By EMIL SCHRAM*

President, New York Stock Exchange

Warning of shortage of risk capital, Mr. Schram urges passage of House Tax Reduction Bill, together with a reduction of the Capital Gains Tax to 12½% and elimination of double taxation of dividends. Sees need for investment incentive and a healthy risk capital market as means of maintaining full employment and full production, or alternative of government providing industry with capital funds. Cites substantial decline in ratio of stock represented in total of new corporate financing, and says withdrawal of stock exchange registrations is sign of unhealthy capital market.

Prior to a few weeks ago and since the end of the war, inflation and the threat of more inflation leading to a sharp increase in the cost of living has been our chief domestic concern. I have never been as apprehensive as many others have been with respect to the danger of a runaway inflation of the price level. I recognize that inflation is, to a large extent, a state of mind. The psychological impact of our acts under these conditions must be carefully weighed. This consideration I have taken into account in appearing here today.

Emil Schram

Mr. Chairman, this Committee nears the end of exhaustive hearings. I have followed the proceedings most carefully. The record has been thoroughly documented. In fact, by this time you gentlemen must be fairly well saturated with all necessary statistics and factual data. I will try to avoid extending the record in this respect. However, if there are any questions on the part of the members of the Committee that I feel qualified to answer, I shall be glad to do so, or I will be pleased to supply additional statistical or factual information if requested.

Before leaving the question of inflation, which has been a burning issue in several attempts to enact tax legislation, my contacts and observations clearly reveal that production rolls at a most satisfactory rate. As an example, in the week ended Feb. 28, last, 121,298 passenger cars and trucks were produced, representing an annual rate of 6 million units, while for the corresponding week of 1947 the figure was 108,497 units; but for the same week two years ago, when we were floundering in getting our bearings after the war, production amounted to only 17,575 units. I could go on and on. The fact is that we have buckled down to work. There is concrete evidence that price and supply are fast becoming the controlling factors. In other words, it is as it should be: "Consumer Is King." So much for the good.

Risk Capital Markets Not Healthy

There are definite spots in the economy that do not make as pleasant reading. Make no mistake about it, our risk capital markets are far from being in a healthy condition. Before supporting this statement of fact—the problem which has really brought me here today—I wish to state that I endorse passage of this bill, H.R. 4790, now before this Committee. I assume from what I have gathered that this Committee may see fit to modify some of its present provisions. I hope your deliberations will result in your indorsing the community property feature and the raising of the base of exemptions from $500 to $600. I appreciate the problems confronting you gentlemen in gauging the revenue aspects of these various proposals in the interest of adequate Federal revenues and sound money.

I do not appear here today with any thought of telling you experienced gentlemen how to write a tax bill. It has always made good sense to me that, after having taken care of our foreign and domestic commitments in the immediate postwar years, we should use any sizable surplus in the proportion of about one-half for debt reduction and one-half for tax relief. We continue to struggle under the weight of heavy wartime individual tax rates and the burden in practically all brackets has become almost unbearable unless we are willing to permit the lowering of the standard of living of many classes of our people. I do not exaggerate the case when I put it bluntly in that manner. It suffices to say that a surplus that gives promise of reaching in excess of $9 billion dollars for this fiscal year, and a possible figure of some $18 billion for this and the coming fiscal year, is ample justification for a substantial tax reduction. Present-day conditions require substantial reduction in personal income tax rates to be distributed in accordance with the best judgment of this Congress. This is good ethics and sound economics.

Our study indicates that there is an inadequate supply—I might say even an alarming shortage—of risk or equity capital, and that the problem falls into two parts: the adequate flow of such capital and its proper function. The President himself, in his Jan. 7 Message on the State of the Union, declared:

"We are today far short of the industrial capacity we need for a growing future. At least $50 billions should be invested by industry to improve and expand our productive facilities over the next few years."

In the thirties, we were told that business could generate all the funds it required from depreciation and undistributed profits. This may have been true at that time, but along with it went the distressing fact of more than 8 million unemployed during the so-called "recovery period." It can hardly be a coincidence that high employment and large capital formation have always existed side by side. In a dynamic economy, fostering full employment, the situation more resembles our experience last year. According to estimates of the United States Department of Commerce, corporate profits in 1947 were $17 billion, of which only about 38% was paid in dividends. In addition to an increase in bank credit of more than $7 billion, corporate securities for new money in the amount of approximately $4.5 billion were sold to finance the expenditures on new plant and equipment, which are estimated at $15.7 billion, and for additional working capital. The pace of expansion continues—the estimate of anticipated expenditures on new plant and equipment for the first quarter of 1948 is $4.1 billion.

I am not accustomed to dealing in these astronomical figures. One thing I do know is that if we are to keep the people working and happy in their jobs, this vast amount of money will have to be found.

Corporate Earnings

In commenting on the output now gaining ascendency over the inflationary forces, we naturally find ourselves discussing corporate earnings. There are those who contend that profits are too large, out-of-reason and that they add to the inflationary forces; that they encourage labor to seek more compensation for its efforts. I am not here to defend some of the returns on net worth. My sole interest in discussing profits as such is because we have most important business to consider in this tax bill, and I hate to see one element in the equation becloud our perspective. I am honest enough to concede that, despite the advancement of our society, human nature doesn't seem to change. We, therefore, find that in a period of scarcity, which is usually of relatively short duration, excesses are bound to occur on the fringes. Their importance is likely to be exaggerated. The profit motive is inherent in our system. It is the impelling, driving force that sends us ahead. We all want to be justly compensated for our efforts.

The period since the war has not been one of contraction—it has been one of tremendous expansion, and I am frank to say I would have it no other way. We have had an insatiable demand for American goods and services all over this globe as well as at home. America has been the only producing nation in a position to export goods in any sizeable amount. There continues to exist various limited shortages, from what I am told, but they do not seriously alarm me because I have faith and confidence in the man at the lathe and his desire to render an honest day's work; and I have equal respect for the ingenuity of American business. As long as we maintain competition, profits will take care of themselves and extraordinary situations will be corrected.

As for competition. I have but this to say: It has been the romance of American industry that when profits in a given industry exceed more than a fair return on net worth, prospective owners with risk capital and courage step forward to take advantage of an added opportunity. As a result of these attractive profits, capacity at times has become over-expanded and the consumer is the gainer. These hills and valleys in our economy have always been difficult to level out.

Capital Is Key to Fair Competition

As I have tried to emphasize, the key to fair competition is capital. I do not exaggerate when I say to this distinguished committee that there will be increased capacity in these industries where the profit motive is presently abused, if we help to make capital available in the hands of a willing investor.

Before leaving the subject of profits, I wish to add that I am unalterably opposed to the reenactment of the excess-profits tax in any form. It is uneconomic and wasteful and has no place in our tax structure except in an emergency such as war.

Dangers of Excessive Borrowing

Are we to tell corporations to go out and borrow the money from insurance companies and

(Continued on page 38)

*Statement by Mr. Schram before the Senate Finance Committee, Washington, D. C., March 10, 1948.

Dealer-Broker Investment Recommendations and Literature

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

Bank and Insurance Stock Digest—Analyzing trend—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

Cash Yields — Memorandum of several issues giving interesting returns—Chas. A. Day & Co., Inc., 199 Washington Street, Boston 8, Mass.

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.

From Bear to Bull—and Why (Digest 201)—Current forecast—Major Angas, Dept. FC 311, 570 Lexington Avenue, New York 22, N. Y.—$1.

Also available shortly **"The Coming Bond Rescue Inflation"** (Digest 202)—$1. Both available free with regular subscription to Major Angas' Digests.

Gold Mining Industry—Review of conditions and outlook—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Investment Trusts — Brochure written with the "human touch" for the investors—single copies $1 (quantity prices upon request—not available in quantity to dealers in the Rocky Mountain States) —Frederic A. Adams, U. S. National Bank Building, Denver 2, Colo.

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.

Television 1948—Analysis of investment opportunities of the industry, history and development —E. W. Axe & Co., Inc., 730 Fifth Avenue, New York, N. Y.—paper —$1. (50¢ to Public Libraries and non-profit institutions.)

* * *

American Airlines, Inc.—Analysis in current issue of "Aviation Bulletin"—John H. Lewis & Co., 14 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. — Data — Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **Portsmouth Steel, Gruen Watch** and **DuMont Laboratories.**

Central Illinois Public Service Co.—Analysis—Doyle, O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

Clary Multiplier Corp.—Analysis—Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

Clinton Machine Co.—Analysis of world's largest manufacturer of small gasoline motors — Coffin, Betz & Sullivan, 123 South Broad Street, Philadelphia 9, Pa.

Cosden Petroleum Corporation —Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, New York.

Dan River Mills, Inc.—Detailed circular—Strader, Taylor & Co., Inc., Peoples National Bank Bldg., Lynchburg, Va.

Detroit Harvester Company — Research item—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Distillers Corp.-Seagrams Limited.—Review and investment appraisal—Kalb, Voorhis & 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.**

Federated Department Stores, Inc.—Memorandum—A. G. Becker & Co., Inc., 120 South La Salle Street, Chicago 3, Ill.

Home Insurance Co.—1947 results — Dempsey-Tegeler & Co., 210 West Seventh Street, Los Angeles 14, Calif.

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

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

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

United Fruit Co.—Memorandum —A. M. Kidder & Co., 1 Wall 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

March 12, 1948 (Toronto, Ont., Canada)

Annual Dinner of the Toronto Bond Traders Association at the King Edward Hotel.

March 17, 1948 (New York City)

Association of Customers Brokers quarterly meeting.

March 18, 1948 (Minneapolis, Minn.)

Twin City Bond Traders Club Spring Party at the Nicollet Hotel, Minneapolis.

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.

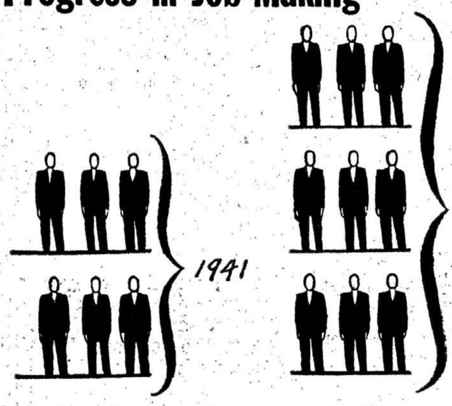
Profits mean Progress

In 1947, International Harvester __served more people__—employes, customers, and stockholders—*__in greater measure__* than ever before. Past and present profits made this possible.

"Profit" is a word on nearly everybody's tongue these days. But not everyone seems to know that "profit" comes from a Latin word meaning "progress."

International Harvester is proud of the fact that it made a good profit in 1947. We hope to do equally well in coming years. But we are even more proud of the progress, in every direction, which past and present profits have made possible.

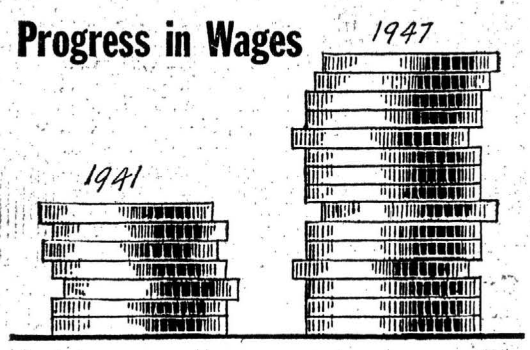
Progress in Job-Making



During 1947, an *average* of about 85,000 men and women were working for Harvester. At the end of the year, the number of people on our payrolls in the United States was more than 90,000.

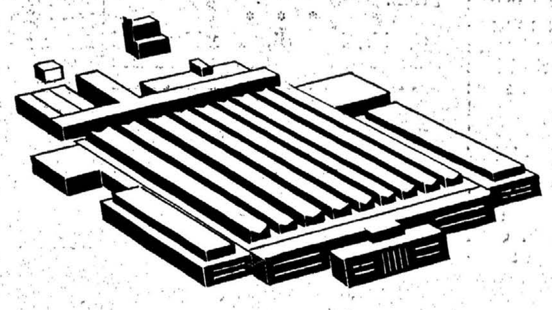
The number of employes at the end of 1941 was about 60,000. So there are 30,000 more men and women working for Harvester now than before the war. *Profits today mean more jobs tomorrow!*

Progress in Wages



Harvester paid total wages and salaries of 265 million dollars in 1947, as compared with 121 million dollars in 1941. This is an increase of 119 per cent and reflects both the 30,000 new jobs which have been created and an increase of 76.5% since 1941 in average straight time hourly earnings of factory employes. *Progress in wages!*

Progress in Production

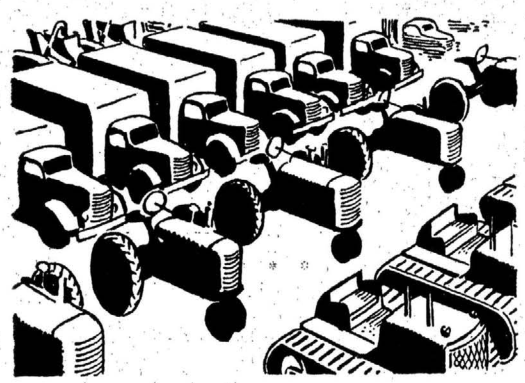


Since the war we have invested 130 million dollars in new plants and tools, and are planning to invest 85 million more, for a total of 215 million dollars.

This expansion has been financed almost entirely by the 215 million dollars which, over the last 20 years, we have retained out of profits and plowed back into the business.

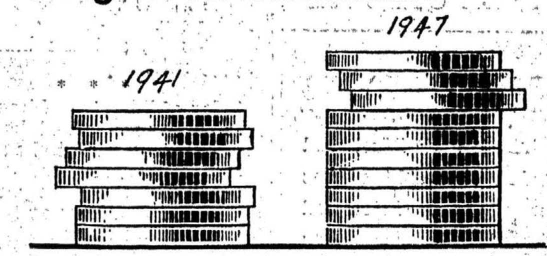
Greater production of our machines will mean greater production by our customers, who put these machines to work. And greater production is the need of all America in slowing down inflation.

Progress for Customers



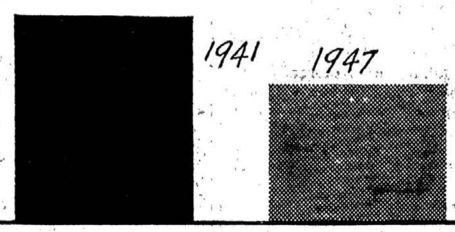
For our customers we produced 741 million dollars worth of goods and services in 1947—more than double 1941 sales. And we sold these goods in 1947 at a margin of profit which was one-third less than in 1941.

Progress for Stockholders



Today our Company is owned by approximately 42,000 people who have invested their savings in our business. In 1941, we had 34,000 stockholders. Last year we paid to stockholders about 27 million dollars in dividends for the use of their money. Dividends paid from 1947 income were 43 per cent higher than in 1941.

What Were IH Profits in 1947?



PROFIT PER DOLLAR OF SALES 1/3 LESS IN 1947 THAN IN 1941

On sales of 741 million dollars, profits in 1947 were 41 million dollars. (In addition, the Company had income of 7 million dollars in dividends from subsidiaries and in miscellaneous income, making a total profit of 48 million dollars, equivalent to 9.8% on invested capital.)

Our profit on each dollar of sales was 5½ cents. As will be seen from the chart, this is a margin of profit which was one-third less than in 1941.

We believe 5½ cents per dollar of sales is a reasonable rate of profit.

We know that it is our continuing ability to earn a reasonable profit which has made it possible for International Harvester, in 1947, *to serve more people —employes, customers, and stockholders— in greater measure* than ever before.

INTERNATIONAL HARVESTER

Illinois Brevities

Halsey, Stuart & Co. Inc., William Blair & Co. and The Illinois Company, all of Chicago, on March 1 publicly offered $3,000,000 Wisconsin Power & Light Co. first mortgage bonds, series B, 3⅛% due Jan. 1, 1978 at 102.46% and accrued interest. The net proceeds from the sale of these bonds, together with proceeds from the Wisconsin company's recent sale of $3,000,000 4.80% preferred stock, are to be applied towards its construction program.

Among the investment bankers which underwrote the offering to the holders of the outstanding 4½% preferred stock of record Feb. 16, 1948 of rights to subscribe for the 30,000 shares of new 4.80% preferred stock at $100 per share (flat) were A. C. Allyn & Co., Inc., A. G. Becker & Co., Inc., Central Republic Co. (Inc.), Mullaney, Ross & Co., Alfred O'Gara & Co., Holley, Dayton & Gernon and Carter H. Harrison & Co., all of Chicago. These subscription rights expired on March 1, 1948.

* * *

A nation-wide syndicate of 258 banking and investment firms, headed by five Chicago houses, viz: Harris Trust & Savings Bank, The Northern Trust Co., Continental Illinois National Bank & Trust Co., The First National Bank of Chicago and Halsey, Stuart & Co. Inc., on Feb. 18 publicly offered $85,000,000 State of Illinois 1¾% and 2% Service Recognition Bonds, Series B, due May 1, 1950 to May 1, 1960, inclusive. The 1950 to 1959 maturities were priced to yield 1.10% to 2%, according to maturity, and the 1960 maturity was offered at 99½, with accrued interest in each case.

This was the balance of a $385,000,000 veterans bonus bond issue, which was approved by the voters in November, 1946. The initial $300,000,000 of these bonds were sold in April, last year, one-half carrying a 1½% rate, and the balance a 1¾% rate.

* * *

Sales of Webster-Chicago Corp. for the first months of the current year were reported to be approximately $2,500,000, compared with $2,058,000 in the same period last year. For the full year 1948 sales are estimated at $12,500,000, and net earnings at $1,050,000. The usual dividend of 10 cents per share was recently declared on the common stock, payable March 20 to holders of record March 10. A like amount was paid in each quarter during 1947, and, in addition, an extra of 35 cents was disbursed on Dec. 20, which brought total payments in last year to 75 cents per share.

* * *

On Feb. 19 Halsey, Stuart & Co. Inc. headed a group of investment bankers in the public offering of $6,000,000 Iowa Power & Light Co. first mortgage 3% bonds, due Feb. 1, 1978 at 100.99% and interest. The net proceeds are to be applied towards the Iowa company's construction program. William Blair & Co., The Illinois Co. and Mullaney, Ross & Co., and others, participated in this offering.

* * *

Sales for the year ended Dec. 31, 1947 amounted to $217,915,297, according to the annual report of the National Tea Co. This established a new sales record for the fifth consecutive year and compares with $157,641,672 for 1946. Profit for 1947 was $3,597,154, equivalent after preferred dividends to $5.45 per share on 641,150 shares outstanding common stock. For 1946, profit was $2,931,473, or $4.51 per share on 631,400 common shares outstanding. Current assets at Dec. 31, 1947 were $23,782,944, as against current liabilities of $10,894,881.

* * *

The new issue of 100,000 shares of Pet Milk Co. 4½% cumulative preferred stock, publicly offered on March 4, was underwritten by group of underwriters, which included, among others, Julien Collins & Co., Harris, Hall & Co. (Inc.), Central Republic Co. (Inc.) and The Illinois Co. It was priced at par ($100 per share) and accrued dividends, the net proceeds to be used to redeem the two outstanding issues of 4¼% preferred stock, and for additional working capital.

* * *

At their annual meeting to be held on May 13, the stockholders of International Harvester Co. will vote upon a proposal to split-up the common stock on a three-for-one basis. The voting power of each share of preferred stock will be increased from four votes to 12 votes for each share held to one for each share of common stock held after giving effect to the proposed split-up. The present outstanding common stockholders on April 15 will receive the usual quarterly cash dividend of $1 per share for each share held as of record March 15.

* * *

Harris Hall & Co. (Inc.) and Central Republic Co. (Inc.) also participated in the public offering on Feb. 18 of $15,000,000 Illinois Power Co. first mortgage 3⅛% bonds, due Feb. 1, 1978, at 100.485% and accrued interest. The net proceeds are to be applied towards the power company's construction program.

* * *

C. H. Haskell, President of Beatrice Foods Co., announces that sales for the 11 months ended Jan. 31, 1948 were $168,260,000 as compared with $157,008,000 for the corresponding period a year ago, an increase of $11,252,000, or 7.17%. It was stated that "while no estimate of profits for the fiscal year ended Feb. 29 can be made at this time, it was certainly one of the best years in the company's history, although not as large as the previous year, which was abnormal." We fully expected to do $200,000,000 worth of business for the year, Mr. Haskell said, but high prices hurt the company's unit volume.

* * *

Halsey, Stuart & Co. Inc., on Feb. 20 headed a group of underwriters which publicly offered an issue of $10,000,000 first mortgage bonds, 3¼% series due 1978 of The Ohio Public Service Co. Other Chicago bankers which participated in this offering were William Blair & Co. and The Illinois Company. The net proceeds are to be applied towards the utility company's construction program.

* * *

Kaiser-Frazer Corp. on Feb. 19 announced that it plans to offer additional stock for subscription by stockholders. Allen & Co., New York, will be manager underwriter.

* * *

Halsey, Stuart & Co. Inc. headed a group which was the successful bidder on Feb. 25 for $4,330,000 Missouri Pacific Railroad 2¼% equipment trust certificates, series JJ, to mature $433,000 each March 1 from 1949 to 1958, inclusive. These certificates were reoffered on the following day at prices to yield 1.45% to 2.55%, according to maturity.

* * *

The directors of Admiral Corp., manufacturers of radios, television and appliances, on March 3 voted a dividend of 15 cents per share on the 900,000 shares of common stock, payable March 31 to holders of record March 15. Last year, the company paid 12½ cents on Jan. 3 and 25 cents on Dec. 15.

* * *

The following Chicago investment bankers were included among the nationwide group of underwriters which on Feb. 6 publicly offered 250,000 shares of Monsanto Chemical Co. $4 cumulative preference stock, series B, no par value, at $110 per share and dividends: Bacon, Whipple & Co., William Blair & Co., Central Republic Co. (Inc.), Harris, Hall & Co. (Inc.), The Illinois Company, Kebbon, McCormick & Co., Julien Collins & Co. and Mullaney, Ross & Co.

* * *

A. E. Staley Manufacturing Co., Decatur, reported sales volume of $146,353,726 in 1947, an all-time high in the 42 years of the corporation's operations. This was an increase of 47% over 1946 sales, largely the result of high selling prices made necessary by the increase in the price of corn and soybeans, which the company processes into household, industrial and pharmaceutical products.

Net profits, after creating a reserve of $2,500,000 for future price adjustments, were $9,491,266, equal to $10.99 per share on 846,506 shares of outstanding common stock, compared with $7,660,559, or $8.79 per common share, earned in 1946. Provisions for all taxes increased from $5,200,250 in 1946 to $8,073,556 in 1947 (including Federal income taxes of $4,800,000 in 1946 and of $7,600,000 in 1947).

* * *

Victor Chemical Works reports consolidated sales for the year 1947 of $21,302,264, an increase of 10% over the $19,408,526 sales in the previous year. The consolidated net profit for 1947 was $2,044,384, equivalent, after preferred dividends of $197,069, to $2.47 per common share. This compares with a net profit of $2,114,658 in 1946, equivalent, after preferred dividends of $131,444, to $2.65 per common share.

* * *

The stockholders of the Standard Gas & Electric Co. at the adjourned annual meeting to be held today (March 11) will vote on approving the election of the following candidates as directors: Edward O. Boshell, William J. Froelich and J. Patrick Lannan (to be voted for by holders of prior preference stock); Kent Cochran and Christian A. Johnson (to be voted for by holders of $4 cumulative preferred stock); and George E. Allen, William M. Flook, Robert J. Levy and Thomas A. O'Hara (to be voted for by holders of common stock). The meeting had originally been scheduled for Dec. 3, 1947.

It is contemplated that Mr. Boshell will, following the stockholders' meeting, be elected by the new board of directors as President of Standard Gas & Electric Co. and Chairman of the board. It is further contemplated that Mr. Boshell will become a member of the board of Philadelphia Co. and, upon appropriate action by the directors and stockholders of Philadelphia Co., will become Chairman of the board and President of that company. Mr. Boshell will sever all connections with Stone & Webster, Inc., Stone & Webster Service Corp. (of which he is Vice President) and West Texas Mortgage Loan Co. (an 80% owned subsidiary of Stone & Webster, Inc.).

Financial Analysts Elect

At the Annual Meeting of the National Federation of Financial Analysts Societies, held on March 4, 1948, the retiring officers were re-elected. The officers are Kennard Woodworth, President; Lucien O. Hooper, Vice-President; and Richard H. Samuels, Secretary-Treasurer. Mr. Woodworth is Vice-President of Eaton & Howard, Inc. of Boston and President of the Boston Security Analysts Society.

Kennard Woodworth

L. O. Hooper

Richard H. Samuels

Mr. Hooper is head of the Analytical Department of W. E. Hutton & Co. and a past President of the New York Society of Security Analysts. Mr. Samuels is Assistant Treasurer of the Continental Casualty Co. of Chicago and is Vice-President of the Investment Analysts Club of Chicago.

The member societies of the National Federation of Financial Analysts Societies are the Boston Security Analysts Society, the New York Society of Security Analysts, the Financial Analysts of Philadelphia, the Investment Analysts Club of Chicago, and the Investment Statisticians Association of Los Angeles.

At the National Federation's first annual convention, held in New York last week, 27 analysts of national repute addressed various forums on security analysis techniques. It is anticipated that the proceedings will be published in book form.

Collins Warns Against Abrupt Deflation

Head of IBA tells Los Angeles California Club it may be dangerous for Treasury to slash billions from debt "in first quarter salvo." Sees need of tax revision and changes in Securities Act.

Julien H. Collins of Julien Collins & Company, investment bankers of Chicago, and President of the Investment Bankers Association of America in an address before the California Club in Los Angeles on March 1 warned that, though inflation is still a threat to the American economy, an abrupt deflation to halt it, would be still more dangerous.

Julien H. Collins

Mr. Collins reviewed the various proposals to offset the inflationary effects of the huge wartime expansion of currency and bank credit, among which are: (1) sharp increase in short-term interest rates; (2) advancing of the discount rate at Federal Reserve banks; (3) increasing reserve requirements on bank deposits in Reserve cities; and (4) altering of the Federal Reserve Board's policy of supporting government bonds on the open market.

"The full impact of these Treasury and Federal Reserve moves may not yet have been realized," Mr. Collins declared. "They already have had a significant influence on all security markets."

Commenting on the Treasury surplus which will be available in the first quarter of the year and which is expected to be used to retire government securities owned by the Federal Reserve Banks, Mr. Collins stated, "It may be dangerous for the Treasury to fire all its debt slashing billions in a first quarter salvo. The impact of debt retirement on the economy could well be more deflationary than many people believe.

"But inflation must be fought off before severe depression performs its own violent correction of that unbalanced economic condition," he concluded.

The problem of taxes is of particular importance, Mr. Collins declared, but he predicted a complete revision of the tax structure will not take place this year, but may be worked out in 1949.

The IBA, he said, was concentrating on four main objectives: (1) adoption of a maximum surtax of 50% on personal incomes; (2) reduction of the maximum long-range capital gains tax rate from 25% to 12½%; (3) allowance of substantial credit for earned income, particularly in the surtax bracket; and (4) reduction of the duplication of taxes on corporate earnings.

In the matter of legislation regarding securities, Mr. Collins stated that legislative reform aimed at ending the confusion that has arisen in practice procedure in the offering and selling of securities has not gotten very far. He added that since 1941, the IBA and the Securities and Exchange Commission have agreed on more than 80 amendments to the Securities and Exchange Acts but the precise manner in which the changes should be made is still deadlocked.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

It may be of interest this week to quote briefly from some of the annual reports to stockholders issued by the fire insurance companies and which are now being received in some numbers.

Aetna Insurance Co.'s report by President **W. Ross McCain** was cited by this column in the Feb. 12 issue of the "Chronicle," and will not be repeated.

Home Insurance Co. is of particular interest at this time in view of the proposed merger of its nine fire-marine affiliates into the parent company. Reference to this is made by President **Harold V. Smith** in the annual report, though no details are given. Specific terms of the merger agreements, however, have since been mailed to stockholders of all the companies concerned. The report points out that total net premiums written by the "Home Fleet" aggregated $178,709,911 in 1947, the highest in history, compared with $147,795,814 in 1946. This represents a gain of $30,914,097 or 20.9%. In commenting on the fact that earned premiums for the year 1947 by the parent company amounted to $100,725,940, Mr. Smith said: "The Home is the first American property insurance company ever to reach the hundred million mark in earned premiums." Referring to operating results for the year, Mr. Smith points to a combined loss and expense ratio of 95.3% which "indicate that The Home has had a satisfactory year, particularly in view of the many adverse factors that prevailed."

Boston Insurance Company is celebrating its 75th Anniversary, while Old Colony Insurance Co., 98.7% owned by Boston, is now in its 41st year of operation. President **Donald C. Bowersock** says in his report: "Due to increased values, new construction and the accelerated activities of our agents and our entire staff, the writings of the two companies for the year 1947 were $20,206,054, or a growth of 37.86%, which growth, following an increase in the year 1946 over 1945 of approximately 53%, has resulted in increased premium writings in the two years of 110.84%." After referring in the report to the high fire losses of the year and other catastrophies, Mr. Bowersock says: "Your management is optimistic over the long-range possibilities in our business and, as a result, is continuing to build for the future."

Fire Association of Philadelphia reports a moderate expansion of 11.6% in net premiums written during 1947 over 1946. A statutory underwriting loss in excess of $800,000 was incurred during the year; however, after adjustment for the gain in premium reserve equity, most of this loss is eliminated. President **Frank H. Thomas** after referring to the fire losses, calamities, inflationary spiral, etc., concludes his message as follows: "Notwithstanding the difficulties of 1947, it can be hoped that much of a trying nature is history. With increasing insurance to value, rate increases now in effect and in prospect, and improvement in maintenance and fire prevention control, an improving cycle may well be in prospect.

"With loyal support from staff, directors and stockholders, your management feels inspired to view the future with reasonable optimism in the belief that our affairs are sufficiently controlled and flexible to permit the company, backed by its adequate policyholders' surplus and reserves, to maintain its current respected position and wholesomely to expand as the future unfolds."

President **F. D. Layton** of **National Fire Insurance Company** has a few words to say in his report regarding rate increases, as follows: "Although rate advances have been granted on certain classes in several jurisdictions, on the whole rates have not been sufficiently increased to meet the heavier load of losses; and, while some progress has been made in the right direction, there still is much more to be accomplished along this line. Steps are being taken to improve this situation."

In this connection it is of interest to revert to Mr. Harold V. Smith's report to Home stockholders in which he says: "The Home has benefited from increases in various rates which were made effective during 1946 and 1947. The full favorable influences of these increases have not yet been attained, however, nor will they be fully realized until the policies written at the earlier and lower rates have fully matured. The industry-wide results of operations for 1947 will no doubt develop rate deficiencies in major classifications of business, and we feel that further rate increases should be made effective; it is quite generally expected that such increases will be made."

Another comment of importance made by Mr. Layton of **National Fire** is as follows: "Progress has been made by the Legislatures and Insurance Department Authorities of the various states in enacting laws and establishing requirements and practices designed to meet the plain recommendations of the Supreme Court Decision and Public Law No. 15 to keep the business of insurance under adequate control of the respective states so far as possible thus making Federal supervision of the insurance business unnecessary. The moratorium until Jan. 1, 1948, in respect of certain anti-trust laws, originally granted by Congress in Public Law No. 15, was extended to June 30, 1948, by a voluntary action of Congress. It is hoped and expected that by that date the several states will have perfected their requirements for the supervision of the insurance business to a degree which will be satisfactory to the Congress and to the Federal Government."

Security Insurance Company of New Haven, has, for approximately 30 years, been a member of the Oil Insurance Association, an insurance group of 88 fire insurance companies which insures large oil properties. Referring to this, President **Peter J. Berry** of Security says in his annual report: "During this period the largest single loss that his Association had suffered amounted to approximately $900,000. In April of last year there occurred in Texas City, Texas, a series of explosions of ammonium nitrate, . . . over 500 people were killed, 3,000 injured, and property destruction in the aggregate amounted to more than $32,000,000." Notwithstanding the terrific losses sustained last year in many categories, Security's underwriting experience, though still in red-ink showed considerable improvement over 1946. As Mr. Berry puts it: "The same economic forces which adversely affected the company's operations in 1946 continued during the past year, although their effect on the year's results of the company was not as severe."

William S. Herbert of **Springfield Fire & Marine Insurance Co.** is another insurance executive who refers to the Supreme Court decision to the effect that insurance is "interstate commerce." His comments are as follows: "Last year, we reported to you that the legislatures of 44 states would be in session and that it was expected that legislation which would enable the states to comply with the requirements of Public Law 15 would be acted upon. We are pleased to report that the legislatures of 43 states have adopted such legislation and it is probable that the remaining states will enact similar legislation prior to July 1, 1948, which will enable them to comply with the requirements of the Federal laws."

Excerpts from many more reports could be presented, but space will not permit.

No earnings figures have been cited, intentionally. In a later issue it is purposed to present tables of net investment income, net underwriting profits or losses, total net operating profits, etc. for a number of representative companies.

The Interest Rate Pattern

By JOHN H. G. PELL

President, Wall Street Investing Corporation

Investment analyst looks for no immediate reduction in pegs set for government bonds because of Treasury redemptions, and expresses belief current spread between yield of short-term and long-term securities will be maintained. Sees, however, widening spread between government and corporate bonds and halt in decline in municipal bond prices. Predicts yield of 4¼% to 4½% on high grade preferred stocks bought in 1948.

It is likely that the Federal Reserve peg of long non-bank eligible 2½% government bonds—the so-called tap issues—will hold throughout the balance of the year, or until demand for these investments lifts the price above the peg. During the early months of the year the Treasury, due to the seasonal nature of tax payments, is a net recipient of cash in substantial amounts: the cash is being used, largely, to retire maturing issues of bills and certificates held by the Federal Reserve banks. These reductions in government holdings by the Federal Reserve banks offset increases resulting from purchases of bonds at the peg prices, and prevent these purchases from increasing commercial banks' reserve balances.

John H. G. Pell

Sales of non-bank eligible bonds to the Federal Reserve banks have been made by Insurance companies, savings banks, corporations, eleemosynary institutions and individuals. The largest volume of sales have been made by the largest group, life insurance companies. Since annual premiums exceed outlays, these institutions are net recipients of cash and have approximately three billion dollars a year available for investment at the present time. Their most important source of income is interest from investments and they are not concerned with short-term fluctuations. As recently as last September they subscribed to approximately a billion dollars worth of 2½% government non-marketable 18-year bonds. The supply of new corporate bond issues and mortgages (mortgages on single family homes are mostly taken by savings banks but life insurance companies invest in multiple family units as well as industrial concerns) during the last half of 1947 was greater than new money available to insurance companies and other investing institutions: interest rates rose and insurance companies switched from long governments into competing investment media. There is little doubt, however, that sales of governments exceeded other investments and that at the present time many institutional investment accounts are in an unusually liquid condition. If new security issues and construction activity in 1948 are about equal to 1947, institutional investors are at least better prepared for the role they play than was the case a year ago. If the break in commodity prices results in some curtailment of residential and industrial construction, as may well be the case, life insurance companies may soon decide to discontinue further sales of government bonds.

About the same considerations hold for savings banks as for life insurance companies: some selling of long governments was the result of demand for mortgages on houses built or bought last year (the government guaranty of GI housing loans makes them particularly attractive and has unquestionably increased the liberality of institutional appraisals, thus fanning the inflationary flames) but some of the selling in late Dec. and Jan. was in anticipation of lower prices and in preparation for 1948 mortgage demands. Inclement weather has delayed some building projects: the commodity break may cause some downward readjustment of schedules—the demands on savings banks and other institutional lenders may not be as great as anticipated. Weekly statistics suggest that the peak of the wave of selling on the peg may already have been passed.

Short-Term Rate

We have grown accustomed to and accept as normal, a short-term interest rate of less than half the long-term rate. There is no inherent reason for this relationship: the short-term rate is a function of a psychological state which has been described as liquidity preference. And liquidity preference is undoubtedly a function of the reciprocal of the state of confidence in political, social and economic equilibrium. The following table gives sam-

(Continued on page 42)

United Front Needed by Securities Industry

By PHILIP L. CARRET*

President of New York Security Dealers Association

Commenting on depression in all branches of the securities business, Mr. Carret asserts most urgent need is a united front to study its many problems. Holds N.A.S.D. can do a great deal more for its members than it is doing.

While most businesses enjoyed boom conditions in 1947, broker-dealers in all branches of the securities business have had to operate in falling or stagnant markets, bearing high operating costs in the face of meager profit margins. It speaks well for the fundamental soundness of the business that we have experienced a prolonged period of depression with our ranks practically undiminished and with unimpaired ability to serve our customers and the industries whose capital needs we supply. Perhaps the regulatory authorities whose rules and regulations sometimes seem a trifle burdensome deserve much credit for the clean record of which we can all be proud.

Philip L. Carret

That pride, of course, cannot blind us to the fact that present conditions present a real threat to the continued soundness of the business. Any industry which is to play a vital role in the expanding economy of these United States must be able to attract a steady stream both of new blood and of new capital. As to new blood, we have only to look around us in our daily work to see that we are becoming every day more of a collection of gray heads, if not graybeards. Despite the fascinating variety of problems which is characteristic of our business we are not attracting young men of promise in sufficient numbers. When we need additional capital I have no doubt that it will be forthcoming but certainly the current situation is not stimulating to its procurement.

Perhaps a greater readiness on the part of all of us to acknowledge and to study the other fellow's problems would go a long way to help in their solution. Too many of us are inclined to confine our thinking to our particular problems. An over-the-counter dealer may feel that the gross profits of underwriting houses under conditions of competitive bidding are to be viewed with awe but are of no particular concern to him. Similarly, a member of a stock exchange may fret over the loss of business caused by unrealistic restrictions on margin trading and give no thought to the problems of the over-the-counter dealer.

It may be that the most urgent need of our business is a united front for the study of our many pressing problems. We have the foundation for such unity in the National Association of Securities Dealers, the quasi-official body to which all of us belong. In addition to the policeman's role assigned to it under the Maloney Act, the N.A.S.D. does and can do a great deal more for its members. To take an example of problems affecting different segments of the securities business which appear superficially unrelated but are fundamentally the same, take the competitive bidding situation and the tendency toward wholesale listing of unsuitable securities on exchanges. Both, in effect, represent an effort to substitute the auction block for negotiation; both threaten the ability of our industry to serve its customers by narrowing profit margins to an uneconomic level; both tend to promote instability in place of orderly markets; both appear superficially desirable to the uninformed. Through the N.A.S.D., if that organization will assume leadership, those of us not primarily interested in underwriting would be happy to cooperate in an effort to solve the competitive bidding problem. In turn, we should hope that over-the-counter dealers could count on the assistance of leaders in the underwriting field and on the exchanges in the effort to preserve for the over-the-counter market trading in securities which logically belong in that market, perhaps to restore to over-the-counter trading securities which have illogically strayed upon the exchanges.

It is gratifying to note that the N.A.S.D. is already at work along some of the lines here mentioned. The efforts of its Quotations Committee to publicize retail quotations of unlisted securities have been of great benefit both to dealers and their customers. Insofar as our problems are affected by proposed legislation, such as the so-called "300 stockholders, $3,000,000 assets" proposal of the Securities and Exchange Commission, they are to be studied by a newly-formed committee of the N.A.S.D. In any efforts to strengthen our industry the N. Y. Security Dealers Association will willingly cooperate. If all of us work together, there is every reason to believe that the securities business itself can be restored to a position of financial health commensurate with its importance to the national economy.

*Remarks by Mr. Carrett, Vice-President of Carret, Gammons & Co., Inc., at the 22nd Annual Dinner of the New York Security Dealers Association, New York City, March 5, 1948.

Business Man's Bookshelf

Consumer Buying Habits in Selected South Central Illinois Communities—P. D. Converse—University of Illinois College of Commerce and Business Administration, Bureau of Economic and Business Research, Urbana, Illinois—Paper.

Germany: What Now?—Joachim Joesten—Ziff Davis Publishing Company, Chicago, Ill.—Cloth—$3.75.

Small Business and Government Licenses—Office of Small Business, U. S. Department of Commerce, Washington 25, D. C.—Paper—15c (may be obtained from Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.)

Studies in Financial Organization—T. Balogh—The MacMillan Company, 60 Fifth Avenue, New York City—Cloth—$4.50.

Trade with the Union of South Africa—Analysis of geographical distribution of South and West African banking transactions with the United States since the war—International Division, Colonial Trust Company, 1230 Avenue of the Americas, New York 20, N. Y.

Television 1948—Analysis of investment opportunities of the industry, history and development—E. W. Axe & Co., Inc., 730 Fifth Avenue, New York, N. Y.—paper—$1.00 (50c to Public Libraries and non-profit institutions).

Trade and Allied Associations—48-page directory of the Associations plus their publications in New York City—Includes complete addresses, also addresses and telephone numbers of 56 Consulates of foreign governments in New York City—TAD Publishing Co., 1589 Woolworth Building, New York 7, N. Y.—Paper—$1.00.

Railroad Securities

The January railroad earnings reports were very spotty, and for a large proportion of the carriers they did not make very inspiring reading. Unusually severe weather conditions throughout most of the country were, of course, the major factor in the showing of most roads. Moreover, it appears likely that many of them will again be adversely affected in February. Those railroads that did show substantial year-to-year improvement in the opening month of the year were conspicuously in the minority and have been attracting quite a bit of market attention. One of the outstanding performances in this respect was the Denver & Rio Grande Western.

Last year Denver & Rio Grande Western did fairly well from an operating standpoint. Fundamentally the road is at a disadvantage due to the mountainous nature of the territory served and the consequent heavy grades. Reflecting the physical characteristics the road in the prewar years normally had a transportatioin ratio considerably higher than that of the industry as a whole. In the first postwar year its transportation ratio was 40.2%, or nearly 2 points below that of the Class I carriers. This spread widened in favor of Denver & Rio Grande Western last year when its ratio dipped to 37.1%, compared with the industry performance of approximately 40%.

Judging by the way the current year started out there is a good possibility that the company's performance relative to the industry will show further betterment in 1948. For this opening period it is indicated that the overall transportation costs for the industry were heavier in relatiion to revenues than they were a year ago. Denver & Rio Grande Western, however, was able to accomplish a reduction of 4 points in its transportation ratio in January, compared with the like 1947 month. On the basis of 1947 revenues each drop of 1 point in the transportation ratio, or naturally in the operating ratio, is equivalent to $1.67 a share per annum on the common stock, before Federal income taxes.

Last year Denver & Rio Grande Western reported earnings of $7.05 a share on its common stock. However, a substantial proportion of this was represented by credits to the maintenance accounts. These were merely bookkeeping items and did not represent real earning power. For the first month of 1948 the company again had substantial maintenance credits, amounting to $286,751. As a result, net income for the month, after all fixed and contingent charges, was reported at $684,814. This was in sharp contrast with a net loss of $49,979 reported a year earlier. In the opening month last year the company had not as yet started to put credits through the maintenance accounts.

Even eliminating the maintenance credits from the January 1948 report, the company would have shown net income of $398,063 for the month. After allowing for preferred dividend requirements the "real" earnings on the common stock for the month amounted to $0.75 a share. The improvement over the preceding year's deficit was the equivalent to $1.27 a share. The Denver & Rio Grande Western reorganization was consummated a little less than a year ago, and since that time three $5 dividends have been paid, or declared, on the preferred stock. Two of these were from earnings in years between the effective date of the plan and its consummation. The third, payable March 15, is from 1947 earnings. An initial dividend of $1 a share is payable on the common stock on March 15 also.

It is naturally difficult to make any estimates of 1948 earnings at this early date. Tentatively, however, it seems reasonable to expect that "real" earnings this year may go as high as $10 a share. Reported earnings could be as much as $4 higher than "real" earning if the company continues taking maintenance credits. The stock is now selling less than two times the possible 1948 "real" earnings. Considering the strong financial status of the company and the high level of current earnings it is expected in many quarters that an additional dividend will be forthcoming later in the year.

A Warning to Labor

By ROGER W. BABSON

Mr. Babson, pointing out break-even points in business have risen, warns labor union members employment situation may be very bad when the next bust comes, unless they cease asking for more wages and deliver more in production. Sees increase in use of labor saving machinery because of high wages.

A hotel of 10 stories usually requires that seven stories be filled with guests before the hotel makes a profit. Income from business above that is mostly profit; but a hotel that is only three-quarters full operates at a loss. Now the same principle applies to business in general.


Roger Babson

Until World War II most manufacturers had a fairly low "break - even point," as the above illustration is called. This also applied to merchants and businessmen in general. In other words, the low break-even point acted as a cushion so that concerns were able to withstand a considerable shrinkage in business before being obliged to operate at a loss or discharge employes.

Although many concerns have reduced their bond interest, etc., yet their actual fixed charges in the form of taxes and labor costs have actually increased. Therefore, the break-even point is much higher today than it was. We all are now skating on thin ice.

What About Employment?

This means that before the war employers could stand a considerable reduction in gross business before it was necessary to discharge people. Then when the break-even point of no profit was approached on the decline, they were able to reduce wages and still continue the employment of most of the people.

Today the situation is very different. Not only is there a much smaller and narrower operating-margin cushion than there was in previous booms, but the labor and other costs are much higher. Furthermore, owing to the increase of unionism during the last 15 years, it will be much more difficult to reduce wages. This means that the only recourse employers will have will be to let people go, which would result in much greater unemployment than otherwise would be the case. Where wages are practically a fixed charge, a smaller falling off in business would cause employers to reach the break-even line and losses more quickly than heretofore.

Business Outlook

Most things now indicate a continued good business at least through 1948. Most concerns have backlogs of orders which, if they are not cancelled, should carry the concerns profitably for a couple of years. The government, moreover, has so many artificial stimulants up its sleeve that it could keep business good for several years longer. Someday, however, prices will be so high that the public will stop buying. Then people will be thrown out of work and a crash will come as in the past. The government can prolong a period of prosperity, but it cannot finally prevent it from falling over the brink.

Owing to this increase in the break-even level, when the next bust comes it will come very suddenly. Instead of employers being able to reduce wages or let people go gradually, as heretofore, they will be forced to shut down quickly without warning. Hence, the next movement in the employment cycle will cause many failures and heartbreaks.

Labor-Saving Machinery

Many readers know that the large utility companies are now operating at about full capacity and cannot supply any more power until their new generators are delivered, two or more years hence. Feeling that general business would not be so good at that time, I suggested to these public utility men that their customers might not need the power from this new capacity when it is ready for delivery.

To this they replied: "In order to offset the attitude of labor leaders, the large manufacturers have now orders in for labor-saving devices which will not be delivered for a year or two. These labor-saving devices will require more electric power than ever before." Employers are troubled both by the increased wage rates and by the slow-down processes by which many wageworkers are not delivering the goods which they used to.

Warning to Labor Union Members

The above means that the employment situation may be very bad when the next bust comes unless labor union leaders now turn over a new leaf. If labor is sensible, it will not only cease asking for more wages, but it will deliver more in production. Members of labor unions should get after their leaders and insist that something be done to check this present dangerous situation.

Failure of "Sterling Diplomacy"

By PAUL EINZIG

Dr. Einzig criticizes British Labor Government for seeking good-will of creditor countries by generosity in repaying wartime sterling balances. Holds policy has been failure, and unless assistance under Marshall Plan is effective, confidence in Britain's ability to pay her debts will be lost. Says Britain needs complete moratorium on external debts.

LONDON, ENGLAND—The Labor Government is subject to much criticism on account of its quixotic generosity in repaying wartime sterling-balances, at an unduly rapid pace, whether in the form of releasing dollars or through unrequited exports to the creditor countries. It is not generally realized that this generosity forms an essential part of Mr. Bevin's foreign policy. For centuries Britain had secured Allies abroad by means of financial support to friendly governments. Continental coalitions against Louis XIV and Napoleon were formed and maintained through sterling "diplomacy," and Britain was the banker of continental governments in World Wars I and II. As a result of Britain's impoverishment through two World Wars within one generation, she is no longer in a position to continue the traditional policy. Such is the force of tradition, however, that the Foreign Office has continued to allocate financial aid to various governments after 1945 in the hope of securing their goodwill.


Dr. Paul Einzig

In the past financial support assumed the form of subsidies or loans—the latter were never repaid, so that in reality they also constituted subsidies. Since World War II Britain has become the largest debtor nation for all times, with a record size of adverse trade balance. In spite of this, the British Government lent abroad or contributed to foreign relief to the amount of some £700,000,000 between 1945 and 1947. Sterling diplomacy assumed, however, largely the novel form of allocating sterling, convertible or otherwise, for the repayment of war debts. These claims have no moral justification whatever having originated through the inequality of economic war effort in the interest of the common cause. When the United States cancelled practically all claims arising from Lend-Lease, the same policy should have been applied to other claimants. And since it was politically impossible for many creditor governments to agree to a cancellation or reduction of their claims, the British Government ought to have taken the initiative for reducing the war debts owed to them.

Mr. Dalton, when Chancellor of the Exchequer, was in favor of presenting the creditor governments with counterclaims that would have resulted in a drastic reduction of their claims. He was prevented in this, however, by the Foreign Secretary, Mr. Bevin who was afraid that such a course would incur unpopularity among foreign countries. To avoid this his influence in the Cabinet forced the Treasury to treat the debts owed to India, Egypt and Iraq with a generosity which was quite unjustified amidst Britain's prevailing difficulties. In particular, the terms granted to Egypt and Iraq were inspired by "sterling diplomacy." The government was anxious to reinforce Britain's political and military position in the Middle East by buying the friendship of the Egyptian and Iraq Governments. To that end sterling was released at a ruinous rate, resulting in an additional drain on Britain's foreign exchange resources.

Even if it had been possible to achieve the end for which this policy was pursued, it is open to question whether Britain, amidst all difficulties, could afford to indulge in such an expensive foreign policy. The question does not arise, however, for in both countries sterling diplomacy has resulted in unmitigated failure. In Iraq the government which concluded the Anglo-Iraq Treaty of Friendship was promptly overthrown. And the Egyptian Government refuses to moderate its demand for the unlimited possession of Anglo-Egyptian Sudan and for an early evacuation of the Suez Canal Zone by Britain. Indeed, neither of the two countries could have been more unfriendly to Britain if all their sterling claims had been declared by the British Government null and void, instead of making sacrifices, which Britain cannot afford in order to appease them. Both countries, having pocketed the sterling allocated to them, have remained fundamentally hostile.

The explanation lies partly in the fact that Britain's future capacity to pursue sterling diplomacy is not trusted in Cairo and Bagdad. It is realized that, once the gold reserve is exhausted, Britain would not be able to continue to repay her sterling debts, either in the form of gold or in the form of unrequited exports. Pessimism regarding Britain's future capacity to make financial sacrifices in the interest of buying friends tends to nullify the effects of sterling diplomacy.

Possibly the granting of American assistance to Britain under the Marshall Plan may make a difference from this point of view. If so, and to that extent, it would obviate the necessity for the United States to subsidize the countries of the Middle East in the same way as Greece and Turkey has to be subsidized. It seems probable, however, that even allowing for the Marshall aid, Britain could not afford to allocate funds for war debt repayment on a scale that would satisfy the creditor countries. Indeed, what Britain needs is a complete moratorium on her external debts for the period of the Marshall aid.

There is a popular saying that Britain has not yet realized that she is "broke"; that France has already realized it; and that Italy has already forgotten it. As a matter of fact, there are at last signs to indicate that the British Government is beginning to realize that in the matter of debt repayment Britain has been living far beyond its means. The freezing of the £100,000,000 of Palestine sterling balances is the first step in the right direction, even though it was effected for reasons unconnected with Britain's balance of payment difficulties. But then, it is in accordance with British traditions to do the right thing for the wrong reason.

The Difficult International Situation

By THOMAS K. FINLETTER*
Partner, Coudert Brothers, Attorneys, New York City
Formerly Assistant to Secretary of State

U. S. delegate at organization of United Nations reviews serious problems facing U. S. in international situation. Holds Marshall Plan may solve economic problem, but leaves unsolved problem of world-wide political union. Sees United Nations in present form ineffective for maintaining peace, and proposes U. S. take leadership in amending its charter so as to establish international police force and remove veto power.

There is a great tendency at the present time for the proponents of any particular program relating to national policies, to call it a panacea. Each particular plan is the one thing which is going to save the country. There is, in short, a tendency to overstate the effectiveness of any one particular national policy. I believe that the Greek-Turkish aid, the Marshall Plan, universal training, have all been overstated. I especially want, therefore, not to overstate the importance of a strong Military Establishment.

Thomas K. Finletter

Such a Military Establishment to be built around the air arm is absolutely necessary. Nothing would be more likely to provoke aggression than the spectacle of an unarmed or inadequately armed United States. But such a Military Establishment solves no problem at all. Its value is essentially short term, for an armament race sooner or later is almost sure to lead to war. We must therefore, I think, regard this strong Military Program as something which gives us only a relatively short time within which we must achieve some positive program for creating a peaceful world. The Military Program must, I think, be regarded as a shield behind which the United States can work for peace. And it is of the highest importance, I believe, that we realize that the time is short and that we must make haste with our politics for peace.

Now this business of trying to create a peaceful world is I believe, made necessary by the fact I have referred to before, namely that war, whatever it may have been in the past, is now an intolerable institution not only for the world in general but for the United States in especial particular. There is no one policy which can achieve peace. The problem of peace must be attacked on many fronts at once.

There is, for example, the economic approach. Clearly in the ideological struggle between East and West it is of first importance that the United States sustain its friends in western Europe. We must give western Europe enough to eat during this temporary emergency. We must also give them the means to buy industrial and agricultural equipment with which they can recreate their once great productive capacity. Western Europe is now concerned primarily not with the liberties of the individual or matters of civil rights or the other things which are of the essence of western civilization but with the question of getting enough to eat tomorrow and keeping their homes warm and their factories going. They are, therefore, in a peculiarly vulnerable position to Communist propaganda.

On this part of our foreign policy for peace we are doing well—assuming, as seems reasonable, the success of the Marshall Plan. However we must not take it that the Marshall Plan and our military policy are alternatives. The recommendations which we made in the increase of the Air Establishment by about $1.4 billion in 1948 and by a further $1.3 billion in 1949 more than 1948 were made on the assumption that the Marshall Plan would become law. I agree with the statement by the Secretary of Defense that if the Marshall Plan were to fail it probably would be necessary to increase our military expenditures to a total in each year equal to that of the Marshall Plan for the four years of its projected life—namely, about $17 billion.

Not Doing Well in Our Political Policy

We are then doing fairly well with our military and economic policies for peace. But the same cannot, I believe, be said of our political policy.

We must, I think, recognize one fundamental proposition and that is that no solution to the problem of world peace can be reached which is not a political solution. Economic and military policies will help. Indeed, they are necessary. But in the final analysis they will have to fail unless they are supported by the fundamental of political agreement among the peoples of the world.

For this reason it is particularly depressing to note that we are not making much headway with our attempts at reaching political solutions, either on a regional basis or a world basis.

In the case of western Europe, for example, it is obvious that there can be no economic recovery of Europe until the people of Europe have political security. They never will restore European production until they can be assured that they are not going to have their work interrupted by internal fights with Communists or by aggression from Russia or Russian satellites. For this reason it is of the utmost importance that as soon as possible the economic aid which we are giving to western Europe be supplemented by a political solution which will assure security to the nations of western Europe.

Perhaps the current move for an economic and political unification of western Europe may provide a large measure of this political security. But even a United States of Europe—a full political union — helpful though it would be, would not give the full sense of security to these peoples.

For here we come upon the second fundamental fact, and that is that this political solution we so desperately need must be a world wide political solution. This of course means that something must be done about the United Nations organization.

The United Nations organization is, or should be, the instrument which the United States will use to carry out its policy of seeking world peace. And the United Nations organization is now passing through a crisis. How this crisis is met will determine whether or not our policy of seeking world peace will have any chance of success.

At the moment, the authority of the United Nations is being tested in Palestine, Greece and Korea. In Greece and Korea, the basic difficulty is that there is disagreement between Russia and the western democracies. No satisfactory solution of Greece and Korea can be reached which does not involve a settlement between Russia and the West.

The case of Palestine is different. Russia and the West have voted together, so far, on the Palestine question. The great lesson we must learn from the present collapse of United Nations authority in Palestine is that something is inherently wrong in the United Nations itself.

What is wrong is, I think, fairly clear. It is that the provisions of the United Nations Charter for the creation of a police force and for disarmament of the nation states have not been carried out. You cannot improvise a police force at the last moment, as is now being suggested, to enforce a decision in a case such as the present Palestine affair. Such a police force must be created not under the pressure of an immediate emergency, but at a time when calm counsel prevails. I hope that such a police force can be created to prevent a humiliation of the United Nations in the present Palestine confusion. But I am very doubtful.

U. S. Should Take Leadership in Revamping U. N.

Some strong leadership by the United States is necessary to cure this weakness of the United Nations. And this leadership must be forthcoming immediately. The remedy is, I believe, for the United States to call a general conference of the member states of the United Nations organization under Article 109 of the Charter and there propose an amendment to the Charter of the United Nations organization which will do four things:

(1) Carry out the provisions of Article 43 for the creation of the United Nations Police Force.

(2) Carry out the disarmament provisions of the United Nations Charter by a schedule of disarmament which will progressively reduce the armaments of the nation states as the police force of the United Nations is created.

(3) Eliminate the veto in the Security Council and provide for decisions on the basis of seven votes out of the 11.

(4) Amend the statute of the International Court so that the International Court would have the authority to try and punish individuals who would violate the provision of the Treaty concerning disarmament.

The effect of all of this, if accepted by all the nations, would be to make the United Nations the guarantor of the security of the world. No nation would possess armaments which would enable it to make aggressive war. The United Nations would have the power, through its police force, to prevent any nation or any individual of any nation, from violating this law. And the International Court would be the impartial and judicial body which would see to it that this authority of the United Nations was carried out in accordance with the principles of law.

The effect, in short, would be to make of the United Nations a government and to give it the power of law within the extremely limited field of national armaments and aggressive warfare. The incidental effects would be that war would be eliminated as an institution in human affairs, that the armaments race would be

(Continued on page 42)

*Part of an address by Mr. Finletter before the Bond Club of New York, New York City, March 8, 1948.

Graham Loses Mayoralty by Single Vote

LOUISVILLE, KY.—Thomas Graham of the Bankers Bond Co. lost 6-5 a hotly contested battle for the Mayoralty of Louisville, when the President of the Board of Aldermen cast his vote for Charles P. Farnsley, breaking a tie which had kept the election in doubt until the last vote. Dann S. Byck, President of the Board, had been serving as temporary Mayor, following the death of Mayor E. Leland Taylor, until a successor could be chosen by the Aldermen to act until the regular elections next November.

Thomas Graham

Mr. Graham came into the race late in the contest and was strongly supported by Democratic organization leaders. Mr. Farnsley, however, although he had been mentioned for the post as early as a few hours after Mr. Taylor's death, was not boomed as leading candidate until labor opposition to Mr. Graham came into the open.

While there is some question as to the legality of the election, since it is understood that the statute covering such contingencies requires at least seven votes to elect a Mayor, Mr. Graham stated he was not personally inclined to challenge the election.

Franklin Distributors, Inc.

Franklin Distributors, Inc., is engaging in the securities business from offices at 64 Wall Street, New York City.

Charles F. Holden Opens

ALEXANDRIA, VA.—Charles F. Holden is engaging in a securities business from offices at 106-108 North Saint Asaph.

Now Twitchell Co., Inc.

BUFFALO, N. Y.—The firm name of Williams and Twichell, Incorporated, M. & T. Building, has been changed to Twitchell Company, Inc.

W. H. Keener in Ajo

AJO, ARIZ.—W. H. Keener is engaging in a securities business in Ajo.

A. P. Kibbe & Co.

SALT LAKE CITY, UTAH—A. P. Kibbe is engaging in a securities business under the firm name of A. P. Kibbe & Co.

Securities Salesman's Corner

By JOHN DUTTON

During the years since 1940 a new elite group of savers and investors has been created. Farmers, operators of certain smaller business ventures, and especially highly skilled factory workers have been some of the main beneficiaries of the way the national income has been redistributed in the past few years. Most of these people are putting their savings into what is called semi-riskless investments, such as postal savings, governments, savings banks, building and loans, and insurance. To any large extent they do not seem to be buying equities. The average security dealer has been somewhat at a loss as to devising a method of obtaining some of this business. Yet, the market seems to be substantial . . . for instance note the following figures taken from authentic government reports.

	1940	Now
Cost of living (1935-39=100)	100.2	166
Weekly earns. (factory workers, aver.)	$25.20	$52.50
Wages and salaries	$49.9 bil.	$127.5 bil.
Civilian employment	47.5 mil.	58.8 mil.
Farm income	$9.1 bil.	$34.8 bil.

The "Magazine of Wall Street" states that a record amount of life insurance, $21.7 billion, was purchased by Americans last year. Seventy-five million policy holders are now insured for a total of $191 billion. While at the same time the volume of new security underwritings as far as venture capital is concerned, and also the dollar amount of business transacted on the various stock exchanges and over-the-counter, during 1947, was sinking to another new low.

The strange part of this most depressing situation is that while brokers and investment dealers were watching business go by their doors and into other forms of investment, United States corporations distributed in cash dividends alone during 1947, the substantial sum of $5,174,000,000—an increase of 18% over the $4,402,300,000 paid out in 1946. (U. S. Dept. Commerce figures.)

To go into this problem a little deeper one finds that the accumulated long-term savings of individuals, representing the basic savings of the people of this country as a whole, increased $8.6 billion in 1947 to reach an estimated $160.3 billion, according to figures compiled from government and private sources. The Institute of Life Insurance in its publication "Money Matters" for February, 1948, presents the following figures:

Growth of Long-Term Savings
(in billions of dollars)

	1941	1947
Savings bonds	$6	$50
Savings accounts	28	56
Savings and Loan Assns.	5	10
Life insurance	27	44

Savings bonds in the hands of the public increased $44 billion, savings accounts $28 billion, Savings and Loan Associations $5 billion, life insurance $17 billion, a total increase between 1941 and 1947 of $94 billion. Meanwhile the investment security business remains at an all-time low. People are NOT buying equities. New risk and venture capital is non-existant for all practical purposes. Is this an indictment of the people in the securities business? The Securities Exchange Commission? The policies of the Administration? In the short space of seven years the people of this country increased their holdings in so-called riskless securities $94 billion. Meanwhile American industry is running out of working capital. Risk and venture capital must come out of hiding if we are to go forward and preserve our high standard of living in this nation. The brokers and security dealers upon whose shoulders lies the task of gathering this huge fund of venture capital which is needed by American business, must have the cooperation of the Securities & Exchange Commission, other agencies of the government and the encouragement of all the people. Our future is in the hands of the brokers and security dealers of this nation, whether the politicians and all those who condemn Wall Street realize it or not. If the savings of the people can be directed into equities and away from the present trend toward security and more security at all costs, American business can grow and a new era of prosperity can be obtained. Those who are engaged in retailing securities have the largest market open to them in the history of American finance . . . can we measure up to our opportunity?

National Banks' Loans and Deposits Up in 1947

Comptroller of Currency Delano reveals deposits increased 4%, while loans and discounts advanced in same period by 24%, and investments by national banks in U. S. Government obligations declined 7%. Reports capital accounts of banks show only slight gain in year.

The total assets of national banks on Dec. 31, 1947, amounted to more than $88,000,000,000, Comptroller of the Currency Preston Delano announced on March 3. The returns from the call covered the 5,011 active national banks in the United States and possessions. The assets were $2,500,000,000, or nearly 3%, more than reported by the 5,019 national banks as of Oct. 6, 1947, the date of the previous call, and $3,600,000,000, or 4%, more than reported by the 5,013 active banks as of Dec. 31, 1946.

Preston Delano

The deposits of national banks on Dec. 31, 1947, were $82,000,000,000, an increase of $2,500,000,000, or 3%, since October and an increase of $3,200,000,000, or 4%, since December, 1946. Included in the recent deposit figures are demand deposits of individuals, partnerships and corporations of $48,079,000,000, which increased $2,300,000,000, or 5%, in the three month period, and time deposits of individuals, partnerships, and corporations of $18,700,000,000, which increased $38,000,000, or two-tenths percent. Deposits of the United States Government of $900,000,000 were $718,000,000 less than in October; deposits of States and political subdivisions of $4,726,000,000 showed an increase of $408,000,000, or more than 9%, and deposits of banks of $8,411,000,000 were $258,000,000, or 3%, more than in October. Postal savings deposits were nearly $3,000,000 and certified and cashiers' checks were $1,392,000,000.

Loans and discounts at the end of 1947 totalled $21,500,000,000 an increase of $1,400,000,000, or 7%, since October, and an increase of $4,171,000,000, or 24%, in the year. Commercial and industrial loans of $11,061,000,000 were up 29% in the year, loans on real estate of $4,860,000,000 were up 37%, and consumer loans to individuals of $3,129,000,000 were up 46%, while all other loans of $2,430,000,000, which included loans to farmers, advances to brokers and dealers and others for the purpose of purchasing or carrying securities, and loans to banks, etc., showed a decrease of 21%. The percentage of loans and discounts to total deposits on Dec. 31, 1947, were 26.11, in comparison with 25.19 on Oct. 6, 1947 and 21.90 on Dec. 31, 1946.

Investments by the banks in United States Government obligations (including $6,000,000 guaranteed obligations) on Dec. 31, 1947 aggregated $38,825,000,000, which is a decrease of 2% since October, and a decrease of 7% in the year. Other bonds, stocks and securities held of $5,185,000,000, including obligations of States and political subdivisions of $3,029,000,000, amounted to about the same as in October, but were 8% more than at the end of 1946.

Cash of $1,168,000,000, reserves with Federal Reserve Banks of $11,695,000,000, and balances with other banks (including cash items in process of collection) of $9,213,000,000, a total of $22,076,000,000, showed increases in the three and twelve month periods of 9% and 10%, respectively.

The unimpaired capital stock of the banks at the end of 1947 was $1,780,000,000, including $27,000,000 of preferred stock. Surplus was $2,400,000,000, undivided profits $893,000,000, and reserves $349,000,000, or a total of $3,642,000,000. Total capital accounts of $5,421,000,000 were $292,000,000 more than in October, 1947, and $272,000,000 more than in December, 1946.

NSTA Notes

INVESTMENT DEALERS ASSOCIATION OF HOUSTON

The following officers were elected for 1948 by the Investment Dealers Association of Houston:

President—Neill T. Masterson, Jr., Chas. B. White & Co.
Vice-President—Dana T. Richardson, Underwood, Neuhaus & Co.
Secretary-Treasurer—E. C. Hawkins, Rauscher, Pierce & Co.

Grounds for Tax Reduction

By ROSWELL MAGILL*
Formerly Under Secretary of the Treasury
Member, Cravath, Saine & Moore, New York City

Urging substantial reductions in individual income taxes, high Treasury official during Roosevelt Administration asserts individual tax rates are too high and exemptions too meager. Points out lower taxes do not mean proportional reduction in revenues, because evasions become less, and holds inflation is not aided by tax reduction. Says lower taxes will mean more investment.

Thoughtful citizens generally ask two questions about Federal tax reduction. (1) Can the Federal budget stand it? (2) Would tax reduction be a good thing for the country? The first question, stated more specifically is: What are Federal expenditures and surpluses for fiscal 1948 and 1949 likely to be? The second question involves two subsidiary points. Would it be better to use any surplus to reduce the debt, or use it, at least in part, to reduce taxes? What will be the effect of tax reduction on the economy, on the production of goods, on inflation or on deflation?

Roswell Magill

All these questions are hard to answer. To answer them requires the exercise of good judgment applied to a lot of statistical data and to such intangibles as men's incentives to work and to produce. Reasonable men can certainly arrive at different conclusions. Moreover, the very difficulty and complexity of fiscal problems makes it easy for ignorant or unscrupulous men to confuse the issue with slogans and false statements and special pleading. A presidential election year is not the ideal time for dispassionate analysis of any governmental or political question. The best I can do is to state as simply as I can the facts on which my own conclusions are based.

(1) The Treasury's latest estimates of budgetary receipts and expenditures show an anticipated surplus of \$7.5 billion for 1948 and \$4.8 billion for 1949, or \$12.3 billion for the two years. The Treasury has erred on the side of understatement of the surplus for years. Hence, it is not surprising that the staff of the Joint Committee estimates the surplus at \$8.8 billion for 1948 and \$7.6 billion for 1949, or \$16.4 billion for the two years. Neither of these estimates takes any account of possible reductions in the budgeted expenditures. Both sets of estimated expenditures include billions for European relief. Hence, on the face of the record the great excess of tax receipts over expenditures will permit a reasonable amount both of tax reduction and of debt reduction. Indeed, the estimated surplus approximates total Federal expenditures during the thirties. If expenditures are reduced, as Congress has resolved and as certainly should be done, the case for tax reduction becomes even stronger.

Diminishing Returns Operates

In calculating revenue losses from tax rate reductions, the usual process is to figure that revenues will decrease proportionately with the decrease in rates. This practice overlooks the fact that tax rates, like other things, are subject to the economic law of diminishing return. When rates are lowered, the general tendency is for revenues to drop less than proportionately and, in our past history, increases in revenue have followed tax reduction. For one practical reason, people do not wrestle quite so hard to find the last dollar of lawful deductions. Evasion is less tempting. Collection becomes easier, less costly. Thus, I feel that the estimates of revenue loss involved in H.R. 4790 probably are on the high side.

Wise to Reduce Taxes Now

(2) Is tax reduction wise? In my judgment it is, for a number of reasons. In the first place, all of us would agree that economical government, like an economical family budget, is hard to achieve, in the presence of billions of dollars of surplus receipts. We ought to strive in every way we can to bring the cost of government down to a figure we can afford in less prosperous times than these. An important way to stimulate a cut in the cost of government is to give the government less to spend.

Second, individual tax rates are too high and exemptions are meager. The individual taxpayer has had almost no relief from the tough tax rates of the war. Our country and the world need all the production we can get. One way to get production is to give the worker and the foreman and the business manager the fruits of his labor—not to take away from him two-thirds or half or one-third of every additional dollar he earns by working harder and taking on more responsibilities.

Many analysts have observed the diminishing flow of risk capital into business. Great corporations are forced to finance themselves out of earnings, and the small corporation or the new venture has no chance to get new money in the market. The basic reason is that those citizens who normally provide risk capital out of their savings have savings so small after taxes that they invest, if at all, in govrnment or gilt-edge bonds. To keep our enterprise system healthy, there must be a steady flow of new risk capital into it. Taxes must be reduced to make that flow possible.

Inflation will not be notably aided by tax reduction, for the reason just given. If money is saved and invested, inflationary pressures are not increased. A great part of the money left in individuals' pockets through tax reduction would be saved. Moreover, inflationary pressure is not lessened by the fact that it is the government which is spending money for goods rather than individuals. A big government budget is no cure for inflation.

Debt Reduction Desirable

Reduction of the debt is certainly desirable. It is possible in these years both to reduce the debt and to reduce taxes. Both should be done. Paying down the debt will not increase anyone's incentives; tax reduction almost certainly will. Reducing the debt does remove some of the inflationary potential, and so is desirable. The studies I have seen come to the conclusion that debt reduction does not and should not prevent tax reduction.

Estimates of revenue very far in advance are tricky. War-deferred demands and overseas requirements have maintained business volume at record figures since the war and the revenue estimates are based upon a continuance of active business and high employment. Recently there have been some symptoms of readjustment. None of us wants a severe downward spiral or a depression. We can help prevent this by easing up on the tax discouragements and the drain of funds to the tax collector. Should inflationary exececsses again threaten disturbance, we will be better off production-wise with a less onerous tax structure. At the same time, under these conditions revenues will be swollen and, with a wise restraint on government expenditures, the surplus for debt retirement can be automatically increased.

For these reasons, I favor the enactment at this time of a bill reducing individual income taxes substantially. In my judgment, such a bill should certainly contain provisions to put taxpayers in the non-community property states on an equal footing for Federal tax purposes with taxpayers in the community states. It should contain an increase in personal exemptions. It should contain some revision of the rates. The exact amounts of these revisions will have to be determined, of course, by the Congress in the light of the whole budgetary situation. As it appears today, tax reduction of \$4 to \$6 billion is possible. In my judgment, a reduction in individual income taxes of this amount, along the lines I have outlined, would be enormously beneficial to the economy.

*Statement of Mr. Magill before the Committee on Finance, United States Senate, March 5, 1948.

Bacon, Whipple Co. Adds

CHICAGO, ILL.—Bryan S. Reid, Jr. has been added to the staff of Bacon, Whipple & Co., 135 South La Salle Street, members of the New York and Chicago Stock Exchanges.

Carter H. Corbrey Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—William O. Turner has joined the staff of Carter H. Corbrey & Co., 650 South Spring Street.

With William S. Beeken Co.

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA.—George H. Pratt is with William S. Beeken Co., Guaranty Building.

Mutual Funds

By HENRY HUNT

"Gettridge Is a Shmoe"

The following is an excerpt from a radio broadcast by **Abe Burrows,** CBS satirist, heard Saturdays at 7:30 p.m.

"The Science of Economics has fascinated man ever since he first learned to talk to his fellow man and say in his primitive fashion, 'Business is Lousy.' Tonight, as text books I will use a book called 'Economics Simplified for Beginners' and another book called 'Economics Confused for Experts.' I will also quote from Professor T. Glitch Gettridge's book called 'The Monetary Synchronization Quotient and You' . . . I'll also quote from other books such as Gettridge on Gold Shipments, Gettridge on Devaluation and Monohan on Gettridge—a highly technical study called 'Gettridge Is a Shmoe.' Now from these books we learn that in economics there are trends . . . up trends, down trends, side trends, and just plain trends . . . these trends are also called cycles . . . Gettridge divides them into semi-annual cycles, bi-annual cycles, and semi-annual bi-cycles . . . this study of cycles is in Gettridge's newest book on cycles entitled 'Wheels in Your Head.' This book may be a little difficult for the layman as it is written in Sanskrit . . . Gettridge always writes in Sanskrit—he feels it is less confusing. However his style may change now because last week he died.

"Now on the subject of inflation—as I understand it—It's the result of an over supply of . . . or rather an undersupply of . . . I mean, well take inflation—its causes and ramifications, and there are experts who think that it is caused by ramifications. Now the famous English economist Lord Croontch who was the father of the Croontch theory by a former marriage, feels that the problem is due to the export of gold ingots as against gold outgots. . . .

"We know that per capita monetary income of individuals can rise sharply in a short time for no apparent reason—this was proved conclusively in a recent study made of General Meyers. However the fact remains that according to all authorities, this past year saw a delocalization of the conversion fact or the ratio of the index quotient to the diminution of sub-stabilized control per capita—and this is darned serious."

Wellington Reduces Cash Position

Wellington Fund which has maintained a sizable cash position for approximately three years, reduced its cash and government bond position from 28% to 9½% during the first seven weeks of 1948. The bulk of the reduction went into investment bonds and preferreds, its equity position rising from 51.7% to 58.9% during the same period. These investment changes should increase the ordinary income of the Fund.

"The Walking Man"

Congratulations to **John Crosby,** radio editor of the New York "Herald Tribune," for not only identifying Jack Benny as "The Walking Man" but also for naming last Saturday as the day when a winner would be found.

Deflation or Inflation

Hare's Ltd. has the following interesting comments to make on the adjustment in farm prices and the low level of stock prices.

"It seems reasonable to assume that the turn from our inflated prices of farm products which has occurred, is more indicative of the long awaited correction and adjustment of relative prices, than it is of a business recession; further that such a correction requires that prices come down most where they have risen most, and fortunately this has not been the case to a major extent in our durable goods industries. This correction should prove painful only to those segments which have been over-greedy and thus prove helpful, rather than harmful, to our economy at large. The drop in food prices from a fabulously high level could stimulate the demand for consumer goods, through releasing consumer purchasing power hitherto absorbed by excessively inflated food prices. Because of government 'parity' price supports, the decline in farm products should be checked at a somewhat lower level, yet one which would leave farmers in a favorable income position relative to their average position over a long period of years.

"Since 1939 farm products have risen nearly twice as much as building materials, about four times as much as basic durable materials and eight times as much as stock prices. With prices in general averaging about 67% higher than in 1939, it would seem that the necessary adjustment would require a further decline in farm products and, to a lesser extent, a decline in building materials, whereas the price of steel, iron and durables should rise somewhat.

"It is also apparent that stock prices must increase quite substantially to complete the necessary correction and adjustment. Far from being inflated, they are so comparatively deflated that it may be said they are the cheapest article dollarwise in our entire economy. On a historical basis present prices for stocks would be justified if industry's earnings were reduced to around one-half and dividends to around two-thirds of their current rate.

"There appears little likelihood of the correction and adjustment in our economy resulting in as drastic a decline in earnings and dividends as this, and particularly if investments are carefully chosen and confined to the stocks of financially strong and favorably situated companies in those industries where demand promises to exceed supply for many months, as in the case of iron and steel, oil and mining equipment, farm machinery, industrial machinery, railroad equipment, natural gas, automobiles, chemicals, building materials and supplies, etc."

Notes:

John H. Lewis & Co. has announced that next summer it plans to launch a new open-end investment trust under its sponsorship and management.

Selected Investments Company of Chicago has published a new folder listing 18 "Cushions Against Depression."

The Commonwealth Investment Company, one of the smaller open-end trusts (assets $3,900,000) can boast an enviable performance record. In "Barron's" comparison of investment companies' performance covering five periods ranging from one to seven years, Commonwealth held first place among combination funds in four of these periods and second place in the other period.

National Securities & Research Corporation has a new folder on Income Series whose shares currently afford a return of better than 6½%.

Robert H. Wheat Joins Raffensperger, Hughes

(Special to THE FINANCIAL CHRONICLE)

Robert H. Wheat

INDIANAPOLIS, IND.—Robert H. Wheat has become associated with Raffensperger, Hughes & Co., Incorporated, 20 North Meridian St. He was formerly manager of the Mortgage Loan Department for State National Securities Corp. Prior thereto he was with J. S. Todd & Co., in Cincinnati.

With Barbour, Smith & Co.

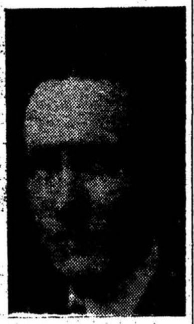
(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Geo. S. Leach has become associated with Barbour, Smith & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange Mr. Leach was formerly with First California Co. and Nelson Douglass & Co.

Lehman Brothers Survey Shows New Issue Advertising Effective

Poll conducted by Roland Palmedo of prominent banking house indicates surprising interest among audience addressed. Reports 84% of replies stated parties addressed were influenced in rating underwriting firms by size and prestige of new issue advertisements.

According to a comprehensive poll recently completed by Roland Palmedo, of Lehman Brothers, New York investment banking firm, advertisements of new securities issues, although restricted by the Federal Securities Act to the barest essentials, are read by a surprisingly large proportion of the audience aimed at by the underwriters.



Roland Palmedo

The poll revealed that these advertisements, long accused of lacking appeal, invariably were read by over half the persons in the chief occupation-categories addressed, and occasionally read by practically all the remainder. Half the intended audience "always" noted the underwriters names in such advertisements, showing an unusual degree of reader interest. Eighty-four percent stated that they were decidedly or partially influenced in rating underwriting firms as to size and prestige by new issue advertisements.

"This return shows clearly that the advertising is successful in getting the attention of a surprisingly large proportion of the audience to whom it is addressed," the survey observes. "Perhaps the stark brevity of the copy, which has been so frequently criticized, is in part responsible for this attention percentage."

The poll was based on the theory that financial advertising, in particular new issue advertising, is addressed to a limited and fairly well-defined audience. Of the 600 questionnairies, therefore, one half were sent to senior officers of industrial, transportation, public utility, distribution, insurance, mining, amusement, advertising, and investment companies regardless of location. The other half of the poll was sent to investment bankers, commercial bankers, trust company and savings bank officers, lawyers, accountants, and management engineers in 17 representative cities.

Replies were received from 49% of the individuals addressed, which is regarded as an extraordinarily large proportion of returns.

What Audience Is Wanted?

The survey was based on the theory that financial advertising, in particular new issue advertising, is addressed to a limited and fairly well-defined audience. Department stores and cigarette manufacturers use ideas, language to express them, and media to propagate them which are appropriate to the group they are trying to sell to, the product they are offering, and the nature of the business the seller is engaged in. It is equally logical that investment securities, which are a very distinct kind of merchandise, of interest to certain limited categories of persons, marketed by highly specialized wholesalers and retailers, should use copy and media appropriate to these elements.

Plan of the Poll

Offerings of new securities are of interest chiefly to individual and institutional investors, those officers of corporations who are concerned with finance, securities dealers, banks and trust company officers, lawyers, management engineers, and accountants. The individuals to whom the poll was sent were carefully selected not only from among these groups, but also with an eye to geographical distribution, so as to obtain a fair sampling of the audience that the underwriting investment bankers is interested in and addressing himself to, and whose favorable opinion he seeks.

Thus of the 600 ballots sent out, one-half were addressed to senior officers of industrial, transportation, public utility, distribution, insurance, mining, amusement, advertising, and investment companies, regardless of location.

The other half of the poll was sent to investment bankers, commercial bankers, trust company and savings bank officers, lawyers, accountants, and management engineers in (a) New York, (b) Chicago, (c) Boston, Philadelphia and San Francisco, (d) Cleveland, Atlanta, Fort Worth, Dallas, Seattle, Portland, Me., Richmond, Buffalo, Louisville, Minneapolis, Omaha, and Portland, Ore. This assured geographical distribution in representative cities of various sizes.

Summary of Questions and Answers

Do you look at advertisements of new issues of securities?	
Yes, always	52%
Occasionally	46%
No	2%
Do you notice the names of the underwriters?	
Yes, always	49%
Usually	34%
Occasionally	16%
Never	1%
Do such advertisements influence you in rating underwriting firms as to size, prestige, etc.?	
Decidedly	32%
Partially	52%
Not at all	16%
How many names do you read in such an advertisement?	
First line	7%
First few lines	43%
All lines	50%
Does the order of the names mean anything to you?	
Yes	55%
Not much	19%
No	26%
What governs the order?	
Alphabetical	5%
Size of underwr.	4%
Amount of participation	73%
Don't know	18%
Do all important underwriters appear?	
Yes	65%
No	35%
Do you measure the activities of underwriting houses by their advertisements of new securities?	
Only way	9%
Chief way	14%
Largely	47%
Small part	30%

Deductions

Interpretations of the compiled answers will differ, says Mr. Palmedo, but at least these conclusions appear justified:

(a) New issue advertisements receive the close attention of a large part of the audience to whom they presumably are addressed.

(b) New issue advertising is important, for the signing underwriters, in its aspect of institutional advertising as well as a sales aid.

(c) The prominence and standing of an underwriting firm, in the opinion of this audience, is based to a considerable extent on the volume, as well as the character, of underwriting done.

(d) While it is the popular impression that the signatures are in the order of size of participation, it is also generally believed that firms who do not appear in the ad, have no, or no important, part in the offering.

It is also the opinion of Mr. Palmedo that the poll shows that:

(a) The prestige of an underwriting firm is benefited by frequent appearance in the advertisements of sound issues.

(b) Appearance below the first line of signatures may diminish the attention received, but in its effect on prestige is better than not appearing at all.

Hayden, Stone Opens Worcester Branch

WORCESTER, MASS. — Hayden, Stone & Co., members of principal exchanges, are opening an office at 332 Main Street in quarters formerly occupied by Tifft Brothers. Ernest W. Arnold, Chester E. Thompson and Henry Berman will be resident representatives in the new offices Messrs. Arnold and Thompson were formerly co-managers of the Worcester office of Tifft Bros., with which Mr. Berman was also associated.

Muir Observes 50 Years

John Muir & Co., members of the New York Stock Exchange, is celebrating the 50th anniversary of the founding of the firm, organized March 10, 1898 as Muir & Powell, adopting its present name soon afterward. Edwin H. Muir, son of the late John Muir, founder of the company, is the present senior partner.

Holds Currency Devaluation Aids Gold Mining

Bache & Co. say gold mining shares provide means of investors to profit by higher value of gold.

The realignment of the world currencies with the European Recovery Plan is stressed as "fundamentally sound" in a study on the gold situation released by Bache & Co., members of the New York Stock Exchange, 36 Wall Street, New York 5, N. Y. "It is hardly likely, that any recovery in Europe can be lasting unless the major currencies are put into proper relationship with each other," the report contends. Britain's increasing financial difficulties has provided greater validity to discussions concerning a possible devaluation of the pound sterling. Only recently, Secretary Snyder stated, "There will undoubtedly have to be devaluations of currencies of some of the countries involved in the European Recovery Program."

Bache & Co.'s study on the gold situation and specifically on Canadian gold stocks maintains that the devaluation of the pound sterling would place Canada in a disadvantageous position in its export trade, since it purchases on balance from the United States but sells on balance to British Empire countries. It is regarded as likely that the Canadian Government would choose to take similar action, although the extent of the devaluation might not be as great.

There is a wide difference of opinion, says Bache & Co., as to the imminence of the devaluation of the pound and of the Canadian dollar. Regardless of the time, however, a higher price for gold in Canada whether achieved by currency devaluation or a subsidy plan now before the Canadian Parliament would have the effect of increasing the value of the reserves as well as the earnings of Canadian gold mining companies. Since the ownership of gold by American citizens is illegal for any other purpose than for the use of the arts or industry, Bache & Co., state that the shares of gold mining companies provide a means for American investors to participate in the ownership of gold still in the ground.

Fred G. Gibbons Now With J. Barth & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Fred G. Gibbons has become associated with J. Barth & Co., 482 California Street, members of the New York and San Francisco Stock Exchanges. Mr. Gibbons was formerly an officer of Hill, Richards & Co. and prior thereto was a partner in Gibbons & Hess, and its predecessor firm, Gibbons, Newlands & Hess

Fred G. Gibbons

With J. A. Hogle & Co.

LOS ANGELES, CALIF.—Robert C. Ortwin is now affiliated with J. A. Hogle & Co., 507 West Sixth Street.

Bader With Hirsch & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Robert E. Bader has become associated with Hirsch & Co., 1010 Euclid Avenue. He was formerly with Curtiss, House & Co.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At the regular meeting of the Board of Directors of the **National City Bank of New York** held on

William Gage Brady Howard C. Sheperd

March 9, William Gage Brady, Jr., President, was appointed Chairman of the Board to succeed Gordon S. Rentschler, who died on March 3. W. Randolph Burgess, Vice-Chairman of the Board, was appointed to the newly created office of Chairman of the Executive Committee. Howard C. Sheperd, Senior Vice-President, was appointed President and Director to succeed Mr. Brady.

* * *

Gordon Sohn Rentschler, Chairman of the Board of **The National City Bank of New York** and **City Bank Farmers Trust Company** since 1940, died in Havana, Cuba, on Mar. 3. He was 62 years old, and his death was caused by a heart attack. Mrs. Rentschler was with him and they had been spending a holiday in Cuba. Mr. Rentschler was elected to the Presidency of the Bank at the age of 43, and in 1940 he became Chairman of the Board of the Bank and the City Bank Farmers Trust Company. In addition to heading the Bank, he was a director and member of the Executive Committee of the Union Pacific RR., trustee of Consolidated Edison Co. of New York. His most active outside interest were his life trusteeships in Princeton University and Massachusetts Institute of Technology. He was also trustee of the Carnegie Institute of Washington and the Ford Foundation. He was a director of the Home Insurance Co., Anaconda Copper Mining Co., Corning Glass Works, National Cash Register Co., Federal Insurance Company and Discount Corp. of New York.

Gordon S. Rentschler

Mr. Rentschler was born in Hamilton, Ohio, Nov. 25, 1885. His father, an Ohio manufacturer, was President of Hooven, Owens & Rentschler Co., Hamilton Foundry and Machinery Co. and G. A. Rentschler Co., and the son started work in one of his father's foundries. Eventually he headed the family enterprises. One of the Rentschler companies did a substantial business in sugar mill machinery. He thus acquired a knowledge of the sugar industry and in the years following the war his services were availed of by the National City Bank which had extensive sugar interests in Cuba. In 1923 he was elected a director of the bank, and two years later, when he became an officer of the bank, he retired from his executive position in the Rentschler companies to devote his full energies to the bank's affairs. Mr. Rentschler served as Chairman of the Clearing House Committee, of which he was a member during the days of the bank holiday in 1933, and was active in the affairs of the Bankers Club and the American Institute of Banking. He was a director of the New York World's Fair, Inc.

His greatest interest, outside of banking, was in education. He was a life trustee of Princeton (of which he was a graduate) and Massachusetts Institute of Technology and from 1921-36 was a trustee of Antioch College. Mr. Rentschler was active on the President's Committee for the financing of foreign trade, Treasurer of the National War Fund and Treasurer of the American Chinese Movement for Mass Education.

Funeral services for Mr. Rentschler were held in New York on March 8 at St. James Protestant Episcopal Church.

* * *

The Board of Directors of **The Continental Bank & Trust Company of New York,** at a special meeting on Mar. 5, fixed April 12, as the date for a special stockholders' meeting at which the stockholders will be asked to vote on the transfer to the **Chemical Bank & Trust Company** of the assets and banking business of The Continental Bank & Trust Company of New York. It is expected that the call for the meeting will be sent out on or about Mar. 15, at which time full details of the terms and conditions of the transaction will be made known. The Board of Directors of The Continental Bank & Trust Company, at its special meeting on Mar. 5, approved the execution of the definitive contract with the Chemical Bank & Trust Company, subject to the approval of the banking authorities prior to the submission to the stockholders.

Elliott V. Bell, New York State Superintendent of Banks, announced on Mar. 5 that he had approved the application of directors of Continental to sell its assets to Chemical Bank & Trust Company. The latter has applied to the Banking Department, subject to the approval of the Superintendent and the Banking Board, for permission to operate branches at the three offices now maintained by Continental Bank and Trust Co., namely: 30 Broad Street, 512 Seventh Avenue, and 345 Madison Avenue, all in New York City. A previous item in the matter appeared in our Mar. 4 issue, page 1012.

* * *

Sherwood M. Bonney was elected a Trustee of the **Irving Savings Bank of New York,** at 115 Chambers St., on Mar. 9. Mr. Bonney is a Director and Secretary-Treasurer of the Sun Chemical Corp. A graduate of Dickenson College and Harvard Law School, Mr. Bonney was Manager of the Tax Department of Arthur Andersen & Co. and a Junior Partner of the law firm of Dunnington, Bartholow & Miller prior to his affiliation with Sun Chemical Corporation. He served in World War II as a Lieutenant in the U. S. Navy.

* * *

Plans for a public offering of approximately 25,000 shares of stock of **J. P. Morgan & Co. Inc.** owned by the late Thomas W. Lamont, Chairman of the Board of the banking house, were made known on March 9.

The stock represents 12½% of the outstanding capital stock of J. P. Morgan & Co. of 200,000 shares. The stock will be offered shortly by an investment banking group headed by Morgan Stanley & Co.; Smith, Barney & Co.; Carl M. Loeb, Rhoades & Co. and Merrill Lynch, Pierce, Fenner & Beane.

Mr. Lamont's death on Feb. 2 was noted in our issue of Feb. 5, page 617.

* * *

Arthur S. Kleeman, President **Colonial Trust Company of New York,** announced on March 8 that the bank's International Division recently completed a study of the geographical distribution of South and West African banking transactions with the United States since the war. Mr. Kleeman said that 350 banks throughout the United States and Latin America had been invited to aid in the survey. Of the number replying, 70% reported that they had been handling South and/or West African transactions (export, import, or both). Several banks reported a large and increasing volume. Mr. Kleeman has the following to say in the matter:

"South Africa is such an excellent customer for many of our manufactured products that we owe it to her to try to buy from her at every opportunity. The sale of her gold and diamonds has permitted South Africa to pay for imports, and the problem of dollar buying power does not at the moment appear to be a deterrent to her continued purchases from the United States.

"The information which we have gathered from this survey seems to indicate how great are the yet scarcely developed possibilities for two-way trade between Africa and the Western Hemisphere."

* * *

Charles F. McNamee and Carl J. Heiles have been promoted from Assistant Vice-Presidents to Vice-Presidents of **Manufacturers Trust Company of New York,** Harvey D. Gibson, President of that institution, has announced. Mr. McNamee will be located at the bank's Fifth Avenue and 43rd Street Office. He is a native New Yorker and has been in the banking business since 1919. He was with the State Bank when it became a part of the Manufacturers Trust Company in 1929 and was appointed an Assistant Vice-President in June, 1941. Until recently he has been Officer-in-Charge of the bank's University Place Office. Mr. Heiles, also a native New Yorker, became associated with Manufacturers Trust Company in 1924, was made an Assistant Secretary in 1929 and in 1934 was promoted to Assistant Vice-President. He is located at the bank's Fifth Avenue and 43rd Street Office.

* * *

Promotion of five members of the staff of the **Union Trust Company of Rochester, N. Y.,** was announced on March 1 by William W. Foster, President, according to the Rochester "Times-Union" which further reported in part:

They are "Carl R. Snider, Arthur F. Kurtz, Alfred F. Janus, Benjamin M. Haag and Harold M. Kern. With the exception of Mr. Kern all have held officers' positions.

"Mr. Snider, who has been a Vice-President, has been named Vice-President and Secretary, succeeding Deloss M. Rose, retired. Arthur F. Kurtz, an Assistant Vice-President, has been named Vice-President.

"Alfred F. Janus, an Assistant Vice-President, has been named Vice-President. Benjamin M. Haag, an Assistant Secretary, becomes Assistant Vice-President.

"Mr. Kern, a veteran employee, becomes an Assistant Secretary."

(Continued on page 29)

Public Utility Securities

Minnesota Power & Light

Minnesota Power & Light, a wholly-owned subsidiary of American Power & Light, is planning to sell 100,000 shares of common stock to raise funds for its construction program. The offering is currently scheduled for an early appearance (subject to final agreement and SEC approval), with Kidder, Peabody handling the deal on a negotiated basis.

Minnesota Power & Light operates in northern and central Minnesota, serving 186 communities with a population estimated at 292,000. This includes 40,000 in Wisconsin served by a subsidiary company, whose operations are pooled with those of the parent company. The mining and shipment of iron ore is the most important industry of this area, the Mesabi, Vermilion and Cuyuna iron ore ranges together constituting the most important iron mines in the country. The mines are almost entirely electrified with power purchased from the company. There are also a number of diversified industries, including the manufacture of steel and iron products, cement, paper, wood products, and flour. Dairying is an important industry, grain elevators and coal and iron docks furnish supplementary employment, and the tourist and vacation business is important in certain areas. These diversified activities tend to stabilize the company's operations. Growth of industrial revenues has slightly exceeded the national average in the last decade.

The capital setup, adjusted for the proposed financing, is about 54% debt, 21% preferred stock and 25% common. The company's plant account was restated in 1945 on the basis of original cost, pursuant to orders of the Federal Power Commission, with $9,055,000 plant acquisition adjustments being amortized over a 15-year period. At Dec. 31, 1947, depreciation reserve of $9,814,000 was 18.3% of utility plant, totaling $53,503,000 on an original cost basis. If $9,056,000 utility plant acquisition adjustments are added to utility plant as above and the reserve of $1,508,000 already accrued for amortization of utility plant acquisition adjustments is added to depreciation reserve, then the ratio of total reserves to total utility plant is 18.1%. When considering that the company's generating facilities are predominately hydro-electric with over $3 in hydro plant for every $1 in steam plant, the above ratios appear in line with the general average.

Share earnings, after allowing for the present increase in stock, have been as follows in recent years:

Year:	As Reported After Spec. Amort. Charge	Special Amort. Charge	Before Special Amort. Charge
1942	$1.24	$ ---	$1.24
1943	2.59	---	2.59
1944	2.32	---	2.32
1945	1.81	0.46	2.27
1946	2.44	0.93	3.37
1947	2.88	0.93	3.81

The company expects to pay dividends at the annual rate of $2.20 a share.

There has been some conjecture regarding the remaining life of the high-grade ore reserves in the Mesabi Range, which have been heavily drawn on during the war and postwar periods. According to the "U. S. Steel News," recent estimates of such remaining reserves range from 18 to 40 years. However, to conserve ore resources all the principal mining companies in this area (in which U. S. Steel is the leader) are actively engaged in perfecting methods of developing "lean" or second grade ores, particularly taconite. U. S. Steel's subsidiary expects to spend $34,000,000 in the next six years on this program, and Reserve Mining Company of Cleveland (owned by Wheeling Steel, American Rolling Mill, Cleveland-Cliffs Iron, and Montreal Mining) has announced plans to spend $60,000,000 to process taconite, a low-grade ore.

The trend toward the mining of lower grade ores and taconite is favorable from the point of view of Minnesota Power & Light, since this would involve the use of much larger amounts of electric power and labor than is the case with direct shipping ores.

The company's hydro-electric plants, with an installed capacity of 95,000 kw., are the principal source of power but are supplemented by 74,000 kw. steam plants. While the company's hydro generation is relatively stable, present demands for electricity require substantial use of steam power, which last year represented about 30% of total output. The company now has under construction additional capacity (33,000 kw. steam and 12,000 hydro) scheduled for completion in 1949, and another 33,000 kw. steam unit should become available in 1951. These additions, together with the proposed high voltage transmission line and other construction, should reduce costs and permit further growth.

Lawrence W. Simon Is Opening Own Office

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Lawrence W. Simon is opening offices in the Union Commerce Building

Lawrence W. Simon

to engage in the securities business. He was formerly Vice President of Blair & Co., Inc.; prior thereto he was with C. F. Childs & Co. and was a partner in Borton, Kay & Co.

Herrick to Manage Dean Witter Dept.

Dean Witter & Co., members of the New York Stock Exchange and principal commodity exchanges, announce that Martin R. Herrick, formerly with the firm's San Francisco office, has become manager of its enlarged New York commodity department, 14 Wall Street.

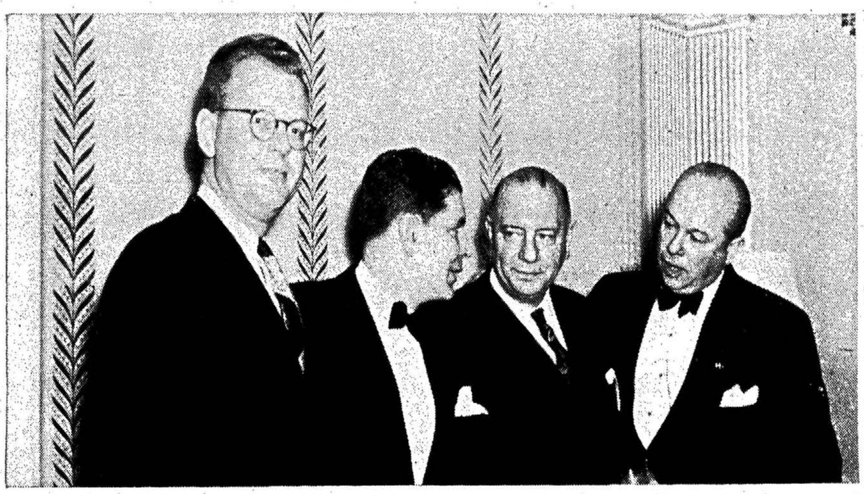
The company also announces the association with the firm of G. Richard Cronin as registered representative in the New York office. A recent graduate of Washington and Lee University, Mr. Cronin is the son of George D. Cronin, partner of Dean Witter & Co. in San Francisco.

New York Security Dealers Association

George Geyer, *Geyer & Co.;* Francis Adams Truslow, President of the *New York Curb Exchange;* Herman A. Feldmann, *Geyer & Co.*

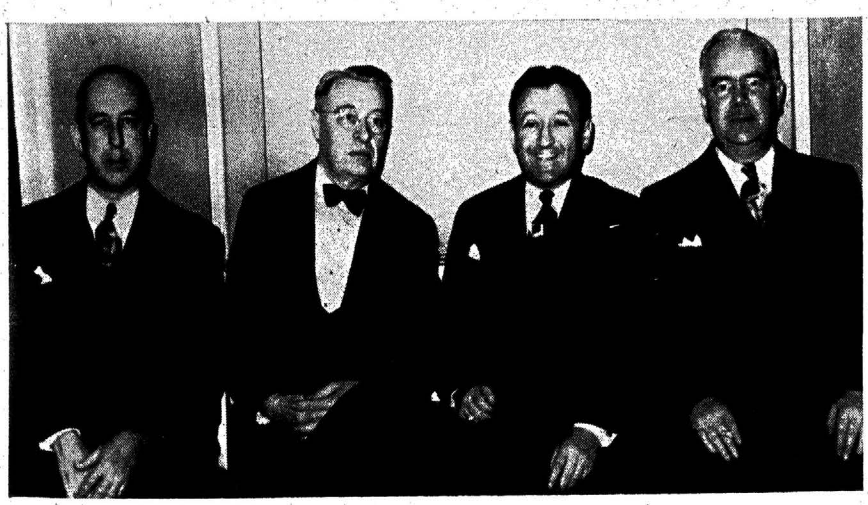
C. E. Unterberg, *C. E. Unterberg & Co.;* James P. Conway, *National Association of Securities Dealers, Inc.,* Washington, D. C.; Wallace H. Fulton, *National Association of Securities Dealers, Inc.,* Washington, D. C.

Alfred F. Tisch, *Fitzgerald & Co.;* T. Geoffrey Horsfield, *Wm. J. Mericka & Co.;* Col. Oliver J. Troster, *Troster, Currie & Summers*

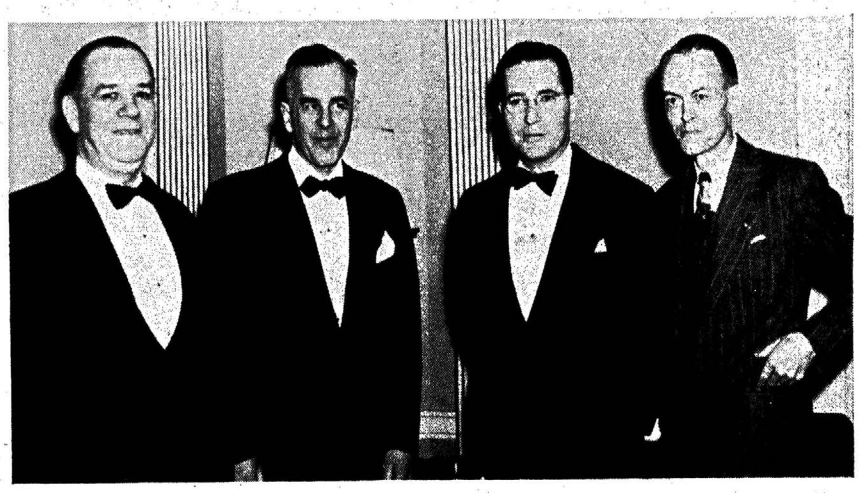


Graham Walker, *National Quotation Bureau;* Robert K. McConnaughey, Securities & Exchange Commission, Washington, D. C.; Emil Schram, President of the *New York Stock Exchange;* Harry A. McDonald, Commissioner of the Securities & Exchange Commission, Washington, D. C.

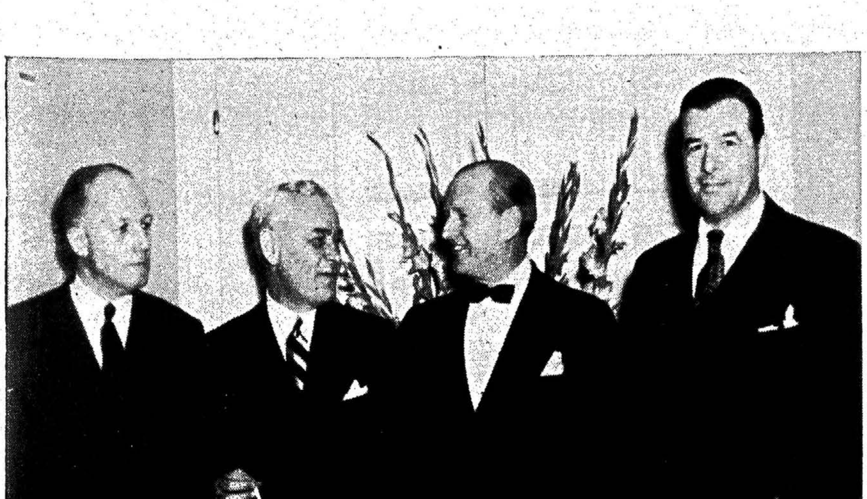
George Kilner, *Brown, Lisle & Marshall,* Providence, R. I.; Richard M. Barnes, *A. M. Kidder & Co.;* Maurice Hart, *New York Hanseatic Corp.;* Hanns E. Kuehner, *Joyce, Kuehner & Co.*



Frank S. Beebe, Secretary and Treasurer of the *Colonial Trust Co.;* Herbert D. Knox, *H. D. Knox & Co., Inc.;* Sam Magid, *Hill, Thompson & Co., Inc.;* M. T. Ryan, Vice-President, *Colonial Trust Co.*



John J. O'Kane, Jr., *John J. O'Kane, Jr., & Co.,* President of the Security Traders Association of New York; Philip Carret, *Carret, Gammons & Co.,* President, New York Security Dealers Association; Peter T. Byrne, New York Regional Director, Securities and Exchange Commission; John M. Hudson, *Thayer, Baker & Co.,* Philadelphia, President of the Investment Traders Association of Philadelphia



Howard C. Allen, *Albert Frank-Guenther Law, Inc.;* Meyer Willett, *C. E. Unterberg & Co.;* Frank Dunne, *Dunne & Co.;* Harry L. Arnold, *Paine, Webber Jackson & Curtis*

William C. Orton, *Gude, Winmill & Co.;* T. Reid Rankin, *R. H. Johnson & Co.;* Bert Seligman, *Ward & Co.;* David Morris, *David Morris & Co.*

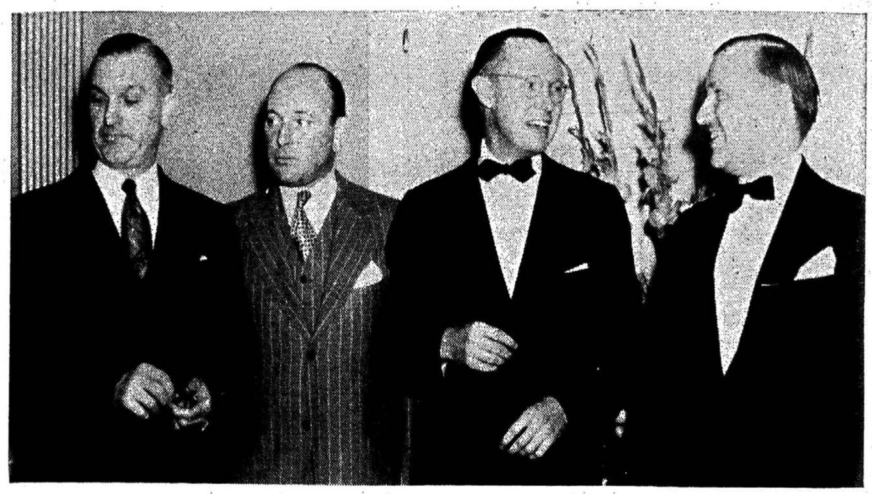
Twenty Second Annual Dinner

Eugene M. Cohen, *Stern & Co.;* A. Joel Canter, *Sartorius & Co.;* William F. Goulet, *Goulet & Stein*

Max Furman, Attorney General's Office; Chet de Willers, *C. E. de Willers & Co.;* Allen MacDuffie

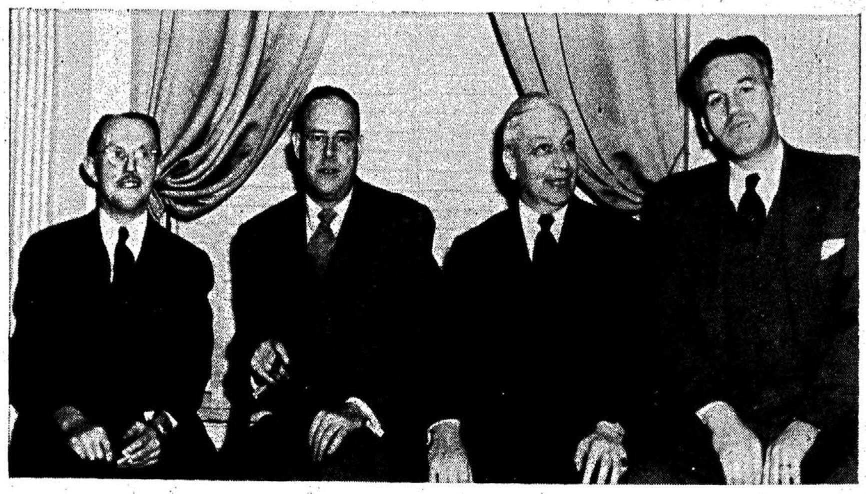
Walter Kruge, *James Cleland Co.;* Richard Kramer, guest; Belmont Towbin, *C. E. Unterberg & Co.*

T. C. Anderson, *Charles A. Taggart & Co.,* Philadelphia; Charles A. Taggart, *Charles A. Taggart & Co.,* Philadelphia; Floyd D. Cerf, Jr., *Floyd D. Cerf Co.,* Chicago; N. Sims Organ, *Ward & Co.*

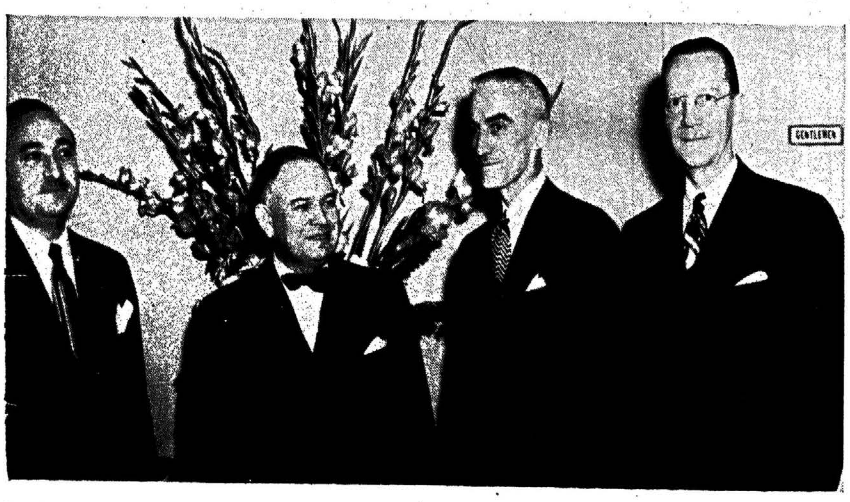


Erwin Stugard, *Bond & Goodwin, Inc.;* Andrew R. Steven, *Bond & Goodwin, Inc.;* N. Leonard Jarvis, *Hayden, Stone & Co.;* Shelby Cullom Davis, *Shelby Cullom Davis & Co.*

Joseph J. Corby, *Allen & Co.;* Page Mason, *Luckhurst & Co.;* John M. Hudson, *Thayer, Baker & Co.,* Philadelphia; Lee Sherman, *L. D. Sherman & Co.;* Jack Germain, *J. Arthur Warner & Co.*



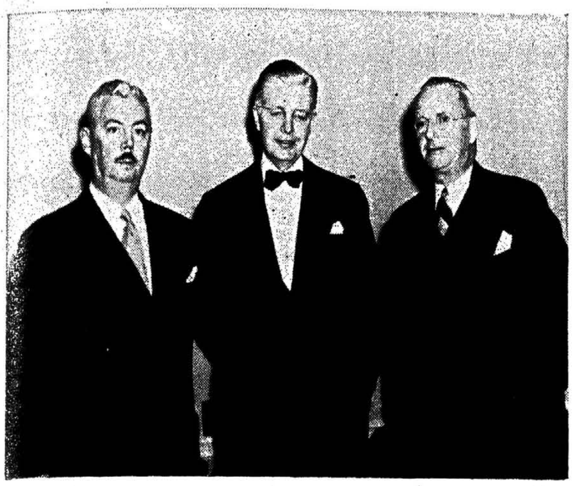
Charles H. Dowd, *Hodson & Co., Inc.;* John D. Freeman, *R. H. Johnson & Co.,* Boston; A. L. P. Smith, *R. H. Johnson & Co.,* Philadelphia; Elmer C. Jost. *R. H. Johnson & Co.,* New York



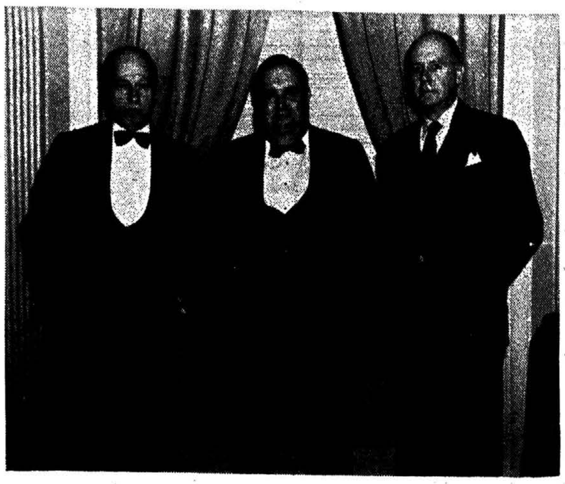
R. V. Klein, *R. V. Klein Co.;* Shelly Pierce, *New York "Journal of Commerce";* "Duke" Hunter, *Aetna Securities Corp.;* R. M. Wright, *R. V. Klein Co.*

Mike Growney, *Growney & Co.;* Soren D. Nielsen, *Newburger, Loeb & Co.;* Bill Boggs, *Kalb, Voorhis & Co.;* Vic Reid, *Growney & Co.*

Held March 5th at the Waldorf Astoria



John T. Cusack, *Amott, Baker & Co.;* W. G. Hoye, *Charles W. Scranton & Co.*, New Haven; Eugene de Bronkart, *Amott, Baker & Co.*



T. J. Bryce, *Clark, Dodge & Co.;* Richard B. McEntire, Commissioner, Securities & Exchange Commission, Washington, D. C.; Edward H. Cashion, Chief Counsel, Securities & Exchange Commission, Washington, D. C.

Harry Grahame, *Jacques Coe & Co.;* Edward J. Enright, *Dunne & Co.;* Edward C. Gray, First Vice-President, *New York Stock Exchange*

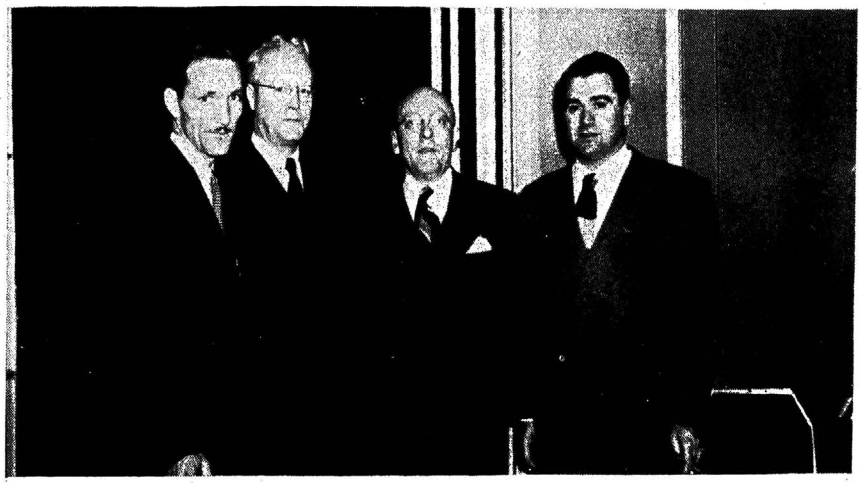
Lester Pett, *R. H. Johnson & Co.*, New York; R. H. Boardman, *R. H. Johnson & Co.*, Boston; E. B. Breen, *R. H. Johnson & Co.*, New York; Ross E. King, *R. H. Johnson & Co.*

Ralph H. Weseman, *Goldwater & Frank;* Isadore Frank, *Goldwater & Frank;* Joseph Schrank, *Shaskan & Co.;* James Siepser, *Shaskan & Co.;* Herman Frankel, *Butler, Moser & Co.*

Frank E. Mulligan, *E. H. Rollins & Sons;* Irv Maxfield, *Cohu & Co.;* Sidney A. Shaskan, *Shaskan & Co.;* Lloyd E. Lubetkin, *Seligman, Lubetkin & Co.;* Carter H. Corbrey, *Carter H. Corbrey & Co.*, Chicago

David Magid, *Hill, Thompson & Co.*, New York; Mrs. Marguerite I. O'Keefe, Executive Secretary of the New York Security Dealers Association; Joseph E. Flanagan, *John J. O'Kane, Jr. & Co.*

Joe Titolo, *Harris, Upham & Co.;* Joe Lann, guest; Carl Marks, *Carl Marks & Co.;* Jerry Aal, *Young, Aal & Golkin;* Al Zack, *Carl Marks & Co.*

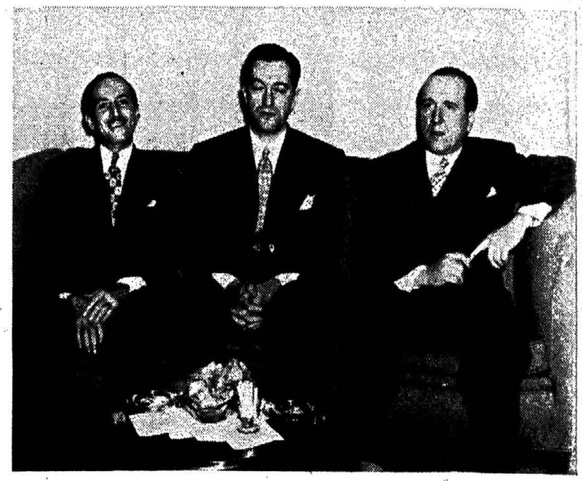


Stanley Witkowski, *John Witkowski & Co.;* Joseph Gannon, *May & Gannon*, Boston; R. Sims Reeves, *Blair & Co., Inc.;* Louis C. Lerner, *Lerner & Co.*, Boston

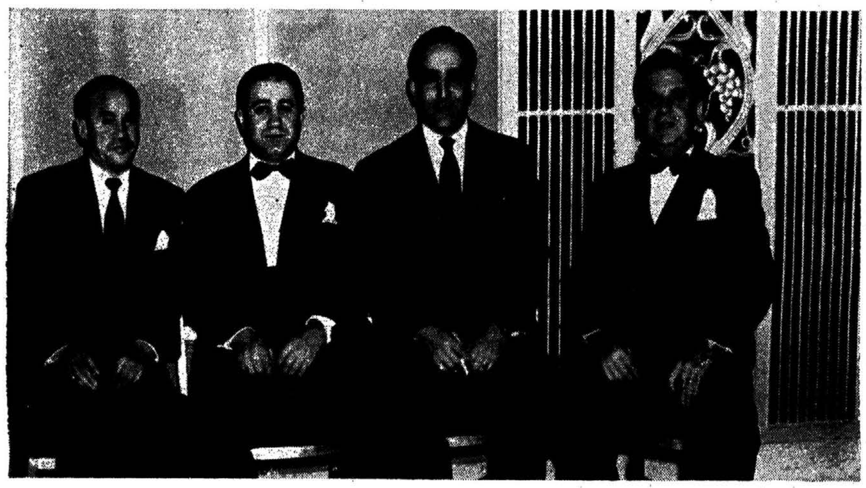
Pronounced Huge Success

H. R. Bunce, *New York "Sun"*; K. Grunebaum, *New York Hanseatic Corp.*; Mel Wien, *M. S. Wien & Co.*

Edward Clark, *Merrill Lynch, Pierce, Fenner & Beane;* Andy Tackus, *Putnam & Co.*, Hartford; Norman Single, *Dominion Securities Corporation*



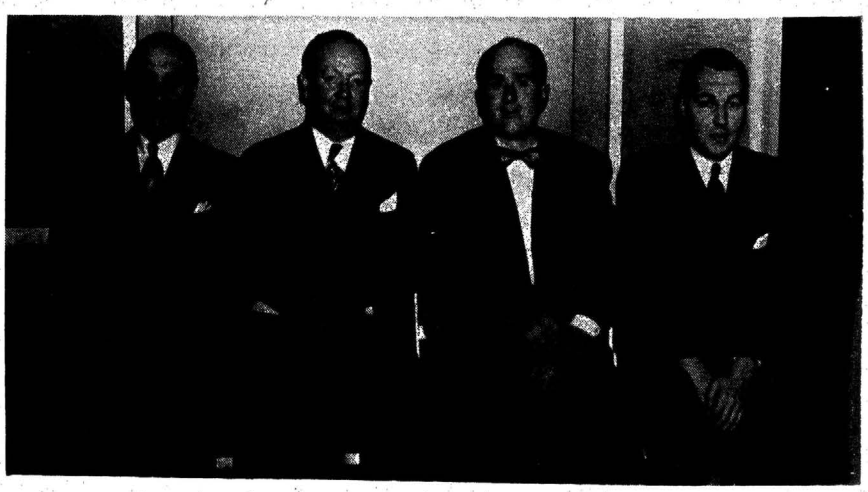
Eddie Zinna, *Smith, Barney & Co.*; Irwin Mitchell, *Ward & Co.*; John H. Stevenson, *Ward & Co.*



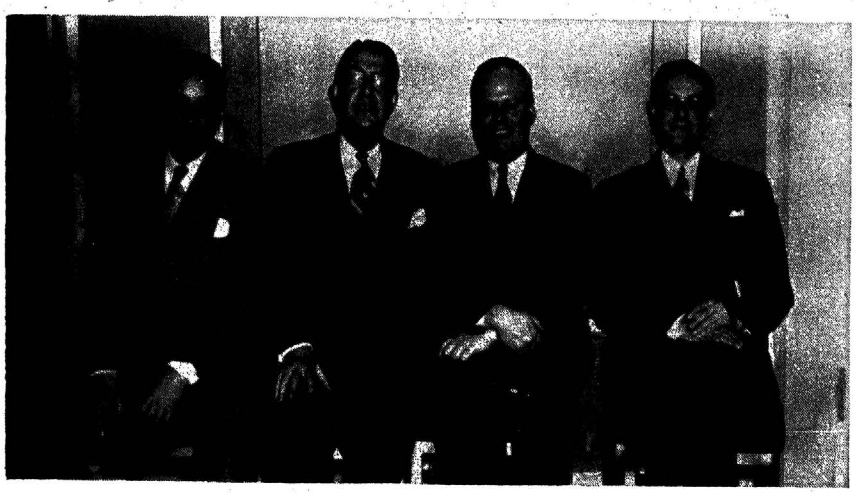
Irving A. Greene, *Greene and Company*; Robert Strauss, *Strauss Bros.*, Chicago; Sidney A. Siegel, *Siegel & Co.*; Harry A. Michels, *Allen & Co.*

Ted Young, *Young, Aal & Co.*; Nat Greene, *Simons, Linburn & Co.*; Harry Ellman, *Cantor, Fitzgerald & Co.*; Harry D. Casper, *John J. O'Kane, Jr, & Co.*

Frank H. Koller, Jr., *F. H. Koller & Co., Inc.*; Edward H. Robinson, *Schwabacher & Co.*; Ted Plumridge, *J. Arthur Warner & Co.*; Arthur Schwartz, *Bache & Co.*



Louis G. Behr, John J. Fitzgerald, B. Gerald Cantor and Ernest Butt, all of *Cantor, Fitzgerald & Co.*



Adrian Frankel, *Seligman, Lubetkin & Co.*; Edward W. Russell, *Seligman, Lubetkin & Co.*; John J. O'Mara, *Goodbody & Co.*; Irving J. Silverherz, *Seligman, Lubetkin & Co.*

Henry Oetjen, *McGinnis, Bampton & Sellger*; George Collins, *Geyer & Co.*; Arnold J. Wechsler, *Ogden, Wechsler & Co.*; Milton Meyer, *Shufro, Rose & Co.*

Shortcomings of World Bank

(Continued from page 4)

hand; in fact, they have actually hampered him.

The contractor down the street, Mr. Communism, who wanted the job, does everything in his power to keep the house from being built in the hopes that the builders will get disgusted, throw out Mr. Capitalism and give him the job.

In view of all this, the plumbing, heating and electrical subcontractors had better watch their timing, otherwise their materials might lie out in the yard and rust away while the battle as to who was going to build the house was being fought.

The situation is frankly recognized in the second annual report of the Bank covering the fiscal period ended June 30, 1947 and published in September. In a sense its text comprises a rather remarkable treatise on the present-day ills of the world, its disorganization, its unanticipated needs and the hopelessness of any but the most thoroughgoing remedies.

That the management of the Bank has been so willing to adopt such a forthright attitude toward its problems should really not be surprising, considering the high character of its personnel.

After all, and in contrast to what has too often occurred with respect to government or quasi-government boards and councils in recent years, it contains distinguished members of the legal profession in America and abroad, some top ranking economists and considerable commercial, investment and central banking talent from various countries.

However, there is a second characteristic of the Bank that is not generally recognized and here we must take issue with official statements and interpretations of the Board itself and its managers.

Despite its denials, the Bank is a political institution and its loans for the most part will be political loans. There is nothing wrong with this and we shall go further by commenting that, the 1948 world being what it is, things could not be otherwise.

Let's see what the Bank says about itself.

In May, 1947 it published a pamphlet entitled "What the International Bank Means to You," in which it describes briefly the purposes, operations and oranizational structure of the Bank.

Therein, under the heading "Non-Political" it is stated "The Bank must take steps to see that the proceeds of any loan are used . . . without regard to political or other non-economic influences . . . the Bank shall not interfere in the political affairs of any member. Only economic considerations shall guide the Bank in its decisions. That belongs in boldface type. It's the heart of the Bank's policy."

Of course, whether the Bank is a political institution, makes political loans or is influenced in making loans by political as well as economic considerations is to a large extent a matter of definition.

The mere fact that the Bank operates partially with the help of capital raised primarily through the sale of debentures to the public does not make it a private institution. Its share capital is government capital raised by taxes and not by voluntary contributions.

The combination of private and public money is a novelty and the arrangement is akin to a government subsidy of a private undertaking but with the private money non-managerial and non-voting.

The activities of the Bank will not be political in the sense that it will not loan money to a foreign country to maintain a particular political party in office or to purchase or manufacture munitions. But the loans of the Bank may be considered political merely because they are not commercial.

In a market economy, a commercial proposition must meet the needs or desires of consumers at a price they are willing to pay. Obviously, private investment firms would hardly have loaned $250,000,000 to France at 4¼%, which is what the World Bank did.

Fifty million dollars of bonds at say 5% for 15 years might have been salable to the public on an unsecured basis, but the involvement of a larger sum might have necessitated the giving of specific security or the pledge of collateral by the borrower as in 1916 when France obtained a 3-year loan in the United States.

It must be remembered that in the entire decade, 1920-1930, France borrowed only a total of $484,000,000 from American investors and this included not only the government itself but the provinces, municipalities and government controlled or guaranteed corporations.

While only a small part of this sum is still outstanding, the Export-Import Bank of Washington authorized since V-E Day two long term loans to France totaling $1,200,000,000 and carrying coupon rates at 2⅝% and 3%.

Had investment bankers floated a French loan this year no doubt they would have demanded some statement on the part of the French Government and of the Export-Import Bank as to which loan would have a prior claim, if any, on any foreign exchange needed to service interest and sinking fund.

Furthermore, the French indebtedness to countries other than the United States is large and includes a $400,000,000 loan from the British and various substantial credits from Canada, Sweden, Switzerland and Latin America.

The Bank for International Settlements at Basle has computed that post-war loans and credit granted to France and her colonies totaled $2,880,000,000 on Dec. 31, 1946, of which $2,000,000,000 had been advanced up to that time. One can readily imagine that small commercial loans granted by United States private bondholders might become lost in a shuffle of such astronomical proportions.

There is nothing new about political loans and, in fact, they comprise a large part of the international movement of capital during the past 75 years. Financial assistance is often an inducement to political alliance.

France has used foreign loans for political purposes since the time of Colbert, Louis XIV's Prime Minister. For decades before World War I she strongly encouraged the purchase of Russian securities by French investors to strengthen the ties between the two countries as an offset to the growing power of Germany.

These loans, which totaled 11.3 billion francs by 1914, were among the props of the Triple Entente. It may be argued that French investors would not have purchased Russian securities unless they were attractively priced but the proof of their political character is indicated by the uses of the loan proceeds in Russia, which included such purposes as the building of un-economic but militarily strategic railways and the suppression of revolution. After World War I France favored private loans to Czechoslovakia, Poland and Roumania as part of her program to throw a "cordon sanitaire" around Germany.

The financing of the Balkan railways is a 50-year story of competitive power politics and intrigue, involving financial institutions and the issuance of loans in Paris, Vienna, Berlin and St. Petersburg.

Banks and bankers and through them the investing publics of the Great Powers were often parties to inter-governmental rivalries. British and Russian clashes of financial interest in Persia (Iran) date from the 1880's. Instead of oil, as now, control of custom houses then was the bone of contention.

It would not serve any purpose to cite additional instances of political lending, for the ultimate judgment of the political or non-political character of the loans of the World Bank will finally be made, regardless of defintion, by their role in the global rivalry of the Soviet and the Anglo-Saxon systems.

By force of circumstances the United States is by far the largest stockholder of the Bank and for the time being the American capital market is the only place in the world in which the Bank may market its debentures. No loan may be made without American approval. The credit of the Bank rests upon U. S. Treasury commitments. The Russians knew all this when they made their decision not to subscribe to the stock of the Bank.

In retrospect, therefore, it seems strange that many of the problems of the Bank were not foreseen at Bretton Woods and even before.

The Bank is a brave, new, collective experiment in international planning. It was intended to do a job which private capital obviously could not or would not do. After all, the international capital markets had been virtually disintegrated years before World War II. There is a good deal of dispute as to why this occurred, but it is our feeling that the following are among the more valid reasons:

(1) The era of private lending which had culminated in 1930 has overwhelmingly been considered a disastrous failure by the American investing public. Foreign bonds were widely scattered among private holders and country banks through the U. S. While our foreign lending of the 1920's was not by any means the debacle generally believed, no Gallup Poll among holders or former holders of such securities would be needed to show that public disfavor and prejudice exists today to almost as high a degree as ever, despite the rise in quotations for many foreign issues since 1940. Now, with possible minor exceptions, the American investment market is the only one in condition to export capital.

(2) With the advent of wholesale defaults of the early 1930s, the problem of the protection of the American bondholder naturally became paramount. While there existed a plethora of tried and tested procedures available for our guidance, the experience, contacts and proffered cooperation of the U. S. investment banking fraternity, which could have been extremely helpful, were summarily rejected. In our opinion the actions of the Federal Government left much to be desired when it came to helping American citizens to cope with the unwillingness of many foreign obligors to make reasonable adjustments on their defaulted debts. We suspect that there was some ideological bias on the part of the Administration in Washington, which at various times did not hesitate to be more solicitous about the sovereignty and rights of quite a number of foreign countries than it was about the just claims of its own citizens. It castigated the investment bankers who floated these loans, criticized the profits they made and frequently indicated that the rates charged the borrower were unduly high.

(3) American financial observers have witnessed with dismay the spectacle of the Export-Import Bank of Washington and other governmental agencies making loans freely to foreign countries which defaulted on their obligations to foreign investors here. Many of these government loans were made at par at comparatively low interest rates while outstanding dollar bonds of the same obligor were kicking around on the market at tremendous discounts below par, many of them in default. In some instances the Federal Government through its various agencies made attempts to induce these foreign debtors to take care of their old obligations, but the average investor is largely unaware of such activities and feels that his government "let him down."

The era of 19th Century Liberalism really ended in 1913. With its demise there virtually disappeared many of its attitudes and much of its apparatus including the international gold standard. Private foreign lending was a logical concomitant of pre-1913 conditions.

There were business risks involved in the export of capital even before World War I, but they were of a character for which the private investor was equipped and able to undertake. The new period of foreign lending which began in 1920 and ended in 1930 demonstrated that under modern conditions the risks were even greater than before 1913.

The circumstances which caused the defaults of the 1930's have not been eliminated by World War II; on the contrary they have been generally aggravated.

Most of the nations of the world have been drifting steadily toward public regulation and regimentation in domestic affairs including ourselves. This is a stimulus, not a deterrent to economic isolation and autarchy as the case of Nazi Germany amply illustrates.

Interventionist (paternalistic) policies at home lead invariably to such unholy examples of statism as foreign exchange controls, subsidized exports, confiscation of gold holdings owned by private citizens, government bulk trading as a substitute for free exchanges, quotas, boycotts of foreign goods, all kinds of trade controls and migration barriers.

Free acting capitalism has been so badly crippled in the international field that it should take an extreme optimist to underestimate the risks of private foreign loans today if they are viewed in the light of the economic philosophies plaguing the world.

One of the really tragic failures of the post-war period was the inability of the Bretton Woods planners to create a really effective vehicle to solve the problems that lay ahead.

What was needed was a Marshall Plan even then, for all the Marshall Plan is is a super-World Bank or super plan to operate realistically in 1948 style. The World Bank concept would have been a "natural" in 1922.

In our opinion one of the grave deficiencies of the whole World Bank set-up is that the scheme stopped short of giving the managers of this institution sufficient powers to use in the event it should have to assert its claims against recalcitrant borrowers at some future date.

One of the primary causes of wholesale default on the part of foreign obligors was the tremendous decline in the price of various commodities entering into international trade.

Consider for example the following table of wholesale prices which existed on the dates mentioned:

Comparative Wholesale Prices of Various Commodities:

	Jan. 1 1929	Jan 1 1932
Wheat No. 2, red, winter, bushel	$1.54	$ .52
Hogs, Prime (Chicago) 100 lbs.	8.95	4.35
Coffee Rio, No. 7 lb.	.18	.07
Native Steer hides No. 1 lb.	.25	.08
Cotton, middling uplands, lb.	.20	.065
Wool, fine comb (Boston) lb.	.24	.19
Jute, average of grades, lb.	.074	.035
Silk Jap, double ex. cracks, lb.	5.12	2.10
Copper, Electrolytic (N. Y.) lb.	.1675	.07
Tin, pig, spot (New York) lb.	.4975	.21
Petroleum, east Brad. bbl.	3.85	1.85
Rubber, sheets, lb.	.18	.048

Is it any wonder that the entire international debt structure collapsed and that the debtors dependent upon the export of raw materials were not able to obtain dollar exchange to service their obligations?

Just now, in 1948, commodities and particularly raw materials again recently rose to great heights. If the World Bank makes a substantial number of loans under present price conditions, what is going to happen when and if such prices decline at some future date?

Will the experience of 1929-1932 be repeated, even in a milder degree?

As we stated before, we are living in a world of international and financial relationships which are highly regimented by governmental controls. The rules of the game are made and will be made by governments. Why neglect to vest the Managers of the World Bank with sufficiently wide powers to function within such a collectivist framework?

One of its powers should be to make collections, if it desires to do so, in terms of commodities. Admittedly the natural interests of the United States lie in the encouragement of unrestricted international enterprise, production and consumption.

A considerable body of opinion in this country is opposed to international cartels, whether good or bad, and favors the enforcement of this standpoint by full use of the Clayton and Sherman anti-trust laws.

The British, as we know, hold an opposing view. They do not fear the monopolistic or imperialistic implications of government controlled cartels or market arrangements, and, of course, their viewpoint is shared by the Dominions and most European businessmen and by the raw material producing nations of the world.

If, as a nation, we are out to smash any cartel in the world that raises its head and affects our interest adversely, should we not give the Managers of the World Bank ample powers to protect it and to encourage arrangements which woud tend to mitigate serious raw material price declines in the future?

This is a complicated subject and we cannot present detailed plans of any such scheme at this time. Such reasoning we will admit sounds rather extreme at the present time, but sooner or later copper, sugar, rubber, cotton, wool and other raw materials may develop chronic surpluses as they did in the inter-war period and then there will be plenty of trouble for those who have erected a new structure of international loans.

Customers Brokers Ass'n to Hold Qtrly. Bus. Meeting

The Association of Customers Brokers will hold its regular quarterly business meeting on Wednesday, March 17, at 4 p.m. at Schwartz's Restaurant, 54 Broad Street.

Measurement of Financial Sentiment

(Continued from page 3)

wars, and other untoward events. Furthermore, long secular trends seem to be present. The period 1881-1912, for example, was characterized by a generally high level of optimism, while the deterioration of sentiment beginning in 1913 resisted a return to normal levels, even in the early phases of the earnings recovery during the prosperity of the twenties. The record of the year 1947 shows clearly a lack of speculative support, but the level to which psychology deteriorated in that year was not significantly below the long-run average since 1913. Perhaps the more modest price-earnings ratios of the period since 1913 merely reflect the greatly magnified instability of earnings evident since that date. At any rate, the existence of a secular trend in price-earnings ratios suggests that major attention should be given to the patterns of year to year change rather than to the absolute level from which such changes take place.

Burns and Mitchell in their monumental study of business cycles have suggested the possibility that speculative activity follows a peculiar pattern relative to booms and depressions. Major depressions are usually separated by several minor cycles in business. There is some statistical evidence that after reaching a peak and collapsing in the major depression, speculative activity is slow to recover when business turns up in succeeding minor cycles. After several such mild expansions and contractions of business are experienced speculative sentiment gradually builds up to another peak just in time for another major depression and drastic liquidation. Thus, major business recovery occurs after the most severe depression is over, but speculative sentiment does not recover until much later in the sequence of events.

The study of price-earnings ratios suggests the existence of such a pattern between the peaks of major business cycles occurring in 1882, early 1893 and 1907. However, speculative sentiment can sometimes attain respectable levels immediately after a major depression, and in the period 1893-1907 optimism apparently reached a high in the minor business cycle peak of 1902, and turned down before the major collapse in 1907. The downward secular trend of price-earning ratios after the year 1913, and the stormy political and economic history of this period tend to make interpretation more difficult, but there is some evidence of a repetition of the usual pattern between the major business cycle-peaks of 1920 and 1929.

The most interesting question to be investigated is whether swings in speculative sentiment generally move with or counter to annual changes in earnings. Viewing the past as evidence of future probability one can arrive at estimates of the normality or abnormality of the experience of 1945-1946 when speculative sentiment gained enormously in spite of a drop in earnings. One can also weigh the odds in favor of the belief that speculative support is today at such low levels that stock prices might resist a decline in earnings from present high levels. This can be done on the basis of relative probability without the necessity of reading the composite mind of millions of investors.

Out of 35 upswings of earnings in the period 1881-1947, 10 were accompanied by a deterioration of speculative sentiment but some of the changes in psychology were so slight that they should perhaps be interpreted as evidence of no change. Using this interpretation and excluding from consideration gains in earnings of small amount (less than 5%), there were 32 cases where earnings increased, in 7 of which psychology remained unchanged, and in 6 of which psychology deteriorated. Excluding cases where psychology remained unchanged the lessons of past history suggest that the odds are 3 to 1 against the possibility that psychology will deteriorate when earnings increase by a significant amount. Some of these cases of worsened psychology involved world war years. Excluding them, the conclusion follows that, prior to the experience of 1946-7, the odds were 10 to 1 against the possibility that psychology would deteriorate in peacetime during a trend of rising earnings. Yet the greatest year-to-year deterioration of psychology in all history took place in 1946-7. This experience does not speak so well for the use of historical analogy. The situation is not improved if one begets a new dilemma by assuming that the rare behavior of the market in 1946-7 was caused by a too sanguine reliance on analogy in predicting the usual postwar depression. One can only say that recent experience was unusual and that falure to predict specific events by analogy does not destroy the validity of relative probabilities for the future based on a study of the past. Probabilities, so useful for measuring risks, never imply certainty.

Of 31 downswings of earnings from 1881 to the present, 23 occurred when earnings had reached a level above the average of the preceding 10 years, one when earnings were about equal to the past 10 years, and 7 when earnings were already subnormal. In 18 of the 23 cases when earnings fell off from a high level there was a deterioration of psychology. Psychology also deteriorated in the one case when earnings fell off from normal levels. When earnings fell from levels already subnormal, however, in only 4 out of 7 cases did psychology deteriorate. The odds turn out about as follows:

(1) That an earnings decline will result in deterioration of psychology: 23 to 8 in favor.

(2) That an earnings decline from high levels will result in deterioration of psychology: 18 to 5 in favor.

(3) That an earnings decline from normal or subnormal levels will result in deterioration of psychology: 5 to 3 in favor.

Some of the earnings declines considered in these statistics are probably too small to be significant. If one excludes all declines less than 5%, the statistical results may be summarized as follows. Out of 26 major declines 22 were attended by declines in psychology. In one case (1893-4) psychology remained about the same. The only possible explanation is that the **trend** of earnings was probably uniformly downward during the major recession of 1893, while the earnings trend turned upward sometime in 1894, even though **average** earnings in 1894 were below 1893. In the three cases in which psychology improved despite an earnings decline, psychology was already below normal in all cases and merely recovered to normal or more nearly normal levels. In all three cases also the decline in earnings started from a level which was already below normal (1884-5) or not more than 20-30% above normal (1918-19, and 1926-27). Further explanation of the improvement in psychology in 1884-5 may be the fact that the decline in average earnings from year to year was very slight (only about 11%) and the trend of earnings was uniformly down in 1884 but turned up sometime in 1885. The explanation of improved psychology in 1918-19, aside from the fact that the earnings decline was slight (less than 6%), probably lies in the return to peacetime conditions after the close of the war. Indeed, the initial postwar gain in optimism corresponds to a similar burst of optimism after World War II. The upswing in psychology in 1945-46, however, had an amplitude more than 8 times that of 1918-19.

The gain in optimism after the first World War was rudely tested by a drastic postwar recession, but psychology, already far below normal, resisted going very much lower. The decline in market values in 1920-1921 was thus caused by the drastic decline of earnings rather than by a strong wave of new pessimism. Despite much talk about historical analogy to support the chance of a mild recession after the end of a war, the recession after the first World War was far from mild. Just what the market was discounting in 1947 cannot be determined, but the drop in optimism between 1946 and 1947 showed the greatest amplitude in all history since 1881.

Of the three cases when psychology gained despite a drop in earnings the most difficult to explain is the period 1926-27. The trend of business activity as well as earnings was down during most of 1927. Furthermore, earnings started declining from a going level higher than the average level over the past 10 years. If we have any historical analogy to suggest that a decline of earnings in 1948 might be attended by improving psychology it must be the experience of 1926-27. But the usefulness of the analogy is definitely limited. Despite the recent immense deterioration in psychology we are today at levels still very slightly above the degree of optimism prevailing in 1926. Also, our current level of earnings is roughly 67% above the ten-year average, while earnings in 1926 were inflated by only 29%. Finally, one should remember that there is no evidence at all that psychology can improve significantly if earnings decline by more than about 11½%.

One must probably conclude that the weight of historical evidence favors a belief that if earnings decline in 1948 psychology will deteriorate further. In view of the fact that many people believe that current levels of business activity and perhaps earnings are already so high that they can turn only one way, the results of this study of the past might seem to yield a definitely bearish conclusion. Such is not necessarily the case. If, for example, earnings merely remain at the same level through 1948 the market could move up without any basic real change in psychology. This is because high levels of earnings become less inflated relative to past experience the longer they continue at a high level. With no decline in earnings and no change in psychology the market in 1948 could move up only about 4%. But one is also impressed from a study of the past that factors other than trends of earnings probably affect psychology. If the level of optimism in 1948 should merely be restored to long-run normal and earnings should be maintained the market could advance about 25%.

Perhaps one can obtain some solace by concluding that the market is far from an omniscient forecaster of business conditions and by observing that changes in psychology follow earnings as closely as they seem to do. Such conclusions put the responsibility for success or failure squarely upon the investor's independent ability to judge the trend of future earnings and business conditions. To the extent that the speculator can take additional risks random variations in the imponderable element of psychology are apt to help him about as often as they harm him.

Some interesting conclusions can also be derived from a study of past secular trends. As time has passed waves of optimism have apparently tended to become shorter in duration but of equal or greater intensity. Thus, the longest period of abnormally high optimism was the span of eleven years from 1897 to 1906 inclusive. The second longest period of buoyant sentiment covered the four years from 1927 to 1930. The third wave of bull market psychology lasted only two years, 1936 to 1937. And the 1946 advance lasted only one year.

This latest and shortest of all periods of optimism, while enduring only one year, exceeded all history in amplitude. The bull market psychology of the early period of optimism in 1897-1906 attained the second highest level, but was nearly equalled by the brief rise in 1929. The rise of optimism in 1936-1937 was also substantial even if brief.

A final observation may be directed to those speculators who refuse to weigh the gambler's odds as revealed by past experience and bet instead that the future, as sometimes happens, will be exceptional. Such speculators are perhaps too conservative if they assume that 1929 could not happen again. The level of optimism in 1929 was not the greatest in history. The phenomenal level of stock prices was a result of the chance synchronization of the increased volatility of earnings, evident since 1913, with a simultaneous rise of the usual amplitude in sentiment. When thus split up into its component elements the peak of the bull market in 1929 seems much less obviously impossible to reattain.

The Benelux Union: A Step Towards European Integration?

(Continued from page 4)

where they physically enter the Benelux area, but only on reaching the Dutch frontier. The customs regimes of the signatory powers will not be unified and the proceeds of import duties will not be pooled. No joint administration is contemplated for the time being, and at present separate exchange control restrictions are maintained. National gold and foreign assets are likewise kept separate; moreover, each member country will continue to levy its own excise, turnover and luxury taxes, which may differ considerably between the three areas.

The new customs tariff,[1] worked out by a mixed commission established for this purpose by the convention of 1944, is drawn up according to the League of Nations scheme elaborated in 1937, which advocated *ad valorem* duties. It represents a compromise between the Belgian and Dutch schedules, and means, on the average, a slight lowering in the rates of the former, and a rise in those of the latter. Provision is made for a general rate, and a maximum rate; the latter is not to be less than 10%, and is to be applied only to countries discriminating against the members of the customs union.

The second stage, expected to follow within a few months of the effective commencement of the present Benelux customs agreement, will see the coordination of excise and transit charges. Since the differences in excise taxes, and particularly in transit charges, are considerable between the countries, equalization will have to be gradual so as to minimize the impact on the industries concerned.

In the third stage, the last obstacles to a complete customs union are to be removed and the way paved towards a full economic union. The latter aim involves the task of achieving equilibrium between the two separate economies, a tremendous undertaking indeed. The preparatory work towards this final stage is already in progress, and is being conducted by five mixed administrative subcommissions working on: problems of industrial development; agriculture and fisheries; distribution and priorities; prices, wages and currency; and transport and harbors.

The administrative structure of Benelux is centralized in a Belgian-Dutch secretariat functioning in Brussels under a Dutch secretary-general and a Belgian vice-chairman. At this level final policy-making decisions are taken, based on the technical spade work of three mixed commissions established by the convention of 1944 to conduct research and make recommendations on customs duties, on trade agreements with third countries, and on the implications of complete economic union.

A considerable amount of useful work is also being done at an unofficial level, through numerous private meetings between industrialists from Belgium and the Netherlands, in which problems are discussed and plans are made for the future.

Problems to be Solved

Although the Benelux Union probably is blessed with considerably more favorable circumstances than any other set of countries that might wish to embark on a similar project, it will nevertheless need a long period of adjustment for the implementation of its plans. The outstanding problems are the differences in the price structures of the member countries, in their agricultural systems, and in their balance of payments positions, with concomitant contrasting over-all economic policies.

Prices and wages have been lower, on the whole in the Netherlands than in Belgium during the last year or two, owing to the larger measure of control in the former country during the postwar period. It is unfortunate that hardly any wage-price statistics are published for Belgium. The only price index available is one on retail prices (on the basis of 1936-38 = 100), which stood at 352 in August of this year. This may be compared roughly with the Dutch cost of living index available for the same date (1938-39=100) of only 179. While no wage statistics at all are published in Belgium, it is well known that wages in that country have risen at a considerably higher rate than in the Netherlands. Thus, the differences in the wage-price structures of the two countries will necessitate the exercise of great care in the process of integration. For the present, in order to avoid the inflationary effects on the Netherlands of an influx of high-priced Belgian goods, and possible pressure for devaluation in Belgium, the authorities of Benelux have decided to maintain quantitative controls on the movement of goods until the supply situation evens out between the two regions.

The problem of establishing an equilibrium between the agricultural systems of the Netherlands and Belgium is a very delicate one. Belgium's agricultural sector, preponderantly the Flemish area, is afraid of the superiority of the Netherlands' modern production and marketing techniques. While Belgium is roughly self-sufficient in dairy products, the Netherlands has normally been

[1] Ratified at the end of October, after submission to parliamentary approval in April, 1947.

able to export above 50% of the volume of her butter and cheese production, usually at prices below those of the domestic market. Before the war, Belgium used quotas to protect herself from Dutch "dumping," but quotas obviously cannot be continued once customs frontiers disappear. The Netherlands, likewise, will not be able in the future to use subsidies for boosting the export of her dairy products. Thus a special agreement will have to be reached on the question of differential farm prices, which is awaited with anxiety, particularly by the Flemish population, harassed with a chronic surplus of manpower and therefore particularly sensitive to the threat of unemployment.

Another basic problem which will have to be dealt with before Benelux can become a full economic union is the difference in the over-all economic policies of the Netherlands and Belgium. The latter, finding herself, partly by chance, in a relatively favorable foreign exchange position soon after the end of the war, could afford to adopt a policy of economic liberalism, including the relaxation of most domestic controls and the gradual alleviation of foreign exchange restrictions. The Netherlands, on the other hand, with her domestic production seriously impaired, and struggling with a grave balance of payments position, adopted a policy of strict goverment controls. To analyze the various ramifications of this problem would go far beyond the scope of this paper, but it is clear that the economic integration of the two areas will require similar, if not identical, government policies.

This leads us to a related subject, namely the necessity for adjusting the monetary and financial systems of the member countries. While this subject, including the question of a common currency, has been shelved for the moment, it will have to be faced sooner or later before an effective union can be established.

Conclusions

The question that remains to be answered is whether the problems of the new union will be so difficult as to obstruct seriously the establishment of the full Benelux Union program, or whether that undertaking has a good chance for survival and final success. I believe the latter to be the better guess.

This conclusion is based on a number of economic political, and psychological factors. In the first category, we find several circumstances that are exceptionally favorable, and which are entirely absent from most other countries that might wish to take a similar step. These include the similarity in the size of the countries and of their populations, the absence of competition between them in the past,[2] and the complementary aspect that the predominantly industrial character of Belgium and the agricultural character of the Netherlands lends the union. The latter relationship has been consciously intensified by the member countries in their attempt to make up for the elimination of Germany, a trend illustrated by the foreign trade statistics, which show that exports from Holland to the Belgium-Luxembourg union rose to 21.4% of total Dutch exports in 1946, compared with only 10.2% in 1938, and that Dutch imports from that area rose to 14% from 11.5%.

The sincere efforts in the direction of regional self-help are further illustrated by the credits extended by Belgium to the Netherlands, under both financial and commercial agreements. According to information published by the Belgian Ministry of Foreign Affairs, these credits amounted to a total of 4,130 million Belgian francs by the middle of June 1947, of which 1,400 million had been disbursed under the payments agreement of January, 1947, the remainder having accumulated under the two consecutive commercial agreements concluded in June, 1946 and June, 1947.

Outstanding among the political and psychological factors making for the success of Benelux is the extremely favorable reception it has received, both from the United States and Great Britain. The objections raised by the great powers, such as the outcry against "discrimination," which were directly responsible for the fiasco of the Ouchy agreement, are completely absent today, as Benelux, being a customs union, is not subject to the most-favored-nation clause. The United States in particular not only has shown complete agreement with the Benelux idea, but actually has been sponsoring similar movements in Europe under the European self-help program. The member countries on their part have shown a determination to bring their plant to a successful conclusion that augurs well for their continued collaboration.

Thus, while the achievement of a full economic union between the Belgium-Luxembourg economic union and the Netherlands will probably take a long time, during which a number of knotty problems will have to be straightened out, it has a very good chance for success. Certainly, no other group of countries at the present time could embark on a like program with even half the chance. Should Benelux fail, no other European customs union could succeed; if it succeeds, others may, or may not, be as successful.

2 An exception is the traditional rivalry between the ports of Antwerp and Rotterdam, which, however, may well continue on an intrastate basis even after complete union.

As We See It

(Continued from first page)

this aspect is obviously that of providing an efficient means for assuring wealth redistribution, and the lines along which it must work in such an event are obviously only the reverse of those which are determined by the older canons of banking soundness and liquidity.

"The 'new' central banking which many 'reformers' appear to have in mind is a type of credit manipulation aimed at the reorganization of economic society along lines arbitrarily conceived of as designed to promote greater justice. The management of central banking under such circumstances almost necessarily becomes disassociated from the 'automatic' control exerted by the gold standard or any similar standard of money. On the other hand, it must, in order to succeed, find a new means of domination of other banking institutions. It may, therefore, tend to compel such other institutions to use their funds according to directions and in no other way, or it may gradually seek to eliminate the other banks and to substitute for bank credit a system of political or so-called 'government' credit, controlled and operated by the central banking mechanism. A threatened drift toward a credit and banking system of this kind has been observed in those countries in which political dictatorship has taken strong root, notably in Italy, Germany and the United States.

Sound Banking Or?

"Evidently if government planning in the usual sense of the term—the direction of agricultural and manufacturing effort through government edict, the regulation of rates of interest and the dictation of the amount of credit to be granted by reference to current desires regarding commodity prices, securities values, or business activity generally—is to take the place of a distribution of capital based upon ability to manufacture and sell goods economically and limited by the actual consuming power of the community, the access of each class to wealth to be determined by its productive power, then an entirely new technique and philosophy of banking will have to be worked out. In such conditions the entire concept of liquidity and probably also that of solvency in the older sense of the term must be abandoned. Banking will doubtless in such conditions become a mechanism of control which cannot be expected to be either prosperous or perhaps self-supporting and whose efficiency will be judged merely by the extent to which it succeeds in carrying out for the time being the ideas of a ruling clique in connection with the redistribution of wealth. Such ideas in turn will be motivated merely by the effort to consolidate the political power of a given clique or group, and while doubtless always covered by the usual professions of desire to promote the good of the community, will after all be subservient to a conception of public welfare which is based upon a continued authority of a given person and his associates.

Fundamentals

"From this it is clear that the choice (as to the future course of central banking) must be made as an incident to a large question of economic organization. 'Sound banking' in the sense of the term which has been admitted during past years, is incompatible with the so-called 'planned economy' which has become so popular an ideal with sundry social reformers. If a planned economy has a banking system of its own which it is prepared to substitute for the older system, it has not yet made that fact manifest nor has it done anything to demonstrate the superior efficiency or feasibility of its own course of action. In this sense then the future of central banking becomes enigmatic, since at present, as on similar occasions, there is widespread belief that it is entirely possible to retain old institutions to which the public has become accustomed even after the basis for them has disappeared, so that there is no longer a footing upon which they may rest with confidence."

This perhaps somewhat overlong quotation from a discussion of the future of central banking in the world taken from the author's "The Theory and Practice of Central Banking" published in 1936 seems to us to be about as good a commentary as one could make on the current bankruptcy of thought about "inflation" and the way to deal with it by use of Treasury and Federal Reserve operations. We are so prone to suppose that the situation by which we are today confronted is wholly an outgrowth of the war that it is well to remind ourselves that such is definitely not the case by reference to this penetrating analysis (which might as well have been pointed at the situation as it stands today) written and published some years prior even to Munich. Of course, the unfortunate policies and practices employed in financing World War II have greatly aggravated the state of affairs and magnified the problems which engage us, but in all their essence the questions which plague us today and about which the authorities appear to be so completely in the dark were evidently with us in 1936 — and had not escaped the discerning eye of Dr. Willis.

Real Questions

The real decision required of us today has little or nothing to do with Treasury campaigns to sell bonds to obtain funds to retire other bonds. Neither is it concerned with this, that or the other new fangled, highly artificial system of reserve requirements, the acknowledged purpose of which is to convert the banking system of the country into reluctant holders of Treasury obligations at rates fixed by the borrower — and to do so in such a way as to enable the Reserve System at the same time to deny other borrowers access to the banks of the country. All such proposals or procedures are at best but makeshifts designed to enable political groups or cliques to tide themselves over crises which periodically arise, in the absence of any settled or tried system of banking, to accompany and support their managed economy needs.

The real question to which the American people must address themselves without delay is whether or not they intend to continue to submit to any sort of managed economy, which by so greatly limiting the scope of free enterprise, or by so severely handicapping it, or perhaps, by virtual abolishment of it in key segments of the economy, renders the application of time tested principles of banking more or less out of the question. Many of us are much too inclined to suppose that we can retain or return successfully to older customs and practices—or at least to their outward form—at the same time that we continue under a system of politically controlled economy which makes it impossible for them to operate successfully or adequately.

The issue before the American people—or which ought to be before them—is a basic one. Until it is decided correctly we shall not accomplish a great deal arguing about superficialities.

Endorses Buffett's Gold Coinage Bill

New York Board of Trade Directors, by vote of 19 to 3, advocate return to a gold coin standard.

The return to a gold coin standard was advocated by the Board of Directors of the New York Board of Trade. The vote on the motion was 19 in favor, and three opposed, while some of the directors refrained from voting. The Board's opinion is being sent to members of Congress with a petition that H. R. 5031, introduced by Congressman Howard Buffett, be enacted.

Floyd W. Jefferson, President of the New York Board of Trade, released the following statement:

"The subject of the Gold Coin Standard has been under study for many weeks by our organization. It originated in the International Trade Section, which group reported it to the directors. The recommendation of the International Trade Section in favor of the Gold Coin Standard has been considered by the directors at the last two meetings. In order that full and complete information on both sides should be fairly presented to the directors, two leading economists were guests of the directors at the meeting where the action was taken. Dr. Walter E. Spahr, of New York University, and Executive Vice-President of the Economists' National Committee on Monetary Policy, spoke in favor of the move, and expressed the opinion that this action could be taken at the present time. Mr. Harold Glasser, former Director of Monetary Policy, United States Treasury, and now Director of the Institute for Overseas Studies, opposed the action at this time, and expressed the opinion that world conditions would place too great a strain on the world's supply of monetary gold metal."

Taxes and Government Spending

(Continued from first page)

in turn has, I suggest, a most intimate and crucial relationship to the spending and taxing policies of the Federal Government.

As you know, the President's budget for the fiscal year 1949, commencing next July 1, calls for expenditures by the Federal Government of roughly $40 billion. The budget expenditures for 1939 were roughly $9 billion.

It is easy to raise too much or too little sail on this contrast. Unless one can forget World War II, it is obvious that the difference is not made up exclusively of avoidable increases in expenditures.

Rounding my figures, the proposed Executive Budget for fiscal 1949 includes $11 billion for national defense; $7 billion for international affairs and finance; $6 billion for veterans' services and benefits; $5 billion for interest on the public debt.

The interest charges (except for temporary increases due to possible shifts into higher rates) will be reduced as the national debt is reduced but they cannot be eliminated or even brought within modest compass for a long time to come. Some of the costs of services and benefits to our veterans such as educational help will decline rapidly, others more slowly, but here again we should reconcile ourselves, keeping in mind the possibility of the adoption of new variations in benefits, to annual expenditures over many years of several billions of dollars.

The remainder of the large items which I have mentioned, for our foreign affairs and our backstopping military affairs, are directly attributable to the unhappy exigencies which require us to preserve our watchfulness and readiness during this anxious postwar period.

No Massive Reduction in Expenditures

Thus it is clear that truly massive reductions in expenditures and therefore in Federal taxes, say for illustration, of from $15 to $20 billion, cannot be expected until we get the world soundly postured for peace.

I mention these matters not in a defeatist sense but because we in Congress are frequently deluged with angry demands that expenditures we brought down overnight to a level of somewhere between $20 and $25 billion.

The point is, I suggest, to do what we can with what we have to work with. The passion which so often rules our policies and actions for the full scale immediate attainment of grandiose objectives, for going to heaven in one jump, often leadens our efforts for readily realizable and vitally important lesser accomplishments.

There is a vast difference between our approval of functions which we believe are necessary, which we hope are temporary, which at best by their nature call for large expenditures, and the administration of those functions which may be loaded with waste.

No activity of the government, whether old line or newly created under the compulsions of world conditions, should be allowed to claim sanctuary against sensible economy.

When idealists fall on their faces and lead others into trouble, it can often be attributed to their lack of concern over the constant nudgings of history that noble governmental economic and social objectives are unsupportable except out of a sound economy.

I warn you, however, that to adhere at the same time to fine objectives and sound procedures is more easily said than done. You will be opposed by every wastrel and by every emotionalist who cannot look at the feet of his idols.

Federal Government Divided in Its Economies

The Federal Government today stands divided in its expenditure policies. The Congress works for economy. The Executive Branch of the government promotes its committal to high spending and taxing policies.

Leading members of the President's party, who are expert in our fiscal affairs, stand appalled before these spending tendencies and are now giving public warnings that unless their progress is halted, our expenditures will rise from their present fantastic and perilous levels to as much as $55 to $60 billion within the next few years and that this can end only in catastrophe.

The full possibilities of economy in the management of the Federal Government cannot be had until there is like-mindedness and cooperation between the White House and the Congress.

The President takes the position that the government cannot be run for a penny less than $40 billion for the next fiscal year.

This Presidential policy, you will appreciate, is bound to exert heavy coercive pressures against that complete departmental frankness in the production of facts and opinions necessary for the exercise of efficient Congressional judgment. It makes subordinates feel safe in open defiance and in more subtle forms of resistance.

An appropriation intended to be firm and complete for a full fiscal year for a specified purpose, made with regard not only to that particular need but also to other expenditure requirements, is rendered meaningless by administrative bunching techniques which develop situations requiring additional appropriations for the same purpose during the same fiscal year.

Thus, for example, the Congress makes an appropriation for a construction project, the progress of which should be paced over the whole fiscal year. Contrary to this intent, the contractors are officially urged to run days, nights, Sundays and holidays so as to spend the available money as rapidly as possible.

This lays the foundation for additional spending. The uncompleted project cannot be allowed to deteriorate in the weather, the contractor cannot be expected to stand by in idleness for the remainder of the fiscal year, and obviously it would add additional costs for him to disband his equipment and organization and to reassemble them in the next fiscal year.

Stratagems of this kind, if not halted, will make a farce out of orderly appropriation procedures. The effect is to lodge control of the purse strings in the Executive Departments rather than in the Congress where it is intended to be by the Constitution.

There are numerous other techniques used by other executive agencies to obstruct the expenditure policies of Congress and to make them look bad. Thus, if an appropriation is cut, the work is not intelligently redistributed among the remaining employees. It is concentrated at places where the public will be inconvenienced and, therefore, incensed against efforts for economy.

For example, if the payroll for janitor service were reduced, it would indeed be surprising if any of the supervisors or higher-ups were to lose their jobs. The tactic would be to make the cut among those who wield the mops and brooms in the corridors of public buildings and any resulting untidiness would be loudly attributed to a penny-pinching Congress.

Then, we have cases where agencies of the government affected by cuts, have engaged in hysterical hucksterism to persuade the public that the sacred altars in their keeping are being desecrated by a barbarous horde in the Congress.

Other agencies spend time and money to proselyte the people to pressure their Congress for increased appropriations where in fact reductions are in order.

These things are inevitable where the perpetrators feel secure in doing them because their top boss, the President, repeatedly affirms that not a penny can be saved.

Substantial Economies Can Be Achieved

Such practices could be stopped in a moment and substantial economy goals could be achieved without the slightest difficulty and without impairment of any essential function if the President were to proclaim his disapproval and if he were to order cooperation with the Congress.

It is unfortunate that the President is either silent or when he speaks, he deprecates and refers sarcastically to the efforts of Congress to achieve economy.

I add that instances of defiance and obstruction in the executive agencies are being carefully assembled and those who have been chuckling over their misbegotten cleverness and who have gained stature with their bosses because of it, may find themselves in very deep trouble.

Congress Setting Up Own Budget Procedures

Also, let me say that the Congress is setting up its own budgetary procedures which will bring the making of appropriations into more sensible relationship with Congressional budget estimates and which will put Congressional observers into the Federal agencies so that we can act on our own information. The Congress has now completed the expression of its goal that there should be at least a $2.5 billion reduction in the expenditures for the fiscal year 1949 as proposed by the President.

Many members of Congress believe that this minimum reduction can be substantially increased without harming any essential function, and an effort will be made to do so.

Most businessmen, I venture to guess, would say without a moment's hesitation that anyone with $40 billion to spend, regardless of the importance of the objectives, could easily do with at least 10% less and do a better job. But please remember that division in fiscal policies between the Board of Directors and the President of the Company is not allowed. When the President of the Company does not carry out the fiscal policies of the Directors, he gets fired. The Congress cannot fire the President of the United States. Since this is not a political meeting, I shall withhold a recommendation.

Please let me observe also that there is considerable fakery among many of those who do the loudest howling for economy. A member of Congress cannot help being puzzled and disquieted when today he receives a letter denouncing extravagance, and tomorrow receives a letter from the same writer urging him to work against economy so far as the writer's own pet project is concerned. There will have to be wider spread consistency in the desire for economy if we are to have it.

Tax Reduction Needed to Keep Our Economy Going

Those who are trying to cut the waste out of our Federal Government are not pursuing empty shibboleths. They appreciate the mathematical certainty that our standards of living cannot be held and raised, that we have no escape from economic and political disaster unless the Federal Government returns to the citizens by tax reduction enough of his own money to support the formation of sufficient risk capital to keep our economy going and advancing.

Because times are good it is easily assumed and often proclaimed by persons who ought to know better that business can obtain all of the funds it needs. Yet an examination of the facts shows quite clearly that this is not true.

The sluggish action of the stock market in the last year or so, and especially in the last few months, is a significant indicator.

The average yield on new securities has been increasing for some time. And the spread between the rates paid on issues involving greater risk than those of the gilt-edge variety, is now substantially larger than it was a year or so ago. This can only mean that despite the surface inducements of apparent prosperity, sufficient individuals are not willing to risk their capital today in the more venturesome forms of enterprise. This shortage of venture capital can be easily annotated.

Scarcity of Risk Capital

An examination of the sources of corporate funds used for financing the expansion and replacement of facilities and equipment indicates that business in 1947 had to depend much more heavily on internal sources of financing than has been true in prior years.

Business in 1947 found it necessary to retain a much larger portion of its profits than customary to obtain funds for even its minimum expansion and replacement needs.

More important evidence of the scarcity of real risk-taking capital can be obtained by examining the types of new securities which are being issued.

Notes and bonds in 1947 represented nearly two-thirds of the securities issued as contrasted to only about 40% in 1946.

Common stocks, the real risk-taking form of capital, represented only about 20% of the securities issued in 1947 as contrasted to nearly 40% in 1946.

Not only did the relationship of common stock issues to other securities drop drastically in 1947, but also the actual money volume of issued common stocks decreased appreciably.

This shift from risk-taking common stocks to the more secure type of financing is evidence, aside from numerous specific cases which might be cited, of a lack of purchasers for equity capital.

Also, the rush to finance business by incurring inflexible priority indebtedness discourages new equity capital and in periods of recession is perilous to existing equity investment.

Now let us look briefly at the type of purchasers in securities in the last two years. In 1946 and 1947 life insurance companies and banks accounted for between three-fourths of the purchases of new security issues in 1947 and practically all of the purchases in 1946.

Because of the nature of their business and the laws governing their portfolios, these investors cannot assume substantial risks. Individuals who are at liberty to take such risks, did not increase their holdings of stocks at all in 1946, and increased them only very slightly in 1947.

Still another indication of the absence of risk-taking is indicated by the type of business which did find it possible to raise outside capital for expansion in 1947. Public utilities and telephone companies, where relatively little risk is involved, accounted for slightly more than half of the new investment in 1947. The more risky manufacturing businesses accounted for a much smaller proportion of the total in 1947 than had been customary in earlier years.

While many causes have been suggested why individuals are not providing adequate risk-taking capital today, I believe that one of the demonstrable fundamental reasons is the present high individual income taxes.

Leading to State Socialism

Our risk capital will have to come from the government under State Socialism or from the middle and upper income brackets under private enterprise. The open opponents of the free enterprise system and their crypto-associates are not unaware of the alternatives and are highly pleased with the present situation.

The marginal rates which determine the amount of tax collected on the additional amount of income received by persons in different income brackets for added effort or for assumption of increased responsibility or for returns from risk investments, are the rates to watch when we are estimating effects on incentives. They show how much of the extra reward for extra effort or for profit on new risk investment the individual taxpayer will be allowed to keep.

For example, the individual with surtax net income of $10,000 who makes a successful risk investment which returns him an additional net income of $1,000, must pay 36% of it to the Federal Government alone. If his income is $25,000 and he makes a successful risk investment which returns him an additional net income of $1,000, he must pay 56% of it to the Federal Government alone.

If his income is $50,000, and he makes a successful risk investment which returns him an additional net income of $1,000 he must pay 71.3% of it to the Federal Government alone.

Let us view it from another angle: There is little general understanding of what has happened to the take home income since the war of those in the income brackets to which we must look for risk capital to keep the payrolls going. Let me illustrate, assuming a married taxpayer with two dependents and with net income before exemptions:

In order to have the same income left after taxes under present tax rates as he had in 1939, an individual with a net income of $5,000 a year in 1939 must have today a net income of $5,864. It takes a net income of $9,550 to give the same income after taxes as was enjoyed by a taxpayer with an $8,000 net income in 1939; a $12,257 income today to match a $10,000 income of 1939; and a $20,119 income to equal a $15,000 income in 1939. To match a $25,000 income in 1939, it is actually necessary to have an income of over $40,000 today and a $50,000 income in 1939 represents the equivalent of an income of nearly $124,000 today.

The higher up the income bracket, the more fantastic is the increase in income which it is necessary to have to match an equivalent income after taxes in 1939. A $228,000 income now is equal to an income of $75,000 in 1939; an income of nearly $313,000 represents the equivalent of only a $100,000 income in 1939; and an income of over $1,260,000 would be required today to give the same income after taxes as a $500,000 income in 1939.

The figures which I have presented to you do not take into consideration the 68% increase in the cost of living as of December, 1947 over the average of 1939.

Harshness of Steeply Progressive Tax Rates

We get an especially graphic picture of the harshness of our steeply progressive income tax rates by testing the relation of income taxes paid per dollar of income by taxpayers in different brackets.

Let us assume a single person with no dependents and with net income before exemption:

The **$5,000** income man pays **10** times as much as the **$1,000** income man;

The **$10,000** man pays **25** times as much as the **$1,000** man;

The **$20,000** man pays **70** times as much as the **$1,000** man;

The **$25,000** man pays **99** times as much as the **$1,000** man;

The **$50,000** man pays **265** times as much as the **$1,000** man;

The **$100,000** man pays **669** times as much as the **$1,000** man.

Let us make the same comparison using a net income base before exemption of **$5,000.**

The **$10,000** man pays **3** times as much as the **$5,000** income man;

The **$20,000** man pays **7** times as much as the **$5,000** man;

The **$25,000** man pays **10** times as much as the **$5,000** man;

The **$50,000** man pays **27** times as much as the **$5,000** man;

The **$100,000** man pays **69** times as much as the **$5,000** man.

By the late 1930's our progressive income tax rates had already been grossly slanted to serve "hate the rich" policies and to achieve redistribution of wealth objectives.

These distortions were enormously magnified by the wartime increases. During the war it was considered justifiable policy to repress risk investment for everything but war production. There was less need for concern about the margins of savings in the middle and upper brackets available for risk investment because Uncle Sam, one way or another, was putting up most of the money.

But now we confront the necessity of financing a dynamic, forward-moving peacetime economy out of our private resources, and I suggest that our job now is to repress and eliminate as rapidly as possible every obstructive factor. Our taxing irrationalities are luxuries which we shall not long be able to endure.

Example of Britain

We need not depend alone upon our own experience to see the depressing effect of high tax rates on savings, venture capital and incentives.

The increase in tax rates in Great Britain preceded by many years the increase in taxes in the United States.

The Liberal Government in Great Britain in 1910 initiated graduated income taxes even before the United States adopted an income tax. And Gerat Britain reached relatively high income tax rates much sooner than we did.

Moreover, there were no important reductions in British income taxes after World War I as there were in this country. It would appear worthwhile to examine the ratio of savings to national income in Great Britain over a period of years. In 1911, before the income taxes in Great Britain became very heavy, savings represented approximately 16% of total national income. By 1924, this ratio had dropped to something like 11%. And by 1938, the ratio was actually down to less than 7%.

The effect of this decrease in savings and, therefore, in the private source of supply for capital investment in Great Britain, hardly needs elaborating. All of us are well acquainted with the trials which are afflicting Great Britain today and the difficulties she is having in building up her industries and capital investments. It is not my intention to imply that the high tax rates are the sole cause of Great Britain's present difficulties. However, I do not believe it can be gainsaid that they represent one of the most important causes.

I believe it should be emphasized that important relief to those who bear these unfair burdens in the postwar era can only come when there is wide public support for it.

Please remember that there are about 54 million individual income taxpayers; that about 52 million of these have net incomes of under $5,000 before personal exemption and credit for dependants; that of a total present annual individual income tax liability of roughly $21 billion, about $12 billion are charged against those taxpayers having those incomes of under $5,000.

Those 52 million income taxpayers have their interests, their incentives for work and savings and ways of life which must be protected.

There is reason to believe that those who do not bear the income tax burdens of the middle and upper brackets do not understand their extent, and if properly informed would give their approval to the elimination of at least the grosser inequities.

I quote from a story by Stanley High in a recent issue of the Readers Digest":

"Early in 1947 the Gallup Poll asked a representative cross-section of Americans what they believed a married man with two children who earned $10,000 a year should pay in Federal income taxes. The average answer was 'about $900'—approximately half the $1.700 which the government actually takes. For the $50,000 income family—which now pays $24,000—the public would reduce the tax to $7,500.

"This question also was asked: 'About how much do you think a married man with two children who earns $60 a week—that is, $3,000 a year—should pay in Federal income taxes?' The average answer was 'around $50.' Actually, the Federal income tax for such a family is approximately $131."

My advice is to bring the facts to that great body of potentially favorable opinion described in Mr. High's story. Congress is a political institution and is properly sensitive to public opinion.

At the beginning of my remarks I pointed out that we cannot have truly massive reductions of expenditures or of taxes until we get this world postured for peace. It was also emphasized that this is no reason for not doing the best we can as we go along.

The House Tax Bill

The House of Representatives has passed a tax bill on which hearings are now being held before the Senate Committee on Finance, which calls for tax reductions of approximately $6.5 billion per year on the assumption of a national income of $209 billion.

Despite the extraordinary expenditures which will have to be made for military and foreign affairs in fiscal 1949, strong argument can be made that the bill as it came from the House of Representatives could operate in the last half of fiscal 1948 and through fiscal 1949 (which covers the calendar period from Jan. 1, 1948 to July 1, 1949), and leave substantial surpluses for debt reduction and contingencies.

In my personal opinion, the Senate will adopt the structural features of the House bill—such as an increase in individual exemptions, provisions whereby married couples in all of the states may have the benefit of splitting income, correction of inequalities of estate and gift taxes in community property and common law states, and across-the-board reductions of income taxes. But I believe the bill as it leaves the Senate will provide a more modest amount of tax reduction.

Such a bill would accommodate itself to considerable sentiment in the Senate that margins of safety should be prudently assured by making ample discounts for possible upsets in calculations. I believe such a bill will attract widespread support in the Senate.

The reductions which in my opinion will be authorized by the tax bill before us as it leaves the Congress—let us face it frankly—will only make a good start at that which must be done.

Longer range plans for further reductions and for revisions of the Internal Revenue Code are under energetic study by the House Ways and Means Committee assisted by expert advisers. Subjects under consideration include, among others, double taxation of dividends, treatment of losses, capital gains, depreciation, accumulation of surplus, problems of small business, the hodgepodge of regressive levies and inequities in our excise tax system.

I feel confident that additional relief from those Federal taxes which tend to hobble our economy will be forthcoming as and as often as is warranted by sound regard for the fiscal situation.

It may be—it is not certain—that limited additional relief in combination with some of the non-controversial administrative revisions can be passed later in this session of Congress.

But the vital thing is to make a start with an income tax reduction bill and to reject scatterations which might frustrate all relief.

The reverse in direction, in and of itself, will release constructive hopes and energies with chain reaction values far beyond the immediate amount of reduction.

The people will have received an authentic sign that we are on the way to the doing of those things necessary for a free and solvent economy.

With King Merritt & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—William M. Miller is now with King Merritt & Co., Chamber of Commerce Building. He was previously with C. E. Abbett & Co. and Slayton & Co., Inc.

With F. S. Moseley & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Paul B. Isherwood is with F. S. Moseley & Co., 135 South La Salle Street. He was previously with Central Republic Co.

With W. G. Houston & Co.

(Special to THE FINANCIAL CHRONICLE)

QUINCY, ILL.—Harry C. Peterson has joined the staff of W. G. Houston & Co., Mercantile Building.

John R. Kauffmann Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Harry Weidemann has been added to the staff of John R. Kauffmann and Company, 511 Locust Street, members of the St. Louis Stock Exchange.

With First Trust Co.

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB.—Dale C. Tinstman is with First Trust Co. of Lincoln, 10th and O Streets.

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

GENEVA, NEB.—James W. Hammond is now connected with Herrick, Waddell & Co., Inc., 55 Liberty Street, New York City.

Oscar L. Richard Dead

Oscar L. Richard, special partner in C. B. Richard & Co. which was founded by his father in 1847, died March 5 at the age of 92.

Alan M. Mayer Dead

Alan M. Mayer, member of the New York Stock Exchange, died on March 2.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Despite credit restrictive measures and March 15 income tax payments, the money markets continue steady, with some of the eligibles and a few of the tap issues still above support levels. . . . Trends of commodity prices and bank loans, which have been downward, are responsible in no small way for the mild optimism that seems to be coming into the government market, especially in the more distant maturities. . . . Business conditions and the movement of prices and loans will be very important in making the trend of the longer-term Treasuries, which seem to be getting ready to do better, if given some encouragement. . . .

However, institutional investors, which were very heavily on the sell side of the more distant maturities, not so long ago, have quite definitely changed their position and attitude toward these issues in the last few weeks. . . . They have been acquiring the longer governments in fair amounts, and this has been reflected in better prices for Treasury bonds. . . .

RENEWED CONFIDENCE

Confidence, that very intangible but extremely important force which plays leading roles in every walk of life, especially in the financial business, seems to be gradually returning to the government securities markets. . . . It was the lack of this ingredient that was largely responsible for the heavy selling of long-term Treasury issues, which not only carried prices to new lows, but at times threatened to force the authorities to withdraw all "pegs" because of the sheer weight of the liquidation. . . .

However, when the powers that be stood their ground and continued to take all the longer maturities that were thrown at them by bank and non-bank investors, without altering support prices, the question was raised in the minds of sellers, whether they had done the right thing or not. . . .

NEW LOOK

Nonetheless, banks and other institutions are now holders of large amounts of shorts with considerably less income, instead of longs with higher earnings. . . . They have the liquidity that fear demands without the income that results from confidence. . . . The predictions that were being made in the financial district as to what would happen to quotations of long Treasuries, interest rates and the cost of carrying the debt, have not been materializing as had been forecast. . . . Many investors have oversold their long positions, loans are leveling off, with lenders much more cautious in their loaning operations. . . .

All of which adds up to this: many institutions now have liquidity with smaller income, yet the calamity has not taken place. . . . It could be that long-term government bonds may not be as undesirable securities as they appeared to be when everyone wanted to sell them. . . .

RETROSPECT

The income or earnings angle should not be overlooked as one of the important reasons for the better feeling and tone that are in evidence in the longer-term government market. . . . Liquidity is very desirable and needed by all financial institutions at times, but too much of it won't pay expenses, and quite a few (sold out) former owners of long-term governments are finding this to be the case. . . . Shorts were taken on in place of longs because of their protected position. . . .

However, is their position any more favorable than that of the longs, when the monetary authorities stand ready to buy all of the more distant maturities offered them at the support levels? . . .

THE MARKET

A good demand is continuing for the intermediate-term maturities of the partially-exempt obligations, with the large city banks the principal buyers, although dealers have been positioning some of these securities. . . . The market is very thin for all of the exempts and it takes very little action in either direction to bring about rather pronounced price movements. . . . The interest on the buy side in the intermediate-term partially-exempts is due in some measure to sifting out of the called 2¾s by holders that are still in need of the protection of tax exemption. . . .

Longer maturities of partially-exempts continue to be well bought, with the out-of-town commercial banks apparently taking the play away from the big city institutions. . . . The longest bank-eligible has been taken on by bank investors, both large and small. . . . Dealers and traders are also showing interest in this issue. . . . The 2s due Dec. 15, 1952/54, which have been pretty much on the neglected list of late, have been under some accumulation by small commercial banks, which have been reducing their holdings of mortgages. . . . Savings banks continue to take on fairly substantial amounts of the longest ineligible bonds. . . . These purchases seem to be the results of sales of short-term Treasuries. . . . Insurance companies are still letting out the restricted bonds (but at a sharply reduced rate), the proceeds of which have been going mainly into private placements, as well as some of the new and outstanding preferred stocks. . . .

NOTES

Government Trust Accounts, during February, according to estimates, bought about $157,000,000 of marketable bonds principally from insurance companies. . . . The main buyer was the Federal Old-Age and Survivors Trust Fund. . . . The successful flotation of the large New York State issue undoubtedly had a favorable effect upon the market action of the Treasuries, especially the exempts.

Market Effect of Large Accrued Dividend Payment

(Continued from page 2)

by the full amount of the dividend.

To a somewhat lesser extent the same causes may operate in the case of bonds where the interest accumulations of several years are paid in a lump sum. Interest is deemed to accrue with time. Thus, where an individual buys a bond "flat" and where interest accumulations are subsequently paid, only that interest accrued and paid from the date of purchase is regarded as income. Money received representing interest accrued and unpaid at the date of purchase is regarded as return of capital. While that portion of interest which was accrued at the date of purchase is not taxable as ordinary income, it must be deducted from the purchase cost, which will increase the capital gain on sale.

Nevertheless, the taxpayer in the middle or upper brackets who has held a bond over an extended period and who has a book profit may find it profitable to sell the bond just before it sells "ex" a sizable interest distribution, and repurchase shortly after the ex interest date. This, too, has the practical effect of converting what would otherwise be ordinary income into a long term capital gain. This would be doubly true if the taxpayer had current or carryover capital losses against which the capital gain might be offset.

There may also be psychological reasons, not at all associated with value analysis, for anticipating that stocks and bonds may sell off on the ex distribution date by an amount less than the distribution. Perhaps the "bloodless verdict of the marketplace" is not based entirely on calm, dispassionate analysis of the elements of value, but at least partly on little understood human reactions to economic events. If X Utility Preferred sells around 115 over an extended period, it is possible that this comes to establish its value to uncritical observers and especially to those whose purchases were made around this figure.[1] This idea of value logically should be modified when a large distribution is made, but nevertheless such a mental adjustment may not be made by a significant number of potential buyers. If this is so it would be a force tending to prevent a fall in price equal to a large distribution on the ex distribution date.

[1] Some such rationalization of human behavior seems to be the only possible explanation for the theory of "resistance points" or resistance levels in stock prices.

The purpose of this study is to determine, if possible, whether Preferred stocks do decline in price more or less or about equal to significantly large single distributions of dividends.

Procedure

The procedure followed is shown in detail below:

(1) A search was made of Standard and Poor's Monthly Stock Guides for 1944, 1945, 1946 and 1947 and a list made of all cases where a single distribution on Preferred stocks met the following tests:

(a) The payment was at least $3 per share.

(b) The distribution represented the payment of accruals.

(c) The distribution was in cash.

(d) The amount of the distribution was equal to 6% or more of the market value just prior to the distribution.

(e) The security was one traded on the New York Stock Exchange or New York Curb Market.

(2) Available price quotations in the "Wall Street Journal" or "Commercial and Financial Chronicle" were checked against this list and securities were eliminated where price quotations before and after the distribution were not available.

(3) In the case of securities for which adequate price quotations were available the amount of the distribution was compared with (1) the price decline from the last day before the ex distribution date and the first quotation on the ex distribution date, and (2) the price decline from the last day before the ex distribution date and the price approximately 30 days after the ex distribution date. This price quotation was for a date which varied from three weeks to six weeks from the ex dividend date but which closely centered around 30 days. There seemed to be no necessity for using exactly 30 days since the dates were spread over four years and since the price was adjusted (see following) for the intervening general market movement.

(4) The amount of the distribution was also compared with the decline in price from the last day before the ex distribution date, and the price approximately 30 days after the ex distribution date, adjusted to eliminate the effect of the intervening general movement of security prices. This adjustment was made by dividing the price approximately 30 days after the distribution date by an index representing the decimal equivalent of a fraction, the numerator of which was an appropriate Dow Jones Average for the date approximately 30 days after the ex distribution date and the denominator of which was the same average the day before the ex dividend date. The railroad averages were used in the case of railroad securities, the utility average in the case of utility securities, and the industrial average in the case of industrial securities.

This comparison was made in order to test the possibility that the initial decline might approximate the amount of the distribution but that shortly thereafter the tax and other factors mentioned previously might partially eliminate the initial decline.

This material was then analyzed in order to determine whether in general securities tend to fall in price in an amount approximately the amount of a large cash distribution.

(5) Price quotations for these stocks were obtained for dates exactly 30 days prior to the ex-dividend dates. This was for the purpose of studying the price behavior of these stocks in the period roughly coinciding with the interval between the announcement of the dividend and the ex dividend date.

(6) These data were arranged in various ways in order to throw light on the price behavior of these stocks in the periods immediately preceding and following the distribution of dividends.

Table I is a summary of the price behavior of certain preferred stocks in the period immediately following significant distributions of dividend accruals. Twenty-two separate dividends are shown in the table. The dividends were not those paid by 22 different companies. Included in the table is a $58.50 distribution on American Woolen Preferred in 1946 as well as an $8 distribution in 1945. Included also are three different distributions on Chicago North Western Preferred. Fourteen different companies are represented in the table.

Column 2 shows the amount of the distribution. Column 3 shows the amount of the decline in price on the ex dividend date. This price decline takes no account of the general market movement on the ex dividend date. Column 4 shows the price decline on the ex dividend date when the general market movement on the ex dividend date is taken into account. The data shown in Column 4 represent the difference between the closing price on the day before the ex dividend date and the closing price on the ex dividend date adjusted for the general market movement as indicated previously. Column 5 shows the price decline from the day before the ex dividend date and a date approximately 30 days following the ex dividend date. The price decline shown in Column 5 is not adjusted for the general market movement. Column 6 shows the decline in price from the day before the ex dividend and a date approximately 30 days following the ex dividend date but adjusted for the general market movement. The dates used for Columns 5 and 6 are the same, the only difference is that the decline shown in Column 6 takes the general market movement into account.

Even casual examination of the data indicates no tendency for stocks to decline on the ex distribution date by an amount less than the distribution. In total the decline in price on the ex-distribution date is almost exactly equal to the total distributions. Adjustment for the general market movement on the ex distribution date has almost no effect. The total decline in price on the ex distribution date was $271.25 without adjustment for the general market movement and $271.40 with such adjustment. These compare with the total distribution of $270.33.

Moreover, the distribution of the variations clearly indicates a central tendency for stocks to decline on the ex dividend date by the amount of the dividend. Of the 22 stocks in the table three showed a decline exactly equal to the dividend; nine showed declines amounting to less than the dividend in the total amount of $11.83; 10 showed declines amounting to more than the dividend in the total amount of $12.75.

It appears to make no difference whether the price of the stock is historically high or low. If the tax factor previously discussed is effective it might be expected that those stocks on which many persons have paper profits would decline by an amount less than the dividend but that those stocks on which many persons have paper losses would decline by the full amount of the dividend.[2] Only six of the 22 stocks sold materially higher one year prior to the dividend date than at the date of the dividend. These would be the stocks on which investors might be presumed to have paper losses. The total distribution on these six stocks was $41.25 and the total decline of these stocks on the ex dividend date was also exactly $41.25.

It is entirely evident these stocks do decline in price on the ex dividend date by an amount approximately equal to the dividend.

Columns 5 and 6 in Table I appear to indicate that in the 30 days following the ex dividend date these stocks tended to decline in an amount somewhat greater than the amount of the dividend. This is, of course, exactly contrary to what we would expect on the basis of the tax factor above.

It is doubtful, however, whether such a conclusion would be valid. The total distribution on the 22 stocks was $270.33. The price decline to a date approximately 30 days after the ex dividend date totalled $328.90 after adjustment for the general market movement. In terms of averages, the distribution per stock was $12.29 and the adjusted 30 day price decline was $14.95. The distribution of the variations, however, indicates no central tendency for these stocks to decline in an amount greater than the dividend. Table 2 shows the distribution of the variations in Column 6 of Table I.

The data in Table II show that 13 of the 22 stocks showed a decline in price over about 30 days in an amount greater than the dividend while nine stocks showed declines in amounts less than the dividend. Moreover, the excess of Column 6 over Column 2 can almost be accounted for by the price behavior of two stocks out of the 22. These were American Woolen and Radio-Keith-Orpheum.

In summary then it is evident that:

(1) These stocks showed a tendency to decline ex dividend date to amount equal to the dividends.

(2) The price decline on these stocks to a date 30 days following

[2] This is because capital losses may be deducted from ordinary income in an amount not to exceed $1,000 in any year although such losses may be carried forward for 5 years for deduction from ordinary income in an amount not in excess of $1,000 per year.

Reconciliation to Table I

Total of Column 2, Table I	270.33
Add declines greater than distribution from Table II	95.17
	365.50
Deduct declines less than distribution from Table II	36.60
Total as shown in Colum 6, Table I	328.90

TABLE I

Price Behavior of Certain Preferred Stocks Following Large Dividend Distribution

	Ex Distribution Date	Amount of Distribution	Price Decline to — Ex Distribution Date Unadjusted	Ex Distribution Date Adjusted	Approx. 30 days After Ex Distribution Unadjusted	Approx. 30 days After Ex Distribution Date
American Woolen 7%	12-12-46	$58.50	$57.00	$55.60	$79.00	$77.10
General Public Service 6%	6-14-46	27.00	29.00	28.70	30.50	23.70
Valspar Corporation 4%	1-24-46	9.50	12.50	13.30	23.50	21.50
Chicago Milw. St. Paul Pacific 5%	4-12-46	5.00	6.00	5.60	7.00	.40
Chicago Northwestern 5%	11-14-46	3.75	4.50	4.90	6.00	7.70
Lehigh Valley Coal 3%	6- 3-46	3.00	4.00	3.90	8.00	7.00
Curtis Publishing 7%	12- 4-46	7.00	5.50	7.10	+7.50	+1.00
Armour (Ill.) 6%	8-22-47	16.50	16.00	15.50	18.00	17.20
Chicago Milw. St. Paul Pac. 5%	12-19-46	5.00	5.75	6.25	13.75	11.65
Armour (Ill.) 6%	1-30-47	10.00	10.00	9.80	5.50	4.60
Denver Rio Grande Western 5%	11- 6-47	5.00	5.00	4.90	1.50	2.80
American Woolen 7%	12- 7-45	8.00	10.00	10.10	10.00	9.00
Real Silk Hosiery Mills 7%	6-14-45	15.00	16.50	16.60	16.00	12.20
Real Silk Hosiery Mills 7%	9-13-45	11.75	12.00	11.20	21.00	24.80
U. S. & Int. Securities 5%	12-20-45	10.83	10.00	9.40	14.00	14.80
Valspar Corporation 4%	10-10-45	6.00	5.25	5.50	+2.00	1.30
Radio Keith Orpheum 6%	1-19-44	15.50	16.00	16.20	33.00	41.90
U. S. & Int. Securities 5%	12-15-44	20.00	19.25	20.05	19.25	21.65
United Stores 6%	12-14-44	7.00	3.50	3.50	2.50	4.60
Chicago Northwestern 5%	9- 1-44	15.00	13.50	13.50	19.00	17.80
Chicago Northwestern 5%	11-30-44	5.00	4.00	4.00	+4.00	1.80
Virginia Carolina Chemical 6%	8-13-47	6.00	6.00	5.80	7.00	6.40
Totals		$270.33	$271.25	$271.40	$321.00	$328.90

TABLE II

Amount of Distribution	Adjusted 30-Day Price Decline Less than Distribution	More than Distribution
58.50	---	18.60
27.00	3.30	---
9.50	---	12.00
5.00	4.60	---
3.75	---	3.95
3.00	---	4.00
7.00	8.00	---
16.50	---	.70
5.00	---	6.65
10.00	5.40	---
5.00	2.20	---
8.00	---	1.00
15.00	2.80	---
11.75	---	13.05
10.83	---	3.97
6.00	4.70	---
15.50	---	26.40
20.00	---	1.65
7.00	2.40	---
15.00	---	2.80
5.00	3.20	---
6.00	---	.40
	36.60	95.17

the dividend date was at least equal to the dividends. The totals would appear to indicate a tendency for a 30-day decline in an amount greater than the dividend but this evidence is probably unreliable since it was largely caused by the price behavior of only two stocks of the group.

Relation to Economic Behavior

It is interesting to speculate as to why the tax factor does not operate to produce declines of less than the dividends. The following may be suggested as possible alternative explanations:

(1) That investors are not generally aware of the possibility of tax saving in sale and repurchase to avoid the receipt of a large dividend distribution.

(2) That the buying and selling activities of investors in the higher tax brackets makes up only an insignificant portion of total stock trading. While there is no way by which the hypothesis may be tested it is certainly contrary to general opinion and belief. The 50% surtax bracket is reached with a taxable income of around $16,000 and it seems improbable that the buying and selling activities of those with incomes of this amount and larger are not sufficiently great to have a price effect.

(3) That investors do act to minimize taxes but only in the case of extraordinarily large dividends. It will be noted that the data included in Table I includes dividends ranging from $3 to $58.50. In all cases the dividend was a significant proportion of the pre-dividend price of the stock. Nevertheless, it may be true that investors generally attempt to convert to capital gains only dividends of unusual size in terms of dollars. This hypothesis can readily be tested with the data in Table I. Table III following is a summary of the essential data in Table I arranged to show the price behavior of those stocks where the dividend was in excess of $10 per share and those stocks where the dividend was $10 per share or less.

TABLE III

Dividends Over $10

Amount of Distribution	Price Decline ex-Dividend Date Unadjusted	30 Days After ex-Dividend Date Unadjusted	Approx. 30 Days After ex-Dividend Date Adjusted
58.50	57.00	79.00	77.10
27.00	29.00	30.50	23.70
16.50	16.00	18.00	17.20
15.00	13.50	16.00	12.20
11.75	12.00	21.00	24.80
10.83	10.00	14.00	14.80
15.50	16.00	33.00	41.90
20.00	19.25	19.25	21.65
15.00	13.50	19.00	17.80
190.08	189.25	249.75	251.15

Dividends $10 and Less

Amount of Distribution	Price Decline ex-Dividend Date Unadjusted	30 Days After ex-Dividend Date Unadjusted	Approx. 30 Days After ex-Dividend Date Adjusted
9.50	12.50	23.50	21.50
5.00	6.00	7.00	.40*
3.75	4.50	6.00	7.70
3.00	4.00	8.00	7.00
7.00	5.50	+7.50	+1.00
5.00	5.75	13.75	11.65
10.00	10.00	5.50	4.60
5.00	5.00	1.50	2.80
8.00	10.00	10.00	9.00
6.00	5.25	+2.00	1.30
7.00	3.50	2.50	4.60
5.00	4.00	+4.00	1.80
6.00	6.00	7.00	6.40
80.25	82.00	71.25	77.75

The above tabulation makes it evident that this hypothesis must be abandoned. It is the stocks with dividends in excess of $10 which in the 30 days following the ex dividend date decline more than, not less than, the aggregate of the dividends. This clearly is the opposite of what would be expected if the tax factor were the dominant price determinary force.

(4) That investors are generally aware of the possibility of tax savings by sale of stock prior to the ex dividend date but they do not as a general rule repurchase the stock in the period immediately following the ex dividend date. It is possible, of course, for investors to convert a large dividend into a capital gain but to do this it is only necessary that the stock be sold prior to the ex dividend date. It is not necessary that the stock be repurchased after the ex dividend date unless the investor wishes to retain a position in the stock.

If this hypothesis is correct it would appear that the selling pressure on the stock should make itself felt in the period immediately preceding the ex dividend date. We can test it therefore, by comparing the price 30 days prior to the ex dividend date with the price on the ex dividend date. If the hypothesis is sound, we should find that generally the prices of these stocks decline in the 30 days ending with the ex dividend date. Table IV following shows the prices of the stocks at the ex dividend date and 30 days prior to the ex dividend date.

Here at least is a consistent pattern although it thoroughly disproves the hypothesis that the selling of investors on account of tax considerations tends to depress the price of stocks on which a large dividend is declared in the 30 days prior to the ex dividend date. Nineteen of the 22 stocks showed increases in the periods prior to the ex dividend date ranging from modest to substantial. The increases for this group of 19 stocks amounted in the aggregate to 75.8% of the aggregate of dividends. Two of the 22 stocks were unchanged and only one showed a decline.

If tax conscious investors sold in the period immediately prior to the ex dividend date, such activities were overbalanced by the purchases of others. Clearly the tax factor is not a dominant price making force.

It is not easy to account for this apparent "burst of buying" in the period between the announcement of large dividends[3] and the ex dividend date. It may represent the purchases of those who "buy for the dividend." This practice may not "make sense"[4] but some customers' brokers declare that some customers do purchase stocks in order to receive a particular dividend. It may be that the apparent concentrated buying prior to the ex dividend date is occasioned not so much by the desire to receive the dividend as it is by the publicity incident to the dividend announcement. A relatively large payment on dividend arrearage is newsworthy and frequently when such a dividend is announced it is followed by analysis and discussion of the financial affairs of the corporation in the financial press. The common rise in price of these stocks may be merely an illustration of the power of printer's ink.

TABLE IV

Stocks Which Paid Dividends in Excess of $10 Per Share

Price 30 Days Prior to ex-Dividend Date	Price Drop Before ex-Dividend Date	Amount of Distribution
156.00	172.00	58.50
130.00	139.00	27.00
127.00	123.50	16.50
119.00	137.00	15.00
120.00	126.00	11.75
99.00	102.00	10.83
95.00	106.00	15.50
91.00	103.25	20.00
63.00	63.00	15.00
1,000.00	1,071.75	190.08

Stocks Which Paid Dividends of $10 or Less

Price 30 Days Prior to ex-Dividend Date	Price Drop Before ex-Dividend Date	Amount of Distribution
114.00	140.50	9.50
73.50	77.00	5.00
40.00	53.50	3.75
35.00	38.00	3.00
110.00	117.50	7.00
40.00	47.75	5.00
128.50	128.50	10.00
39.50	41.50	5.00
130.00	140.00	8.00
80.00	91.50	6.00
103.00	105.50	7.00
48.50	52.00	5.00
85.00	92.00	6.00
1,027.00	1,125.25	80.25

Summary

On the basis of these data it is possible to propose two generalizations. One of these is theoretical and the other practical. These are:

(1) That buying and selling in the stock market is not invariably
(2) That those individuals who wish to sell stocks about to make a substantial payment on dividend arrearage in order to convert the dividend to a capital gain, may safely do so without based upon calm and cold comparative value analysis.
fear that their own activities and the activities of others in similar circumstances will defeat their own purpose.

[3] The thirty day period will rarely coincide exactly with the announcement date. Sometimes the announcement is earlier and sometimes later.

[4] The evidence indicates that it would have been generally profitable to buy thirty days before and sell on the ex dividend date. In many cases, however, this 30 day period was prior to the announcement. Moreover, the price behavior indicates that such possible buying for the dividend was not followed by sale on the ex dividend date.

News About Banks and Bankers

(Continued from page 22)

The **Peoples National Bank & Trust Company of White Plains, N. Y.,** increased its capital from $350,000 to $437,500 on February 25, by the sale of new stock.

* * *

William O. Chapman, formerly active in Salem, Mass. banking affairs, died on Feb. 26. He was 89 years of age. Advices to the Boston "Herald" from Salem, in reviewing his activities had the following to say in part:

He became affiliated in 1880 with the Mercantile National Bank and was Cashier of that institution when, in 1893, he was named Cashier of the Asiatic National Bank. In 1909, when the Asiatic merged with the Naumkeag National Bank, he was elected a director and Cashier, of the combined institutions. He was made Treasurer of the present Naumkeag Trust Company in 1914, and continued in that capacity until his retirement in 1937.

* * *

It was made known in the Providence (R. I.) "Journal" of Feb. 28 that Frederick B. Kimball would retire on Feb. 29 as Trust Officer and Vice-President of the **Rhode Island Hospital Trust Company of Providence.** In part the "Journal" said:

"Mr. Kimball, who has been associated with the bank for many years, joined the staff of the American National Bank upon graduation from the Providence Manual Training High School in 1902, remaining with that bank until it was absorbed by the Rhode Island Hospital Trust Co. in 1906.

"In 1924 he became an Assistant Trust Officer. In 1936 he advanced to the position of Trust Officer and in January, 1944, was elected a Vice-President."

* * *

Lucius F. Robinson, Jr., of the law firm of Robertson, Robertson & Co, has been elected a director of the **Hartford National Bank and Trust Company of Hartford, Conn.,** to fill the vacancy caused by the death of Curtiss C. Gardiner. The Hartford "Courant" from which we quote states that Mr. Robinson is a trustee of the Central Hanover Bank & Trust Company of New York.

* * *

Through the sale of $50,000 of new stock the **South Philadelphia National Bank of Philadelphia** increased the capital on Feb. 20 from $300,000 to $350,000, it is learned from the Bulletin issued by the Office of Comptroller of the Currency.

* * *

Edwin G. Uhl, Comptroller of **Land Title Bank and Trust Company of Philadelphia,** has been elected Vice-President and Comptroller of that bank.

* * *

The offer of 15,000 shares of additional stock of **The Bank of Virginia of Richmond, Va.,** to its stockholders on a pro rata basis during February resulted in an oversubscription of some 8,000 shares above those that were available, according to an announcement made on March 2 by Thomas C. Boushall, President of the bank. The sale of the additional shares adds $500,000 to the bank's capital and surplus, which with $576,000 of undivided profits totals $3,576,000. Adding other unallocated reserves and deferred income totaling $1,437,000, says the announcement, the capital and reserve funds of the bank now stand at $5,013,000.

The directors of The Bank of Virginia voted on March 5 to declare a 1½% quarterly dividend payable on March 31 to stockholders of record as of March 20, according to an announcement made by W. W. McEachern, Executive Vice-President. The advices added:

"This quarterly dividend payment in the amount of $22,500 represents a departure from the usual semi-annual dividend which the bank has paid since its organization. By virtue of the recent sale of 15,000 shares of additional stock, this quarter's dividend will be paid on 90,000 shares as against the 75,000 shares on which the last semi-annual dividend was paid Dec. 31, 1947."

* * *

The **Lincoln National Bank & Trust Company of Fort Wayne, Ind.,** has increased its capital from $1,200,000 to $1,500,000 by the sale of new stock to the amount of $300,000. The enlarged capital became operative on Feb. 25, according to a recent bulletin of the Office of the Comptroller of the Currency.

* * *

La Salle National Bank of Chicago has completed negotiations with the Field Building for a long-term extension of its lease covering the bank's quarters on the street floor and lower arcade level. John C. Wright, President of the bank, reports that work is starting immediately in remodeling added space to provide increased quarters for the bank's personal credit and trust departments. The bank's capital was recently increased from $600,000 to $1,500,000 through the issuance of pre-emptive rights to holders of the bank's 12,000 shares of $50-par capital stock to purchase 18,000 additional shares. The entire issue of new stock was purchased at the offered price of $60 per share, bringing the bank's combined capital and surplus total to $2,400,000. The bank's quarters are now approximately double the space originally occupied in 1940," said Mr. Wright, "and deposits have grown during this period from about $7,000,000 to over $60,000,000." The increase in capital was noted in our issue of February 12, page 731.

* * *

B. Glenn Gulledge, Executive Vice-President of the **Tower Grove Bank & Trust Company of St. Louis,** died on Feb. 23. He was 55 years of age. In the St. Louis "Globe Democrat" of Feb. 24 it was stated that Mr. Gulledge succeeded Secretary of the Treasury, John W. Snyder, as Manager of the Reconstruction Finance Corporation, St Louis office, in 1943, after joining the office in 1932, and stepped from that position into the post with the Tower Grove Bank Jan. 1 of this year.

The same advices likewise said: "Mr. Gulledge formerly was a banker at Marion, Ill., and prior to joining the RFC was a special representative for the Federal Intermediate Credit Bank and **Federal Reserve Bank in St. Louis.**"

* * *

Nelson M. Whitney, Vice-President of the **Whitney National Bank of New Orleans, La.,** died on Feb. 27, according to the New Orleans "Times-Picayune" of Feb. 28. Mr. Whitney, whose father, the late George Q. Whitney, founded the bank, was 62 years old. Morgan L. Whitney, a son of Nelson M. Whitney, is Assistant Vice-President of the Whitney National Bank.

No Likelihood of Credit Stringency in 1948

(Continued from page 2)

lions in gold to underpin loans in all commercial banks of around $38 billions—a better than 50% gold ratio as against 10%, or a fivefold stronger metallic base than 19 years ago.

(3) Banks have huge *potential* reserves in their government security holdings, which they do not hesitate to sell when and as other investments offer a more attractive yield with reasonable safety. Increased clerk hire and other costs are forcing banks to augment their earnings. This they can accomplish only by shifting from governments to loans. They have done so to the extent of more than ten billion dollars within the last two years and the movement, while slower than when initiated, is still under way.

(4) Operations of the Federal Reserve System are no longer an important "restraining influence" over bank credit volume because the banks' heavy U. S. bond portfolios make them less dependent than formerly upon the Federal Reserve rediscount rate; hence the effort, now apparently abortive, to invoke Congressional action for fresh powers for control and limit of bank lendings. The Special Reserve Requirement plan of Mr. Eccles and his friends was inspired by the situation above referred to, namely, the vast potential reserves and the inability of the Federal Reserve System to apply the customary "effective restraint on bank credit expansion." Likelihood of Mr. Eccles's project becoming a reality has lessened with his demotion and with the sudden drop in commodity prices. Legislative curtailment of the banks' lending ability is therefore improbable. In similar case are consumer credit and term loans, along with loans on collateral security and business loans in the broader sense.

We should next compare banking conditions of 1948 with those of 1921, the third year postwar in each instance. The 1920-21 bank loan contraction was around $5,000,000,000, or 15%. Why? Because (a) the Federal Reserve System suddenly and sharply raised the discount rate. This action put an effective brake on lending, since banks at that time had no source of additional reserves other than Federal Reserve rediscount. Furthermore (b) the gold tide was then ebbing, and (c) industrial production had outspaced the relatively mild U. S. bond inflation, resulting in temporary over supplies with attendant collapse of prices. The consequent stringencies and failures intensified a general feeling of caution, which in turn tightened the money supply.

Outlook for 1948

Outlook for 1948 affords a marked contrast respecting two of the three 1920-21 factors in their above-mentioned order. Rediscount curbs by the Federal Reserve Board are unlikely and would have small effect anyway; gold is now coming into the United States at the rate of a billion dollars quarterly. As to the third factor, evidence that production is beginning to catch up with inflation may be seen in current commodity slides and General Electric price-cuts. Immediate course of the movement is uncertain, but the fact that drastic downward adjustments have occurred points away from the much feared inflationary whirlwind. Nor does the spectre of deflation spread so deep a gloom at the moment. Well-scaled appraisal gives the recession a purely corrective label.

TABLE "A"

(Prepared expressly for "The Commercial & Financial Chronicle")

Percentage of Total Loans to Deposits, Potential Reserves, and Gold

(Figured in round amounts)

Date	1 *% of Demand Deposits	2 †% of Time Deposits	3 ‡% of Total Deposits	4 §% of Potential Reserves	5 % of Gold Stock
June 1929	190	129	80	700	1,025
June 1933	160	101	61	550	[illegible]
Dec. 1936	85	85	41	100	185
June 1937	89	88	44	103	[illegible]
Dec. 1937	91	84	44	104	175
Dec. 1938	81	81	47	100	146
Dec. 1939	74	71	39	91	124
Dec. 1940	64	85	38	97	107
Dec. 1941	63	94	34	90	112
Dec. 1942	49	85	30	43	105
Dec. 1943	39	74	25	30	108
Dec. 1944	38	65	23	24	120
Dec. 1945	40	63	24	25	150
Dec. 1946	43	66	31	31	175
June 1947	46	70	28	35	180
Sept. 1947	45	73	29	36	181

*Adjusted (not to include Government and interbank). †Includes Postal Savings. ‡Item 1 plus 2. §U. S. Government securities.

Continuing the comparison between the two postwar periods: In 1920 bank loans were around 75% of total bank investments; at the end of 1947, only 30%. The proportion of loans to total investments has been, for the past four years, the lowest in banking history. Chart "A" expands our view by showing the proportion of reserves both actual and potential, to loans outstanding, during the full war and postwar spans, 1940-47 and 1914-21. Chart "B" gives a yet wider perspective, broken down into collateral, real estate and total loans, total investments, U. S. Government securities, demand and time deposits, during the 10 years of 1938-47.

Study of these charts lead to some interesting conclusions.

The whole banking structure has undergone so radical a change since World War I that its component parts no longer bear the same relationships with each other and their ratios are in general topsy-turvy. Government securities have climbed from the position of secondary reserves amounting to a small percentage of the loans, to a dominating position where the ratio is reversed. Potential reserves, virtually nonexistent in the earlier period except by the device of borrowing or rediscounting at Federal Reserve Banks are now fantastically abundant, as we have seen, in the shape of swollen U. S. bond portfolios. Our chart "A" shows that such reserves, instead of being fractional to loans, are now multiples thereof. Consequently the banks have, in effect, become independent of the Federal Reserve System insofar as credit is concerned. Instead of the banks being at the mercy of Federal Reserve it is the other way around: the Federal Reserve System, must absorb government securities at the banks' behest and so provide them with the additional lending power that the System was supposed by its founders to purvey through operations of rediscount.

A significant and perhaps disquieting development of the 20-year span as revealed in Chart "B" is the increase in real estate loans. This mars an otherwise opulent picture of lending possibilities, for to a like degree the liquidity of the banks' loan portfolios is impaired. On the other hand, the growth of time deposits —110% since 1939— has about kept pace with that of mortgages thus offsetting in part the rigidity that such loans might otherwise bring.

Among the cross currents that could impede an easy flow of credit from banks to business, the one most to be feared arises from the added burden thrown upon the Federal Reserve System by the banks if they resort to U. S. bond selling to a marked extent. The effect would without doubt be inflationary. A paradox of the postwar money market, as pointed out by the Federal Reserve itself, would arise if the System should have to support the government bond market and, in so doing, create more reserves than it would have created in meeting the demands of banks in the usual "orderly" manner. However, the rise of Federal bond holdings by Federal Reserve Banks seems to be halted, as more and more of the long-time maturities find their way into institutional and individual boxes.

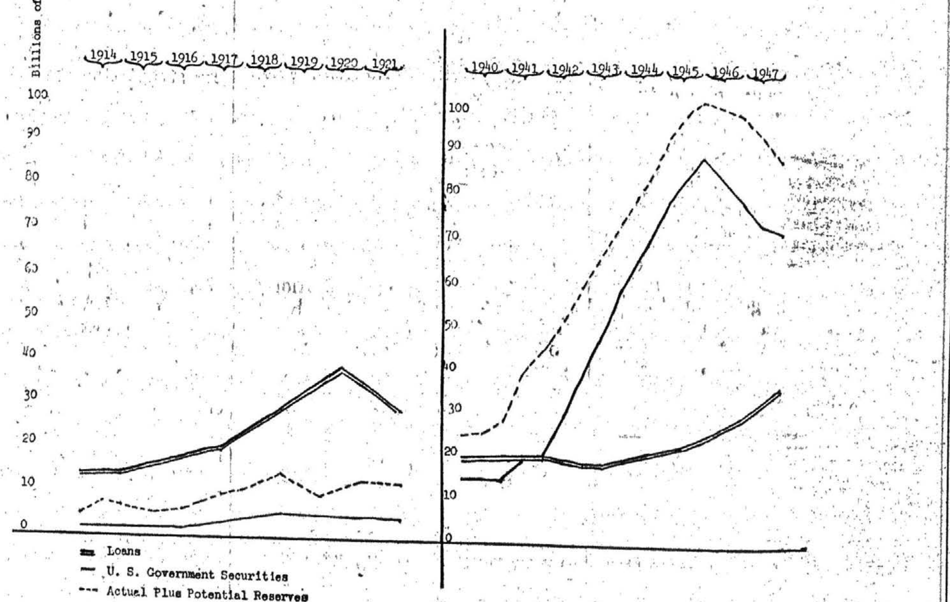
"The Money Is There"

Viewed from any angle, and making full allowance for individual bankers' policies and general banking caution, one reality cannot be ignored: "the money is there." Barring unpredictable but of course possible contingencies political and international, indications point to a salubrious 1948 bank atmosphere for business borrowers.

CHART A

LOANS IN COMMERCIAL BANKS

As Related to Reserves, War and Postwar Periods I and II

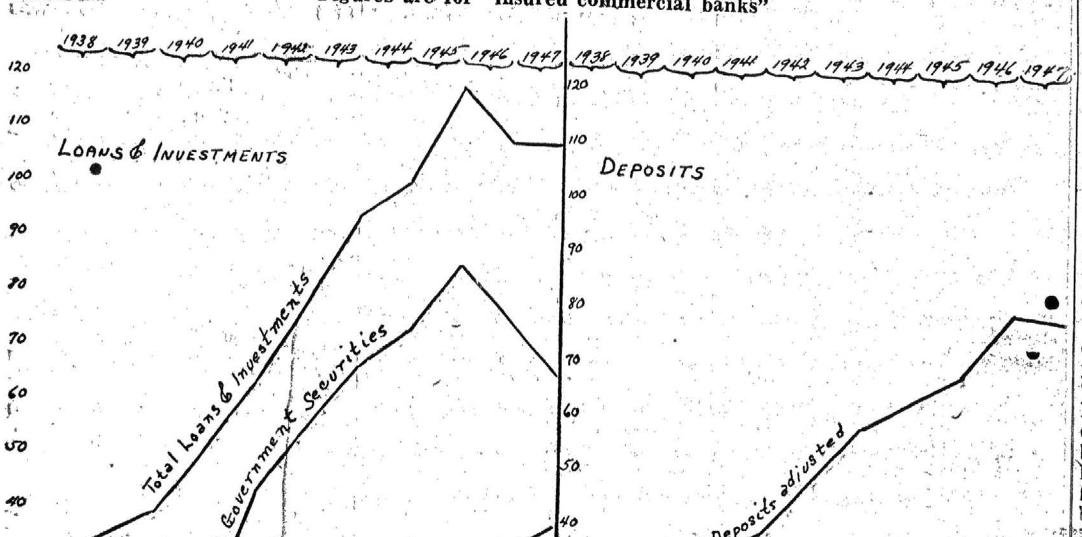


Prepared expressly for the "Commercial and Financial Chronicle"

CHART B

STRUCTURE OF BANK LOANS, INVESTMENTS AND DEPOSITS, 1938-1947 (in billions of dollars)

Figures are for "insured commercial banks"



Prepared expressly for the "Commercial and Financial Chronicle"

Laclede Gas Light Debentures Offered

Lehman Brothers and Merrill Lynch, Pierce, Fenner & Beane head a group that is underwriting an offering of $6,084,000 The Laclede Gas Light Co. 4½% 15-year convertible sinking fund debentures which the company is making to holders of its common stock at a price of 100% and accrued interest.

The underwriters may publicly offer debentures prior to the expiration of subscription warrants on March 22, 1948, subject to the prior subscription rights of warrant holders or otherwise. Any offering may also include debentures acquired by the underwriters through the exercise of subscription warrants purchased by them, or in anticipation of unsubscribed debentures to be taken up pursuant to the underwriting agreement.

The debentures are offered to common stockholders for subscription at the rate of $100 principal amount of debentures for each 40 shares held of record at the close of business on Feb. 24, 1948. The debentures are convertible initially at the option of the holder into common stock at the basic price of $6.25 per share, taking debentures for purposes of conversion at 100% of the principal amount thereof.

Net proceeds from the sale of debentures are to be applied, with other funds, toward payment in full, at a maximum of $6,558,321, of the company's outstanding 3½% instalment notes.

Laclede Gas Light Co. is an operating gas utility engaged in the manufacture, purchase, sale and distribution to the public of gas for residential, commercial and industrial uses. It also sells coke and other residuals derived from the manufacture of gas, and merchandise gas appliances.

Problems of Foreign Aid Program

(Continued from page 7)

law the government could not live within its income and wartimes taxes could not be reduced. Eventually it would bring about national insolvency.

Still many who demand all these things insist upon the government living within its income. When confronted with the undeniable facts they say "But Congress should get rid of a large number of Federal employees and that would solve the problem." They do not seem to realize that when we enact the very measures they favor such as aid to airports, roads, education, the Greek Turkey Loan, The Marshall Plan, universal military training, that we must necessarily provide thousands of additional Federal employees.

Aim of Present Congress

Believe me when I say that the present Congress, under the efficient and able leadership of Speaker Joseph W. Martin, Jr., is working to bring about a sensibly balanced government in the United States. Its work is to bring back into harmony the needs of the governed and the extent of government. This Congress is working to make the government of the United States consistent with the purpose of government.

In setting about this job of revaluating the purpose of government, careful study must be given so that those functions which serve the more pressing needs of the people will be retained and those functions which exist for their own end, unnecessary functions, overlapping functions, will be discarded.

The problem of Congress is to give the people of the United States the kind and the amount of government they need, at a price they can afford to pay. It is going to be a big job—and we are going to have great opposition from those who survive and prosper because of inefficiency in government. But regardless of the obstacles, it is our job to eliminate these expensive functions of government for which there is no need or purpose—if we are to retain our national economy which must remain solvent if we are to give assistance to the other peoples of the world. There are some common sense fundamental principles which underlie any attempt the United States may make to assist the rest of the world in getting back to peace and sanity. We must never forget that the last war was like a fire breaking out in a neighbor's estate, but which finally so threatened our own estate that we had to help fight the fire. We must never forget that we not only tipped the scales of victory, but have followed with grants of billions of dollars and will continue to give—not only to our allies but to our enemies of World War II. We have made liberal concessions, to both our allies and enemies. We ask only for peace, but we do not get peace. We ask other nations to be friendly with each other for the sake of harmony. This certain nations refuse to do. It is interesting now to look back and speculate as to what might have happened had there been no Pearl Harbor. But that would serve no practical purpose now, because the fact remains we did go in. We did furnish men and sacrificed their lives. We did pour our an avalanche of goods and services for our allies, and for our own armed forces. We did incur a national debt that is far beyond anything any nation has ever known. We do have that national debt resting upon us today. We do have to build and maintain a defense—I may say a super-defense in the air—but certainly a defense which will be adequate to meet any emergency or contingency.

Relation of Marshall Plan to National Defense

I think we might just as well face the fact that regardless of how much help we extend to other nations under the so-called Marshall Plan or under some modification thereof, we must recognize clearly that we will have to spend as much for national defense as we would had we not extended this help. In other words, until it is absolutely demonstrated that the other nations are going to cooperate, until it becomes certain Russia will not be able to break down, impede or stop the recovery of Europe and the Orient we will have to maintain the same measure of defense we would, were we not going to help Europe at all. As you know, there are two schools of thought as to whether the countries of Europe and the Orient would become communistic if we failed to come to their aid. I think there is something to be said on both sides of that question. Evidence Switzerland. A little oasis in a desert of despotism and desperation. And yet, because of their kind of government, and the determination of Swiss citizens to keep their freedom, the Swiss franc rivals the American dollar in the marts of the world.

It is obvious the aid we give the other nations is going to amount to many billions of dollars. These billions of dollars are going to come from the toil, sweat and sacrifices of the American people — they are bushels of wheat and of corn; they're hogs and cattle; they're clothing, textiles, machinery, everything that people can eat, and wear, and use for shelter, or for production. All of these things must be produced by us in the United States through perspiration, privation and perseverance.

It is also obvious that dollars alone will not suffice. We must have the spirit which has kept Switzerland free and prosperous. That spirit must be aroused and nurtured in the other nations and among the other peoples. The only possible way in which America can help the other peoples of the world to recovery is for the peoples of the world to have a determined will to help themselves. The only way we can help other people to regain sanity and prosperity is for them to be willing to cooperate with us to this end. It is true there is inescapably a terrible war weariness which breeds supineness. I do not say that Americans might feel the same if they had gone through what other people have experienced. But the grave danger of the present situation is that with such a war weariness, those peoples might indulge in the satisfaction of a complete dependence. The United States of America cannot always take care of them. The best we can hope to do is to help them get in position to again become virile and self-sustaining.

Must Safeguard Economy and Efficiency

Obviously, this whole plan is gigantic beyond human conception. The opportunities and temptations for waste and graft and corruption will be innumerable. We must safeguard by economy and efficiency every move over a period of years if hundreds of millions of dollars of the American people's money are not to be wasted in this venture.

We must make the other nations understand that America is not helping them on a basis of their being mendicants. We are helping them on a basis of international cooperation. We realize there cannot be disorder, warfare and suffering in any part of the world without it being communicated to other parts of the world to the detriment of *all* the peoples of the world.

Even though that may be true, and it is true, it still remains a fact that if these people, war weary as they are, sit down and expect the people of the United States to take care of them, they will be disappointed and this whole plan would end in frustration, waste, and bitterness.

There is another point I think we must consider very carefully. Even should the American people decide to continue to help the other peoples of the world, they can at any time they desire discontinue extending foreign aid. If they hear stories of graft, corruption, black markets, of peoples who sit down and say "Let those rich American take care of us," the American people can at any general election say to their Congress "We will give no more aid to Europe," and that would mean degradation, deprivation, beggary and suffering for them. We must also consider this: if we lead foreign countries and the leaders in foreign countries to believe and depend upon us and expect us to give them military and financial support, and after a year or two or three, the American people should be forced by mal-administration to the decision to do no more, it is likely that the pro-American leaders in those countries would immediately be supplanted by demagogues, with resulting communism and chaos.

International Cooperation Imperative

It is absolutely vital to civilization, it is absolutely vital to our own security in the future that if we embark upon this program we be prepared to go through with it, through the securement of such cooperation as will assure that the American people will not be disillusioned and disappointed and will complete the job. It is imperative that this international cooperation be founded upon honest administration, in order to guarantee fulfillment of the intended purposes, and thereby attain peace and sanity in the world.

Nothing like this has ever before been tried. It will cost the American people not only billions of dollars, but will operate to create inflationary forces which will tend to keep prices up in this country. It will tend to strip us of many of our essential raw materials which we need ourselves. There will be disputes as to whether or not the countries we are helping should try to repay us in some degree by furnishing us with strategic materials which we do not have, and which they may possess in abundance. There will be countries which will claim that although they have these means of repayment, they ought not to be made to repay unless all countries are made to repay. There will be countries which will actually seek to defraud us perhaps, or at least some of the leaders in those countries who will seek to defraud us, simply because they are more selfish and self-centered than we now realize.

The American people must be made familiar with all of these possible or probable disappointments, and all of these potentialities, because we dare not, gentlemen, we dare not risk committing the country to this plan, giving ten, twelve, or fifteen billions of dollars worth of the people's goods, services and machinery and then have them decide through disillusionment that they cannot in good conscience continue the program and thus leave us absolutely without a friend on the globe.

Of course we must and do have compassion for our neighbors, and we must help according to our ability to help. But in helping we must make certain that we do not tear ourselves down. That we do not so weaken our own defenses against the oppressors of the world as to be defenseless. We must be sure that we do not expend more than we can reasonblay afford in extending aid to others. To do so is not in the interest of a free world or a safe America.

Must Check ERP Expenditures

It is not un-American to insist that the billions of dollars our tax payers are asked to pour into Europe in rehabilitation be spent economically and wisely. It is not unreasonable that we must maintain an independent check on expenditures. It is not un-American to insist that the beneficiaries render a proper accounting. It is not un-American that our peoples whose hard earned money we are dispensing are entitled to know where their money is going and for what purpose it is being spent. It is the duty of the Congress to protect the people's money and the people's interest in this regard.

If we can persuade these other nations that in this cooperative movement we are all working together for world prosperity, world peace, world sanity and world progress, then there no longer will exist a question of somebody's national pride being injured. The very fact that we want to make these dollars count is to the interest of the nations we expect to help. It is no invasion of their independence.

We must face the fact that in spite of our best efforts there will be difficulties. There will be stories of graft, corruption and inefficiency. There will be those people who in every country will seek to take advantage of the beneficent aid of America and who will turn on us when we stop giving.

We must compose difference of views between leaders in countries aided as well as differences between the several countries. Finally we must eliminate incompetents here and there in order to achieve the efficiency and the economy which are absolutely vital to this gigantic task of America leading a world cooperative movement back to recovery, peace and prosperity.

We are embarking on this because it is the only path we can see which may lead to spiritual progress, cultural enlightenment, to peace and material well being of peoples everywhere in the world.

Unless we do this we run the hazard of confusion and chaos. We can see where peoples tired of suffering, war weary, frustrated, may sink into an apathy that will encourage evil opportunists to assume control and involve all of us in another world war.

We realize, of course, that the risks either way are stupendous. We have been told that we are taking "calculated" risks in undertaking this relief of other countries, but that we must undertake these "calculated" risks if we are to save the rest of the world from confusion and anarchy. That may be true. On the other hand, if it is a calculated risk, then I submit to you that the least we can do for the American people is to demand efficiency, economy, and honesty to the last possible degree in order to keep the cost down, to make the dollars count, and to assure in the greatest measure possible the success of this vast international cooperative movement back to spiritual, cultural, and material progress for the peoples of the world.

Halsey Stuart Group Offers Central Pacific First Mortgage Bonds

Proceeds to be used in redemption of outstanding 4s of 1949.

Halsey, Stuart & Co. Inc. and associates on March 10 offered publicly $37,396,000 Central Pacific Railway first mortgage bonds, Series B, 3⅝%, due Feb. 1, 1968 at 100.35% and accrued interest. The bonds are unconditionally guaranteed as to principal and interest by the Southern Pacific Co. The group was awarded the bonds at competitive sale on a bid of 99.40.

Proceeds, together with other funds, will be applied to the purchase or acquisition otherwise of the $37,524,500 of non-callable first refunding mortgage gold bonds, 4%, due Aug. 1, 1949, now outstanding in the hands of the public. All such bonds so acquired will be cancelled, together with $40,723,500 of such bonds now owned by Central Pacific Railway.

The company also has outstanding $32,604,000 of first and refunding bonds, Series A, due Aug. 1, 1974, bearing interest at the rate of 4½% per annum to Aug. 1, 1949 and thereafter at the rate of 3½% per annum.

The new series B bonds will be redeemable on any date on at least 60 days notice at prices ranging from 102⅝% to 100% and through operation of the sinking fund on or after Aug. 1, 1950 at prices scaled from 100.35% to 100%.

All of Central Pacific Railway outstanding preferred and common stock is owned by Southern Pacific Co. The Railway is the successor in interest of various companies organized from time to time commencing in 1861 for the purpose of constructing and operating railroad lines in California and other western states, including the construction, under the authority of the Pacific Railroad Act of 1862, of a line from Sacramento, Calif., eastward to meet the line of the Union Pacific Railroad then being built westward. The two lines were joined at Promontory, Utah on May 10, 1869, to form the first transcontinental railroad. States served by the Railway are California, Oregon, Nevada and Utah.

The Dynamic Aviation Scene

(Continued from page 6)

fiscal year to end June 30, 1948, actual aircraft production for the Air Forces and Navy is expected to approximate about 21 million pounds.

The Plan A program would entail an expenditure of almost $17 billion for the five-year period. Now this is all very interesting but these plans are merely academic unless translated into action.

The all-important question remains just how much money will Congress actually appropriate for defense?

For the 1949 fiscal year, the President's budget calls for a combined expenditure of about $1,250,000,000 in new aircraft procurement alone for both the Air Forces and Navy. Research and development come to another $176 million. But remember, there is no relationship whatsoever between the budget and the separate service requirements.

Strange as it may seem, Congress has not been effectively sold, up until recently, at least not even on the relatively limited aircraft program, as advanced in the President's budget. Perhaps the Joint Chiefs of Staff can correct this condition by June 30. There is a great desire by certain elements in Congress to reduce taxes and retire part of the national debt. This means some items in the national budget must be cut and aircraft appropriations are exposed to this risk along with everything else.

This is the climate working against increased aircraft procurement.

Forces for Expenditures

It is probable, however, that forces are much stronger in the opposite direction.

As the international scene becomes more troubled and as increasing volatile threats to our national security strike closer home, it is likely that regardless of unbalanced budgets, Congress will find it impossible to resist the pressure for increased aircraft appropriations. The Czech crisis, for example, served as a strong stimulant for an enlarged aircraft procurement program.

I have been asked about a radio commentator's statment that Lockheed received an order for 30,000 planes. I do not know which men's room attendant is responsible for this information. So I asked my bootblack this morning for enlightenment but he wasn't very helpful. Finally, in desperation, as you would have done, I tried an analytical approach. A military plane of any consequence would average at least $100,000 per unit. A total of 30,000 would come to about $3 billion which is more than three times the 1949 Air Force Budget request. And where would the funds come from to pay for aircraft programs contracted with other aircraft builders? My only conclusion is that this alleged Lockheed order must consist of a new type one-horsepower plane.

Research and Development

Now—to get back on the beam. The Board advanced a series of recommendations calling for a much enlarged research and development program. The soundness of this approach is obvious and no sensible person can quarrel with these proposals.

In the past, research was very costly to most aircraft companies and did not bulk very large in order backlogs. The chief value of research awards was and is in the possibility of following through on a successful development and obtaining a production contract. For the most part, however, research projects were a nuisance, as rigid profit restrictions existed.

This is all changed now. Only a few days ago, the President signed the Procurement Act of 1948, containing new provisions dealing with research costs. It is now possible to obtain as high as 15% on a given research contract. Ironically enough, while the aircraft industry may be the chief beneficiary, it had very little, if anything to do with the passage of this act. The Armed Services asked for the insertion of this 15% fee provision so that such divisions as the Ordnance Bureau and the Chemical Warfare Service would be able to get manufacturers to do some research and development work. Such manufacturers, for example, are in the automotive, refrigerator or appliance field and for the most part have been accustomed to earning 15% and more on their regular production. They saw no point in taking on research and development contracts which might result in a loss and which almost surely would not result in any production business.

It is important to qualify the 15% as applying to a single contract and as a maximum to be used only in exceptional cases.

It is obvious, however, that with increased research awards, the fortunate aircraft builders obtaining such contracts, may now look to a new source of earnings.

A series of recommendations were advanced, designed to make for a healthy aircraft manufacturing industry. To best understand the proposed remedies, it may be desirable to examine the industry's background and some of its existing ailments.

The fact remains that the aircraft industry, as a whole is housed under too large a roof to profitably sustain operations at current levels of production and research. Maintenance expenditures can prove a heavy drain on working cash resources of a company whose physical facilities remain idle.

Even with the implementation of Plan A, disclosed by the Board the recommended procurement of 111 million pounds of aircraft annually is well within the physical capacities of the industry.

Diversification Abortive

In an effort to utilize excess plant facilities and maintain organization personnel, a number of aircraft companies attempted ventures into non-aviation fields. Almost without exception, this diversification has been a most unsatisfactory experience and entailed substantial losses. The aircraft builders are in an inferior position to compete with established companies in the consumer fields, particularly those with entrenched outlets.

As a means of contracting the industry, discussions of consolidations or mergers frequently appear. A few years ago, a merger of Lockheed with Consolidated-Vultee was in the advanced discussion stage only to be upset by a ruling of the Department of Justice.

It is not generally realized, but under the law, where a combine of such two companies would have a concentrated position in the industry, the Attorney General had no alternative but to rule against this proposal.

Were certain mergers permitted, however, fewer but far stronger aircraft companies would evolve. The extent of the ultimate contraction of the industry desirable, from the economic standpoint, of both number and size of facilities is extremely difficult to ascertain. The Board took no official position for or against mergers in the aircraft industry.

The aircraft industry occupies a very special place in the American economy today. In a broad measure, it my be considered part of the military establishment of the United States. While it is true that there are many uneconomic features surrounding the aircraft industry today, many of these may be considered as a form of "insurance" in a period of uncertain world conditions. The existent apparent excess capacities of the aircraft builders can be used as part of the broad platform for rapid expansion in time of emergency. Maximum production during the last war was not attained until 45 months after the program was started. In the event of another crisis all available production facilities will again be needed. This would mean the prompt utilization of many marginal producers who would be unable to survive in the normal competitive atmosphere.

The "Insurance Premium" for Over-Capacity

The cost of maintaining the aircraft industry in its present size beyond economic boundaries may be considered as an "insurance premium" which may obviate substantial capital outlays in times of emergency.

The aircraft industry is essentially a contracting business and, as such, does not lend itself to many of the standard financial ratios peculiar to ordinary lines of manufacturing enterprises. It is also a rapidly changing business and shifting sands are quite prevalent. The industry is rarely static, dynamic events go on constantly.

While the current aggregate backlog of the aircraft industry is estimated at approximately $1,900,000,000, there is an uneven distribution of orders among the separate companies.

Strange as it may seem, there is a good deal of water in backlog figures, as reported, and frequently very difficult to detect.

For example, more than a year ago, Martin reported firm orders for 300 transports. Eventually, this evaporated and dwindled to only 25.

Most companies do not reduce their backlog orders as progress payments are received on account of completed work-in-process inventory before actual deliveries are made.

In the aircraft industry, the backlog for most companies represents a production volume that may not be delivered until two or three years have elapsed. This simply means that the backlog at any one date must be divided by two or three to arrive at an approximation of an annual volume that may ultimately eventuate.

Underlying the highlights of this brief background view, is the lack of stability which is found in the industry. It is to this problem, that the Board addressed a number of noteworthy recommendations.

At present, a provision in the appropriation act requires the services to obligate their funds and contract authority before the end of each fiscal year. This is most destructive to economical planning. The Board proposes that Congress remove the time limitations on the expenditure of appropriations as well as on contract authorizations. The present tendency is for the services to obligate all available funds and contract authority, before the end of the fiscal year, of sound or not, simply not to lose control over such funds. The Board would have contracts awarded on a continuing evaluation basis.

The Board is in favor of a succession of five-year programs, reviewable yearly, for research, development, and procurement of aircraft. This has many advantages as it allows management to plan more efficiently, equalizing peaks and valleys experienced in current production. Moreover, such a program does not bind future Congresses but merely provides for a more mature view of government procurement.

There are other collateral recommendations which, if adopted, can prove very constructive to the aircraft builders. Much more time than we have available today would be needed for a complete listing of all these proposals.

The aircraft industry will benefit only to the extent of the implementation of the Board's recommendations. It is too much to expect that the entire package may be purchased by Congress at this session. But a start in the right direction has been made. I am advised that bills are now being drawn to be introduced shortly and as they are non-controversial in nature, have an excellent chance of enactment before Congress adjourns this summer. These measures may remove the time limit on expenditures of appropriations and contract authorizations. Further, the basis of a five year planning program may make real headway.

Of course, increased aircraft appropriations may be expected to cure many of the ills of the industry. As indicated earlier, the clue to this trend must come from the international front.

We may be certain, however, that the dynamic selective pattern within the industry will continue regardless of what happens. Competitive factors will prevail. The leaders will continue to rotate with no one having any assurance or remaining on top. Management, as always, will remain a key element in accomplishing successful results.

Concern With the Airlines

A financially sound, efficient, healthy and modern air transport industry is also a prime requisite for national security. For this reason, the Congressional Air Policy Board was very much concerned with the condition of the airlines and tried to come to grips with some of its problems.

Few industries have experienced as much romance and been the victim of as many disappointments as have the air carriers. It is ironic but while industry as a whole was recording new peaks in profits, the airlines, as a group were losing their collective shirt. In 1946, the aggregate operating losses of the certificated domestic carriers was $10 million with almost $20 million indicated for last year. Such losses represent some 15% of the industry's net worth.

The airlines possess tremendous leverage in their operations. However, until recent years it was felt this leverage could only operate in one direction—up. However, leverage also has a habit of operating in reverse—with even more damaging effects. And that is what happened to the air carriers.

The airlines have always operated on an extremely low working capital and their profit margins have been very thin, when existent.

In retrospect, it is easy to see the cause of many of the difficulties now besetting the airlines.

Both the industry and the Civil Aeronautics Board, since the end of the war, have been geared to a program of large scale expansion based on an expectation of continuing increases in the annual rate of traffic growth. As a result, within the past three years, route mileage has increased almost 100%, the investment in flying equipment has increased more than 10 times and the labor force has more than doubled.

During the period of rapid expansion and competition for new routes, route awards were often based on extremely optimistic estimates of traffic and costs and frequently were made faster than they could be effectively absorbed. What's more important, many of the route extensions showed little relation to any overall standards of national route planning.

The expected rapid growth in traffic simply failed to materialize. For example, most industry projections expected 1947 passenger traffic to range between 25 to 35% above 1946, actually 1947 volume showed an overall increase of only about 5%, with a number of carriers actually showing a decrease in their 1947 volumes as compared to 1946.

The general falling off of in demand for all passenger traffic was a factor in this condition. Of greater consequence, was the series of spectacular accidents which discouraged many would-be air travelers. Poor standards of reliability and dependability of service were not without their collective effect. Mail volumes declined sharply, largely due to the evaporation of the soldier mail.

While freight and cargo traffic continues to increase rapidly, the volume remains a small percentage of total airline activity.

In this process, costs have risen sharply and were beyond control. The industry has also been slow in realizing the economies in ground and indirect expenses which might have been expected to accompany increased traffic volume.

Despite rising costs, passenger rates were lowered in 1945 and not increased until the spring of 1947 and again later that year. Freight rates of the certificated carriers were lowered to a point, well below the cost of such service.

This pressure of rising costs, with little improvement in the rate structure, resulted in the constant increase of the break-even load factor. Actual load factors, however, dropped substantially with increased seat capacities, increased schedule frequencies, decline in traffic and extension of operations into marginal territories.

With few exceptions, the carriers handled their financing very poorly. During the favorable market conditions of 1945 and 1946, only a few carriers set their financial houses in order. Those companies who did arrange such financing, went in for the most part, for long-term indebtedness rather than for equity money. This was a serious mistake. One major result is that the industry, as a whole, is saddled with a heavy debt burden and with a relatively small equity "cushion" for future financing. Many carriers are in need of new equipment and have neither the funds nor the credit for such financing.

Of course, such unforeseen developments as the TWA and National strikes and the grounding of first the Constellations and later the DC 6's have been no help to the industry.

All is not lost. Both the industry and the CAB have benefited from past experiences. For the most part, domestic and overseas route expansions have been tapering off, a better balance between the rate structure and costs is being achieved and the introduction of new equipment are some of the factors which promise an overall improvement in airline conditions for 1948.

However, before we discuss the 1948 outlook, it would be well to look at a few of the recommendations advanced by the Congressional Board. If implemented, they are bound to have a dynamic effect on the industry.

The Congressional Board's Recommendation

The traffic potential of the airlines could be increased enormously if only there existed a condition of complete reliability and safety in flying. Toward this end the Board recommended:

(a) The target program for installation of an ultramodern all-weather navigation, landing aids, and airways traffic-control system proposed by special committee 31 of the Radio Technical Commission for Aeronautics (the RTCA program) should be endorsed as a first priority in the interests of national security and as a move toward eventual financial independence of the air transportation industry.

(b) Authorization of funds should be made for the first year's portion of the program, with an endorsement to future Congresses and recommendation that they continue appropriations to the completion of the program.

All interested agencies of the Government, including the military services, industry, and the private flying organizations agree that the RTCA plan represents a desirable system to insure safety and dependability of flight by all types of aircraft under all weather conditions.

In fiscal 1947-48 the commercial air lines, operating about 1,000 aircraft, will lose approximately $40 million due to air-traffic-congestion delays, flight cancellations, and schedule unreliability.

Full support is urged for the 9-year research and development project, estimated at $75,400,000. The proposed modernized air-traffic-control system requires much technical development, through a program guided by the Research and Development Board and financed from the budgets of the interested services. The Congress is urged to consider favorably these coordinated budget requests and that necessary funds be appropriated in each year to insure completion of the RTCA program.

In view of the complete accord in this program by all interested agencies of the Government, including the military, this proposal may be acted upon favorably within the next year or two.

The Air Policy Board, in another recommendation, proposed that:

"The Congress should give early consideration to the transport by air of all first class mail, the movement of which can be appreciably expedited by air carrier, and in its considerations, Congress should weigh the public benefits of such a transfer against the added costs involved."

Of course, the air transport industry would be benefited substantially by this development. At the present time, the certificated carriers haul about 33 million tons miles of air mail per year. The Post Office department estimates that if all first class mail which could be expedited by air were to be so transferred, the volume of air mail would be about 179 million ton miles per year. At an average rate of 45 cents per ton mile, the air carriers would receive about $47 million more mail pay per year. The estimated loss of revenue to the railroads is estimated at less than $5 million per year. This is due to the fact that most railroad space would be retained by the Post Office regardless of the air service.

However, because of certain operational problems, the Post Office department would increase its deficit by some $96 million if this complete transfer of first class mail to air were effected. It is this condition which may mitigate against the early enactment of this recommendation.

Parcel Post

Along with first class mail, the Board recommended that appropriate legislation should be enacted for establishment of domestic air parcel post, at reasonable experimental rates, subject to revision when more nearly accurate costs of carriage can be ascertained.

As you know, international parcel post is now in operation. It should be an important help to the international airlines. Additional tonnage is obtained at a highly profitable rate without any solicitation or pick-up and delivery expense to the carrier.

It is not generally realized, but domestic carriers are benefiting in a limited way from this international parcel post service. In order to deliver parcel post packages to the United States international gateways, shipments are carried by domestic airlines thus adding to their mail tonnage.

Domestic parcel post by air may have a protracted wait as collateral actions must first be evaluated.

One of the most important issues in the airline picture is the question of mail compensation awarded the carriers by the Civil Aeronautics Board.

In this connection, the Congressional Air Policy Board recommended that a plan should be developed by the CAB for speeding action on mail rate and route cases and for reducing its backlog of pending cases.

There is little doubt that the delay in rate and route cases pending before the CAB is to the decided disadvantage of many of the air carriers and the entire air transportation economy. Mail rate cases requesting more than $232 million are reported on the CAB's dockets. Of course, nowhere near this amount ever will be awarded.

In another recommendation, the Congressional group recommends that the CAB should expedite establishment of air carrier operating costs and efficiency yardsticks. This proposal must be coupled with the previous recommendation of the Congressional Board as to speeding rate cases.

In all fairness, we must understand that the determination of mail rates has never been an easy task. Despite the various criticisms pointed at the CAB in this matter, no infallible formula has ever been presented. The Congressional Board has no easy answer. The President's Air Policy Commission wasn't much better in this direction.

Perhaps, the implied criticism is that the CAB has not been generous enough in making its mail compensation awards.

I should like to deviate somewhat and quote a passage from the President's Air Policy Commission which highlights this entire problem. The Commission declared: "The CAB should act quickly in determining air mail rates but that it grant enough mail pay to keep all the lines in business to the extent required by the public interest, provided their difficulties are not due to dishonest, uneconomical or inefficient management." This is a very commendable recommendation and there can be no quarrel with it. However, it is virtually the same mandate laid down in the Civil Aeronautics Act of 1938 and the CAB has been following it for 10 years. After discussing the various airline costs to be used as yardsticks, the Commission further concluded: "that the CAB should give this problem further study and investigation."

In other words, here were two outstanding independent aviation inquiry groups who considered the best thinking on the subject but failed to come up with the answer. It is small wonder that the CAB has not solved mail compensation awards to everyone's satisfaction.

Frequently, we are prone to see but one side of the question. There appears to be the general impression that the Civil Aeronautics Act of 1938 guarantees certificated carriers a fair rate of return on the investment. This is true, only if certain standards are met and conditions fulfilled. The CAB can not make subsidy payments to a carrier unless the honest, efficient and economical management requirement has been met. And as yet, there are no clear cut standards which makes this determination quick and easy. It is true that more recently, the CAB has come up with some comparative yardsticks as to costs, but conditions under which the separate air lines operate differ widely.

It is also very difficult for us to see the pressures working to keep mail payments down. I recall when I was with the Civil Aeronautics Board, the Board proposed a rate of 30 cents a ton mile for the Big Four and the Post Office objected very strenuously that this was too high and that the rate should have been about one-tenth that amount. The Board directs the amount of the payments but the Post Office makes the actual disbursement and every year come appropriation time, the Board has to justify its actions.

Air Transport Outlook Favorable

Despite this cautious note as to the lack of generosity on the part of the CAB, the immediate outlook for the air transport industry is as a whole, a favorable one. Mail payments are being increased by the CAB, not the full amounts requested by the separate carriers, but enough to be helpful and to be effective.

Any predictions in the air transport industry are extremely dangerous. Events are fast moving and can alter a given situation almost overnight. There are too many variables to feel certain that a given trend may continue indefinitely. To illustrate: The CAB in making its various mail rate determinations, has attempted to estimate the net operating income for a subsequent 12-month period whenever such awards were made. During 1945, the Board established a 45 cents per ton mile rate for American, Eastern, United and TWA. Here is how they turned out for the 12 months ended Dec. 31, 1946 instead of a projected profit of $5,997,000 for American, an operating loss of $318, 315 was realized; Eastern's projected profit of $3,754,000 fell far short of the $8,221,876 profit actually realized; United's estimated profit of $7,162,000 came to but $976,402; TWA's projected profit of $3,459,000 turned into a deficit of $9,675,898. Now, the projections of the individual air carriers made in various proceedings before the CAB have not been any better.

It is possible that passenger traffic will continue its growth trend during 1948. The overall increase in revenue passenger miles, however, may not exceed 10% of the 6 billion revenue passenger miles flown during 1947. However, the distribution of the traffic promises to become more uneven than at any time in the past. Competitive route awards will cause certain changes in traffic patterns.

While operating costs have shown no downward trend, the passenger fare structure is much improved over comparable periods a year ago. Further, a period of adversity has been good for the airlines, it has made them more efficient and cost conscious.

It is not generally appreciated, but there has been real progress made in effecting economies through joint operation of various terminal facilities by various airlines.

The return of DC-6 equipment in regular service soon should give an important lift to the operations of the carriers flying this extra-fare equipment.

These are the more important favorable aspects.

There are also many ifs which can offset this improved outlook.

Any serious accident is bound to have its effect as a damper on air travel.

Congestions at airports, unless improved, will be a disturbing factor.

A sharp decline in general business will not leave the airlines unaffected.

The individual degree of success in the air transport industry is now more selective than at any time in the past. It will become increasingly so. The inter-relation of route awards, differing levels of mail pay, types of equipment in service never remain static and are factors that must never be ignored.

In many quarters there is great uneasiness about the condition of many air carriers. A look at some balance sheets leaves the impression that the companies involved should have been dead a long time ago. But this is the static view.

The problems facing the air carriers today are not insurmountable. In fact they do not even rate the proportion of a major crisis. I recall in 1934 when the Postmaster General abruptly cancelled the mail contracts, the airlines were placed in a far more precarious position. Many observers were freely predicting that commercial aviation would never recover from this blow. But it did. Despite their floundering and without immediate mail subsidy support, the surviving airlines emerged stronger than ever before.

Certainly the airlines of today are far better entrenched than their counterparts of 1934. They have adequately demonstrated their essential value in the defense structure of the United States. The industry has strong bulwarks which can not be easily washed aside.

Despite the difficult transition period of the industry, many of the individual companies will correct their maladjustments and emerge on a higher plateau of stability and earnings which will surpass anything seen in the past.

It's Time to Recognize Inflation!

(Continued from first page)

bankers do their best to keep us from knowing.

In other countries it has been recognized that inflation is just what the dictionary says it is, namely, a sudden rise in the supply of money. They knew that, when they increased their money supply and adulterated their currency, they decreased its purchasing value; they expected it to buy less and therefore expected prices of commodities and equities to rise. We have deluded ourselves or have been deluded by those who are supposed to represent our interests by the idea that inflation is just an activity in the business world, an optimism, an increased demand which puts prices up and which recedes when the optimism is turned into pessimism and enthusiasm into caution.

Inflation-Deflation Confusion

Therefore, instead of experiencing a rise in commodity prices generally, and stocks particularly, comparable with the inflation of our money supply, we have been confused with a warning against inflation today and a warning against deflation tomorrow. Until we wake up to an understanding of the fact that we have multiplied the number of dollars available to our people, we will not realize that, however much politicians vacillate from inflation to deflation from day to day, the trend of prices must be upward. We cannot have three times as much money available for spending as we used to have without the threat or possibility of a further rise in commodities and equities.

The wholesale price index of the Bureau of Labor Statistics has risen during the last ten years from 78.6% of the 1926 level to 163.7% at the end of 1947. That means that prices generally are about twice what they were ten years ago. But during that same period the supply of money in this country has risen about three times, or from $58 billion to $171 billion. Let us not delude ourselves with the idea that without action on our part or on our Government's part this inflated supply of money will come down in the near future and remove the danger of runaway inflation. It will not come down until the causes of its rise are removed.

Effect of Gold Supply

There are two principal causes of the tremendous and continuing increase in the volume of money in this country. First, there is the addition to our gold supply, which has amounted during the past two years to nearly $4 billion. Because of the intracacies—or shall we say the manipulation—of our banking system, when gold comes into this country, it forms the basis for a mushrooming expansion of the money supply. Though the Treasury makes a check payment on its account with the Federal Reserve Bank to pay the seller of the gold, it then proceeds to make a simple bookkeeping entry that the issuance of a gold certificate is justified, whereupon the Federal Reserve Bank restores the Treasury's deposit as it was. This means that the Treasury has paid nothing for the gold, and the seller has a bank deposit for its purchase price in our banks. This increases our money supply by the amount of the new deposit. However, even this is not all, for the so-called "excess reserves" in this bank deposit (four-fifths of the amount) could and probably would result, via expansion of credits, in a further increase in bank deposits of approximately 400%.

Bank Credit Expansion

The other source of our increased money supply is the extension of bank credit, that is, the purchase by banks of bonds or other evidences of indebtedness and loans to borrowers. It has often been pointed out that this source of additional money supply is continuing its contribution to the adulteration of our dollar. Actually, most of the increase in money supply has been due to this type of bank credit expansion.

At the beginning of 1946 we had a $150 billion money supply, excluding the Treasury's deposits. Notwithstanding the retirement of Government debt since that time, this has risen to $170 billion at the beginning of 1948. The stage is set and the foundation is laid for still further increases. What can we expect except higher prices and demands for higher wages to meet those higher prices?

And yet our public officials charged with fiscal responsibilities continue to provide our banks with the means of making further loans, many of which are long-term and unsuited for bank financing, and further purchases of assets for their own earnings purposes. It isn't necessary to go on providing the commercial banks with reserves which enable them to continue to make these loans and purchases with their inflationary consequences.

Remedies

It is said that the reason for continuing the financial policies which provide the banks with these additional reserves is that they are necessary in order to support the Government bond market. This is not true. There are other ways of supporting the Government bond market without manufacturing through bank credit more and more money.

Two policies, both of them deliberately developed and continued by our Government, are responsible for the increasing supply of money. We don't have to buy gold in the way we buy it. We don't have to support the Government bond market in the way we are supporting it.

We are deliberately and continuously increasing our supply of dollars and moaning over increases in the cost of living. What we are trying here to point out is that, if we continue to inflate the money supply, we shall soon realize that the prices about which we are now complaining will be nothing compared with those that we are certain to experience later.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Universal bullishness now suspect. Guard against it by severe pruning of holdings and raising stops.

* * *

A few weeks ago when I started to recommend the purchase of various stocks I was practically alone. Everybody else, or almost everybody else, was bearish and pointed to all sorts of obstacles in the future, all of which spelled pessimism. The Commies were acting up; Truman's policies were raising (use your own word here) ad nauseum. In fact everything visible and invisible pointed to lower — oh, much lower—prices.

* * *

So the market being the inconsistent brat that it is, refused to follow the pattern set for it. Instead it went up and turned dull. During the past week, the pessimists have grumblingly taken to the sidelines and the optimists have taken over. True, there is little in the action to give the optimists anything at which to point. But the fact that stocks didn't go down was apparently enough to change the tune.

* * *

Now all this is nice and cozy. All the market has to do is to go up and make a lot of people happy. Unfortnately the market isn't concerned with individual happiness or unhappiness. It goes along its contrary way thumbing its nose at seers and hopeful ones with equal neutrality.

* * *

While it would be kind of comfy to say: hold on. "God's in His heaven and all's well with the world," the truth is that the unanimity of opinion makes our holding on to all stocks anything but comfortable. Here and there a stock isn't acting too well and should be eliminated. Stops, which were suggested at the time of purchase have since outlived their usefulness. So now we have to re-examine the list and make certain changes.

* * *

Here they are: American Brake Shoe bought between 38 and 39 isn't doing well. It's currently about 38½. I suggest you get rid of it.

* * *

American Chain bought between 19½ and 20½ is now about 19. I don't like its action any longer. Sell it.

* * *

Briggs bought between 29 and 30 is now about 29. Unload that one too.

* * *

Hold the following for the time being, Anaconda bought at 31½-32½, stop at 29; Avco bought at 4-4½, stop at 3½; Bethlehem bought at 30-31, stop was 28. Raise that figure to 30. Caterpillar Tractor bought between 54-55 had a stop at 53. Suggest lowering it to 52. Consolidated Vultee bought 12-13 with a stop at 11, should now have its stop raised to 12. Douglas acquired between 50 and 52 had an old stop at 48. Raise it to 50. Dresser Industries bought between 21 and 22 with a stop at 20, can now have its stop moved up to 21.

* * *

Lockheed came into the list between 13 and 14 with a stop at 12. With stock now just under 17 the stop should be raised to 15. G. L. Martin bought between 15 and 16 with a stop at 12, is now about 17½. Raise the stop to 15. United Aircraft bought 23-24, stop 22, is now about 27. Raise stop to 23.

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.]

U. S. Nat'l Bank of Portland Opens 34th Branch

Announcement is made by the United States National Bank of Portland, Ore., that it has added its 34th branch in Oregon with the purchase of the Farmers Security Bank in Yoncalla, Ore According to E. C. Sammons, President, the United States National Bank has also purchased property in Drain, Oregon, for the erection of a new bank building. When the structure is completed, the Yoncalla branch will be moved to Drain. Avery L. Lasswell, Douglas County banker and President of Farmers Security, will continue to head the present staff as Manager of the new branch of the United States National Bank.

A further recent announcement by President Sammons, it is learned from the Portland "Oregonian," has to do with the appointment of John F. Huxtable, for nearly 30 years a member of the bank's staff, as Vice-President in charge of the United States National Bank's new Metropolitan branch, which is expected to open in 60 days. Mr. Huxtable, formerly an Assistant Vice-President, was promoted to Vice-President by the directors in January. He joined the bank in 1918.

Market Forecasting

(Continued from first page)

tant. You might buy a stock at the low point reached by the stock market averages, but you might buy the wrong stock and find that while the averages move 50 or 60 or 75%, higher, the stock you have bought may have shown little or no price appreciation or, during that period, might even have declined in value.

There are two approaches to the question of when to buy and what to buy. The first is what we call the fundamental or statistical approach—the approach with which I think most of you are familiar.

Under the heading of when to buy, the fundamental approach takes into consideration many things. Its main concern is the broad, economic trend. For example, the stage of the business cycle we are in—whether business is going to be good for a period of time, whether it is near a top or at a bottom. It takes into consideration many fundamental things, such as bank clearings, interest rates, commodity prices, production purchasing power, and the more intangible factors—such as the political situation, the foreign situation, and all things of a general nature that might influence the broad swings of prices. Broadly speaking, it is the field of the economist.

Then, of course, under the heading of what to buy from a fundamental approach are the more or less statistical factors relating to individual groups or individual stocks in each group. A study of this sort requires a trained appraisal of the many facts relating to the management and operation of many large and complex corporations. It requires the study of balance sheet items, the relation between gross and net earnings, profits and losses, assets and liabilities as compared with other companies. All of those things are fundamental factors. This type of study is the field of the trained security analyst.

In a nutshell, the fundamental approach is a study of the economic and statistical factors which are the **causes** which influence the price trends of the general market and individual stocks. Successful application of the fundamental approach requires exhaustive research by competent economists and security analysts.

The Technical Approach

The opposite approach to evaluating stock prices is what we call the technical approach. Here we are not concerned so much with the **causes**. We are more concerned with the **effects** that these causes might have on the price of securities. This approach is based upon the principle that the market is its own best barometer and that the varying demand and supply of stocks will to a large extent govern the market's future moves.

The technical approach necessitates the study of a vast amount of technical data in order to evaluate the relative strength of the buying and selling pressures which cause the fluctuating willingness to buy or willingness to sell of countless number of investors and speculators not only in this country but all over the world. Briefly, it is a study of supply and demand; a study of the **effects** which fundamental changes cause in the price trends of shares. It requires exhaustive research by trained and competent technicians.

Let me repeat because it is very important: The fundamental approach or the statistical approach is mainly a study of **causes**; and the technical approach is mainly a study of **effect**.

Obviously, neither approach is an exact science. Each approach has its weak and strong points. Equally obvious, the accuracy of forecasts by either method is in direct ratio to the competency of the forecaster. Some forecasts by economists have turned out rather badly, when viewed in retrospect. A classic example is the government prediction made after V-J Day in September, 1945, that there would be seven million people unemployed within six or seven months. It was upon this prediction that Mr. Truman based his famous "raise wages and hold prices" theory to avoid "deflation." What has happened since that time needs no retailing. Stock market technicians also have made equally glaring errors but their mistakes perhaps have not been so well publicized.

Conceding that both approaches have their strong and weak points, it would seem evident that a combination of both approaches should bring better results than a blind adherance to either approach. In fact, many of the larger groups and individual investors use both approaches, if only for checking purposes. In my own work, which obviously is concentrated on the technical approach, I find the fundamental approach is of inestimable value in substantiating technical evidence or, in some cases, as a warning, when the technical picture has only a potentially attractive pattern. I believe a great many followers of the fundamental approach would be saved from some serious errors if their attention were drawn to potentially favorable or unfavorable situations by the occasional use of the technical approach.

For example, one of the weaknesses of the fundamental approach is that it does not take into consideration the very important factor of public psychology. The investing and speculating public can often go to wild extremes of optimism or pessimism. Quite often these changes in mood are not timed to fundamental changes. In many instances, the market will anticipate a fundamental change and discount it. In other cases, the market will refuse to recognize a fundamental change until long after it has occurred. The additional use of the technical method, which is a study of the **effect** of fundamental factors plus psychological factors, will quite often result in obtaining the maximum opportunities which fundamental studies suggested. Prices will often reach the ultimate level indicated by the fundamental factors of earnings and value, but the technical factors quite often delay or advance the attainment of these levels.

One reason for the increasing use of the technical approach is that it is often more direct than the fundamental approach. Without the compulsion of broad economic training or the constant study of individual industries it is possible to be aware of the important changes in price trends. However, its relative simplicity is perhaps its greatest danger. If you believe that by the use of a few technical gadgets you are on the road to a life of ease, you are in for a cruel disillusionment.

It is an amazing realization that many people after working many years to accumulate wealth, know so little about retaining it. They invest or speculate without even a vague understanding of the problems involved. They believe that the investment of their hard-earned savings is just a casual operation and requires a minimum of time and study. This is a grave error. Unless one is willing to devote as much time and effort and study to his investments and speculations as he does to the business or profession from which he earns his livelihood and unless he feels that his training and background are sufficient to understand the many problems involved, it would be wiser to consult trained and competent investment advice.

My only point in mentioning the foregoing, is in the nature of a warning about the simplicity of the technical approach. I think there is just as much work connected with the technical approach as there is in the fundamental approach. If you believe that you can attempt a forecast of the market by the use of a few charts and graphs, let me disabuse you of that thought at once.

Perhaps if I tell you about some of the technical data we have at my office at Shields & Co. it will give you some idea of the amount of work involved. We have, roughly, charts and graphs on almost every stock listed on the New York Stock Exchange and the more important speculative bonds and the more active issues on the New York Curb. In addition, we also have charts on the various market averages such as the Dow-Jones, the New York "Times," the New York "Herald-Tribune" and "Standard & Poor's." Also we have data on the more active commodity futures. This data is in the form of point and figure charts of which I will tell you more later. Taking into consideration the various charts of half point, one point and three point fluctuations, we have over 2,000 charts of this type showing fluctuations over the past ten years or more. In addition, we have available over 900 monthly range charts. We have various moving average studies, together with net changes and oscillators. (I am mentioning all of these graphs without any explanation of their meaning but I will attempt to cover them briefly later in my talk.) To continue, we have various so-called breadth of the market graphs which include studies on volume, number of advances and declines, highs and lows, short interest, issues traded, odd lot purchases and sales. We also use various buying and selling pressure gauges.

The physical labor of keeping this data up to date requires a full eight-hour day of one person. The study and interpretation of the graphs requires a lot more additional time. The forecasts are not based upon one single indicator. Each graph or chart is checked against many others before a conclusion is arrived at. With all of this checking and double checking, I am very happy if we get 70% accuracy in forecasts. I consider that above average.

I do not mean to discourage you from doing technical work. I think you will find it very interesting and, later on after the lecture, if you want to question me about it, I will be very glad to suggest a minimum portfolio of technical graphs that you might study in order to get a broad picture of the market. But if you are going to base your buying and selling decisions on such graphs before you have had adequate training, I warn you against it.

Use of Charts and Graphs

To portray the fluctuations of our various technical indicators, we use a chart or graph. There is no magic significance about a chart. There is no connection with signs of the zodiac or crystal ball gazing. It is just a visual portrayal of what has happened in a particular stock or commodity. There is an old Chinese proverb, "A picture is worth a thousand words." That is all a chart is— just a picture of what has been happening in the market. It is a graphic portrayal of facts.

The main elements in the construction of a chart or graph are three in number. In order of their importance they are: (1) price; (2) volume; (3) time. There are various methods of portraying these facts. The type of chart most of you are familiar with is the type of chart that you see in the New York "Times" or the New York "Herald-Tribune." You will find, for example, that in the New York "Times" they have a chart of the New York "Times" 50-Combined stock average. This is what is known as a vertical line chart. Along the sides of the chart is a price scale of the average running, let us say, from 100 to 125. If during a single day the average ranges in price between 107.50 and 108.75, a vertical line or bar is drawn on the scale between 107.50 and 108.75. If the closing price is 108, a short horizontal line is drawn across the vertical line indicating the closing price. This takes care of the price element. The volume element is covered at the lower part of the chart where there is another scale of volume ranging, for example, from 100,000 to 3,000,000 shares. The time element is in the fact that it is a daily chart. Other charts portray a weekly range or monthly range. There is no difference in principal. The only difference is that on a longer time element it may be necessary to have wider price and volume ranges. A glance at the daily chart will show you clearly the action of the New York "Times" average over a period of the last two or three months together with the volume of trading and closing price level. The same type of chart can be used to portray the action of the other averages and of individual stocks or commodities.

Most of these charts are on an arithmetic scale. The units are an equal distance apart. For example, the distance between 3 and 4 is the same as between 24 and 25 and likewise the distance between 10 and 20 is the same as between 80 and 90. However, many technicians prefer charts that are based on a logarithmic scale. This is because the most important element in price change is not the **point** change but the **percentage** change. An example may make this clearer. Suppose one stock moves from 5 to 10, another moves from 25 to 30 and another moves from 100 to 105. In each case the stock has advanced 5 points and, on an arithmetic scale, the move will occupy equal distances. But suppose you had purchased 100 shares of each stock before the advance began. In the first instance you would have 100% profit at 10, in the second case you would have 20% profit at 30 and in the final case, you would have only 5% profit at 105. The vertical logarithmic chart portrays graphically the percentage change. There is the same distance on the chart between 1 and 2 as there is between 8 and 16, or 40 and 80, or 250 and 500. All show 100% advance. On the advances mentioned in the arithmetic chart, the advance from 5 to 10 would occupy five times the space of the advance from 25 to 30 and 20 times the space of the advance from 100 to 105.

From a "when to buy or sell" angle in the technical approach, our first problem is to ascertain in what stage of the trend we are at the moment. Actually, there are four trends operating in the market at the same time. They are (1) the long-term growth of the nation trend (2) the major trend (3) the intermediate trend (4) the minor trend. The two most important trends are the **major** and the **intermediate.**

The growth of the nation trend has been moving slowly upward since early colonial days and as far as we know, is still advancing. If we start at 1897 on a logarithmic chart of the Dow-Jones industrial average we find the high and low range was between 58 (high) and 29 (low). If we draw a line from the high of 58 and connect each successive high from that time until today, and if we draw a line to connect each successive low from 29 in 1897 to date, we find that the market has moved in a slow uptrend channel for over 50 years. At the moment, with the average at 168, the lower limit of the upward trend channel is about 135 and the upper limit is about 260. On only two occasions did the averages move outside the slow upward trend channel. The first occasion was the 1925-1929 bull market when averages moved sharply out of trend on the upside to reach 383. To compensate for this, the trend channel was penetrated on the downside to reach a low of 42 in the 1929-1932 crash. By 1935, the average had returned to the trend channel and has remained within it ever since.

It is amazing to note that today, with the averages selling at less than half of their 1929 highs, there are many stocks that are selling higher today than they were in 1929. Just the other day we had a discussion in the office about how many stocks were now above the 1929 highs. The majority opinion was about a 100. We didn't count very far because just in the stocks beginning with A and B we found almost 40. So your growth trend is still continuing and some growth stocks are today even higher than in 1929.

The Major Trend

The next trend is the major or primary trend. A major uptrend is called a bull market. A major downtrend is called a bear market. These major trends usually last about two or three years for advancing trends and approximately 15 to 18 months for the declining trends. These figures are, of course, only average figures. There are many cases in which both bull and bear markets have lasted for longer periods of time. Once a bull market has started, the advance is usually at least 80% and in the case of a bear market, the decline is usually around 33%. Here again the percentages are only averages. These advances or declines are seldom if ever in a straight line. Quite often, each major move consists of five stages—three in the direction of the main trend and two corrective reaction moves in the opposite direction.

The intermediate or secondary trend is superimposed upon the major trend. An intermediate term move usually lasts two to six months and accounts for an advance or decline of about 10% in the averages. If the major trend is up, an upward move in the intermediate trend is usually followed by a corrective reaction that retraces about one-third to two-thirds of the previous advance before the uptrend is resumed. These corrective phases running counter to the main trend are important not only to the speculator interested in profiting from the intermediate swings, but to the investor interested in purchasing or selling securities at the most advantageous price level. While a major bull market may result in a price advance of let us say 100 points in the Dow-Jones averages, the intermediate swings may have traveled over a range of 250 points. Ability to forecast these moves obviously results in substantial profit opportunities.

Superimposed upon the intermediate trend are a large number of minor swings. These minor swings usually last from a day to two weeks, and result in price changes of 5% or less. They are caused by the market becoming temporarily overbought or oversold or by a quick interpretation of news events. These moves are, in most cases, impossible to predict. I have never seen any method, technical or otherwise, that has been able to forecast with any degree of accuracy these minor term moves. Even if you were able to forecast 75% of these minor swings, the cost of commissions and taxes would undoubtedly result in a loss of capital. They are best avoided. However, I have a number of minor swing indicators. I study them in order to more advantageously time intermediate term purchases or sales.

Methods of Forecasting Trends

What are some of the methods of forecasting trends? I think the best known method is what is known as the Dow Theory. It is the oldest and most publicized theory of stock price movements and commands a greater following than any other. In essence, it is very easy to understand. Its basic approach is the same as the ebb and flow of the tide. If you go to the seashore you will find that a wave comes in, breaks, and then goes back. Another wave comes in a little higher on the beach, breaks and doesn't recede quite as much as it did the last time. The next wave reaches a little further up the beach. As long as that happens you know the tide is coming in.

But suppose the next wave does not reach quite as high a point on the beach as the previous wave and when it recedes, it recedes a bit further than did the previous one. Then you know that the tide has changed and is running out. Dow formulated his famous principle of successive highs and lows as indicators of the trend in the following words.

"It is a bull period as long as the average of one high point exceeds that of previous high points. It is a bear period when the low point becomes lower than the previous low points."

That is only one part of the Dow Theory. Another important point is the principle of confirmation. There are two Dow-Jones averages — the industrial average and the rail average. (Actually there is a third average — the utility average, but this average is not included in the Dow Theory. Under the theory, both the industrial and rail averages must reach a high or low before a change of trend is indicated. In other words, if only one average makes a new high or low, it cannot be a very important move unless the other averages confirm it.

There are other principles and rules in the Dow Theory but the successive highs and lows and confirmations by each average are perhaps the most important features. Using just these two basic principles, it might be interesting to review the action of the two Dow-Jones averages from Jan. 1, 1946 to date.

Ever since the low points reached in late April of 1942—about 93 for the industrials and 24 for the rails—both averages had been in a major uptrend. On Jan. 1, 1946, the industrials were at about 195 and the rails at 64. This intermediate advance continued to a high in February, 1946 of about 207 in the industrials and about 68 in the rails. Then a secondary correction carried both averages sharply lower to 185 in the industrials and 60 in the rails by the early part of March. After reaching these low points, the market rallied. The industrial average in April penetrated its previous high to reach 209 but the rail average failed to reach its former high by two points. This was the first really important warning signal of an imminent downtrend. At this point, several other indicators began to give cautionary signals. It was during this period that the boom in "new issues" occurred. People were rushing into brokerage offices to buy these speculative new stocks. Most of them were shares of smaller, privately owned companies in the consumer goods group — the type of thing that had boomed during the war because there was no competition for the public dollars from the durable and semi-durable groups which were all engaged in war work. In most cases, these issues were not sold for new money for expansion but were "bail outs"; that is — the owners selling out to the public at a high price. However, the public was optimistic at the moment and rushed in to buy these speculative stocks and pushed prices sharply higher. All during this period stocks were passing from stronger into weaker hands. After reaching 209 in April, the industrial average reacted to 199 in early May but recovered to a new high of 213 at the end of the month. However, the rail average again failed to make a new high. This was definitely another warning signal because from the start of the rise in April, 1942, the rails had previously led almost every rally. This divergence in the action of the two averages was definitely bearish. Other technical indicators also turned bearish.

Finally, in September, both the industrials and rails penetrated their previous lows of 185 and 60 and indicated that the trend had changed and the bull market had changed to a bear market. The first phase of the decline ended in October, 1946 with the industrials at a low of 160.49 and the rails at 44.00. The next intermediate move was an advance that carried the industrial average back to a shade below the previous downside penetration at 185 and the rails to approximately 53. This was a recovery of approximately 50% of the previous decline by the industrials and approximately 33⅓% by the rails or just about in line with normal technical procedure.

The next intermediate move was a decline that ended in late May. On the decline, the rail average reached a new low at 40.43 but the industrial average failed to confirm a renewed downtrend by holding above its previous February low of 160.49 and declining only to 161.38 The next phase was one of advance. The industrial average reached a new high at 187.66 in July but the rail average failed to confirm a new bull market by its inability to penetrate the previous February high. Thus for the second time this divergence between the two averages signalled the end of the intermediate move. After a decline into early December, the rail average rallied to a new high at 54.17, in early January of this year but the industrials failed to confirm by several points.

Here again, the divergence between the two averages resulted in a change of trend and the industrial average for the third time in 18 months declined below 165. Again for the third time the market met support in that area and the average held at a low of 164.07 on February 11. The rail average continued its impressive action and held at a low of 47.48 or more than eight points above the previous May low. Since that time, the averages have rallied to approximately 168 and 50. That is where we are today. Under the Dow Theory, the last signal was the bear market indication of September, 1946 when the 185 and 60 levels were penetrated on the downside. We have received no new signal since that time. While the averages have failed to give a new bull market signal, they have also failed to indicate a continuation of a further downtrend. To do this, not only would the industrials have to penetrate the October, 1946 low of 160.49, but the rails would have to confirm by selling below the May, 1947 low of 40.43. A penetration by one average without a confirmation by the other would have no significance. To indicate a new bull market, both averages must sell above their previous highs. This would be the July, 1947 high of 187.66 in the industrials and the January, 1948 high of 54.17 in the rails.

The Dow Theory Practical

The Dow Theory is a simple and logical one. It has worked in practice. It is far from perfect because obviously the very nature of the theory necessitates buying and selling after the market has had a substantial advance or decline from the low or high point. For example, the last signal resulted in selling stocks at 185 or 28 points below their highs. If a new bull market signal is given at 188, the follower of the Dow Theory will re-enter the market three points above where they sold after being out of the market for at least a year and a half. Also he will re-enter the market at a level approximately 28 points above the low. However, it is possible that both averages will make new lows and that the bull market signal will be given at a lower level than 188. However, the Dow Theory is just one of the tools used in the technical approach. Other indicators make it possible to predict a change in the trend before a Dow Theory signal confirms the findings of the other indicators.

It is important to be able to recognize, at an early time, the reversal of an old trend and the beginning of a new trend. When a trend reverses, it is because of a change in the supply of or the demand for stocks. Obviously, the causes for these changes in supply and demand are likely to be different in each case, but the technical patterns quite often resemble each other. A study of reversal patterns is quite important.

Suppose, for example, a stock has been fluctuating between 30 and 35 for a period of time. Every time it reaches 30 there is a demand for the stock and it holds at that level. Conversely, every time it reaches 35 there is a supply of stock for sale and the stock reacts. This narrow trading range or shelf may continue for a number of months. Then suddenly, the supply and demand picture changes. We find that when the stock reaches 35 it does not halt there. There is a new demand for the stock. Where formerly buyers were not willing to pay over 35, they are now bidding higher. But the supply of stock at 35 has now changed and sellers are now unwilling to sell at that price. It is evident that the supply and demand pattern has now changed and the stock may move up to 40 or 45 before a new supply area is reached or the demand dries up. From a technical approach, we are not concerned with causes of the change in supply and demand. We are more concerned with its effect.

If a trading range like the one mentioned above occurs after a sharp decline, the chances favor it being an accumulation or demand area, and that the stock is near a low. If the trading range occurs after a sharp advance, the odds favor a distributional or supply area and the proximity of a high. However, these areas seldom are as regular and even as the clearly defined range of 30 to 35. The patterns are quite often irregular. The fact that they are irregular sometimes gives us a clue to a recognition of a change of trend by the formation of a reversal pattern.

There are several reversal patterns. The rail average at the moment is an example of one. The rails declined to 44 in October and after backing and filling between 44 and 53, declined sharply to 40.43 in May. Then they rallied back into the 44-53 range and have backed and filled in roughly that area since. This type of pattern is called a head and shoulders bottom with the left shoulder at 44-53 from October, 1946 to April, 1947, the head at the May low of 40.43 and the right shoulder in the 46-54 level from June, 1947 to date. A head and shoulders pattern is perhaps one of the clearest indications of a reversal pattern. At the top of the market, you quite often get a head and shoulders top, that is, the opposite of the pattern we have just described. For example, a left shoulder in 40-50 area, a head at 55 and a right shoulder again at 40-50 area.

There are other types of reversal patterns. Another is double top or double bottom where an average or individual stock reaches a high or low and later reaches

(Continued on page 36)

Market Forecasting

(Continued from first page)

the same point and holds. Another example is a rounded top or rounded bottom where the stock forms a sort of dome pattern at the top or bottom. There are some ten or fifteen other recognizable reversal patterns but the ones mentioned are perhaps the more important ones.

Measuring Present Situation

At the present time, the averages give no clear-cut reversal signal. The rail average has a potentially strong head and shoulders bottom but the industrial average gives no indication. You might say, it has formed a triple bottom but you could also say it has formed a triple top. Actually, it has been a relatively narrow trading range for over 18 months.

Another working tool of the technical approach is the use of trend lines. In discussing the Dow Theory, it was pointed out that a trend is formed by a series of successively higher or successively lower tops and bottoms. If we draw a straight line across the tops and across the bottoms we have a trend line. A breaking of a trend line often indicates a change in trend. For example, a trend line drawn from the August, 1945 low of 159.95 through the February, 1946 low of 184.05 was penetrated on the downside at slightly above 200 in August, 1946. This trend line indication gave a reversal signal 15 points higher than the Dow Theory. At the moment there are no important long-term trend lines in either average. The rail average, on some charts, is in an intermediate term uptrend from the May and December, 1947 lows. Both averages are in a minor uptrend from the February lows.

Another working tool is the use of moving averages. A moving average straightens out the sharp up and down fluctuations of the market. For example, I use a 21-hour moving average of the Dow-Jones industrials for the minor trend. It is simply the average price that the industrial average sold at for the last 21 hours. The figure is obtained by simply adding the prices of the industrial average for each of the last 21 hours and dividing by 21. For the next hour, the price of 22 hours ago is dropped and the price for the last hour added. I also use a 28-day moving average for the intermediate trend and a 200-day moving average for the major term trend. If the actual price of the Dow-Jones industrials crosses the moving average by a certain amount, it quite often indicates a reversal of the trend. Another use of the moving averages is to chart the net change of the moving average. For example, if the 21-hour moving average advances 23 cents from that of the previous hour's moving average, that advance is plotted as +23. A decline from the previous hour would be plotted as —23. This type of plotting of net changes is known as an oscillator. Its main use is in attempting to recognize when the market is overbought or oversold and therefore near a reversal of trend whether it be minor, intermediate or major. When one of the oscillators reaches an extreme plus or minus signal and starts to reverse, it very often is quite accurate in signaling a change in trend.

I also use gap studies in the technical approach. A gap occurs when the high of one day is below the low of the previous day or the low of one day is above the high of the previous day, thus causing a "gap" between the daily ranges. There are various types of reversal gaps, but we haven't sufficient time to discuss them this evening.

Another series of working tools is the so-called "breadth of the market" studies. These consist of plottings of the volume, new highs and lows, number of daily advances and declines, short sale studies both in round lots and odd lots, odd lot purchases and sales, price of the ten most active stocks and other internal market factors. In some cases the actual figures are used and in other cases various moving averages are used.

Answering When to Buy or Sell

All of these various working tools that I have been mentioning are used to answer the "when" to buy or sell question. Again I caution you that you cannot use just one indicator or method blindly. You must check an indicator against the signals of the other working tools. If they all, or the great majority, give the same indication, then a decision can be arrived at.

In answering the "what" to buy question, I use still another type of chart or graph. This is what is known as a point and figure chart. I have charts of this type for almost every issue on the New York Stock Exchange and also quite a number of New York Curb issues and speculative rail bonds. Most of these charts are based on one point fluctuations but I also have a number of half point and three point fluctuation charts. In addition, we have data on most of the important commodity futures. While I use this type of chart mainly for individual issues, I also have point and figure charts for half point, one point and three point fluctuations of all the Dow-Jones averages, the New York "Times" average, the New York "Herald Tribune" average and Standard & Poor's average. All in all, we have over 2,000 charts and graphs of this type.

The construction of a point and figure chart is quite different from that of the usual vertical line chart. In a point and figure chart, the main and almost exclusive element is price. Volume and time enter the pattern only indirectly. A one point chart portrays graphically the fluctuations of each full point. If we start, for example, at a price of 30, no further notation is made until the stock moves a full point to either 31 or 29. Fractional moves are disregarded entirely. It might be several days before either 31 or 29 is reached, or the stock may move from 30 to 31 and back to 29 and up to 30 all in one day. The notation would be the same in either case regardless of the time element. Perhaps an example of a point and figure chart may make it clearer.

```
35
34
33
32 x x     x
31 xxxxxx  x
30 xxxxxxxx
29  x x  x
```

In this case, the move starts at 30 in the first left hand column. The next change is 31 then 32. The next move to 31 necessitates switching to the next column as there is already a 31 in the first column. After 31 there is a 30 and 29 followed by 30, 31, 32 then 31, 30, 29 and then 30, 31, and 30, 31 again. The next move is 30, 29 followed by 30, 31 and 32. This price movement may have taken place over a period of a year, a month, a week or all in one day. In any event, the chart pattern would be exactly the same. Thus, it can be seen that each vertical column has no time significance. Also, there is no indication of volume other than the fact that the number of price changes will give an indirect clue to the amount of volume.

Some of the working tools mentioned before such as the Dow Theory, trend lines, supply and demand areas and reversal patterns can be used with point and figure charts. However, the most important feature of the point and figure chart is its ability to predict the approximate amplititude of an advance or decline. In the chart outlined above, you will note that the stock in question is in a trading range between 29 and 32. A rally to 33 would indicate an uptrend.

Under point and figure theory, the stock should rally about as far as the width of the base. The base in this case is either 29 or 30. There are six columns from the first 29 to the last 29, including blank spaces. Therefore, the stock should rally six points from 29 or to about 35. If 30 is the base, there are eight 30s, so the second alternative is 38. We therefore say the rally objective is 35-38 and the stock should be sold in that area. If the stock first reacts from the last figure of 32 down to 28, then the 32 line is a top. There are eight 32s so in that event, we would expect a decline to 24. It must be realized that these objectives are only approximate and that quite often, possibly 30% of the time, the indications are incorrect. Also it is very seldom that the pattern is quite as clear as in the example above. Usually, the base or top formation is quite irregular. There is also the possibility of false penetrations out of trading ranges. However, in spite of its failings, the point and figure method is an extremely valuable tool for market forecasting. For example, as early as April, 1946, with the industrial average at 208, it indicated the possibility of a decline to the 170-160 area. Also the downside objectives of individual issues outlined by the distributional tops of early 1946 were about 70%-80% correct in forecasting the lows.

As I said before, I use the point and figure method to answer the "what" to buy or sell question. At a time such as the present, individual issues have quite diverse patterns. Many reached their downside objectives in the first phase of the decline and have built up substantial base patterns. In some cases, they have penetrated these ranges on the upside and indicate individual bull market trends of their own. Other issues have just about reached their lows but will require considerable time to build up base patterns. Others are in a relatively weak technical position. Constant analysis of the fourteen hundred or more issues charted often turns up many opportunities for improving portfolios.

The combination of these point and figure charts together with the various other studies mentioned earlier in my talk are the main tools that I use. In addition, there are other technical indicators that I did not even mention. As I said before, to explain fully all these working tools I would need the entire course of 10 lectures. I have touched upon them only very briefly. Again I warn you not to rely upon one single technical indicator. A combination of the various working tools must be used.

We Are Still in a Bear Market?

Perhaps you are interested in what position the market is in at the present moment. Under the Dow Theory, we are still in a bear market. However, I believe that the long trading range outlined by the industrial average for the past 18 months will ultimately turn out to be a large accumulation area with stocks passing from weaker into stronger hands. Since September, 1946 when the averages first entered the 170-160 range in the Dow-Jones industrial average, I have consistently reiterated the opinion that the 170-160 area was a long-term buying range. This area has been entered on more than a dozen occasions in the past 18 months and each time the 160-165 area has furnished strong support. I expect it will continue to furnish support on any further testing of the lows.

But even if the 160 level is penetrated, it would not change my opinion that the trading range of the last 18 months is an accumulation area. It would be quite normal to have a quick, sharp shakeout and a penetration of the previous lows followed by a quick rebound back into the accumulation area. It would have no great significance if the rail average failed to confirm by breaking the May low of 40.43. With the rail average now close to 50 and with its present bullish pattern, this does not seem probable. Perhaps the main reason why the industrials will not break their former lows is because everyone expects that they will. I am inclined to favor the probability that they will hold above the October low of 160.39. If we count the top outlined by the February, 1947 to October, 1947 tops, the count implication, if 160 is broken, is 149 to 136 depending on whether a three point, one point or half point chart is used. On the other hand, a count across the October, 1946 to February, 1948 lows, if 188 is reached, indicates a possible rally objective of 235 to 285, again depending on what chart is used. Taking the extremes in both cases, it implies 32 points down or 19% against 153 point higher or 91%. That means odds of 5 to 1 and would seem to be a pretty good wager.

How can we expect the market to move higher in the face of lower commodity prices and a possible recession in business? One answer to that is that the market has been moving in an opposite direction from business for the last 18 months. We have already had a 53 point decline in the averages. That decline presumably forecast a business recession that hasn't yet happened. Perhaps the stock market has already discounted a slight business recession and will move ahead long before business reaches its low. There is no need that we should follow exactly the 1919-1921 pattern when commodity prices dropped sharply and the stock market and business dropped with it. In fact, a correction of the abnormally high agricultural commodity price level is a very constructive development. But even if we follow the 1919-1921 pattern, it would seem logical that we should also follow the remainder of the pattern. From a low of 63.90 in August, 1921 the industrial average started an eight year advance that culminated at 386 in September, 1929. That is an advance of 600%. If the industrial average declined to even 140 and advanced 600% as it did in the 1921-1929 advance, we would reach 840 by 1956. That obviously is ridiculous but once the current uncertainty is ended, the averages and individual stocks have built up base patterns that indicate the possibility of substantially higher levels.

"Time is Running Out for the Bears"

From a time element also it would seem probable that time is running out for the bears. We have been in a bear market since late May, 1946, or 21 months. This is quite a bit longer than the average bear market. Also it is interesting to note that the time pattern after the first World War is being closely followed today. The first war ended in November, 1918 and the market reached its top one year later in November, 1919. It reached its low in August, 1921 or 21 months later. The European phase of the last war ended in May, 1945 and the market reached its high one year later in May, 1946. It is now 21 months since that high was reached.

Recently, I happened to be looking over an old technical book published by H. M. Gartley in 1934. In it was an item headed "Bear Market Reversals." It read roughly as follows: "Recognize the following factors as evidence of fair weather ahead, indicating that the end of a major decline is at hand: Fifteen months or more of downtrend. (2) Three or more intermediate cycles. (3) A decline of 40% or more in the price level. (4) Practically no public interest in the stock market. (5) Price-earnings ratios and price-current asset ratios at very attractive levels. Leading stocks paying dividends on a 6-9% yield basis. (6) Average daily volume ranging from 300,000 to 600,000 shares a day, without any appreciable pickup during sharp minor sell-offs."

You will note that most of these elements are present today.

You must remember that our growth of the nation trend is slowly moving upward. While the 840 figure is obviously ridiculous, it is not beyond reasoning that the 1929 levels will again be approached at the end of the next upward swing. The top range of our growth of the nation trend will be near the 400 level six or seven years from now.

"Rails Represent Outstanding Purchase"

As for individual stocks, I believe that rails represent an outstanding purchase. Their technical action has been excellent. As for the industrials—very roughly—I prefer the durable goods or heavy industry shares above the consumer goods or soft goods stocks. I like steels, machinery equipments, automobiles, agricultural implements, oils, household appliances, chemicals, etc. This type of issue was relatively backward in the 1942-1946 advance. That advance was led by the luxury type stocks such as liquors, moving pictures, department stores. This type of company had little or no competition for the consumer's dollar. No matter how prosperous things may be over the next few years, their record sales of the war period will not be duplicated. They will undoubtedly move ahead too, but I believe the heavy industry shares will show greater price appreciation.

We have not time to mention individual issues but I recently wrote a summary on individual issues with attractive technical patterns. I will be glad to send it to you if you write me. That is about all I have to say.

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)	Mar. 14	96.6	94.6	92.7	95.8
Equivalent to—					
Steel ingots and castings produced (net tons)	Mar. 14	1,741,200	1,705,100	1,670,900	1,676,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Feb. 28	5,387,125	5,342,325	5,318,237	4,771,350
Crude runs to stills—daily average (bbls.)	Feb. 28	5,463,000	5,399,000	5,434,000	4,895,000
Gasoline output (bbls.)	Feb. 28	15,796,000	15,807,000	15,986,000	15,173,000
Kerosine output (bbls.)	Feb. 28	2,780,000	2,520,000	2,561,000	2,193,000
Gas oil and distillate fuel oil output (bbls.)	Feb. 28	7,963,000	8,127,000	7,690,000	5,444,000
Residual fuel oil output (bbls.)	Feb. 28	8,824,000	9,199,000	9,141,000	8,933,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Feb. 28	111,040,000	109,886,000	102,988,000	103,672,000
Kerosine (bbls.) at	Feb. 28	9,594,000	9,731,000	11,719,000	11,493,000
Gas oil and distillate fuel oil (bbls.) at	Feb. 28	33,836,000	34,004,000	40,607,000	36,901,000
Residual fuel oil (bbls.) at	Feb. 28	49,206,000	49,782,000	50,839,000	44,270,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Feb. 28	791,039	805,376	727,038	849,991
Revenue freight rec'd from connections (number of cars)	Feb. 28	735,952	719,990	629,970	719,316
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Mar. 4	$187,872,000	$128,741,000	$123,813,000	$127,871,000
Private construction	Mar. 4	71,728,000	49,139,000	66,640,000	100,596,000
Public construction	Mar. 4	112,144,000	79,602,000	57,173,000	27,275,000
State and municipal	Mar. 4	55,527,000	27,712,000	21,737,000	22,479,000
Federal	Mar. 4	56,617,000	51,890,000	35,436,000	4,796,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Feb. 28	12,910,000	*12,900,000	11,190,000	12,874,000
Pennsylvania anthracite (tons)	Feb. 28	1,238,000	1,229,000	1,167,000	1,097,000
Beehive coke (tons)	Feb. 28	131,700	131,700	136,000	128,900
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Feb. 28	249	249	233	238
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Mar. 6	5,292,595	5,251,935	5,412,361	4,786,552
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Mar. 4	113	93	97	58
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Mar. 2	3.23940c	3.23940c	*3.19411c	2.86354c
Pig iron (per gross ton)	Mar. 2	$40.37	$40.37	$40.17	$32.23
Scrap steel (per gross ton)	Mar. 2	$40.00	$40.00	$40.83	$36.67
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Mar. 3	21.200c	21.200c	21.200c	20.650c
Export refinery at	Mar. 3	21.575c	21.600c	21.450c	21.425c
Straits tin (New York) at	Mar. 3	94.000c	94.000c	94.000c	70.000c
Lead (New York) at	Mar. 3	15.000c	15.000c	15.000c	14.875c
Lead (St. Louis) at	Mar. 3	14.800c	14.800c	14.800c	13.800c
Zinc (East St. Louis) at	Mar. 3	12.000c	12.000c	12.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Mar. 9	100.75	100.72	100.69	104.49
Average corporate	Mar. 9	111.25	111.25	110.70	117.20
Aaa	Mar. 9	116.41	116.41	116.02	122.09
Aa	Mar. 9	115.04	114.85	114.27	120.02
A	Mar. 9	110.20	110.52	109.97	117.00
Baa	Mar. 9	103.65	103.64	103.47	110.52
Railroad Group	Mar. 9	105.86	105.69	105.17	112.75
Public Utilities Group	Mar. 9	113.12	112.93	112.56	118.40
Industrials Group	Mar. 9	115.24	115.04	114.85	120.84
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Mar. 9	2.45	2.45	2.45	2.20
Average corporate	Mar. 9	3.10	3.10	3.13	2.79
Aaa	Mar. 9	2.83	2.83	2.85	2.55
Aa	Mar. 9	2.90	2.91	2.94	2.65
A	Mar. 9	3.13	3.14	3.18	2.80
Baa	Mar. 9	3.53	3.53	3.54	3.14
Railroad Group	Mar. 9	3.40	3.41	3.44	3.02
Public Utilities Group	Mar. 9	3.00	3.01	3.03	2.73
Industrials Group	Mar. 9	2.89	2.90	2.91	2.61
MOODY'S COMMODITY INDEX	Mar. 9	403.5	414.3	412.6	422.8
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Mar. 6	228.7	227.0	235.5	225.3
Fats and oils	Mar. 6	244.0	239.1	242.0	316.2
Farm products	Mar. 6	258.0	250.1	260.8	253.1
Cotton	Mar. 6	324.3	310.3	318.3	330.8
Grains	Mar. 6	277.4	263.2	282.6	239.1
Livestock	Mar. 6	247.9	242.3	252.1	253.5
Fuels	Mar. 6	220.8	220.8	220.8	159.2
Miscellaneous commodities	Mar. 6	174.1	172.7	178.4	159.9
Textiles	Mar. 6	212.7	211.1	217.3	209.4
Metals	Mar. 6	163.5	163.5	162.2	146.9
Building materials	Mar. 6	232.8	232.8	233.4	213.7
Chemicals and drugs	Mar. 6	157.0	157.0	155.1	155.2
Fertilizer materials	Mar. 6	137.7	137.6	137.9	127.8
Fertilizers	Mar. 6	143.0	143.0	142.9	133.7
Farm machinery	Mar. 6	138.1	138.1	137.2	126.3
All groups combined	Mar. 6	217.0	214.6	220.7	199.9
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Feb. 28	169,597	160,330	196,886	192,670
Production (tons)	Feb. 28	180,943	171,191	185,944	181,709
Percentage of activity	Feb. 28	101	99	103	102
Unfilled orders (tons) at	Feb. 28	423,510	436,430	432,911	574,856
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Mar. 5	147.2	147.0	147.6	153.7
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Feb. 28	159.2	159.2	163.7	146.4
Farm products	Feb. 28	182.8	181.7	195.1	176.1
Foods	Feb. 28	170.5	170.3	176.5	167.5
Hides and leather products	Feb. 28	188.5	193.3	201.2	174.1
Textile products	Feb. 28	146.2	146.9	145.8	137.0
Fuel and lighting materials	Feb. 28	131.7	131.6	131.2	98.6
Metal and metal products	Feb. 28	155.6	155.5	154.1	138.6
Building materials	Feb. 28	192.1	191.9	191.3	173.0
Chemicals and allied products	Feb. 28	135.3	134.9	139.3	129.3
Housefurnishings goods	Feb. 28	143.7	143.6	137.5	125.5
Miscellaneous commodities	Feb. 28	119.0	119.1	123.9	111.2
Special groups—					
Raw materials	Feb. 28	173.9	173.6	182.3	158.9
Semi-manufactured articles	Feb. 28	154.8	155.9	157.3	142.7
Manufactured products	Feb. 28	153.5	153.5	156.5	142.0
All commodities other than farm products	Feb. 28	153.9	154.1	156.8	139.9
All commodities other than farm products and foods	Feb. 28	147.3	147.5	148.0	128.7

*Revised figure.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES)			
Production of primary aluminum in the U. S.—Month of December	47,589	43,461	50,700
Stocks of aluminum (end of December)	15,549	19,650	14,722
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE — Month of December:			
Total shipments (thousands of pounds)	138,066	133,154	119,430
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of January	7,463,112	*7,366,076	7,213,246
Shipments of steel products, including alloy and stainless (net tons)—Month of Dec.	5,613,036	5,216,990	4,854,207
AMERICAN PETROLEUM INSTITUTE—Month of November:			
Total domestic production (bbls. of 42 gallons each)	170,578,000	176,598,000	154,829,000
Domestic crude oil output (bbls.)	158,736,000	164,913,000	144,674,000
Natural gasoline output (bbls.)	11,792,000	11,635,000	10,005,000
Benzol output (bbls.)	50,000	50,000	150,000
Crude oil imports (bbls.)	7,688,000	7,761,000	6,852,000
Refined products imports (bbls.)	5,631,000	4,757,000	4,215,000
Indicated consumption—domestic and export (bbls.)	182,059,000	188,196,000	164,775,000
Increase—all stocks (bbls.)	1,838,000	920,000	1,121,000
AMERICAN TRUCKING ASSOCIATION—Month of December:			
Number of motor carriers reporting	235	235	235
Volume of freight transported (tons)	2,123,152	2,071,830	1,908,255
COAL EXPORTS (BUREAU OF MINES)—Month of December:			
U. S. exports of Pennsylvania anthracite (net tons)	794,398	765,123	957,239
To North and Central America (net tons)	399,786	411,911	341,613
To South America (net tons)	31	200	317
To Europe (net tons)	394,577	353,012	615,206
To Asia (net tons)	------	------	103
To Africa (net tons)	4	------	------
COKE (BUREAU OF MINES)—Month of Dec.:			
Production (net tons)	6,489,537	*6,199,754	5,192,700
Oven cost (net tons)	5,886,474	5,650,266	4,797,000
Beehive coke (net tons)	603,063	*549,488	395,700
Oven coke stocks at end of month (net tons)	1,039,633	1,151,101	892,913
COMMERCIAL STEEL FORGINGS (DEPT. OF COMMERCE)—Month of December:			
Shipments (short tons)	116,798	103,740	110,346
Unfilled orders at end of month (short tons)	593,660	585,818	707,060
CONSUMERS PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939=100—As of January 15:			
All items	168.8	167.0	153.3
All foods	209.7	206.9	183.8
Cereals and bakery products	172.7	170.5	143.4
Meats	237.5	227.3	199.0
Dairy products	205.7	204.9	190.1
Eggs	213.6	236.1	181.7
Fruits and vegetables	208.3	205.3	187.9
Beverages	201.9	198.5	178.3
Fats and oils	209.3	208.2	201.9
Sugar and sweets	183.4	183.7	178.2
Clothing	192.1	191.2	179.0
Rent	115.9	115.4	108.8
Fuel, electricity and ice	129.5	127.8	117.3
Gas and electricity	93.1	92.6	91.9
Other fuels and ice	165.0	162.0	142.1
Housefurnishings	192.3	191.4	179.1
Miscellaneous	146.4	144.4	137.1
COPPER INSTITUTE—For month of Jan.:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	82,516	*80,954	*78,313
Refined (tons of 2,000 lbs.)	102,314	108,816	*96,729
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	118,855	113,446	*151,948
Refined copper stocks at end of period (tons of 2,000 lbs.)	71,533	*76,035	*96,515
COTTON SEED — DEPT. OF COMMERCE —			
Received at mills (tons) Aug. 1 to Jan. 31	3,795,325	3,583,155	2,823,221
Crushed (tons) Aug. 1 to Jan. 31	2,778,869	2,256,672	2,174,269
Stocks (tons) Jan. 31	1,115,984	1,426,011	766,758
COTTON SEED PRODUCTS—DEPT. OF COMMERCE—			
Crude Oil—			
Stocks (pounds) Jan. 31	121,742,000	109,368,000	104,119,000
Produced (pounds) Aug. 1 to Jan. 31	853,648,000	639,650,000	677,340,000
Shipped (pounds) Aug. 1 to Jan. 31	805,334,000	646,464,000	651,193,000
Refined Oil—			
Stocks (pounds) Jan. 31	152,706,000	152,916,000	170,988,000
Produced (pounds) Aug. 1 to Jan. 31	685,105,000	544,257,000	543,035,000
Cake and Meal—			
Stocks (tons) Jan. 31	71,207	74,035	160,038
Produced (tons) Aug. 1 to Jan. 31	1,284,575	1,042,907	959,571
Shipped (tons) Aug. 1 to Jan. 31	1,260,309	1,015,813	831,165
Hulls—			
Stocks (tons) Jan. 31	72,533	71,651	102,576
Produced (tons) Aug. 1 to Jan. 31	627,353	510,877	503,007
Shipped (tons) Aug. 1 to Jan. 31	590,628	475,034	426,356
Linters—running bales—			
Stocks Jan. 31	204,250	188,851	106,574
Produced Aug. 1 to Jan. 31	867,852	702,223	697,719
Shipped Aug. 1 to Jan. 31	743,346	593,116	626,199
Hull fiber (500-lb. bales)—			
Stocks Jan. 31	1,687	1,868	1,129
Produced Aug. 1 to Jan. 31	11,910	9,338	12,207
Shipped Aug. 1 to Jan. 31	10,524	7,751	11,581
Motes, grabbots, etc. (500-lb. bales)—			
Stocks Jan. 31	17,130	16,011	13,065
Produced Aug. 1 to Jan. 31	29,370	23,355	26,286
Shipped Aug. 1 to Jan. 31	22,753	17,857	14,951
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of January (1935-39 Average=100)	†134.3	†132.5	135.7
LIFE INSURANCE — BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of November:			
Death benefits	$122,777,000	$101,334,000	$108,249,000
Matured endowments	31,168,000	29,838,000	32,312,000
Disability payments	8,118,000	6,924,000	7,888,000
Annuity payments	16,216,000	17,975,000	15,550,000
Surrender values	36,017,000	27,829,000	30,593,000
Policy dividends	69,114,000	35,323,000	63,581,000
Total	$283,410,000	$219,223,000	$258,173,000
PORTLAND CEMENT (BUREAU OF MINES)—Month of December:			
Production (bbls.)	16,124,000	16,814,000	14,557,000
Shipments from mills (bbls.)	12,380,000	16,267,000	11,494,000
Stocks (at end of month) (bbls.)	9,953,000	*6,209,000	10,921,000
Capacity used	79%	85%	71%

*Revised figure. †Preliminary figure.

Tax Reduction Essential to Obtain Risk Capital

(Continued from page 8)

banks at a time when the governmental authorities caution the banks to curtail loans? Or isn't it the sensible approach to help them to get their needed funds either through the present owners of the business or through some of our thrifty people who are willing to take a risk in the form of common stock purchases?

I must repeat that, undertaking the task that we do of world reconstruction at enormous costs, adding heavily to the budgetary burden, and with the public debt so large, I think it is foolhardy to ecourage deliberately additional increases in the private debt. The sound approach is through the risk capital markets.

I am not going to dwell on the heavy individual tax burden. It is with us and we must face it; but I do say let's make it as equitable as possible, and for heaven's sake not interfere with the processes of business.

Our tax structure simply does not permit those who in the past have invested in business and in securities representing venture investment to supply industry with the type of funds which I think it needs.

It has been testified here, and we discuss it at some length in our study, that when the American worker leaves his home to take his place on the job, there is waiting for him from $3,000 to $39,000 which has been invested in plant and equipment and raw materials so that he can perform his work.

Growth of Small Capitalists

Our study recognizes that vast changes of an economic and social nature have crept into the economy in the past 15 years, which I think we must take into account in dealing with this important subject. Consistently and often I say to my associates in business—not alone in New York but throughout the entire country where the wires of the New York Stock Exchange reach out—in the cotton belt, the corn and wheat areas of the Middle West, in the rich oil districts of Texas and California and the timberlands of the Northwest—that one of the most wholesome things that has happened in this period of the last 15 years is that it has been made possible for the masses to accumulate money. Actually, gentlemen, we have experienced a mushroom growth of small capitalists all over this land who, until in recent years, never before saw a government bond, a savings account, and who in only limited numbers ever held a stock certificate representing ownership or proprietorship in a business undertaking, old or new.

The New York Stock Exchange, mindful of past experiences, has, through an extensive advertising program, endeavored to discourage the small, uninformed investor. As a result of our efforts, we have been accused by the public of over-sheltering the "little fellow." It has been our objective to encourage the smaller investor to buy U. S. Government bonds where risk is minimized.

Wealth has aged noticeably in the past 15 years and older people who are living on pensions, trust funds and accumulated or inherited capital—and there are a lot of them—are really having a struggle to keep their heads above water. There are some, termed rich, who, in order to maintain within reasonable limits their customary standard of living, to educate their children, etc., are actually using principal to meet the deficit, which really means, in large measure, to pay their taxes. The statistics are in our study. Not a single government agency entrusted with compiling these data and interpreting them, will deny the conclusions I have drawn.

Business was fortunate in entering the postwar period in an extremely liquid position, but as a result of higher prices and an expansion of operations, cash and equivalent have run off considerably. The working capital position of industry is worsening; the extent to which this is taking place is being obscured temporarily by the sale of capital securities, in large part debt securities. In its "Bulletin" of March 2, 1948, the Securities and Exchange Commission, in measured terms, described the situation as follows:

"The ratio of corporate liquid funds in the form of cash and marketable securities to sales, which is a rough measure of liquidty, declined again during the third quarter of 1947, but is still somewhat above prewar levels."

I am sure that more recent figures will show a continued and accentuated change in the composition of current assets and liabilities in the direction of less liquidity.

Decline In Equity Financing

Of $4.5 billion new money raised through the capital markets last year, stocks represented only one-third, or $1.5 billion. According to the Securities and Exchange Commission, common stocks totaled but $784 million. Toward the closing months of the year, common stock offerings were largely confined to the larger companies in the public utility and oil industries, while the market was virtually nonexistent where other stock offerings were involved. Time and time again the report of anticipated common stock financing was sufficient to depress severely the stocks of even the strongest and most successful corporations.[1]

I wish our study had been less correct in its implications.

I have with me and would like to incorporate in the record as Exhibit C a tabulation prepared from the records of the Securities and Exchange Commission showing the number of companies which have withdrawn registration statements between Jan. 1, 1946 and Jan. 23, 1948. These withdrawals comprise 145 issues, mainly stock issues, and I regard them as eloquent evidence of the unhealthy condition of the capital markets. Moreover, investment bankers have discouraged managements which have approached them on new financing prospects. Thus there is no record of those projects that do not reach the registration stage. Reverting to our tabulation and the letters and telegrams received in connection with this exhibit, I emphasize that most of these companies are relatively small and their securities are not listed on the New York Stock Exchange or any other national securities exchange. I am equally interested in them because, unlike larger companies with established credit, they have practically no place to go when doors of the capital markets are shut on them.

Two sound important operating public utility companies have recently offered stock at prices to yield 7½ and 8% to insure the success of common stock offerings made for additional investment in plant. Insurance companies needing additional capital have had to sell stock at far below the liquidating value, resulting in a dilution of the equity.

I am advised that, except for a limited number of our largest urban banks, there is scarcely a bank stock throughout the United States that is not currently selling for considerably less than its known book value. To press the point, if an investor, whether in a small bank in Maine, Ohio, or Nebraska held a majority or controlling interest in such an institution and were compelled to sell for any unforeseen reason, or if in the event of death the stock had to be sold to pay inheritance taxes, the tendency would be to liquidate the institution rather than accept the large discount from known book value through sale in the market. I might add: What is to be the attitude of the management of a bank compelled to raise new capital or to grant rights to stockholders where this condition exists and where a stockholder might not have sufficient savings to avail himself of his rightful portion of the new stock? This is dilution with a vengeance.

Volume of Stock Exchange Trading

As outlined in our tax study, the stock market also is suffering from persistent foreign liquidation and the effects of sales of large holders, brought about, in many instances, by tax factors, adding to the supply of stocks without any sufficient offset from new risk savings.

The volume of trading on the New York Stock Exchange last year, as a percentage of the mean number of shares listed, was down to 14%, the lowest since 1942. This year to March 1, the volume of trading on the New York Stock Exchange amounted to 37,788,892 shares against 48,305,280 shares in the same period of 1947, a reduction of 22%. In the first two months of this year the volume of trading was at the annual rate of about 10% of the number of shares listed and only slightly above the 1942 rate which was 9%—the lowest on record.

At the outset I stated that the risk capital problem falls into two parts: the adequate flow of such capital, and its proper function. Having laid the base that supports passage of this bill H.R. 4790 as the Congress may see fit to amend, I now come to the two proposals that I think will make risk capital function. Neither proposal involves any appreciable loss of revenues. I appreciate that this consideration is vital in the hope you may entertain of enacting this bill into law. I refer:

(1) to the injustices of the double taxation of dividends which are the reward for risk-taking; and

(2) to the capital gains and losses provisions of the Internal Revenue Code which, to repeat, are a feature of the tax structure not intended to be a revenue producer.

Double Taxation of Dividends

So much has been written on the injustices of the double taxation of dividend income that I will not take the time of this committee to expand the point. I would like to refer to the statement which was made in the TNEC report and which is referred to on page 26 of our study:

"Creditor or debt financing is at present encouraged by the Federal tax system through the deductibility (and consequent exemption) of all interest payments. Since dividends distributed are not deducted from corporate net income for Federal tax purposes and interest payments to bondholders are so deducted, equity financing is discriminated over against creditor financing."

Practically all recognized independent tax studies in the last several years and a recent study by the Treasury Department submitted to the Congress point up this problem. I do not exaggerate when I stress the urgency of treating this condition without delay.

My initial recommendation was to give the shareholder a credit of 10% on dividends received by the individual tax payer. Obviously, this would involve a loss of revenue of about $500 million, based on 1947 results. Using a little imagination and thinking in terms of incentive, I am confident that if I had made this recommendation and if it were approved by the Congress, there would result no loss in revenues. I question if I am really doing justice to this problem when I waver solely out of respect for revenues. I have received very strong letters from many able industrialists who urge that action be taken of a sufficient sweeping character to gain the necessary results. They contend that anything short of 10% will not do the job. Nevertheless, in appreciation of the revenue problem, I recommend that this Congress incorporate in H. R. 4790 a provision that will exempt dividends to the individual from the present 3% normal individual income tax. This recommendation involves but $165 million of Federal revenues. There is precedent for the adoption of this recommendation and, furthermore, it would legislate in principle a provision universally indorsed and too long delayed.

Capital Gains Taxes

The capital gains provision, as I have already stated, was never intended as a revenue-producing feature of the tax structure. To my knowledge, the last published figures of the Treasury show that receipts from this source were a little more than $12 million for the year 1940. It was my contention, for what it was worth when advocating the changes that took place as a result of the Revenue Act of 1942, that such changes would result in increased revenues to the Treasury, and would not encourage excessive speculation in the markets where sound and practical credit controls were exercised. The 1942 Revenue Act, you will recall, eliminated the 18-and 24-months holding periods and substituted the 6-months long-term holding period and increased the maximum effective rate of taxation on long-term capital gains from 15 to 25%.

I have been informed that since 1942 revenues from capital gains have fluctuated within a range of one hundred to four hundred million dollars annually. It is my belief that for the year 1947, due to sharply diminished activity on the securities markets, such revenues have been reduced to negligible proportions. In other words, relative to the size of the budget, the capital gains tax is scarcely of significance as a revenue-producing factor.

I recommend that the maximum effective rate of taxation on long-term capital gains be reduced from 25% to not in excess of 12½%. With the benefit of the experiences we have had with the present law, I am now of the opinion that a maximum rate of 12½% on long-term gains will again result in increased revenues to the Treasury.

I know there are some who may feel that the change recommended will encourage large speculative activity. This same claim was put forth in 1942 when I stated emphatically that, in my opinion, the change would not encourage excessive speculation. As evidenced by the markets, it has not done so. In fact our markets are in such an unsatisfactory condition as to be a matter of concern to all of us. The change proposed will invite the sale of securities in periods of market strength when offerings are most needed. It will create confidence by way of bids for securities in periods of sharply declining prices when support is most needed. It is my conviction that the simple change in the capital gains law will encourage liquidity, continuity and orderliness in our markets.

Before leaving the subject of capital gains, let me add that experience with the capital gains and losses provisions has brought to light the existence of a few loopholes. These are the result of oversight. The Treasury and Mr. Colin Stam of the Joint Committee have studied this phase of the law and I understand are prepared with recommandations closing these loopholes. I strongly urge that this be done in this bill in order to preserve the good of the Act as we wish it amended.

Recommendations

To consider first things first in dealing with risk capital, we must:

First: Renew the flow of risk capital with the community property principle and a reduction in the individual personal surtax rates will tend to accomplish;

Second: Set the stage to induce risk capital to function properly, which a reduction in the maximum effective of taxation on long-term capital gains, at least to 12½%, and the exemption of dividends to the individual from the 3% normal income tax will tend to effect.

Mr. Chairman and Gentlemen of the Committee, a reduction in national income with a consequent shrinkage of the government's revenues seems to be a stronger possibility in the light of the latest economic developments than the chance of a further increase in national income and government revenues. This possible condition is alluded to in the statements made before this Committee by Secretary of the Treasury Snyder and Director of the Budget Webb. In these statements, caution seemed to prevail—and rightly so.

My concern with the position of the equity investor and the capital market arises primarily out of my earnest desire for a continued high level of employment and economic progress. Jobs underlie revenues, capital values, and almost every other economic consideration. I can think of no other way of promoting continued high employment with a minimum of loss to the Treasury, and at the same time serving the requirement of fair play, than to stimulate risk capital by the proposals which I have outlined, along with passage of H.R. 4790 subject to possible modification by the Congress.

Remember that it is a grave responsibility to argue that it would be well to reduce business expenditures and necessarily the number of gainfully employed, and attempt to revive employment later on. Our experience in the past does not induce confidence in our knowledge of the economics of control so as to be able to turn the spigot off and on at will. I should not like to confront the worker who has to remain idle, or the head of a family who cannot find a place to live decently; nor would I care to live with the responsibility of having deliberately created "healthy" unemployment. A moderate change in our tax structure at strategic points can go a long way to secure larger production and a continued high level of employment.

Conclusion

Let me conclude with a final paragraph from our tax study:

"It is my conviction that revision of taxes in the manner proposed in this study would have strategic importance in supporting economic growth. Economic forces have a cumulative tendency. The time to reduce taxes that discourage job-creating investment is when a substantial surplus is expected by the Federal Government, particularly when this can be done without eliminating a reasonable provision for debt retirement.

"In conclusion, I wish to refute the 'either-or' type of thinking which is all too common. To enable the capital markets to perform their economic function properly is not to invite a repe-

1 See p. 32, etc. of NYSE study where we have dealt with this problem at some length.

tion of the practices of the twenties. Effective controls preclude this possibility. It is most desirable, however, to reverse the trend of the dormant and stagnant thirties, and to resume the path of economic progress which characterized the American economy until attention was concentrated more on the division of the national product than on its size. Funds for business expansion cannot be met entirely through the generation of funds through internal sources, and we must:

(1) "make it possible for the groups which are the traditional source of venture capital to accumulate funds; and

(2) "provide incentive for them to invest such funds profitably.

"The only other course is to have the government provide funds. Nowhere has this policy been compatible with the maintenance of initiative and incentive, and, in the end, of freedom."

First Boston Group Underwrites Standard Accident Ins. Stock

The First Boston Corp. heads an investment banking group which has underwritten an offering by Standard Accident Insurance Co. of 140,750 shares of common stock at $23.50 per share to holders of its presently outstanding stock. The offering is on the basis of one new share for each 2½ shares held of record at the close of business March 10, 1948. Rights to subscribe evidenced by transferable subscription warrants, will expire at 3 p.m. on March 24, 1948.

Proceeds from the sale of the new stock will provide additional capital funds, made advisable by the substantial increase in volume of insurance written by the company and its subsidiaries in the last few years.

During the subscription period the underwriters may offer and sell shares of the unsubscribed stock and stock purchased or to be purchased by them through the exercise of subscription warrants at prices not less per share than the price to present holders.

Lamont Stock In J. P. Morgan Sold

Sale to the public of 25,000 shares of capital stock, par $100, of J. P. Morgan & Co. Incorporated from the estate of the late Thomas W. Lamont, who was Chairman of the bank's board, is being made today, March 11, at $225 a share by an investment banking syndicate headed by Morgan Stanley & Co. and including Smith, Barney & Co.; Carl M. Loeb, Rhoades & Co. and Merrill Lynch, Pierce, Fenner & Beane. The stock represents 12½% of the bank's outstanding capital stock of 200,000 shares.

This is the third public offering of stock of J. P. Morgan & Co. Incorporated and brings the total number of shares distributed to the public in that manner to 60,250 shares.

The first block consisted of 16,500 shares. It was offered by Smith, Barney & Co. Feb. 3, 1942, at $206 a share. When offered the statement was made that the stock was sold to broaden ownership of the company. The stock represented partnership holdings. It did not represent company financing.

The second block to be publicly sold was offered on April 8, 1943, at $200 a share. It consisted of 18,750 shares and represented the entire holdings in the bank of the late J. P. Morgan.

The State of Trade and Industry

(Continued from page 5)

willing to go into the steel gray market in order to turn their backlogs into finished products are now backing water.

Despite the cracking-up in the steel gray market and the hesitancy on new conversion deals, normal steel market demand continues at an all-time high. There is little or no chance that the decline in the purchase of high premium priced steel will have any effect on regular steel orders for some time to come. The refusal of consumers to pay premium prices or to enter into additional complicated conversion arrangements will put strong pressure on steel mills to take more regular orders and to quicken deliveries.

Basic factors behind the falling apart of the premium steel market are: (1) Nervousness over consumer and light product demand on the part of the public; (2) ability of many fabricators to quickly reduce their unfilled orders by turning them into finished products made from steel; (3) the desire to get the full benefit of the weakness which has appeared in the gray market prices, and (4) setting up production schedules on the basis of regular steel mill and warehouse shipments, "The Iron Age" points out.

Most steel officials hold to the belief that basic steel demand will support high steel operating rates for many months to come. Oil, gas and water pipe requirements are so heavy that it may take a few years, at the minimum, to supply the material needed by those industries.

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 96.6% of capacity for the week beginning March 8, 1948, an increase of 2 points, or 2.1%. This compares with 94.6% one week ago. A month ago the indicated rate was 92.7%.

This week's operating rate is equivalent to 1,741,200 tons of steel ingots and castings as against 1,705,100 tons last week, 1,670,900 tons a month ago and 1,676,400 tons one year ago.

FREIGHT LOADINGS OFF DUE TO HOLIDAY

Loadings for the week ended Feb. 28, 1948, totaled 791,089 cars, according to the Association of American Railroads. This was a decrease of 14,287 cars, or 1.8% below the preceding week due to the Washington Birthday Holiday which was generally celebrated on Feb. 23. It represented a decrease of 58,902 cars, or 6.9% below the corresponding week in 1947, but an increase of 8,692 cars, or 1.1% above the same week in 1946.

ELECTRIC OUTPUT INCREASES, AFTER FIVE WEEKS' DECLINE

The amount of electrical energy distributed by the electric light and power industry for the week ended March 6, 1948 was 5,292,595,000 kwh., according to the Edison Electric Institute. This was an increase of 40,660,000 kwh. over the output for the preceding week and was the first time in six weeks that a gain was shown over the preceding seven day period. The peak was reached in the week ended Jan. 24, 1948 when 5,436,430,000 kwh. were turned out. The production for the March 6 week was 506,043,000 kwh., or 10.6%, in excess of that for the week ended March 8, 1947, and was the ninth consecutive week that output exceeded the 5,000,000,000 kwh. mark.

AUTO OUTPUT CLOSE TO POSTWAR PEAK IN LATEST WEEK

Production of cars and trucks in the United States and Canada declined the past week.

Estimated output of cars and trucks in the United States and Canada the past week amounted to 108,700 units last week, "Ward's Automotive Report" states. This compared with a revised total of 120,130 units in the preceding week and 125,925 units in the same week in 1941.

Last week's total comprised 103,265 cars and trucks built in the United States, while Canadian assemblies totaled 5,435 units.

BUSINESS FAILURES TURN UPWARD

Rebounding from the preceding week's decline, commercial and industrial failures rose in the week ending March 4 to the second-highest number in any week since early 1943. Dun & Bradstreet, Inc., reports 113 concerns failing, up from 93 in the previous week. Almost twice as many businesses failed with probable loss to creditors as in the comparable week of 1947 and over five times as many as in the same week of 1946.

Despite the sharp upward trend in failures, they were only about half as high as the prewar level; in the corresponding week of 1939, a total of 286 failures were reported.

Large failures involving liabilities of $5,000 or more predominated, accounting for 93; a rise from last week appeared among small failures with losses under $5,000, which totaled 20. Concerns failing in the larger size category increased from 79 a week ago and were almost twice as numerous as in the same week of 1947 when 52 failed incurring liabilities of $5,000 or more. Nine of the 93 failures in the upper liability class had exceptionally heavy losses exceeding $100,000; in one of these failures, losses ran over $1,000,000. Small failures with liabilities under $5,000 rose from 14 last week and compared with six in the corresponding week last year.

In all industry and trade groups except in manufacturing, an increase occurred in mortality in the week just ended. Retail trade with 49 had the most failures, three times as many as a year ago.

About two-thirds of the week's total failures were concentrated in two regions, the Middle Atlantic and Pacific States. Nearly all of the increase from a week ago occurred in these regions, with Middle Atlantic casualties rising from 22 to 35 and Pacific from 18 to 34.

WHOLESALE FOOD INDEX MOVES UPWARD

A general stiffening in staple food markets last week resulted in a reversal of the downward trend of the Dun & Bradstreet wholesale food price index. Following six successive declines, the March 2 figure advanced to $6.79. This marked a rise of 1.4% over the six-month low of $6.61 recorded a week ago but it is again below the $6.77 registered on the corresponding date of 1947, when food prices reached their first decontrol peak.

WHOLESALE PRICE INDEX LIFTED BY FIRMNESS IN FARM PRICES

There was a sharp upturn in the Dun & Bradstreet daily wholesale commodity price index late last week as the result of a firming up in good, grain and cotton markets. The index closed at 282.35 on March 2, comparing with 276.81 a week earlier and with the recent low of 270.60 on Feb. 13. It is, however, considerably below the post-war peak of 308.82 recorded on Jan. 16. On the corresponding date a year ago the index figure was 257.89.

Continuing the upward trend visible in some grains late last week, all leading cash and futures markets scored substantial advances in the week just ended.

Corn was again the leader in the rise as prices reached the highest level in two weeks. Country offerings of corn remained limited and failed to satisfy continued good shipping demand. Demand was also good from cash and commission houses as well as professional traders. Wheat closed higher aided by strength in the feed grains, continued small country offerings of all grains and the unsettled political outlook abroad which is expected to result in speedy consideration and approval of the European aid program. Domestic flour buying remained slow and export demand was also comparatively quiet. At the close of the week, the government was said to be in the market for moderate quantities of flour to meet March export requirements.

Livestock prices trended sharply higher at the close. With hogs leading the advance, practically all of the decline suffered earlier in the week was wiped out.

Cocoa and coffee were lower for the week but prices trended firmer at the close.

After fluctuating unevenly during most of the week, cotton prices moved sharply higher in the closing days of the week, largely influenced by the belief that the European Recovery Program would get started sooner than had been anticipated. Inquiries were fairly numerous but volume of sales in the 10 spot markets fell to 75,800 bales for the week, from 97,900 the previous week and 130,900 in the same week a year ago. Toward the close of the week there was considerable short covering by mills and commission houses in anticipation of increased foreign demand. Registered sales under the government export program during the week ended Feb. 20 totaled 34,960 bales, compared with 51,800 a week earlier and 23,200 two weeks previous. The mid-February cotton parity price was announced by the Department of Agriculture at 30.75 cents a pound. This was a decline of 37 points from a month earlier and was much less than had been expected in the trade.

Dullness characterized cotton textile markets as the price tone continued to show easiness.

Trading in domestic wools in the Boston market continued dull the past week. There was a strong demand for fine wools with increased interest shown in medium wools but very few lots of desirable types were available. Contracting for this year's clip in the Western States appeared to be lessening in all areas.

RETAIL AND WHOLESALE TRADE AGAIN MOVES UPWARD

Stimulated by promotional sales and mild weather in some areas the dollar volume of retail trade increased slightly during the period ended on Wednesday of last week. The dollar total of consumer buying remained moderately above that of the corresponding week a year ago, Dun & Bradstreet, Inc., reports in its survey of trade. Easter merchandise continued to attract favorable attention with considerable response to some clearance sales of winter goods.

Consumers continued to seek their spring apparel with emphasis on Easter merchandise. Spring coats, suits and dresses sold well. There was considerable interest in handbags and millinery. Main floor blouse departments reported a high volume with soft shirtwaist cottons and inexpensive pure silk print blouses among the best sellers. Linen, rayon, and cotton piece goods were in large demand as interest in home sewing grew. Men's shirts and accessories sold well and nationally advertised shoes were steadily purchased.

Practically all foods continued to be abundant and in substantial demand.

There was a moderate increase in the buying of foods suitable for Lenten use and both dried and fresh fish were readily purchased. Poultry and most fresh meats sold well and frozen fruits and vegetables were in large demand. Dairy products and meat substitutes continued to be sought, but some slight decline in the volume of confectionery and baked goods took place.

The arrival of mild weather in some sections of the country stimulated the demand for hardware, building materials, and paints.

Interest in garden tools increased in some areas. The demand for automobile accessories and small electrical goods decline somewhat, while the supply of branded major appliances generally improved. The volume of cheaper quality furniture decreased moderately in the week, but interest in items of good quality remained large.

Retail volume for the country in the week for the period ended on Wednesday of last week was estimated to be from 7 to 11% above that of a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England 4 to 8, East 6 to 10, South 5 to 9, Middle West 10 to 14, Northwest 12 to 16, Southwest 13 to 17, and Pacific Coast 0 to 4.

There was a slightly rise in the total dollar volume of wholesale trade during the week. The number of buyers registered at the wholesale centers increased considerably with mail and telephone orders continuing to be substantial. Buyers generally remained cautious and avoided long-term commitments. Order volume was moderately above the level of the corresponding week of 1947.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Feb. 28, 1948, increased by 5% from the like period of last year. This compared with an increase of 15% in the preceding week. For the four weeks ended Feb. 28, 1948, sales increased by 6% and for the year to date increased by 6%.

Retail trade in New York City the past week reflected little change from that of the similar week of last year. Unfavorable weather affected department store volume which in turn prevented expansion of consumer interest in spring merchandise.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Feb. 28, 1948, decreased 10% below the same period last year. This compared with an increase of 30% (revised) in the preceding week. For the four weeks ended Feb. 28, 1948, sales increased 7% and for the year to date rose by 6%.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● **Albuquerque (N. M.) Associated Oil Co., Albuquerque**
March 5 (letter of notification) $200,000 capital stock ($1 par). No underwriter. Payment of rentals on oil and gas leases and purchase of leases.

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."

● **American Optical Co., Southbridge, Mass.**
March 4 filed $10,000,000 of 20-year sinking fund debentures, due 1968. **Underwriters**—Harriman Ripley & Co. and Estabrook & Co. Interest rate and price by amendment. **Proceeds**—To pay off a bank loan and short-term notes as well as for working capital. **Business**—Ophthalmic and optical products.

Angus Mines, Ltd., Montreal, Canada
Feb. 12 filed 600,000 shares of common capital stock ($1 par). **Underwriter**—James A. Robb, New York. **Proceeds**—To develop gold prospects.

Ark-Tex Development Co., Inc., Dallas, Texas
Feb. 12 (letter of notification) 120,000 shares of common stock. **Price**—$1.50 each. **Underwriter**—George R. Cooper, Dallas. To purchase saw mill equipment.

Associated Grocers, Inc., St. Joseph, Mo.
Feb. 24 (letter of notification) $150,000 unsecured 6% debentures and 7,350 shares ($100 par) common stock, both to be sold at par to associated store owners. Proceeds will finance cooperating buying operations. No underwriting.

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.

● **Austin Brothers, Dallas, Texas**
March 5 (letter of notification) 500 shares capital stock ($100 par). To be offered at $115 per share. No underwriter. To be added to capital.

● **Black Hills Power & Light Co., Rapid City, S. D.**
March 3 (letter of notification) 19,900 shares common ($1 par). **Underwriter**—Dillon, Read & Co. Inc. For construction and to reduce bank loans.

Brockway (Pa.) Glass Co., Inc.
Feb. 26 filed 5,000 shares of 5% cumulative preferred stock (par $50) and 7,150 shares of common stock (par $50). **Underwriting**—None. **Offering**—Both issues will be offered at $50 per share. **Proceeds**—Construction and purchase of new equipment.

Brown Radio Productions, Inc., Nashville, Tenn.
Feb. 24 (letter of notification) 1,250 shares ($1 par) common stock. **Price**—$8.75 each. To be sold by Charles H. Brown and S. W. Brown, Jr. **Underwriter**—Mid-South Securities Co., Nashville, Tenn.

Cameron Aero Engine Corp. (3/15)
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.

Casa de Paga Gold Co., Seattle
Feb. 2 (letter of notification) $100,000 of production notes. A bonus of one share (1¢ par) stock will be issued with each $1 worth of production notes. **Underwriter**—Lobe, Inc. To purchase capital stock of Dry Creek Dredging Co. and pay current expenses.

Central Chemical Corp., Hagerstown, Md.
Dec. 29 filed 254,682 shares ($10 par) non cumulative 6% stock and 70,643 shares ($10 par) non-voting common Class B stock. **Underwriters**—To be sold through company officers and employees to stockholders, employees and customers without underwriting. **Price**—At par. **Proceeds**—To retire indebtedness and for working capital.

Central Power & Light Co.
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. Underwriting to be determined by competitive bidding. No bids received at competitive bidding Dec. 15. Sale may be negotiated. Groups formed to bid if issue is reoffered include: W. C. Langley & Co., Shields & Co. and White, Weld & Co. (jointly); The First Boston Corp. **Proceeds**—For property additions and expenses.

Century Steel Corp., Hollydale, Calif.
Nov. 10 filed 4,000 shares ($100 par) common. No underwriting. **Price**—$100 a share. **Proceeds**—To purchase rolling mill, equipment and for working capital.

Challenger Airlines Co., Salt Lake City, Utah
March 1 filed 600,000 shares ($1 par) common stock, of which 400,000 are being sold for the company and 200,000 for the account of Claude Neon, Inc. **Underwriting**—None. **Price**—$2 a share. **Proceeds**—For equipment purchase and general funds.

City Title Insurance Co., New York
Feb. 25 (letter of notification) 5,000 shares of capital stock. **Price**—$9. To be offered stockholders of record Jan. 20 for subscription in ratio of one new share for each six shares held. Rights expire 3 p.m. March 23. Unsubscribed portion will be taken up by Chilson Newberry Co., Inc., Kingston, N. Y. General corporate purposes.

● **Colin Pharmacal Co., Inc.**
March 4 (letter of notification) $250,000 capital stock (par $5). **Price**—$5 per share. No underwriting. Increase cash 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.

Consolidated Edison Co. of N. Y., Inc. (3/25)
March 1 filed $57,382,600 of 3% convertible debentures, due 1963. Convertible at the rate of one common stock share for each $25 of debentures. **Offering**—Common stockholders of record March 25 will be given right to subscribe for debentures in ratio of $5 of debentures for each share held. Rights will expire 3 p.m. (EST) April 15. **Underwriting**—Unsubscribed debentures will be offered at competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp. **Proceeds**—To redeem on May 1 at $105 a share a total of 273,566 shares of outstanding $5 cumulative preferred stock and to reimburse treasury for expansion expenditures.

Consumers Cooperative Assoc., Kansas City, Missouri
Oct. 16 filed $1,000,000 4% non-cumulative common stock ($25 par); $4,000,000 of 3½% certificates of indebtedness cumulative; and $1,000,000 of 1½% loan certificates cumulative. No underwriting. **Offering**—To the public. Common may be bought only by patrons and members. **Price**—At face amount. **Proceeds**—For acquisition of additional office and plant facilities.

Crampton Manufacturing Co.
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.

● **Cribben & Sexton Co., Chicago, Ill.**
March 5 (letter of notification) 1,500 shares of common ($5 par). **Underwriter**—Swift, Henke & Co., Chicago.

Dallas (Texas) Power & Light Co., Dallas
Feb. 26 filed 68,250 shares of common (no par) $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.; Blyth & Co., Inc.; Equitable Securities Corp.; Harriman, Ripley & Co.; Glore, Forgan & Co., and W. C. Langley & Co. (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.

Fitzsimmons Stores, Ltd., Los Angeles, Calif.
Feb. 2 filed 10,000 shares of 6% cumulative first preferred stock ($100 par). **Underwriting**—Officers, directors and employees of the company will offer the stock to friends and associates. **Price**—$100 per share. **Proceeds**—To retire 7% preferred stock. Business: "Super Markets" in Los Angeles, Riverside, Colton and San Bernardino County.

Florida Power Corp. (3/24-31)
March 2 filed 40,000 shares ($100 par) cumulative preferred stock and 110,000 shares ($7.50 par) common stock. **Underwriters**—Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane. **Offering**—Common stockholders may purchase the new common stock at the rate of one new share for each 10 held. **Proceeds**—Construction expenditures.

● **Ford Chemical Corp., New York**
March 3 (letter of notification) 20,000 shares of common stock (par $5). **Price**—$5 per share. No underwriting. Capital funds.

Interstate Power Co., Dubuque, Ia.
Feb. 5 filed $20,000,000 first mortgage bonds, due 1978; $5,000,000 sinking fund debentures, due 1968 (to be placed privately), and 1,500,000 shares ($3.50 par) common stock (only such amount to raise $3,635,500). **Underwriter**—Smith, Barney & Co., New York. Price and interest rates by amendment. **Proceeds**—To permit consummation of the company's reorganization plan. Expected at early date.

● **I-Odoral, Inc., Wilkinsburg, Pa.**
March 8 (letter of notification) 200,000 shares of common stock (par $1). **Price**—$1 per share. **Underwriter**—Sterling Graham Co., Pittsburgh. Purchase of products, etc.

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); Shield & Co. and E. H. Rollins & Sons (jointly); Harriman Ripley & Co.; White, Weld & Co. and Kidder, Peabody & Co. **Proceeds**—For construction and other corporate purposes.

● **Kingston Products Corp., Kokomo, Ind.**
March 5 (letter of notification) 14,618 shares common ($1 par). **Underwriter**—Alison & Co., Detroit.

● **Lewis (J. H.) & Co., Inc., New York**
March 1 (letter of notification) $20,000 debenture bonds. **Price**—$500 per unit. **Underwriting**—None. Machinery export business.

Louisiana Power & Light Co. (3/15)
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.; Glore, Forgan & Co.; Shields & Co. and White Weld & Co. (jointly); Harriman, Ripley & Co.; Merrill Lynch, Pierce, Fenner & Beane and Kidder Peabody & Co. (jointly); Kuhn Loeb & Co.; 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. **Bids**—Bids for the purchase of the bonds will be received at Room 2033, 2 Rector St., New York, up to 11:30 a.m. (EST), March 15.

Louisville (Ky.) Gas & Electric Co. (3/16)
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.; 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. Expected about March 16.

● **Markley Corp., Plainville, Conn.**
March 8 (letter of notification) 37,790 shares of common ($1 par) and 12,000 warrants for holders to purchase a like number of shares at $6 per share. **Underwriter**—Coburn & Middlebrook, Hartford, Conn. To finance work and discharge debts.

Michigan Consolidated Gas Co. (3/29)
Feb. 26 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.; Harris, Hall & Co. (Inc.). **Proceeds**—Construction program. Expected about March 29.

● **Mountain States Telephone & Telegraph Co. (4/5)**
March 5 filed $25,000,000 30-year debentures, due April 1, 1978, and 191,881 shares of capital stock ($100 par). **Underwriting**—Underwriters for bonds to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Harris, Hall & Co. (Inc.) and Drexel & Co. (jointly). Stock will be offered present stockholders at $100 per share on a one-for-three basis. American Telephone & Telegraph Co. owns

NEW ISSUE CALENDAR

March 11, 1948

Chesapeake & Ohio Ry.
Noon (EST) Equip. Trust Ctfs.

March 15, 1948

Cameron Aero Engine Corp. Common
Louisiana Power & Light Co.
11:30 a.m. (EST) Bonds
Virginia Electric & Power Co.
Noon (EST) Bonds & Debs.

March 16, 1948

Chicago Ind. & Louisville
Noon (EST) Equip. Trust Ctfs.
Louisville Gas & Electric Co. (Ky.) Bonds
Ohio, State of Bonus Bonds
Pacific Telephone & Telegraph Co.
11:30 a.m. (EST) Debentures

March 17, 1948

Pennsylvania Telephone Corp. Preferred

March 19, 1948

Wilson-Jones Corp. Common

March 22, 1948

West Penn Power Co. Bond & Pref.

March 23, 1948

Columbia Gas & Electric Corp. Debenture
Denver & Rio Grande Western Equip. Trust Ctfs.

March 24, 1948

Florida Power Corp. Pref. and Common

March 25, 1948

Consolidated Edison Co. of N. Y. Inc. Debentures

March 29, 1948

Michigan Consolidated Gas Co. Bonds
Texas Electric Service Co. Bonds and Debs.
Utah Power & Light Co. Bonds & Debs.

March 31, 1948

Ohio Power Co. Bonds

April 1, 1948

Schenectady Discount Corp. Debentures

April 5, 1948

Mountain States Telep. & Teleg. Co. Debentures

April 6, 1948

Southern Counties Gas Co. of Calif. Bonds

73.35% of outstanding stock. **Proceeds**—To repay advances from American Telephone & Telegraph Co. expected to amount to about $41,000,000 March 31, 1948. Expected about April 4.

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. **Offering**—63,785 shares are to be publicly offered (25,000 on behalf of company and 38,785 for account to 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.

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.

Ohio Power Co., Canton, Ohio (3/31)
March 2 filed $40,000,000 first mortgage bonds, due 1978. **Underwriting**—To be determined by competitive bidding. Probable bidders, Dillon, Reed & Co. Inc.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.; Harriman Ripley & Co., and Stone & Webster Securities Corp. (jointly). **Proceeds**—To be applied toward the retirement of 6% gold debenture bonds, due 2024, prepayment of $9,500,000 of notes floated for construction purposes, and $31 million to be deposited with the corporate trustee under the mortgage securing its first mortgage bonds. Expected about March 31.

● **Oil Incorporated, Salt Lake City, Utah**
March 4 (letter of notification) 239,000 shares of common ($1 par). No underwriter. For corporate purposes.

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.; Harriman, Ripley & Co.; Lehman Brothers and Blyth & Co., Inc. (jointly). **Proceeds**—To be applied toward construction program.

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. (3/16)
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. **Bids**—Bids for purchase of bonds will be received at Room 2315, 195 Broadway, New York, up to 11:30 a.m. (EST), March 16.

Parkview Drugs, Inc., Kansas City, Mo.
Jan. 27 filed 100,000 shares of preferential cumulative 35c participating stock ($4.50 par). **Underwriter**—Straus & Blosser, Chicago. **Price**—$5.25 per share. **Proceeds**—$140,000 will be used to reimburse company for funds used to purchase McFarland Drug Co., Topeka, Kan., and the $332,500 balance will be used for working capital and expansion of business: retail drug stores.

Pennsylvania Telephone Corp. (3/17)
Feb. 26 filed 40,000 shares $2.25 preferred stock (no par). **Underwriters** — Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp., New York. Price by amendment. **Proceeds**—To reimburse treasury for expenditures and finance improvements.

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.

Public Service Co. of New Hampshire
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. Expected late this month.

● **Pyramid Life Insurance Co., Charlotte, N. C.**
Feb. 27 (letter of notification) 100,000 common shares ($1 par), to be offered to stockholders at $2 per share. No underwriter. For capital surplus.

● **Restaurant Drury Lane, Inc., New York**
March 9 (letter of notification) 2,059 shares of common stock (par $25). **Price**—$25 per share. **Underwriting**—None. Equiping and decorating new location.

● **Safety Heat Elements Inc., Middletown, Conn.**
Feb. 27 (letter of notification) 30,000 shares of common stock (par 10¢). **Price**—$3.25 per share. **Underwriter**—H. P. Carver Corp., Boston. Proceeds to selling stockholder.

San Diego Gas & Electric Co.
Feb. 17 filed $10,000,000 first mortgage bonds, series C, due 1978. **Underwriters**—Halsey, Stuart & Co. Inc. and associates awarded the issue March 9 as 3s. Price, 101.39 and interest. **Proceeds**—To reimburse company's treasury for expenditures and for purchase of new facilities. Expected as we go to press.

● **Sanitary Products Corp., Taneytown, Md.**
Feb. 26 (letter of notification) 11,250 shares of common stock (no par). **Price**—$20 per share. **Underwriter**—Jackson & Co., Boston. For equipment and working capital.

● **Saul (B. F.) Co., Washington, D. C.**
March 4 (letter of notification) $45,000 4½% promissory notes. No underwriter. To reimburse issuer.

Schenectady (N. Y.) Discount Corp. (4/1)
Feb. 26 (letter of notification) $100,000 20-year subordinated debentures. **Price**—$100. **Underwriting**—None. General corporate purposes.

● **Scott Paper Co., Chester, Pa.**
March 5 (letter of notification) not over 12,000 shares of common stock (no par). To be offered to employees between March 15 and Nov. 30, 1948. Aggregate total not to exceed $300,000. The shares to be distributed will be purchased through the facilities of the New York and Philadelphia Stock Exchanges.

● **Selected American Shares, Inc.**
March 1 filed 300,000 shares of common stock (par $2.50). Proceeds for investment.

● **Seminole Oil & Gas Corp., Dallas, Texas**
March 4 (letter of notification) 11,400 shares of common stock. **Underwriter**—Buckley Bros. Proceeds to selling stockholders.

● **South Eastern Alaska Transit Co., Seattle, Wash.**
March 2 (letter of notification) 3,000 common shares ($100 par). For working capital and current debts.

Southern Counties Gas Co. of Calif. (4/6)
Feb. 26 filed $7,000,000 3¼% first mortgage bonds, due 1978. **Underwriting**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.; The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); White, Weld & Co. **Proceeds**—To reimburse treasury for capital expenditures, including construction costs. Expected April 6.

Sperti Foods, Inc., Hoboken, N. J.
Feb. 26 (letter of notification) 30,000 shares 5% cumulative convertible preferred stock, ($10 par). **Price**—$10 each. **Underwriters**—White, Noble & Co., Detroit, and Clair S. Hall & Co., Cincinnati. To operate pharmaceutical division and for general corporate purposes.

● **Starlite Campers of the Rockies, Inc., Colorado Springs**
March 5 (letter of notification) 35,000 common shares. For purchase of bus, a jeep and camping equipment.

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.

Taylor Food Co., Raleigh, N. C.
Feb. 24 (letter of notification) 100,000 shares ($1 par) common. **Price**—$1 each. To retire bank loan and for working capital. **Underwriter**—Griffen & Vaden, Inc., Raleigh.

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. Expected late in March.

Texas Electric Service Co. (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. Expected about March 29.

● **Texas Power & Light Co., Dallas, Tex.**
March 8 filed $7,000,000 sinking fund debentures, due 1973, and $2,000,000 of first mortgage bonds, due 1978. **Underwriting**—To be determined through competitive bidding. Probable bidders: The First Boston Corp., Halsey, Stuart & Co. Inc., Blyth & Co., Inc., Smith, Barney & Co. and Kidder, Peabody & Co. (jointly); Hemphill, Noyes & Co. and Drexel & Co. (jointly); W. C. Langley & Co., and Glore, Forgan & Co. (jointly); White, Weld & Co.; Harriman Ripley & Co., and F. S. Moseley & Co. (jointly); Lehman Brothers. **Proceeds**—For construction purposes.

● **Thomas (F. C.) Inc., Olean, N. Y.**
March 4 (letter of notification) 1,440 shares class B 6% cumulative preferred stock (par $50). **Price**—$50 per share. **Underwriting**—None. Holders of class B stock of record March 1 are given the right to subscribe in ratio of one new share for each two shares held. Rights expire March 24. Additional working capital.

● **Trailways Service, Inc., Washington, D. C.**
Feb. 25 (letter of notification) $295,000 first mortgage bonds. **Price**—$100. **Underwriter**—C. F. Cassel & Co., Charlottesville, Va. To retire bank loans.

Utah Power & Light Co. (3/29)
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. Expected March 29.

Virginia Electric & Power Co. (3/15)
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. **Bids**—Bids for purchase of bonds will be received at office of J. C. Leighton, 90 Broad St., New York, up to noon (EST), March 15.

West Penn Power Co. (3/22)
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 bidder: 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. Expected about March 22.

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.

Prospective Offerings

● **Arkansas Power & Light Co.**
March 5 reported company plans sale of $10,000,000 bonds. Probable bidders include: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.; White, Weld & Co.; Glore, Forgan & Co. and Harriman Ripley & Co. (jointly).

(Continued on page 42)

(Continued from page 41)

● **Broadway Department Store, Inc., Los Angeles**
March 16 stockholders will vote on creating a new issue of 250,000 shares ($25 par) cumulative preferred stock; and on increasing the authorized common from 1,000,000 to 1,200,000 shares, and changing the par value of the common from no par to $10 par. It is the present intention to offer publicly 80,000 shares of the new preferred, which it is estimated will provide the corporation with net proceeds of $1,850,000 which will be added to working capital. Traditional underwriter, Blyth & Co., Inc.

● **California Oregon Power Co.**
March 4 company requested California P. U. Commission to sell at competitive bidding $4,500,000 bonds and 100,000 shares of common stock (par $20). Probable bidders include: Halsey, Stuart & Co. Inc. (bonds only); Blyth & Co., Inc., and The First Boston Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane (common); Harriman Ripley & Co.; White, Weld & Co.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly on bonds); Salomon Bros. & Hutzler; Shields & Co. (bonds only).

● **Carolina Power & Light Co.**
March 9 company asked the SEC for authority to borrow $7,000,000 from Equitable Life Assurance Society of U. S. on $3\frac{1}{4}\%$ notes. Money will be used to pay a $2,500,000 bank loan and to finance plant construction.

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 Indianapolis & Louisville Ry. (3/16)**
The company will receive bids up to noon (CST) March 16 for the sale of $1,800,000 equipment trust certificates, dated April 15, 1948 and maturing annually April 15, 1949-1963. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros & Hutzler; Harris, Hall & Co. (Inc.); Kidder, Peabody & Co. and Dick & Merle-Smith (jointly).

● **Consolidated Natural Gas Co.**
March 8 company asked SEC for permission to sell at competitive bidding $30,000,000 debentures due 1968. Proceeds for construction program. Probable bidders include: White, Weld & Co. and Paine, Webber, Jackson & Curtis (jointly); Dillon, Read & Co. Inc.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.

Denver & Rio Grande Western RR. (3/23)
The company has issued invitations for bids to be received March 23 for $4,530,000 in equipment trust certificates, dated May 1, 1948, and maturing semi-annually over a period of 15 years. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly); Kuhn, Loeb & Co. and Blyth & Co., Inc. (jointly).

● **Graham-Newman Corp.**
Feb. 27 stockholders increased authorized common from 40,000 to 50,000 shares (no par). Presently company has 34,715 shares outstanding. Company plans to register 11,575 shares with SEC and offer such shares for subscription by stockholders at $100 per share on basis of 1-for-3. Proceeds for working capital.

● **Gulf States Utilities Co.**
March 3 company applied to FPC for authority to issue 12,000,000 first mortgage bonds. Proceeds would be used for construction and to retire $4,500,000 notes due June 30. Probable bidders: Stone & Webster Securities Corp.; Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly).

● **Maine Public Service Co.**
March 5 company applied to Maine P. U. Commission for permission to sell $1,500,000 $4\frac{1}{4}\%$ 15-year debentures privately to John Hancock Mutual Life Insurance Co.

● **Mathiesen Alkali Works**
March 30 stockholders will be asked to vote on increasing by 500,000 the number of shares of authorized common stock and on reducing preferred shares to the number now outstanding. The holders will also vote on changing the name of the company to Mathieson Chemical Co. There are no current plans to issue any additional stock. Traditional underwriter: Hayden, Stone & Co.

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.

● **Pacific Gas & Electric Co.**
April 13 stockholders will be asked to approve reclassification of the preferred stock. While the amendment would not affect the 6%, $5\frac{1}{2}\%$ or 5% preferred stocks outstanding, 2,215,175 shares of unissued first preferred stock would be callable. Also, under the proposed amendment, directors would be authorized to fix the dividend rate, redemption price and any conversion rights of future series as issued. James B. Black, President, states that the sale of additional first preferred stock requires a more flexible procedure than is now provided by the articles of incorporation.

● **Pacific Lighting Corp.**
March 4 directors authorized the filing of a registration statement with the SEC covering 321,726 shares of common stock (no par) for offering to stockholders at the rate of one new share for each five held on April 15. Expected offering will be made April 16 at $40 per share.

● **Southern New England Telephone Co.**
March 11 Connecticut P. U. Commission held hearings on company's petition to issue $15,000,000 30-year $3\frac{1}{8}\%$ debentures. May be placed privately.

Difficult International Situation

(Continued from page 15)

over and we would be able to devote our time and energies to problems of peace rather than problems of war.

Effect of Hesitation and Inaction

I doubt if many people will deny that the choice is whether we do something such as I have just described or whether we have World War III at some date within the reasonably near future. However, it must be admitted that as yet there is no evidence of any interest on the part of the United States Government in pushing such a program. The reason for this inaction is, I believe, not at all that the idea is impractical, but that the United States is just plain not ready to give up its reliance on armaments as the main guarantee of its security. For all our talk of supporting UN, there is no evidence, at least in so far as official opinion is concerned, that the United States is ready to take a chance on law as a guarantor of our security rather than on our own military force.

Many subsidiary reasons are given to support this basic hesitation on our part. The usual one is that Russia will not agree to any such proposal. I agree that there is little evidence from anything that Russia has done since the end of the war to give hope that she will accept any such program. But it does not follow therefore that the United States should not make the proposal.

In the first place, I repeat that I have heard of no one who will deny that the choice is to do some such thing as I have proposed or to face up to getting ready for World War III. To get rid of war is such a high prize that we should be willing to play the most outside of outside chances.

But even if we were to make such an offer and if we were to be rejected, we still would be far ahead of where we are now on the road toward making a peaceful world. For if Russia did refuse such an offer, we should go ahead without Russia and thus create a political union outside the Iron Curtain which would solidify that world which truly wants peace into a political bloc, devoted not at all to any nation or aggressive war against Russia but devoted to the high ideal of providing an example of how a world at peace might work. It might be that such a show of determination and wisdom by the West might persuade Russia to join with this bloc in the elimination of war.

But again assume that Russia would not cooperate. Assume even, as may very well be the case, that the nature of the Russian dictatorship is so similar to that of the Nazi dictatorship that it is determined sooner or later to seek world conquest by force. The creation of such "outside the Iron Curtain" political bloc would make it much more difficult for Russia to succeed in any such ambitious plan.

The great danger that the non-Iron Curtain countries face today is the fact of disunity. The seizure of Czechoslovakia and the pending conquest of Finland are a sad reminder of the Nazi technique which picked off one country at a time while the leaders of the West floundered about ununified and unable to agree on any common policy.

A solid political union of the non-Iron Curtain countries, whose main objective would be to create world peace, would not be a weak thing. It would be much more able to defend itself than the several countries acting individually and it would through its consolidated power impress any would-be world conqueror that the idea of world conquest is not a profitable business.

Public Demands Something Be Done

I believe that the American people are more alert than at any time in their history to the problems of international policy. I believe, moreover, that they are more deeply concerned with the problem of peace than at any time before. I believe that they would support their government in any positive program which would put the great power of the United States back of the search for peace. I believe that the people are in fact demanding of the government that something be done. I think that the people realize fully what the next war will be and that they want to have none of it. I think that they also believe that the time has come when the United States in general and in particular its government has been forced by circumstance to take lead in this matter. In all of this I believe that they are very deeply right. I believe that they have truly seized upon the choice. Either we must do something immediately and dare now to give the United Nations the power to enforce world peace or we will soon face World War III.

Tellier & Co. Offers Oil Drilling Stock

Tellier & Co. is offering, as a speculation, 1,000 000 shares of 10-cent par value common stock of Deardorf Drilling Corp. The stock is priced at 30 cents a share.

Proceeds of the offering are to be used by the company for the purchase of a completely equipped drilling rig, and the remainder will be used for working capital.

Deardorf Drilling Corp., a Delaware corporation, was formed for the purpose of engaging in the drilling of oil wells as a contractor for others. The Deardorf Oil Corp., which in the opinion of the corporation has sufficient drilling to keep its rig busy for several years, will have first call on the corporation's equipment.

Total outstanding capitalization, in addition to the stock new being offered, consists of 1,000,000 shares of common stock, par 10 cents.

The Interest Rate Pattern

(Continued from page 12)

ples of long and short interest rates during the present century:

Year	Long-Term Bonds	Commercial Paper
1900	4.49%	4.39%
1907	4.72	6.36
1916	4.73	3.43
1920	6.18	7.37
1924	5.07	3.91
1929	4.86	5.78
1941	2.84	0.54
1947	2.58	1.04

At the turn of the century long and short rates were about equal. In 1907 when credit was strained short rates were well above long. In 1916, just before we entered World War I the short rate was beginning to reflect the rising incidence of liquidity preference. After World War I—the war to end wars—the world settled down to enjoy perpetual peace. In 1920 and again in 1929 credit was strained and the short rate was above the long. In 1941 liquidity preference was rampant, and in 1947 this fever had not materially subsided. Nor is there anything in the outlook for world stability to suggest that the prewar or inter-war interest rate relationship will soon be restored. Furthermore, the principle of estate taxation and the level of estate tax rates stimulate liquidity preference as much as the prospect of atom bombs. No successful business proprietor advancing in years can afford to do anything except sell out and prepare his estate for the impending tax. There is statistical evidence of the current state of liquidity preference in the facts that commercial loans as well as consumer credit are both at all time highs while the rate on commercial paper has risen little more than one-half percent from its all time low: and also in the quantity of gold buried at Fort Knox. It seems reasonable to conclude that something like the short-long relationship of the recent past may be expected to continue for some time to come: a commercial paper rate of $1\frac{1}{4}\%$ to $1\frac{1}{2}\%$ may prevail during 1948.

Corporate Bonds

A "normal" spread of about 1% between long-term government and best quality (money market) corporate bonds prevailed in the 1920's. During the following decade, lowered capital formation combined with the emergence of government deficits, narrowed the spread. During the recent war years the supply of new capital issues shrank to small proportions while the supply of new government issues enormously expanded: the spread shrank further, reaching a low of less than $\frac{1}{4}$ of 1% at the war's end. During the past two years a high rate of capital formation combined with a Federal Government surplus have restored conditions resembling the 1920's more than the 1930's. It is expected that these conditions will prevail during 1948, and for some time to come thereafter. The spread between government and corporate bonds should continue to widen, as it did during the past year, and may eventually approach, or even exceed the old "normal" spread of 1%. During 1948 a corporate bond yield of $3\frac{1}{4}\%$ is expected.

Credit bonds, that is corporate bonds in which there is some risk of lowered coverage or even of default, will fluctuate with business conditions and equity markets. A too narrow spread between them and money market bonds, particularly in the railroad field, has been largely rectified by market declines during the past two years.

Municipal Bonds

Short municipal bonds are bought mostly by commercial banks (who also underwrite them) and long bonds by large individual and fiduciary investment accounts seeking tax exempt income. The supply of state and municipal bonds outstanding which declined during the war, increased during the past two years and is expected to continue to increase. Bonds have been issued and are being issued by several states in order to provide funds for soldiers bonus payments. States and municipalities are being called upon to provide additional roads, streets, schools, water systems, parks and playgrounds, etc., etc., and construction costs have multiplied. At the same time, the trend of income taxes is downward, and it is expected that there will be a tax reduction in 1948 and possibly another in 1949. As might be expected, long-term municipal bonds have declined more than any other class of money market bonds: their yield has risen from 1.45% in April, 1946 to 2.45% in January, 1948. The decline in municipal bonds has carried them to a point where the municipal yield compares favorably with the corporate yield for investors of comparatively modest means. There are three possible reasons for this state of affairs, and the true explanation may lie in a combination of the three: (1) the supply pressing on the market has been unusually large during the past year because of bonus bonds issued by several states, and because of high construction costs; (2) on balance in the aggregate, large individual investment accounts may have become sellers rather than buyers because of the drain of estate taxes and because many people of means have been dipping into capital in order to maintain living standards; (3) while large estates are shrinking, foundations, college endowment funds, and other tax exempt institutions are growing rapidly: more and more, rich men are leaving their fortunes to foundations and colleges because they cannot leave them to their children. The quantity of investment funds available for high-grade taxable bonds and preferred stocks has grown and is growing absolutely as well as in relation to the investment funds of individuals in the higher income brackets.

Preferred Stocks

During the first quarter of this century the yield on high-grade preferred stocks was at all times above 6%. During the late 20's a decline set in which continued until April, 1946 when Standard and Poor's index showed a yield of 3.42%. Since then, the yield, as shown by this index, has risen to 4.13%. It is interesting to note that this rise in yield is not as great absolutely or in percentage as the rise in the municipal bond yield — possibly the reasons for this were adequately explained in the preceding paragraph.

It is expected that the supply of new issues of good quality preferred stocks will be substantial during the next several years. It has been estimated that the electric utility companies will need a billion dollars of new money each year for some time to come. In order to maintain accepted capital structure ratios, at least 25% of these new issues should be in the form of preferred stocks. Industrial concerns may be expected to continue the practice of issuing convertible preferred issues because, under conditions existing today, they cannot obtain funds on satisfactory terms in the equity markets. Under these circumstances a two point spread between the yield on long government bonds and preferred stocks —the spread which prevailed during the 1920's might be expected today, particularly since the increased use of convertible preferred issues for obtaining money which really should be equity money offsets the increased demand for high-grade issues from tax exempt institutions. A yield of 4¼% to 4½% on high-grade preferred stocks appears to be a reasonable expectation for 1948.

Common Stocks

The yield obtainable on the current dividend rates of common stocks ranges from nothing to ridiculously high figures. And since dividends are frequently changed, omitted, and resumed, it verges on the realm of fancy to discuss common stock yields at all. There is nevertheless some relationship between the return obtainable from competing types of investments and the prices at which common stocks are likely to sell. At the present time the stocks of a number of well established concerns with long records of continuous earning power and dividend payments are selling at prices which yield between 4½% and 5½%. Some well regarded chemical stocks, at one extreme, yield only 4% to 4½% while a number of well situated oil stocks yield between 5% and 6%. Future tax rates, future capital needs, future business conditions, and many other speculative influences will affect the returns obtainable from common stock dividends but, under conditions as they exist in the early part of 1948, and in relation to the long-term government and other interest rates, it is felt that 5% is a reasonable norm for the yield on well regarded common stocks.

Our Reporter's Report

The first new offering for a railroad company, that of the Central Pacific Railway, brought out earlier this week, found investors in a highly receptive mood and proved a real "out-the-window" operation.

This $37,396,000 undertaking attracted bids from only two banking groups, and even though there was a spread of $7 a thousand separating the tenders this evidently had little or no bearing on the task of placing the bonds.

People who were in the business reported that soon after the apparently successful group was made known there was a rush of inquiries which assured a highly satisfactory demand upon formal opening of subscription books.

The winning group paid the issuer a price of 99.40 for a 3¾% coupon rate and the reoffering price was fixed at 100.35 to return a yield of 3.60%, the latter consideration, by itself, making the bonds attractive.

An additional bit of spice was added by the fact that the issue is guaranteed unconditionally as to principal and interest by the Southern Pacific Co., not to mention the 1% annual sinking fund which becomes operative Aug. 1, 1950.

Proceeds will be applied to the retirement of a slightly larger total of outstanding 4s due Aug. 1, next year.

Another Bonus Loan

Next Tuesday bankers will find themselves busy with another huge allotment of veteran bonus bonds, this time for the State of Ohio and in the amount of $200,000,000. On the possibility that this offering might be split up into several segments, a number of groups had been formed for the bidding.

But since the entire issue is to be marketed in one operation the several groups have welded themselves into a single syndicate for the purpose of assuring a nationwide distribution and simplifying the job.

Considering how well other States have done with similar issues, Michigan and New York for example, Ohio very likely will find the lone bid satisfactory. It will be recalled that New York's bonds, sold last week, as 1¾s and 2s, were marketed by the State at a net interest cost of 1.79%.

The Magic Figure

There might be a valuable tip for some potential issuers in the apparent rush of bids which seems to greet new offerings along the lines of what the underwriting fraternity likes to refer to as "Street Size."

Certainly there is nothing magic these days about $10,000,000, but the fact remains that offerings up to that figure tend to bring out the competition.

It is no surprise to find nine or ten groups in the running for such issues, in fact, that seems to be the rule rather than the exception, and certainly gives support to the contention of those of long experience that corporate finance officers should be watching the market's reaction to such issues.

Cases In Point

Several of these moderate-sized issues brought out this week served to put prospective borrowers on notice as to the desirability of keeping their offerings in bounds even if it means splitting up potential new issues.

Public Service Co. of Oklahoma, for instance, received six separate bids for its $10,000,000 new first mortgage bonds, ranging from the high of 97.333 for 2⅞s down to 99.429 for 3s.

The following day San Diego Gas & Electric came up with seven bids for a similar issue of first mortgage bonds. The top bid here for a 3% coupon rate was 100.8133 while the lowest was 100.14.

New Issues Stacking Up

With Louisiana Power & Light having called for bids to be opened next Monday on $10,000,000 of first mortgage bonds, it now appears that some eight groups will be in the running seeking the issue.

Meanwhile Wisconsin Michigan Power Co., is reported preparing to raise some $14,000,000 for the purpose of refunding an outstanding obligation.

The company has outstanding $12,500,000 of first mortgage 3¾%, due 1961, which are subject to call at 102¼.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

Merger of the American Federation of Labor and the Congress of Industrial Organizations into one big union—the dream that always thwarted President Roosevelt—is now being talked here as a real possibility for the next 12 months.

This merger would put into a single organization most of the organized labor support for the present Administration. It probably will take place too late, however, to do the political fortunes of Mr. Truman any material good. As a matter of fact, it may not actually come to fruition until the defeat of the labor-supported candidate at the polls next November demonstrates to the union leaders the necessity to close ranks against what they think will be a hostile Administration.

So far the merger of the AFL and the CIO is just in the talk stage. There have been no overt moves made lately to bring it about. The last formal negotiations occurred before John L. Lewis and his United Mine Workers for the second time withdrew from the AF of L.

In union circles, however, it is said that the uniting of the two federations now appears to be a possibility for the first time, and desirable to mobilize labor's political strength more efficiently for the defensive. Two developments suggest the unification is possible for the first time. One of these is the departure of John Lewis, the chief opponent of the merger, from the AFL. The other is the waning power of the commies in the CIO. Commies also opposed union. Some of the commies already have been "purged." The Wallace candidacy and the prospect Mr. Truman may be defeated will hasten the isolation of the commies from the CIO ranks.

* * *

Incidentally, most professional observers here of labor affairs expect that organized labor this year will not "act up" and tie up industry with strikes over the third round of wage increases this spring. Steel labor already has said it won't strike. Serious strikes, labor appreciates, would only further throw the knife into Mr. Truman's chances of re-election. Likewise, Congress might slap through the pending bill to make big labor unions subject to the anti-trust laws. Chairman Hartley of the House Labor Committee knows this bill doesn't have a chance in 1948 without a strike wave, but has been holding hearings on it for future reference by another Congress.

* * *

Chairman John Taber of the House Appropriations Committee—pet demon of all those who have a vested interest in the Federal payroll—aroused mild discussion among Southerners of another big merger of political significance—but still a long, long way off. What the Southern Democrats want the Republicans really to do is to make just enough passes at civil rights legislation to keep sentiment stirred up in the South—but without carrying it too far. Taber's committee turned down a subcommittee proposal to withhold certain Federal funds from the South so long as Negroes are discriminated against.

* * *

Incidentally, do not expect Mr. Truman to fail to get the Democratic Presidential nomination. Southern politicos are talking this. They do so to put pressure on the White House to abandon openly the civil rights program. As far as the public is concerned, however, it is all eyewash, say the professionals. The only circumstance under which it would be likely for the Democrats to junk Mr. Truman, so it is said, are those in which all hope was given up for his re-election. Then if the Democratic conservatives could influence the selection of a standard bearer more to their liking, he would be chosen to lead a new kind of Democratic Party in 1952. His Presidential race next November would then be only symbolic.

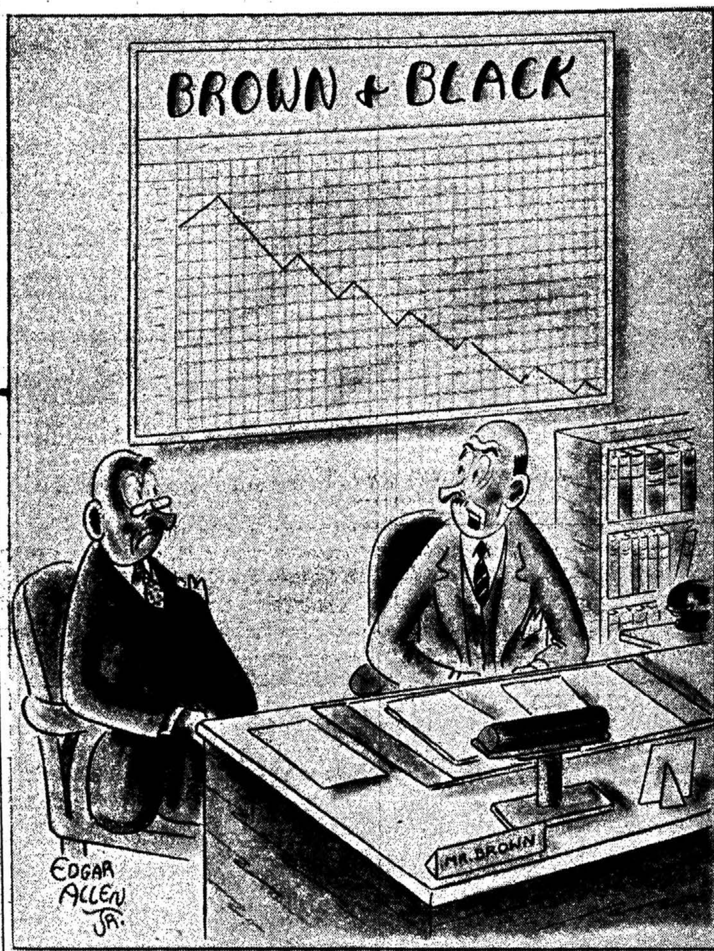
Actually the Southern revolters are leaning somewhat away from the notion of naming a "Southern Democratic candidate" for President. All they need to achieve is to withhold their various electoral votes from Truman. Hence they can arrange to cast them for favorite sons, or for a redheaded monkey. They would like to have more of a voice in their party's decisions. They can't so long as they are a pocket borough. They recognize the necessity for a Republican victory to break the present national domination of the Left.

* * *

In the junking of the former Army-Navy Munitions Board Industrial Mobilization plan, just as it was all but completed, is afforded a most typical development both of the effect of governmental reorganization and of a characteristic waste of government money.

From virtually the day after V-E Day, the A-N Munitions Board set out to draft a modern industrial mobilization plan. The plan consisted of a revamping of war control agencies and programs for mobilizing man and industrial power. The plan also consisted of a program for specific contingent industrial war adaptations by the thousands, i.e., a schedule of what each kind of factory would produce during war time. The wartime experiences in governmental management were studied, as were industry's problems and capacities.

BUSINESS BUZZ



"Frankly, Black, I'm getting a bit sick of trying to divide two into zero each week!"

This program was completed last fall. It represented an enormous volume of work for the Board, and incidentally no insignificant cost. Industrialists by scores devoted weeks of time to assisting the Board in working out the plan. Then its publication was withheld for fear the fact of a new industrial mobilization plan would inflame the Reds.

Along came the new single "Department of National Defense." This was supposed to squelch rivalries within the services and save money by coordinating buying and spending. What has actually happened in numerous cases is that a fourth set of bureaucratic agencies has now been laid over, and on top of, the three rival services. Thus before "consolidation" the Army, Navy and Air Forces had public relations staffs. Now Secretary Forrestal is adding a fourth, for the Department of National Defense. Numerous boards of coordination have been added. This costs money, and delays business, because four, rather than three sets of officials must argue everything.

* * *

It's a good idea to keep an eye on the new world wheat deal announced by the International Wheat Council. Under this deal some 30 importing nations agree to buy an aggregate of 500 million bushels of wheat a year from the three principal producing nations, the U. S., Canada, and Australia. The producing nations agree to supply the wheat. Extensive quota arrangements are set forth specifically how much each importing nation shall buy from whom. The 500 million bushels must be sold at not more than $2.00 per bushel, Lake basis, or purchased (if the market is lower) at not less than a scale of floor prices.

These floors range downward in steps of 10 cents per year from $1.50 the first year to $1.10 during the last year of the five-year agreement.

The deal does not relate to sales of wheat above quota which theoretically may be sold at any price (when not given away by the U. S.) to any consumer—it relates only to the 500 million bushels.

Theory of the arrangement is to "stabilize" the normal peacetime volume of wheat trade of the world, after world shortages disappear and surpluses reappear.

What the agreement does not specify is that the U. S. and other producing nations must stockpile wheat on some at least limited scale so they can guarantee delivery of wheat in years of short production. The arrangement thus implies continuance of a U. S. farm program, even if it were not likely anyway.

The agreement also implies that the U. S., in times of high prices like the present, must subsidize producers by the difference between the market price and $2 on quota wheat.

Its elaborate channeling arrangements also would require some continued government control over exports, even when the world wheat trade might otherwise return to normal.

Finally, it is a cartel-like affair. Cartels are odious to the U. S. Government, except when the U. S. Government wants them.