ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 167 Number 4684 | New York, N. Y., Thursday, March 25, 1948 | Price 30 Cents a Copy

Should Pound Be Devalued?

By PHILIP CORTNEY*
President, Coty, Inc.

Mr. Cortney contends time is not ripe for pound devaluation and gradually abandonment of British exchange controls is preferable. Sees fall in U. S. prices aiding Britain and urges gold value of dollar be retained.

There is a campaign in the United States for a devaluation of the pound in terms of dollars, coming mainly from the opponents of the Marshall Plan. This campaign against the pegged pound takes two different lines of attack: (1) There are those of the *laissez faire* school, who contend that unless we want Great Britain to live perpetually on gifts, exchange controls should be removed and the pound sterling allowed to find freely its real economic level. Their contention is that foreign exchange control begets domestic controls which are stifling initiative and enterprise,

Philip Cortney

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*Summary of address by Mr. Cortney at a luncheon of the Canadian section of the International Chamber of Commerce, Montreal, Que., March 16, 1948.

Major Obstacles to the Financing Of a Perpetual Business Boom

By MURRAY SHIELDS*
Vice-President, Bank of the Manhattan Company

Mr. Shields argues stage is not yet set for substantial deflation, and asserts nation faces unexampled opportunity for new capital investment despite: (1) restrictive credit policy of Federal Reserve; (2) artificially low interest rates; and (3) high tax barriers.

Any realistic discussion of the economic outlook must, I think, begin with the consideration of two over-riding factors. The first is that we are in the midst of an incredibly serious international crisis and the second is that the domestic business boom is running out of gas.

Murray Shields

We can, at a time such as this, ill afford to countenance anything less than full production, for capacity to produce is the vital element in military strength and high-level production is the only feasible antidote to a business slump. Both problems—of avoiding a depression and of being adequately prepared—have important financial implications. That this is the case we can be sure for the experience we have had with business cycles in this country shows that:

(1) We do not have prosperity or full employment unless expenditures by individuals for

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*An address by Mr. Shields before the American Management Association, New York City, March 19, 1948.

Inflation in Europe

By WINTHROP W. ALDRICH*
Chairman of the Board, The Chase National Bank of New York

Prominent New York banker, stressing importance of monetary stability as factor in European recovery and cooperation, outlines basic causes of inflation. Says increased production alone, already noted in Europe, cannot check inflation, but it must be accompanied by budgetary surpluses, restriction of private credit expansion, establishment of free markets, flexible and decontrolled interest rates, and realistic rates of exchange. Upholds provision in ERP Act freezing local currency in special accounts equal in amount to value of goods and services granted.

In the report of the Committee of European Economic Co-operation, signed by the 16 nations which attended the Paris Conference, the statement appears that the success of the recovery program depends on internal economic, financial and monetary stability. Such stability, the Committee declared, must be achieved in each one of the sixteen nations. Instability in any one nation adversely affects all of the participating countries. Trade is hampered and distorted and the affected countries are prevented from making their full contribution to the recovery program.

W. W. Aldrich

Financial and monetary stability is not easy to attain. Internal

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*An address by Mr. Aldrich at a gathering sponsored by the Treasury Department to make plans for new Savings Bank Drive, Washington, D. C., March 18, 1948.

EDITORIAL

As We See It

A Hazardous Course

We can only hope that the Administration in Washington, in its efforts to win support for universal military training, the European Recovery Plan proposals, and whatever else it has in the back of its mind, does not materially enhance the hazard of war. We wish that we could feel more confident that such will prove to be the case. At any rate, this whole program of "getting tough" on the radio, on the rostrum, in the press, and in other similar ways is dangerous business. It is all too reminiscent of President Roosevelt's famous "quarantine" speech, which started off a similar sort of campaign (though, of course, much less pointed) prior even to the outbreak of war in Europe in 1939.

Admittedly, the Kremlin has long been engaged in similar tactics. Its motives for arousing the passions, or at any rate attempting to arouse the passions, of the rank and file are not altogether clear and certain, but there is this difference: The people of Russia do not make the decision as to war or peace. They are told what to think and what to do—and, apparently, they think and do as they are bidden. The hazard originating from

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Problems Confronting Industry

By BENJAMIN F. FAIRLESS*

President, United States Steel Corporation

Mr. Fairless condemns attacks on free competitive economy, and points out its advantages. Says efforts of private industry to expand and maintain vigor is handicapped by heavy taxes, insufficient allowances for depreciation and replacement, and drying up of sources of equity capital. Denies steel or any other great industry is making "fantastic profits," and defends recent price increase in crude steel. Says chief causes of inflation are high rate of government expenditures adding to money supply, and remedy is to bring production into balance with demand.

We have been hearing and reading much about free competitive economy for quite a number of years, because we have been confronted by the arguments, efforts, and measures of those who profess belief in quite a different order of things, namely, a planned economy. The economic planners, turning their backs upon the methods and philosophy which have served the needs of this nation so well for approximately 150 years, would establish here a system akin to that which recently gripped Germany and Italy, or is still in vogue in Soviet Russia. In the most pleasant terms available, this system is sometimes referred to by its advocates as "a strong centralized government." Call it what you choose, it leads through the paths of economic dependence to political dependence and eventually to the imposition of the will of a dictator and his appointees upon all citizens. Except in periods of grave national crisis, planned production, regulated wages and employment, controlled prices, allocation of products, are definitely not the earmarks of a competitive industry, a free people, or a representative republic.

Benjamin F. Fairless

Where, in such a system, is there a place for self-reliance, ambition, or the opportunity to advance by dint of hard work and intelligent thinking? Surely the spirit of the individual American has not yet deteriorated to the point at which he foresakes all personal rights and looks to the government to do everything. "Security from the cradle to the grave" is not an ideal which inspires men and women to accomplishment nor is it readily compatible with the idea of independence. It is a poor exchange for the chance to use the trained right arm and the disciplined mind in an effort to excel.

What has been said of the individual may be said of groups of individuals operating as units in various fields of our nation-wide activity. We refer here particularly to industry, for it falls to the lot of many of us, in a country of the size and importance of our own, to be concerned with industrial pursuits. It goes without saying that the United States of America if she is to hold up her head and maintain her rightful position in world affairs, must be equipped with a full quota of strong, well organized, efficient and progressive industries. The welfare of our people in peacetime calls for just that. The crucial demands of wartime make such provisions indispensable. We have right well learned in recent years that the

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*An address by Mr. Fairless at the Summit County Safety Council of Akron Chamber of Commerce, Akron, O., March 17, 1948.

Capital Malnutrition in Stock Market

By ALDEN RICE WELLS

Vice-President and General Manager,
J. H. Goddard & Co., Inc., Boston

Commenting on dearth of equity capital despite $100 billion increase in money supply, Mr. Wells lays blame to present tax system and lack of investor confidence in corporation management. Says inflation has caused widespread dissipation of large part of existing capital, which must be replenished and enlarged, and, for this reason, management will again seek to promote interests of investor in order to attract capital. Sees need of restoring investors' share of national income and concludes investor can look forward to solid profits which tempt him to invest money. Looks for high levels for security prices.

The Dow-Jones Industrial Average declined to 163.12 on Oct. 9, 1946, 163.55 on Nov. 22, 1946, 163.21 on May 17, 1947, and 165.65 on Feb. 10, 1948. Volume of trading grew progressively smaller on each decline. At present disinterest characterizes the investor and dullness the market. This together with other technical factors, could be built up into a good case for a resumption of the boom. The same set of facts could also prove to those so inclined that we are in a bear market with considerable further declines in the offing. Such technical analyses of market action are interesting, but have a taint of the amateur when pushed too far.

Alden R. Wells

For 18 months the stock market has, however, traveled in a straight line, adding with each month to the probability of a change one way or the other. The establishment of a new trend either way must come from a set of circumstances that were not in the picture during this indeterminate phase or at least not considered important. Selecting these circumstances and giving them their proper weight is the most difficult of all analytical problems. For instance, it is obivous that the general opinion of statistical services, market letters, and financial papers as to the dominant factors involved must be wrong. Otherwise the market would not be where it is at any given time, but higher or lower according to those analyses.

The record demonstrates this clearly. Did the various services in 1929 see 1932? In 1932 was a five year inflationary boom foreseen? In 1937 was the collapse anticipated? At no time has the next economic phase been correctly interpreted by majority opinion. So recent an example as the generally erroneous business, commodity and stock market forecast for 1947 proves that the general business opinion reflects the current status or recent past only.

The equipment necessary to an accurate interpretation of the future must include thorough skepticism of prevailing comment, and an ability to get at essentials. This equipment doesn't guarantee success, because although skepticism is easy, a knowledge of essentials is probably the rarest form of knowledge. However, without both factors failure is certain.

One basic fact of economic life is that management with more than average success in earning profits for the stockholders will

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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 25, 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.

Why Discrimination Against Securities?

By JOHN DUTTON

Citing margin restrictions and other impediments as discrimination against securities in investment field, Mr. Dutton urges Congressmen be appealed to by those interested in securities business to open up former traditional financing and banking facilities to owners of securities

This is a little story about how a friend of ours ALMOST made an investment in a piece of real estate. There is a point in it which can be applied to the security business . . . in fact, there are several of them. The other evening while visiting at his home this friend told me that he had heard of a piece of rental property that he could purchase for $28,000. The cash down payment involved an immediate outlay of approximately $8,000, and the balance on mortgage at a 5% rate and a 3% amortization. Suffice to say he did not buy it, because after investigation the purported gross income of $2,000 per annum, although appearing large on the surface, was more than offset by the high charges for heating the property and other possible involvements. After a detailed summary of the pros and cons of the matter my friend said to me, "You know, I was disappointed that this deal didn't look nearly as good after I investigated it as it did on the surface. After all, I've got one idea and that is MONEY IS ONLY GOOD FOR WHAT IT WILL EARN FOR YOU, AND IF YOU CAN'T PUT IT TO WORK WHY HAVE IT?"

I couldn't help but remember that remark. It is a good one—because it is the truth. Everybody understands that kind of talk. It is something you can say to your customers the next time you want to talk about investment. But more important is the thought behind what this investor was trying to do. Despite the hazards and restrictions imposed by rent control laws, and other governmental regulations regarding rental property, the very enticing financing arrangements that could be completed were the compelling reasons why this proposition was at least attractive on the surface. Here was an opportunity to buy income producing real-estate on a 25% margin. You're right . . . where does that lead those of us who are in the securities business?

Can you imagine how attractive certain common stocks would be that are now selling on such a generous income basis if we could offer them on a financing parity that is competitive with other forms of investment? Why not unfreeze securities and restore their collateral value? Why not the same margin requirements on securities as upon real estate? Or upon commodities . . . are they a less riskless form of investment than securities?—we doubt it. They never were in the past and are not today at the inflated prices which prevail—yet you can obtain 65% of the market value of commodities for loan purposes but you must put up 75% cash if you desire to invest in stocks. Why this discrimination against securities? Could it be that our New Deal officials in the Federal Reserve, the Treasury Department and the Securities and Exchange Commission believe it is still good politics to hog-tie Wall Street? Do they still believe they can put a rope around the neck of the millions of people who own stocks and bonds in this country without finally choking off completely the flow of venture capital into industry? They have almost killed this vital supply of venture capital as it is—do they want absolute socialism in this country? Mr. Truman himself recently prated about the need for something like $50 billions of new capital in industry during the next five years. What I would like to know is —where does he think it is going to come from—the printing press?

This isn't funny—it is a deadly serious business. This is something the various existing associations in our industry could get to work on right now if they really wanted to do something constructive for their business and their country. The NASD and the SEC won't help the securities industry

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American Participation in European Recovery

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

Leading industrialist urges aid in European recovery based on acceptance of fact that only real threat to peace of the world is aggressive, belligerent Russia. Says trend toward Statism should be arrested as basis for European recovery, and world should return to honest monetary practices and free exchange rates. Urges enlisting skilled management outside field of bureaucracy in administration of aid program.

Economic problems, as you gentlemen very well know, resolve themselves very quickly into practical problems of production and distribution; however, these economic problems may lie generally in the fields of food, clothing, shelter, fuel or transportation. Furthermore, economic problems in the international field resolve themselves immediately into problems of production and distribution, the practical means for whatever we might consider doing about feeding starving people, or keeping them from freezing to death, or encouraging them to get up from the slough of despond and help themselves.

James D. Mooney

I say now that your officers have taken considerable risk in asking an engineer like me, or you, to discuss these problems. We have spent our lives in solving such production and distribution problems, but during the past twenty years it has become fashionable to exclude men like you and me from taking a hand in providing the solutions for economic problems, particularly if they lie in the international field. The idea seems to be that engineers are all right for making war—the country needs engineers for the mass production of ships and planes and guns and ammunition. The country also needs engineers for the use and maintenance of these weapons in the field of military operations, where modern warfare expresses itself in the mass destruction of the enemy's army and navy, and even his civilian population.

But when peace comes, the engineer is shoved aside, in spite of the huge reconstruction problems that present themselves, and in spite of the fact that the engineer, by training and temperament, is more at home in these construction problems, these economic problems, these problems of production and distribution, than he is in the field of war.

The engineer has been shoved aside by the politicians and their satellites, men lustful for power and mumblers of ideological abracadabras.

Accordingly, I am very grateful to your officers who have asked me to make some practical observations on European recovery and some suggestions for American participation in European recovery.

I have had many years of experience in the production and distribution of automobiles in Europe, but I want to make it quite clear that I haven't any quick or ready or smart answers to the infinite variety of complicated political and economic problems over there. On the other hand, in the light of this same experience, I do think it about time for us Americans to agree on certain principles that should guide our participation in European recovery.

My purpose tonight, then, is to identify these principles as a guide to the difficult road that lies ahead.

We Are Ready to Help

I think we can begin by agreeing that we are ready in America to sacrifice deeply, to take a lot of skin off our own comfortable hides, in order to contribute generously to European recovery.

We are ready to feed the hungry of Europe.

We are ready to supply Europeans with the machinery and equipment and technical knowhow to reconstruct their production facilities.

We are ready to help them with their railroad and highway transportation equipment in order to put their distribution systems in better physical condition.

We are ready to supply or finance the supply of raw materials they need in Europe to feed their production facilities.

So much for what we are ready to do.

An Identification of Principles For Help

Now, I want to identify some of the principles and conditions under which we should help Europe, or any other part of the world.

First, in anything we do, we should assume that we Americans have a right and an obligation to guard our own country's long-term enlightened self-interest. An oldfashioned, homely, way of putting this is, "Charity begins at home."

Second, it is about time for us to drop the use of such threadbare ideological terms as Communism, Fascism, and Socialism, and deal with the international situation in terms of practical power politics. It is about time for us to play ball with the various countries and political power groups who have shown their readiness to play ball with us.

Third, it is a natural corollary of my second point that our occupation forces overseas, whether they are to be considered in Europe or in the Far East, should be maintained only from a strategic military standpoint, and not at all for the purposes of ideology, like making the Germans or Japanese democratic. The American taxpayer is much too "busted" to be able to afford any longer the support of such foolish ideological ventures.

The Road to Peace

Fourth, the road to peace during the next several years logically follows the course of our effectively encouraging the development of the production and military strength of the Western Powers and the political coherence of these Western Powers. In other words, the road to peace lies in the following direction:

(a) Our maintaining our own production and military strength.

(b) Our assisting our traditional ally, England, and the British Empire to reconstruct their production and military strength.

(c) Our working with the British to reestablish France within the hegemony of Western powers.

(d) Our working with the British and French to reestablish German production for the benefit of Western Europe and the British Isles.

So much for the political frame within which we should participate in European recovery.

The frame, as you see, is designed for peace. It is based on practical power politics, and on the recognition of the obvious fact that the only real threat to our own American peace and the peace of the world today is aggressive, belligerent Russia.

Arrest the Trend Toward Statism

Next, I want to make to you a recommendation in the field of economics for European and world recovery. This recommendation again will be aimed at insuring world peace, and will be based on the recognition of the value of relieving the economic tensions throughout the world. Wars and revolutions are caused principally by hungry bellies.

Before pitching into this recommendation, I want to remind you that most of the countries in Europe, and as a matter of fact, most of the countries in the world, are operating their economies, their production and distribution schemes, their uses of money, with a high degree of state control. You may call it Communism or Socialism or Fascism, or New Dealism, according to your mood.

The ideological boys began beating the drums for Statism shortly after World War I, and

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*An address by Mr. Mooney before the Society of Tool Engineers, Cleveland, Ohio, March 18, 1948.

World Price Trends and the Economic Picture

By A. W. ZELOMEK*
Economist, International Statistical Bureau, Inc., and Fairchild Publications

Commenting on effects of war scare and war preparation on price trends, Mr. Zelomek holds, though war is not imminent, defense spending may lead to temporary higher prices. Says chance of ultimate gradual readjustment from postwar inflation is growing smaller, and concludes too much is being produced at too high a price, and "we will not be safe until situation has been corrected."

This is a timely meeting. The current war scare will change the recent trend in many markets, at least temporarily, and it is necessary to check and recheck viewpoints that seemed reasonable enough only a week ago. It is plain that the political factor, foreign and domestic, will have more than its usual importance in this year's business trend.

A. W. Zelomek

The big question in our minds at the moment is how and to what extent this latest development will change the present business trend.

There is no doubt that it will have a strong effect on some prices. But will this be temporary? Or must we prepare for another year or more of inflation, accompanied this time by drastic controls? Will the pickup in psychology be followed by another and more serious letdown within two or three months? Or will the events it anticipates, a major increase in defense spending, push the top-heavy business trend upward again for an indefinite period? These are the questions that we must investigate.

I wish I could promise you a definite, accurate answer. But simple honesty compels me to point out that no one, from the President and Secretary Marshall down, knows the answers. I say this because I know you are going to be listening to news commentators, and you are going to be reading all sorts of confidential Washington reports. And in all of these you will be reading what might be called a military point of view — Be ready for war by September.

Now, at this point we must stop and begin to make our own guesses. As I see it, we must ask ourselves two questions. The first one is fundamental: Is war imminent?

We are dealing with guesswork, but that is no reason we must forsake logic. Let us look at this question, one step at a time.

First, will we declare war on Russia? To ask that question, I believe, is to answer it. We have our national tradition to draw upon, which tells us that the United States enters upon wars only after the most serious provocations, involving more or less direct attacks on United States shipping, outposts or other territory. There is no one man in the United States that can declare war on a foreign power.

Secondly, will United States forces abroad—in Italy, for example—create an incident that will lead to war? Let us assume that extreme possibility. Let us assume that there are men, perhaps many men, in our military command, who believe with sincere conviction that it is better to fight a war now than 10 years from now. Let us assume that these men, in a burst of sincere patriotism, create an incident intended to cause war. Will the affronted nation treat it as such?

That, of course, is almost the same as asking whether Russia will attack the United States.

Again we are guessing. But I believe firmly, with a deep conviction, that the answer to this, now and for the foreseeable future, is a categorical no. Russia is not ready for war; does not expect war; believes in fact, that war can be avoided for an indefinite period.

War Not Imminent

You may think it preposterous that I should make such statements about Russia. How do I know what goes on behind the iron curtain? How does anyone know? Gentlemen, I assure you that a great deal of information comes out from behind the iron curtain. It is not the subject of this talk to dwell on the position of Russia. But I assure you that it is a question that no well informed person can ignore, and that my own organization gives it a great deal of consideration. I repeat: *War is not imminent.*

Actually, however, the answers to the economic questions posed earlier depend less on this prospect than on another. I believe I am being accurate and realistic when I express the view that war between the United States and Russia is not imminent. But that does not necessarily mean that we will not enlarge our defense spending. It does not necessarily mean that the trend of business activity will follow a normal peacetime course. It does not necessarily mean that the pickup in many markets, evident since the President's address, will last for only a month or two. It does not necessarily mean, gentlemen, that you are safe in continuing your previous policies of operation, which in most cases had become very conservative.

Let us examine these possibilities in a little greater detail.

It is best to start with the facts, and the facts of greatest importance are these:

(1) Our armaments and foreign program is already an enormous one. It has been for at least a full year. Federal expenditures for defense and foreign aid have been, and still are, running at a rate of about $17 billion a year.

(2) Nevertheless, with this program in full blast, a distinct softening in prices and business activity has been in progress since the beginning of the year.

Those facts are significant. I believe they justify a definite conclusion about business prospects. That conclusion is as follows:

The present war scare has been developing for some time. Before the President's talk crystallized these fears, the price trend was in the gradual process of adjusting from an inflationary to a deflationary trend. This was the basic pattern.

A New Pattern

Now the basic pattern has been distorted, or partially concealed, by what businessmen believe, or fear, will happen as a result of the international pattern. I do not

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*An address by Mr. Zelomek before the Purchasing Agents Association of Connecticut, Bridgeport, Conn., March 23, 1948.

The State of Trade and Industry

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

Total industrial production showed signs of tapering off in the week just passed, though output of most goods held slightly above the level prevailing in the similar week of 1947.

Scattered lay-offs were reported in some lines, but over-all employment and payrolls were sustained at a high level. There was a noticeable increase in labor-management disputes in some industries, but strike shutdowns had little effect on total output.

Bituminous coal production schedules were reduced last week by a strike which involved nearly half of the nation's soft coal miners. The output of bituminous coal for the week ended March 13, amounted to 13,300,000 tons, 2% above the level of the preceding week.

Bituminous coal production following the walkout in the mines on Monday last week declined the past week to about 2,500,000 tons, the National Coal Association reported. The week prior to the strike production was placed at 13,314,000 tons.

Reviewing the week's developments the industry bulletin of the Association noted that some steel companies are beginning to curtail their activities and some blast furnaces are being shut down.

The bulletin also reported that railroads are laying off employees because of the lack of coal traffic and that there is some talk of the Secretary of the Interior trying to find some method of allocating what coal may be available, "which, of course," it added, "is a very small amount."

On Monday of this week the Commerce Department announced a ban on all exports of bituminous coal effective at 12.01 a.m. on Monday and the Office of Defense Transportation, effective at the same time, ordered passenger service on trains using coal-burning locomotives to be cut by 25%.

Directing attention to the slight effect of the coal walkout to date, the American Iron & Steel Institute stated it was not prepared to say how soon the coal dearth would be felt on a major scale since reporting companies did not give detailed figures on their coal supplies.

In the meat packing industry a strike of 100,000 workers at 140 meat packing houses throughout the country cut meat production in half, it was reported.

* * * *

Figures on industrial employment for the month of February record a decline of 275,000 workers, the Bureau of Labor Statistics reports. In the month of January 42,700,000 workers were employed in non-farming jobs in the United States.

Lower employment was attributed by the Bureau to the severe weather with construction workers and auto workers in Detroit accounting for most of those laid off.

Notwithstanding February's price uncertainties there were no significant signs of weakness in employment according to the Bureau. In early March pre-Easter expansion in textile and apparel industries raised employment to record levels in these fields.

* * * *

A slight rise in retail dollar volume resulted from the increased consumer interest in Spring and Easter promotions. The dollar volume of consumer purchasing was slightly above the level of the corresponding week a year ago. Many shoppers were attracted to displays of Easter novelties and confectionery and orders for flowers increased somewhat.

Wholesale dollar volume decreased slightly during the period ended on Wednesday of last week, but was somewhat above the level of the similar week of 1947. Moderate orders were booked for most types of merchandise with current deliveries requested. Buyers continued to be cautious and stressed quality.

STEEL OUTPUT SCHEDULED AT LOWER RATE DUE TO COAL STRIKE

The current coal strike is far more serious than either the public or the government realizes. The apathy of those who are supposed to be interested in the country's economy is misleading, according to "The Iron Age," national metalworking weekly in its current report on the steel industry.

Steel firms are keeping output up this week in the hope that the coal tieup will not last long, but there have been no indications this week that the miners would be back in the pits soon, the magazine states.

The coal impasse has overshadowed the coming steel wage talks and the tempers of coal operators and Mr. Lewis indicate a bitter tussle. By the time steel and labor sit down at the bargaining table around April 6, output may be sagging sharply. But since steel labor has a no-strike clause and because it believes it will get a moderate increase, negotiations are expected to last until the 11th hour. Each side will have voluminous arguments in favor of its stand, but steel labor will not strike this year, this trade authority adds.

Steel sales offices in all districts covered by "The Iron Age" show that pressure is on for steel deliveries. It is also clear that there have been no signs of a leveling off in the regular steel market.

A close check of the gray market bears out an "Iron Age" report of two weeks ago that the super market was cracked up. Even in the face of anticipated further steel shortages because of the coal strike, high prices prevalent a month ago are out the window.

There are this week no signs that inventories of steel customers are of a size to frighten anyone. In most cases "Iron Age" editors find that steel customers could use more.

Since the supply of coke has been a bottleneck to the use of greater steel ingot capacity the coal impasse has threatened for the time being the full use of the industry's capacity.

The cold shoulder which the freight car industry and the farm implement people have given the steel voluntary allocation plan is the best news the steel industry has had since its ears have been battered on other matters. But, concludes "The Iron Age," the oil

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Observations . . . .

By A. WILFRED MAY

THE COLD WAR OF WORDS
IN WHICH WE ARM OUR OPPONENT

UNITED NATIONS, LAKE SUCCESS, N. Y.—A few hours' attendance at the Security Council these days reveals vividly and clearly the tragic extent of the deterioration of international relationships. As far as the UN itself is concerned, the speed of that body's resultant collapse is surprising even to those non-wishfully thinking realists who viewed with alarm its founding at the San Francisco Conference.

A. Wilfred May

In fact the present "new look" of the Security Council creates strong doubt in this observer as to the net gain from continuance of the Organization's proceedings under its present set-up. The *apologia* has been frequently made that it has served as a device at least to keep the nations on speaking terms. But it now is obvious that to the Soviet Union, far from signifying a big opportunity for the pooling of ideas, it is merely a fine rostrum for the public dissemination of the Kremlin's own blasphemous and obscene propaganda. Through its press and radio facilities (not to speak of the school children and club-women in physical attendance) the UN gives propaganda an unprecedented breadth of distribution under a cover of authenticity and legitimacy. From 1937-1944 the Hitler-Goebbels team presumably footed some expenses for its diatribings from the Berlin Sportpalast. The present Communists' propagandists in contrast, are getting the use of a sounding-board which is more effective and "on the house." In fact, under an agreement ceremoniously signed this week, the United States as the butt of their attacks has actually agreed to put up the $65 million to erect even more beautiful and efficient facilities right in New York City for the transmission of the Communist line by "Delegate" Gromyko and his assistants!

The Blasphemy Is Now Routine

Possibly the significant high-spot of this week's Security Council proceedings was the routine ruling by Dr. Tsiang, as its President, that the Soviet and Ukranian representatives' degrading epithets against their fellow-men "did not go below the standard *one expects to hear* in the Security Council"!

Some of these expressions in 1948 diplomacy-from-the-East (as noted by this observer in long-hand) were that Chile in asking for an explanation of the Czecho-Slovakian events was "dirty, slanderous, utterly lying, purely demagogic" and acting as "the puppet of Wall Street [pronounced 'Vall Street-a' by Mr. Gromyko in his untranslated Russian version of his 110-minute diatribe]"; that the Western Powers are "tuberculous blackmailers"; that the United States is a nation of "cowboys, bribers, doormen, and taxi-drivers"; that our foreign-policy-making government officials are "liars, using propaganda from the garbage-can of Goebbels"; that (a la the Wallace-mouthed line) the poor people of Prague were barely able to forestall a Rightist coup which had made Czech officials the "agents of Wall Street sharks—an institution for war profits and boundless greed."

Somehow the broadcast propaganda of Mr. Hitler seemed more plausible and justified than the current clearly fantastic ravings of Mr. Gromyko—possibly because the recognizedly intelligent Gromyko obviously cannot believe the line he is repeating; and possibly also because the German's appeal for *Lebensraum* had more plausibility than do the territory-bursting Kremlin's masochistic charges.

Presumption of Wallace's Sanity Increased

An ancillary benefit to Mr. Wallace from the Soviet delegate's performance is that they somewhat free our former Vice-President from the plausible charges of insanity which have recently been brought against him; since we must realize that his bewildering misstatements have after all not been his own fantasies, but a uniform *line* simultaneously delivered in different places and languages, and no matter how irrelevant to the Marshall Plan, Czecho-Slovakia; or America's Presidency, rent control, civil rights, or tax policy. In fact, it is no exaggeration to say that it is sometimes surprising to identify Gromyko instead of Wallace as the individual behind the loud-speaker in the UN's Council Chamber.

* * * *

A Democratic Nation in the United Nations

The perversion of the UN and the futility of our position reflect the general diplomatic weaknesses which are being increasingly revealed as endemic to those Powers operating under the really democratic form of government.

In their foreign policy, democratic governments operating in a fish-bowl of publicity and responsibility to their electorate, cannot afford to make mistakes. The prime example, of course, is President Truman's grand error of last November in his decision to effect the

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Shober Elects Directors

PHILADELPHIA, PA.—E. W. Shober & Co., Inc., 1531 Locust Street, members of the National Association of Securities Dealers, Inc., announce the election of E. Judson Griswold, Vice President, and Samuel K. Reeves, Secretary, as directors of the firm.

Smith, Barney Has New Telephone Numbers

Effective March 29th, the telephone number of Smith, Barney & Co.'s main office, 14 Wall Street, New York City, will be changed to Worth 4-3200. The telephone number of their corporate trading department has been changed to Worth 4-3626.

Whose Money Market?

By RAYMOND RODGERS*
Professor of Banking, New York University

In describing evolution of money market, Prof. Rodgers stresses influence on its status exerted by monetary authorities in recent years. Says policy of credit control amounts to steering a ship between Scylla of lower bond prices and Charybdis of higher commodity prices, thus indicating conflicting character of present day money market pressures. Holds, when deflation sets in, problem will be reversed so as to keep government bond prices down and commodity prices up. Sees trend of Federal Reserve to acquisition of long-term bonds while reducing holding of short-term issues. Concludes price level has reached peak.

The reaction of many bankers to recent money market developments reminds me of the mental attitude of a vigorous, healthy man of 50 who suffers a slight heart attack and promptly becomes a confirmed hypochondriac. As long as he didn't know that he had a heart, he didn't worry about it. After it is too late to do anything about it, he becomes extremely heart-conscious and permits this over-solicitude to cloud his entire existence and shorten his days.

Raymond Rodgers

Not so long ago as history runs, the money market was a great mystery, even to bankers. Very few bankers had a clear idea as to what was meant by the term, money market. Most bankers who did take the time to ponder the meaning of the term quickly reached the conclusion that the money market was the private preserve of four or five of the large New York City banks and thus was of no immediate and direct concern to the thousands of other banks in the country. The result was that the rank and file of American bankers did not concern themselves with the money market. In fact, they were hardly conscious of its existence.

Despite widespread ignorance of its functions and operations and general apathy as to its importance, the money market like the fictional Topsy in Uncle Tom's Cabin, "jes growed." Its supposedly esoteric character faded as wealth accumulated and individuals, as well as more and more bankers, began to participate in money market transactions on a growing scale. But even then, the money market was still viewed as something quite apart from the ordinary run of commerical bank activities. Even after it had become larger and more important than the London market, it was still thought of, even by some bankers, as a sort of exclusive financial circle, admission to which was limited to those who had transactions involving millions at extremely low interest rates.

Federal Government in Money Market

In the thirties, the Federal government moved into the money market. The Treasury discovered that **here was an unfailing source of an enormous volume of funds, or credit, which would be borrowed at extremely low short-term rates and which, by the simple device of a succession of short-term security issues, could be placed, as a practical matter, on a permanent, capital basis.**

When World War II descended on us from the Jap bombers, the government path to the money market was already a well-beaten one. It was but another and a short step for the government, as a practical matter, to take over the money market. Throughout World War II, the Treasury and the government monetary authorities completely dominated the money market. In sharp contrast with other wars in which short-term borrowing was relatively little used, in World War II billions and billions were borrowed through the money market, at incredibly low rates. The enormous amounts borrowed and the unbelievably low rates which were established, eventually convinced even the most skeptical die-hards that the government could do exactly what it wanted with money market rates, without any difficulty whatsoever. Many of the erstwhile "doubting Thomases" became so convinced of the absolute character of government control that they soon began to ascribe economic powers of an omnipotent character to the money market managers. It became a

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*An address by Prof. Rodgers at the Annual Reunion of the Graduate School of Banking of the American Bankers Association, New York City, March 20, 1948.

No Grounds for Stock Market Pessimism!

By N. LEONARD JARVIS*
Hayden, Stone & Co.
President, Association of Customers' Brokers

Asserting nation has been wearing dark glasses, and pessimism has been overdone, Mr. Jarvis lists various underlying factors in business picture, which indicate fundamentals are healthier than is generally supposed.

For the past 18 or more months the nation has been wearing dark glasses. Fears of a price collapse such as followed World War I; the high break-even point in industry incident to increased costs, particularly wages; burdensome and inept taxes; an advancing pattern of money rates combined with other controls designed to limit credit expansion and an acute foreign political and financial situation—these and many others have been influencing factors. Naturally, this outlook has been reflected by the great American psychological barometer, the course of prices over the New York Stock Exchange and the New York Curb Exchange.

N. Leonard Jarvis

Lest we in the Street, who are always more or less at the vortex of this nationwide activity, be unduly influenced by surface appearances, let me point out some underlying factors in the existing picture. For one thing, time, itself, is Nature's great physician. The business picture, for instance, if surveyed industry by industry, will indicate many favorable readjustments over the past year and a half. The air transport companies, for illustration, have done a remarkable job in lowering their pay-load point. Merchandisers have largely eliminated substandard war inventories. The motion picture producers are making herculean efforts to reduce costs. Steel is coming into greater supply, thereby easing the material shortages of many processors. And so on throughout.

Combined with these various positive industry correctives is a continuing large backlog of demand for heavy goods arising from war shortages and a credit situation in which no large element of speculation is to be discerned. Furthermore, business has shown unusual ability in holding down prices, the increase since just before the war in non-agricultural products being about half the percentage figure for World War I. Productivity of the worker has commenced to increase; while the Taft-Hartley Act has put some stability into labor relationships, despite threatened strikes here and there. Lastly, our legislators are being awakened to the paralyzing effect of certain tax practices on business expansion and action to ameliorate this situation may be seen. The great work performed by our Tax Committee under the able leadership of Tom Meek is a case in point, and I feel confident that our efforts will not be in vain. I do not expect too much in the way of results in 1948, being a Presidential year, but the groundwork which we are doing should see results in 1949.

In brief, it seems to me that the fundamentals are healthier than is generally supposed, suggesting that if pessimism becomes overdone in the securities markets 1948 may, in retrospect, have proved a year of opportunity, planning for a happier and more profitable future, rather than the reverse.

My word of caution is, therefore—do not be engulfed in the wave of pessimism now sweeping the country.

*A talk by Mr. Jarvis at the regular quarterly meeting of the Association of Customers' Brokers, New York City, March 17, 1948.

Table Issued for Determining Return on Fixed Int. or Div. Securities

Union Securities Corporation, 65 Broadway, New York 6, N. Y., has prepared an unique yield reference table which makes available at a glance the current return on fixed interest or dividend securities carrying rates from 3.15% to 8% and selling at prices ranging from 60 to 120. The 1-page yield table lists 61 different dividend rates or coupons and fills a need created by the growing number of unusual rates placed on new securities under competitive bidding. Standard yield books, for instance, do not carry the yields on such fixed rates as 4.32%, 4.48%, 4.88%, 5.45%, etc.

W. C. Knef & Co. Formed; N. Y. Curb Member Firm

W. C. Knef & Co., members of the New York Curb Exchange, has been formed with offices at 25 Broad Street, New York City, to engage in the securities business. Partners are William C. Knef and Michael Horowitz, both Curb members, and Joy M. Shelare. Mr. Horowitz was formerly active as an individual Curb floor broker. Mr. Knef was a partner in Herbert E. Stern & Co.

With Atwill & Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, FLA.—Howard J. Doehla is with Atwill and Company, 605 Lincoln Road.

From Washington Ahead of the News

By CARLISLE BARGERON

The Democrats having been definitely disposed of, this far in advance not only of the nominating convention, but next November's election, the agitation will now center largely around the Republican nominee. Ordinarily you would think this agitation would be confined to the Republicans which would make it hot enough, but you are going to find just about as much excitement and finagling among the New Deal wing of the Democratic party.

Carlisle Bargeron

The matter of their electing their own party's candidate having gone completely out the window, it is of vital concern to the New Dealers whom the Republicans nominate. Until mid-June the hardest job on the Republicans' hands will be to name their own man.

To men like Senators Walter George and Harry Byrd, whatever the Republicans do will be of slightly more than passing interest. But to men like Leon Henderson, Tommy Corcoran, Sam Rosenman, Paul Porter, it will mean everything. The determination of these so-called Liberals and the so-called Liberal group runs, in many instances, so close to the Wallace border that they have to have identifying arm bands to mark them apart, and their objective is to get a Republican who will "save something of the New Deal," and by that is meant, save something for them.

Eisenhower was their man. They knew little and cared less about any political philosophy he may have. He is one of the Washington crowd that has ruled for the past 15 years. They have run with him, played golf with him, sipped highballs and dined with him. They were all a part of the hush hush doings, adventurous and gay, of the war period.

They have quite a school tie. They have all had so much fun and been so easy-going and carefree that frankly I shall miss them after next January.

Anyway, the crowd of which Eisenhower has been a part, figured and not unreasonably, that they could completely take him over once the Republicans nominated him. What could be more likely than that Eisenhower finding himself suddenly in the Presidency and with no Republican party ties, should turn to them as the nucleus of his administration?

Presumably, the general is now out. The one to whom the "Liberals" now intend to give the ride is Senator Arthur Vandenberg. This man is to get a Willkie-like build up in the next several weeks. He is the one whom the Republican regulars have come to fear.

It is strange the Republican regulars should feel this way about the Vandenberg boom. He is a Republican. There is not the slightest trace of the Left in him. What annoys them; in fact, what makes them indignant about his boom, is its source. It comes from the Liberal-internationalist intelligentsia crowd, and is not based on his Republicanism at all. It is not based on his attitude towards domestic affairs.

It is grounded strictly on the assumption that his election would mean no change in the international spree in which we have been indulging and the least change in the personnel that has been riding the gravy train. It is felt that Vandenberg would make fewer changes in the outer Washington Bureaucracy than any other man the Republicans might nominate. He would cause but a minimum of disturbance that usually accompanies a shift in administrations.

When he sought the Republican nomination in 1940, one of his greatest talking points was that he got along well with the Senate Democrats. In that year, the Democrats seemed to have control of the Senate clinched regardless of whether the Republicans captured the Presidency and it was a part of their propaganda that this would be an intolerable situation.

Since that time Vandenberg's clubability has grown to the point where he, himself, tells friends that he has completely lost his partisanship. It might be said, too, that his cynicism, developed in his newspaper career, has immeasurably increased.

I doubt seriously that he has any depth of feeling that the Marshall Plan, has any logic about it, or that he believed the United Nations would work when he sponsored it. He became pretty completely disillusioned about people in the mass and political forces when this country went into a European war the second time in his life, and, in my opinion, decided that the easier course was to go along with the pack. Being a man of ability he has risen to the top of that pack and enjoyed an acclaim and prestige that he would not have attained otherwise. I imagine he laughs to himself about the high pinnacle of statesmanship to which the internationalist propaganda has lifted him.

I imagine he will secretly laugh a lot now over his Presidential boom. He wanted the office once, but he really doesn't want it now. Because the laziness which possessed him to take the easier course of the international statesman is still with him and he has seen so much of and associated with so many "big" men and world statesmen that he has even become cynical of the high honors that the people are credited with bestowing.

He has frequently said privately that he couldn't make a campaign against his old Senate friend, Harry Truman. Certainly Truman couldn't make one against him.

That is what those mostly behind his boom want—a namby pamby campaign with none of the issues discussed, especially the foreign policy, and with the same jovial comraderie in Washington after the campaign is over. This is, of course, extremely annoying to those Republicans who want to cut out the nonsense, the government by crisis and to clean house.

Is Salesmanship Essential to Distribute Securities?

By DOUGLAS LAIRD

Vice-President, National Securities & Research Corporation

Holding salesmanship is essential to distribution, even in case of U. S. Government bonds, Mr. Laird points out function of selling is to create desire to buy, the greatest factor in maintaining business activity under free enterprise system. Defines salesmanship as "making a successful appeal to the mind and the heart," and asserts, without proper salesmanship, the finest product could be outsold by inferior competitors. Urges salesmen to consider clients' welfare ahead of their own earnings, and concludes, in salesmanship, there is no substitute for work.

Thirty-five years ago I started selling, and just 28 years ago after getting through with World War I, I began selling securities. I am probably more interested in salesmanship, however, than I am in securities. I have never been an analyst, a trader, or a broker.

Douglas Laird

I know but very little about securities, just enough to be very tolerant in recognizing the problems of investment managers. I sincerely believe that it is much easier to *sell* securities than to tell what their future price movements are going to be. In fact, I am always a little bit amazed and even dismayed that so many securities salesmen purposely complicate their selling job with the art of prophecy. I've never heard of a crystal ball, ouija board, or forecasting system that is sufficiently dependable for us to use. I just wish it were possible, or at least easier, to sell securities without getting so involved in market prophecy.

I was asked to give a title to my talk tonight and I chose "Is Salesmanship Essential to Distribute Securities?" My answer to this question is a most emphatic *yes*.

I'm going to prove this very quickly and very easily; then we can move on to some of the more interesting conditions and rules that have an important bearing on our degree of success as salesmen.

My proof that salesmanship is essential in the distribution of securities is to remind you of the quantity and quality of effort used to sell the soundest, safest, and best security in all the world—I refer to bonds of the United States Government. Never in all my experience in the sale of securities have I witnessed such diversity of devices or methods used to aid the sale of a security. The character of the security is beyond question, yet some of the methods used to sell it would have put any other distributor or sponsor behind the eight ball.

Here are just a few of the methods employed to sell E., F. & G. bonds to the masses:

(1) Uncontrolled newspaper and radio advertising.

(2) Millions of dollars worth of *free* advertising paid for by banks, investment firms, and manufacturing companies as patriotic contributions.

(3) Bank account monthly deductions.

(4) Payroll deductions—almost made a condition of employment by many employers.

(5) Direct mail advertising—beautifully prepared and illustrated booklets and folders pointing out the advantages only of buying U. S. bonds.

(6) Bond rallies and auctions; these sales meetings were frequently pepped up with bands and radio and stage stars. Merchandise or favors were auctioned off to the largest buyers of bonds. Sometimes these big public buyers liquidated their bonds promptly after receiving them. They had accomplished the purpose of influencing others to buy.

(7) Still another method was for radio prizes, veterans bonuses and salary bonuses to be paid in War bonds.

(8) Last and not least was the magnificent job done by investment dealers and salesmen, who sold hundreds and hundreds of millions of dollars worth of bonds without any compensation and not too much recognition.

There were other methods employed but I have mentioned the most important ones; and, incidentally, a few of these methods are still in force.

Why Salesmanship Is Necessary

Now the question rightfully comes up, if these bonds are as safe and desirable as I have indicated, why was it necessary to use these unusual methods? Why could not the bonds be distributed in the customary manner for such securities? The answer is simple; the usual buyers of such risks have just so much money to invest and the supply of bonds was greatly in excess of the possible demand by regular customers. New customers or clients had to be found—a tremendous new market had to be developed, and, like any other seller of goods or services, in the same position, the answer lay in a strong advertising and sales campaign. The government has almost unlimited resources and powers available to it and is not hampered and harassed by bureaus within its own body. The bonds are sold on the safety of the dollar itself and the compounding of interest. The declining value of the bonds in terms of purchasing power and living costs was not discussed.

All this merely illustrates that the maximum of sales and advertising devices were employed to sell these—*safest of all bonds*. This is the important thing to you and me as cogs in the important machinery of security distribution.

Presumably we are still a country committed to free enterprise. This means that our great corporations so terribly important to our peace time and war time economies must look to the average man for additional capital. It also means that the almost equally important new ventures are expected to find their capital in free markets supported by the savings from wages and salaries of American citizens who believe in the American Way.

Maybe I've belabored the point, but I do want to make it very clear that I believe that salesmanship is essential to distribute securities of any kind. I know that if goods or services were sold only because someone made a beaten path to one's door, we would have few great companies and a much lower standard of living. America is the greatest nation in the world for a number of reasons among which are its salesmen—the men on the firing line who have made us *desire* automobiles, radios, refrigerators, washing machines, bath rooms, and other evidences of a high living standard. Fire all the salesmen in America and get down to tombstone advertising, and you will see the greatest depression in the history of mankind.

But to get back to the securities business. What is it?—and why should it be exempt from the necessity of salesmanship? Well, it just isn't, regardless of what anyone may think. People buy securities because they feel optimistic about the outlook for the company and the country. Likewise, they dispose of securities when they lose confidence in the company or in general conditions. Many cannot understand why stocks are selling so cheaply in relation to earnings and dividends. To me it is simple, frighteningly simple. Prices reflect a lack of confidence in our socialistically inclined government; a fear of what it is doing and might do further to hurt our domestic economy and cause losses to those who finance our free enterprise system.

What Is Salesmanship?

What is salesmanship and what makes it tick; whether it involves government bonds or refrigerators? In the first place, let me remind you that every salesman and every buyer is a human being, so salesmanship represents a relationship between human beings. I suppose there are countless definitions of salesmanship and I could give a few myself, but the one I like best is that *"salesmanship consists of making a successful appeal to the mind or to the heart."* The mind represents the reasoning power of the human being and the heart represents his emotions. Do not ever forget that there is no other appeal; it is either to reason or emotion, or a combination of both.

The best sale is one based upon reason but more purchases are made on emotion. It seems to me that the average human being is 10% rational and 90% emotional. Furthermore, individual action may be based on reason but mass action is always emotional. In the investment business we usually sell to individuals, not groups, so

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The SEC and the Broker-Dealer

By LOUIS LOSS*

Chief Counsel, Trading and Exchange Division, Securities and Exchange Commission

SEC official reviews doctrines in Charles Hughes & Co. case, together with more recent Arleen W. Hughes case, affecting the duties and disclosures of dealers and brokers. Says Commission in Arleen W. Hughes case decided that a firm which is acting as an agent or fiduciary for customer is under much stricter obligation "than merely to refrain from taking excessive mark-ups over current market," and "must disclose fully the nature and extent of its adverse interest." Holds no disclosure rule has general applicability, and the SEC is "not burying the market disclosure rule with one hand and digging it up with the other." Contends Oxford Case signifies that only consideration of all circumstances can determine whether transaction falls in a principal or in agency category, and each transaction must be judged separately. Advises brokers-dealers consult with SEC.

A couple of weeks ago the Commission handed down an opinion in a broker-dealer revocation proceeding which is the latest in a series of cases over the past few years that have gradually blocked out the duties of a broker-dealer to his customer. That case gives me my theme today.

Louis Loss

It happens that most of what I am about to say relates primarily to the over-the-counter market. I was a little disturbed about the propriety of talking about over-the-counter problems under the auspices of this organization. However, we are all interested, I take it, in the problems of the securities industry as a whole, and I was anxious, if possible, to give you something newsworthy. What I shall try to do today, therefore, is to trace briefly the history of the several doctrines which the Commission has developed with reference to the duties of a broker-dealer and summarize their present status. I want to emphasize that I am not here to preach or moralize, but only to expound. I realize that it may be just as hard to tell the difference between preaching and expounding as it sometimes is to determine whether a firm is acting as a broker or as a dealer, but I honestly want to limit myself to putting the mosaic together for you.

The story has a double importance. It is not merely a matter of a firm's so conducting its business that it will not fall afoul of the SEC and risk possible revocation or injunctive or criminal proceedings. If that were the only problem, a great majority of the members of the investment fraternity could put their minds at ease. For, as the late Judge Healy once said, people can be pretty sure they will not get into trouble with the Commission so long as they do what most of them know and agree is the decent and honorable thing to do. The more serious problem from the point of view of the respectable and sound members of the industry is that a violation of one of these doctrines may give rise to a lawsuit by a customer seeking either rescission of his contract or damages. Within the past couple of years there have been a number of court decisions to the effect that a violation of the Securities Exchange Act or some rule thereunder creates a civil liability in favor of the injured person even though there is no specific provision for a private lawsuit under the particular section or rule which has been violated. So it is well to know these principles and to remember them.

I think it is worth stressing at the start that most of the doctrine that I am going to try to relate to you is not particularly new or radical. In great measure it very likely would have been developed in time by the courts even if there had never been an SEC. The fact is that much of the doctrine is nothing more than good old-fashioned agency law. I say this because occasionally members of the securities industry seem surprised to find that, when the common law says that an agent owes certain duties to his principal, it applies no less to securities than it does to houses or cans of beans — or, shall I say, commodities. I suppose this is because the securities industry does not rely to too great an extent on formal contracts with all the attendant caveats and "whereases" which are the badges of the legal fraternity. When brokers or dealers trade with each other, they necessarily rely to a great extent on a mutual trust and confidence developed by the financial community over many years. Commitments by word of mouth are by no means rare, and in most instances they are strictly honored as they should be.

The fact is, however, that the law of agency does not and cannot make any exceptions in favor of the securities business. Quite the contrary, the law recognizes that the securities business is not quite like the business of selling groceries or automobiles — although I suppose at the moment many of you here would prefer a resemblance to the latter. The courts have made it plain that when Federal and State securities laws speak of fraud they are not necessarily limited to action which would be considered fraudulent at common law. The very fact that the Congress and the legislatures of 47 states, as well as all the foreign countries of any importance in the financial world, have deemed it necessary to pass special laws in the securities field demonstrates in itself that the securities business is something of a unique animal. The Supreme Court of the United States recognized this as early as 1917 in sustaining the constitutionality of one of the first state blue sky laws, and the Court of Appeals of the State of New York specifically held 22 years ago that the term "fraud" as used in that state's Martin Act was not limited to common law concepts but "includes all deceitful practices contrary to the plain rules of common honesty."

Twin Doctrines in the Hughes Cases

I mentioned at the beginning the fact that the Commission had handed down its most recent opinion in this general field a few weeks ago. The firm involved was Arleen W. Hughes, doing business as E. W. Hughes & Co., out in Colorado Springs. This case should not be confused with the earlier case involving Charles Hughes & Co., Inc., which was decided by the Commission in 1943 and affirmed by the Circuit Court of Appeals in New York. It is one of those strange coincidences that two of the leading cases in this field should involve firms of the same name. It is even an odder coincidence, in view of the relatively few representatives of the fair sex in this business, that both these firms were run by ladies. I hasten to add that we have no prejudice against the family name Hughes and certainly no prejudice against ladies in the securities business. We just don't show them any special favors. The common surname, however, will probably not help to resolve the inevitable confusion between the twin doctrines represented by these two cases. It is essentially the purpose of my talk to try to forestall that confusion.

The first Hughes case had its genesis in 1939, when the Commission for the first time held in the course of a broker-dealer revocation proceeding that it was a fraud under the securities laws for a dealer to sell securities to a customer at a price not reasonably related to the current market. This has nothing to do with any agency obligation. The theory is that even a dealer at arm's length impliedly represents when he hangs out his shingle that he will deal fairly with the public. It is an element of that implied representation, the theory goes, that his prices will bear some reasonable relation to the current market unless he discloses to the contrary. Therefore, charging a price that does not bear such a relation is a breach of the dealer's implied representation and works a fraud on the customer. Just as that doctrine has nothing to do with agency or brokerage law, it likewise has nothing to do with limiting the amount of the dealer's profit, except of course where his own purchase is substantially contemporaneous with his sale. If a dealer buys a security at $10 and holds on to it until the market hits $20, he is perfectly free to take his profit of 100% or somewhat more. Conversely, if he buys a security at $10 and is unlucky enough to stay with it until the market falls to $5, it is fraudulent for him without disclosure to sell it at a price not reasonably related to the current market of $5 notwithstanding that he will suffer a loss.

Some of you will recall this as the Duker doctrine, since the first case in which the Commission applied it back in 1939 related to a firm called Duker & Duker. The doctrine was then repeated by the Commission and elaborated in a substantial number of cases and finally affirmed on judicial review, as I have already stated, in the Charles Hughes & Co. case five years ago. That case went all the way to the Supreme Court of the United States, which refused to review the opinion of the Circuit Court of Appeals. In that case the mark-ups over the current market ranged from 16 to 50%, averaging about 25%, and the Circuit Court of Appeals unanimously held that the failure to reveal those mark-ups was "both an omission to state a material fact and a fraudulent device." "When nothing was said about market price," the court stated, "the natural implication in the untutored minds of the purchasers was that the price asked was close

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*An address by Mr. Loss before Stock Brokers' Associates of Chicago and the Chicago Stock Exchange, Chicago, Ill., March 16, 1948.

Dealer-Broker Investment Recommendations and Literature

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

Business Outlook — Report — Stern & Co., 25 Broad Street, New York 4, N. Y.

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

Cycli-Graphs—500 graphs with 12-year coverage of earnings dividends and price ranges through March 31 — portraying cyclical swings for the entire prewar, wartime and postwar period since 1936—send $3 before April 6 for folio CF-325 in special prepublication offer (thereafter $4)—Securities Research Corporation 141 Milk Street, Boston 9, Mass.

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

Representative Stocks — List of 44 representative stocks with approximate price, dividends paid in 1947, and price range for the current year—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Table to Determine Return on Fixed Interest or Dividend Securities—Union Securities Corporation, 65 Broadway, New York 6, New York.

Yields of 5½%, 6%, and More—List of 60 common stocks in widely diversified industries with high yield—Estabrook & Co., 15 State Street, Boston 9, Mass.

Yield Tables—Table of true tax-free yields on discount municipal bonds under present Federal Capital Gain Tax Law—Scott, Horner & Mason, Inc., P. O. Box 1060, Lynchburg, Va.

* * *

American News Company—Bulletin—Bond & Goodwin, Incorporated, 63 Wall Street, New York 5, New York.

Atchison, Topeka and Santa Fe Railway Company—Memorandum —A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Bendix Aviation Corp.—Memorandum—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Boeing Airplane Company — Special report—Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available are special reports on **Columbia River Packers Association** and **Grinnell Corporation.**

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

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

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

Also available is a study on **Detroit Harvester.**

Clinton Machine Company — Circular—Coffin, Betz & Sullivan, 123 South Broad Street, Philadelphia 9, Pa.

Continental Can Company — Summary and opinion—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

Dan River Mills, Inc.—Analysis —Interstate Securities Corporation, Commercial National Bank Building, Charlotte 2, N. C.

Employees Credit Corporation —Analysis—Taussig, Day & Company, Inc., 316 North Eighth St., St. Louis 1, Mo.

Fedder-Quigan Corporation — Memorandum on growth situation —Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

Harnischfeger Corporation — Analysis in current issue of "Business and Financial Digest"— Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Home Insurance Company — Summary and analysis — Dempsey-Tegeler & Co., 210 West Seventh Street, Los Angeles 14, California.

Hungerford Plastics Corporation — Current data — First Colony Corporation, 52 Wall Street, New York 5, N. Y.

Also brief memoranda on **Electronic Corporation of America, District Theatres Corporation, Princess Vogue Shops,** and **Metal Forming Corporation.**

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.

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

Ohio Compensation Bonds—Information—Otis & Co., Terminal Tower, Cleveland 13, Ohio.

Oregon-Portland Cement Co.— Up-to-date circular for dealers— Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Pathe Industries, Inc. — Illustrated brochure describing in detail activities and operations of company. Comstock & Co., 231 South La Salle Street, Chicago 4, Illinois.

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

St. Louis-San Francisco Railway Company—Circular—Vilas & Hickey, 49 Wall Street, New York 5, New York.

Building, Charlotte 2, N. C.

Also available is an analysis of **Missouri Pacific.**

Shellmar Products Corporation —Analysis—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Also available is a detailed circular on **Public Service Company of Indiana, Inc.**

COMING EVENTS

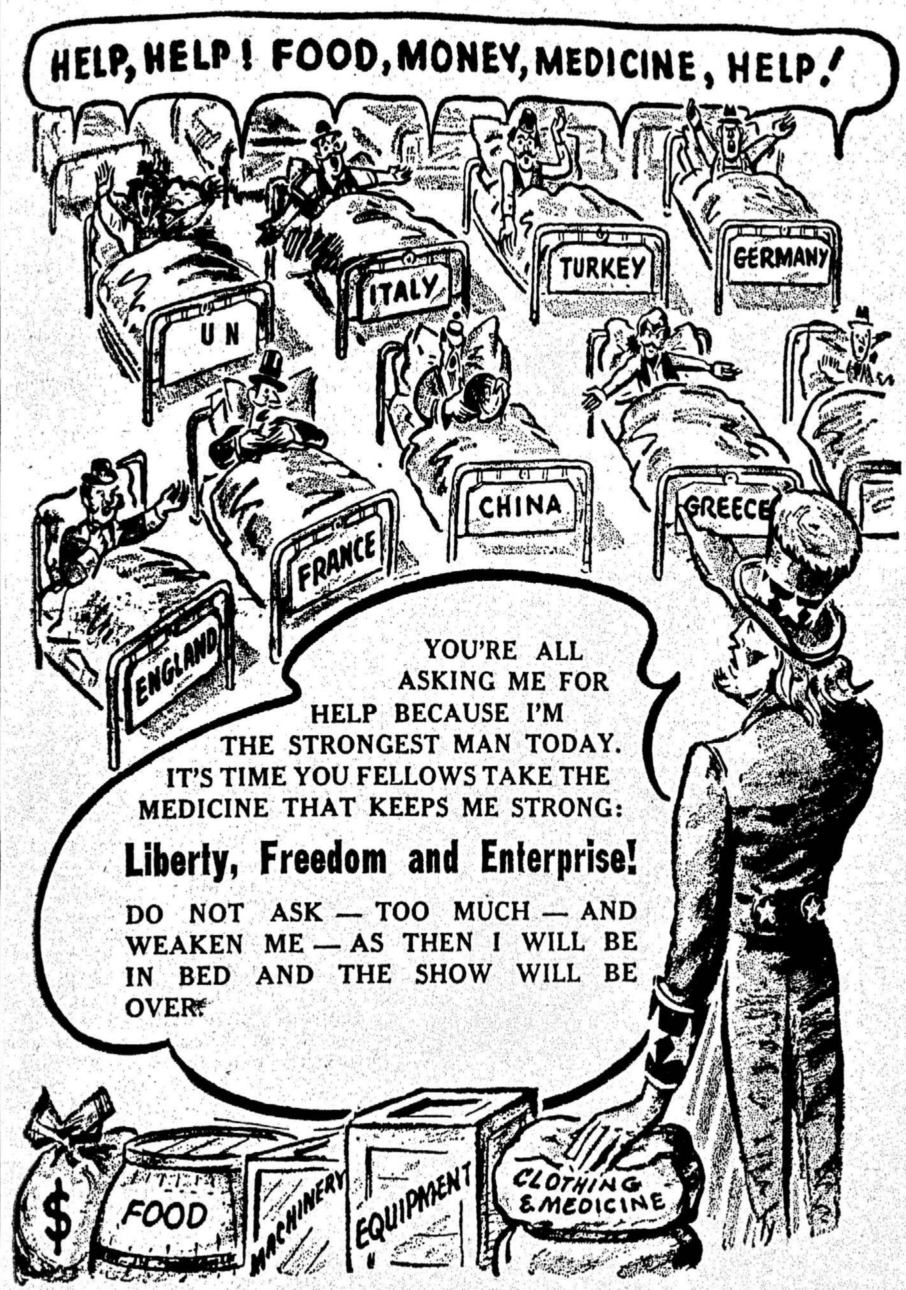
In Investment Field

April 13, 1948 (Chicago, Ill.)

Illinois Securities Dealers Association Annual Meeting and Dinner in the Chicago Room of the Hotel La Salle.

April 19, 1948 (New York City)

Security Traders Association of New York 12th Annual Dinner at the Waldorf-Astoria Hotel.



The basic issue facing us today is just this:

AMERICANISM or COMMUNISM

The U. S. A. or The U. S. S. R.

One system, not two, will gain strength—only ONE will survive.

Because Our Press Forms Public Opinion, It Should Ask—and Answer—Questions Such As These On the Front Pages:

- Does Communism give any people more Liberty and Freedom than we have under our Constitution and Bill of Rights . . . or does it abolish such things?
- Does Communism give man the right to achieve his own security, or take it away?
- Does Communism give freedom of religion, or does it abolish churches?
- Does Communism give the right to trial by jury, or does it abolish justice?
- Will Communism give us the right to labor at what we choose, freedom to vote as we please, freedom of speech, the right to save our money and to go into business, the right to own the keys of our homes—?

OUR PRESS CAN HELP THE PEOPLE DECIDE:

—Whether the dictates of the Kremlin are more important than Constitutional Liberty and Freedom—?

—Whether the voice of one man is invincible—?

—Whether a Communistic or a free world is desirable—?

—Whether Liberty and Justice are not preferable—?

Communism will wipe out all we hold dear: God, family, counery, liberty and possessions. Life insurance policies will become worthless scrap paper. Churches will be empty. Savings accounts will be seized. Property will be confiscated. The press will be out of business.

The Press, to remain in business and have the right to conduct its affairs, must be free! To keep it so, you must protect your rights. Only public opinion will make it possible. Create the public opinion—that's your job! The Press should make Liberty understood. It should express daily the privileges of the Constitution and Bill of Rights.

The giant shadow of Communism, a political system designed to govern former serfs of Russia, considering all people no better than cattle, moves over the entire earth. Wherever that shadow falls, all personal liberty falls. The people become slaves; gangsters rule.

Russia wants America—that's the great prize. They refer to us as war mongers, creating war for profits; also that we are a capitalistic monopoly. Russia today is the only completely capitalistic nation on earth. It owns everything — including the people and the profits the people can make on their own labor. IN THE U. S. A., THE PEOPLE OWN EVERYTHING — INCLUDING THE GOVERNMENT! Everyone in America is a capitalist. Every bit of property our people own is owned because they have saved money out of the greatest earnings ever earned by any people. All because of the free and private enterprise system made possible by LIBERTY.

We in America believe in the spiritual as well as the material side of life. They must go hand in hand. No country—no government can abolish Nature, the handmaiden of God. No scientist can make the seed which creates the harvest to feed the people—ONLY GOD CAN DO THAT! Nature insists that man be free in order that he may reach his highest position and be of service to his fellow man — NOT TO ANY STATE!

ONE SYSTEM — NOT TWO — WILL SURVIVE — AMERICANISM OR COMMUNISM. It is for the people to decide this question. It cannot be done on a platform of silence. Courageous men can save our country — not the chicken-hearted and weaklings. Industrial leadership must assume their responsibilities to protect the freedoms of our republic. They are the trustees, administrators, and guardians of the monies in our industrial activities—they should act as such and assume an assertive position respecting public questions, just as the Press must assume their responsibilities to continue a free press.

The American people can do anything if you will only tell them why, but they must be told—TELL THEM! If such leadership would become assertive, this country will survive! Weakness cannot co-operate with anything — only strength can cooperate.

Uncle Sam can properly say: "Think of your country first! Political aspirations — put them aside for the sake of a free America!"

PLEASE—Every person who feels that this statement has merit, see that it is run in the press in your city. Get your friends to help finance the insertion, sign your name or sign: "Endorsed and re-run by a group of citizens." I cannot do it all. Liberty is not private property — there are those, however, who are attempting to make it **THEIR** private property.

E. F. HUTTON
WESTBURY
LONG ISLAND

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

This week we present a table of 1947 earnings for 21 representative stock fire insurance companies. These have been recalculated on a per share basis, and adjusted for changes in premium reserve equity and for Federal income taxes, from the weekly bulletins of Alfred M. Best Co., Inc. All figures are for parent company operations; at a later date it will be possible to present consolidated earnings.

For comparative purposes, and in order that the trend of the past three years may be studied, 1945 and 1946 figures are also shown in the accompanying table.

It will be observed that only six of the 21 companies reported net underwriting profits in 1947, viz.: American Equitable, Continental, Hartford Fire, Home, Pacific Fire and St. Paul F. & M. Thirteen companies showed underwriting profits in 1945 and 1943, though not the identical list in both years. Only four companies show underwriting profits for all three years, viz: Continental, Hartford, Home, and St. Paul Fire & Marine.

Net investment income of nearly all companies has shown a steady uptrend through the three-year period. The only exceptions are Aetna, Boston, Pacific, Security and Springfield. In the case of Aetna and Springfield, however, there is some distortion due to capital changes.

Aetna's 1947 figures are on the basis of 1,000,000 shares compared with 750,000 shares in 1945 and 1946. Springfield's are on 700,000 shares at $10 par, compared with 200,000 shares at $25 par; in other words, Springfield effectuated a 2½-for-1 split and also increased its capital by 40% from $5,000,000 to $7,000,000.

It is proper to point out that dividends were well within net investment income for each company, except Springfield, as can be seen by checking against the dividend rate shown in the last column. In fact the margin is so substantial in numerous instances that it seems a number of increases would be justified when underwriting experience eventually resumes its normally profitable status.

	1945			1946			1947			
	Net Inv. Inc. $	Net Underwriting $	Total Net Oper. Earnings $	Net Inv. Inc. $	Net Underwriting $	Total Net Oper. Earnings $	Net Inv. Inc. $	Net Underwriting $	Total Net Oper. Earnings $	1947 Dividend $
*Aetna	2.26	0.10	2.34	2.10	2.00	4.10	2.19	—3.03	—0.85	1.80
Agricultural	4.50	0.05	3.72	4.71	—0.79	4.02	4.84	—9.44	—4.60	3.50
American Equitable	1.75	—2.73	—0.98	2.12	—1.09	1.03	2.31	0.79	2.28	1.00
Boston Insurance	3.12	—0.09	2.99	3.10	0.15	3.25	3.24	—2.21	1.03	2.20
Continental Ins.	2.49	1.25	3.03	2.58	1.55	3.65	2.91	0.25	2.98	2.00
Fidelity-Phenix	2.74	0.94	3.15	2.90	1.52	4.05	3.25	—0.48	2.67	2.20
Fire Association	3.29	—0.42	2.89	3.69	—1.05	2.32	4.16	—0.96	3.06	2.50
Franklin Fire	1.40	0.40	1.45	1.49	—1.17	0.42	1.54	—1.13	0.41	1.00
Great American	1.26	0.17	1.35	1.33	0.20	1.52	1.42	—0.34	1.09	1.20
Hanover	1.61	—0.58	0.77	1.75	—0.69	0.99	2.09	—2.20	—0.13	1.20
Hartford Fire	3.73	3.65	6.13	3.80	2.97	6.96	4.11	0.90	4.76	2.50
Home Insurance	1.48	1.41	2.25	1.64	0.05	1.69	1.75	0.80	2.14	1.20
Ins. Co. No. America	3.74	1.38	4.53	4.07	1.42	4.73	4.44	—1.08	3.18	3.00
National Fire	2.33	—1.20	1.13	2.50	—1.99	0.51	2.84	—7.74	—4.90	2.00
North River	1.16	0.46	1.26	1.25	0.68	1.79	1.42	—0.53	0.86	1.00
Pacific	6.08	—8.51	—2.52	6.01	1.39	6.90	6.60	0.75	7.35	5.00
Phoenix Insurance	3.41	0.65	3.73	3.58	—0.54	3.04	3.74	—0.86	2.80	3.00
St. Paul F. & M.	3.02	1.64	3.75	3.18	0.97	4.04	3.23	1.94	4.95	2.00
Security, New Haven	1.71	—0.05	1.65	1.62	—1.76	—0.52	1.73	—1.55	0.28	1.40
†Springfield F. & M.	5.78	—1.63	4.15	6.07	3.95	9.98	1.88	—1.00	0.88	1.90
U. S. Fire	2.65	0.68	2.81	2.85	2.17	4.75	3.27	—0.53	2.67	2.00

*1,000,000 shares in 1947; 750,000 shares, 1945 and 1946. †(Springfield F. & M.) 700,000 $10 par shares in 1947; 200,000 $25 par shares, 1945 and 1946.

Booklet Recommends Plan For Financing Through Preemptive Rights

Eugene P. Barry, partner of Shields & Co., has a revised study, giving a plan whereby underwriters buying rights during period of offering to stockholders, sell the security underwritten at price close to market level. Also includes a summary of 65 "standby" offerings of common stock from 1943 through 1948.

The flotation of stock issues with preemptive rights is on a sounder basis today as a result of the new method whereby the underwriters, during the subscription period, buy and exercise rights and reoffer the securities immediately at prices in line with the prevailing market, according to a study issued by Shields & Company. The plan was first presented in a similar booklet issued by Shields & Company a year ago.

Eugene P. Barry

Both last year's study and the current one are entitled "The Financing of Stock Issues With Preemptive Rights," and were written by Eugene P. Barry, partner of the firm. The revised edition includes a summary of 65 "standby" offerings of common stock from 1943 through 1948.

The booklet recommends further adoption of the plan as a means of reducing the cost to corporations undertaking financing of this character and of safeguarding underwriting firms against substantial losses in "standby" commitments such as many of them suffered during the summer and fall of 1937 and again in 1946.

In the year since the new method has been used, the booklet points out, "underwriters have gained much valuable experience in the application of its principles. Its soundness has been demonstrated on numerous occasions, and in at least one instance its use was responsible for the success of an offering which, under the old system, would have been doomed to failure."

Under the new plan, it is explained, underwriters buy rights during the period of offering to stockholders, exercise these rights and, from time to time prior to their expiration, sell the security being underwritten at a price close to the prevailing market level. The plan differs from the older method in that formerly the underwriters merely stabilized the stock or rights or both, without purchasing rights for the purpose of exercising them and making a distribution prior to the expiration date. Formerly the securities generally were offered only at the issue price.

"The new method," it is pointed out, "answers the principal objection to the old system which is that the distribution machinery of the underwriters is immobilized for a period of ten days to three weeks while their capital is committed and at the mercy of a sharp break in security prices which is difficult, if not impossible to foresee. At the same time, it preserves intact the right of the stockholders to make up their minds and decide whether to sell or exercise their rights."

J. Dorsey Brown With Mackubin, Legg & Co.

BALTIMORE, MD.—J. Dorsey Brown, member of the Baltimore and Chicago Stock Exchanges, and formerly principal of J. Dorsey Brown & Co., is now associated with Mackubin, Legg & Co., 22 Light Street, members of the New York Stock Exchange.

With Walston, Hoffman

(Special to The Financial Chronicle)

FRESNO, CALIF. — Alexander Brown is now associated with Walston, Hoffman & Goodwin, Bank of America Building. He was formerly with G. H. Chance & Co.

Current Investment Prospects

By EDWARD P. RUBIN*
President, Selected American Shares, Inc.

After reviewing favorable and unfavorable aspects of investment situation, Mr. Rubin concludes it is improbable we are facing a depression of the severity of 1921. Contends, with rearmament, we are likely to have further extension of business boom. Holds bear market for stockholders is almost over, and long-term trend is working in stockholders' favor. Sees coming months providing opportunities for long-term investment.

More often than not, the concepts which have dominated investment thinking in the past 10 years have proved erroneous.

When war broke out in 1939, we jumped to the conclusion that profits available to American industry would be as sensational as in 1914 to 1916. This never proved true. When the war reached a stalemate after the fall of Poland, we decided the war was "phony." It was far from from such. After France fell in May, 1940, we concluded that Germany would win the war, rule the world, dominate international trade. Today Germany is prostrate.

Edward P. Rubin

By the time we had regained our courage and had some confidence in ultimate victory, we still sold stocks on the theory that labor and taxes and price controls would make it impossible for our corporations to make a decent profit. But most of them did make good profits, even if not as sensational as in World War I.

When the war was over, some of us predicted 8,000,000 unemployed by the Spring of 1946. Instead, we had a labor shortage and successful strikes for higher wage rates. At War's end, we had a large body of opinion that our national capacity to produce was so great (especially because of the huge additions to plant during the war) that we could outproduce any tendency toward price inflation. Yet we have had a price inflation, and business was so short on productive capacity we have been witnessing unprecedented peacetime expenditures for still more plant and equipment.

By mid-1946 we had convinced ourselves that we had two or three years of prosperity ahead, that earnings and dividends and stock prices would rise. We failed to realize that investors would not pay "normal" price-earnings ratios for the non-recurrent earnings arising from wartime backlogs of demand for goods.

By late 1946, after the Dow-Jones Industrial Stock Average had dropped a precipitous 50 points, many of us decided we must have a postwar depression similar to that of 1921. Subsequently, each three months it has been predicted that the following three months would witness the beginning of that depression. So far, no depression has made its appearance. Instead, we have had rising business, earnings, dividends and employment.

One of the very few concepts that has influenced investment thinking in the past 10 years, and has proved right so far, was that "There'll Always Be An England" —and now we're not so sure of that!

This almost continuous series of errors in investment judgment has been made against a background of unusually extensive sources of information. Never have our newspapers and radios and magazines and books kept us so well informed as to what was happening in other parts of the world. Never have our means of communication brought us the basic facts so promptly, or provided us with more experts to interpret those facts. Never before have we had such a wealth of statistical information with respect to our own country and its industries, as is freely available today.

The result of this long series of demonstrations of the inadequacies of our judgments when confronted with unusually adequate presentation of the facts on which to base those judgments, is a kind of national investor psychosis. None of the old rules seem to apply. Wrong so many times, we hate to try again. A bit stupified by continuous frustration, the investor tends to sit on what he has and not budge, or put everything in cash and forget the whole mess. Equally stupified, many investment advisers tend to sit in their offices and not budge, either themselves or their clients.

Another result of the apparent repeated failures of statistical and economic judgment is widespread adoption of charts of market action as the sole reliable guide to investment policy. Never has there been a time when so many people paid so much attention to "what the charts are saying." This is not all bad, by any means. Many methods of analysis of trends by means of charts of stock market performance are very useful. Some of them have been successfully employed over long periods of time. But adoption of market charts as the sole criterion of investment judgment and investment action is defeatism. It begins only after other, seemingly more rational, processes have failed.

It is not necessary to become defeatist in our economic and investment thinking despite the experience of the past 10 years. Not everybody made all the mistakes that we have mentioned. A very sizeable number of investors and their advisors succeeded in correctly appraising a good portion of the problems which arose. They have enjoyed a good income, and some profit.

We shall attempt this evening to make an appraisal of the eco-

(Continued on page 42)

*An address by Mr. Rubin before La Salle Street Women, Chicago, Ill., March 24, 1948.

"Chronicle" Honors Miss E. F. Kelly

Last Friday, the Editorial, Business and Composing Room staffs assembled in the "Chronicle's" Editorial Room to felicitate and honor Miss Elizabeth Fox Kelly who has just completed fifty years of continuous service on the editorial staff of this more than a century old newspaper.

Miss Kelly and William Delancey Riggs have each rounded out a full half century in the "Chronicle's" service within a week of each other.

Mr. Riggs, for the staff, presented Miss Kelly with a handsome keepsake to commemorate the occasion.

They were also the happy recipients of anniversary cheques from the Publisher and President of the publishing company.

SOUTHERN RAILWAY COMPANY

Fifty-Fourth Annual Report for the Year Ended December 31, 1947

Richmond, Virginia, March 23, 1948.

To the Stockholders of

SOUTHERN RAILWAY COMPANY:

The Board of Directors submits the following report of the affairs of the Company for the year ended December 31, 1947, which is the annual report it is contemplated formally to present to the stockholders of the Company at the annual meeting due to be held on May 18, 1948.

Foreword

The Company spent the year 1947, like everyone in the Country whose rate of income was fixed and whose basis of expense was constantly increasing. To stay afloat in a rising flood of inflation requires, for an organization as well as an individual, steadfastness, hard work and ingenuity; and the account to follow of the accomplishments of another difficult post-war year will show the endeavor by the Company to exemplify these qualities.

Sharply rising costs were offset to some extent by enforced economies, the acquisition of new Diesel power, and by continued improvements in operational and mechanical techniques. The Company transported its greatest peace-time aggregate of car-loads and ton-miles with a decrease, as compared with 1946, of 2.21¢ in its Transportation Ratio, and of 3.98¢ in its Operating Ratio.

I.

The Year 1947

Operating Statistics

The Revenue from Operation of the railroad in 1947 amounted to $222,833,436, a new "peace-time" high, and representing an increase of 5.09% over the Operating Revenues of $212,041,109 for 1946.

The volume of business handled and the receipts therefrom, compared with the previous year, were:

	1947	1946
Freight moved (tons)	66,045,102	62,306,399
Average distance moved (miles)	218.97	231.91
Ton miles	14,462,103,633	14,449,343,889
Average revenue per ton mile	1.287¢	1.136¢
Total freight revenue	$186,185,803	$164,126,085
Number of passengers	5,567,060	8,834,069
Average journey (miles)	167.71	172.60
Passenger miles	933,631,924	1,524,760,826
Average revenue per passenger mile	2.235¢	2.220¢
Total passenger revenue	$20,866,952	$33,842,343

As just shown, Freight Revenue increased to $186,185,803, as compared with $164 126,085 for 1946, an increase of 13.44%. This increase is attributable to the increase in freight rates granted by the Interstate Commerce Commission in *Ex Parte* 162, effective January 1, 1947, whereunder these rates were increased an average of approximately 17.60%; and to an interim emergency increase granted by the Interstate Commerce Commission in *Ex Parte* 166, effective October 13, 1947, as hereinafter referred to.

Passenger Revenue aggregated $20,866,952, a decline of 38.34% from the already greatly decreased Passenger Revenue of 1946, which aggregated $33,842,343; thus the Passenger Revenue for 1947 was only about one-third of the all time high war-time Passenger Revenue of $59 270,726 for the year 1944.

Even with constantly mounting costs of materials and supplies, fuel and wages, total Operating Expenses for the year aggregated $171,673,513, as compared with $171,791,729 for 1946, a decrease of 0.07%.

Railway Tax Accruals aggregated $24,898,426, an increase of about 50% over the corresponding Accruals for 1946. Taxes took over 11¢ out of each dollar of gross revenue, and were more than double the Company's net income (after taxes and charges).

Net Railway Operating Income, which is what is left of gross revenue after paying operating expenses, taxes and equipment and joint facility rents, amounted for 1947 to $21,375,013, an increase of $2,063,867, or of 10.69%, over the corresponding figure for 1946.

While such an increase in Net Railway Operating Income, in a year of rising costs, is somewhat gratifying, it is illustrative of the huge increase in expense to consider that in the year 1940, with gross revenues of $105,905 000, the Company had a Net Railway Operating Income of $21,457,000; while in 1947, with gross revenues of $222,833,000, Net Railway Operating Income was almost exactly the same, namely, $21,375,000. Thus between pre-war and post-war periods, the Company's expenses and taxes have increased *to the extent of over $100,000,000 a year*, as measured by the resulting net.

The comparative ratios of the several categories of Operating Expenses, and taxes, expressed in the number of cents out of each dollar of revenue, were as follows:

	1947	1946
Transportation	38.80¢	41.01¢
Maintenance of Way	14.29¢	15.51¢
Maintenance of Equipment	18.19¢	18.65¢
Traffic Expense	1.75¢	1.76¢
General Expense	2.99¢	2.91¢
Incidental Expense	1.02¢	1.18¢
Totals	77.04¢	81.02¢
Taxes	11.17c	7.78c
Grand Totals	88.21¢	88.80¢

After operating expenses, taxes and equipment and joint facility rents (which latter amounted to 2.20¢ for 1947), there was left for fixed charges and other corporate needs and the owners, 9.59¢ out of each dollar of 1947 revenue, as compared with 9.11¢ in 1946.

Net Income

Net Income (after taxes and charges) for 1947 amounted to $11,892,761, as compared with $9,252,270 for 1946.

Again comparing the results of 1947 with the year 1940, it has been seen that, while 1947's gross revenue was over $100,000,000 greater than the gross in 1940, the Net Railway Operating Income of the two years was substantially the same. However, owing to a larger amount of Non-operating Income in 1947, and to the reduction of fixed charges effected since 1940, it is interesting to note that the Net Income, after charges, for 1947, exceeded by $4,540,689 the corresponding earnings of 1940.

Fixed charges were covered 1.93 times in 1947, as compared with 1.73 times in 1946.

After dividends of 5% on the Preferred Stock, the balance of Net Income in 1947 was equivalent to $6.85 per share on the Common Stock, as compared with $4.81 in 1946.

Dividends

Dividends of 5% on the Preferred Stock, and of $3.00 per share on the Common Stock, payable in quarterly installments, were continued.

Operations

Despite the constantly increasing cost of labor and materials, the property was well maintained and ended the year in a high state of efficiency.

Capital expenditures on roadway for 1947 amounted to $5,858,933, as compared with the substantially similar amount of $6,037,548 so expended in 1946.

The continuing program of the reconstruction and repair of rolling stock, and of buildings and bridges, filling trestles (approximately 2 additional miles having been filled in 1947), laying heavier rail and tie plates, and mechanizing every possible facility, within the limits of obtaining the necessary supplies, was continued and enhanced.

An active program of taking off side and branch line unprofitable passenger trains was prosecuted with some favorable results, and is continuously being urged upon the regulatory bodies having jurisdiction.

Wage and Freight Rate Increases

As shown in the Annual Report for 1946, retroactive wage increases, effective January 1, 1946, cost the Company on an annual basis about $20,000,000.

As of September 1, 1947, further wage increases were awarded after long handling, under the Railway Labor Act, to all the organized employees, except to five operating groups. Effective November 1, 1947, wage increases were awarded to two of the operating groups (Conductors and Trainmen). These increases amounted to 15½¢ an hour and are estimated to cost the Company on an annual basis, including additional payroll taxes, in excess of $13,700,000.

The Brotherhood of Locomotive Engineers, the Brotherhood of Locomotive Firemen and Enginemen and the Switchmen's Union of America refused to accept a similar increase, and have voted to strike, resulting in the appointment by the President of the United States of an Emergency Board.

On July 3, 1947, the railroads petitioned the Interstate Commerce Commission for an increase in rates and charges predicated on increased costs of wages and materials. The petition, which was designated *Ex Parte* 166, sought increases within Southern territory of 15%, within Eastern territory 25%, and interterritorially between the East and the South 25%; within Western territory 15%, between Southern and Western territories 15% and between Western and Eastern territories 25%.

An amended petition was filed September 5, 1947, following the wage increase of September 1st, which sought increases in the rates within the South of 28%, within the East 38%, and interterritorially between the East and the South 38%; within Western territory an increase of 28% and interterritorially between the South and the West 28%.

Following the wage award to conductors and trainmen, which was made retroactive to November 1, 1947, a supplemental petition, dated December 3, 1947, was filed with the Commission seeking increases within Southern territory of 31%; within the East 41% and interterritorially between the East and the South 41%; within Western territory 31% and interterritorially between the South and the West 31%.

As a partial relief, the Commission granted in *Ex Parte* 166 an interim increase of 10% (10¢ per ton on coal and coke), effective October 13, 1947, and again, another interim increase of 20% (20¢ per ton on coal and coke), effective January 5, 1948, superseding the October 13, 1947, interim increase. The over-all average increase effective January 5, 1948, as compared with rates in effect January 1, 1947, is estimated at 17.9%.

The proceeding is still pending and it is expected that it will result in permanent increases, over and above the two interim increases.

The forthright action of the Interstate Commerce Commission in the year 1947 demonstrates that it realizes full well the necessity of prompt coordination between the income of the carriers and their rising costs.

It is estimated that, based on the expected traffic for 1948, the interim freight rate increases, together with certain increases in mail pay, express rates and passenger fares, will produce approximately $24,000,000 additional gross revenue to the Company, before taxes. These prospective increases, however, will be sharply reduced by the increased wages just referred to, and by further drastic increases which have occurred in the cost of coal, Diesel fuel oil and iron and steel products. These conspicuous items of increased costs (some of which were effective for a part of the year 1947) will increase 1948 costs over 1947 some $14 000,000. It results that the estimated increases in revenue would net the Company approximately $10,000,000 increased gross on an annual basis, which in turn would be reduced, after Federal Income Taxes, to a net increase of about $6,200,000 a year.

New Rail

During 1947 there were laid 36,313 tons of new rail; and orders for 1948 have been placed for 31,500 tons.

New Equipment

During 1947 there were delivered 1,000 automobile box cars ordered in 1945, 600 gondolas, 487 steel sheathed box cars and 100 ballast cars, a total of 2,187 freight cars, and 87 units of Diesel power.

As of January 1, 1948, the Company had on order:

(a) 144 covered hopper cars, 1,000 50-ton hoppers and 3,000 steel sheathed box cars, a total of 4,144 freight train cars;

(b) 88 new streamlined passenger cars (delivery of which was expected in 1947 but which has been deferred by the inability of the manufacturers to get into production); and

(c) 86 units of Diesel power;

all of which, except possibly the passenger train cars, are expected to be delivered in 1948.

To finance 4,000 of the above freight cars on order, to the extent of 75% of their cost, the Company issued, as of March 15, 1948, $10,680 000 par value of Southern Railway Equipment Trust 2⅛% Certificates, Series "NN," which were sold on an interest cost basis of 2.28.

When the Diesel power now on order for the Company and its affiliated lines has been delivered, Southern Railway System Companies will have in service 425 units of Diesel power, operated as 132 switching locomotives, 6 small Diesel-electric two-car passenger trains, 94 road passenger and freight locomotives, ranging from 2,000 H.P. to 6,000 H.P., and 8 road switchers. The total approximate cost of all of this Diesel power (to the Company and its affiliates) is $52,100,000.

For the period 1940-1948, inclusive, the Company's acquisitions of new equipment (not including that of its System lines) will have cost approximately $98,000,000, of which cost it will have paid in cash from its Treasury $65,000,000.

With these acquisitions, the Company feels that a phase of its post-war new equipment program is fairly well concluded, except for the acquisition of additional Diesel power.

Use in 1947 of the Company's Financial Resources

After paying running expenses, taxes payable during the year and fixed charges the Company used its cash, as to larger items only, as follows:

(1) Expended Treasury cash for capital improvements to the property, $5,858,933 for road and $13,476,534 for equipment, an aggregate of $19,335,467, as compared with a total of $12,880,949 so expended in 1946.

(2) Used $1,230,374 in the purchase of the Company's proportion of the stock of The Pullman Company, which was acquired by the railroads of the United States at an aggregate cost to the participants of $40,202,482.

(3) Paid dividends aggregating $6 894,600, the same as in 1946.

(4) Had left on December 31, 1947: (a) U. S. Savings Notes in the principal amount of $21,000,000, as reserves against 1947 taxes, payable in 1948, and for other future corporate and maturity needs, and (b) cash of $33,132,213, as shown in the balance sheet (the latter being reducible by items which were not cleared through the banks as of the close of business for the year).

Funded Debt and Fixed Charges

The table of funded debt at the end of 1947 showed the following comparison with 1946:

	Dec. 31, 1947	Dec. 31, 1946
Funded Debt	$194,650,500	$194,650,500
Leasehold Estates	52,819,600[1]	52,840,600[2]
Equipment Trust Obligations	34,663,760	39,098,382
Totals	$282,133,860	$286,589,482

[1] Includes $9,189,000 of Bonds acquired by the Company or its subsidiaries since January 1, 1940.

[2] Includes $8,841,000 of Bonds acquired by the Company or its subsidiaries since January 1, 1940.

The Company's net fixed charges, on an annual basis, as defined by the Interstate Commerce Commission, less income from securities of its leasehold estates owned by the Company, were approximately $12,000,000 at December 31, 1947.

II.

Industrial and Agricultural Development

In the expansion and diversification of the manufacturing activities of the South during the last ten years, the Company has enjoyed a steadily and correspondingly increasing volume of all classes of freight traffic. This growth is set forth in the following figures:

Classes	Year 1947 Tons	Year 1938 Tons	Increase
Manufactured Products, including also all less than carload freight	22,420,470	9,595,421	134%
Products of Mines	30,684,112	13,828,096	122%
Products of Forest	7,182,186	2.966,683	142%
Products of Agriculture	5,244,529	3,282,328	60%
Products of Animals	513,805	388,369	32%
Totals	66,045,102	30,060,897	120%

A Deadly Parallel

THE STOCK MARKET TODAY AND YESTER-YEAR

By H. BERTRAM SMITH
Partner, Zuckerman, Smith & Co.
Members, New York Stock Exchange

Security analyst points out lost opportunities for profitable accumulation of stocks in last two decades, merely because of unfounded fears, and excess pessimism. Says 1948 presents deadly parallel, and stocks are cheap, but because of renewed fears and uncertainties, nobody wants them, except a few astute investors.

In the life of a U. S. citizen of some wealth, who has managed to reach the ripe old age of 50, there have been a few opportunities for him, through the purchase of equity securities, to have doubled or trebled his capital during the so-called years of discretion through which he has lived.

Taking the probably false but generally accepted truism that man attains horse-sense at the age of 21 as my hypothesis, this imaginary citizen had the chance to buy common stocks in 1921, 1932 and 1940. I don't have to belabor the fact that if he had had the bravery to buy during those periods, when only the most clear thinking and courageous were so doing, he would have found a real bonanza.

But, out of my own experience, I know how very, very few did seize these opportunities, and I also know how often over the years I have heard the quasi-tragic plaint, "if only a chance like that would come again!"

The ever repeating pattern of human doubts and fears is so patent after the event, that it seems incredible that most of us, including my humble self, cannot see and instantly recognize the afterwards so obvious "chance of a lifetime."

I won't count the opportunity in 1921, as then I had not had enough experience to warrant my seizing a chance to become rich, which, for lack of actual comparison, I was justified in not perceiving.

But how about 1932? By then. I had lived through 1921, and should have benefited by the wisdom gained from that missed opening. Sure! You guessed it, I went yellow and rationalized my cowardice with a dozen cogent arguments about world depressions, man's consumption being dwarfed by man's production, the end of an era, etc., etc. The arguments were prefect except for one little thing—they were completely wrong — and so I continued to work for commissions all through the New Deal, instead of retiring to live in leisure.

By this time, I was an old man in my middle 30's. Would I get another crack at purchasing sound securities at a discount, when my contemporaries were throwing them overboard? By God! if the opportunity came just once again, that's all I asked — this time I couldn't miss. Wasn't I a man of intelligence and guts? Of course I was! Came 1939-40. Nobody wanted stocks; the market was in the doldrums; good securities were selling close to their book value; railroad bonds could be had for peanuts.

I wish I could say that I hocked my shirt to buy stocks. Not me! I had a whole list of new reasons. That's the amazing part of my tale of woe—each time the reasons are different, but, at that time, they cloaked my cowardice and lack of faith in an armor of plausible stupidity. Nazism was a danger to the whole economic structure of the world, the security markets were regulated to death, taxes and F. D. R. were killing American business, the railroads were finished, and on and on. Again they were good, sound arguments, only, unfortunately, they were 100% wet. And so, again, being by now a real antique—at least in the eyes of the army—I spent the war sweating over O.P.A., Labor Relations Boards, income taxes, etc., instead of being able to quit and laugh at the world of morons and cravens who had not had my sagacity.

And here we are in 1948. I can buy the third biggest and richest steel company in the world on a 14% return basis. I can buy a top flight railroad stock on a 9% return, and a 3½ times earnings. I can buy a great department store chain on a 12% basis and, if I were even a fair statistician, I could give several hundred other examples. Nobody wants stocks (except a very few really astute investors). Europe sells, some people sell to protect their commodity commitments, others sell out of sheer boredom, people sell out of sheer fright, others sell for any one of a thousand reasons, but still they sell.

But what of me in 1948? Enormous earnings, huge dividends, vast employment, unbelievable production and, in some basic industries, a seemingly insatiable demand, are all present. On the other hand, stock prices are within 10 points of the lows of this whole period. Of course, having learned my lesson, I am begging, borrowing and stealing to buy securities. Well, not quite yet. Communism is threatening the world. European bankruptcy might be just around the corner, this is an election year, what about the atom bomb, and the Palestine issue might ignite the world. Maybe I should stall a little longer—"this time it might be different."

How dumb can a man be?

Railroad Securities

Missouri Pacific securities have been attracting considerable interest recently, reflecting the filing of a number of proposed reorganization plans, and the start of Interstate Commerce Commission hearings. The proposal getting the greatest attention, and presumably having the greatest support, is that filed by Alleghany Corporation. Although Alleghany has fairly recently disposed of its entire holdings of bonds in the system it still holds a sizable block of the Missouri Pacific common. The plan is an effort to salvage some equity for that stock.

The plan filed by Alleghany was a modification of an earlier proposal, not presented officially, represented as a compromise between the corporation and the institutional group. While it may have considerable support in these quarters there are obviously going to be serious objections to it from other groups. For one thing, it is apparent that holders of the New Orleans, Texas & Mexico first mortgage bonds will be disinclined to accept a part of such a large system blanket mortgage as that proposed in the plan.

Also, the serial 5¼s, secured by New Orleans, Texas & Mexico stock, will hardly be satisfied with $500 in senior 4½% income bonds and $1,029.37 in unsecured income 4s. As a matter of fact, it is difficult to see how any settlement of this claim can be made until the Supreme Court rules on the inter-company claim of Missouri Pacific against New Orleans, Texas & Mexico. Arguments on this claim have already been heard by the high court. If the claim is disallowed or subordinated it will naturally add substantially to the value of the pledged collateral.

The Missouri Pacific first and refunding mortgage bonds would get an average of $25 in cash, $730 in new first mortgage 4s, and $650 in senior income 4½s. The first mortgage allocation would be divided about equally between three different series, maturing at 10-year intervals. The Missouri Pacific general 4s would get $1,000 in the junior, unsecured, income 4s and 9.825 shares of new preferred. The 5½s would receive 43.31 shares of new common stock. The old preferred would receive a half share of new common while the old common would receive one-fifth share of new common.

Aside from the objections of various security groups to the treatment they individually are accorded it is pretty well agreed among railroad analysts that the plan is, in its entirety, impractical. The old Interstate Commerce Commission plan called for a total capitalization of $560,480,224, taking the no-par "A" and "B" common at $100 a share. Press releases point to the fact that the new proposed capitalization is roughly $619 million, or only about $59 million above that originally set up by the Commission. However, the actual proposed increase in capitalization is considerably greater. In the new plan the preferred is valued at only $40 and the common at $36 a share.

Under the Alleghany plan, fixed interest debt would be $227,348,000 and total debt would be $476,270,000. The fixed interest debt would be $33,840,000 larger than that originally proposed by the Commission while total debt would be upped by $123,593,000. Preferred stock would be reduced from $57,717,000 ($100 par) to $43,363,000 ($1 par but taken at $40) while common would be increased from 1,500,803 shares (combined "A" and "B") to 2,433,889 shares, all of one class. Under the Alleghany plan fixed charges would amount to $8,773,000, just about $1,500,000 larger than those of the ICC plan. Contingent interest would be $10,820,000, or nearly $3,500,000 higher than contemplated by the Commission. Preferred dividend requirements would be reduced by only about $700,000. It is hardly likely that the ICC would allow any such wide increase in fixed and contingent interest charges.

The plan would be effective Jan. 1, 1943. As of Jan. 1, 1948, fixed and contingent interest in the aggregate amount of $97,820,000 would have accrued. The roughly $25 in cash to be paid to first and refunding mortgage bonds would amount to another $5,600,000. There would also be accruals to sinking funds bringing total requirements well above $105 million. As of the end of last year the three system companies had net working capital of $64 million.

R. Page Mason With Thayer, Baker & Co.

PHILADELPHIA, PA.—Thayer, Baker & Co., Investment Bankers, Commercial Trust Building, Philadelphia, Pa., have announced that R. Page Mason, for many years well known in New York, Philadelphia and Boston investment circles, has become associated with them as registered representative. Mr. Mason was formerly with Allen & Co. and more recently was director of public relations for Luckhurst & Co. in New York City.

R. Page Mason

Joins Wm. S. Beeken Staff

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA.—Howard S. Huffman has been added to the staff of Wm. S. Beeken Co., Guaranty Building. He was formerly with Southeastern Securities Corp.

With T. Nelson O'Rourke

(Special to THE FINANCIAL CHRONICLE)

DAYTONA BEACH, FLA.—Victor A. Lundy is with T. Nelson O'Rourke, Inc., 356 South Beach Street.

Effect of Management on Railroad Securities

By PATRICK B. McGINNIS*

Partner, McGinnis, Bampton & Sellger, Members New York Stock Exchange

After describing railroad developments and methods of analysis since World War I, Mr. McGinnis, in reviewing 24 leading railroads, holds there seems to be unconscious desire of railroad management to spend all the money they take in, so that net income, derived from operating revenues, has declined from 17½% in 1927 to 8.4% in 1947. Lays high operating ratio to increased car hire costs and increased payroll and other taxes. Contends a railroad's management has a lot to do with its relative financial position, and decries withholding of dividend payments to stockholders as leading to nationalized railroads.

I was asking your President tonight about this club. I find that it was formed as a result of a GI group getting together and studying the securities business and its allied problems; and I think it might be well to relate to you my conception of the contemporary history of railroad securities.

Patrick B. McGinnis

There are in my opinion five phases of the railroad securities problem. If you hear that word "problem" used so far as railroads are concerned, we have had "railroad problems" since the day that they started building railroads over a 100 years ago. I can't remember any stretch of 10 years—going back in my personal history to 1922 in the "Street," or from my knowledge in reading back to the beginning of railroads—when we didn't have a railroad financial "problem."

So don't let the fact that they are a "problem" discourage you in further study of the situation.

World War I presented the first phase in the contemporary railroad problem.

It was the period 1916 to 1922. As you all know, the government took over the railroads during the war and gave them back to their private owners in terrible shape, after the war. In addition, the railroads suffered from the money panic in 1920 and 1921.

The period 1922 to 1930, as far as railroad bonds were concerned and, generally speaking, so far as railroad stocks were concerned, was a very prosperous time, earnings were good and railroads enjoyed high credit.

I came to the "Street" in 1922. My railroad knowledge in 1928 was the fact that I knew the maturity of every bond on the "Pink Sheet," every railroad bond on the Stock Exchange, and practically knew the yield on its selling price.

In other words, in 1928 if you knew the maturity and the yield on railroad bonds, you were a railroad trader and a so-called student of railroad bond values.

In retrospect, we know that was a foolish way to study railroad securities, but do you realize today that you're trading railroad equipments in somewhat the same manner that we traded railroad mortgage bonds in 1926 to 1930? Then you knew the yields and the maturities. You are trading equipment bonds of railroads today on somewhat the same basis, one issue is about as good as another. But they are not!

I challenge you students, old and new, to take the equipments that were offered this week and tell me the amount of cash depreciation of equipment against the amortization schedule. Or, I challenge anyone in the room to tell me how long the Internal Revenue Bureau or the Interstate Commerce Commission allows a railroad to depreciate a Diesel; or how much the equipment costs, if you have to pay some of the amortization out of "net income"; or, even more important, how much more equipment is necessary.

I may sound facetious, but it is like the "new look," all women are adopting the "new look," it's the thing to do. I am trying to tell you that railroad equipments are not all alike and that when all you know is the "yield and maturity" you're only walking down the street and looking like the "new look." You have no more idea of what the value behind that equipment security is than we did when we used to say back in 1928, and seriously, that Rock Island general 4s were as good as Norfolk & Western general 4s.

The Depression Period

The next period was the depression, and the shock was great. But the shock wasn't so great and in 1937 railroad securities came back again to high prices.

The next period was the collapse of railroad credit in 1938. From 1938 to 1940 it was virtually impossible to find buyers for railroad securities. That's when I started going around making speeches. I toured this country many, many times trying to find buyers for railroad reorganization securities.

Then the war came along, and produced a considerable amount of income for the railroads. Almost all of the reorganizations went through. Most of the "borderlines" were able to retire enough bonds or refund them at lower coupons, so that they re-established their credit. At the end of 1945, the railroad picture looked wonderful.

Then came the great spread between wages and rates in the railroad industry; the Interstate Commerce Commission waited nine months to raise rates; so railroad credit collapsed again, and hasn't recovered much since that time.

So there are the five periods. We are now in 1948 where wages and rates are once again, to some extent, equal. Now we are waiting for uncertainties; at least, a war economy.

So if you are going to study railroad securities, assume that you are going to have railroad problems.

The Effect of Management on Railroad Securities

I chose the title of this address for one particular reason: I keep looking at all those billions of dollars that the railroads took in last year. They took in $8,884,000,000 last year—and they wind up with "peanuts." I mean, is that result all because of these high prices for wages, high prices for material, or is it an apparent, perhaps unconscious desire, of about 50% of railroad management to spend all the money they take in? I mean, has ever an analysis of management been made? Isn't there something apparently wrong with 50% of our management when over a long period they produce and give nothing to their owners? If there is, of course, that's going to affect railroad securities, unfavorably.

There are in this country 131 Class I railroads. Now, if you start to study them all, you will get discouraged. I don't study all of them. I break it down, so I can study the problem in a little bit more general way. Six railroads in this country, year after year, do about 40% of the business. Pennsylvania always does about 10%. New York Central does close to 9% of the business. Then comes the Southern Pacific, the Atchison, the Union Pacific, and the B. & O., these six do 40% of the railroad business, year in and year out, in this country.

Last year these six railroads took in $3,368,000,000 out of a total Class I gross of $8,884,000,000.

Analysis of 25 Railroad Companies

Now, I expand the list a little bit, but not up to the 131. I expanded those six railroads up to 24, doing in 1947, 76% of all the railroad business. I arrived at this 24 number, by taking those railroads that did at least a $100 millions of business last year. From now on, all my comments are confined, both in averages and totals, to 24 railroads. These 24 railroads are the Atchison; Atlantic Coast Line; Baltimore & Ohio; C. & O.; St. Paul; Chicago Northwestern; Rock Island; C. B. Q; Erie; Great Northern; Illinois Central; Louisville & Nashville; Missouri Pacific; New York Central; New Haven; Northern Pacific; Norfolk & Western; Pennsylvania; Frisco; Reading; Seaoard; Southern Pacific; Southern Railway and Union Pacific.

I decided that it might be well to examine management over three widely different periods: The year 1927, which was two years before the peak of the boom; 1937, which was not the worst year of the depression or the best year, but we might say it was a fair year during the practically endless depression; and 1947, which is to some extent unfair, because for the full year the Interstate Commerce Commission was still a little slow in recognizing that gap between rates and wages.

In 1927, these 24 railroads took in $4,300,000,000. Now, Management controls or should control the amount spent for maintenance problems—maintenance of equipment, and maintenance of way. Their operating ability is reflected in the cost of transportation. Maintenance and transportation cost take the large share of railroad gross.

Simply because a railroad spends a lot of money on maintenance, doesn't necessarily mean that the railroad is spending it economically. The tendency is to spend in relation to gross revenue. Good management can spend money more efficiently than bad management. Likewise, the make-up of the train, the number of tons it carries, the number of train miles, etc. have a lot to do with transportation efficiency.

The "net railway operating income" is the amount left after all operating expenses, taxes and debit hire of equipment, and joint facilities. As you know, railroads take in so much money, then have operating and transportation expenses, and general expenses. The ratio of operating expenses to gross revenues is called "the operating ratio." It is used as a test. It shouldn't be used as conclusively as it is, because it does not in-

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*An address by Mr. McGinnis at the regular monthly meeting of the Boston Investment Club, Boston, Mass., March 16, 1948.

The Inflation Tide Going Out!

By HANS NEISSER
Member Graduate Faculty, New School for Social Research

Political economist maintains postwar inflationary tendencies, which received new impetus in second half of 1947, are now decisively abating. Cites (1) termination of reconversion activities, which is bringing private investment, plant construction, and inventories closer to rates of personal and business savings; and (2) decline of foreign demand financed by American subsidies.

An inflation is a substantial price rise due to monetary expansion which typically, though not inevitably, creates a further price rise. In this sense we have lived in an inflationary state since 1941, and particularly in the years after the war. And yet the economic policy of the Government has been a policy apt rather to further than to stifle inflation. One did not take seriously the inflationary symptoms—they are there, but they will not last long. Their end is near and we shall soon have depression and unemployment. The fact that the prophets of depression have been wrong in the preceding years, should, however, not mislead us. It is a serious problem: Will the inflationary boom of postwar times be followed by a breakdown as in 1921, or will the American economy settle down to a more harmonious state of equilibrium?


Hans Neisser

If this is inflation, it is certainly not of the hyper-inflation character we have learned to fear from the terrible experience of central Europe after the first World War, or which today threatens the economic life of almost the whole European continent. Though it had its origin as have most large scale inflations in a huge government deficit, this deficit vanished almost two years ago and its place has been taken by a government surplus. Since in spite of the **deflationary** pressure exercised since the end of 1946 by the Treasury, the American economy still shows all the symptoms of an inflation, we have to look for other strong forces of monetary expansion in the economy, largely outside of the control of the government and the monetary authorities.

These forces have grown out of the first inflationary step represented by the huge government deficit of war times. The inflationary effect of this deficit had been for some years mitigated by measures of price control and particularly of rationing. But it is not only the **delayed** effect of the war inflation which we have experienced since 1945 and are experiencing now; there have been independent forces at work. The war created the profit inflation; the subsequent wage inflation cannot be explained in terms of rational theory alone; wages are not any longer determined in a system in which the money and credit volume is fixed, they are,

(Continued on page 42)

How British Dollars Are Wasted

By PAUL EINZIG

Dr. Einzig notes fatalistic attitude of British toward continuous dollar drain and blames liberal policy of government officials in allowing sterling to be exchanged into dollars. Says old sterling balances should be funded and soft currency countries should not be allowed to use sterling for multilateral purposes. Contends there are loopholes in British exchange control.

LONDON, ENG.—There is a tendency among British politicians and experts to adopt a fatalistic attitude towards the dollar drain which is depleting Britain's gold reserve at an alarming pace. The "gap" in the balance of payments has come to be regarded as something in the nature of a *force majeure* against which the Government's exertions to cut imports and increase exports is of relatively little avail, This fatalism suits the Government's books admirably, for it implies an immunity from responsibility for the dollar drain and its threatening consequences. And the leading members of the Opposition are too incompetent, inefficent and indolent to make a serious attempt to discredit this attitude of irresponsible fatalism.


Dr. Paul Einzig

A praiseworthy effort is made, however, by a group of Conservative Members of Parliament known as the Active Backbenchers' Committee, to make good the omissions of the so-called "Shadow-Cabinet" consisting of former Conservative Ministers, a body which has earned the nickname of "Passive Frontbenchers' Committee." Determined efforts are made by a few backbenchers to arouse interest in facts pointing towards the Government's responsibility for aggravating the dollar drain. These facts may be summarized under the following headings:

(1) The Government's failure to fund or freeze something like half of the old sterling balances of about £3,500,000,000.

(2) Unduly liberal releases of sterling for conversion or for the financing of unrequited exports in the provisional funding agreements.

(3) Unjustified sacrifices in the form of direct dollar losses or unrequited exports leading to dollar losses, for the sake of retaining traditional markets for British goods.

(4) Unjustifiable sacrifices for the sake of enabling other countries to use sterling for multilateral purposes.

(5) Loopholes in the exchange control.

The Government appears to be oblivious of the fact that unfunded sterling balances can be used to a very large extent for the purchase of exportable goods which would otherwise be available for export against payment in hard currencies. It is true, no export licenses are granted for export against payment in unfunded sterling balances, and the production of goods for which no export license is required is discouraged

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With Farwell, Chapman

CHICAGO, ILL.—Francis C. Farwell has been added to the staff of Farwell, Chapman & Co., 208 South La Salle Street, members of the New York and Chicago Stock Exchanges.

Mutual Funds

By HENRY HUNT

Time to Start "Dollar Averaging"

For the uninitiated, we will define "dollar averaging" as the regular investment of the same **amount** of money, preferably monthly, in the same **security**. Such a program, if carried on for a period of years, enables the investor to make his largest purchases, as measured by the number of shares he acquires, when the market is low, and his smallest purchases when the market is high. Dollar averaging also encourages thrift as it necessitates steady saving, without which it is practically impossible to build up an estate under present tax laws.

The most cogent argument in favor of "dollar averaging" is that the lower the market goes, the better the plan works, provided, of course, that the market comes back again.

There are many people today who think that the stock market will see lower levels over the next few months, but there is not one investor in a hundred who will pick the exact bottom of the market to make his purchases even though there are tens of thousands of investors with surplus cash today awaiting that buying point. Furthermore, we expect that 99 economists of 100 would predict that common stocks will sell at prices well above present levels at some time during the next two or three years. Thus the present would appear to be an ideal time to start "dollar averaging."

However, in order to make sure that "dollar averaging" works, it is essential to invest in a security that follows the market, both down and up. There is no single security that is as certain to follow the market as the shares of a diversified common stock mutual fund.

Truman's Speech in Four Words

Situation critical; restore draft.

A Record to Shoot At

Lord, Abbett, its wholesale representatives and dealer organization have hung up a sales record with **Affiliated Fund** in recent years that is hard to beat. The following dollar sales figures on **"Affiliated,"** a common stock fund with leverage, speak for themselves:

Year:	Sales of Affiliated Fund
1943	$1,500,000
1944	2,200,000
1945	3,500,000
1946	8,600,000
1947	15,300,000

Furthermore, according to a recent **Lord, Abbett** bulletin, sales for the first two months of 1948 ran 323% ahead of the same period last year! Congratulations, Leon and Harry.

Believe It or Not

The largest tonnage item in making steel is not iron or coal but air.

The Optimum in Liquidity

Howard S. McNair of **Courts & Co., Atlanta,** recently wrote in **"The Southern Banker"** in part as follows: "Shares of Open-end Mutual Investment Companies (trust shares) offer the optimum in liquidity. The Investment Company Act passed by Congress in 1940 provides that these companies **must** repurchase their shares at liquidating value within seven days after they are tendered. However, as the shares of all open-end investment companies with which we are familiar contain a covenant providing for liquidating upon demand, these may be converted into cash at net asset value (in a few cases, less a very small fee) as of the date they are tendered. This may be accomplished through any recognized securities dealer in precisely the same manner employed in disposing of any other readily marketable stocks or bonds. The superior feature to be emphasized is the ability to obtain promptly the same unit price for any number of shares. This would be difficult if not impossible to accomplish with large amounts of other securities except U. S. Government bonds.

"Low unit prices for trust shares have no bearing on their quality. These shares merely represent fractional interests in a portfolio of securities and may be given an initial value at any level desired. The inclination to make these units low in cost is to make them available to the small investor."

1856 vs. 1948

Ninety-two years ago, in 1856, Robert Owen, the famous English economist, wrote as follows:

"No evil ought to be more dreaded by a manufacturer than low wages of labor—the laborers, because of their numbers, are the greatest consumers of all articles, and it will always be found that when wages are high, the country prospers; when they are low, all classes suffer."

Sound economics in 1856—sound economics in 1948. But American labor leaders today might push a good thing too far, if they haven't already.

Has Market Seen Low?

In **"These Things Seemed Important,"** issued by **Selected Investments Company of Chicago,** the following comment is made: "Market technicians have been (and probably most are) bearish. But some note in the latest downward stock price dive, the Dow-Jones Industrials for the second time so far held slightly above the October 1946 low, and this time the Dow-Jones Rails not only held above their May 1947 low, but also held above the December 1947 low, which was higher than May. Also noteworthy: we are now in the twenty-second month since the stock market started downward; the 1919-21 bear market lasted only 22 months; 9 of the 12 bear markets of the past 50 years ended in 22 months or less. Average duration of the 12 bear markets was only 19 months."

Notes

Lord, Abbett has issued a new folder called "Opportunities in Preferred Stocks."

"The 'New Look' in Aviation Prospects" issued by **Hare's Ltd.** makes interesting reading.

Harriman Ripley & Co. of Boston are launching a new open-end investment company to be known as "Shareholders' Trust of Boston." The Trust will be distributed by John P. Chase, Inc., while G. Peabody Gardner will be Chairman of its board.

National Securities & Research Corp. just published its first issue of "National Views," a very readable institutional type piece.

Dr. Frederick Macaulay, economics adviser to **National Securities & Research Corp.,** recently reversed his position on the stock market. Dr. Macaulay, who has been bearish since July 1946, now believes that the defense program will more than take up the slack that was beginning to show in certain lines.

Pessimistic Wall Street

By WHITMAN C. HAFF

Associated with Ward & Co., New York City

Writer argues pessimism is being overdone in Wall Street today, and this pessimism comes from within, and is not shared on outside. Sees for first time stock market ignoring business boom.

Webster's dictionary defines the word "pessimism" as "the tendency to exaggerate in thought the evils of life." That seems to be about what is happening in Wall Street today. There are too many pessimists with exaggerated thoughts.

If you stand on the banks of a stream, filled with ducks, and throw them a crust of bread, not one, but all within sight will struggle to get that crust and will even follow you as you walk along. However, when all your crusts have gone and you stop throwing any more, the ducks pay no more attention to you. A somewhat similar situation exists in the market today. A pessimist tells someone that he believes that such and such is the case and that someone tells someone else and that person tells someone else, etc. It then spreads like wildfire that someone "who should be in the know" said it, with the result that the market loses a certain amount of public following. There is no place in the entire country where pessimistic remarks can travel faster than in Wall Street.

Is pessimism being overdone in Wall Street today? There is but little doubt about it, and, unfortunately, within the industry itself, in this writer's opinion. In face of all this, however, the market seems to be acting very well by refusing to break away from its established resistance points in view of the foreign situation and bearish predictions mentioned in market letters. At the same time the public seem to entirely ignore the fact that many good stocks are selling for only two to five times earnings. Only a few years ago, if a stock was selling ten times earnings, it was considered exceedingly attractive.

Never, in this writer's opinion, can he remember when industrial production was at record rates and business booming all over the country with the stock market entirely ignoring it. There is also, in this writer's opinion, just as much, if not more, pessimism in Wall Street as there is outside. Wall Street's motto should be: "PUSH OUT THE BLUES AND GET INTO THE BLACK."

With Leedy, Wheeler Co.

(Special to THE FINANCIAL CHRONICLE)

ORLANDO, FLA.—Howard J. Wheeler is now with Leedy, Wheeler & Alleman, Inc., Florida Bank Building.

Sarnoff Endorses ERP Objectives

As Chairman of Committee on Europe of the U. S. Associates of International Chamber of Commerce, he sets forth as factors essential to success of program: (1) speed; (2) more European self-aid; and (3) skill of administration.

Brigadier General David Sarnoff, Chairman of the Committee on Europe of the United States Associates of the International Chamber of Commerce and President of the Radio Corporation of America, announced the submission last week of the committee's report on European Economic Recovery, with special reference to the Senate Economic Cooperation Bill, to all members of Congress and to other high government officials.


Gen. David Sarnoff

The report endorsed the objectives of the Senate Bill, passed on March 13, and said:

"The deciding factors which will determine whether the ERP will succeed are (1) the speed with which the Program gets into operation, (2) the extent to which Europe helps itself, and (3) the skill with which the United States administers its part of the program."

While expressing approval of both relief and recovery provisions of the Bill, the committee pointed out that ERP is not a panacea.

If Europe is to enjoy the principles of individual liberty, free institutions and genuine independence it needs political as well as economic security," says the report. "Europe and the rest of the world must have confidence that they can devote their energies toward producing goods and services and toward an improved standard of well being without the danger of having their work destroyed by internal political disorder or external aggression. The Recovery Program alone will not give them this security. But the program is one part, and an indispensable one, of a many-sided attack on the problem of producing a decent and peaceful world."

Attention was called by the report to the disruption of normal trade between East and West, brought on by the ideological struggle. The report stated, "It is essential for the United States to do everything possible to hold the great centers of Western trade and culture on the side of the West in the ideological struggle now going on for the control of the minds and allegiances of men. We do not say that the struggle between Russia and the West is insoluble and must inevitably lead to war. We do say that the struggle exists, and that we want to hold our traditional friends on our side until the East and West find a way to live together in peace."

Increased Production Alone Will Not Solve Problems

The report emphasized that increased production alone will not solve Europe's economic problems. "Even if the European Recovery Program succeeds in increasing substantially the industrial capacity of the recipient nations," it says, "there is still the problem of moving the goods to the consumers. The recipient countries must sell their production among each other and in the rest of the world. Private investments from abroad must be made possible, and without discrimination. In our opinion the problem of full distribution of European production can be solved only by an economic unification of Europe.

"As we see it, the minimum degree of economic unity essential for the success of the plan calls for the realization of two conditions:

"1. A substantial and progressive reduction at the earliest possible date of trade barriers in the form of tariffs, export and import quotas, and other impediments to the free movement of trade and persons among the recipient countries of Europe and as between them and countries outside Europe. In many of the recipient countries substantial progress toward eliminating these barriers can be made promptly. In others, special circumstances may postpone the attainment of this objective.

"2. The currencies of Europe must be stabilized and must be made freely interchangeable as between each other and with the United States dollar, at realistic rates. To achieve this, stabilization loans may be necessary at the proper time. Until stabilization and free convertibility of exchanges are achieved the recipient countries will not be able to build up their external trade. As in the case of the removal of barriers to trade, the stabilization and free convertibility of currencies cannot be realized all at once. Considerably more progress can however be made, than is commonly supposed, if the necessary external aid is supported by strong internal efforts. It should be the policy of the European recovery administration to further this program in every practicable way.

"These two elements of economic unity — the reduction of barriers to trade and the establishment of stable and freely convertible currencies—must, we believe, be prime objectives of the European Recovery Program. Their attainment is prerequisite to the success of the program."

Two specific recommendations on the Senate Bill were:

"(1) The provisions of Section 8 of the Bill relating to the so-called roving ambassador. His relation to the Administrator should be clarified.

"(2) The provisions relating to the guarantees of private investment. Increasing the 5% limit to a substantially higher figure would stimulate private investment without adding to the American taxpayer's burden."

Joins Draper, Sears Staff

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, MAINE — George S. Drake has become connected with Draper, Sears & Co. of Boston. He was formerly with Paul & Co., Inc., and in the past with Hornblower & Weeks.

What Wall Street Is

By EMIL SCHRAM*
President, New York Stock Exchange

Deploring misconceptions of "Wall Street," Mr. Schram defines it as "an evolved spontaneous service station to bring together those who accumulate capital and those who know how to put it to productive use." Ascribes dearth of venture capital to high taxation, and contends a free economy does not progress unless people are willing to risk funds in promising undertakings. Holds organized securities markets indispensable to private enterprise, and capitalism impossible without freedom.

If, in what I am now going to say, you detect a large measure of special pleading, I shall attempt to disarm you by admitting it. I am sure that you have some interest in the subject I intend to discuss. I represent an institution around which storms of controversy have blown, many, many times. This institution often has been the object of unfair attack. I would be less than candid if I did not say that, on occasions, mostly in the past, I am happy to say, it has been vulnerable to fair attack.

Emil Schram

Some of you have thought, or may still think, that the New York Stock Exchange is a symbol for "predatory wealth," "absentee ownership," "economic feudalism," "frenzied finance," "gambling," and "living on other people's money." Certainly, these terms have been hurled at us often enough.

If you will stop to examine the origin of any prejudice, I think you will admit that it often is partly inherited and partly instilled by things one has heard or read. It is, all too frequently, a prejudice planted by the passion of others, rather than a conviction resulting from one's own investigations and independent inquiries.

As President of the New York Stock Exchange, which is a most important unit in the country's financial and investment machinery, I shall try to tell you, as briefly as possible, what Wall Street is and explain what its economic functions and social values are. I think you will see how necessary the financial community is to the smooth operation of our free economy.

At the outset, permit to say that this vague section called "Wall Street" should have a better, and a more suggestive name. "Wall Street," as the term often is used, really means much more than a narrow thoroughfare on the southern end of Manhattan Island, more than a small area in New York City, and more than a group of brokers, bankers, corporation executives, corporation lawyers and their efficient staffs. "Wall Street" is not just a place. It is not a group of persons. It is not a state of mind. Rather, "Wall Street" is all of the Main Streets of our cities and towns and, at the same time, a piece of economic and social machinery essential to a capitalistic or free enterprise system.

No one conceived Wall Street in a blueprint. No one copied it after some prototype. It is not the result of legislation. Wall Street over the years has evolved as a spontaneous service station to bring together those who accumulate capital and those who know how to put it to productive use. Money accumulated is worthless both to the owner and to society until it is put to work. Wall Street puts money to work.

Sometimes people think that the hard-working men and women in Wall Street constitute something of a financial caste, like the Brahmans of India. Or, shall I say the Untouchables?

Nothing could be farther from the truth. The personnel of Wall Street is drawn from every State and almost every community in the nation. Among the executives, technicians and clerks who make up the financial community, one finds men and women of all occupational origins.

The fathers of the present partners of the New York Stock Exchange firms, for instance, were dairymen, ranchers, wheat farmers, cotton planters, textile operators, steel mill workers, newspapermen, college professors, teachers, retail store owners, newsdealers, engineers, miners, country bankers, traveling salesmen, preachers and lawyers, as well as stockbrokers and millionaires. "Vested interests" are not passed on from one generation to another. Only a constant infusion of new blood keeps the system strong and virile.

Some think Wall Street as a place where a few powerful men, perhaps a score or two, make joint decisions in their own self-interest and control the property and the prosperity of the nation. Nothing could be farther from the truth. If I were asked to name the ten most powerful persons in the financial communities of this country, I would not know where to begin. There was a time, years ago, when a few men did wield great power; but that was before the country became so big, before the economy became so complicated, and before the nation became so highly industrialized. The days of Jay Gould, Jim Fiske and others who gave Wall Street a bad name are distant history. The country simply outgrew them. They have no modern counterparts.

Work of Wall Street

In describing the work of Wall Street, I want to get as far away from platitudes as possible. It is my purpose to tell you what the financial community does and, so far as is possible, in a few minutes, how it does it.

I wonder if you ever stopped to think of the place of the large corporation, the giant corporation, in American life. No individual, or small group of individuals, has sufficient resources to provide the funds to equip this country with telephones, to establish a new automobile company, to build large steel mills, or to establish a nationwide mercantile chain.

Do you realize how many people are registered owners of American Telephone Company capital stock? Something over 723,000. How many shareholders of General Motors? 430,000. Of United

(Continued on page 26)

*An address by Mr. Schram at Washington University, St. Louis, Mo., March 22, 1948.

Letter to the Editor

Proposes European Reserve System

Herbert F. Milligan, Assistant Vice-President of Marine Midland Trust Company of Binghamton, N. Y., and Chairman of Educational Committee of New York State Bankers Association says a European Reserve System similar to our own, aided by U. S. gold and new monetary unit, would do much to restore European economy.

Editor, Commercial and Financial Chronicle:

While much is being written and spoken about world financial affairs, cure-all formulas, economic plans and commerce by nationally and internationally famous people; no one, to my knowledge, has touched on the basic nerve center of the European financial problem, which to me is so fundamental.

Herbert F. Milligan

Complicated currency, credits, gold silver, intrigue, misunderstandings, different customs, languages, lack of freedom in transportation and communication and many other restrictions have been the order in Europe for generations, so: to my way of thinking, to give billions of dollars to rebuild the countries as outlined so far is not the proper starting place.

In our own country, generation after generation rode the great economic "merry-go-round," always trying to catch a hold on a ring of the rainbow, and I think many will agree with me that a few learned that the basic need in this nation as a stabilizer was the Federal Reserve Banking System, and that as recent as the year 1914.

Before we learned of the need for a Federal Reserve Banking System, we had to have the awful panics of 1873, 1893, 1907 and even since 1914 we have had serious economic dips, but they could and probably would have been worse if we had not learned the values of a co-ordinated money and credit system.

A banker, to me is an economic architect, or should be; and if we look back over the lives of such men as George F. Baker, John D. Rockefeller, The Mellon Brothers and several other great bankers, we shall see that as financial leaders, some of what they built in the way of a banking system made it possible for us to finance a war for ourselves and our allies to a succesful end never dreamed of as possible.

Since 1933, our nation has been on a gold bullion standard, and today we are still buying gold, all of which, if not sterilized, is adding fuel to our inflation fire. While some of us feel that we have sadly mutilated our currency system, it is still the most sought after currency in the world.

Therefore, I would like to see a *European Reserve Banking System* created; capitalized with from $3 billion to $5 billion of our sterile gold matched with the same amount of gold paid in by the participating European countries, and with all banking institutions subscribing to the corporation and becoming members of the E. R. B. System as we do in the Federal Reserve System. The next development should be a standard current system—a European dollar, or franc—to be agreed upon, which would give all people and business in Europe a new unit with which to measure values—a standard measure used by all European people. This might restore confidence which has been so lacking and in my opinion, will continue for a long time, even if we pump many billions of dollars into the present system which is so full of holes.

Supposing, for example, we could get such a system set up with a $10 billion gold reserve and issued currency to the member banks—this could support as much as 28.5 times as much credit to the people's economy in Europe, based, of course, on the circulation of the credit and currency. Add to this a 10% or 15% reserve requirement on the part of member banks and you have further money or credit to use in the rebuilding of the economy of Europe.

With such a plan, we would be doing for the economically sick European countries what a doctor does for a patient who has had a serious accident or operation when he administers a transfusion. If he didn't repair and close the wound before giving the transfusion, and took all of the donated blood from one person, he not only would still lose his patient, but he might also lose the donor.

There is great fear of Communism among us—it is spreading and I feel we who are in the banking business have an opportunity as well as a responsibility to draw the plans for a new European economy, and we can find little fault if generals, politicians and others do it for us when we sit back and say or do little to help.

We know that associations have committees made up of bankers who have been in the business 40 years and more. The War was fought by young men and won by young men—so as a banker of only 19 years experience and lots of reading of history, I welcome comment and criticism of this suggestion.

*HERBERT F. MILLIGAN,
Binghamton, N. Y.
March 24, 1948

*Mr. Milligan is Asst. Vice-Pres. Marine Midland Trust Co. of Binghamton, N. Y., and Binghamton Chairman, Educational Committee, New York State Bankers Association.—Editor.

Pendergast Elected Pres. of Paul & Co., Inc.

PHILADELPHIA, PA. — At meetings held March 3, Ralph E. Pendergast was elected President, of Paul & Co., Inc., 1528 Walnut Street, in addition to the office of Treasurer which he previously held. M. Abbott Pendergast was elected to serve as Vice-President and Director; and Ira Jewell Williams, Jr., was elected director. William L. Canady resigned as President and Director and William E. Hansen as Assistant Secretary. Other officers and directors remain unchanged.

Paul & Co. has closed its branch offices, but is continuing its business from its main office in Philadelphia.

With C. E. Abbett & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—John T. Newton has been added to the staff of C. E. Abbett & Co., 3277 Wilshire Boulevard.

Sees Petroleum Demands Met by Private Enterprise

Dr. Wilson, Chairman of the Board of Standard Oil of Indiana, tells Central States Group of IBA accomplishments of industry in supplying heavily increased consumption of petroleum products, and decries government operation as ruining incentives and leading to permanent shortages.

To have come within 2% of having met the demand for petroleum products in the Middle West during the winter just past is a major achievement on the part of the oil industry, Dr. Robert E. Wilson, Chairman of the Board of Standard Oil Company (Indiana) told the Central States Group of the Investment Bankers Association at their luncheon meeting in Chicago, March 23.

Dr. Robt. E. Wilson

How great the problem faced by the industry was Dr. Wilson showed by use of figures in the accompanying table.

Increase in Consumption in the Midwest Since 1941 and 1946

Product	1947 over 1941 Increase	1947 over 1946 Increase
Gasoline	18.8%	8.7%
Kerosene	115.5	38.8
Distillate fuels	62.6	23.6
Residual fuel	34.6	24.0
Others	30.0	11.8
Total	31.0%	14.0%

The increase in consumption, though slightly below the nationwide average for 1947 over 1941 was above the nationwide average in the comparison of 1947 with 1946.

Consumption Greatly Increased

The reason for the increase in demand was primarily, Dr. Wilson said, the pronounced development in use of all types of oil-consuming devices and equipment. Passenger cars are now somewhat more numerous than they were before and during the war. Busses and trucks are much more numerous, and all types of automotive vehicles are being driven more miles per year. The railroads are rapidly dieselizing their locomotive equipment. Of 2,100 locomotives ordered last year 96% were diesels. The commercial airplanes are flying larger planes more miles than in the prewar period, and the peacetime operations of military aircraft are far more extensive than in earlier periods of peace.

The growth has been particularly noticeable, however, in the case of oil burners for central heating and space heaters burning kerosene. Oil-burner installations in 1947 totaled 830,000 throughout the nation, which was approximately five times the prewar average of annual installations.

While this kind of postwar demand was building up in the Midwest, said Dr. Wilson, that area was still having to overcome some special handicaps as to supplies. There was little refinery construction in the Midwest during the war. Such construction was sharply limited by government regulations except at coastal points where products could be readily available for shipment abroad by water. Likewise there was little construction of additional pipe lines into the Midwest, which is practically dependent on that form of transportation for its supply of crude oil.

While construction was stagnant during the war, crude oil production in the area was declining. Due to gradual exhaustion of the Michigan and Illinois oil fields there has been a drop of 250,000 barrels a day in Midwest crude production as against that prevailing in the latter part of 1941.

Midwest Feels Pinch

Because of these handicaps the Midwest was the first area to feel the pinch with respect to petroleum products and to take steps to overcome it. As the result it went into the winter somewhat better prepared, and is now better off in regard to heating oil supplies than the East Coast, though the situation is still tight.

The winter's experience has demonstrated, Dr. Wilson said, that it is impossible to heat the homes of all America with oil and meet other pressing demands for petroleum products. While it is not for the supplying industry, which believes in a free economy, to say what class of customers shall benefit from its products, there is a simple position it can take. That position, and the one adopted by the Standard Oil of Indiana, is to advise the public, including all potential purchasers of oil burners, of the facts about prospective oil supplies. Many companies have reached the limit in the number of fuel oil customers they can take on.

In explaining how the oil supplies had been stepped up to an unprecedented degree in spite of many difficulties, Dr. Wilson turned to a description of the operations of Standard Oil Co. (Ind.) as a good example because its marketing operations are primarily in the Middle West. He said that the company's subsidiaries produced in 1947 a gross of nearly 84,000,000 barrels of crude and he described what was involved in exploration, leasing, and drilling to discover more than this amount of new reserves in order to keep it in business. Several thousand people were involved in such activities. In 1947 the company drilled over 800 wells, about 70 of which were wildcats, costing an average of about $200,000 each. Of the wildcats nearly 70% proved to be dry holes, but the average of such failures for the industry was 80%. Dr. Wilson asked his audience to imagine what would happen if wildcatting for oil were under government control. No bureaucrat would dare take risks involving the certainty that 70 to 80% of his attempts to find new oil reserves would be failures. Experience in Mexico since expropriation of American companies' properties had shown how unsuccessful government operation of exploration for oil can be.

The Indiana company, he pointed out, is now producing about 2½ times as much crude as it was in 1940, but still produces only a little over half of its needs for refineries, which have also greatly increased. It is operating a total of approximately 7,900 wells. Although it is also operating 14,000 miles of trunk pipe lines, it is having to use expensive tank car shipments at a rate of about 15,000 barrels a day to supplement the pipe line deliveries.

The company distributes products by tank cars, lake tankers, transport trucks, and barges throughout the Middle West. With its marketing subsidiaries it operates some 4,500 bulk supply plants, that furnish products to 31,000 dealer stations as well as direct to farmers and quantity consumers. The dealer stations are all independently operated by small businessmen, the company operating only a small number of stations primarily for training purposes.

In its effort to improve processes and products so as to get utmost value out of crude oil Standard and its subsidiaries are spending about $9 million a year on research activities, the speaker said. One major current development is in the field of production of gasoline synthetically from natural gas. A subsidiary is at present proceeding with plans for a large plant at Garden City, Kansas, to manufacture gasoline from the enormous gas reserves available in the Hugoton field.

Except for this development, Dr. Wilson said, the industry is not quite ready for synthetic production of oil. Increased research is desirable in the field of manufacture of oil from coal, but public funds should not be used for a reckless venture into large-scale production.

Capital Requirements

Dr. Wilson stressed the growing capital requirements of the industry, which will probably total close to $3 billion in 1948. He pointed out that heavy taxation is drying up the sources of equity capital, with the result that most oil stocks are selling far below their book value, and still farther below their true intrinsic values, so that it is hardly fair to stockholders to dilute their interest by offering new shares or rights. Many companies are approaching the limit of what they feel they should borrow, so a continuation of good earnings and plowing back about two-thirds of such profits in the business is necessary if the industry is to keep up with growing demand.

Looking forward, Dr. Wilson foresaw an increase of about 7% in the petroleum supply in 1948. Whether this would be enough to meet demand depends largely on continued public cooperation in conservation and a marked slowing down in the installation of oil burners and space heaters. The one sure way to have and perpetuate shortages, rationing, and other problems, he declared, would be to let the government take advantage of the very moderate difficulties that have so far been experienced to take control. Government control, he felt sure, would ruin incentives, tie the industry up in red tape, and bring about reductions in output and permanent shortages instead of the remarkable gains the oil industry is recording through the give and take of competition to solve its problems. The real hope of the future is in research, technology, and free enterprise, "which can and will solve the problem if they are allowed the chance which their past record shows they clearly merit."

The Outlook for Labor Productivity

By JOHN C. DAVIS*

Economist, President's Council of Economic Advisers

Decrying attempts in peacetime to increase production by wartime methods, government economist holds we may expect about 3% annual increase in production in next three years and 2% annual average thereafter. Holds increase in workers' productivity is likely to be offset by shorter hours, and sees need, in advancing workers' productivity, for substantial improvement of managerial techniques and abandonment of restrictive practices by both labor and management.

Interest in labor productivity stems largely from the desire to improve our standard of living. To increase our national well-being, it is necessary to produce more goods and services. There are only three ways whereby we can do this. One way is for more people to work, another is for them to work longer. A third way is to increase productivity. What can we anticipate from each of these three basic means of increasing output?

John C. Davis

We cannot expect an increase in the proportion of the population at work. In relation to our population the present labor force is probably as large as is desirable. During the war we expanded employment, not only by virtually abolishing unemployment, but by drawing older people, women, and young people into the labor force. It is very doubtful, however, that we should attempt, in peacetime, to increase production by these methods.

Likewise, the hours now being worked per week are as high as is desirable in a peacetime economy. There is every reason to expect the long-run decline in hours to continue rather than to expect the work week to be lengthened. Unless greater output is secured as a result of greater productivity, we get the increase by sacrificing progress toward goals that are generally accepted as desirable.

The Meaning of Productivity

The term "productivity increase" means that some one factor of production is being used more efficiently. By an increase in labor productivity, we mean that a given expenditure of labor is producing more than previously. Technically, we should express labor productivity as the ratio between output and man-hour input. At the plant level, an increase in labor productivity means that the output of the plant has been increased relative to the man-hours expended. At the national level, we are concerned with the total output of goods and service (called Gross National Product) in relation to the amount of labor input (man-hours) expended in producing that total output.

Labor productivity is the joint result of a number of different factors. In the long-run, clearly the most important has been the increase in the use of power and capital—that is, improvements in technology. At any one time or during a short space of time, labor productivity is also the direct result of: (1) the rate of operations; (2) resources and materials available; (3) the skill and effort of the working force, and (4) managerial efficiency. In addition, if output is measured in money terms rather than in physical quantities, productivity is also the result of changes in the type and relative quantities of goods produced.

There are many misconceptions regarding the meaning of the term "labor productivity." It is often used to mean "production." It is sometimes assumed that if output increases, labor productivity has also increased. This, of course, is not necessarily true. Since productivity is output per man-hour there will be no increase in productivity if the number of man-hours increases as much as output. The output of the economy can continue to rise without an increase in productivity. We cannot assume that an economy of maximum employment and high production is an economy operating at high levels of productivity.

We should not view labor productivity as synonomous with labor effort on the job. Labor productivity has risen as weekly hours have declined, and as physical effort demanded of workers has decreased. This is not to say that the diligence, alertness, and intelligence of workers has no effect upon productivity. It does mean that labor productivity is determined in large measure by a number of factors other than the efforts of individual workers. For this reason, employees are often unable to do much to affect their own individual output. This is obvious in those cases where employee effort must automatically be geared to the flow of the materials as when working on a conveyor.

Since output per man-hour for the economy as a whole depends upon a number of factors—most of them not related to workers' efforts to produce—it cannot be assumed that a drop in productivity means that workers are soldiering on the job. Nor it is necessarily true that an increase in productivity is partially or wholly caused by harder work on the part of employees. A decline in productivity can reflect a drop in the quality of management; an increase can result from installation of better equipment. A determination of the effect of worker effort on productivity must rest upon careful and intensive investigation of output per worker at the plant level. Overall, year to year changes reflect neither credit nor discredit on management or employees. They cannot profitably be analyzed for this purpose.

While considerable work in the measurement of productivity changes in the past has been done by both the government (mainly the Bureau of Labor Statistics and the Bureau of Agricultural Economics) and private research agencies (mainly, the National Industrial Conference Board and the National Bureau of Economic Research), the basic information on past changes is still spotty—being largely confined to manufacturing, to agriculture, and to selected non-manufacturing industries. Some major components of the economy, such as construc-

(Continued on page 37)

*An address by Mr. Davis at the 6th Annual Industrial Relations Conference, University of Minnesota, Minneapolis, Minn., March 18, 1948.

Canadian Securities

By WILLIAM J. McKAY

The Canadian austerity program which has been adopted, not as a result of internal weakness but as a consequence of the disordered state of the world in general, is likely to prove a blessing in disguise. A young and growing country lavishly endowed with a wealth of natural resources must work for the greater possibilities of the future, and not rest upon the achievements of the past.

At the close of the war the Dominion was in a position of apparently impregnable financial and economic strength. It was not remarkable, therefore, that the Canadian authorities were then inclined to view the situation with a high degree of complacency. Canada in consequence was in the danger of relapsing into a state of comfortable inertia. Then came the cold douche of the British and European economic crises and the world-wide U. S. dollar shortage with its severe impact on the Dominion's foreign exchange position.

With characteristic resolution to stand on her own feet Canada eschewed the course of easy expediency and chose instead the harder policy of retrenchment and looked towards a more vigorous development of domestic resources. No longer could Canada depend on the time-honored exchange triangle whereby the proceeds of exports of primary products to Britain and Europe could be converted into U. S. dollars to pay for manufactured goods and luxury articles imported from this country.

The inherent defects of this system had long been widely recognized but its successful operation over a long period obscured the latent dangers. Consequently the Canadian economic policy in the past could never follow an independent line, but was dictated by developments in Britain and this country. As a result the Dominion's economic growth was primarily determined by events outside its own control.

Now, however, Canada can concentrate on the moulding of her own destiny and even a casual review of the domestic possibilities holds out high promise for the future. Hitherto it has been only too easy to obtain convenient supplies of coal, oil, steel and manufactured goods from south of the border, and to ignore the existence of the Dominion's own extraordinary wealth of natural resources. Thus until recently only spasmodic efforts have been made to exploit the known mineral wealth of the Dominion. Now that necessity drives, serious consideration is being given to the vast Quebec-Labrador iron fields, the oil of the Prairie Provinces, and the enormous coal deposits in Alberta and British Columbia. Furthermore although Canada has never lagged in hydro-electric developments, there still exist almost unlimited unutilized reserves for still greater production of light metals, paper and plastics.

Another encouraging development is the institution of a vigorous Canadian immigration policy as a result of which Canada is now attracting a steady influx of skilled labor from all over the world. Thus Canada is now in the process of turning adverse circumstances to good account and as history has so often demonstrated, the great eras of virile nations are almost invariably preceded by periods of trial and tribulation.

During the week there was a slackening of the demand for high-grade external bonds and prices were inclined to ease. Dominion internals on the other hand displayed a firmer tone in sympathy with the strength of free funds. As the tourist season approaches and in consequence of the absence of imminent bond maturities, the market for free funds and internal bonds is likely to continue to improve.

Canadian stocks after their recent disconcerting decline staged a strong rally led by the paper and industrial issues. Golds also recovered and Western oil were firm as a result of the Imperial Oil announcement concerning concentration on domestic oil production.

Thomas G. Campbell Now With Stern & Co.

Stern & Co., 25 Broad Street, New York City, member of the New York Stock Exchange, announces that Thomas G. Campbell, railroad consultant and author of many research reports of railroad securities, has become associated with them. Mr. Campbell was recently head of the New York Stock Exchange firm bearing his name.

Thomas G. Campbell

Cincinnati Municipal Bond Dealers Outing

CINCINNATI, OHIO—The Municipal Bond Dealers Group of Cincinnati has set May 25th as the day for their Annual Spring Party. It will be held at the Kenwood Country Club, and besides the usual dinner there will be golf, baseball and tennis. Out-of-town guests are invited. Further information may be obtained from C. A. Richards, Field, Richards & Co., Secretary of the organization.

Tax Reduction

By ROGER W. BABSON

Mr. Babson holds government expenses can be reduced and income increased even with tax reduction. Says high taxes are increasing prices, and makes practical suggestion Treasury notify all taxpayers through advertisements on how to compute their taxes.

Apparently everybody is interested in tax reduction with the exception of President Truman and his immediate friends. The difficulty seems to be that all hands have forgotten what is best for the country and are just playing politics. Everybody with whom I talk agrees that it is possible to reduce greatly the Government expenses. This would not only save the taxpayers' money, but it would go a long way towards increasing production and lowering prices. If people now on the Government payroll could be employed to produce more goods or aid in the marketing of the same, it would be a real help in reducing the so-called inflation.

Roger Babson

Every Senator and Representative, however, has certain relatives and friends in the Government service. Hence, although Congressmen will agree in principle that the expenses of government should be reduced, yet when it comes to their own friends and relatives, it is a horse of another color. Perhaps the only practical way for putting a million Government employees back to earning an honest living would be by a change of Administration. Democrats hate to fire Democrats; but a new Republican Administration might do so very gleefully!

Need of Lower Taxes

I have just been doing some work on trying to help my community get houses for veterans. A house for which veterans are being charged $12,000 today could have been built ten years ago for half this sum. Moreover, he would then have had a better house for $6,000 than he is now paying $12,000 for. When analyzing the increase, I find that wages have gone up about 50% and that many bricklayers, carpenters and painters are not giving an honest day's work today even at the higher wages. The increase in the cost of materials varies greatly. Cement, for instance, has gone up in most sections only 10%, while lumber has gone up 175%.

The greatest increase is in connection with taxes. Before the war builders' taxes amounted to very little, while today Federal, State and other taxes amount to over half of the building costs. The same increase applies to everybody involved in the preparation and handling of building materials. As a result, of the $6,000 increase in costs, at least $3,000 goes to Uncle Sam. This shows the great importance of getting taxes reduced.

Army, Navy and Aircraft Appropriations

We all should heartily get behand President Truman in his demand for more money for defense. Hence, we need a plan whereby the Government can reduce taxes, thereby reducing prices, and at the same time collect the money which President Truman says is required for defense. Of the many suggested solutions I have received, I should like to relay one from John M. Glass, accountant and tax authority of Frostproof, Fla.

It is fair to assume that 90% of the people in this country are honest. Yet, the Government is probably losing $5 billion a year from ignorance in making out of tax returns by small businessmen and other individuals. Some money is undoubtedly lost through dishonest returns, but most corporations have their returns made out correctly by accountants.

Increasing Government Income

My very practical suggestion is that if the Government should spend $100 million annually on publicity, it could get back $5 billion in stray money. For instance, the owner of every filling station should receive a letter once in three months explaining, simply, but very forcefully, what he should deduct and what he should pay. The Government should buy advertising space in the newspapers, as well as use the mails, to impress upon all taxpayers what they should do and warn them of penalties. This would bring in several billions more money without hurting anyone.

There should be nothing politically repugnant to any Congressman in such a campaign. It would treat everyone alike and hurt no one. This plan would enable taxpayers to get the reduction in taxes which we desire and, at the same time, enable the President to have the money which he needs. I hope every reader of this column will cut this out and mail it to his Congressman.

John Newsome Partner In Ridgway, Newsome

John C. Newsome, member of the New York Stock Exchange, on April 1 will be admitted to partnership in Ridgway & Co., 120 Broadway, New York City, members of the Exchange, and the firm's name will be changed to Ridgway, Newsome & Co. Mr. Newsome has recently been acting as an individual floor broker. Prior thereto he was a partner in Kalb, Voorhis & Co.

John W. Stephens With Sullivan Company

WICHITA, KANS. — Sullivan Company, Union National Bank Building, announces the association with it of John W. Stephens, formerly field representative for Hugh W. Long & Company. Mr. Stephens will act as consultant on the selection of investment programs, portfolio analysis and financing problems.

To Be Shean, Earle & Co.

Edward H. Jewett, Jr. on March 31 will retire from partnership in Jewett & Shean, 1 Wall Street, New York City, members of the New York Stock and Curb Exchanges. On April 1st the firm's name will be changed to Shean, Earle & Co. On the same date, Charles G. Raymond will be admitted to limited partnership.

Carl H. Kleinkopf Joins Staff of T. C. Henderson

BURLINGTON, IOWA — Carl H. Kleinkopf has become associated with T. C. Henderson & Co. of Des Moines as resident manager in Burlington. Mr. Kleinkopf was formerly President and Treasurer of Kleinkopf & Co., which is now dissolved.

Reserve Board Studies Higher Cost of Capital

Federal Reserve Board analyzes rise in short-term and long-term interest rates since Spring of 1946, as well as higher cost of equity capital. Predicts rising future demand for credit and higher interest rates, and holds, because of inadequate Federal Reserve authority, an orderly and stable market for securities can be preserved only by voluntary restraint of lenders and borrowers.

The March issue of the "Federal Reserve Bulletin" contains a leading article on changes in the cost of credit and capital since the end of the war. According to the article:

"Since the spring of 1946 the cost of credit and capital has been increasing and interest rates generally have risen from the extremely low levels previously prevailing. The primary cause of this change has been the persistent and strong demand for funds in excess of the supply of savings available for investment. Another basic factor has been action by fiscal and monetary authorities to reduce the availability of bank reserves and to increase the cost of credit.

"The demands for new funds by businesses, individuals, State and local governments, and foreign borrowers have exceeded the supply of savings seeking investment in these fields, and the deficiency has been financed by bank credit expansion. Some expansion of new private bank credit has probably been necessary to facilitate such increases in production as resources would permit and to meet additional demands for cash holdings. The increase in bank credit, however, has been in excess of amounts needed for such purposes and as a consequence has been a factor in supplying borrowed funds at relatively low rates of interest and in contributing to inflationary developments.

"After mid-1947, when the demands for credit and capital funds were growing at an accelerated rate, there was a general rise in interest rates. Rates rose above the levels—and away from the relationships—that had prevailed during the 1942-1946 period when war financing dominated the money markets. A special factor contributing to the general rise in rates was the action taken by the Federal Reserve System and the Treasury to let rates on short-term Government securities rise above the levels established during the depression and recovery years of the thirties and maintained during the period of heavy war financing. The object of the recent shift in policy was to diminish further the inducement for banks to sell short-term Governments to the Federal Reserve in order to make loans or to purchase longer-term securities in the market.

"Rates on money market obligations at both short- and long-term rose almost steadily from the late summer of 1947 through the early weeks of 1948. High-grade corporate obligations took the lead in the upward movement of long-term rates. The increase in rates of longer-term Federal securities began somewhat later and was interrupted for a period in November and December by open market purchases of the Federal Reserve System and the Treasury. Following a sharp rise on Dec. 24, these rates were again stabilized by official action. Rates on various forms of nonmarketable debt, such as bank loans and real estate mortgages, and on equity funds also exhibited firming tendencies."

As to the prospects of interest rates, the Federal Reserve Board and its economists appear to sense further upward trends and larger capital demands. Regarding this, the article states:

"If the high levels of demand and production generally prevailing in the past year are maintained and particularly if prices should rise further, it seems probable that the forces underlying the recent rise in money rates will continue. Businesses will still require a substantial volume of outside financing, in addition to their internal resources represented by current and accumulated earnings and earned depreciation allowances, in order to finance further additions to plant and equipment, inventories, and

(Continued on page 35)

The Community's Role In Labor Relations

By THEODORE W. KHEEL

Director, Division of Labor Relations of the City of New York

Former Executive Director, National War Labor Board

Labor official describes New York City administration's technique for settling disputes. Maintains generalizing about labor relations is dangerously confusing, and every situation must be treated on its individual merits.

Observation No. 1: You can't generalize about labor relations and attempting to do so merely confuses one's thinking on the problems of labor and management. Of course, there are great similarities between one labor situation and another. But I can attest that each and every one of the disputes we have handled was basically different from any others — different as to the problems of the industries, the people invloved, and the issues to be settled. Based on this experience I scrupulously avoid any sweeping generalities about "the trouble with management or labor" being this, that or the other thing, although I am prepared to hold forth on what I think is wrong in any particular situation.

Theodore W. Kheel

Observation No. 2: In New York City each one of us is vitally dependent for our existence on everyone else. We had concrete demonstration of our interdependence in the tugboat strike in 1946. Very few people in this city even knew that the tugboat employees were organized in a union. But they found out very quickly when they went on strike. Of course, that strike hurt. But it did teach us one thing, namely, how closely dependent we all are.

The Community's Role

Observation No. 3: That leads to observation No. 3 which deals with the role of the community in the adjustment of labor disputes. We have recognized in the first place, that all of us have a vital stake in the settlement of certain labor disputes in this city and we have found secondly that we (that is the community) can do something about their settlement. What the community can do is exemplified in the work of our Division. Very briefly how it works is as follows. The Mayor, through the Division, will intervene when it appears that a labor dispute might jeopardize the health, welfare or safety of the people of our city. The Mayor will invite the representatives of both sides to City Hall and will generally appoint a committee of outstanding leaders in the city to help the company and the union of this city resolve their controversy in the interest of the people of this city. The whole procedure is conducted in a goldfish bowl, fully revealed to the people of this city through the press.

No Strike Is Necessary

Observation No. 4: One other observation grows out of this experience. Frequently, we hear it said by company or union officials that a strike is inevitable. Of course, they say that sometimes for strategic reasons, to indicate to the other side that they are not afraid of a strike. But whether they say it for strategic reasons or because they believe it, the fact is that gloomy prophecies of that sort can lead to a real belief in the inevitability of a strike. We in the Division start from the premise that no strike is necessary and since the Division has no strategy to perform, we are not afraid to say so. We are quick to tell any company or union that feels it must have a strike that we don't believe that a strike is necessary. Of course a mere statement that a strike can and should be avoided is not enough.

Underwriting Firms Enter Denials

Seventeen investment banking firms and IBA file answers to monopoly charges, made by Justice Department, and ask dismissal of case.

On March 18, the 17 leading securities underwriting firms and the Investment Bankers Association of America, which on Oct. 3, 1947, were charged in a suit brought by the Department of Justice with conspiracy to create a monopoly in the nation's securities business, filed individual answers denying the charges.

In their answers the accused firms denied each of the 46 charges in turn, and asked for a dismissal of the government's complaint and requested that the Justice Department specify acts, with times and places, alleged to have been in violation of the antitrust laws.

The defendants, in each case, termed the complaint vague, indefinite, untrue and uncertain. They pointed out that the securities business was under control of the Securities and Exchange Commission and the NASD, and all their acts were subject to regulation and scrutiny.

The answers described the procedure for purchase of securities through negotiation or in competive bidding and pointed out risks which investment bankers take in connection with their business.

The firms which filed answers included: Morgan Stanley & Co.; Kuhn, Loeb & Co.; Union Securities Corp.; Stone & Webster Securities Corp.; Dillon, Read & Co; Kidder, Peabody & Co.; Blyth & Co.; The First Boston Corp.; Glore, Forgan & Co.; Goldman, Sachs & Co.; Lehman Bros.; Harriman Ripley & Co., Inc.; Drexel & Co.; White, Weld & Co.; Smith, Barney & Co.; Harris, Hall & Co., and Eastman, Dillon & Co.

Joins Pearson Richards Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Robert W. Brown has joined the staff of Pearson, Richards & Co., 448 South Hill Street.

Kenney-Powell Teletype

Kenney & Powell, 25 Broad Street, New York City, announce the installation of a Bell System Teletype, NY 1-528.

Inflation in Europe

(Continued from first page)

inflation must be checked and foreign exchange rates adjusted to realistic levels. To check internal inflation, governmental budgets must be balanced and restraint imposed on the expansion of private credits. To adjust foreign exchange rates to realistic levels, price controls, rationing and subsidies need to be eliminated.

The strength of inflationary forces varies greatly over Western Europe. They are least in Switzerland and Scandinavia. They have been most pronounced in Greece, Turkey, Italy and France. In between these extremes are Belgium and the Netherlands. Germany constitutes a special case, which indeed was the situation after the first World War.

Basic Causes of Inflation

In all countries inflation arises from the same basic causes and exhibits the same basic characteristics. It gives evidence of a surplus of purchasing power relative to available goods. During wartime, the flood of purchasing power may be temporarily dammed by price and rationing controls. In the postwar period, the psychological situation changes and becomes favorable to inflationary price increases. No longer moved by patriotic fervor, the popular mood alters and funds are diverted into non-productive and extravagant employment. Labor productivity is relatively low, and production deficient. The stage is set for rapid price increases, brought about by the pent-up purchasing power of the war and by postwar increases in money and credit.

In this milieu, price and rationing controls are of little avail. If effective, price controls lead to a condition of suppressed inflation, in which wages cease to provide any real incentive, goods are produced for the uncontrolled markets and income is spent lavisly on recreation and amusement. If ineffective, price controls and rationing serve to stimulate the creation of black markets. The remedy for postwar inflation lies not in reliance upon rationing or price controls but rather in the twofold action of increasing production and reducing the quantity of purchasing power.

Progress of European Recovery

As measured against the situation at the end of the war, civilian production over most of Western Europe has shown marked recovery. Britain, which was as fully converted to war production as any other belligerent, is now producing and exporting a larger quantity of goods than in 1938. However, the need to increase exports is so urgent that the domestic market is still severely rationed. In consequence, Britishers, as a whole, have less food than in 1938, less clothing and considerably fewer household goods. Industrial production in France, the Netherlands, Norway and Sweden is either equal to or exceeds that of 1938. Only on the Western zones of Germany is production still far below the prewar levels. The deficiency in German production, centered as it is on such key items as coal, steel and chemicals, has had a retarding effect on the production of Western Europe as a whole and has been one of the major factors preventing production there from rising considerably above prewar levels, which it must if satisfactory recovery is to take place.

Of great promise in the economic reconstruction of the Western zones of Germany are the decisions reached at the six-power conference recently held in London. The communique issued by the conference declared that the participating countries, which included the United States, Britain, France and Benelux, had agreed on the necessity of the economic reconstruction of Western Germany and of establishing a basis for the participation of a democratic Germany in the community of free peoples. Prompt action should be taken, the delegates agreed, to coordinate the economic policies of the three Western zones, in such matters as trade, customs and the free movement of persons and goods. Only if Western Germany is put into full production can this industrial workshop make its complete contribution to the economic life of the free peoples of Europe.

Primary Functions of ERP

One of the primary functions of the European Recovery Program is to provide food, raw materials, fuel and machinery in order to help Western Europe, including the Western zones of Germany, help itself to achieve high levels of production. The 16 nations participating in the Paris conference pledged themselves to very vigorous productive effort. The expansion which is envisaged by 1951 is similar in general scale to that achieved by the United States in the mobilization years from 1940 to 1944. As higher levels of productive activity are reached, inflationary pressures arising from a lack of goods will tend to subside.

The degree of success achieved by the European Recovery Program depends upon the reestablishment of a free market economy, throughout Western Europe. To establish a free market economy, internal economic controls must be eliminated. The longer such controls continue, the more they distort the economy from the shape it would assume under a free price system. The greater the economic distortion, the more difficult is the transition from a controlled to a free market. Economic controls should be used to ease the transition from controlled to free markets and not to frustrate that transition.

The removal of internal and external controls will permit Western Europe to unify its production targets. The price system can function freely and costs and prices can be brought into balance. Not only will total production be stimulated, but production in its many diverse forms will be directed into the most useful channels.

Increased Production Alone Cannot Check Inflation

While no one would deny the need to increase production in Western Europe, this in itself, although of vital importance, will not be sufficient to check inflationary pressures. Measures must also be taken to curb further increases in purchasing power, to reduce the total volume of purchasing power and to restore confidence in the various currencies. Of necessity, the measures to be taken must find their origin in internal monetary and fiscal policies.

The checking of inflation is essentially a domestic matter and nations must have the courage and willingness to take the necessary corrective measures. Foreign stabilization loans are in the nature of palliatives and not cures. The nations of Western Europe have pledged themselves to carry out stabilization programs in a spirit of determination, to eliminate budget deficits, to restrict calls on banks of issue and, once stabilization has been achieved, to make their currencies convertible as defined in the Articles of Agreement of the International Monetary Fund at appropriate rates of exchange.

Various methods have been used in Western Europe to check inflation and to stabilize currencies. In some countries the methods used have involved the "blocking" of substantial portions of the money supply. This action, commonly referred to as a monetary purge and first used by Belgium in October, 1944, removes by a major operation part of the excess purchasing power resulting from wartime deficit financing. It provides the basis for a firm monetary policy but will not have lasting success unless current budgetary deficits are eliminated, unless bank credit expansion for unessential purposes is discouraged and savings are encouraged. Monetary purges block a certain portion of existing liquid assets but do not reduce current income.

All European experience points to the fact that currencies can not be stabilized unless budgets are balanced. In fact, to check inflation, a budget surplus is necessary in order to absorb current income and to reduce the public debt. To the extent that the public debt held by the banking system is reduced, bank notes and deposits will decline. Deflation thus is the reverse of the process of inflation which led to the great wartime expansion in purchasing power.

To achieve a budgetary surplus, governments should not hesitate to remove subsidies on consumption goods and, wherever possible, to reduce expenditures. Taxes should be directed to temper the consumption boom, which is a leading characteristic of inflation, and should be devised to reach the agrarian groups, whose postwar incomes have increased with great rapidity throughout Western Europe. In these various respects the present French Government has shown commendable courage and determination. Certainly there should be no thought of tax reduction as long as inflationary pressures persist.

ERP Anti-Inflation Plan

An important means of checking inflationary pressures in the participating nations of Western Europe is contained in the bill introduced by Senator Vandenberg to implement the Marshall program. The participating countries are to agree to place, in a special deposit, local currency in an amount commensurate with grants of goods and services authorized by the Administrator of the Economic Cooperation Administration. This procedure is similar to that provided by the Foreign Aid Act of 1947. These deposits may be used only for purposes agreed to between the participating country and the Administrator, the latter acting in consultation with the National Advisory Council, and could be used, for example, to immobilize local currencies with the central bank and to retire the national debt.

In certain countries these special deposits may amount to a very substantial proportion of the local money supply and could exert a very important anti-inflationary effect. However, the particular use made of the deposits should be integrated with the credit control and debt management policies of each nation. They should not be used as a substitute for a balanced budget or to conceal budgetary deficits. They should be used not to supplant but to assist each nation with its own anti-inflationary program.

In case the special deposits are not needed to combat inflation but are used to stimulate the production of raw materials in short supply in the United States or to defray local costs of those capital projects which are approved by the International Bank, the use should be such as to strengthen and not to impair the private enterprise system.

Restriction of Private Credits

In the combatting of inflationary pressures it is not enough to reduce the public debt, either by means of a budgetary surplus or by use of local currencies acquired through the sale of products received from the United States under the European Recovery Program. In addition, the growth in private credits must be restricted. The European nations have devoted considerable thought to this problem and have experimented with various methods to curtail private credit expansion. In some instances the method used has been increases in the discount rate. On three occasions since November, 1946, the National Bank of Belgium has raised its discount rate, bringing it from 1½% to 3½%. On the whole, however, Western Europe has made little use of the discount rate as an anti-inflationary weapon. Present practice in this regard stands in marked contrast to that after the first world war.

Unwillingness to raise interest rates as a means of checking private credit expansion has led to the use of moral suasion. Thus, in Britain, an attempt has been made to adjust the lending operations of the commercial banks to the general economic and financial policy of the Government. Commercial banks have tended to discourage borrowings for speculative operations and for the financing of personal consumption expenditures. In line with a recent memorandum issued by the Chancellor of the Exchequer to the Capital Issues Committee, commercial banks are endeavoring in their loan policy to discourage outlays on buildings, plant and machinery except where the project gives a considerable return, directly or indirectly, in increasing exports or in reducing imports or is of special importance to such basic industries as agriculture, coal and steel.

Role of Interest Rates

Moral suasion as a means of checking private credit expansion, however, needs to be supplemented by a generally restrictive credit policy on the part of central banks and by a tightening of the money market. In a free market economy, interest rates must be allowed to play their historic role in the restriction of credit and in the stimulation of savings. The need for higher savings in relation to national income is greater now than before the war. There is war damage to be repaired, obsolete capital equipment to replace, and housing needs to be satisified.

In a resolution on monetary policy, the Council of the International Chamber of Commerce declared recently that very low rates of interest are not necessarily innocuous. In fact, the Council continued, the perpetuation of low rates makes monetary management the more difficult since it removes one of the instruments, which proved useful in the past for influencing economic development. The Council recommended that Treasuries and other monetary authorities begin to think in terms of flexible and not rigid interest rates.

Flexible Exchange Rates Needed

Just as Western European nations should begin to think in terms of flexible and not rigid interest rates, so they should think in terms of flexible and not rigid exchange rates. Rigid exchange rates can prove very unrealistic and greatly hamper economic recovery. The recent action of France in establishing a free market in certain currencies and also a free gold market is an important and necessary step towards the establishment of more realistic rates of exchange. This action will induce tourists to come to France, will stimulate French exports, will promote a dishoarding of gold within France. It will enable the French Government to ascertain the real worth of the franc and thus to determine a valid rate for the final devaluation of the franc.

With the American aid envisaged in "The Economic Cooperation Act of 1948" the participating nations of Western Europe will be in a position to take decisive action to correct inflation. They will have the necessary raw materials to expand production. They will be able to take those measures which experience has proved necessary to combat both open and suppressed inflation, namely, the establishment of free markets, budgetary surpluses, the restriction of private credit expansion, and the adoption of realistic rates of exchange. The checking of inflation and the stabilization of currencies will themselves stimulate industrial and agricultural production and direct it into the most useful channels.

J. T. Swartz & Co. Formed

(Special to THE FINANCIAL CHRONICLE)

URBANA, ILL.—John T. Swartz has formed J. T. Swartz & Co. with offices at 801 South Vine Street, to engage in a securities business. Mr. Swartz was previously with Barcus, Kindred & Co.

Leo C. Snyder Now With Quail & Co., Davenport

BURLINGTON, IOWA—Leo C. Snyder has become associated with Quail & Co., Davenport Bank Building, Davenport, Iowa, members of the Chicago Stock Exchange. He was formerly an officer of Kleinkopf & Co.

With Clark Davis Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—John S. Hill is now affiliated with Clark Davis Co., Langford Building.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

As noted in our issue of March 18, page 1228, plans for a merger of the **Bank of New York** and the **Fifth Avenue Bank of New York** were ratified by the respective boards of trustees and directors. Action on the proposal will be taken by the stockholders of the two banks on April 15. Upon completion of the merger John C. Straphagen, President of Bank of New York since 1931, will become Chairman and Chief Executive of the merged bank. John I. Downey, President of The Fifth Avenue Bank, will be the Vice-Chairman and the directing head of The Fifth Avenue office of the combined institution. Albert C. Simmonds, Jr., who has been Vice-President of the Bank of New York since 1941 and more recently in charge of the commercial banking department, is slated for the post of President.

The name of the merged institution will be Bank of New York and Fifth Avenue Bank. The agreement provides that the surviving charter will be that of the Bank of New York. Limited by charter to 25 persons, the new Board of Trustees will be selected from the present boards of the two banks. Upon completion of the merger the combined bank will have total resources of approximately $450 million.

The Bank of New York was founded in 1784; it was actually organized at a meeting on March 15 that year. The capital of $500,000, consisted of 1,000 shares of $500 each. General Alexander McDougall was named President and William Seton, Cashier. Alexander Hamilton, one of the original directors played the most active role, it is stated, in the bank's early history. In 1791 the Governor of New York signed a bill chartering the bank, this, it is said, having been the first step toward public control of banks in the state. In 1922 the bank merged with the New York Life Insurance and Trust Company to for the **Bank of New York and Trust Company**, operating under the charter of the trust company but retaining its No. 1 on the Clearing House Association list. It is added that the Bank of New York is the oldest bank in America using its original name. Also, it was the first financial institution in America to use "Trust Company" as part of its title. It is pointed out that the bank's charter is unique. Under it, trustees are elected for life, with power to fill vacancies in the board as they occur. This, it is observed affords a guaranty of continuity of management.

The Fifth Avenue Bank was founded in 1875, having had its inception in the basement of the Old Sherwood House, at 44th Street and Fifth Avenue. Philip Van Volkenburgh was made President, John H. Sherwood was elected Vice-President, and A. S. Frissell was named Cashier. As to its formation an official announcement says:

"The venture was an experiment. For while many of the nation's most prominent families lived in the neighborhood, the men did most of their banking in Wall Street; the women were unaccustomed to the use of checks. Once a week these women drove in front of the markets and sent their footmen in with envelopes to pay the bills. It was to serve these women that the bank was founded."

As the neighborhood gradually was transformed into a business district the bank's commercial activities became more important. In 1890 the bank bought the property at 530 Fifth Avenue, and in 1931 it opened a branch at Madison Avenue and 73rd Street.

* * *

Irving Trust Company of New York announces the promotion of Frank M. Atterholt from Assistant Vice-President to Vice-President and his appointment as head of its branch office on West 48th Street at Rockefeller Plaza. Mr. Atterholt, who is 41 years of age joined the Irving in 1928 following his graduation from Yale that year. He started in the Credit Department and has been a member of the loaning staff at the main office for more than 10 years except for nearly four years in the Army of the United States in which he was a Captain.

* * *

Richard L. Maloney, Jr., President of **The New York Savings Bank**, at 8th Avenue and 14th Street, New York announced that the Board of Trustees has elected Edwin F. Armstrong Vice-President of the Bank. Mr. Armstrong

(Continued on page 32)

Export-Import Bank Grants Egyptian Loan

The Export-Import Bank announced on March 19 a credit of $5,600,000 in favor of the Societe Egyptienne d'Engrais et d'Industries Chimiques (Egyptian Fertilizer and Chemical Industries, Ltd.) of Cairo, Egypt.

In announcing this credit, Mr. William McC. Martin, Jr., Chairman of the Board of Directors of the Bank, stated that the credit is for the purchase of equipment and United States engineering services to be used for the erection of a calcium nitrate fertilizer plant near Suez, Egypt. The total estimated cost of the project will be about $19,000,000 to $20,000,000, with some of the equipment to be purchased in Great Britain and Egypt.

The rate of interest is 3½% and the loan is to be repaid in six approximately equal semi-annual instalments, the first of which is payable on July 1, 1950, and the last on Jan. 1, 1953. Assurances of the Egyptian Government that it will make the necessary exchange available to meet interest and principal payments when due have been given to Export-Import Bank.

Chemical Construction Corpora, Empire State Building, New York, has been engaged by the Fertilizer Company for the design and supervision of this project.

Mr. Martin said that the calcium nitrate fertilizer to be produced is expected to relieve the serious shortage of fertilizer which now exists in Egypt and, accordingly, its completion is of great national interest in that country.

Robt. Gilbert Joins Investors Management

Robert A. Gilbert, formerly senior industrial analyst with Goodbody & Co. and previously with the Manufacturers Trust Co., has joined the research staff of Investors Management Co., investment advisors to Fundamental Investors, Inc., a major investment company.

In his two decades of Wall Street experience Mr. Gilbert has specialized in the investment analysis of institutional accounts such as insurance company portfolios and college funds. As one of the organizers and present secretary of the Committee of Investors of America he has often been quoted in the public press on subjects related to the financial field.

World Price Trends and the Economic Picture

(Continued from page 4)

say that the basic pattern has been altered. It is too early to say that. The war scare, which is enough to stimulate buying in many markets, will have to be followed up by something more tangible if those markets are to stay strong. It will have to be followed up by something more tangible if the sagging tendency in general business activity is to be deferred again for more than a short period.

I regret very much that these events have developed as they have. I regret very much that this is an election year. Questions of pure domestic politics imply that there will be many exaggerations, that it will be much more difficult than it normally would be to separate fact from rumor, that a series of scares may follow the present one. The pattern of deflation following inflation is a basic one. It has now been distorted again, and the period of deflation has again been deferred. But so long as it is deferred, it is a risk hanging over forward operations. It is a risk, I am afraid, that becomes greater as time passes. The chance of an ultimate gradual readjustment from postwar inflation to postwar normal is growing smaller.

I know that purchasing agents as a group are going to be as realistic about present disturbing cross-currents as they were before about the changing pattern of the business trend. Some items will have to be purchased a little more liberally—most metals, stockpile items, ERP items, some textiles etc. Instead of holding stocks and commitments down to a minimum working basis, you will have to step them up by another 30 to 60 days. This addition does not ignore later risks. It is merely a recognition that the nearby pattern has again been distorted.

My subject was "World Price Trends." Circumstances have forced me to spend considerable time on the immediate situation. I had planned originally to discuss rather thoroughly some of the domestic and international developments that are of basic importance to the world price trend. I know that you will still want some comments on these factors, and that you will forgive me if I cut them to the bone. Let me touch first on some of the domestic factors.

Monetary Factors

As you know, most of the money used in business transactions is created in one way or another by the banks. When they make loans they create deposits against which checks can be drawn. Commercial banks can make these loans as long as they have excess reserves; each dollar of reserves can be expanded, roughly, into $6 of new deposits. The most inflationary factor at the moment, therefore, is the heavy bank ownership of government securities. Unless the government is willing to let the bond market go to pot, these can be sold to provide almost unlimited reserves. The amount of credit that is potentially available is so tremendous that it defies the imagination.

Many commentators have emphasized this point beyond all others. They have applied it directly to the commodity price situation and reached the conclusion that inflation still has a long distance to run. They have ignored entirely the fact that this supply of credit is only a potential supply; that banks do not make loans merely because it is possible to make them; and that purchasing agents do not buy commodities merely because it is possible to obtain credit.

Two years ago, or even a year ago, I believe this credit expansion factor was much more important that it is right now. Developments of the last 60 days have shown plainly that the voluntary restriction of credit by banks has been surprisingly effective. There is still a large volume of actual credit. At the moment, however, its expansion has been slowed to a walk, and debt retirement by the Treasury is having an effect on deposits.

So far as commodities are concerned, the monetary factor is now mildly deflationary, rather than the reverse. No change is indicated unless there is a much greater expansion of defense spending than has yet occurred.

Political Factors

One of the political factors that will affect this year's commodity price trend is the farm support law, which provides a floor under a wide variety of farm products. Even the so-called Steagall commodities, which are the object of temporary wartime support, will receive help through the end of the year. At the moment, spot prices for farm commodities average higher than prospective support levels. Although there has been some decline already, spot prices of most farm commodities are still vulnerable.

Agricultural support has both favorable and unfavorable implications. It will prevent any price decline in this section of the price structure from being as precipitous and as damaging to growers and processors as it was in 1920-21. From the viewpoint of the consuming public, however, it means that a longer period will be required before the squeeze on purchasing power is relieved.

The extent to which the election may influence psychology has less direct importance for price movements but nevertheless deserves some consideration. Unless there is a sudden change before election time, current trends indicate rather definitely that there will be a Republican President. On the whole, this should be stimulating to business psychology. Accompanied by war scares, it will further distort the normal pattern; but it will not cause any change in the basic economic distortions that were at the bottom of recent uncertainties.

Supply-Demand Factors

Demand, when measured in terms of ultimate consumption, changes only slowly. When demand is measured in terms of new orders, however, there are marked fluctuations reflecting the change in psychology.

There are very few commodities left on the scarcity list. It is no longer worthwhile to argue about the relative strength or weakness in such industries as textiles, because recent developments have clearly revealed the weaknesses.

Developments of the last few days, however, have revived fears of scarcity, buying in some markets has been stepped up, and the price structure is stronger now than it was early last week. This is a factor that must be recognized. For the time being at least, the position of the seller has been strengthened.

Even in the metals field, however, the position had been showing signs of weakness. The automobile industry was about the only consumers goods industry that could expect to hold its steel consumption up to current, or somewhat higher, levels for a reasonable length of time. Small appliances ran into trouble many months ago and major appliances had begun to slip. Volume of toy production will probably be lower than last year. It had seemed likely that these industries, together with a multitude of small parts suppliers, would use a little less steel from now on, rather than a little more, as they were estimating a few months ago.

Despite the fact that many of these consumers have complained of shortages, these for some time have been shortages in a relative sense only. In addition to the new manufacturers, established processors were operating at a phenomenally high peacetime rate. Shortages were marginal rather than general. Stocks were rising all along the line.

Without the war scare, I believe we would have found that the first postwar recession in business activity had already begun. There is no doubt that declining unit volume was being reflected back to the manufacturing level for an increasing number of items. It seems to me doubtful that private investment in new plant and equipment will be as heavy this year as it was last year, unless industrial mobilization is actually carried out. It had seemed doubtful that the building and construction industries would show a further increase this year, even on a dollar basis, in view of high building costs and less favorable tendencies in other fields.

It might pay us to recall that there was a decline of 7½% in production between April and July last year. I can see no reason why a similar decline this time would not be considerably greater. And it is plain that a decline of 15 to 25% in production would provide a real test for some concerns of their earning ability under the new and higher break-even points. This test would be made even more difficult if the wholesale price level were declining at the same time, as it probably would be. About 30% of corporate profits last year were attributed to inventory appreciation. If this is replaced by inventory losses, and if physical activity is also declining, it is plain that a considerable degree of financial stringency and a rather dismal showing for profits in some sections of industry should be expected.

Recent developments have undoubtedly delayed this test. But by delaying it, they have probably made it a more difficult one when it comes.

Foreign Developments

Foreign developments have always been important, either directly or indirectly, to the United States price level. I would hesitate to say that this importance has increased in times of political tension, but there is no doubt that the various impacts have been more sudden and more surprising. No purchasing agent can afford to ignore the foreign situation. Shipments from the United States will have an effect on supply here as well as imports into this country. Economic conditions abroad will affect the competitive position of foreign buyers in world markets, even though government restrictions of various sorts may prevent what we used to call a normal flow of trade. Here are a few of the things to be considered.

Inflationary Trends Abroad

No generalities can be made about inflation abroad. This has been a wartime and postwar development and it is safe to say that it has not yet ended. Nevertheless, many countries are adopting deflationary policies. This is a prerequisite to any sort of financial and economic stabilization. There is no doubt that the part played by the United States in connection with European relief is forcing the hands of some countries in this direction.

This does not imply that the first attempt to combat inflation will be successful. France will probably provide the most interesting test case, with Great Britain also playing an important role. Nevertheless, I believe the inflationary trend abroad will have less drastic effects on the world price level from now on. World food supplies, unless weather is very unfavorable from now on, will be much greater than they were a year ago. Industrial recovery in many Western European countries, although falling behind original goals, has nevertheless made progress. The supply-demand situation is nearer a balance than it was year ago. Furthermore, speculative buying by many private foreign concerns is being curbed increasingly by stricter control of imports and foreign exchange.

Commodity Cartels and International Agreements

Commodity cartels such as those existing before the war are in many cases being resumed. The effects will be to reduce the range of fluctuation in some raw material prices. Success of international agreements and commodity cartels, however, depends greatly on the nature of the product. Unless production is limited to a few areas, a high price in controlled areas has always in the past been followed by increased production in other areas.

Each international agreement or commodity cartel must be appraised on its own merits. Generally speaking, they may be able to overcome the normal effects of supply and demand relations temporarily, or when the situation is unusual.

So far, the situation has been unusual. Foreign producers of such items as wool, tin, cocoa, etc., have been able to obtain a price even higher than warranted by the large demand.

Trade Restrictions

The attempt, led by the United States, to return to a freer basis of trade, has not made too much progress. Many countries will agree in principle, but their actions are dominated by the pressures of the moment. Here again generalities should be avoided. Nevertheless the great majority of foreign countries find themselves with an adverse balance of trade, particularly with the United States. The results have been twofold: (a) increased requests for United States aid, and (b) restrictions on exchange and merchandise movements.

The trend of United States net exports has been downward since the second quarter of last year. The decline will probably become even sharper during the early second quarter of this year. When ERP funds are authorized and orders placed, there should be some recovery, but from a lower level.

As a price stimulating factor, foreign demands in the United States market have probably passed their peak. As competitive conditions return, foreign sellers will continue to aim at the United States market for their exports.

Devaluation

This factor is closely associated with trade and has a direct effect on the United States price level. Most foreign currencies will have to be devalued sharply. Such countries as Great Britain, however, will put off this devaluation as long as possible. It is a threat that will have to be reckoned with, however, and it will come quickly and without much warning.

Conclusions

My summing up will be brief.

Until a few days ago, a recession in business activity had been developing. The price trend was shifting from an inflationary to a deflationary path.

The international crisis has now set up important cross-currents, which have already begun to modify this pattern. Current operating policies will have to recognize this fact. Coverage of many items had been reduced to a practical minimum, and should now be stepped up by 30 to 60 days.

Nevertheless certain basic problems remain unchanged. Too much is being produced at too high a price. Unit volume, for an increasing number of items, has been declining. We will not be safe until this situation has been corrected, and the longer the correction is put off the more disturbing it will be.

I would only be guessing if I tried to tell you just how long it will be put off. I feel certain that this basic difficulty has not been changed by the war scare, that it will not be changed unless the country actually begins to mobilize for war. But its settlement has been put off by the war scare, and it is quite probable that there will be other scares.

I am afraid that you may be left dangling for some time before these uncertainties are removed. Your problem of separating fact from rumor will be more difficult than ever.

But I do not believe you should speculate on a full-scale mobilization. If it comes, it will be accompanied by drastic restrictions and controls. Speculation of that type would be a one-way street—all risk and no profit.

Securities Salesman's Corner

By JOHN DUTTON

WHY DISCRIMINATION AGAINST SECURITIES?

(Continued from page 3)

to obtain lower margin requirements on stocks and bonds—they will only hinder and throw every obstacle in the way of progress such as this. Forget about them if you want to accomplish anything worthwhile. Go to work on your Congressmen. Ask them to open up the traditional financing and banking facilities that have always been available to owners of securities in the past. My friend had the $8,000. He wasn't using it. It bothered him because it was lying idle. But he was a business man. That is how he got it in the first place—by using business brains and by working and saving. He was willing to buy real estate, with all its present day headaches, because he could make every dollar he owned do the work of four dollars. But in the purchase of securities he would have to put up in cash 75% of the market value of his investment. In other words, if this piece of property had been listed on the New York Stock Exchange his down payment would have been $21,000 instead of $8,000.

Well how about it? Do we have an issue to take before the Congress of the United States? Is business dying in Wall Street—can anything be done to make it better? When is our government going to CEASE DISCRIMINATING AGAINST THE FOURTEEN MILLION PEOPLE WHO OWN AND BUY STOCKS AND BONDS IN THIS COUNTRY? *There is your issue gentlemen!*

P. S. And why are (some) builders able to obtain all the Federal funds they desire to erect homes for veterans in swamp-lands, without necessary sanitation facilities to make the paper shacks they build livable, and charge fabulous prices for something that the government can't resell at 50% or less of the amount they are charging, and Federal guarantees stand behind these loans which have been made upon an excessively generous basis? Our politicians seem to liberalize the financial machinery of the country when and where it can produce the maximum reaction at the ballot box.

Halsey, Stuart Offers Kansas Gas & El. Bonds

Halsey, Stuart & Co. Inc. publicly offered March 24 $5,000,000 Kansas Gas and Electric Co. first mortgage bonds, 3⅛% Series due March 1, 1978 at 101.25% and accrued interest. The bonds were awarded at competitive sale on a bid of 100.7199.

The proceeds received by the company will be applied to the construction of new facilities and the extension and improvement of present facilities and for other corporate purposes. The company contemplates that its construction program for the years 1948 to 1950, inclusive, may require aggregate expenditures of approximately $14,350,000 (including $740,000 expended in 1947).

General redemption prices of the Bonds range from 104.25% to 100% while special redemption prices are scaled from 101.28% to 100%.

Kansas Gas and Electric Co. is an operating public utility principally engaged in the generation, purchase, transmission, distribution, and sale of electric power and energy. The territory served by the company comprises most of the southeastern portion of Kansas in an area covering approximately 6,000 square miles, and a very small section of Missouri adjacent to the Kansas state line. Wichita, the largest city in Kansas, has an estimated population of 160,370 and provides approximately 50% of the total revenues received by the company.

W. L. May Now With Kean, Taylor & Co.

Kean, Taylor & Co., 14 Wall Street, New York City, members of the New York Stock and Curb Exchanges, announce that Winston Lewis May has become associated with the firm in the stock department.

Gross, Rogers Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Everett J. McGovern is now connected with Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange.

With Wagenseller & Durst

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—John S. Weller is now with Wagenseller & Durst, Inc., 626 South Spring Street, members of the Los Angeles Stock Exchange.

What Wall Street Is

(Continued from page 18)

States Steel? 243,000. Of Standard Oil of New Jersey? 170,000. One bank out on the Pacific Coast, Bank of America, has 151,000 stockholders. The list could be extended endlessly.

Wall Street raises the money to provide many millions of jobs. Do you know how much money it takes to provide a job in American industry? On the average, it requires $18,500 to make a job in the paper industry, $17,300 to make a job in a chemical plant, $6,900 in a printing establishment, $6,500 in a rubber factory, $5,000 in the nonferrous metal industry, $2,600 in the lumber business and about $2,400 in the leather or textile trades.

Roughly, each employee of Standard Oil of New Jersey is working with $25,000 of invested capital; each employee of International Paper with between $9,500 and $10,000; each employee of U. S. Steel with about $6,300 and each employee of General Motors with around $8,000.

Source of Wall Street Capital

Where does Wall Street get the capital? You say, "I never knew anyone from my town who sent money to New York for investment!" Well, do you know anyone in your town who has a life insurance policy? Last year the life insurance companies of the United States collected some $6 billion in premiums. Roughly half of this money, after paying dividends to policyholders, death benefits and expenses, was invested in bonds, —much of it in corporation bonds. In many cases, insurance companies came to Wall Street and bought entire bond issues from investment houses, or through transactions negotiated by investment bankers. In those cases, it is possible that millions of policyholders, through their insurance companies, invested in bond issues.

There are two kinds of capital, or two broad classifications which overlap. Millions of small investors, who seek safety and high liquidity, are satisfied with a moderate yield. They put their money in a savings bank or in government bonds—or in life insurance. Government agencies and corporations sell bonds, which are merely evidences of debt, both to private investors and to institutions seeking to invest money with a minimum of risk. At present there is an adequate supply of this type of money, since the country is prosperous and many small investors have a surplus over living expenses.

Venture Capital

The other kind of capital is venture capital, or "risk money" —money invested in ownership of a corporation, usually in common stocks and preferred stocks. While small investors buy common stocks at times, although usually sparingly, the big source of risk money is the man in the higher income brackets who is able and willing to assume a large risk in the hope of a good return.

Because high incomes are heavily taxed, there is, at present, a shortage of this type of capital. Wealthy people, who formerly supplied it, have little surplus after taxes, living expenses and other obligations.

As a result, just now bonds are high and stocks are not in great demand. This is not a healthy situation, since it encourages corporations seeking additional funds to go in debt rather than to seek equity capital through the sale of additional shares. There is an alarming shortage of "venture capital," and a free economy does not progress unless there is money available from people who are willing to risk their funds in promising enterprises and undertakings. At present I am spending a considerable part of my time and effort trying to encourage public policies which would lead to a better supply of venture capital.

An Auction Market

The New York Stock Exchange provides an auction market for the shares of American corporations. These shares of approximately 1,000 corporations are listed and traded in on the Exchange. Since some companies have more than one kind of stock outstanding (a common and one or more preferreds), we provide a market for approximately 1,400 different issues. In addition, we have in our trading list about 900 different bond issues, the obligations of some 390 different issuers. At the end of February, 1948 the total market value of all bonds and shares listed on the New York Stock Exchange was more than $199,000,000,000.

The rate of turnover in these securities is amazingly slow, showing that most Americans who buy stocks and bonds, invest rather than trade. Last year only about 14% of all the shares listed changed hands. In our biggest trading day in 1947, only 1/10th of 1% of all the stocks listed, changed hands. This means that at the highest daily rate of activity in the past 12 months, it would take 833 sessions, or about 2¾ years to make our listings change hands once.

People who mistakenly think of the New York Stock Exchange as a "gambling" institution will be surprised at these figures. I'll be perfectly frank with you; it would be better for the investment business, and for investors, if the turnover was faster. Our members would make more money, and price changes probably would be within a narrower range.

You may be interested in the manner in which the New York Stock Exchange brings buyers and sellers together. A man in Joplin, Mo., may go to his bank tomorrow morning and give an order to sell 100 shares of St. Joseph Lead common stock. The bank probably won't have a buyer, but it will telephone to an office of the New York Stock Exchange firm with which it does business and offer the stock for sale. The order will be relayed promptly to the floor of the New York Stock Exchange. There, another firm, with an office in, let us say, Seattle, Wash., will have an order to buy 100 shares of the same stock. In a matter of a few minutes, or less, according to the quickness of communications, the deal is consummated.

On the New York Stock Exchange meet the investment orders to buy and sell, and there the opinions, the emotions, the hopes and fears of investors all over the United States and in foreign countries are reflected.

Listing Requirements

Before the New York Stock Exchange accepts a security for listing, the company meets certain rigid and well-defined qualifications. I need not go into all of them here. One of them is that there must be a sufficient number of shareholders to indicate a substantial market interest in the security; another is that comprehensive financial statements must be made public annually, earnings statements quarterly, and that other pertinent information, without which the investor could not judge the value of the stock, must be made conveniently available. We do not "approve" or "recommend" any security, nor do we make any representations as to its quality, but we do try to see to it that the investor has a means of knowing just what he is buying. We urge the investor to "investigate before he invests."

The Stock Exchange does not pretend to be the primary source of new capital funds. Such funds are often provided, however, through the Exchange by the exercise and sale of subscription rights—that is the right of a stockholder to subscribe for additional securities offered by his company. But, new capital is raised principally through the sale of securities by investment bankers to the investing public and to institutions.

The New York Stock Exchange is an essential part of our investment machinery because it provides a ready market where investors and speculators may turn their securities into cash or put their cash into securities that have met the listing requirements of the Exchange. Investors as a rule do not put their money into securities unless they know that there is a market where they may sell, without delay, at the best available prices. Transactions on this Exchange are immediately made public for all to see. This is accomplished through some 2,300 tickers throughout the nation, and the information is published in the financial tables of our daily newspapers. The amount of trading and the prices are a matter of public record. The process of providing capital for industry and business requires a market such as that on the New York Stock Exchange.

Organized Securities Markets Indispensable

In a free economy such as ours, organized securities markets and a highly specialized investment business are indispensable. They are necessary if free enterprise is to survive and if the nationalization of industry is to be avoided. Such a nationalization could easily merge into a police state.

I am talking to you young people possessed of all kinds of emotions, all variety of plans, all types of ambition. Because you young men and young women happened to have been born to live your active lives in the last three quarters of the twentieth century, you are destined to be a part of a critical era of history. You have no choice but to live in a time of world-shaking events.

The past century has been a period of far-reaching and exceedingly rapid progress in the arts and sciences. Mankind has made great strides in the conquest of material things. Each successive generation has been better off, so far as creature comforts are concerned, than the one which preceded it. This progress, unfortunately, does not have to continue. It may cease—and cease in your life-time.

This progress has had a price. It has made modern life extremely complicated. Efficient transportation, the development of easy communications, the wider dissemination of all kinds of knowledge, millions of machines, the growth of the population, the concentration of life in huge cities —in short, the industrial revolution and the delicate division and subdivision of labor which resulted from it—has made each life decreasingly isolated and increasingly intertwined with every other life. No family, no community, no segment of the national life, and no nation is economically and socially independent except at the cost of those advantages in the industrial revolution has brought us.

This interdependence, this living so close together with the weal and woe of the individual so dependent on the weal and woe of the mass, requires just as much progress in human relations and just as much progress in spiritual life as in material things.

All around us we see evidence that spiritual life has not kept pace with material progress. In my life-time, there have been two World Wars surpassing anything ever known in cruelty, carnage and destruction. In my life-time, hundreds of political revolutions have occurred. I have seen economic class arrayed against economic class. I have seen the unscrupulous dictator seize the power of the state and destroy the last vestiges of human freedom, almost invariably without the consent of a confused and helpless people. I have seen the authority of the home, the authority of the church, the authority of law and the authority of conscience too often undermined.

Dangers of Loss of Personal Freedom

Our complicated way of life exposes us to another danger—also a spiritual one. We are in danger of losing our personal freedom. As people seek to protect themselves against other people, they tend always, more and more, to circumscribe their liberties.

The great economic and social progress we have attained in America is a product of freedom, not the result of planning and regimentation. It never could have been attained in a police state where all initiative is handed down from above. America has grown up from the grass roots of individual initiative. All that we have is the yield of free enterprise.

We must take care lest we do lip service to the cause of free enterprise and at the same time allow it to become nothing more than a meaningless shibboleth. Today free enterprise is engaged in a war of ideologies against the police state of Communism and dictatorship. The enemies of free enterprise know exactly what they want, and they don't have to consider public opinion and hold free elections before they decide what to do. We should understand, and make our people understand, that capitalism is impossible without freedom, just as Communism is impossible without dictators and the police state. I have not heard about Stalin diluting his system with free enterprise so as to make it work; but I have heard a great deal in recent years about how we must dilute our system with socialism and restrictions so as to make capitalism work.

Communism and Class Warfare

One of the secret weapons of Communism, in this generation's cold war of the ideologies, is the nurturing of class hatreds. The Gentile against the Jew, the Protestant against the Catholic, the debtor against the creditor, the employer against the employee, the city dweller against the farmer, the Negro against the White, the South against the North, the person who has against the person who has not. In much of this class warfare, freedom tends to become license, and an ounce of truth becomes a ton of falsehood.

Most of our class warfare fights purely imaginary windmills, and all of it submerges the fact that cooperation and understanding usually are attainable in an atmosphere of more light and less heat.

We are about to have a Presidential election. Certain issues are to be decided at the polls where every American is at liberty to express his will without any outside restraint whatever. Few countries still give their people this freedom of choice. It would be a staining of this great privilege, for which many of the people of Central Europe willingly would give their lives, if our pre-election campaigning should degenerate into an attempt to array class against class and group against group.

Ours is a great cooperative experiment in living together peacefully in freedom. This experiment, still less than 200 years old, is just as sacred to the welfare of the poor as to the wealthy, to the employee as to the employer, and to the man who has not as to the man who has. The big issue of this generation is the survival of freedom of person, freedom of soul, freedom of property, freedom of markets, and freedom in the choice of those who govern. The issue can be decided rightly only if people will reason without passion, substituting love for hate, admiration for envy, and truth for propaganda.

Should Pound Be Devalued?

(Continued from first page)

and tend to make the British economy sluggish and inefficient.

(2) The second line of attack is simply that the pound is overvalued and that therefore a devaluation of the pound would increase exports, decrease imports, and thus automatically balance the British foreign accounts.

As to the first point, I share with the *laissez faire* school a strong aversion to economic controls, and particularly to exchange controls. While it is true that the present British Government practices control of the economy and of foreign exchange with some relish, it is no less true, I think, that in the case of Great Britain a gradual retreat from controls is a preferable method of getting rid of them. Those who advocate immediate cessation of all controls seem to forget that we are not yet in a peace economy, and furthermore that Great Britain has to recover from a severe shock suffered during the war. I will, however, add the following remark regarding exchange controls.

Exchange Control a Diabolic Instrument

Exchange control is a diabolic instrument and the source of many economic and social evils. Besides, from a practical point of view, exchange control is a perfect device for preventing foreign capital from coming into a country, and for furthering the export and flight of domestic capital.

It is evident that those who are in favor of immediate abolition of all controls in Great Britain are not concerned with the political and social consequences of their recommendation. They forget that there are huge deposits accumulated during the war in the British banks, and that Great Britain, like the rest of Europe, is suffering from the fear of insecurity and new wars. They also disregard the inflationary pressures existing in Great Britain which are potentially the stronger insofar as the inflation has been "suppressed." Some advocate a blocking of deposits accumulated during the war, disregarding the consequences to Great Britain's credit and confidence in her currency.

Those who advocate a devaluation of the pound (with maintenance of exchange control, I assume) are arguing that such a devaluation would wipe out the dollar deficit of Great Britain. Those who request that Great Britain devalue the pound forget that devaluation is an alternative to deflation, and that deflation is in order only if prices and costs are higher than those of similar important currencies like the dollar. There are, however, no signs that the British prices and costs are higher than those of the United States except in certain flagrant cases like coal. The recommendation to devalue the pound is based on the theory that a lower pound sterling-dollar rate would increase the volume and value of dollar exports and decrease the volume and value of dollar imports, and thus restore the equilibrium in the balance of payments of Great Britain. This traditional view is based, however, on the assumption that the demand for British goods in the U. S. is large and elastic. It also ignores the point that the trouble in Great Britain for the time being is a shortage of goods which are presently obtainable only in the Western Hemisphere, which in turn cannot buy goods which Great Britain has to offer for the time being. It seems clear, therefore, that unless we want to disregard the possibility of a shocking fall in the standard of living of Great Britain, and huge unemployment, Great Britain's foreign trade cannot for a time be determined merely by exchange rates; the importations are determined by needs, regardless of exchange rates. I wish to point out that in 1947 the volume of imports in Great Britain was only 70% of what it was in 1938, while the volume of exports was about 125%.

Aim at Long-Term Equilibrium

What is more, it seems to me that when it comes to the determination of exchange rates we should be concerned with the long-term needs and equilibrium, and not merely with temporary phenomena. Nobody can state with any certitude what the level of prices is going to be in the world in the next few years. This level of prices depends a great deal on the economic situation in the United States. If one thing is certain, it seems to me, this is that the terms of trade in Great Britain's foreign business are at present unfavorable to her. And this is true each time the U. S. economy is booming. If another thing is most probable in my opinion, it is that after the huge rise in prices we had, caused by the inflation due to the war, we shall have a fall in prices. Such fall in prices will affect primarily agricultural products and raw materials. Therefore, a fall in prices will change the terms of trade in favor of Great Britain and make easier the balancing of her foreign accounts. Then, and only then, shall we be able to know what the stable pound sterling-dollar rate will be. It may very well be, and I would say it is probable, that at that time the pound will have to be devalued in terms of gold. But I think that this will also be the case of the U. S. dollar, if we are to reestablish an international gold-standard system which is in fact the avowed or unavowed end of the International Monetary Fund.

I wish also to raise the following question. In view of the fact that most of the countries lack dollars, and if an adjustment of foreign currencies to realistic values is the proper thing to do, would it not be more sensible to appreciate the exchange rate of the dollar in terms of all other currencies, rather than promote competitive devaluation among all the other currencies? This idea implies that the present gold value of the dollar would be maintained. Other countries like the Swiss, for instance, could follow the same line of action as the United States if it so chooses. This is also the time to inquire whether it would not be more sensible to drastically reduce the American tariff rather than push foreign countries to competitive devaluations. It may be worth mentioning that those who advocate the devaluation of the pound disregard that such devaluation will give legs to inflation in Great Britain. From whatever point of view one examines the question of a change in the rate of the pound sterling, one reaches the conclusion that this is not the time to do it. Neither, therefore, is this the time to revalue the exchange rate of the dollar in terms of the other currencies.

Landrigan With Denault

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — James A. Landregan is now associated with Denault & Co., Russ Building. He was formerly with Davies & Mejia and First California Company.

Kirkpatrick-Pettis Adds

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB. — Herman E. Aulmann, Jr., has been added to the staff of Kirkpatrick-Pettis Co., Omaha National Bank Building.

With Charles A. Parcells

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Charles A. Parcells, Jr., has joined the staff of Charles A. Parcells & Co., Penobscot Building, members of the Detroit Stock Exchange.

With Kidder Peabody & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — William B. Armstrong has been added to the staff of Kidder, Peabody & Co., 115 Devonshire Street, members of the New York Stock Exchange.

Is Salesmanship Essential to Distribute Securities?

(Continued from page 7)

we must find out wherein their interest lies before we can know what to offer them. From then on it's a matter of salesmanship. Assuming someone is going to purchase an automobile, insurance, or make an investment, it's our job to get them to do business with us instead of a competitor. If we are too reserved about it, we will probably lose the business. The better the article or service you have for sale, the greater the need for good salesmanship. If the man with the best article is not a good salesman, then a good salesman with an inferior article may get the business and a disservice will have been done to the buyer.

This is a generalization but it illustrates why *salesmanship is essential in the distribution of securities*, just as it 's in the distribution of anything from 5c candy bars to religion. It's merely a matter of application.

Salesmanship and Economics

In the securities business, there are several branches of activity open to us but if we are in the sales department, then it is most advisable, if not necessary, to study salesmanship and not economics. It is a profession and one of the highest paid ones. The reason that there are failures in the selling profession is because there are some misfits and then others who merely lack training and application. This is true in all professions.

Not all men are salesmen, and only born salesmen can get along without study and application, just as a born musician or comedian may rise high in his profession with little or no instruction or study.

Most men have to study, apply themselves and gain experience before they can expect to be financially successful at their vocation. Some men, on the other hand, work hard without success because they are perfectly good square pegs in equally good round holes simply miscasts.

The first job, therefore, is to make sure you want to be a salesman by profession and that you have the necessary qualifications to be successful.

The next step is to enter a business that appeals to you. In the securities business we have a great opportunity and equally great responsibility. In the first place, the securities business is the life line of American enterprise. Without the investment of the savings of Americans all over the country, we would have no General Motors, General Electric, Standard Oil, U. S. Rubber, New York Central, Westinghouse, and hundreds of other companies representative of our system of free enterprise. These companies, large and small, are responsible for our having the highest standard of living in all the world in peacetime and for saving ourselves and our allies in two world wars. No socialistic or communistic government or country approaches this record of almost unbelievable accomplishment.

Our second responsibility is to our clients; to give them full information on securities we offer so that they can invest their savings wisely, or even speculate, in keeping with their individual needs and desires. In many cases we have the heavier responsibility of advising investors who do not have the time, the facilities, or the experience necessary to make their own decisions properly.

Place Clients' Welfare First

Only those salesmen who place their responsibility to their clients ahead of their own earnings will be likely to be consistently successful. The Golden Rule is the first rule for those engaged in this business. Selling securities is a personal service business. We are not selling merchandise but dealing with people's savings. An investor's success or failure may make the difference between comfort or hardship for him and his family. Respect your responsibility to your clients and it will go a long way towards insuring your success. Cutomer confidence is your greatest asset.

At the risk of being very elemental, I want to remind you that, all other factors being equal, *work* is the keystone of success. I am sorry to say that there is a rather common idea among many securities salesmen that a large income can be made without too much effort. At times, during the latter phase of bull markets, security salesmen do seem to make a great deal of money very easily. They usually credit this to their selling ability. Then, along comes a bear market and the same brand of salesmanship appears to lose its magic. There is an old saying that "good markets make good salesmen." Actually, good and bad markets are the tides and the good salesman is he who goes faster with the incoming tide but is not carried to sea with the outgoing tide.

Take two salesmen with desks side by side in the same office with the same opportunities. The difference in results comes from the combination of personality, ability, and effort known as salesmanship.

Personality is important. Some of it is natural and some of it acquired. *Personality represents the composite reaction of others to our physical and mental characteristics.* We are born with part of this but a lot of it is developed by what we learn, what we say, and how we say it. Personality is a very important factor in selling and worth developing by paying attention to our appearance, our actions, and our conversation.

No Substitute for Work

But when it comes to *work*, there is no substitute. We can sometimes replace physical work by mental work but it is difficult to compensate for lack of calls and interviews. A large office supply company once put on a drive by paying salesmen so much per personal call and increased their business by some enormous percentage.

Some securities salesmen try to live off a few accounts. It's poor practice. Work should be carefully planned so that a certain amount of time is devoted to taking care of existing accounts and likewise a certain part of each week in seeking new accounts. The gradual loss of accounts through competition and death is inevitable and the only offset to these, plus opportunity for increased earning power, lies in the development of new accounts. I know this is childishly elemental but more salesmen fail from lack of plain hard work than from any other cause.

Selling in a Bear market

Probably our most important problems in the investment business arise from changes in major trends of security prices and particularly during bear markets. There seems to be no agreement on what causes these changes or what to do about them. Yet, they have an uncomfortably strong influence on almost every branch of the security business. Many authorities contend that the market is its own barometer as well as a barometer of general business. This is hard to swallow when we have had a bear market for over 18 months and general business is still at dizzy peaks.

I have my own theory and I've seen nothing to discredit it. It is that all major actions by masses of people are activated by our instincts and are not based on reason or explained by logic. As I remarked earlier, people (not necessarily individuals) are motivated more by their hearts than by their minds—emotion, not reason. Excesses in both bull and bear markets are psychological.

It was Philip Wylie who said that "man is a beast with the illusion of a soul." Well, I don't exactly endorse that statement but I'm afraid I msut subscribe to the theory that man is a superior sort of animal with a rather undependable ability to reason. Whenever he is aroused, he is likely to be motivated by his animal instincts rather than his ability to reason.

While some writers have attributed bull or bear markets to mass psychology, most commentators seem to believe that the market should be tied closely to earnings and dividends.

Actually, both facts and feelings enter into the case but the causation of the final phases of bull and bear markets is mass psychology. When people feel optimistic, they buy stocks regardless of facts or reason. Likewise, when they are pessimistic, they dump stocks without any apparent justification. I am convinced that all of this is closely tied to human qualities, and the human being, generally speaking, is more emotional than rational. And if there is any battle between emotion and reason it is usually reason that goes down for the count of 10.

In order to really understand this, let us for a moment examine *genus homo*. Man is endowed with an extremely strong instinct of survivalship, and any reason or cunning he may develop in the section of his body known as the brain is merely to aid his battle for survival. This one principal instinct for the survivalship of mankind is divided into several tributary instincts which, when aroused, cause certain actions. In other words, all instincts, when properly conditioned, develop an appetite, and when that appetite is satisfied, that particular instinct pipes down again and is dormant for a while. The best example of this I can give you is our appetite for food. Nature has arranged it so that we get hungry every now and again and want to eat, because without food we can't live. (Unfortunately, some people think that they live to eat instead of eat to live. The result is they develop high blood pressure and the result is the opposite—they die sooner.)

Human Instincts and Investment Business

When we come to the investment business we are interested in only two of these major human instincts, but they are very important ones, and they have been carefully placed in the human system by our Creator so that the plan of mankind will be carried out, because the force of these instincts is inescapable.

The first of these instincts is that of acquisition; the instinct which, when its appetite is aroused, makes us want something that we haven't got. Some call it greed, some call it power; whatever it is, it provides the self-starter for our enterprise. People who are deficient in this particular respect usually don't get anywhere as there is no urge to satisfy the appetite for more of the world's goods. When a baby is a few months old in its mother's arms, it shows this instinct by grabbing at eye-glasses, ear-rings, necklaces, watch-chains, anything that glitters and attracts it. When the child is a little bit older and can get on its own feet, it usually makes a beeline for the most perishable but glittering object on the nearest table. Then things have to be shoved out of its way. From that time on parents start to teach the child that although it wants certain things, they are "no, noes"; baby mustn't touch. This education continues through the parents and the church. Children are taught that although they have a very strong instinct to acquire, they must not take anything that does not belong to them. Our modern society calls it stealing, although it is a perfectly natural human function. We are gradually conditioned in this society that if we want something we must buy it, work for it, or have it given to us. If we take it without the benefit of such procedure, we are called thieves and society has provided lodgings for such people with cute iron grill-work in front of the windows.

We are thus launched into the world to earn our living, propelled by this perfectly natural and strong instinct of acquisition. When it gets particularly excited we are a little more aggressive in trying to get what we want. When the appetite is satisfied or dormant we take things a little bit easier.

Now we must realize that these things that we call bull markets are caused by nothing more or less than an inflamed instinct of acquisition in a large number of people at the same time. Some people call it mass action. Let's see if we can trace how it starts and develops. All bull markets start from the bottom of a bear market, therefore at that time the great masses of people are so frightened that they would not buy $20 bills at half price. Then, what causes the change? It's the thin veneer of reasoning power of a few experienced and intelligent men activating their instinct of acquisitiveness that starts the new bull market. These few men reason that prices are very low, historically and otherwise. They reason that the masses of people are scared and that now is the time to buy good stocks. As these people are experienced and intelligent, they are probably successful and therefore have the money necessary to buy. They start purchasing selected and favored securities. But remember that although th's action is activated by man's ability to reason, he is taking the action in order to satisfy his instinct of acquisition. He wants to make money and his *mind* is showing him the way. As this buying comes into the market, these technical guys that hang around tickers and board rooms and watch charts see a change going on in the character of the market. You hear them muttering to themselves about "some good buying coming in here." Some of the partners in big stock exchange firms get the orders and know who is placing them. They see the sign of the times and probably start to do a little buying themselves.

This intelligent, reasoned purchasing logically has the effect of starting prices up. The sellers are sold out and the buyers have to bid for the small available supply. As the market advances other investors who watch prices notice the change and they decide that it may be time to buy a little stuff. They did not initiate the move but they see it happening, so their previously dormant instinct of acquisition starts to perk up. As their buying comes into the market, prices advance some more and the action of the advancing prices attracts still other buyers. This sort of thing develops until after a year or two of a bull market hundreds of thousands of people who are not real investors get market conscious. Actually, they hear of friends or acquaintances making money and they want to get in on it. Also, investors who have been in the market for a couple of years making money want to make more money because these appetites develop the more the conditions are favorable to their excitement. There comes a time when practically everybody is in the market. The poorest quality of underwriting is going "out the window" and all kinds of inexperienced investors as well as those who should have more sense are literally scrambling for an opportunity to buy securities at two or three times what they are worth.

What has happened is very simple. Masses of people have had their instinct of acquisitiveness aroused and howl for satisfaction; an aroused appetite is seldom very choosy. People do not stop to think or to reason when an emotion is inordinately excited. If you don't believe this just think of the famous Boston night club fire, or the subway panic in London that killed dozens of people and injured hundreds. Well, don't let's be a piker; look at wars. The aggressor nation is always influenced by an aroused mass desire for something that does not belong to it, so they go to war to steal it. In other words, an over-expanded bull market is a very simple accomplishment for human beings when their appetite for more of something they haven't got becomes inflamed.

Selling in a Bull Market

What does the investment man do in a bull market? Well, he gives the people what they want; makes a lot of money out of it and thinks he is a most successful salesman or underwriter. He wears a hole on the back of his coat patting himself on the back. Unfortunately, too often he is just one of the mob; does the same thing himself, and puts most of the money he has made, or at least what the government leaves him out of taxes, into the same overpriced securities that he sells to other people. They don't seem to breed investment men minus the instinct of acquisition.

After all this, I think it is likewise very easy to understand where bear markets have their source and how they develop. The appetite for acquisition gets satisfied and tired and the turn in the trend once more is started by reason and not emotion. A few experienced and intelligent men decide that the party has gone far enough. They don't like the looks of things. They think it is time to cash in their chips and let the others have their fun. Once again this coldly calculated reasoned action is based on a human and animal instinct; the instinct of self-preservation; the instinct that causes us to want to keep what we have; the instinct that causes squirrels to put nuts away for the winter; the instinct that caused us to be told in the Bible to fill the granaries for the seven bad years; to save some of the harvest and not plow it under as it was by our New Deal friends.

This calculated selling at the top of a bull market is again seen by the board room boys, the chartists, and the ticker-tape artists. They, too, have had a lot of experience in their end of the game and they see this selling going on. They call it "distribution." It makes the market what they call "toppy." They don't like it and they think it is probably smart to "lighten up."

Thus, the selling started by the few who reason it out attracts the attention of others who merely see it happen and find that their instinct of self-preservation is being affected. They, too, don't want to lose what they have made, so they start to pull their chips out of the game. After a while the market gets real sloppy; people get fearful, and more and more sell. There comes a time when a lot of investors throughout the country begin thinking of the "Dow Theory." They believe that when the market hits a certain spot, it confirms a change from a bull market or a bear market. They are "fearful" that this spot will be reached. They haven't got quite enough sense to get out but they are nervously expecting bad news. Thus in September, 1946, when the Dow Average did hit the vital spot of 186, the selling was such that the market did not even pause to tip its hat to the Dow Theory as it plummeted down. There was an avalanche of selling. This was merely another perfect example of what masses of people do when any one of their instincts becomes excited due to proper conditioning.

So now we have a bear market and things drool along backing and filling. Some individuals feel differently than the masses and do some buying, but the majority is on the bear side. Curiously enough, it is quite usual for earnings to be good during bear markets. They merely indicate the prosperity evidenced during the bull market and which is carrying forward. As these earnings continue high, and as prices go down, price-earnings ratios and yields become fantastic and people just can't understand why such "bargains" are available.

All it proves is that when people get frightened and when their instinct of self-preservation is aroused, it is humanly impossible for their instinct of acquisition to be even slightly interested in the proceedings. They have no appetite for risk. They are too afraid that they will lose instead of winning. The bait of high earnings and high yields is not good enough to attract a sufficient amount of buying to change the state of stagnation.

There is always some buying by individuals to meet certain demands. Lots of investors buy good yields when they are available without worrying too much about the market. Likewise, many big investors are always picking up securities that appear attractive to them. But generally speaking, the masses of the people who tip the scales one way or another are too cautious or too frightened to do anything other than sit tight.

This all goes to prove that the boom-or-bust characteristics of the investment business are firmly grounded in human behaviorism which is merely the outward manifestation of man's instincts. And although you can't actually see these instincts, don't ever think that they are not just as real a part of man as an arm or a nose or anything else.

Of course, a practical question arises: O.K., suppose this is all so, what are we going to do about it? Fortunately, that is a question that is fairly easy to answer. There *is something we can do about it*. Few of us know what to do because we don't know what is causing the condition. We simply find ourselves a little bit dazed and punch-drunk and don't know what hit us. We go on offering something that has no attraction to most people because their appetite has been taken away from them. They won't want that particular thing again until proper conditions have again caused their appetite to be aroused.

We all seem to understand that in bull markets the public, investing and otherwise, will buy almost anything because they are going to make money. Then, in a bear market we find that the public will buy almost nothing because they are convinced that they are going to lose money. The instinct of self-preservation won't let them take any chances, real or fancied. What do people do with their money in a bear market? Well, they either sit with securities they don't particularly like or else they put the money in a savings bank or buy government bonds or Triple A's or kiss it goodbye and put it in a life insurance annuity in order to have it doled out to them at so much per month until they pass in their chips. Their attitude is, "Dear God, let me keep what I've got left and I will never do this again." Well, that's the way they genuinely feel at the moment, and they won't do it again until the next time they want it. Then hold your hats, we start all over again.

Offer People What They Want

My advice to the investment business in a bear market is to offer people what they want, what is dictated to them by their current emotion. They are fearful; they want something conservative. They want it to be offered, whatever it is, on the basis that it is a sound thing to do; a cautious thing to do; a sensible thing to do; that it is protective or that it will be safeguarded. Put it in any words you like, but certain fish will only bite certain bait. Certain birds eat only certain kinds of seeds. Certain people like only certain colors, so on and so on. If you want to do business with human beings, first of all recognize that they are just that—human beings—and that they are motivated sometimes by reason but most times by their emotions, which arise from their natural instincts and therefore are not to be denied.

In bear markets you can sell bonds, preferred stocks for income or even common stocks if they are sound, are defensive and are offered on a basis of protection and for yield and not on the theory that they will go up in the market. Maybe they will go up in the market, but the guy is not going to believe you. At least most of them won't. In short, if you want to keep up a good volume of business in bear markets, just recognize that the majority of your prospects have no desire to take risks. They will not exchange the protection that their current emotion requires for the possibility of profit in which they have no faith.

Those of us in the mutual fund business have seen even greatly increased interest in mutual investment funds during this bear market. This is a perfectly logical development. As the mutual investment fund is designed to bring the safeguards of careful selection, ample diversification, and continuing supervision to the average investor, the appeal is conservative even in the more speculative type of funds. The risk of a tragedy through complete loss in an individual issue is impossible in a supervised, diversified portfolio. Logically, the balanced funds composed of the more conservative securities, with a strictly income objective, exert a strong appeal under bear market conditions.

Don't ever forget that the investor does have surplus funds. He must do something with them. He wants to commit them to some course of action, but that course must be one that will satisfy his current feeling about conditions.

This discussion may seem to have wandered considerably from the title, "Is Salesmanship Essential in the Distribution of Securities?" but I think if we understand that no matter to whom we are making a sale, whether it is an automobile or a security, we must appeal to man's reason or his instincts—possibly a combination of both. And also we must understand that all mass action is caused by emotion. It is psychological rather than logical. Only the other day I saw a full-page advertisement starting the campaign of the March of Dimes. This advertisement, as well as the campaign itself, had as its keynote a little crippled boy, three years old, with iron braces on his legs. The entire appeal was made to man's emotions and not to his reason. Then recall the way Government E, F, G bonds were sold during the war. Yes, salesmanship is absolutely essential in the distribution of securities, and the man who does not believe this, understand it, and is not willing to follow the rules, should not be in the distribution end of the business. Salesmanship is a profession; the profession of making a successful appeal to the mind and heart of your prospect. If we extract all salesmanship, and all attractiveness, from the distribution of securities, I will guarantee that the lifeblood of free enterprise will suffer from further hardening of the arteries. There are plenty of good analysts and underwriting experts in the securities business. What we need is more good salesmen, and typically, they would do better not to know too much about the technical end of the business. In my observation, the training now given to young men in this business is heavily overweighted in the technical end. We are turning out a bunch of fairly able junior analysts and technicians, but few know anything about *salesmanship*. Securities are in over-supply not because of over-production but because of underpowered distributing facilities. Let's give as much attention to the analysis of a sales sheet as we do to the analysis of a balance sheet and we will be on the right road. Yes, Salesmanship is essential in the efficient distribution of securities.

List of Dollar Issues Requisitioned by Dutch Government

According to an Aneta dispatch from Amsterdam, Holland, on March 11, the list of dollar securities requisitioned from Dutch holders by recent order of Finance Minister Pieter Lieftinck, are as follows:

City of New York 4½% loan of 1913 due 1963 with coupon Sept. 1, 1948; also 4¼% loan of 1911 and 1912 with coupon Sept. 1, 1948.

Republic of Cuba external gold 4½% loan of 1909-10-11 due August, 1949, with coupon Aug. 1, 1948.

Republic of Cuba external 4½% loan of 1937 due June, 1977, with coupon June 30, 1948.

American and Foreign Power Co., Inc., debenture gold 5% due 2030 with coupon Sept. 1, 1948.

Cities Service Co., refunding debenture gold 5% due 1966 with coupon Sept. 1, 1948.

Cities Service Co., debenture gold 5% due 1969 with coupon April 1, 1948.

Atchison, Topeka & Santa Fe Ry. Co., general gold 4% due 1995 with coupon April 1, 1948; also adjustment gold 4% due 1995 with coupon May 1, 1948, or Nov. 1, 1948.

Central Pacific Railway Co., first refunding gold 4% due 1949 with coupon Aug. 1, 1948.

Chicago & Erie Railway Co., first gold 5% due 1982 with coupon May 1, 1948.

Illinois Central RR. Co., collateral trust gold 4% due 1952 with coupon April, 1948; also gold 4% due 1953 with coupon May 1, 1948.

Kansas City Southern Railway Co., first gold 3% due 1950 with coupon April 1, 1948.

Louisville & Nashville RR. Co., South-east and St. Louis Division, second (now first) gold 3% due 1980 with coupon Sept. 1, 1948.

Norfolk & Western Railway Co., first consolidated gold 4% due 1996 with coupon April 1, 1948.

Northern Pacific Railway Co., prior lien gold 4% due 1997, with coupon April 1, 1948.

Southern Pacific Co., gold 4½% due 1969 with coupon May 1, 1948; also gold 4½% due 1981, with coupon May 1, 1948.

Southern Railway Co., development and general gold 4% series A, due 1956, with coupon April 1, 1948.

John B. Eaton Now With Hooker & Fay in S. F.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—John B. Eaton has become associated with Hooker & Fay, 315 Montgomery Street, members of the San Francisco Stock Exchange.

Carl Maib Now With Wilson Johnson & Higgins

(Special to THE FINANCIAL CHRONICLE)

PETALUMA, CALIF.—Carl T. Maib is now associated with Wilson, Johnson & Higgins, 300 Montgomery Street, San Francisco. Mr. Maib was formerly Petaluma representative for Hannaford & Talbot.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government bond market, largely professional, is mildly on the defensive side, with prices of the eligibles giving some ground. . . . Prices were quoted down on very light volume. . . . There has, however, been selling of the intermediate and long taxables by dealers who had recently increased their small holdings of eligible Treasury obligations. . . . A feature of the market has been the switching by banks and other institutions with the trend now from shorts into longs and in some instances from eligibles into tap issues. . . . The restricted bonds, under good demand, moved above support levels. . . .

Insurance companies, according to reports, have been buyers of selected eligibles although on balance they still are minor sellers of governments. . . . Savings banks are buyers of eligibles in some cases and sellers in others with the proceeds from sales going mainly into the tap bonds. . . . Commercial banks have expanded their holdings of the taxable 2s, the 2¼s due 1956/59 and the 2½s due 1956/58 and Sept. 15, 1967/72. . . .

TRUMAN'S PROGRAM

President Truman's recommendations for a "preparedness" program seems to have put into the money markets an element that will bear careful watching. . . . While it is too early to even indicate what the Congress will do about some of the proposals, or what the cost will be, it is quite likely that a good part of it will be adopted (especially if conditions in Europe should worsen) and that will mean larger expenditures by the government. . . . Increased outlays for defense purposes would be imposing another layer of inflationary spending upon an already inflated economy which has not yet been too greatly affected by the credit limiting policies of the monetary authorities. . . .

To be sure, the method that will be used to take care of larger Treasury expenditures will be very important to the nation's economy. . . . A pay-as-we-go plan, that would call for higher individual and corporate income taxes, would tend to limit the creation of new inflationary forces which would result from stepped-up government spending. . . . Tax reductions would have to be postponed if we are to do a good job of keeping down the inflationary forces that would be added to with larger government expenses for preparedness purposes. . . . Taxes of corporations would most likely be increased through excess profits levies or larger surtaxes. . . .

AN ELECTION YEAR

This is an election year, however, and in order to make things as painless as possible, both parties seem to be inclined to do things the easy way. . . . Despite the increased costs of rearmaments, taxes are likely to be reduced. . . . This could mean deficit financing by the Treasury in order to carry out the defense program. . . . Even if taxes were increased to meet larger government expenses, the Treasury surplus would most likely be sharply curtailed which would remove one of the main props that the monetary authorities have been using to curb the forces of inflation. . . .

Deficit financing would mean that the surplus of the Treasury would be eliminated entirely and the control that has been used to retire government debt, while still keeping longs at 100, would pass by the boards. . . .

INTEREST RATES

With debt service as burdensome as it is today, would interest rates be allowed to increase with the new financing that seems to be inevitable under the proposed defense program? . . . Would the financing be done through shorts or longs and would a rate pattern be adopted again by the authorities as they did during the war period? . . . It does not seem as though the powers that be would allow the market to seek its own levels with additional financing in the offing because the debt burden would increase. . . . Also, dropping prices for Treasury issues would not help financing by the government. . . .

PROBABILITIES

What about greater regulation over the commercial banks by the monetary authorities, in order to prevent the creation of reserves, deposits and purchasing power that would feed the forces of inflation? . . . If wage and price controls were instituted to fight the forces of inflation that would be augmented with the rearmament program, would not greater power over the banking system be sought by Federal authorities in order to limit the ability of these institutions to add to the inflation spiral? . . .

The impact upon the economy of the country of a new rearmament program would be inflationary unless severely restricted and no doubt some limitations would be necessary in the money markets. . . . The feeling that regulations would be applied directly or indirectly to the money markets is responsible for the belief that the debt burden will not be allowed to increase with larger defense expenditures. . . .

ITALIAN ELECTION

The Italian situation is looked upon in most quarters of the financial district as the key to what happens to the rearmament program. . . . The election of April 18 should give us the clue as to whether vigorous measures will be adopted by the Congress to help contain the Communist menace. . . . A further swing to the left in Italy, even through a free election, would no doubt lead to immediate action by the Congress on the President's program.

The SEC and the Broker-Dealer

(Continued from page 8)

to the market. The law of fraud knows no difference between express representation on the one hand and implied misrepresentation or concealment on the other." And again: "The essential objective of securities legislation is to protect those who do not know market conditions from the overreachings of those who do. Such protection will mean little if it stops short of the point of ultimate consequence, namely, the price charged for the securities."

Importance of Market Price

The first Hughes case thus recognized the obvious importance of market price in the securities field. A stock certificate has no intrinsic value. Unlike the produce from a grocery store it cannot be eaten. Its value rests mainly on the fact that it can produce income or be converted into money—that it has market value. A hungry man is willing to pay a vendor at a football stadium two or three times what they both know a "hot dog" is worth because the buyer wants to eat it at the moment. Or, because of immediate use value, you or I might decide to pay several hundred dollars more than list price for a car which is euphemistically called second-hand. But a security has no use value. The buyer of a security is interested only in two things. How much income will it produce and what will it bring in the market on resale? And the income-producing feature is important in large measure because it affects the market price. If the securities dealer ignores the market price in a transaction with a customer, the transaction is condemned as fraudulent. And this presumably applies both ways—to purchases by dealers as well as sales—although in practice, as we all know, spreads are usually far smaller on the purchase side.

This first Hughes case was a milestone in broker-dealer law, and the doctrine is now so well settled that we have actually obtained criminal convictions of dealers in a number of cases on that theory. But like many great cases the first Hughes case left a number of questions unanswered.

The first question which obviously comes to mind is how to ascertain the market which the Commission and the court held to be so important in the pricing of a transaction. The over-the-counter market knows no ticker tape. In the first Hughes case itself the Commission and the court relied on the quotations in the National Daily Quotation Sheets and the prices paid concurrently by the firm as sufficiently indicating prevailing market price in the absence of evidence to the contrary. But suppose there are no quotations in the Sheets. Or suppose there is no offer but only a "sleeper bid"; someone is hunting for a bargain. The Sheets are not necessarily the last word, although they are very important. As long as the dealer is sure that there were bonafide independent offers at a price reasonably near the dealer's sale price, the dealer is in the clear so far as the first Hughes case is concerned.

Now suppose it is impossible to find any independent quotes of any kind. Here there is precedent, both in the Commission and in the courts, for assuming that the dealer's own cost is a fair indication of the current market if the dealer's purchase is substantially contemporaneous with his sale. Of course, if there is no market and the dealer has held the security for some time before selling it, there is nothing for the theory to operate on. I should emphasize that I am still talking of the dealer who is affecting an ordinary principal transaction; there are other doctrines applicable, even where there is no market, to a dealer occupying a special fiduciary position, and I shall come to them a little later.

What Spread Is Reasonable?

Another question which in the nature of things was left unanswered in the first Hughes case —and which the Commission, I would guess, it not likely to attempt to answer—is precisely what spread is reasonable in relation to the current market in all cases. The Commission has revoked the registration of a succession of firms whose average mark-ups were already out of line, but there is no arbitrary standard. Obviously we must consider the overall business conduct of a particular firm and not one or a half-dozen isolated transactions. Percentages are particularly unreliable, it goes without saying, when the gross dollar amount of the transactions is relatively small. Nevertheless, the Commission's application of the first Hughes doctrine tended to reduce substantially some of the more shocking mark-ups.

At this point the Commission's work was soon supplemented by the NASD as I believe Congress intended it should be. As you all know, whereas the Commission operates for the most part under rules phrased in terms of "fraud," the NASD is in a position to attack the problem of unreasonable spreads under the broader and more flexible "high standards of commercial honor and just and equitable principles of trade." As a result of a 1943 survey of its members' over-the-counter transactions which indicated that about half the transactions were effected at mark-ups of 3% or less and most of the transactions at mark-ups of less than 5%, the NASD instructed its District Business Conduct Committees to bear those statistics in mind in determining whether prices were reasonably related to the market for the purposes of its own rules.

I have no wish here to elaborate on this "5% philosophy" of the NASD. I mention it only to round out the picture of the first Hughes doctrine. The Commission, in an opinion last year in which it reversed disciplinary action taken by an evenly divided Board of Governors of the NASD against the firm of Herrick, Waddell & Co., agreed with the NASD that its rules against unethical conduct went beyond fraud. Fraud, the Commission said, is normally obviated by disclosure, whereas conduct may be unethical regardless of disclosure. Nevertheless, the Commission held that the NASD's action had been based on the fallacious theory that mark-ups in excess of those customarily charged are in themselves conclusive proof of violation of the NASD's rules. While disclosure will not always obviate a violation of the rules against unethical conduct, the degree of disclosure made must be considered along with all other pertinent circumstances in judging the reasonableness of the mark-ups and the ethics of the transactions.

Doctrine of Arleen W. Hughes Case

In any event, the NASD's application of its "5% philosophy" has considerably minimized the enforcement problems under the Commission's fraud rules. Consequently, while the first Hughes doctrine is still in full effect and there are occasions even today calling for its application, it is perhaps appropriate now to concentrate our attention primarily on the second of the two doctrines, which finds its latest expression in the more recent Hughes case — the Arleen W. Hughes case decided by the Commission on February 18 of this year. The doctrine of that case, in a nutshell, is that a firm which is acting as agent or fiduciary for a customer, rather than as a principal in an ordinary dealer transaction, is under a much stricter obligation than merely to refrain from taking excessive mark-ups over the current market. Its duty as an agent or fiduciary selling its own property to its principal is to make a scrupulously full disclosure of every element of its adverse interest in the transaction.

In other words, when one is engaged as agent to act on behalf of another, the law requires him to do just that. He must not bring his own interests into conflict with his client's. If he does, he must explain in detail what his own self-interest in the transaction is in order to give his client an opportunity to make up his own mind whether to employ an agent who is riding two horses. This requirement has nothing to do with good or bad motive. In this kind of situation the law does not require proof of actual abuse. The law guards against the potentiality of abuse which is inherent in a situation presenting conflicts between self-interest and loyalty to principal or client. As the Supreme Court said a hundred years ago, the law "acts not on the possibility, that, in some cases the sense of duty may prevail over the motive of self-interest, but it provides against the probability in many cases, and the danger in all cases, that the dictates of self-interest will exercise a predominant influence, and supersede that of duty." Or, as an eloquent Tennessee jurist put it before the Civil War, the doctrine "has its foundation, not so much in the commission of actual fraud, but in that profound knowledge of the human heart which dictated that hallowed petition, 'Lead us not into temptation, but deliver us from evil,' and that caused the announcement of the infallible truth, that 'a man cannot serve two masters.'"

This time-honored dogma applies equally to any person who is in a fiduciary relation toward another, whether he be a trustee, an executor or administrator of an estate, a lawyer acting on behalf of a client, an employee acting on behalf of an employer, an officer or director acting on behalf of a corporation, an investment adviser or any sort of business adviser for that matter, or a broker. The law has always looked with such suspicion upon a fiduciary's dealing for his own account with his client or beneficiary that it permits the client or beneficiary at any time to set aside the transaction without proving any actual abuse or damage. What the recent Hughes case does is to say that such conduct, in addition to laying the basis for a private lawsuit, amounts to a violation of the fraud provisions under the securities laws. This proposition, as a matter of fact, is found in a number of earlier Commission opinions. The significance of the recent Hughes opinion in this respect is that it elaborates the doctrine and spells out in detail exactly what disclosure is required when a dealer who has put himself in a fiduciary position chooses to sell his own securities to a client or buys the client's securities in his own name.

Mrs. Arleen Hughes registered with the Commission both as a broker-dealer and as an investment adviser. The bulk of her business was with about 175 clients, each of whom signed a "Memorandum of Agreement" specifying that the firm was to act in all transactions as both investment adviser and principal except as otherwise agreed. The contract included an elaborate schedule of rates and charges applicable to each transaction. It specified maximum spreads which would be added to a so-called "base price" when the firm sold securities to a client or bought them from a client. For simplicity I shall speak here only of the sale side. And I shall not elaborate on the various methods by which the "base price" was computed except to say that it apparently bore some relation to the current market and that we did not charge that Mrs. Hughes was taking unreasonable spreads in violation of the first Hughes doctrine. The schedule in the client's contract specified that the amount added to the "base price" might vary from $40 down to $10 per $1 000 face value in the sale of bonds depending on the amount of the transaction, and from 3 points down to ⅛ point in the sale of stock, depending on the "base price."

The firm admittedly advised the clients with reference to well-balanced investment programs and made specific recommendations. It was also admitted that the firm's advice was followed in almost every instance. In roughly half the cases Mrs. Hughes sold her own securities from inventory, and in the remainder she first obtained a firm order and then went through the form of buying the security for her own account and confirming a sale to the client as principal. She did not make a practice of disclosing whether or not a particular security was being sold out of inventory, or what the current market or her own cost was. The most the clients could know was the maximum mark-up that might be taken under the schedule, which could be in theory as much as one point on a stock with a "base price" of $1, or 100%; fortunately, unduly high spreads were not taken in actual practice, as I have already indicated. Finally, most of her clients who testified — and they were very friendly toward her—were typically confused as to the difference between a principal and an agency transaction.

On these facts the Commission held that it did not suffice merely to refrain from selling at prices not reasonably related to the current market, which is the duty of an ordinary dealer in a principal transaction. Nor does it suffice for the firm to disclose merely the maximum mark-ups it will charge. Rather, the Commission held, the firm must disclose fully the nature and extent of its adverse interest.

Extent of Fiduciary's Disclosures

Just what does such disclosure entail? Traditionally the law has always required disclosure of the fiduciary's capacity and of his actual cost in this type of case (or in the case of a purchase from a client, the fiduciary's resale price where known). In addition, however, the Commission recognized the obvious fact that in the securities field there is another criterion of adverse interest which is usually a good deal more significant. That criterion is the current market price — namely, the best available bid or offer, as the case may be, which the fiduciary is able to discover in the exercise of reasonable diligence. Of course, it is not essential to disclose the best available market price unless it is more favorable than the price at which the fiduciary proposes to buy from or sell to his client. Furthermore, disclosure of cost and market will normally be the same where the fiduciary affects an approximately contemporaneous transaction with another dealer to offset a transaction with a client. However, where the fiduciary has held a security in inventory for some time before selling it to a client, the fiduciary's cost, though still significant, is of secondary importance, and disclosure of cost alone without disclosure of current market may be positively misleading. Suppose, for example, the fiduciary paid 50 for a security in inventory and is charging the client 20, but the current market is 10; disclosure of cost alone would indicate that the client is getting a bargain, whereas in fact he is being "taken for a ride," and it's not a free one.

The Commission also spelled out in some detail how the required disclosure of capacity and market might be made. The nature and extent of disclosure with respect to capacity will vary with the particular client involved. In some cases use of the term "principal" itself may suffice. In others, a more detailed explanation will be required. In all cases, however, the burden is on the firm which acts as fiduciary to make certain that the client understands that the firm is selling its own securities. In disclosing market price, where it is more favorable than cost, the firm must make certain that the quotations it furnishes to clients are reliable and truly indicative of the current market. These quotations need not be taken from any particular source. But they must be true reflections of the market price at which the transactions could be effected as agent with reasonable diligence.

No Disclosure Rule of General Applicability

Now, just to keep the record straight, this case does not enact any market disclosure rule of general applicability. It should hardly seem necessary to mention this fact, except that counsel did argue in the Arleen Hughes case that that was what we were trying to do and that it was illegal without a specific rule, such as the market disclosure rule which was proposed by the Trading and Exchange Division several years ago and circulated to the public for comment but later specifically rejected by the Commission. That proposed rule—and I do not want to get into its merits—would have required disclosure in all arm's-length principal transactions. In the Arleen Hughes case, however, the Commission emphasized in so many words that "it is not intended that the disclosure requirements, which we have found applicable to registrant, be imposed upon broker-dealers who render investment advice merely as an incident to their broker-dealer activities unless they have by a course of conduct placed themselves in a position of trust and confidence as to their customers." This should make it quite clear that we are not burying the market disclosure rule with one hand and digging it up with the other.

Summary of Doctrines

To sum this all up, the two doctrines, represented by the two Hughes cases, are as follows: First, a firm acting as principal in an ordinary dealer's transaction must simply refrain from charging a price which is not reasonably related to the current market without disclosing what the market is. Secondly, a firm which is in fact in a fiduciary relation to a client—whether it calls itself a broker or a dealer—cannot deal with its client for its own account without making scrupulously full disclosure of its adverse interest, which includes at least three elements. The first is the capacity in which the firm is acting. The second is the dollars-and-cents cost of securities which it sells to its clients (or, if it buys securities from its clients, the proposed resale price where known). And the third element of adverse interest is the best current market price ascertainable by the firm in the exercise of reasonable diligence where that price is better than the firm's price. All this, of course, is aside from the duty an agent always has to use reasonable efforts to give his principal any relevant information which he has notice the principal would desire to have.

To be entirely accurate I should add that it is over-simplifying somewhat to consider the two Hughes doctrines as entirely distinct. Even in the first Hughes case the court, though considering the firm as a principal in a simple vendor-purchaser transaction, referred to its special duty, in view of its expert knowledge and proffered advice, not to take advantage of its customers' ignorance of market conditions. In most cases there is, of course, some similar element of advice and of disparity between the knowledge of market conditions possessed by the dealer and the customer. We have felt, however, that the essential doctrine of the first Hughes case is applicable even in a genuinely arm's-length transaction, where the customer was previously unknown to the dealer and can take care of himself and was not solicited and received no advice from the dealer; and I believe this factual extension of the first Hughes case would be upheld by the courts.

This brings me to an important chapter so far missing in the story. To say this much without more is a little like the law school professor who was asked by a first-year student what the difference was between a question of law and a question of fact, and replied that questions of law are decided by the judge and questions of fact by the jury. That is all very true, but it did not inform the student how to tell which category a particular question fell under. Similarly here, before one can tell which of the two Hughes doctrines to apply, it is necessary to decide whether a firm is acting in a particular transaction as a dealer pure and simple or as a fiduciary.

In some cases, as in the Arleen Hughes case itself, the answer is easy: A firm which is registered as an investment adviser, and which admittedly renders investment advice with respect to the same transactions in which it purports to act as principal, can hardly deny its fiduciary status. But suppose the firm is not registered as an adviser and has no fancy contracts with customers; it simply buys and sells securities as principal, rendering the incidental investment advice which we all know is universal in the industry and without which it could hardly operate. When does such a firm cross the line from the first Hughes doctrine to the second?

Detriments for Acting as Brokers or Principles

For one thing, the confirmation, while important, does not give a conclusive answer. The Commission's confirmation rule, which is essentially declaratory of the common law, requires the firm to advise the customer in writing before the completion of each transaction whether it is acting as a dealer for its own account, as a broker for the customer, as a broker for some other person, or as a broker for both sides. And, where the firm is acting as broker for the customer or for both sides, its confirmation must state the source and amount of all commissions and either state or announce that it will furnish on request the name of the person on the other side of the transaction and the date and time when the transaction took place.

Obviously, where a firm confirms as broker for the customer there is no problem. The firm has assumed all the obligations which the law imposes upon an agent. But the sending of a principal confirmation is not always conclusive that the firm is really dealing at arm's length and hence subject only to the first Hughes doctrine. All you have to do is see one or two cases where a salesman gets a lonely widow 80 years old to think he is the most wonderful fellow in the world because he sends her flowers on her birthday or maybe rubber tips for her crutches (this actually happened in one case). When you see a few characters of that sort purporting to act as principal in arm's-length transactions, it becomes obvious that a principal confirmation cannot be conclusive.

How then do you decide? I am afraid the answer cannot be given with anything approaching mathematical certainty. The only answer I know depends not so much on any magic words but upon all of the surrounding circumstances, including the degree of sophistication of the parties and the course of conduct between them. And this is one time you can't blame the lawyers. The law must operate on the habits of people and the way most of us do business.

A customer does not typically walk into a firm's office with a lawyer at his elbow and say "Will you buy me 100 shares of X stock at 50 or better on a 1% commission?" This would be a clear agency transaction. Or, if a customer were to come in off the street the way a housewife walks into a grocery store and say "Do you have any X stock?" And upon receiving an affirmative answer were to ask "How much will you charge me for 100 shares of the X stock you have?" and the firm were to say "48" and the customer were to say "Let me have it," it would be clear that the parties had entered into a principal transaction. But what usually happens? If a customer does come in without solicitation, he is apt to say, "Buy me 100 shares of X stock"—which is in effect an invitation for an agency transaction. But the salesman happens to be interested in principal transactions. So some vague talk ensues which leaves the question of capacity quite muddled and the firm then sends a "principal" confirmation. Very likely a court of law would hold that this amounted to an agency transaction unless the firm could show very clearly that it had made and the customer had accepted an express counter-offer to enter into a principal transaction.

Even more typically, of course, the customer does not come in off the street but is actively solicited by a salesman, who will almost inevitably render some advice as an incident to his selling activities, and who may go further to the point where he instills in the customer such a degree of confidence in himself and reliance upon his advice that the customer clearly feels—and the salesman knows the customer feels—that the salesman is acting in the customer's interest. When you have gotten to that point, you have nothing resembling an arm's-length principal transaction regardless of the form of the confirmation. You have what is in effect and in law a fiduciary relationship. Whether or not it is technically an agency relationship does not matter, because an agent is simply one type of fiduciary and the obligations in this respect are the same.

In a number of broker-dealer revocation proceedings in the early forties, around the same time that the first Hughes doctrine was being developed, the Commission found that firms purporting to act as principals were under all the circumstances of those cases in a fiduciary position and hence subject to the same duties of disclosure as agents. Some of you may remember the names of Allender and Stelmack as the leading cases of that variety.

The Oxford Case

I am sure that many more of you will remember the name of Oxford. The Oxford case, which was decided about two years ago, was essentially a very flagrant case of that kind; one customer was a 90-year-old widow, and the other was a young spinster lady ten years her junior. Had the Commission simply followed its earlier line of cases—the Allender and Stelmack cases — I am sure there would have been no alarm in the industry. However, there was some language in the opinion — perhaps not too happily chosen — which, considered out of context, had the industry in something approaching a state of consternation for awhile. I refer to the Commission's statement to the effect that a firm which solicits an order for a security when it knows that it does not have the security in inventory is normally making the purchase for its customer and hence is subject to the duties of an agent. If that statement were taken literally, I believe it is safe to say that most of the over-the-counter securities business would be put on an agency basis. I am confident that no such result was intended by the Commission. I am equally confident that, insofar as the Oxford case may have been interpreted in some quarters as automatically making a transaction an agency transaction, where there is solicitation without inventory, the Oxford doctrine is not dead — it never lived. Witness the fact that about half the transactions in the recent Hughes case clearly fell within the Oxford pattern; yet there was no mention of either the Oxford case as such or its reasoning.

The present significance of the Oxford case, therefore, is simply this: Only a consideration of all of the circumstances can determine whether a particular transaction falls in the principal or in the agency category, and hence within the formula of the first or the second Hughes case. One circumstance is the presence or absence of inventory at the time of the transaction and another is the degree or the absence of solicitation. But when a salesman calls a customer and says "I haven't heard from you in some time and I think you might be interested in XYZ preferred," and the customer orders 100 shares and the firm then goes out and buys 100 shares for its own account, confirming as principal at a price related to the current market, the firm is within its rights. It may be an agent under all the circumstances, but it is not automatically an agent just because it has solicited an order and then bought the stock to fill it. It would be nice if there were some such simple formula which could be readily applied — not necessarily this one — but unfortunately life, at least in this field of endeavor, is not that simple.

I do not wish to leave you, however, on a discouraging note. The fact is that with every case decided by the Commission the situation becomes clearer. I think that is notably true of the recent Hughes case. And insofar as there may still be unsettled problems, or doubts in your minds as to the applicability of any of the Commission's rules or cases to some particular situation, we are available at all times to consult with you and give you the benefit of our own opinions for what they may be worth. Both our principal office in Washington and our several regional offices, including the one in Chicago, are staffed with lawyers whose job it is to lend interpretative assistance to interested members of the public. Here is something you can get free from the Government. Don't hesitate to avail yourselves of it.

American Participation In European Recovery

(Continued from page 4)

the politicians were quick to see the opportunities for consolidating their positions of power in dominating the national life of their respective countries. The movement throughout the world into Statism was encouraged by our own so-called New Deal. World War II gave the politicians the golden opportunity of further rationalizing state controls, with the result that the world finds itself today crushed by the consequences of Statism, and people everywhere are suffering economic tyranny, ruinous taxes, slick and dishonest money, and general stagnation in production and distribution.

Therefore, I say that an important principle that should guide American participation in European recovery is that our friends in our own government must take steps, when they ask us to make sacrifices for aid to Europe, to arrest the trend toward Statism in our own country, and in the countries to which we loan goods and money.

Return to Honest Monetary Practices

Because an extended discussion of Statism as it is expressing itself in the strangulation of economic life throughout the world is a topic all by itself, I shall confine myself to one important area in this general field, the area of paper money and gold.

During the past twenty years, the various governments throughout the world, including our own, have broken all the rules of the game for the use of paper money and gold as media of exchange. We find ourselves, therefore, here, and throughout the international field, without these useful instruments with which to reconstruct the production and distribution of the world.

There is no use talking seriously about European or world recovery unless we are ready to step up to a return of honest money. Honest money means that we must abandon the Keynesian theories, the so-called managed currencies, and pegged and dishonest rates for the international exchange of currencies and gold.

We must set up free markets for the conversion of any country's paper money into the paper money of any other country at exchange rates arrived at in open auction markets. Further, as the opening step in the process of stabilizing paper moneys in terms of gold and returning to the gold standard, we must set up free markets for the conversion of paper money into gold at prices for paper money vis-a-vis gold arrived at in open auction markets.

To sum up my remarks on honest money, I want to make this statement with all the emphasis at my command:

A return to honest monetary practices would have more effect on European and world recovery, on the economic life of the world as expressed in production and distribution, than any of the recovery plans under discussion at the present time.

To put it another way: The world is eager and ready to go to work. The labor and tools are available. The management skill is available for planning and putting into operation the production and distribution schemes needed to feed and clothe the peoples of Europe and of the world. But we need honest money to finance the production facilities, and we need honest money to serve again in the field of distribution as a means for facilitating the exchange of goods.

Enlist Skilled Management

Now I come to my last general recommendation for the guidance of American participation in European recovery, a recommendation for the management control of such funds as the Congress may make available for recovery.

I need hardly remind you gentlemen who have spent your lives in the fields of management and the creation of productive facilities that no plan or project ever works out any better than the character and capacity of the men you pick to carry it out. Accordingly, my recommendation is that when the administration is set up for the control and use of such American money as may be approved by the Congress, steps should be taken to enlist American skilled management in the effective use of the funds for production and distribution.

Steps should be taken to go outside the fields of bureaucracy in recruiting management skills because the government pays its workers badly and does little to attract skilled technical help.

Obviously there would be a practical advantage in dealing with European recovery by subcategories such as food, industries, distribution, and transportation. This would result naturally in the corollary that skilled management in these respective fields should be made part of the administration organization for the most effective and direct use of the money appropriated.

This leads me to the suggestion that our government consider making management contracts with various American corporations and groups so that the skilled management personnel of industry could function in the various specialized fields, in harmony with the general policies sanctioned by the Congress and executed by the general administration group for the European Recovery Plan.

Conclusion

Well, that's my story. I should like to say by way of conclusion that I hope that our country will continue to discharge its responsibilities in the world situation. We are disturbed and miserable confronting the spectacle of these starving, wanting millions among our neighbors. Among these neighbors in Europe we have countless ties of blood. We admire and respect the traditions of these respective countries. We want to continue to be generous and helpful.

From our own standpoint of American self-interest we want to be helpful in reconstructing the road back to peace.

We want to participate not only fully but also effectively in European and world recovery.

Corp. Bond Traders To Hold Outing & Dinner

The Corporation Bond Traders Club of New York will hold their annual spring outing and dinner on June 11th at the Wingfoot Golf Club, Mamaroneck, N. Y.

Bond Club of Toledo To Hold Annual Outing

TOLEDO, OHIO — The Bond Club, of Toledo, will hold their annual outing on July 16, 1948, at the Inverness Country Club, Toldeo, Ohio.

Now Hamilton Management Corp.

DENVER, COLO.—The name of Hamilton Depositors Corporation, Boston Building, has been changed to Hamilton Management Corporation.

Clement A. Evans Co. Adds

(Special to THE FINANCIAL CHRONICLE)

AUGUSTA, GA.—Henry B. Garrett, Jr., has been added to the staff of Clement A. Evans & Co., Inc., Marion Building.

As We See It

(Continued from first page)

mass passions is, accordingly, not nearly so great as it would otherwise be. Of course, technically the people do not declare war in this country, but in point of fact their attitudes quite definitely determine public policy in this respect.

And the President and his associates have now definitely succeeded in arousing a warlike spirit in a degree that is to us most disturbing.

Better Perspective Needed

It would be most salutary if someone in a position of influence would set the current situation forth in better perspective for the benefit of the great rank and file in this country who have not had the opportunity to consider available facts, both current and historical, in a way to lead to a thoroughly rational set of conclusions. It would be foolish to deny — as poor Mr. Wallace is so fond of doing — that Russia is apparently not interested in avoiding conditions out of which wars have with distressing frequency arisen in the past. It would be equally silly to assert — again as the great "liberal" of the day is almost daily doing — that the current situation is wholly of our own doing, or even, perhaps, chiefly of our own doing. There were three first class powers and one third class power, all ruled by what in private life in this country we should term gangsters, all bent on imperialistic missions — or as we should say in reference to gangsterism here, "muscling in" where they had no right to be. The thieves fell out among themselves —and we saw to it that all but one were destroyed.

That one remains on the rampage, as was to be expected, but the resulting situation is not quite what one might suppose from a good deal that is being said in high places. It would be a good thing if all of us, including officialdom, could largely drop the much touted "ideological" aspect of the situation as such from our thinking. We refused to do so during World War II and so badly misled ourselves that, incredible as it seems, we are now shocked to find that the Kremlin is not in the least interested in "liberty" or "freedom" — except to suppress and destroy them—and is not filled with sweetness and light.

More Self-Deception?

Similar self-deception could easily lead to similar results now. We may as well tell ourselves plainly and bluntly that the people of any nation on the globe — if our own political philosophy is to be accepted — have as much right to adopt the communistic system as we have to reject it. If Italy in the coming elections were to decide that it henceforth prefers the communist system, we, for our part, should certainly be able to find no reason why we should either directly or indirectly finance the conversion or the system once it is established. At the same time, however, we should still concede that the internal affairs of Italy were the concern of Italy. Certainly, there could not be the slightest excuse for us to go to war either with Italy or with Russia for such a reason. The same would, of course, be equally true of any other power.

There are, we are sorry to have to say, a number of countries in this world both in Europe and Asia where communism has taken strong root. In a number of them, these disciples of Marx (or whoever it is they now consider their patron saint) are more numerous than any other political party or element. If to these we add the socialists, who likewise would do away with private property, with private enterprise, and with individual initiative, substituting therefor a statism which is fully as well developed as that of the communists (only at most the element of dictatorship being lacking at this stage), a relatively large number of the nations are already for the time being lost to any economic or political doctrine akin to the American tradition. It is extremely doubtful if we can "save" any of these people. They must "save" themselves. How much and in what way we can even help them "save" themselves is open to question. Apart from the smaller and weaker nations immediately adjacent to Russia itself — where our effort would be quite futile in any event — it is probably true that defense against the type of intrigue to which Russia is devoting so much of her energy at present must rest decisively with the people of the countries involved. We may be able to help somewhat in some of them — if we are adroit enough.

We should have learned by this time, however, that it is not very difficult to get ourselves as much disliked as Russia or any other foreign power injecting itself into the internal affairs of another nation. It remains to be seen precisely what effect our already exceedingly generous aid and any that we presently add to it may have upon all this. It would be quite foolish to assume that it will have the consequences we wish it to have — almost as foolish as it would be to subscribe to popular notion that communism is the only "way out" for a starving or destitute people who do not wish to endure the hardships their position imposes upon them — as if communism was indeed "a way out" of anything.

Are We In Danger?

This leaves the question, and a vital question it is, as to how much the United States would be really endangered by the spread of communism across Europe even to the Atlantic. If the danger is ideological, then fighting Russia or the communists anywhere is obviously not the proper defense. We should in any event accept communism or reject it according as our good sense left us or remained—that is, of course, short of actual conquest by communistic nations followed by an imposition of their faith from without. It would appear rather obvious that the type of intrigue that Russia has engaged in in border countries, in Italy, in France, and at an earlier date in Spain, simply would be out of the question here unless we have reached a stage where we are not worth saving.

If Russia is to "impose" communism on us or upon our immediate neighbors it will have to be by outright war. How formidable a threat is Russia to us anyhow? How much more formidable a threat would she become if she succeeded in enabling communist groups in Western Europe to take control? Would a communist-controlled France be easily converted into an aggressive enemy of ours ready to risk an "all out" war? Would the French nation be thus restored to its ancient vigor? Except for defense, how valuable would any of these Western European countries be to a conquest-bound Russia?

These are some of the questions the American citizen should be asking himself. It is never wise for the rank and file to leave their thinking to Government.

Of course, there are other areas, the Near East and the Middle East conspicuous among them, where the situation takes a different aspect. We have certain financial interests in some of these areas — that is private citizens have — and accordingly aggression in this direction would touch us somewhat more directly, but certainly he would be hasty who concluded that we should go to war on this account — the more so in view of the uncertainty of our ability to be effective in a corner of the globe so much closer to Russia than to us.

Again, we must conclude as we have so often concluded in the past with a statement that the British Empire is much more vitally affected by all this than we, many times more affected. Indeed, a Russian threat to the British "life-line" (assuming that it is still really a life-line) through the Mediterranean is obvious. But, again, are we wise to pay the cost of further underwriting of the British Empire?

We ask these questions. We present no answer. We hope every thoughtful American will find his own answer quite independent of the Administration — and of course of anything we may say.

Halsey, Stuart and First Boston Group Offer West Penn Power Co. Securities

Two separate underwriting groups who were successful purchasers of the securities of West Penn Power Co. when offered at competitive bidding March 22 publicly offered the securities on March 24.

A group headed by Halsey, Stuart & Co. Inc. publicly offered $12,000,000 first mortgage bonds, series M, 3% due March 1, 1978 at 101.19% and accrued interest. Award was made to the group on its bid of 100.719.

The First Boston Corp. headed an underwriting group which offered a new issue of 50,000 shares of preferred stock, $100 par value. The stock, having a dividend rate of 4.20% was priced at 101.205 per share. The new securities were awarded to the group on a bid naming the present offering price with a compensation of $2.65 per share to the company.

The company and its subsidiaries form an important part of The West Penn Electric Co. system, 94.549% of the common stock, constituting 85.858% of its voting stock, being held by the parent companies.

As a part of its fund raising program the company is offering 5,517 shares of additional common stock to present holders, other than its parent companies, at $25 per share at the rate of one share for each 29 shares held. The offering is to holders of record March 24, 1948. Any unsubscribed stock will be purchased by West Penn Electric Co.

Proceeds from the sale of the $12 million bonds, the preferred and common stocks will be applied to the retirement of the company's bank loans outstanding in the amount of $4 million and, together with other funds, to a construction program which for the year 1948 calls for the expenditure of $22,646,000.

After giving effect to all of the securities now being offered capitalization of the company will consist of $72,000,000 first mortgage bonds; $29,707,700 of 4½% preferred stock; $5 million of 4.20% preferred stock, and 3,035,000 shares of no par value common stock with stated value of $24,250,000.

News About Banks and Bankers

(Continued from page 24)

will be in charge of the Mortgage and Real Estate Department. He was formerly President of Edwin F. Armstrong Company, New York Realtors.

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The determination of values of investments in **Pennsylvania banks** at book values, rather than market values, will prevail in the future according to D. Emmert Brumbaugh, State Secretary of Banking. The new methods were explained by Mr. Brumbaugh at a district meeting of the **Pennsylvania Bankers' Association**, it was stated in Associated Press advices from Harrisburg Feb. 23, appearing in the Pittsburgh "Post Gazette" from which we quote the following:

Pennsylvania in the past has always priced the investment holdings of banks at market value with the exception of government bonds. The latter have been valued at cost less amortization.

Mr. Brumbaugh said that in the future all high grade state, municipal and corporation bonds will be listed at the book value or the cost less amortization.

He emphasized that "due to the sound financial condition of Pennsylvania's banks there is not one bank in the state that will need to change its policy." The banking head said that under the new policy the state will take into account that "market values are unstable" and subject to change which do not involve the real worth of many investments.

* * *

At the regular meeting of the Board of Directors of **J. P. Morgan & Co. Inc.** held on March 17 the following appointments were made:

Hartland S. West, formerly Comptroller, was made Vice-President and Comptroller; Francis K. Gibbons, formerly Auditor, was made Assistant Vice-President; Frank Forester, Jr. was made Assistant Comptroller, this appointment to take effect on April 1.

Mr. West joined the staff of J. P. Morgan & Co. in 1909 and became a Manager in 1935. He has been Comptroller ince 1937. Mr. Gibbons joined the staff of J. P. Morgan & Co. in 1916. He became Assistant Comptroller in 1940 and Auditor in 1945. Mr. Forester is at present Treasurer of the Warsaw Elevator Company.

* * *

Central Hanover Bank and Trust Co. announced on March 24 the appointment of Charles S. Bishop as an Assistant Vice-President. He will be one of the bank's representatives in Ohio, Michigan and parts of Pennsylvania.

* * *

James A. Burke, President of the Borough of Queens, New York City, officiated at the ground breaking ceremonies on March 15, for the $200,000 Union Turnpike Branch of **The Bayside National Bank of Bayside, New York** and the adjoining one-story building which will be the Utopia Station of the Flushing Post Office, it was announced by J. Wilson Dayton, President of the bank. The site is at 186th Street and Union Turnpike, Jamaica Estates North, Queens. When completed and ready for business about Aug. 1, the new two-story bank building will have the first drive-in banking facilities in New York City, Mr. Dayton disclosed.

* * *

Gustav F. Watters, of Buffalo, N. Y., was elected a director of the **Power City Trust Company, of Niagara Falls,** President George F. Bates announced on March 8. The Buffalo "Evening News" reporting this stated that Mr. Watters is

Executive Vice President of the Niagara Falls Power Company.

* * *

William P. Curtiss, Chairman of the Board of Directors of the **Union & New Haven Trust Company, of New Haven, Conn.** died on March 11. He was 77 years of age. Mr. Curtis at the age of 16 entered the employ of the **National Tradesmen's Bank in New Haven**, it is learned from the New Haven "Register," which also said: "He remained with this bank for 16 years. In 1903 he became Vice-President, Treasurer and active Manager of **The New Haven Trust Company.** When this company merged with **The Union Trust Company** in 1911 to form the present Union & New Haven Trust Company, Mr. Curtiss continued as director, Vice-President and Treasurer. On Jan. 10, 1918, he became President, continuing in active charge until he became Chairman of the board on Jan. 4, 1943."

* * *

A special meeting of the stockholders of the **East Hartford Trust Company, of East Hartford, Conn.**, will be held on May 5 to act on a proposal to increase the capital from $150,000 to $200,000, it is announced by Robert B. Olmsted, President of the institution. The Hartford "Courant" of March 18, from which this is learned, also said in part:

At the same time surplus of the bank will be increased $50,000 from $150,000 to $200,000. This increase will be made by transfer of $25,000 from the undivided profit account and by issuing new stock at a premium of $12.50 a share, providing the other $25,000.

The plans call for the issuance of 2,000 new shares, par value $25 each, which will be offered to the stockholders in the ratio of one share for three at $37.50 per share.

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Promotions as follows have been announced by the **Fidelity Philadelphia Trust Company of Philadelphia**, it is learned from the Philadelphia "Inquirer" of March 15.

Stewart M. Walker to Vice-President in charge of operations; Horace W. Latimer, Corporate Trust Officer, and Edward F. James, Controller.

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At the meeting on March 9 of the Board of Directors of the **Corn Exchange National Bank & Trust Company of Philadelphia**, Edward W. Newcomb was promoted from Assistant Cashier to Assistant Vice-President, effective April 1.

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Stephen E. Ruth, former Vice-President of the **Philadelphia National Bank of Philadelphia, Pa.**, died on March 10. He was 73 years of age. The Philadelphia "Evening Bulletin" states that Mr. Ruth was associated with the bank for 52 years before retiring five years ago as head of the foreign department. He was a director of the Philadelphia Bourse for many years and was a member of the Bankers Association of Foreign Trade.

* * *

C. Hartman Kuhn, a director of the **Girard Trust Company of Philadelphia** for many years, and also of the Insurance Company of North America, died on March 9. He was 93 years of age. Mr. Kuhn was also well known as an art patron, and had formerly been a director of the Philadelphia Orchestra Association.

* * *

The election of John T. Shirley to the board of directors of **Potter Title and Trust Company, of Pittsburgh, Pa.**, was announced on March 9 by H. R. Hosick, President. In noting this the Pittsburgh "Post Gazette" indicated that Mr. Shirley is the general agent in Western Pennsylvania for the New England Mutual Life Insurance Company of Boston.

The State of Trade and Industry

(Continued from page 5)

industry will probably hold out for allocations on the basis that they need more steel and have been unable to get their share.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 95.7% of capacity for the week beginning March 22, 1948, a decrease of 1.8 points, or 1.8%. This compares with 97.5% one week ago. A month ago the indicated rate was 93.6%.

This week's operating rate is equivalent to 1,725,000 tons of steel ingots and castings as against 1,757,400 tons last week, 1,687,100 tons a month ago, 1,697,400 tons, or 97.0% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

FREIGHT LOADINGS 5.2% UNDER LIKE WEEK OF 1947

Loadings for the week ended March 13, 1948, totaled 797,033 cars, according to the Association of American Railroads. This was an increase of 4,462 cars, or 0.6% above the preceding week. It represented a decrease of 44,114 cars, or 5.2% below the corresponding week in 1947, and a decrease of 2,873 cars, or 0.4% below the same week in 1946.

ELECTRIC PRODUCTION LOWEST SINCE JAN. 3 WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended March 20, 1948 was 5,145,-130,000 kwh., according to the Edison Electric Institute. This was 139,211,000 kwh. less than turned out in the preceding week, but exceeded the 4,759,066,000 kwh. produced in the week ended March 22, 1947 by 386,364,000 kwh., or 8.1%. The March 20, 1948 week was the 11th consecutive week that production exceeded the 5,000,000,000 kwh. figure, and was 291,000,000 kwh. below the peak figure of 5,436,-430,000 kwh. reached in the week ended Jan. 24, 1948.

AUTO OUTPUT SHOWS FURTHER IMPROVEMENT FOR LATEST WEEK

Production of cars and trucks in the United States and Canada advanced last week to an estimated output of 116,023 units "Ward's Automotive Reports," states. This compared with a revised total of 114,689 units in the preceding week and 108,742 units a year ago.

United States car output of 79,571 compares with 78,525 (revised) last week, while truck completions were 30,394 compared with 29,913 (revised) for the previous week.

BUSINESS FAILURES TURN UPWARD

Following the preceding week's dip, commercial and industrial failures rose slightly in the week ending March 18, reports Dun & Bradstreet, Inc. Concerns failing increased from 102 to 106, over twice the 47 occurring in the corresponding week last year and almost five times the total of 22 in the same week of 1946.

Despite this sharp upward trend, business casualties are far below the prewar level, claiming only a third as many as the 350 in the comparable week of 1939.

Most of the week's failures, 90 out of 106, involved liabilities of $5,000 or more. Up from 84 a week ago, they were almost three times as numerous as last year when only 35 were reported. Small failures with losses under $5,000 continued at a low level, numbering 16 against 18 last week and 12 a year ago.

Retail failures predominated, claiming 44 during the week, as compared with 41 in the previous week and 18 in the same week of 1947. The second largest number occurred in manufacturing where 26 concerns went out of business with probable loss to creditors, one more than last week and 10 above last year. In other industry and trade groups, few businesses failed.

Geographically, the week's failures were heaviest in the Middle Atlantic States and the Pacific States. None of the other regions had half as many casualties.

FOOD PRICE INDEX UP NINE CENTS IN LATEST WEEK

There was a general strengthening in food prices the past week and the Dun & Bradstreet wholesale food price index for March 16 rose to $6.70 from $6.61 the week before, a gain of 1.4%. On the corresponding date a year ago the index also registered $6.70.

Contributing to the week's rise were higher prices for wheat, corn, rye, oats, barley, beef, bellies, lard, butter, eggs, potatoes, steers, hogs and lambs while declines occurred in flour, hams, cottonseed oil, cocoa and prunes.

COMMODITY PRICE INDEX MOVES UPWARD IN LATEST WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., trended upward in the latter part of the current week, closing at 281.22 on March 16. This compared with 275.49 a week earlier, and with 269.25 on the similar date a year ago.

Grain price trends last week were again mixed with a rather sharp upswing in values toward the close of the period.

Wheat prices soared on March 13, following announcement that the government would resume buying of cash wheat for export and reports indicating a very favorable position for the new winter wheat crop. The government also announced the acceptance of offers of 454,230,000 pounds of wheat flour, equivalent of 10,220,000 bushels of wheat, to be exported against April and May allocations. Domestic demand for flour, however, remained on a very limited basis. Corn registered a mild advance in sympathy with wheat, aided by short covering and limited country offerings. Oats followed the lead of wheat and corn and closed with small net gains.

Despite the strike threats of stock yards workers, demand for cash lard remained slow, with large users showing no indications of increasing inventories.

Hog prices fluctuated widely in accordance with variations in daily volume of receipts.

Cotton prices continued to fluctuate irregularly in the past week. After showing some easiness at the start, the undertone was generally firmer with the New York spot quotation recording a gain of 89 points for the week.

Weakness in early dealings largely reflected uncertainty over the European political situation. Inquiries in spot markets were quite numerous but volume of sales held about the same as a week ago. In the latter part of the period prices were bolstered by more favorable reports on the extension of credit to Japan and the prospect of early passage of the European Recovery Program by Congress. Domestic consumption of all cotton during February, as estimated by the New York Cotton Exchange Service Bureau, was 780,000 bales, marking the tenth successive month in which the use of cotton fell below the corresponding month of the previous year. The total compared with 860,000 bales consumed in January, and 840,000 in February a year ago. Trading in textiles was quiet with prices steady to a little lower for some constructions.

All foreign primary wool markets, except the South American market, experienced a drastic decline in prices during the past week.

Values dropped from 10 to 15% in Australia, about 20% in South Africa, and from 20 to 30% in New Zealand from the peak levels reached in late February. In the meantime, activity in the Boston raw wool market was at a minimum as dealers watched developments in the foreign primary markets. Imports of apparel wools received at Boston, New York, and Philadelphia in the week ended March 5 represented 6,396,000 clean pounds, compared with 7,324,800 in the previous week.

RETAIL AND WHOLESALE TRADE MAINTAINED SLIGHTLY ABOVE 1947 LEVEL

While inclement weather in some areas discouraged consumer buying to a degree, interest in pre-Easter promotional sales was generally favorable. The dollar volume of retail trade increased slightly during the period ended on Wednesday of last week and was slightly above that of the corresponding week a year ago, Dun & Bradstreet Inc., reports in its current survey of trade. Considerable resistance to high-priced merchandise turned consumer attention away from luxury items and the factor of good quality at moderate prices continued to be stressed.

Demand for Spring and Easter apparel increased slightly and unit volume held moderately below the level of a year ago.

Main floor blouse and millinery departments attracted a large number of shoppers with some interest in lingerie and hosiery in evidence. There was some improvement in the demand for medium-priced Spring dresses and suits. Skirts and fancy blouses remained among the best sellers. Men's light-weight gabardine and worsted suits and accessories continued to sell well.

Consumer buying of practically all foods remained at a high level

Some housewives considerably increased their purchasing of fresh and canned meats following the announcement of the meat-packing strike. The supply of fresh fish and poultry remained adequate and in large demand. Lenten specialities continued to sell well and the approach of Easter stimulated the buying of candies and baked goods.

Many housewives displayed interest in upholstery fabrics and curtain and drapery materials.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 6 to 10% 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 and Middle West 5 to 9, Northwest 10 to 14, Southwset 9 to 13 and Pacific Coast 1 to 5%.

There was a slight decrease in the dollar volume of wholesale trade during the week. While unit volume remained moderately below the level of the corresponding week of 1947, dollar volume was somewhat above. Buying generally continued to be for current stock replacement and orders for most goods were moderate. Collections remained slow in some lines and deliveries were generally prompt.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended March 13, 1948, increased by 4% from the like period of last year. This compared with an increase of 5% (revised) in the preceding week. For the four weeks ended March 13, 1948, sales increased by 7% and for the year to date increased by 6%.

Retail trade in New York the past week displayed signs of quickening with the near approach of Easter and department store volume was estimated at close to the level of the similar period of 1947.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to March 13, 1948, increased 1% above the same period last year. This compared with an increase of 1% (revised) in the preceding week. For the four weeks ended March 13, 1948, sales increased 4% and for the year to date rose by 5%.

Peru's Second Exchange Offer Has Not Met With Unanimous Approval of Creditors

We are informed by the New York Stock Exchange that up to Feb. 26 of this year, only $8,374,500 of the Republic of Peru's old external bond issues have been exchanged for the new bonds, out of a total of $81,850,000 bonds outstanding, viz:

Sinking Fund:	
7s of 1959	$ 852,000
Peruvian Nat. Loan:	
6s of 1960	4,770,500
6s of 1961	2,752,000

Three issues amounting to $115,000,000 were originally offered in the United States. No interest payments have been made for 16 years. Peru's offer to skip the unpaid accrued interest for 16 years and to exchange the old bonds for new bonds to bear only 1% for the first two years, 1½% for the second two years and 2% for the third two years and 2½% to the maturity of the new bonds in 1997, has not met with general acceptance by the holders of the old bonds. The Foreign Bond Holders Protective Council has recommended American bond holders not to accept the plan as offered by the Republic of Peru.

With Howard, Labouisse Co.

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—Howard, Labouisse, Friedrichs & Co., Hibernia Building, members of the New Orleans Stock Exchange, have added Gordon O. Quackenbos to their staff.

With Herrick Waddell Staff

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND. — William R. Ritchey has joined the staff of Herrick, Waddell & Co., Inc., Merchants Bank Building.

Obstacles to Financing Perpetual Business Boom

(Continued from first page)

housing and by business for new plant and equipment are high.

(2) Prosperity develops into an inflationary boom when central bank or commercial bank credit rather than savings are used to finance government deficits or private capital expenditures.

(3) Booms terminate when the sources of new funds on which they are dependent finally run out.

(4) We do not experience deep, long, self-spiralling depressions unless credit is deflated rapidly and substantially.

Furthermore, we know that vast amounts of new funds are required if the rise which started two years ago in our productive capacity is to be continued over the years ahead—which now is a military as well as an economic necessity.

Therefore, the question — "Where are the funds coming from to finance expansion in our markets?"—demands the attention of everyone interested in the future of the country.

Funds Are Not Available to Perpetuate the Postwar Boom

Recent developments demonstrate conclusively that we are not generating enough funds to perpetuate the sort of boom we have experienced in the postwar period.

It has been estimated that approximately $48 billion of new funds were needed last year to finance capital expenditures by business, individuals and governments. This compares with $40 billion of 1946 and with $16 billion in 1939.

With demands for funds so insistent it is a factor of vital importance that money is not as plentiful or as readily available as it was a few months ago. It is a matter of common knowledge in financial and industrial quarters that sale of new stock to present stockholders or in the market is not readily accomplished, that sale of bonds or preferred stocks in the new capital market is considerably more difficult than it was, that term loan funds are less readily available from insurance companies and commercial banks, and that banks are under some pressure from the Federal Reserve Board to be more selective and cautious in granting credit.

In an over-all sense, the fact that funds for expansion in productive capacity are less readily available today than they were may be explained by a basic inadequacy in the volume of saving at a time when capital investment continues at a vigorous pace. Personal liquid savings in the form of currency, bank deposits and securities amounted last year to no more than $10-11 billion as compared with $15 billion in 1946 and $37 billion in 1945. They are no higher currently than when the national income was 40% of what it is today. Undistributed business profits have arisen to approximately $10 billion but they do not fill the void when personal savings are so low and depreciation reserves are high in dollars but probably do not cover replacement costs at present prices. All attempts to estimate the size of the "gap" between savings and the need for funds are likely to be futile, for our statistics are far from perfect and some of the elements are not measurable at all. But we get a rough idea of the size of the "gap" when it is realized that upwards of $9 billion of new bank credit was required last year to supplement the savings of corporations and individuals.

The fact that the past year and a half has witnessed a substantial and sharp rise in yields and decline in prices of corporate bonds and preferred stocks gives abundant testimony to the reality and width of the gap between savings and the need for funds. To be sure, yields are still low as compared with past periods of good business. But it now seems clear that while money has been cheap it has not been available in the vast amounts or in the form needed if the present boom is to be perpetuated.

The Stage Is Not Set for a Rapid or Substantial Deflation

While the funds do not appear to be available to perpetuate a boom such as that we have been experiencing, there is little or no basis for expecting a severe or prolonged deflation. We have been trying to finance a sharp and substantial rise in working capital needs and at the same time to raise the level of production to a new plateau, to make up the wartime deficiencies and to develop some of the new industries which the technological revolution has produced. We could have financed these demands largely out of current savings if capital needs had not been inflated by the rise in prices and if inflation had not taken its inevitable toll on the rate of savings. And of course the threat of inflation finally forced the monetary authorities to take some steps in the direction of checking further credit expansion.

But there are many good reasons to assume that we face no contraction of credit large enough or rapid enough to start a disastrous spiral of deflation. Our gold stocks are so high that it is inconceivable that gold could be a constrictive factor on the proper use of Federal Reserve credit. The monetary authorities have substantial powers which they show every disposition to use in case it becomes necessary to shift from anti-inflationary to anti-deflationary policies. Furthermore, we can, I think, count on the government quite promptly to step up its relief and public works expenditures to supplement the automatic disbursement of unemployment relief funds. And finally the agricultural price supports are likely to cushion the decline in agricultural prices and to make it much less disruptive than the one which did so much damage to the economy in the early twenties.

Another factor of importance is that the financial position of the country is strong. The banks hold large amounts of government and other paper against which they can obtain funds from the Federal Reserve Banks. Their holdings of government securities are of quite short maturity with a narrow range of price fluctuation. Their loans are sounder than perhaps has ever been the case at the crest of the boom. Furthermore, while individuals and corporations have increased their debt in the past two years, the total debt is still low relative to their incomes, the volume of business being done, and their holdings of liquid assets.

I think that we are justified in assuming that no more than a very moderate reduction in the money supply of the country is in prospect even if there were to be a setback in business, for the banks will probably add to their holdings of government securities if loan repayments begin to bring reductions in their loan portfolios. And it is well to remember that never in our economic history have we had a long or a severe business depression which was not initiated or intensified by a spiral of deflation in money supply.

The Nation Faces an Unexampled Opportunity for the Productive Employment of New Capital in Increased Productive Capacity

The notion that the United States was economically mature, that its frontier was gone, that we would always have an excess of productive capacity was preached so assiduously in the depressed thirties that it is difficult for us to realize that basic changes have occurred in our outlook and in our needs. The belief that we would always save too much relative to our ability to invest such funds caused our tax authorities to adopt tax schedules which deliberately and successfully constricted savings, it also induced our monetary authorities to set their policies on the assumption that credit expansion would always stimulate consumption without bringing inflation. They simply did not envision a condition where an excess of investment over saving would leave a "gap" which would be filled by credit inflation. The "over-savings" school has been noticeably less outspoken of late, but the illusions it created die hard, and it will be well for us all to recognize once and for all that the nation must and can consume staggering amounts of new funds in the next decade. This is true for several reasons.

(1) **Our Population Is Increasing Rapidly:** Since 1940 our population has increased 10% and the number of families has increased 13½%. We have added in eight years 14 million people—or more than the total population of Canada—and every month the increase in population is equal to the addition of a city of the size of Richmond, Virginia. Population increase supports a steady substantial expansion in our markets which requires billions of new investment in housing, municipal facilities and industrial capacity even if the standard of living of our people holds unchanged—which of course it will not.

(2) **Population Migration Stimulates Demand:** In the past several years about six million people have moved from rural to metropolitan areas and several million more have moved from one section of the country to another. This means increases in consumption and an expansion of the facilities necessary to supply housing, governmental services and employment.

(3) **Income Shifts Mean Larger Mass Markets:** The shift upward in the incomes of millions of our people to a level where they are for the first time potential customers for consumers' durable goods will in time widen many of our markets to a point where significant increases in capacity will be essential. The number of consumer spending units with from $3 to $5 thousand in income per annum rose, according to the illuminating figures prepared by Dr. Arno Johnson, from 4.1 millions in 1941 to 11.6 millions in 1947, an increase not far short of 200%.

(4) **Technological Changes Require Vast Investment in New, Improved, and Expanded Productive Facilities:** We are in the pilot-plant phase of a great revolution in industrial technology requiring vast investment in productive enterprise if we are to take full advantage of the opportunities science affords to raise the standard of living of our people and to make this nation impregnable militarily as well as economically.

The significance of this revolution can be seen from the impressive list of new methods, machines and industries ready for development in the years ahead.

We are in the midst of a number of "little revolutions" in electronics, in illumination, in power generation, in air transport, in metallurgy, in machine tools, in medicine, in home construction, in agriculture, in the new metals, in the chemical and petroleum industries, in food preservation, and in a host of others.

In addition to all these new products, processes and techniques with their vast implications as to material progress, quality improvement and cost reduction, there are many areas in which clearly defined new industries are forming.

Some new industries of the future—and not so distant future at that—are to be expected in frequency modulation, facsimile reproduction, television in black and in color, in frozen foods, in air conditioning, and in plastics.

This is but a partial list of the new industries, methods, machines and materials which applied science is making available to American industry, yet it is long enough to show that we are on the edge of a period when new industries and new possibilities of expanding old industries by reducing costs to the consumer will provide a basis for keeping our business operating at a high level long after the temporary postwar demands have been forgotten.

The revolution in industrial technology gives promise that the threat "that we shall price our goods out of the market" can be removed. The performance of American industry in the past assures that this is possible for its phenominal growth and the accompanying improvement in our standard of living to a point where it is the envy of the whole world is the result of one of the most powerful chain reactions in economics, i.e., from technological improvements to lower costs—from lower costs to wider markets—from wider markets to mass production—from mass production to still lower costs and from lower costs to still wider markets.

The pattern of rising consumption with lower prices was an outstanding feature of our economy prior to the great depression and the technological revolution in which we now find ourselves offers the promise that we are at the beginning of a new period, when American industry can bring larger and larger quantities of a wider and wider variety of goods and services within the reach of more and more of our people.

But we cannot have the manifest benefit of such a revolution in technology without colossal investment in productive enterprise. For example, our railroads will have to spend several billion dollars in the next decade if they are to take advantage of the new light-weight streamlined passenger trains, the new motive power, the new light-weight freight cars with modern bearings and the new signal and radio communication systems which make it possible to reduce costs, increase speed and improve the safety of railroad transportation. Again, frequency modulation radio and television can be made available to our people only by the expenditure of vast amounts for broadcasting and transmission facilities.

Because a large proportion of the housing construction which now is planned will be on "raw," undeveloped property, an investment by municipalities of close to $1,000 per house will be necessary for roadways, school facilities and other community services, and with housing scheduled at about 1,000,000 units per annum for some time ahead the required investment will be a substantial amount each year.

Because industry needs vastly increased supplies of electric power if it is to make full use of the automatic machines which science has recently developed and because of increased use of power by the many electrical devices now regarded as standard equipment for the home, it has been estimated that it will be necessary in the next five years to expand central station capacity by one-third — which would exceed any five year increase on record.

The cost of full mechanization of cotton farming is estimated at $50 per acre and since we have over 20 million acres of land devoted to cotton growing, it is obvious that a substantial investment will be required for this purpose.

If we are to have full development of the airplane transport industry we shall need in addition large expenditures for planes and ground servicing equipment, an investment of several billions in airports.

Expenditures by industry to take care of the new technological developments, plus expenditures to offset deferred obsolescence and maintenance during the war years, when added to plant expenditures by municipalities and by individuals for housing facilities, are capable of raising total needs for investment funds to an average level of from four to five times what they were in the depressed '30s and perhaps as high as two times what they were in prosperous '20s.

It thus has become clear that without vastly increased supplies of new funds it will not be possible for American industry to translate the immense potentialities of the new technological revolution into a vigorous expansion of industry and a new high standard of living for our people.

A Program to Insure an Adequate Supply of Funds for Industrial Expansion

There are, I submit, three directions in which we must move if we are to eliminate the threat of an inadequate supply of funds to meet the investment needs referred to above.

(1) **Eliminate the threat that the use of Federal Reserve credit to support government bond prices will convert productive prosperity into an inflationary boom.** Since rising prices inflate the need for new funds and constrict savings, it would appear to be essential that the Federal Reserve authorities regain control over the most violently inflationary factor of them all, namely, central bank credit. At present the Federal Reserve appears to be standing ready at all times to buy unlimited amounts of U. S. Government securities to support pegged prices of such securities. This means that the holders of many tens of billions of obligations have what they believe to be a "call" at their own option on Federal Reserve credit resources. This is a serious and vital mater, for if the next period of prosperity is not to degenerate into another boom then the Federal Reserve must have it in its power to curtail or to stop the expansion of bank credit. This it cannot do as long as it has an implied commitment to "peg" the market for government securities, for if it restricts credit with one hand it must expand it with the other. Therefore, it is to be hoped that the Federal Reserve Board will take advantage of any period of strength in the market for government bonds to make it clear that it will in the future be under no obligation—implied or actual—to buy these securities except when an expansion in Federal Reserve credit is necessary and desirable and is not likely to have inflationary effects. This would not mean that the authorities would never provide support for the market or that they would "sell the market down." Support operations may at times be both necessary and economically essential, but they should be optional to and at the initiative of the Federal Reserve if it is to regain its vital power to restrain credit expansion at times when such action is necessary to avert a debilitating inflation with its sequel of deflation.

The difficulties involved in such a change in Federal Reserve policies are sometimes exaggerated, for in the years ahead it should be possible to shift to the Treasury some or all of the responsibility for any support deemed to be necessary in the market for government securities. The Federal Reserve authorities can carry on their support operations only by the use of potentially explosive central bank credit, but the Treasury has or can have available several effective means of managing the debt. For example, the Treasury can exercise a powerful influence on the markets by sales or purchases in the open market for the account of the numerous government agencies and investment funds which have available for such use several billion dollars each year, by the use of the substantial amounts of new funds obtained through the sale of Savings Bonds to purchase and retire securities offered in the market by other holders who have alternative uses for their funds, and even, if necessary, by the use of funds obtained by the sale of short-term obligations to support the market for longer-term securities. It is essential, it seems to me, if we are to avoid the obvious risks of inflation induced by unnecessary emissions of Federal Reserve credit, that the Treasury assume some or all of the responsibility of supporting the market for its own securities.

One additional point is worth emphasis. It is that there is good reason to believe that the market for government securities will neither "collapse" nor be a "bottomless market" if policies such as those I have suggested are adopted. Investors need to be told that the strength of the U. S. Government obligations they have purchased depends on something more tangible than the mere commitment of the Federal Reserve banks to support them in the market. There is solid value in the bonds of our government. Their prices may fluctuate a bit now and then, but they are sure to decline less than other bonds in periods of general market weakness. And the Savings Bonds offer to investors a priceless opportunity to purchase a bond on which they cannot take a loss in principal and which affords an attractive rate of interest.

It is sometimes forgotten that our government securities are the safest securities an investor can buy. They are the obligation of the strongest government and the strongest nation in the world. The insurance companies, savings banks, commercial banks, corporations and individuals who hold such securities in their portfolios need the income they receive from them. Furthermore, the public debt of this country is quite well distributed in the sense that individuals hold mainly the Savings Bonds on which no loss can be taken; commercial banks hold predominately short-term obligations which have a very narrow range of price fluctuation, and the insurance companies and savings banks hold long-term securities, which by the nature of their liabilities are appropriate and desirable. There is good reason to believe that the authorities could manage the unpegging operation with the skill they have shown in dealing with the other problems they have faced in the war and in the transition period, so that the prices of government bonds would stabilize at a level not far, if any, below par on the long-term 2½s.

We simply must devise means for management of our public debt without the use of Federal Reserve credit, and this will be all the more necessary if the international situation develops in such a way that we again face the necessity of financing large government deficits.

(2) **Increase the interest rate incentive to the investment of idle funds.** The people of this nation have a colossal volume of funds which they are presently holding unemployed in the form of currency and bank deposits. With investment demand for the use of those funds so urgent, it is essential that interest rates and bond yields be permitted to rise by the small amounts which would be necessary to induce such holders to put their funds to work. It is absurd for so large a volume of funds to be idle merely because interest rates are held near the artificial levels established in wartime. Already the authorities have made some commendable and cautious steps in that direction, but it is time for them to proceed more realistically in permitting interest rates again to become an incentive to the employment of all available funds in mortgages, and in corporate and municipal securities. In any event, the rate carried by such obligations is far less important than the amounts of funds which can be generated for the use of business.

(3) **Eliminate the tax barrier to the accumulation of savings and to their employment in productive enterprise.** Another vital step would involve changes in the tax structure to provide an inducement for individuals to increase their savings. This is far from easy, for our government seems to have virtually limitless demands for funds and the concept of taxation according to ability to pay has been carried to such a ludicrously steep gradation in the surtax rates that we have severely constricted the ability to save. Recently a number of careful studies by competent experts have made it abundantly clear that we are not likely to be able to provide the funds needed for industry unless surtax rates are reduced to a maximum of 50%, and unless double taxation on corporate dividends is eliminated.

Another step which might help increase the amounts of funds available for investment would be the exemption from taxation of funds which individuals save from their current incomes in the form of increased deposits in commercial and savings banks, increased holdings of securities or increases in redemption value of life insurance with the amounts of exemption limited to a stated proportion —say 10-25%—of total income. It is not sound policy at a time when the country needs an increase in savings so desperately that in order to save $100 an individual with net taxable income of $10,000 must earn about $150, an individual with $20,000 of income must earn approximately $200, an individual in the $50,000 bracket must earn about $315 and an individual in the $100,000 bracket must earn $575. When the supply of savings is as low relative to the demand for capital as it is today we need to substitute powerful incentives to save, for the penalties on saving adopted when many government officials believed that the United States was a mature nation with a chronic tendency to save more than could be invested.

This program, unfortunately, is likely to be received with something less than enthusiasm in many quarters. Many groups are bitterly opposed to any tax relief in the middle or high income brackets despite the need for more savings than it clearly is possible for us to obtain under present tax rates. Furthermore, it will be charged that a system providing exemption for savings is difficult to design or administer. But such a system would be easy indeed as compared to rationing, price control and production control, which we know to be virtually impossible to make effective in peace time.

The chief reason why it is difficult to obtain constructive action is that government expenditures are so high. With plant expansion programs being threatened because of the inadequacy of savings and the nation faced with the necessity of stimulating at all costs a great expansion in productive capacity as a matter of military necessity, we can ill afford to delay much longer a realistic effort to reduce government expenditures for all except the most essential purposes. This does not mean that essential government services should be ruthlessly eliminated, but that a determined effort to hold them in check and to increase operating efficiency is called for. It has been said that several billion dollars could be saved from the budget without impairment of essential services, and the burden of this analysis is that industry needs those funds if it is to make this nation strong. If the international situation were to make it necessary for us to increase our military outlays substantially then it would be doubly necessary to eliminate those luxury-type expenditures which we cannot afford when our resources must be mobilized into a high military potential.

Conclusion

In conclusion, let me say that I am convinced that a program along the lines of that I have outlined will assure that this nation will be economically impregnable, prosperous, and able to achieve a new high in the standard of living of our people. If we do not take whatever action is necessary to revitalize the whole saving-investment process we shall run the risk of a period of economic stagnation caused only by our failure to make a long overdue reorganization of our tax and monetary policies.

Reserve Board Studies Higher Capital Cost

(Continued from page 21)

receivables. Individuals will borrow more to finance the acquisition of homes and durable goods. The volume of new State and local government security issues will continue large to pay for additional construction projects and further veterans' bonuses. Finally, the foreign demand for credit will be large in spite of improving economic conditions in some countries.

"Savings available for investment in other than liquid assets may decline further, or at least cannot be expected to increase substantially. As a result, there would be a continuing demand for bank financing, and total commercial bank loans and investments elsewhere than in Government securities would rise further. Such an expansion in bank credit would contribute to a resumption of the general price rise or to the prevention of a desirable readjustment among prices. Reserves to meet the growing demands for credit will become available through gold imports or can readily be obtained by banks by selling Government securities to the Reserve Banks. In view of its responsibility for maintaining an orderly and stable market for such securities, the Federal Reserve System would not be able under existing powers to limit the ability of banks to meet all the credit demands forthcoming. Thus, in the absence of additional Federal Reserve authority to influence banking conditions, the primary check on future bank credit expansion will be through such voluntary restraint as may be exercised by lenders and borrowers."

With Friedman, Brokaw

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Richard H. Kuhlmann is with Friedman, Brokaw & Lesser, 711 St. Charles Street, members of the New York and St. Louis Stock Exchanges.

Theodore Hadden Dead

Theodore Irving Hadden died at his home after a brief illness, at the age of 76. Prior to his retirement six years ago Mr. Hadden was a partner in Kountze Brothers, New York banking and brokerage firm, to which he had gone as an office boy fifty years earlier.

Public Utility Securities

Electric Power & Light

Electric Power & Light, sub-holding company in the Electric Bond & Share system, has made considerable progress toward conforming with the Public Utility Holding Act. Investments in subsidiaries have been reduced from $185 million in 1940 to $153 million in 1946. In 1943 the stock ownership in Idaho Power Company was sold for some $10 million, in 1945 the interest in Dallas Power & Light was sold for $17 million to Texas Utilities Company (American Power & Light System), in 1946 Dallas Railway & Terminal interest was sold for over $3 million, and the remaining equity in Utah Power & Light (following that company's recapitalization) was sold for $650,000. The company's bonded debt of $29 million was retired in 1945. With the recovery in earning power regular dividend payments on the 1st preferred stocks were resumed in 1946. However, no attempt has been made to pay off the accumulater arrears which approximate $90 for the $7 preferred, $77 for the $6 preferred and over $111 for the $7 2nd preferred.

In 1942 the SEC issued a dissolution order against the company and this order was one of three which were used as test cases of the constitutionality of the Holding Company Act, being finally confirmed by the United States Supreme Court late in 1946. In the first plan in 1941 the company indicated that it wished to retain its southern electric system, and also the United Gas system, and hence the company proceeded to sell outlying properties as indicated above. However, the SEC did not approve the proposal for retaining the top company with a single class of stock. Hence new plans were finally prepared in 1946, somewhat earlier than the Supreme Court decision. (Evidently the company did not expect a favorable result). Two plans were filed in May by the company and by its parent, Electric Bond & Share. These differed moderately and a compromise plan was agreed upon and filed in July. The SEC gave the matter prompt attention with oral argument Sept. 20, but after that date little was heard of the plans, and they never received the Commission's blessing.

The company has recently indicated its intention to file with the SEC a new plan, more in conformity wtih present market conditions, and presumably more in agreement with the Commission's present ideology. In the previous plan holders of the $7 1st preferred were given their choice of receiving 10 shares of United Gas, 9 shares of the Electric Holding Company, or $192 cash, with similar terms for the other two preferred stocks — the common obtaining whatever was left. Under the present plan the $7 1st preferred would have no choice but would receive a package of 6½ shares of United Gas and 4½ shares of Electric Holding Company (usually called ALMNO, after the first letters of the four operating companies — Arkansas Power & Light, Louisiana P. & L., Mississippi P. & L. and New Orleans P. S.). The $6 preferred obtains 5.9 shares of Gas stock and 4.1 shares of Electric and the 2nd preferred about 6¼ and 4.3 shares respectively. After disbursing these holdings to the preferred stockholders, there would be left somewhat less than half of Electric's holdings of United Gas—some 4,787,000 shares—and about 1/6 of the ALMNO holdings, or 720,000 shares. In distributing these to common stockholders each share would get about 1⅓ shares of United Gas and ⅓ share of the Electric Company. The warrants which give holders the privilege of buying EL common without time limit at $25 a share, would obtain about ⅓ as much as each share of common. This is unusually favorable treatment for a holding company warrant.

In estimating break-up values, the current price of United Gas on the Curb (about 17) may be used but it is necessary to estimate the value of ALMNO. Taking the system's earnings for the 12 months ended Jan. 31, 1948 and deducting about $400,000 for estimated expenses and taxes of the new company, there would remain earnings of about $1.63 a share. Immediately after issuance these shares might be estimated to sell at around eight times earnings (unless the dividend is generous) or about $13. Later, after seasoning, they might sell at 10 times, around 16¼.

Using these values, liquidating value of the $7 1st preferred may be estimated at 169-83, the $6 at 153-67, the 2nd preferred at 162-76—the upper and lower figures reflecting the multiples of 8 and 10 times for the Electric stock. Since the common stock receives very little Electric stock, its value is fixed mainly by United Gas and may be estimated at 26, while the warrants might be worth around 8-9.

United Gas seems to be favorably regarded in the Street. While it might appear somewhat overpriced in relation to current earnings and dividends (about $1.45 and $1), it has large gas reserves and earnings for 1948 are expected to advance sharply, possibly to around $1.65. Hence the present price may not be out of line with other issues. However, the present market reflects trading in only about 5% of the total, since Electric Power holds over 10,000,000 shares.

The present plan may have better luck than the previous official plan filed nearly two years ago, but already some opposition has sprung up, a new group of common stockholders contending that terms to the preferred are too favorable. About all the stockholder can do, therefore, is to patiently await the final decision of the SEC and the Courts as to the exact division of assets. However, with both sub-holding companies favored by the bright prospects for the natural gas industry, stockholders may benefit by the anticipated delays.

N. Y. Curb Exch. Adds Two To Quarter Century Club

Henry H. Badenberger, President of the New York Curb Exchange Employees Quarter Century Club, has announced the admission of two new members to the organization. George J. McKenney of 58 Garretson Road, White Plains, N. Y., and James J. Farrell of 12 Hempstead Avenue, Rockville Center, L. I., were presented with pins signifying club membership.

McKenney, who received his pin from Edward C. Werle, Chairman of the Curb's Board of Governors, spent his 25 years on the Exchange trading floor and is currently employed as a reporter. Farrell, who received his 25-year pin from Fred C. Moffatt, President of the Curb Exchange Clearing Corporation, has been with the Clearing Corporation since its organization and is now its Assistant Manager.

Mr. Badenberger also announced that the club's annual elections would be held on March 25.

Problems Confronting Industry

(Continued from page 2)

battles of production which must be fought in mines, mills, factories, on farms, and in shipyards are simply the necessary counterparts of those in which shot and shell are exchanged by opposing forces in the field. American industry, which developed under a competitive system of free enterprise, outproduced the conscript industry of the Axis countries and weighed heavily in the scales of victory. It is fortunate that it was as strong as it was when war descended upon us and could be so readily expanded to become the unfailing supplier of material for the Allied Nations.

Efforts to Maintain Vigorous Industry

Now where do we stand in our efforts to maintain a vigorous and progressive industry, adapted to present and future needs? Naturally enough, my thoughts run immediately to the steel industry. You might rightfully expect me to confine my remarks to a sector with which I am properly acquainted. This I shall do, but with the conviction that many of the considerations which apply to steel, apply equally well to many other products.

First in order is a mention of physical equipment, the plants and machinery by which steel is produced. The very high operating rate maintained by the steel industry throughout the war years, in an effort to obtain every ton of material the mills could possibly produce, resulted in extraordinary wear and tear, far beyond normal proportions. During the period of sustained operations, only the most imperative items of maintenance were accorded attention. Therefore at the close of hostilities, a formidable program of deferred maintenance, rehabilitation, replacement, and desirable expansion confronted the industry. In the corporation with which I am most familiar, the accumulated list of necessary projects and those which were considered advisable entailed an estimated outlay of approximately $500 million. The insistent demands of the trade for steel products indicated that the contemplated program should be pushed to completion as rapidly as possible. Every effort is being made in that direction and happily some of the new and revamped facilities are already on the production line. Discouraging delays have been experienced in obtaining the necessary labor, materials, and equipment and substantial increases over the estimated cost have been encountered during the past three years.

Inadequate Depreciation Allowances

This latter point is serious enough in itself, but it likewise serves to call attention to another vital feature related to the matter of maintaining a strong, progressive, and independent American steel industry. I refer to depreciation policy.

In theory, as the tools and equipment used in production wear out, an allowable amount is subtracted from earnings year by year, and entered in a separate account to offset, in whole or in part, the dwindling physical assets. This depreciation reserve receives its credits from earnings as deductions before taxable income is determined. But how much is it? Will it suffice to replace the worn-out facilities? Under the tax law and depreciation policy of the government, usually only a fraction of the amount of money necessary to provide replacements is thus obtainable, due to normal price increases, but the plight of industry is accentuated in a period of inflation such as the present. If a unit of equipment costing originally $1,000,000 20 to 25 years ago must now be discarded and replaced, one is apt to find that the new facilities will cost $2,000,000 and that the depreciation reserve therefore is inadequate by the amount of $1,000,000. The sum represented by that deficiency, which the prudent business man would have set aside as additional depreciation, has had to appear, according to official regulations, as profit, which it decidedly is not. If it should be blithely distributed as dividends to the stockholders, it would actually represent a distribution of capital assets. On the other hand, if our prudent business man set aside the additional necessary amount, as he should, so that the producing capacity of his company would not be impaired, he would find that much more than the $1,000,000 would be required, because of the heavy cut taken by the tax collector. Thus, under conditions such as business is now experiencing, the allowable depreciation reserves might take care of only an approximate 40% of their intended function.

The Financing Problem

Industry requires funds for something more than replacements and repairs. From time to time capacities should be increased, by expansion of facilities, to meet the requirements of the trade. This means new capital investment. The steel industry is quite aware of the call for more and more iron and steel products and is expending formidable sums of money for new and additional plants and equipment. At present the annual ingot capacity of the American steel industry is approximately 94,000,000 tons—and in due course more will be added. No doubt you have heard or read of the recurring cry for an immediate addition of ten million or more tons, a proposal which under present conditions is of doubtful practicability. Our part of the industry, and I feel that this applies as well to the others, is already overtaxing the capacity of its builders and suppliers in pushing to completion, within a reasonable period of time, the program to which it is committed. Furthermore, if ten million tons of additional furnace capacity for steelmaking were available today, no one knows where the necessary scrap to feed the furnaces could be obtained. That phase of the subject is beyond the realm of knowledge or of enlightened conjecture. Nevertheless, the steel industry is proceeding as rapidly as feasible with its program of expansion and betterments.

The part of the expansion problem I now wish to emphasize, however, lies over on the financial side. Again I refer to the tax collector, who has taken away such generous portions of corporation earnings that little is left for financing substantial capital investments. There may be a loud cry for enlarged facilities, but enlarged facilities these days cost important sums of money. During the recent periods of capacity operation, the policy of the government in regard to taxation was such that the amounts left for investment, from earnings, were very moderate when equated against desirable capital expenditures, particularly at present-day costs.

No "Fantastic Profits"

Looking at the picture as it really is, the responsible officials and directors of any corporation which is attempting to meet the needs of a growing United States of America, and to do so efficiently with up-to-date equipment, find difficulty in identifying their earnings with the "fantastic profits" and "corporate greed" so volubly proclaimed by some of our citizens. For my part, I cannot think of a return which amounts to 7½% on investment as "fantastic," or even "adequate," when I know that it has been calculated on investment figures originating in periods when the cost of facilities was so far below present replacement values.

Well, in relation to the matter of investing additional capital funds, one might either cut the pattern to suit the cloth, or go into debt by borrowing the money, or turn to the class of individual investors who, for many years, furnished from their savings so much of the risk capital which nourished the great American industrial development. Those investors, however, have been badly hurt by the prevailing income tax policy and, like the corporations, have little left for investment in productive ventures.

So by the process of "syphoning off" earnings, both corporate and personal, the usual sources of equity capital for free enterprise are being restricted or are running dry. This policy is posing a problem not only for industry, but for all the people. Adequate capital is essential to the progressive development of industry, and a strong progressive industry is indispensable to the national welfare. Under present conditions of inflation there is a crying need for balancing the production of goods with the consumer demand for them. Industry can produce only if it is equipped with adequate tools for production. The discouraging of necessary risk capital is a force which works in direct opposition to the very measures which would help the entire body politics. Let us not weaken our position by failing to have this situation properly understood, for if it is not corrected, it can cause serious disaster to our free institutions—and to our economic well-being.

Inflation is round about us. Everyone is painfully aware of it. Everyone complains about its manifestations and often confuses them with its causes. High prices are typical symptoms of inflation; they are surface indications of a much deeper malady. Because so many persons are acquainted with high prices, they make a favorite subject for political discussion, and unhappily form the basis of proposals for the return of wartime controls.

Steel Prices and Inflation

The steel industry has recently been made the target of criticism and even accused of contributing to inflation, because of an upward adjustment in the price of some of its unprofitable products, notwithstanding the fact that the general price level of steel is low in comparison with that of other commodities. During the eight-year period ending with 1947, the wholesale price of all commodities rose 108%, while the composite base price of steel, according to the "Iron Age" index, advanced only 39%. This relatively low figure was obtained in the face of substantial wage and salary increases in each of the years 1941, 1942, 1944, 1946 and 1947. It must be understood, too, that each upward movement in wages and salaries has been attended by substantially higher costs in the materials, supplies and services which were necessarily purchased by the industry. The two movements, as might be expected, are inseparable. It would appear, however, that steel, which along with others is suffering from the effects of inflation, has lagged notably in the matter of increasing its prices. The disparity between 39% and 108%, as mentioned in this discussion, is rather strong evidence on the point.

May I repeat that high prices are not a cause, but an atttendant circumstance, of inflation. The economists tell us, and I think they are right, that first amongst the various causes is the terrific increase in the money supply during the past 10 or 15 years. With many more dollars available to perform the purchasing functions for the people, the resultant diluted currency shrinks in unit value, and prices are forced upward. This trend is greatly accentuated when the supply of desirable items produced for sale is less than the demand. Hence, the firm belief that increased industrial production is one of our most powerful weapons in checking the march of high prices. We come back to the thought that industry might well be encouraged to operate on a profitable basis, and be stimulated by a wise tax policy which would permit of the accumulation of adequate funds for rehabilitation and expansion, at current costs.

High Rate of Government Costs

Among the factors contributing to high prices, none deserves more careful attention than the high rate of governmental expenditures. This is another way of saying, in part, that an annual cost of approximately $37 billion, for Federal Government alone, is a heavy burden. To that formidable figure must be added the very considerable sums levied and spent by various political subdivisions. Were the matter not so serious for all of us, there would be a ludicrous side to the eager search, continually in process, for new items to tax. The limits seem to be set only by the boundaries of human imagination. At any rate, all of the money spent by governments must be raised by taxes, direct or indirect, open or concealed, currently or later. The important point to emphasize is that taxes are definitely and inevitably an element of cost in all of the products and services you buy; the higher the tax, the higher the cost. At prevailing rates of taxation, that element is far from being an inconsequential item.

It is little wonder then, in view of the two powerful motivating factors mentioned—and there are still others—that prices have increased. Irresistible economic forces have been set to work and the inevitable results have appeared. Within the kind of framework provided, prices and production costs have been chasing each other around the ascending spiral in a sort of progressive contest, without arriving at the point where equilibrium might be established. Wage increases have led to price increases; higher prices are cited as the basis for demanding additional wage increases. And so, round and round we go.

The Remedy

What is the remedy? There is probably not a simple, lone antidote for inflation, but certain helpful measures might be applied. Every possible effort should be made to bring production into balance with demand, so that sharper competition for markets might become the dominant regulator of prices. Bringing production into balance with demand involves not only the provision of more equipment, but maximum productivity.

The institution of economies in government, or doing without the things we can do without, and the consequent lightening of the burden of taxation, should relieve some of the pressure on prices, through the effect on costs of production. Once again, private capital derived from savings could flow more freely into productive enterprise and thus provide additional quantities of consumer goods, which in turn would absorb the spending propensities of the people. If they want goods, let them have them without inflationary bidding.

Detroit Bowlers in Red-Hot Stretch Race

DETROIT, MICH. — There are no "squatters' rights" on first place in the Detroit Brokers' Bowling League. This was forcefully demonstrated recently when the Andrew C. Reid & Co. team, league-leaders since Oct. 16, were rudely jolted out of first place by a determined First of Michigan five. At the same time Paine, Webber, Jackson & Curtis put on the pressure and now share the leadership with First of Michigan at 56 points. Breathing on their necks are Andrew C. Reid & Co. at 55 points and McDonald, Moore & Co. with 54. Also in the running is William C. Roney & Co. (Wallace) with 51.

Interest in bowling among Detroit brokers has hit an all-time high. The season closes April 28 but it is doubtful if the champion, and winner of the "Michigan Investor Trophy" will be determined until the final night. This is due to the fact that two "position nights" yet remain to be bowled, including the final night. Anything can happen! The season wind-up will be a banquet and presentation of awards, scheduled for May 5th.

The League consists of fourteen 5-man teams, bowling under sponsorship of the Securities Traders' Association. Its officers are: President, Clarence A. Horn, First of Michigan; Vice-President, Charles C. Becthel, Watling, Lerchen & Co.; Secretary, Hayden Brown, William C. Roney & Co.; and Treasurer, Ross Sutherland, Cray, McFawn & Co. Team standings and league leaders are shown below:

STANDINGS: MARCH 10, 1948

	—Games— Won	Lost
First of Michigan Corp.	42	27
Paine, Webber, Jackson & Curtis	41	28
Andrew C. Reid & Co.	42	27
McDonald-Moore & Co.	41	28
Wm. C. Roney & Co. (Wallace)	37	32
George A. McDowell & Co.	34	35
Detroit Stock Exchange	35	34
Cray, McFawn & Co.	33	36
Crouse & Co.	32	37
Smith, Hague & Co.	30	39
C. G. McDonald & Co.	30	39
Wm. C. Roney & Co. (Boos)	30	39
Chas. A. Parcells & Co.	28	41
Goodbody & Co.	28	41

LEAGUE LEADERS AND NO. OF PINS

Team High — 3 games — Crouse & Co. (2709).

Second Team High—3 games—Wm. C. Roney & Co. (Wallace) (2602).

Team High—1 game—Wm. C. Roney & Co. (Wallace) (940).

Second Team High—1 game—Crouse & Co. (933).

Individual High—3 games—Fred Huber (Andrew C. Reid & Co.) (663).

Second Individual High—3 games—Edw. Miller (Andrew C. Reid & Co.) (652).

Third Individual High—3 games—Robt. Wallace (Wm. C. Roney & Co.) (610).

Individual High — 1 game — Moreland (253).

Second Individual High—1 game—Ross Sutherland (Cray, McFawn & Co.) (250).

Third Individual High — 1 game — Fred Huber (Andrew C. Reid & Co.) (244).

Individual High Average—Fred Huber (Andrew C. Reid & Co.) (183).

Second Individual High Average—Robt. Wallace (Wm. C. Roney & Co.) (175).

Halsey, Stuart Group Offers Ill. Cent. Equips.

A group headed by Halsey, Stuart & Co. Inc. was awarded March 18 $4,977,000 Illinois Central RR. equipment trust, Series Y, 2¼% equipment trust certificates, maturing $263,000 semi-annually Aug. 1, 1948 to Aug. 1, 1957, inclusive. The certificates, issued under the Philadelphia plan, were immediately reoffered by the group, subject to Interstate Commerce Commission authorization, at prices to yield from 1.25% to 2.55%, according to maturity.

This offering represents part of a proposed issue of $11,360,000 in Series Y Certificates, proceeds of which will be used to finance not exceeding 80% of the cost, estimated to be $14,214,609, of new standard-gauge rolling stock.

The Outlook for Labor Productivity

(Continued from page 20)

tion, trade, service, the professions, and government have been given relatively little attention, largely because of the tremendous difficulties of measurement encountered in these areas.

There is a great amount of work to be done in this field—not only in the area of aggregate productivity changes for the whole economy but also in more intensive studies at the plant level. For purposes of national economic policy, the end objectives of such work should be to achieve full coverage of the economy in the measurement of productivity changes in the past. Special attention should be given to the measurement (or estimating) of recent productivity changes. The careful analysis of the causes of the changes in productivity should serve both as a basis for estimates of future changes and as a guide to economic policy designed to bring about an improvement in productivity with a resulting increase in the productive efficiency of our economy.

Productivity Problems at the National Level

Despite many gaps in our knowledge, we do have fairly sound estimates of the average increases in labor productivity for a few decades in the past. For the economy as a whole, the rate of increase has averaged about 2% a year. But there have been wide variations as between years and as between decades. When we examine the method of calculating productivity on a national basis, we discover that frequently the variations have relatively little to do with what many people think of as being productvity. We also discover some of the hazards of measuring aggregate productivity changes for a nation.

The basic method of measuring productivity changes for the whole economy is to divide the total number of man-hours worked into the dollar value of Gross National Product. In doing this, the first problem encountered is that of deflating the Gross National Product figure to a constant dollar basis. Such a deflation is necessary in order to obtain a measure of total output that is not distorted by price changes that have occurred between the two periods measured.

Obtaining accurate price indexes that measure price changes throughout the entire economy is always extremely difficult—as all of you who have dealt with index numbers realize. In recent years, for example in 1946, the problem has been particularly troublesome partly because of major changes in the composition of output, partly because of major and rapid changes in the quality of merchandise produced, and partly because of distortions during the period of price control that flowed from black market operations in some sectors of the economy. Black market production and trading not only reduce the validity of price indexes based on open price quotations, but they also result in a volume of production and trading taking place that never gets reported in national statistics.

Another major problem encountered is that of measuring productivity in certain areas of activity in which there is no measurable physical volume of production. The Gross National Product originating in the government and armed forces sector of the economy, for example, is calculated on the basis of the total of wage and salary payments in that sector. This total after being deflated to remove the effect of price changes, is the only available measure of production in that segment. If the ratio of this total to the volume of employment changes, there is a statistical change in productivity. The postwar demobilization of the armed forces (and of many branches of the civilian government as well) has resulted in a sizable shift in the average payment to government military and civilian personnel. During 1946 demobilization resulted in a larger proportion of privates and low-paid clerks being released from the government payroll than of officers and higher paid administrators. The net result is that the average real payment to government employees rose from 1946 to 1947—thereby resulting in a statistical increase in productivity which was sizable enough to affect the measure for the whole economy.

Shifts of this nature will affect the ratio between manhours worked and constant dollar value of product or output even in those areas of the economy where the output is a physical product. Changes in the product mix of the economy, a shift from high value-added products to a low value-added products results in an understatement of the actual volume of physical production, thus artificially reducing the actual productivity increase that might have taken place. There is no way of measuring the magnitude of this shift but it is generally agreed that the shift to high value-added products was considerable during the war, and that there has been a smaller but still sizable shift in the opposite direction since then.

Of the three factors mentioned, the first and the third have operated in the last year or two to keep productivity for the country as a whole on a lower level, statistically, than it otherwise would have been. Nonetheless, productivity increases from 1945 to 1946 and from 1946 to 1947 have—even after allowance for these factors—been somewhat less than most people had hoped for and anticipated. Several reasons might be mentioned briefly.

First, in contrast to the period immediately following World War I, we were, in 1945, starting from an extremely high level of productivity. Instead of only having to recoup war-time losses in productivity, we had to move from levels which were already very high.

Second, we have not yet developed as many large and expanding new industries in the postwar period as we did during the early twenties when productivity in manufacturing was increasing so rapidly. Productivity increases are always greatest in new industries, and our electronics and plastics industries have not yet had the effect on the whole economy that the automobile, rubber, glass and chemical industries did then.

Third, with demand at exceptional levels, the pressure for cost reduction and efficiency has not been very compelling. The result has been a somewhat lower level of productivity than would otherwise have been the case. This has been because obsolete equipment has been used, production schedules allowing no lee-way for delays in the flow of materials have been set, profit levels that may in some cases have made management lax have existed, and the continuing tight labor market has required the use of marginal labor and overtime work, and has occasionally permitted laxness on labor's part.

Finally, despite heavy investment in capital equipment in manufacturing, it appears that the capital equipment available per worker increased slightly if at all. There was an increase in the number employed practically commensurate with the increase in capital investment.

Productivity Problems at the Plant and Job Level

It is essential to measure overall changes in productivity at the national level. But, the further we depart from the plant and job level, the less assurance we have as to the exactness or the meaning of the indexes. The practical problems of increasing productivity lie at the plant and job level. It is at this level, too, that we must secure data with which to check the validity of the national figures as well as to gain an understanding of what underlies the changes in the national indexes.

At the plant level, we want practical answers to practical questions.

We may want to know what changes have taken place in output per man-hour regardless of the cause of such change. On the other hand, we may want to isolate and measure the separate factors responsible for the change. There may be, for example, a change in worker effort, a change in plant layout or a change in plant equipment.

Regardless of our objective, it is not easy to secure reliable data which answer these questions. Units of output may be difficult to correlate with the specific time spent to produce them. In the case of shipbuilding and construction, for example, it is obvious that the measurement of production during any period must be the amount of work-put-in-place rather than the output of final products completed during that period. In other types of activity where the production-period is relatively shorter, the output of final products is usually used as the measure of work done. Care must be exercised to make sure that this practice does not distort the measure of productiviy.

Also, it is difficult to measure the time required to make products which are being changed in quality or style. A new model of the same product may require much more labor than did the old so that changes in productivity, be it labor productivity or productivity of some other factor, mean little if the product has also changed during the time interval being studied. It is necessary, despite the difficulties in obtaining productivity figures that are useful and comparable to establish well-defined classifications of product, job conditions, and physical equipment.

Even when a plant produces a single product, problems still exist. For example, if the plant shifts over from making its own electricity to buying it, man-hours per unit of final product will be reduced, but the change should hardly be classed as an increase in labor productivity for that plant. It a concern produces more than one product, the question of giving proper weights to the products must be met. Another problem is to determine what part of the total hours worked in the concern shall be used. For some purposes, we may wish to include only the time of production workers. For other purposes, we may want to include overhead employees as well. In some instances, problems of this nature have been so prevalent as to make it almost impossible to measure labor productivity changes. Usually, however, reasonably adequate measurement is possible, provided the problem is broken down into manageable segments, either as to the product measured, the labor input to be used, or into a time period that can be effectively studied.

Outlook for Productivity Increases

Because of the great potential increases in the productivity of specific plants and industries, some estimates currently being made show a very rapid rise in productivity for the economy as a whole during the next 10 years. These estimates are, in my opinion, statements of hope more than objective calculations. In the absence of developments, not now foreseeable, we may well expect for the economy as a whole, somehting like a 3% annual increase during the next 3 years, and a 2% average annual increase thereafter. The 2% increase is approximately the same as the secular trend since 1920; the 3% makes an allowance for an anticipated spurt in output per manhour following the dislocations of the war and the reconversion period. This increased productive efficiency will be counter-balanced, in part, by a decrease in the average length of the work week, and reinforced by a growing labor force. Ten years from now, these developments should give us a 30 to 35% greater volume of goods and services than we had in 1947. Even an increase in productivity, at this rate, would necessitate both basic and applied research on a more extensive scale than we have ever had. It assumes replacement of equipment at a rate as high as we have ever experienced. It assumes a substantial improvement of managerial techniques, and progressive abandonment of restrictive practices by management and labor.

Productivity could, however, increase considerably above this estimate. Variations in productivity between different plants within the same industry are notoriously wide. Individual plant owners or managers can ordinarily do a great deal to increase productivity if the problem is approached in a scientific and aggressive manner. The number of plants that utilize the most efficient equipment, have the most efficient layout possible, and really carry out up-to-date labor relations practices, are in the minority. In many instances, labor productivity within individual establishments could be raised very considerably by the adoption of known techniques which would pay for themselves. Recognizing that the adoption of such devices and practices costs money initially, I still believe that the results might well mean that the investment would prove to be costless. The main obstacles to such adoption flow out of an unawareness of the technique or inertia on the part of too many managers.

One of the principal obstacles to the attainment of a higher rate of productivity has been fear of overproduction on the part of management, and the fear of unemployment on the part of labor. We are likely to exceed the historical rate of increase in labor productivity only if restrictive practices arising from this fear diminish substantially in the future. The job of increasing productivity for the economy as a whole requires teamwork on the part of the government, management and labor. The government's function is, I believe, primarily that of maintaining an economic environment conducive to action by management and labor that will maximize productivity. The most important single step in this direction will be taken if, as called for in the Employment Act of 1946, we succeed in stabilizing production, employment, and purchasing power at maximum levels. In addition, the government may be able to make a contribution by developing programs which will—

(1) Encourage the replacement of obsolescent equipment;

(2) Encourage new investment and the use of labor saving machinery;

(3) Encourage a large volume of equity and loan capital;

(4) Support basic and applied research in industrial production and management, engineering and agriculture;

(5) Encourage widespread adoption of known methods for increasing agricultural productivity.

The government can help by providing the proper environment and by eliminating barriers to increased productivity. This will not, however, increase productivity unless specific action is taken by both management and labor. This means that management and labor work together in an all-out attack on this problem. The best way of doing the job must be known and practiced. New techniques and new equipment must be constantly evaluated and adopted when feasible. The best labor relations practices must be followed. This includes a wage policy which shares the benefits of increased productivity with workers. Some management engineers have said to me in recent weeks that there is hardly a plant in the country that could not up productivity by at least 10% without additional investment in capital equipment, and without added effort on the part of employees. If this is even partially true, it suggests the importance of every concern giving productivity a high priority in terms of the job to be done.

In addition, there are three views commonly held by management or labor which must be discarded if this country is to enjoy the high levels of prosperity of which it is capable. These erroneous ideas are (1) that unless business limits its capacity, either by agreement, or by the suppression of new techniques of production, it will find its production exceeding the capacity of the market; (2) the belief held by some employers that a considerable volume of unemployment is necessary if labor is to produce efficiently; (3) the belief held by some employees that they will work themselves out of a job unless they hold back their production efforts.

None of these beliefs are tenable in a maximum production economy. If these ideas are not dispelled, production will fall far short of the capacity of this country to meet the needs of its citizens and our responsibilities to the world. The capacity of the markets to absorb increased goods and services is practically unlimited if costs and prices are sufficiently reduced. Under the Employment Act of 1946, the resources of the government are pledged to maintain maximum production, employment, and purchasing power. If labor is not afraid of unemployment, positive incentives will mean greater output. If labor and employers will work together to produce efficiently so that costs may be lowered, and if these benefits are widely distributed, we can maintain stability and continue to enjoy high production and maximum employment.

With Amott, Baker & Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ME. — John T. Hale has become associated with Amott, Baker & Co., Inc., of New York City. Mr. Hale was formerly Portland representative for Paul & Co., Inc., and prior thereto was with F. L. Putnam & Co. and Eastman, Dillon & Co.

Nathan C. Fay Co. Adds

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, MAINE—Howard H. Davis has been added to the staff of Nathan C. Fay & Co., 208 Middle Street.

With A. C. Allyn & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—George J. Stasen has become affiliated with A. C. Allyn & Co., Inc., 100 W. Monroe Street.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Stocks near supply range. Public buying may reduce selling obstacles. Raise stops where suggested.

* * *

That old Wall Street saw about buying them when nobody wants them and selling them when everybody is buying seems to have worked out again. At least the first part has been profitable so far. Whether the rest of it will work out remains to be seen.

* * *

A casual glance at the list of stocks recommended here will show they were bought at what up to now has been the bottom, at a time when the bulls were looking for storm cellars. All this is quite gratifying. I like profits as well as the next man, but the column can't devote the space to sell congratulations. The problem isn't solved until paper profits are converted into cash.

* * *

When that will be is something I can't say now. Buyers are apparently anxious to acquire stocks today; anxiety being fed by headline news and radio commentators' interpretations. When this desire is sated the market will show it. Until then, holding positions is recommended.

* * *

There are some small signs that the point at which buying can dry up are not too far away. Under ordinary circumstances I think I would suggest liquidation at such points. But when the public has the bit in its teeth, obstacles frequently mean little.

* * *

You now hold ten stocks, all in the black. Individual advice to handling is as follows:

Anaconda bought at 31½-32½ and now about 35½, should have its stop raised from 29 to 32. Nearby obstacle looms from 37 to 39.

Avco bought 4-4½, is now about 5½. Raise stop from 3½ to 4½. Some resistance apparent between 6 and 8. Stock will probably be a slow mover and will require patience.

Bethlehem bought 30-31, is now about 34½. Raise old stop from 30 to 31. Expect offerings to increase from 36 to 39.

Caterpillar bought 54-55, is now about 59. Suggest keeping the old stop at 52. Stock ahead between 60 and 62.

Douglas bought 50-52, is now about 63. Raise stop from 50 to 54. Offerings ahead are likely to prove thin. Same situation exists in Lockheed and G. L. Martin.

Consolidated Vultee bought 12-13, now about 16½, has an old stop at 12. Keep it there. From 17 on look for selling to develop.

Dresser bought 21-22, now about 25, has a stop at 21. Raise it to 22.

G. L. Martin bought 15-16, now about 21, should have its stop raised from 12 to 16. **Lockheed** bought 13-15, now about 20, keep stop at 15.

United Aircraft bought 23-24, now about 29 is in the midst of offerings but old stop of 23 should remain.

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.*]

Louis Lerner, Director

Louis C. Lerner of Lerner & Co., Boston, has been elected a director of Coplay Cement Manufacturing Co., of Coplay, Pa. Mr. Lerner also is a director of the Ralston Steel Car Co., Columbus, Ohio, and the Victoria Gypsum Company, Halifax, Nova Scotia.

Louis C. Lerner

FIC Banks Place Debs.

A successful offering of an issue of debentures for the Federal Intermediate Credit Banks was made March 23 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $84,560,000 1.55% consolidated debentures dated April 1, 1948 and due Jan. 3, 1949. The issue was placed at par. Of the proceeds, $53,680,000 will be used to retire a like amount of debentures maturing April 1 and the balance of $30,880,000 is new money. As of April 1, 1948 the total amount of debentures to be outstanding will amount to $435,370,000.

Effect of Management on Railroad Securities

(Continued from page 14)

clude taxes and debit hire of equipment, which to some railroads is a tremendous amount—and also rent for joint facilities, such as the New Haven paying rent to the New York Central for Grand Central.

In 1927, these 24 managers took in $4,300,000,000 and they ended up with net railway operating income of $750,000,000. In other words, they saved about 17½ cents of each dollar.

In 1927, they spent $1,453,701,000 for maintaining their plant and $1,470,255,000 for operating their trains. Just keep that in mind — how much money these managers have at their control in dollars—and think of what is left for the owners and for the bond holders.

Now we move up 10 years, and the gross goes down. The trucks forced reduced rates. The depression was on us. Railroad gross was down like most people's gross 1927 versus 1937, and the gross business was about $3,000,000,000. These 24 railroads, nevertheless had a net railway operating income of $435,000,000; they saved around 14.2c out of each dollar. With gross down, they spent only $980,000,000 for maintaining their plant and $1,108,353,000 for running their trains.

Gross Earnings and Wages

And just a little aside at this point: It wasn't until 1946 that the relationship of gross earnings to total wages got out of control. If you go back to 1922 and go right up to the war years, you will find there was always a relationship of around 46% between total wages and gross revenues.

During the war, when there were ceilings on materials and ceilings on wages, that relationship went down as low as 36c on the dollar, i.e., the relationship of wages to gross. But taxes came in ate it all up. After the war the relationship went to 55% — in other words, from the traditional 45% to 55% because of this lag in the Interstate Commerce Commission decision of nine months in 1946.

Now we come up to last year. These 24 railroads took in $6,627,000,000 and they ended up with net railway operating income of $554,000,000 saved. Last year, the managers of these railroads took in $6,627,000,000 and they spent $2,148,000,000 for maintaining their property, and $2,682,000,000 for running their trains. They saved 8.4c out of each dollar.

What Managers Are Spending

There seems to be a tendency of some railroad managements to spend as much as they take in and to leave just about enough so as not to justify some return to the stockholders.

In any event, taking those 24 railroads and the three periods, the net railway operating income — that is the amount saved — in 1927 was 17½¢; in 1937, 14.2¢; and in 1947, 8.4¢. The operating ratio of these 24 railroads for those three periods—1927, 74.4%; 1937, 75.2%; 1947, 79.5%.

Why you might ask, if the operating ratio is still 79.5 (a jump of only 5.1% since 1927, has the percentage saved declined from 17½¢ in 1927 to 8.4¢ in 1947? The answer is because of increased car hire and increased payroll taxes.

We have had an increase in the debit hire of a freight car from a dollar a day for a car belonging to some other railroad to a dollar and a half.

Now, taxes have gone up. You may say, "Well, that depends on your net income," but not at all. You see, the railroads have been particularly selected, by the social progress interests, for increases in payroll taxes. So the railroads now contribute 8¾% of the payroll in taxes for old age and for retirement. In other words, if you applied that percentage to all business, the railroads would not be alone in their "problems."

That item does not appear in your operating expenses. Neither does it in your increase in your freight cost. These two items were increased, and whereas they took 8.1% of gross in 1927, they took 10.4% in 1937, and last year they took 12.1%. The trend, therefore is to show a narrower margin of safety in the results of railroad management, despite the fact that last year, as I said, they had at their command and spent over $6,073,000,000, on items to some extent within their control or at least reflecting their efficiency or lack of it.

Net Operating Income

Net railroad operating income is the sum saved from railroad operations. Let us see how the owners of these 24 railroads made out in the three different periods.

In 1927 the net railway operating income of the 24 railroads was $754,000,000 and the owners received in dividends $283,737,000 or 37.6%. In that year, however, five railroads with net operating income of $79,547,000 paid no dividends so that the 19 dividend paying railroads with net operating income of $674,478,000 paid the $283,737,000 of dividends or 42% of their net operating income. It is also of interest to note that the dividend paying roads in 1927 saved 17½% of gross and the non-dividend roads saved only 13%. The non-dividend roads in 1927 out of the 24 were the St. Paul, Erie, Missouri Pacific, New Haven, and Seaboard.

In 1937, the net operating income of the 24 railroads equalled $435,324,000 and dividends of $120,584,000 were paid or 27.7% However, nine out of the 24 railroads were in bankruptcy in 1937 and naturally paying no dividends. The nine were made up as follows: B & O., St. Paul; Chicago Northwestern; Rock Island; Erie; Missouri Pacific; New Haven; Frisco, and Seaboard. Five other railroads, the Southern Pacific; Southern Railway; Illinois Central; Northern Pacific, and New York Central were also non-dividend paying in 1937. The 10 railroads paying dividends in 1937 (the Atchison, Atlantic Coast Line, C. & O., C. B. Q., Great Northern Railway, Louisville & Nashville, Norfolk & Western, Pennsylvania, Reading and Union Pacific) had net operating income of $259,735,000 and paid dividends of $120,584,000 or 46.4%.

In 1947, the net operating income of the 24 railroads was $554,200,000. The same 10 railroads that paid dividends in 1927 and 1937 were still paying dividends in 1947. The net operating income in 1947 of the 10 (mentioned in the paragraph above) was $287,923,000 or 48.4%. Of the five railroads not paying in 1937 but not in bankruptcy, three of them, the Southern Pacific, Southern Railway, and Northern Pacific, were back paying dividends but the Illinois Central and New York Central were not. The nine railroads in bankruptcy in 1937 had all been reorganized by the end of 1947 except the Missouri Pacific, and, with the exception of Erie and Northwestern, none are paying dividends on their new common stocks.

Management and Railroad's Positions

Among those 24 roads, on a statistical basis, you will find some that over the 20-year period were always at the bottom of the list and some always at the top. Management in my opinion has a lot to do about the relative position of each railroad.

These are what I might call the "Management" factors from a statistical standpoint. I can't believe that it is always necessary to spend over 90% of gross for maintaining and running a railroad. I think that ways could be found to make this possible, because when you ride a train today, it's not materially different than it was in 1937.

Now, how can it cost these 24 railroads $2,636,000,000 in 1937, and yet cost $6,073,000,000 in 1947? Is all that increased cost of material and wages? I don't think so. I think management must look to themselves, not to others for an explanation.

Back in 1927 these 24 railroad stocks, at their highs, were selling at an average price of 131. Nineteen were paying dividends averaging $7.00. The dividend-paying stocks at their highs were selling at an average of 154, the yield was around 4.6%.

Ten years went by. The 24 stocks at their highs in 1937 sold at 55. We lost nine of the dividend-paying stocks. There were still 10 paying dividends. The dividend-paying stocks were selling at 100. Dividends averaged $4.50. The yield was 4.5%. The price of the dividend paying stocks, however, had declined from 154 to par. The group had declined from 131 to 55.

The dividend-paying stocks increased from 10 in 1937 to 14 in 1947. We started in 1927 with 19 paying dividends, selling at 154; 10 years later we had 10 selling at par. Now we have 15 dividend-paying stocks out of this group of 24 selling at 50 to yield 8%. We now have 9 non-dividend-paying common stocks, as follows: B. & O.; St. Paul; Rock Island; Illinois Central; Missouri Pacific; New York Central; New Haven; Frisco and Seaboard.

Reorganized Railroads

It is a sad commentary on railroad reorganizations that after "wiping out" all the old stocks of St. Paul; Chicago Northwestern; Rock Island; New Haven, and Frisco, the new stocks of four are non-dividend paying and the fifth, Northwestern, only paid 50c in 1947 after the best gross business in peacetime history of the railroads.

I have studied railroad reorganizations for years, lectured and written on the subject constantly. I keep asking myself—what did they accomplish except to put the tax collector ahead of the old bondholders? In 1927, St. Paul **old** common sold at 40, C. N. W. at 97, Rock Island at 116, New Haven at 63, Frisco at 117, and Seaboard at 41. All of these were wiped out as being worthless, yet the **new** common stocks (which the old bondholders received) sell as follows today. St. Paul at 8, C. N. W. at 15, Rock Island at 29, New Haven at 6, Frisco at 9, and Seaboard at 15—none with the exception of CNW, are paying common dividends.

The 15 dividend-paying stocks today sell at an average price of 50 and the average yield is about 8%.

Well, what does an 8% yield indicate? You might say, "What did a 4½% yield indicate in 1927 with the stocks selling at 154?" It indicated the confidence in the railroad situation. Now, however, when you have stocks selling at 50 to yield 8%, the reverse is true.

You all know that the American railroads are the only privately owned and operated railroads in the world right now. England took them over Jan. 1. We are the only ones left.

When railroad gross earnings are at a **peacetime peak**; when bad financial structures have been revamped; when earnings are available for railroad owners and some managements refuse to give them a dividend, then in my opinion there is something wrong. **Non-dividend paying railroad shares,** when they represent 9 of our largest railroads, can be the first easy step to socialized railroads, especially when 15 of our largest railroads at this same time and under the same circumstance pay a fair reward to their owners.

I make my living at railroading and railroad securities. I see no halos on men that have been running railroads for 20 years and never paid dividends. They wouldn't last that long in General Electric or General Motors.

I am not saying this to criticize any particular railroad. I'm simply saying to you young fellows, I think you should know a little more about management and its results. I may say it facetiously, but I mean it sincerely.

What Management Can Do

The biggest thing that "management" can do to restore railroad credit is to pay dividends when they are earned. There is no such thing as a railroad with credit, not paying dividends.

The way to establish railroad credit is to pay the owner of the property something every three months when earned. If you don't earn it, don't pay it.

I believe, as I said before, that the relationship between wages and rates is sufficient now so that with good management we should have good earnings and more dividend paying railroad stocks.

Another thing, if a move for socialization of the railroads is made, it is only step number one. Look at England today. It's so easy to move from railroad socialization into your banks and your insurance companies and into your utilities. Railroad nationalization will be only the first step. Railroad stockholders are a large and potentially powerful group. The way to make those people really interested is to get them on a dividend basis, they can help to create conditions for continuing the dividends. **Big dividends** are not necessary, but **dividends** are. Study this comparison:

Junior Bonds of Dividend-Paying Railroads

	Price
Atchison adj. 4s/1995	108
Atlantic Coast 4½s/1964	99
Chesapeake & Ohio 3½s/1996	103
Chicago, Burlington & Quincy 3⅛s/1985	98½
Great Northern 3⅛s/2000	91
Louisville & Nashville 3⅜s/2003	96
Norfolk & Western 4s/1996	128
Pennsylvania 3¼s/1952	99
Reading 3⅛s/1995	85
Union Pacific 2⅞s/1976	99
Northern Pacific 4½s/2047	89
Southern Pacific 4½s/1981	88
Southern Railway 4s/1956	92
Erie (reorg.) 4½s/2015	66
Northwestern 4½s/1999	61

Junior Bonds of Non-Dividend-Paying Railroads

	Price
New York Central 4s/2013	70
Illinois Central 4¾s/1966	79
Baltimore & Ohio 4½s/2010	49
St. Paul 4½s/2044	55
Rock Island 4½s/2019	77
New Haven 4½s/2022	35
Frisco 4½s/2022	55
Seaboard 4½s/2016	65

Still in Section 77

Missouri Pacific

In closing, I would give you a few rambling thoughts that I have picked up in my experience. Besides being a broker, I have been lecturing now for 18 years; and I like to point out to young study groups a few little things that I have picked up in the course of my travels.

First, a popular stock, a stock that the crowd is watching or following, doesn't necessarily prove quality. And you have heard me say time and time again, as far as bonds are concerned, that high prices do not prove quality. In other words, bond ratings, in my opinion, follow prices. When they're high priced, they're high rated; when they're high rated, they're high grade; when they're high grade, they're eligible for investment. The 4% bonds of the 24 railroads in 1928 were selling at an average of 97½ and all rated A, AA or AAA; yet a few years later, the average price was 46. High prices and high ratings do not prove quality. I realize that if you're a banker, you may have to follow ratings. The system should be changed, but the impetus should come from the banks.

Contrariwise, low prices and low ratings do not necessarily connote low quality. One of the things we have to contend with in this country is the fact that when a fiduciary buys a railroad bond and it goes down, they can't average it. Their judgment, therefore, if they buy at par (as they do) it must be 100%, which it is not.

Yet they don't make that same rule in real estate. If the bank gets stuck in real estate, it doesn't go right out and sell it. They nurse it along and get their money back.

The system of fiduciary investing in railroad bonds should be changed.

A few other things — poorly managed companies, particularly in rails, may be the biggest bargains. Take a look at the company's gross. Look at others' gross to see what "management" might be able to do. I think it was the elder Morgan who said, "Don't bring me any well-managed railroads. How do you make any money on them?"

Another thing, information is not judgment. It's a combination of your facts plus your knowledge through experience that gives you judgment.

To conclude, there is to my mind very little difference between speculation and investment; both are attempts to forecast the future.

Whose Money Market?

(Continued from page 6)

modern instance of "Those who came to scoff, remained to pray."

Monetary Authorities Only Influence Money Market

Unfortunately, the amazing wartime success of the money market managers caused many bankers to overlook the fundamental character and the controlling importance of the basic economic forces involved. Too many bankers forgot that the monetary authorities don't create these basic economic tides — they only influence them. Parenthetically, it cannot be too often repeated that to the extent the monetary authorities attempt to create, or for that matter, to the extent they disregard these fundamental economic forces, they will fail.

Shortly after World War II ended in August, 1945, a new money market phase began to unfold. The Treasury and monetary authorities became concerned about being in the money market with both feet. There was much talk of getting the public debt into the hands of ultimate investors. The desirability of reducing the Federal Reserve bank and commercial bank holdings of Government bonds and thereby reducing reserve balances and bank deposits was clearly recognized and the program of selective redemption was inaugurated in the early part of 1946.

Fundamental Character of Money Market Change

Please note the fundamental character of this money market change. Financing the war was no longer the paramount consideration of the money managers. The repercussions of the war financing on our economic system became their major concern. Although the huge public debt of $270 billion could not be disregarded for one instant, the danger of wild inflation arising from the swollen bank deposits and swollen money supply became an equal, if not more important, problem. Every act of the monetary authorities had to be taken with one eye on the public debt and the other eye on the condition of business activity. Credit control became a monster balancing act; a steering of the ship of credit control between the Scylla of lower bond prices and the Charybdis of higher commodity prices. The interests of the government as a borrower had to be weighed against the need of producers and consumers for a stable economy. The money market thus entered a new phase; the public interest moved in—**but the government did not move out!**

The dual character of the money market's responsibilities is the real key to the actions of the monetary authorities. To put it somewhat lightly, **the money market now, in effect, belongs to the people but the government holds the first mortgage and it is on a demand basis!** Treasury insistence that rates on government securities be kept low and the insistence that credit restriction measures be used to fight inflation, graphically indicates the mutually contradictory character of present day money market pressures.

The paradox of the money market managers is how to keep government securities at par, or a little better, and simultaneously carry out their historic responsibility of credit control. While at the moment the aim of credit control still is to tighten credit and make it more difficult and expensive for business to borrow, as soon as the deflationary trend becomes more pronounced, the opposite will be true. At present, the problem is how to keep government security prices up with one hand and help put commodity prices down with the other. But mark this well: **When deflation gets into full swing the problem will be how to keep government security prices down and help put commodity prices up.** This money market paradox will plague the monetary authorities so long as we have a large public debt and a managed money. More specifically, I think it safe to say that this paradox will not be resolved "in our time!"

It is now pertient to inquire as to just how the monetary authorities are endeavoring to solve this paradox by pushing **up** with one hand and **down** with the other hand.

Reversal of Problem

The credit tightening which began in a small way with selective redemption of government obligations in 1946 was expanded in **1947** to include, in addition, "defrosting" of the bill and certificate rates, heavy sales of the security holdings of various government agencies, sales by the Federal Reserve banks themselves of sizable quantities of their own holdings of government securities and, the offering of a special, restricted, long-term, anti-inflation issue in August. By the end of October, 1947, the credit restriction measures began to pinch and the Federal Reserve System had to step in on the opposite side of the government bond market: Whereas before, their problem was to keep the government long-term issues from going too high, they then had to begin to buy them to keep them from dropping. Throughout November they had to give the market a great deal of support and in December it was necessary to give steadily increasing support with the result that on December 24, the famous "Christmas present" policy was announced. Under this policy the prices at which the Federal Reserve System would buy the key issues were lowered to a more realistic basis. This, of course, unloosed an avalanche of selling—in the final week, alone, of December the Federal Reserve System bought more than $1,100 million of long-term governments! Heavy sales by non-bank holders continued in January but sales of bank-eligibles by commercial banks were very light until on January 23 the increase in central reserve city reserve requirements from 20% to 22% was announced. This touched off some selling of bank-eligibles in anticipation of the new reserve requirements which were to become effective February 27. During the first four weeks of January, the Federal Reserve System under its market support policy bought $66 million of notes and $1,686 million of long-term government issues **but** during the same period under its credit contraction policy it sold or lost through redemption $2,-325,000,000 of its bills and notes. The net result was a contraction of Federal Reserve, (primary) credit of $573 million during the four weeks, which put just that much more pressure on bank reserves. In February, the selling pressure dropped so sharply that whereas $538,000,000 bonds were bought in the first week of the month, only $81,000,000 were bought in the last week. Significantly, a number of bank eligible issues rose above the support prices and established a true free market level for these issues.

Federal Reserve Activities

Before going further let us summarize the changes in the Federal Reserve portfolio since it became necessary for them to give market support to the government long-term issues because of the effects of their credit contraction policy. Since last November the System has purchased nearly $5 billion ($4 billion of which was between Dec. 24 and March 1), of government bonds from non-banking holders who wanted to invest in higher yield corporate bonds and mortgages and from banking holders who wanted the greater liquidity of the short-term issues or had to sell to meet their reserve requirements. **But,** while they were supporting government bonds by these huge purchases, their holdings of bills and certificates were reduced through redemption and sale by about $1 billion more than the total of their purchases, which, of course, reduced total Federal Reserve credit by that amount. **The thing to keep clearly in mind in all these changes is that the Federal Reserve System kept the long-term government issues above par even though it continued to increase its pressure against inflation by steady, continuous reduction of the credit base of the country.**

From a portfolio standpoint, the net effect of the sale of short-term securities to restrict credit expansion and the purchase of the long-term obligations to support the government bond price structure has been a swap in holdings. The commercial banks have become more liquid through acquiring the short-term issues, the Federal Reserve banks have become less liquid through acquiring the long-term issues. But, I submit, liquidity in this sense has little significance to the Federal Reserve banks. They are able to hold these long-term bonds as long as they desire to do so; it really makes little difference to them whether securities have long or short maturity. They can, therefore, continue to sell shorts and buy longs **for a long time to come. They have $16 billion more of bills and certificates which they can use to swap as long as you bankers are willing to be outswapped!**

Probable End of Commodity Price Rise

But, it will not be necessary for them to continue swapping much longer. I refer to the probability that we have seen the end of the terrific upward swing in prices which has plagued us since June, 1946. While no one can be absolutely certain, it seems to me that the January and February breaks in grain and the resulting declines in general commodity prices mark the turning point of the inflation boom. True, we shall have a cut in taxes, especially at the lower end of the scale which will be definitely inflationary. Moreover, further wage increases, which are in the offing, will be a powerful inflationary stimulus. Also, I recognize the power of the government to push prices up—and I know this is an election year!

Nonetheless, the sharp decline in the price of farm products has been such a powerful object lesson to businessmen that I believe it will end the ceaseless and senseless bidding up of prices. The spectacular demonstration of the grain markets that price is not a one-way street, has made both bankers and businessmen much more cautious. Moreover, the knowledge that there is considerably more grain than had been thought, and further, the realization that most commodities are in substantial supply with prices at such high levels that many consumers cannot afford them, have both had sobering influences on all concerned.

As prices recede, the demand for credit will decline. The increasing risk will make bankers more cautious. These developments will cause banks to turn to bonds, particularly government bonds.

Beyond question, the end of the boom will have a favorable effect on government bonds and AAA corporate issues. It will, however, have an adverse effect on medium-grade bonds, especially those unduly subject to credit factors. Because of the high break-even point of industry today, even a slight decline in price of product, or in business activity, might have such an adverse effect on a corporation's earnings that its bonds will drop because of increased credit risk. It seems safe to say that from now on the readjustment in the economy of the country will cause a widening in the gap between the return on AAA obligations and the return on those of medium-grade.

We must, of course, anticipate that once deflation gets under way in earnest, the Federal Reserve authorities will reverse their credit tightening policies. How promptly they will recognize the changed economic conditions, how quickly they will change their policies, and how effective their changed policies will be, all remain to be seen.

President Sproul of the Federal Reserve Bank of New York on January 27, told the New York State Bankers Association: "No one has yet found a sure way of bringing about just a little depression." Whether he is right or not, only time can tell. In the meantime, to paraphrase the popular song, life may not be beautiful but it certainly will be interesting! And remember, the darker the economic outlook, the better your government bonds will look!

Amott, Baker & Co., Inc. Adds Geo. M. Shaw

George M. Shaw, formerly of Paul & Co., is now associated with Amott, Baker & Co., Inc., 150 Broadway, New York City.

Our Objectives and Our Resources

"In the past, nations have risen to positions of leadership through a gradual process over a period of years usually measured in centuries. This has allowed for a commensurate growth of national understanding of what such responsibility entails. We in this country have been given no such opportunity. In a single decade the United States has been projected into a position involving responsibility greater, perhaps, than any nation in modern history.

George C. Marshall

"Before this abrupt transition, we could indulge our prejudices and feelings regarding foreign relations with the knowledge that what we said or even did would not be an immediately determining factor in one situation or another. Foreign affairs were of secondary importance to our people. We could afford the role of critic, which is for those who do not bear immediate and primary responsibility for the development of events.

"We enjoyed the great advantage of having strong friends who not only shared our concept of civilization but, being close to the scenes of trouble, furnished the first line of defense of our common society.

* * *

"The world scene today is vastly different. We did not suffer the destruction which was visited upon others in the last war. They have been greatly weakened, some all but destroyed. We, on the other hand, have emerged from that struggle stronger economically than ever before and, in relation to the world, far stronger.

"This position of preeminence demands on our part a full realization of the degree to which future events depend upon what we say and upon what we do. We can no longer count upon others to carry the initial burden of safeguarding our civilization."—Secretary of State Marshall.

We do wish the Secretary, or some of the rest of them, would define our "responsibilities" a little more definitely than can be done in such terms as "safeguarding our civilization."

It seems to us that such a delimitation of our objectives is fully as important as the careful apportionment of our resources and our forces about which the Secretary has been talking of late. Indeed it would appear a prerequisite to such apportionment in any rational or effective way.

Capital Malnutrition In Stock Market

(Continued from page 2)

have the least trouble finding more capital. Where the original investor has fared only moderately well or perhaps poorly, new capital will be hard to come by. The Bibilical parable of the talents shocks the inexperienced, but its truth becomes more apparent as we grow older. The man with the courage and skill required to improve opportunities will secure more opportunities. Where courage and skill are lacking, the opportunities he possessed will evaporate.

Difficulty in Finding Equity Capital

Now for the first time in twenty years, corporations are turning to their owners for new capital. The investor, or to finish out the analogy, the master of the house, must weigh to what use the talent he loaned was put, and reward his servants with more or less capital accordingly.

Much is written today about this situation. For instance a recent editorial in the "Wall Street Journal" says:[1]

"Today there is very little risk capital, and what there is comes high. It is not the 'cheapness' of low interest rate loans that has tempted so many companies lately to go into debt for their capital. It is the inordinate difficulty of finding enough equity capital."

There is plenty of capital around. Bank deposits and currency outside of banks are $100 billions above prewar. But precious little spills over into equity capital. This is considered by practically all observers to be a depressing influence on the stock market. Recent examples are used to substantiate this point of view. Time after time recently the announcement of new financing has depressed the stocks involved. That this was not always the case is evident to those who can remember back to the 1920's when only a rumor of the offering of valuable rights was sufficient to send the stock upwards.

The tax system has been blamed, and rightly, for much of the difficulty in raising new equity capital. Concern has been shown in the highest quarters over the shortage of this type of capital. Probably something will be done to widen the bottleneck, but hardly enough to cause a bull market.

The other factor in the shortage of equity capital is the jaundiced eye with which the investor views the ability of management to make it worthwhile for the investor to put more capital at the company's disposal. When bank stocks, for instance, sell below asset value, as they do in general today, it is but another way of saying that the investor does not think bank management is able to earn a reasonable rate on the capital they now control. Obviously there is no point in the investor entrusting more capital to bank management.

What will change the investor's mind? When that is answered you have the answer to the next boom in stocks. I think the boom will come for the reasons given later; but first, just how serious is the compulsion of management to get new capital?

Twelve million persons have been added to our population since 1940. Roughly this produces an automatic 10% increase in gross business available to average management; and much more to smart management. Wars produce new industries. After World War I the radio and automobile industries grew up. Perhaps after World War II it will be television and the airplane. At any rate enough technological advances were made during the war to outmode many previous operations.

Dissipation of Capital

Finally, and this is the important element in timing the new boom, inflation in 1946-1947 caused widespread dissipation of a large part of the capital previously held.[2]

This loss of capital, much of which is now replaced by bank loans—and more loans will come—rests uneasily on management. They have suddenly awakened this past winter to the fact **that increased capital is needed for long-term development at just the time they had lost a large part of the old capital.**

Is this bad for the investor? Yes, to the extent that his capital was dissipated—but that is history. It may prove very profitable, however, in the future.

Capital responds to the law of supply and demand as readily as any other commodity. A small borrower may pay 5% in New York and 6½% in a small town in the Rocky Mountain States for a loan. In Lima, Peru, he might pay 15% to 20%. In a mountain village in Peru he might have to pay this much every month. The smaller the amount of capital available, the greater the price. The expansion of bank loans of 1947 forced an increase in interest rates. In other words the greater the demand, the higher the price.

The fact that the owner of capital has today anything to say about the terms on which it may be employed is a matter of first importance. For twenty years corporations have not needed capital because a low level of business activity combined with subnormal raw material prices have enabled corporations to continue comfortably on their existing capital. Now that this is no longer true, all concerned are rediscovering that the investor is an important part of the economy.

The recollection of twenty years of a functionless position in society is hard to efface. During those years the farmer, labor, the tax collector, and management sat around the table and divided the cake of national income. The investor got the crumbs. Some conscientious managements tried to protect the owner's interest, more talked about it, but in the struggle to get the biggest possible piece, it was only natural that the party with no value other than historic association should be ignored.

Price of Investor's Dollar

The price today for the investor's dollar is still a fair return. Management able to convince the investor that it would be profitable to put more capital at their disposal will be able to secure that capital.

This is the basis for the belief that good times are in store for the investor in 1948 and subsequent years—just as good times were ahead in 1922-1923. **Management throughout the country, for the first time in twenty years, will make all decisions with one eye on the investor.** We will not again see such examples as the head of General Electric cutting prices on a unilateral basis. Without prior consultation with labor, or suppliers, and with admission it was "economically" unjustifiable, he threw stockholders' money to the winds. Nor will we in all likelihood see again the President of General Foods admit without apology, as he did in 1947, that the selling price of the company's merchandise was below replacement costs. These are typical of management attitude at even the best level, during the long depression years. "Statesmanship" called for the investors' share of the national income to be divided among others.

The change in management psychology will be drastic and rapid, because in 1948 real solid profits must be earned, or the needed new capital will not become available. The perspective of history will show what is required to secure enough equity capital, and in turn the size of management's problem.

From 1909 to 1915 inclusive Net Corporate Profits were 7.3% of the National Income. This percentage increased during World War I and decreased immediately after by about the same amount. From 1923 to 1929 Profits were 7.4% of the National Income. For the full twenty-one year period corporations earned for their owners 7.3% of the National Income. It seems reasonable to believe that this is normal for a healthy national economy.

For the five years 1930-1934 no profits at all were earned on a combined basis. In the New Deal depression years 1935-1939 the percentage was 4.7%. In other words the investor fared worse than the economy as a whole although nobody but politicians were particularly happy or prosperous. In the war years 1940-1945, the percentage expanded to 6.8%. In contrast to the preceding ten years this seemed to many a prosperous period—but actually the investor was still the last group to be considered in the economy. By 1947 profits in dollars appeared to be so good that corporations according to politicians were profiteering. Actually as mentioned earlier, and as explained in detail in previous articles, corporations were putting a large amount of their owners' capital into the income statement. This produced the appearance of large profits, but the reality of lost capital. According to the best estimates available, owners of corporations in 1947 had real profits of less than 6% of the National Income.

Restoring Level of Investor's Share of National Income

For the future then management has the problem of restoring the investor to the 7.3% level. When this is done and is maintained consistently, new capital will be available whether times are good or bad.

Hardly more is needed to do this than the intent. More efficiency, less frills, a reasonable price policy, a determination to get the last most profitable piece of business—these are the methods that have been so long neglected. Another possibility is a cut in taxes. At present the Federal Government collects 25% of the National Income. A tax cut carried through to the investor would go a long way toward restoring the normal 7.3%.

Today the investor is skeptical of the use to which his capital is being put by management. Securities sell at a discount from their book value whether they represent a bank, insurance company, a steel mill, or a railroad. This skepticism will evaporate only when it appears that capital will secure a reasonable reward. Since management all over the country is now facing this problem, they will solve it successfully as they have the many other difficult problems of the past twenty years.

The investor can look forward in the next few years to honest, solid profits that will tempt him to invest his money. As confidence is restored the security markets will rise. The investor has been bitten so badly in these last years that his price is high today. Fair treatment will bring the price down.

In terms of the stock market a return to a normal 7.3% share of the national income will produce a substantial boom. When it is discovered that 1947 earnings will be repeated and increased and that these earnings are real and not fictitious, the badly shaken investor will feel confidence once again.

The nervous, unstable security markets of the past twenty years were basically the result of the investors' functionless position. Now that his function is understood and the need for him great, his requirements will be met. Sound profits will create a boom in the stock market. The stock market boom will in turn make new financing easier.

Coming Higher Security Prices

This analysis was not written in a vacuum that ignores the international political scene. If peace is maintained during the next five years, then the new position of the investor will have a profoundly stimulating effect on securities. If war comes, the choices anyone with capital faces are limited.

Our currency is now depreciated somewhere between the depreciation of the British and French currencies after World War I. Another war immediately on top of the last will finish the process. The only place for capital to go is into tangibles, regardless of current earnings. Following World War II stocks in France, despite the presence of a socialist government, rose as rapidly as the currency depreciated. When there is no other place to go capital will rush into stocks—rather than remain idle and depreciate toward zero.

Whether we have peace or war, the next few years should see new high levels for security prices.

1 March 11, 1948.

2 For details see previous articles in "Commercial & Financial Chronicle," June 5, 1947 and Nov. 6, 1947.

Rail Reorganization Bill Approved

The Senate, on March 23, passed the Mahaffie Railroad Reorganization Bill as drawn up in a House-Senate Conference Report. Similar action is expected to be taken shortly by the House of Representatives. The measure will permit railroads to modify their financial structures under supervision of the Interstate Commerce Commission, without a recourse to bankruptcy proceedings in the courts. It is also provided that railroads now undergoing reorganization in the courts may, if they desire, remove the proceedings to the Interstate Commerce Commission for final adjudication. There are still 14 railroads that are undergoing reorganization under Section 77 of the Bankruptcy Law.

It will be recalled that President Truman vetoed a similar measure about a year ago, but it is believed the measure in its present form will meet his approval.

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) Equivalent to—	Mar. 28	95.7	97.5	93.6	97.0
Steel ingots and castings produced (net tons)	Mar. 28	1,725,000	1,757,400	1,687,100	1,697,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Mar. 13	5,264,850	5,352,900	5,347,175	4,844,500
Crude runs to stills—daily average (bbls.)	Mar. 13	5,407,000	5,311,000	5,378,000	4,928,000
Gasoline output (bbls.)	Mar. 13	15,608,000	15,451,000	15,429,000	15,005,000
Kerosine output (bbls.)	Mar. 13	2,547,000	2,821,000	2,508,000	2,190,000
Gas oil and distillate fuel oil output (bbls.)	Mar. 13	7,754,000	7,354,000	7,694,000	5,937,000
Residual fuel oil output (bbls.)	Mar. 13	9,292,000	8,700,000	8,742,000	8,833,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Mar. 13	111,918,000	111,474,000	107,763,000	104,824,000
Kerosine (bbls.) at	Mar. 13	9,677,000	9,843,000	10,408,000	10,601,000
Gas oil and distillate fuel oil (bbls.) at	Mar. 13	32,108,000	32,749,000	36,195,000	33,269,000
Residual fuel oil (bbls.) at	Mar. 13	48,546,000	48,114,000	50,038,000	43,217,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Mar. 13	797,033	792,571	734,262	841,147
Revenue freight rec'd from connections (number of cars)	Mar. 13	711,433	722,851	669,847	742,009
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Mar. 18	$90,318,000	$95,996,000	$88,555,000	$109,080,000
Private construction	Mar. 18	32,729,000	46,660,000	42,912,000	82,520,000
Public construction	Mar. 18	57,589,000	49,336,000	45,643,000	26,560,000
State and municipal	Mar. 18	38,877,000	30,254,000	30,751,000	23,756,000
Federal	Mar. 18	18,712,000	19,082,000	14,892,000	2,804,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Mar. 13	13,314,000	*13,035,000	11,230,000	13,396,000
Pennsylvania anthracite (tons)	Mar. 13	1,214,000	1,176,000	1,038,000	1,195,000
Beehive coke (tons)	Mar. 13	126,700	*126,300	135,200	137,900
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Mar. 13	279	*266	238	267
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Mar. 20	5,145,430	5,284,641	5,254,002	4,759,066
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Mar. 18	106	102	107	47
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Mar. 16	3.23940c	3.23940c	3.23940c	2.86354c
Pig iron (per gross ton)	Mar. 16	$40.29	$40.37	$40.37	$33.15
Scrap steel (per gross ton)	Mar. 16	$39.75	$39.75	$40.08	$39.67
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Mar. 17	21.200c	21.200c	21.200c	21.225c
Export refinery at	Mar. 17	21.450c	21.725c	21.650c	22.150c
Straits tin (New York) at	Mar. 17	94.000c	94.000c	94.000c	70.000c
Lead (New York) at	Mar. 17	15.000c	15.000c	15.000c	15.000c
Lead (St. Louis) at	Mar. 17	14.800c	14.800c	14.800c	14.800c
Zinc (East St. Louis) at	Mar. 17	12.000c	12.000c	12.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Mar. 23	100.78	100.73	100.71	104.71
Average corporate	Mar. 23	111.25	111.25	111.07	117.40
Aaa	Mar. 23	116.41	116.22	116.22	122.29
Aa	Mar. 23	115.04	114.85	114.66	120.22
A	Mar. 23	110.70	110.70	110.15	117.00
Baa	Mar. 23	103.47	103.64	103.64	110.34
Railroad Group	Mar. 23	105.86	105.69	105.34	112.75
Public Utilities Group	Mar. 23	112.93	112.93	112.75	118.40
Industrials Group	Mar. 23	115.24	115.24	115.24	121.04
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Mar. 23	2.45	2.45	2.45	2.18
Average corporate	Mar. 23	3.10	3.10	3.11	2.78
Aaa	Mar. 23	2.83	2.84	2.84	2.54
Aa	Mar. 23	2.90	2.91	2.92	2.64
A	Mar. 23	3.13	3.13	3.16	2.80
Baa	Mar. 23	3.54	3.53	3.53	3.15
Railroad Group	Mar. 23	3.40	3.41	3.43	3.02
Public Utilities Group	Mar. 23	3.01	3.01	3.02	2.73
Industrials Group	Mar. 23	2.89	2.89	2.89	2.60
MOODY'S COMMODITY INDEX	Mar. 23	407.4	411.7	409.3	423.6
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Mar. 20	232.1	226.2	227.6	223.6
Fats and oils	Mar. 20	246.2	242.1	243.5	328.3
Farm products	Mar. 20	251.5	251.2	248.2	249.8
Cotton	Mar. 20	322.5	319.7	303.3	332.7
Grains	Mar. 20	266.7	264.6	263.8	245.2
Livestock	Mar. 20	241.0	241.6	240.5	242.5
Fuels	Mar. 20	220.8	220.8	220.8	164.9
Miscellaneous commodities	Mar. 20	173.5	172.8	169.7	163.6
Textiles	Mar. 20	210.8	211.3	211.7	210.5
Metals	Mar. 20	163.5	163.5	163.5	147.9
Building materials	Mar. 20	233.4	232.8	232.8	203.4
Chemicals and drugs	Mar. 20	156.8	157.0	157.0	154.5
Fertilizer materials	Mar. 20	137.7	137.6	137.6	128.0
Fertilizers	Mar. 20	143.7	143.0	143.0	133.7
Farm machinery	Mar. 20	138.1	138.1	137.2	126.3
All groups combined	Mar. 20	216.5	214.8	214.3	199.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Mar. 13	188,104	255,552	158,637	163,207
Production (tons)	Mar. 13	188,527	193,205	183,376	179,819
Percentage of activity	Mar. 13	102	104	101	104
Unfilled orders (tons) at	Mar. 13	481,757	480,791	450,393	595,648
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Mar. 13	145.9	146.4	146.9	155.4
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Mar. 13	159.8	160.4	159.7	148.3
Farm products	Mar. 13	184.9	187.1	180.9	184.2
Foods	Mar. 13	171.2	172.2	173.3	166.5
Hides and leather products	Mar. 13	187.1	187.9	196.2	175.7
Textile products	Mar. 13	145.9	145.9	146.7	138.3
Fuel and lighting materials	Mar. 13	131.7	131.7	131.6	98.8
Metal and metal products	Mar. 13	155.9	155.7	154.8	140.2
Building materials	Mar. 13	192.5	192.1	192.0	175.3
Chemicals and allied products	Mar. 13	136.5	136.6	134.0	131.7
Housefurnishings goods	Mar. 13	143.7	143.6	137.7	126.1
Miscellaneous commodities	Mar. 13	119.5	119.4	120.2	113.0
Special groups—					
Raw materials	Mar. 13	174.9	176.5	173.4	164.1
Semi-manufactured articles	Mar. 13	153.7	154.1	155.6	145.0
Manufactured products	Mar. 13	154.3	154.3	154.5	142.1
All commodities other than farm products	Mar. 13	154.2	154.4	154.9	140.5
All commodities other than farm products and foods	Mar. 13	147.3	147.3	147.5	130.0

*Revised figure.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION—For Month of January:			
Total gas sales (M therms)	3,204,636	2,987,107	3,069,994
Natural gas sales (M therms)	2,769,608	2,608,912	2,649,346
Manufactured gas sales (M therms)	266,000	233,368	237,464
Mixed gas sales (M therms)	169,028	144,827	183,184
AMERICAN TRUCKING ASSOCIATION—Month of January:			
Number of motor carriers reporting	251	*251	251
Volume of freight transported (tons)	1,946,927	*1,980,075	1,842,932
BUSINESS FAILURES—DUN & BRADSTREET INC.—Month of February:			
Manufacturing number	151	108	92
Wholesale number	35	43	34
Retail number	165	153	70
Construction number	22	23	20
Commercial service number	44	29	22
Total number	417	356	238
Manufacturing liabilities	$17,897,000	$6,892,000	$7,654,000
Wholesale liabilities	1,346,000	1,705,000	2,509,000
Retail liabilities	3,410,000	2,837,000	1,396,000
Construction liabilities	1,987,000	820,000	766,000
Commercial service liabilities	979,000	711,000	651,000
Total liabilities	$25,619,000	$12,965,000	$12,976,000
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. —U. S. DEPT. OF LABOR—Month of December:			
All building construction	$476,000,000	*$499,000,000	$230,000,000
New residential	231,000,000	*269,000,000	109,000,000
New non-residential	176,000,000	*164,000,000	79,000,000
Additions, alterations, etc.	69,000,000	*66,000,000	42,000,000
Non-Federal—all building construction	451,000,000	*480,000,000	221,000,000
New residential	228,000,000	*262,000,000	109,000,000
New non-residential	155,000,000	153,000,000	71,000,000
Additions, alterations, etc.	68,000,000	*65,000,000	41,000,000
Federal—all building construction	25,000,000	*19,000,000	9,000,000
New residential	3,000,000	*7,000,000	
New non-residential	21,000,000	*11,000,000	8,000,000
Additions, alterations, etc.	1,000,000	*1,000,000	1,000,000
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS RECORD—Month of February:			
Total U. S. construction	$474,643,000	$441,955,000	$356,491,000
Private construction	227,010,000	207,529,000	228,567,000
Public construction	247,633,000	234,426,000	127,924,000
State and Municipal	113,385,000	178,259,000	99,167,000
Federal	134,248,000	56,167,000	28,757,000
COAL OUTPUT (BUREAU OF MINES)—Month of February:			
Bituminous coal and lignite (net tons)	48,390,000	54,980,000	51,482,000
Pennsylvania anthracite (net tons)	4,675,000	4,921,000	4,240,000
Beehive coke (net tons)	550,000	*603,424	528,510
COKE (BUREAU OF MINES)—Month of Jan.:			
Production (net tons)	6,468,330	6,489,537	6,201,960
Oven cost (net tons)	5,864,906	5,886,474	5,618,586
Beehive coke (net tons)	603,424	603,063	583,374
Oven coke stocks at end of month (net tons)	911,859	1,039,633	797,021
COPPER INSTITUTE—For month of February:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	83,052	*82,427	74,560
Refined (tons of 2,000 lbs.)	93,588	102,314	97,598
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	106,823	118,855	122,157
Refined copper stocks at end of period (tons of 2,000 lbs.)	70,146	71,533	88,368
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM — 1935-39 Average=100) —Month of February:			
Adjusted for seasonal variation	283	283	266
Without seasonal adjustment	237	224	222
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of January:			
Earnings—			
All manufacturing	$52.27	*$52.74	$47.10
Durable goods	55.71	*56.52	------
Non-durable goods	48.62	*48.78	------
Hours—			
All manufacturing	40.6	*41.2	------
Durable goods	41.0	*41.7	------
Non-durable goods	40.1	40.8	------
Hourly Earnings—			
All manufacturing	$1.289	*$1.279	------
Durable goods	1.359	*1.356	------
Non-durable goods	1.213	*1.196	------
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of February (1935-39 Average=100)	†131.7	†134.2	132.5
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of January:			
Shipments (in pounds)	314,000	275,000	700,000
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of Feb.:			
Industrials (125)	5.9	5.6	4.6
Railroads (25)	6.9	6.5	6.8
Utilities (25)	5.5	5.4	4.7
Banks (15)	4.8	4.6	4.2
Insurance (10)	3.5	3.4	3.3
Average yield (200)	5.8	5.5	4.7
*Revised figure.			
RR. EARNINGS—CLASS I ROADS (ASSOC. OF AMER. RRS.)—Month of January:			
Total operating revenues	$750,734,787	$807,428,182	$685,629,934
Total operating expenses	615,855,516	631,150,228	539,120,865
Operating ratio—per cent	82.03	78.17	78.63
Taxes	$79,004,455	$80,843,092	$75,131,474
Net railway operating income before charges	41,297,152	80,022,688	58,498,861
Net income after charges (est.)	19,000,000	58,000,000	31,500,000
TRAILER COACHES—HOUSING TYPES ONLY (DEPT. OF COMMERCE)—Month of Jan.:			
Production (number of units)	4,309	5,508	5,303
Shipments (number of units)	4,093	5,098	5,042
Shipments (value of)	$7,222,334	$8,788,434	$8,287,711
TRUCK TRAILERS (DEPT. OF COMMERCE) —Month of January:			
Production (number of units)	3,482	3,285	7,511
Shipments (number of units)	3,329	3,906	5,781
Shipments (value in dollars)	$9,090,839	$10,879,562	$12,253,522

*Revised figure. †Preliminary figure. ‡Increase—all stocks.

Current Investment Prospects

(Continued from page 10)

nomic forces with which we are currently dealing. The process will be to examine both the favorable and the unfavorable factors, so far as we can recognize them.

Why Have We Had a "Bear Market"?

We have not had the phenomena which ordinarily accompany long bear markets in stocks. Employment, business activity, earnings, dividends, have all risen. Yet we have had 22 months of declining or sidewise movements in stocks, and 23 months or more of falling bond prices.

Here are the principal factors which have worried the pessimists:

We have had a continuous boom in production for eight successive years. As measured by the Federal Reserve Index, industrial production is about 90% above the 1935-39 average. It borders on blind optimism to expect such a level to continue indefinitely.

This boom is supported by several non-recurring factors:

(a) During the war we built up large backlogs of needs for civilian goods. Now we are filling those abnormal backlogs. Some of them have already been filled.

(b) Inventories have been built up to unprecedented levels.

(c) In the past two years we have built new plant and industrial equipment at a rate never seen before. An important number of these expansion programs are now being completed.

(d) In the past year we have exported goods and services at an unusually high rate—too high a rate to be supported indefinitely by the ability of the foreign nations to pay.

The high level of production, at high prices, with large inventories, requires a great deal of money—more than many corporations have. When they seek new money by issuing bonds or borrowing from the banks, the quality of their securities diminishes. When they seek new money from their stockholders, the earnings of their stocks are diluted by the greater number of shares. When they try to finance their needs from earnings, dividends are kept abnormally low in relation to those earnings.

Reflecting the huge demand for money, commercial loans and consumer lending have shown great advances. Often in the past this has been a sign of trouble.

With the need for money increasing, money is becoming harder to get. In a declining bond market, underwriters are reluctant to encourage new bond financing. In a weak stock market, new stock offerings are unfavorably received. With loans already high in relation to their own capital and surplus, banks are hesitant about expanding their loan accounts further.

Purchasing power of the individual has declined since 1944 and 1945. His liquid assets will not buy as much goods at the higher prices. Nor will his income do so. Important segments of the population have used up their liquid assets. Those whose incomes are relatively fixed have been especially hard hit.

The Federal Government is deflating. It is withdrawing more purchasing power from the economy than it is putting back into the spending stream, for the first time in about 17 years. It is using its budgetary surplus to bring heavy pressure on the banks, because it is there that it can produce the maximum deflationary efect.

Industry believes it has high break-even points. Industry's "cost of living" has also risen precipitously. Profit margins are not as high as we would normally expect in a boom. Many of them are low by any standard. A decline in volume, or in the price of inventories, could turn many black figures red.

Labor difficulties are numerous. Many divisions of labor are not efficient. Wage rates have risen very sharply, are likely to rise further, would be difficult to reduce if business declined. Important strikes continue to threaten.

New orders are running behind shipments in numerous industries. Some have already cut production schedules. Competition is reviving; buyers markets are reappearing.

Foreign currencies such as the lira, ruble, and French franc are being revalued. The pound sterling may be next. In the past, revaluation of foreign currencies has exerted a depressing effect on American prices and exports.

Business failures are tending to rise. Farm products prices have recently experienced a sharp break.

The American political situation is not clear. It is a year of election with no certainty as to the outcome. We have recently listened to strong proposals for the revival of price controls, allocations, excess profits taxes, no reduction in the present stifling rates of personal income taxation.

The international situation is deplorable. No one can rule out the possibility of war.

Is There Anything Wrong With This Pessimistic Appraisal?

These unfavorable factors must be taken most seriously. But they must not be blindly accepted without examination. Nor should we disregard the favorable factors.

It is probable that two basic fallacies underlie much of the pessimistic thinking:

(1) We may be overimpressed by the "height" of the boom in units of goods. Many of our economic indices are based on 1935-1939 as normal. But 1935-39 were probably subnormal depression years; it is certain that they were years of great unemployment. Thus, instead of production of units of goods being some 90% above "normal," it may be only 25% higher than present-day normals. Considering population growth, technological improvement, possible widening of our markets to coincide with our growing world interests, rising living standards — we may find today's normal is not too far below present levels of activity.

(2) We may be overimpressed by the big dollar totals we are witnessing. We have greatly increased the supply of dollars since prewar days. The whole world is in the process of making a permanent revaluation of real property in terms of currencies. Dollar measurements in the future are likely always to be much higher than in the past.

When many of the unfavorable factors are carefully scrutinized, they are not as bad as they appear to be on the surface:

The business and investment community is cautious, even fearful. This attitude of caution does not breed excesses. It is more likely that after two years of warning many businessmen and private individuals already have their houses in order, or at least know how they would proceed to handle business reversals. Piecemeal adjustments are being made by many individual industries as their turn comes.

Meanwhile, despite all the fears and all the adjustments, over-all business activity continues at a very satisfactory level.

Backlogs of demand are still very great in important sectors of the economy. We do not yet have anywhere near enough autos, houses and apartments, electric generating equipment, natural gas production and transmission facilities, oil industry equipment of all kinds, rail equipment, agricultural equipment, public highways in good repair. We have certain basic shortages, such as in steel and labor supply, which prevent the other shortages from being filled much more rapidly than we are now doing.

While inventories are higher than ever before, they do not seem to be especially high in relation to the level of sales. Though plant and equipment expenditures may diminish from last year's historic level, they are likely to remain rather high this year. Though exports may not again duplicate their sensational 1947 performance, with a Marshall Plan we can have confidence that exports will remain very high in relation to prewar for some years to come. It may be years before they go as low as they were in 1946, and 1946 was high.

Though commercial loans of the banks and consumer loans are historically high, they are low as a percentage of national income. Interest rates are tending to rise, but are still very low compared with past perods of trouble. Moreover, they are likely to remain low since the Federal government is a primary borrower and still has great powers to keep its interest costs low. Recently government bonds have tended to rally away from the peg points. The banks themselves have huge capacity to expand their loans further, so far as their legal power to do so is concerned. Only caution and psychological pressures imposed by government fiscal policy restrain them. Despite unsatisfactory stock and bond markets last year, a great deal of new money financing was accomplished.

Though purchasing power of the individual has declined since the peak war years (due to an over-rapid rise in prices since the war), purchasing power has increased greatly since prewar years. Our figures indicate that the average American, after paying his taxes, can out of his present income buy about 40% more units of goods at present prices than he could in that fabulous year 1929. And there are a lot more Americans than there were in 1929.

While the Federal Government is commendably attempting to deflate its own debt, the rate of deflation is low in relation to the inflation that has already taken place and which may not yet have brought its weight to bear fully upon the general price structure.

Labor difficulties are far less numerous than in 1946. Labor efficiency, largely as the result of technological improvement and the high level of activity, appears to be higher than in 1939, even if it is much less than might be achieved.

It is doubtful if the effects of devaluation of foreign currencies under present conditions of world-wide shortages of goods will be the same as in past periods when world goods were in oversupply.

It is true that business failures are tending to rise; but possibly we should be equally impressed with the fact that they are still relatively low.

Even with the recent sharp break in farm commodities, farm income this year at present price levels, could be about as high as in 1947. Moreover, support of the government for farm prices will be at very satisfactory prices this year. Still more important, farmers have used their prosperity to reduce debt. This time they won't lose their farms, even if prices decline further. Industrial prices from 1939 to 1948 have risen less than half as much as farm products prices, should not therefore be nearly as vulnerable.

As far as the international situation is concerned, we should take considerable encouragement from the fact that: The Marshall Plan may strengthen our friends; England, France, Belgium, The Netherlands and Luxemburg have formed a hard core of military defense against communism; we ourselves are awake to the problem and seem to be choosing to make ourselves militarily strong.

All "bear" markets eventually end. This one is 22 months old. The average bear market in stocks in the past 50 years lasted only 19 months. The longest was 34 months. At best, the bear market may already have ended. At worst, it would be reasonable to expect that we were in its last 12 months.

Are There Any Positively Favorable Factors?

So far we have merely examined the unfavorable factors—first to see what they are—then to see how strong they are. But the rebuttal was stated negatively—as reasons why the worst is unlikely to happen at this time. It can and should be stated more positively.

These are the primary favorable factors:

The domestic need for goods is far from satisfied. At the 1947 rate of production of passenger automobiles, for example, it is doubtful if we could supply the demand for several years, barring the interference of outside factors.

Purchasing power is huge. Liquid assets are more than three times prewar. National Income is more than twice its prewar peak. Private debt is low in relation to national income and liquid assets.

Superimposed upon domestic demand is a world-wide need for goods, for much of which we are the only practical source of supply.

There is some evidence we shall eventually revise our tax system in a manner more favorable to private enterprise.

There is growing evidence that we may yet use our power as a nation to lay the groundwork for a long period of peace.

There is a great deal of evidence that our economic frontiers have been pushed back again, that we have regained the dynamic quality which had always characterized our economy up to 1929. We continue to worry about a bear market that may already be in its final year—capable of only one further thrust, at most. But we utterly disregard the fact that in 1946, for the first time since 1929, all the stock market indices penetrated some of their previous bull market tops. This was the "pattern" of mounting long term tops which prior to 1929 led us to regard common stocks as good long term investments, no matter when they were bought. It is not wholly irrational to suppose that this pattern may have been reestablished in 1946, after a long lapse.

What Conclusions Can We draw?

Though we have many economic and political troubles facing us, we also have developed many cushions against them. It is improbable that we are at this time facing a depression of the severity of 1921. It is even possible that if we are to add rearmament to all the other demands upon our industrial capacity, we shall have a continuation or accentuation of the boom.

Turning to the investment problem itself: From the standpoint of the bondholder, though his bear market may be young, his high grades will pay off at maturity regardless of intermediate fluctuations; and as an individual he can even avoid those fluctuations if he chooses redeemable government savings bonds. From the standpoint of the stockholder, most of his bear market is probably over, and he probably has a long term dynamic trend working in his favor. If he has to wait a little longer for rising prices, he's likely to be compensated meanwhile by handsome dividends. From the standpoint of those of us who are in the investment profession, we shall probably serve our clients best in the long run if we urge them to regard the coming months as probably providing an opportunity for profitable long term investment.

The Inflation Tide Going Out!

(Continued from page 15)

within limits, themselves the determining factor of the price level. Let us briefly analyze the two phases, profit inflation and wage inflation respectively.

Profit and Wage Inflation

I leave aside for the moment, the preliminary stages where the impact of expanding demand raises prices without as yet being able to elicit a larger output. What I want to stress here is that the profit inflation is **inevitable**, that profits must rise sharply even if production is given time to expand, in response to the stimulus of higher prices, by a better utilization of the existing apparatus of production. There are two reasons. Profits will rise, in such fields as agriculture and mining, **together with prices**. Barring the opening of new land and new mines, production can be increased in these fields only at rising costs.

But even where the expansion of output and the improvement of utilization can be achieved **without** the increase in marginal costs as is the case in most manufacturing industries, **net profits** will rise substantially because the fixed costs of the enterprise can be spread over a greatly increased sales volume. Thus a seemingly paradoxical situation arises. On the one hand, the gross profit markup on the firm's basic costs for labor and materials (the prime costs) is not higher than before, e.g., to a dollar of labor and material costs still the same markup of say 60 cents for fixed costs and net profit is added; and, on the other hand, net profits could rise considerably more than the earnings of employees, and take an increasing share of the national income, while the share of the other income receivers declines.

Impact of Wage Demands

The **second** phase of inflation is characterized by the attempt of **wage earners** to make up for the loss of purchasing power from the rising prices, by asking not only for a kind of cost of living bonus, but to restore the share of wage income in national income. These two phases are characteristic of any inflation, not only wartime inflation, but also of the credit inflation which characterizes any boom. There is always a great danger that this wage movement leads to a new round of inflation, because, on the one hand, it raises the general level of costs, especially also in manufacturing industries the level of **prime** costs, and, on the other hand, it adds new purchasing power to an already over-expanded demand. However, in most business cycles there are certain **dampening** factors preventing the cumulative effects of profit inflation plus wage inflation from becoming explosive.

The main characteristic of the postwar period has been that these dampening effects have been largely reduced and that the price rise has obtained a different pattern and a higher degree of intensity. The fixed income receivers have been able, thanks largely to the accumulation of wartime savings, to maintain, despite rising prices, their effective demand for consumables to a larger extent than otherwise could be expected; technological progress has been retarded during the period of transition or reconversion from war to peace and partly also because of the psychological difficulties workers encountered in adjusting to a completely new and largely disappointing situation. And thirdly, as already pointed out, the elasticity of the credit mechanism has increased immensely; it would finance wage increases of previously not experienced dimensions.

Wartime Profits

We have indicated above the reasons why a rise in profits and prices was quite inevitable during wartimes, though it must be remembered that a large part of the extra profits were taken away by excess profits taxation. It was largely the abolition of the excess profits which led the American economy into the really serious phase of wage inflation after the war, as distinguished from the milder attempts to make up for certain losses of purchasing power during the wartime itself. Psychologically the movement can be understood. There will be always the tendency to resist the encroachment of the share of profits in national income on the share of labor. What was not sufficiently realized is first that the increase in profits was less than it appeared if due account was taken of rising prices and of the fact that a higher level of utilization must be associated also with the somewhat increased earnings for capital; and secondly, that there is no automatic mechanism in the free enterprise system which would cause entrepreneurs to "absorb" wage increases, i.e., to reduce voluntarily the gross profits margin (from 60 cents in our example, to say 50 cents for $1 labor and material costs), if his activities increased. Anyway, the movement did not succeed in increasing the worker's share. The general level of consumption of the workers was, of course, increased in 1946 above the 1945 level as that of any other consumer because a great number of goods became available which had not been available during the war time. Nevertheless, there is no doubt that the wage round of 1946 was followed by a proportionate or even more than proportionate increase in manufactured goods prices.

Labor's Attitude

The process of wage inflation, of course, did not cease in 1947. Nevertheless, I cannot help feeling that labor's attitude had changed considerably on account of the shocking experience of 1946, that the inflationary impetus was leveling off in general and that we were headed for a new equilibrium. These tendencies to equilibrium were completely outweighed, however, by the impact of three largely unforeseen forces. These forces were: (1) the increase in the foreign demand for American goods culminating in an export surplus of $11.5 billion in 1947 against $8.1 billion in 1946; (2) the failure of the American corn crop, exercising a very strong effect on the prices of virtually all food, and (3) the increase in the demand for investment goods of all forms (plant, equipment, residential building, other construction, inventories). There is a basic difference between these first two factors and the investment demand. Some increase in the physical volume of construction was necessary for obtaining the level of full employment in 1947; and it is very unlikely that this increased employment in construction took away workers from consumable goods industries, since the mobility of workers between industries is not great. But the intensity of investment activities in general overstepped the bounds of the useful.

Again, as in the case of wage inflation, the lack of control of the money and credit volume played an important role. One may doubt that domestic investment would have increased to the same extent had not a large amount of additional credit been available at low interest rates. Moreover, inflation fed on inflation. Ordinarily, higher prices for some commodities like food limit the consumer's effective demand for other consumables; this restrictive influence was largely removed because consumers could strengthen their purchasing power for consumables by reducing their current rate of saving, the more so since they had accumulated extra savings during the war.

The total effect of the impact of these forces and the ensuing price rise was, (1) to prevent **consumption** in real terms from rising; (2) to increase investment in real terms; and (3) to inflate profits again in the field of manufacturing and trade. The increase in corporate profits from $16.5 billion to $23.1 billion (before taxes, after inventory value adjustment) is symptomatic and certainly exceeds the rise of the price level however measured.

Using this general pattern of explanation, we also can draw a picture of the state of inflation in 1948. We have not yet seen the peak in meat prices, since the full effect of the scarcity of food will become noticeable on the consumers' level only in the spring; and this rise in meat prices will again induce consumers to contribute to inflation by lowering saving, though to a greatly reduced extent. Above all, demand will be expanded by a new round of wage increases, not controlled by credit restriction. But here, of course, the problem arises in full strength: Will the wage rise be purely inflationary, or will it be more or less "absorbed" by employers, or will it be followed by the disastrous break against which the President has warned so frequently? The last question is by no means purely academic. After all, most crises of the 19th Century and 20th Century have been preceded by wage increases, which proves the fact that wage increases do not always lead to price increases. What happened to bring about the crisis was the collapse in the private investment activity, possibly, though not necessarily, caused by the fear that the higher wages spelled the doom of profits. Is something like that to be expected at present, and, in particular, how will government finances and the export surplus behave, which have influenced so greatly the level of economic activity in the U. S. during the last 14 years?

Grain Prices

The price fall in grains which we experienced during recent weeks can, as such, not be taken as indicative of an approaching general slump. The market price of grains had been driven up far above the normal cost level in the first six months after the last harvest by government purchases; and the decision of farmers to retain a large part of the crop for sale at a later time. Feeding of wheat became unprofitable and the ensuing surplus had to bring down the market price sooner or later to a more normal level. The present price level in grains still compares well with a rather inflated grain price ruling at the end of 1946, even if the rise in farmers' cost is taken into account.

In a similar way, if we look at the extraordinary amount of business saving performed in 1947 currently equalling 160% of dividend payments in contract to the usual 50%, we shall realize that a substantial decline in aggregate demand can materialize without causing more than the reduction of profits to normal. We move here in the realm of surmises; for it is, of course, possible than an economy accustomed to very high profits reacts with very pessimistic anticipations and greatly restricts investment and production activities, if once the extremely high profits are reduced to what in other times had been considered normal. But it must be pointed out that many of the symptoms of a boom which preceded the crisis in other times are absent this time. A boom meant stock exchange speculation and over-valuation of securities followed by a crude awakening. Nothing of this kind is visible now; if anything, securities are under-valued. The typical financial crisis was predicated upon an unsound structure of corporation finance, which could not stand the slightest decline in profits, and now corporations burst with reserves.

The worst we have to expect would be a reduction of business profits to a more normal size enabling corporations to pay out about $8 billion dividends and to set aside net reserves of $4-5 billion. The following brief estimate will confirm this conclusion:

(1) Investment in industrial and agricultural plant and equipment will, for all we know, be lower than in 1947 (on account of some inventory liquidation and of the working up of backlogs) but should still slightly exceed the minimum of business gross savings (net savings plus depreciation allowances), which can be put at $12-13 billion.

(2) Personal net savings run now at an annual rate of $12½ billion and would scarcely reach the $14 billion mark in 1948, even if wage increases are taken into account. Hence, investment in residential and commercial building alone would be sufficient to absorb personal net savings.

(3) Most of our export surplus will be paid by the American Government or take the form of gifts from American residents. But for calendar 1948, an **additional** amount of "net foreign investment" (export surplus of goods and services) of $3.5 billion is estimated representing a reduction of the current supply of goods and services available to the American public of the same amount; as to counter-times, we shall have a Government cash surplus (budget surplus plus payments into trust funds) of between $7.1-$7.7 billion, provided no tax reduction were enacted. These two items combine to a net deflationary pressure of about $4 billion, which would be reduced by the slight inflationary pressure mentioned in number 1.

Since, however, some kind of tax reduction is inevitable, we may safely assume that this slight deflationary pressure will be eliminated and no collapse of the economy is to be expected. The increase in domestic consumers' demand, as associated in particular with the wage increase, may make for somewhat higher prices, the impact being mitigated partly by a rise in output per manhour and partly by the inability of producers to charge the whole wage increase to higher prices; hence the high profits of 1947 can scarcely be expected to last through 1948.

It is now not difficult to judge the various measures proposed to fight current inflation. Any measures to stem its tide must affect one of the three big sources of demand: foreign demand, domestic consumption, or domestic investment. A curtailment of the first source, foreign demand, is excluded for political and humanitarian reasons. What about the two others?

I shall limit the discussion to the measures of tax policy and credit restriction as proposed now from various sides.

In general, of course, tax reduction is **inflationary**, unless the Government spends commensurately less; but, as shown before, there are some reasons to keep the Federal cash surplus at a level of $4-5 billion and the budget surplus at a level of between $2-3 billion, to make sure that the **deflationary** pressure, especially in the second half of 1948, will not become too strong. Actually, influential groups in Congress aim at a far larger tax reduction, which scarcely can fail to add to the inflationary pressure, since the corresponding expenditure cuts never materialize as planned. Leaving aside the political reasons which probably are dominant in the minds of both the President and Congress leaders and discarding any hope that by tax reduction we may be able to forestall the third wage round, we have to dispose here of the main economic argument brought forward in justifying these farreaching proposals.

In the opinion of numerous Congress leaders, tax reduction is necessary, particularly in higher income brackets, to make available adequate funds for current investment to expand in this way the production apparatus and eventually the current supply of goods. There is, indeed, some reason in normal times to reduce the income tax burden in the higher brackets and possibly also for corporations in order to stimulate private investment. At present, however, there is not yet the need and not even any possibility for an increase in investment. At the moment, we do not have unemployed workers or unutilized capacity in equipment goods industries, which could be made useful if only more funds were made available for investment. And if we had them, the fact that more funds are available would scarcely be a sufficient stimulus to use them productively.

The second group of anti-inflationary measures refers to the control of the volume of credit. In this context we always should remember that we do not want to apply the radical inflation cures recommended by the Nineteenth Century economists. They would not have minded to obtain the goal of lower prices by a temporary curtailment of **employment**. And, indeed, nothing affects the demand for consumables so thoroughly and reduces prices so rapidly as widespread unemployment, especially if it lowers wages. The problem of our times is: Can we find measures which would, if still necessary, mitigate inflation without creating substantial unemployment? The answer is **no**, as far as the prices of the bulk of consumables are concerned, since **these are generally not bought on credit**. Thus, the effect of wholesome credit restriction is largely limited to three goals: (1) to prevent further inventory accumulation; (2) to reduce the inflationary pressure from an expansion of consumers' credit, especially on consumers' durables; and (3) to reduce the inflationary pressure from an expansion of productive credit on the prices of investment goods.

There cannot be any doubt that these goals should have been pursued in the last fifteen months; the banking world certainly deserves praise for its attempts to bring about a voluntary limitation by moral suasion. At the present moment, however, credit restriction should be limited to such fields of consumers' durables, like automobiles, where the inflationary pressure is still strong. As to the goals (1) and (3) above, on the other hand, we have to watch the current development very carefully before we, by imposing more stringent conditions, accelerate the process of curtailment in investment activities which already seems to have started. Only if the Aid-to-Europe program stimulates the demand for investment goods to an extent not yet foreseen, credit limitation, in general, could be recommended.

Our conclusions are simple. It is not impossible that as consequence of the Aid-to-Europe program and of farreaching tax reductions, the inflationary pressure, which, at the moment, seems to abate, will gain a new life in the months to come, although profits are almost certain to be lower in 1948 than they were in 1947. But this again would be an interlude with an impact on prices considerably less than that imparted by the inflationary impetus in the second half of 1948. In the subsequent years, the inflationary pressure will rapidly decline, even if the scheduled reduction in the Aid-to-Europe program is offset by commensurate tax reductions; for private investment activities will settle on a normal level and consumers' credit will not expand indefinitely. We may not have yet seen the peak of the costs of living but apart from the effects which a termination of rent control cannot fail to exercise, the rate of increase in the costs of living should substantially slacken. From 1941 to the middle of 1946 the costs of living increased by about one-third; they increased the second time by one-third, since the middle of 1946. I am sure the third and last round of inflation in which we are living now, will eventually leave us far from the 200% mark of the costs of living index.

Smith, Barney Offers Interstate Power Secs.

Underwriting groups headed by Smith, Barney & Co. are offering to the public new securities of Interstate Power Co., Dubuque, Ia., issued under a plan of reorganization under the Public Utility Holding Company Act of 1935. These offerings consist of $20,000,000 first mortgage 3¾% bonds due 1978, priced at 102.72%, and 555,039 shares of common stock priced at $7.35 per share. In addition, Smith, Barney & Co. has offered and sold, at 100%, $5,000,000 4¾% secured debentures, due 1968, of the company.

Under the provisions of the plan of reorganization the net proceeds from the sale of these securities will be used to retire the company's outstanding first mortgage 5% bonds, due 1957, at par and accrued interest; to prepay $2,000,000 (out of the $3,000,000 outstanding) of collateral promissory notes; and to pay the accrued interest to the effective date of the plan on the outstanding 6% debentures, due 1952, and on the 6% demand note of the company. Upon the effective date of the plan the 994,961 shares of common stock which are not being publicly offered will be placed in escrow subject to determination of the rights of the holders of the 6% debentures, 6% demand note and the $7 and $6 preferred stocks.

Upon the consummation of the plan, the outstanding capitalization of Interstate Power Co. will consist of the new securities offered by the underwriters, the additional 994,961 shares of common stock to be placed in escrow and $1,000,000 of collateral promissory notes evidencing bank loans.

Observations

(Continued from page 5)

UN's partition of Palestine. This decision, presumably at variance with long-term State Department policy, was at least to some extent motivated by home political exigencies. But even so, had the counterpart occurred in the Soviet Politburo, a facile about-face could have been made and the damage repaired without the home-front even knowing of what was going on.

If the United States has changed its propounded position regarding partition because it feels that the threat of Russia's presence, including the permanent stationing of her troops there, outweighs any other consideration; and if, under those compelling circumstances, and to forestall a bloody and altogether hopeless situation, we actually have made a deal with the British for the continuance of their mandate; our State Department is put in a hole by the necessity of submitting an explanation to our people for their satisfaction and approval to which, under our system, they are entitled.

Likewise abortive is the airing of our Secretary of State's differences with our powerful Congress, including such incidents as his supposedly anti-China pronouncements, which again proclaim to the world the confusion that exists in the country's long-term foreign policy. The Kremlin, in contrast, has a completely free and autonomous hand, to play its diplomatic game *externally*—without even revealing its long or short-term aims to anyone.

The Effect on Our Chief Executive

The President is the official charged with setting our foreign policy. Obviously a consistent course of action is of crucial importance. Realizing this, he must nevertheless, in addition to outmaneuvering our opponents abroad, ALSO perform a "selling" job to his fellow-citizens at home. So he necessarily delivers a special message to the assembled Congress and his anxiously expectant fellow-citizens. Surely Mr. Truman's address of last week was forthright, decisive, clear, and politically courageous. But the result nevertheless is that dangerous as is the Russian reaction, the possibility that his Congress will throw his policy into public confusion and even possibly scuttle it in the end—a result which would render our international status far worse even than before—presents an even greater risk.

The damage to the international situation rendered by our characteristic democratic processes has been epitomized over the long-term by the inability of Great Britain and ourselves to acquaint Germany under the Kaiser in 1914 or Hitler in 1939 that we would actually go to war. Witness President Roosevelt's faltering step toward a decisive policy in his famed Quarantine speech in Chicago in 1937, on which he quickly realized it was necessary to back-track because he found himself out on a limb so far removed from his public. There is little question about nothing short of a foreign Pearl-Harbor kind of attack having been necessary to get us to a decision, even in 1941. Continuing foreign policy cannot be set by plebescite!!

On a broader scale this kind of difficulty is already emerging at the current initiation of the alliance of the Western European powers. Sovereignty and the other counterparts of democratic freedom of action are seriously worrying the leaders of our allies as to whether Mr. Bevin can actually make of the group "not a conference but a workshop."

How British Dollars Are Wasted

(Continued from page 15)

if they are intended for such unrequited exports. But holders of unfunded sterling balances are in a position to buy up existing supplies of goods. To the extent to which this is done Britain's exporting capacity is wasted. Moreover, unfunded sterling balances can be sold to third countries which in turn can convert them or use them for financing unrequited exports. Month after month passes without any effort on the part of the Government to put an end to this state of affairs. The only action taken up to now in that direction was the freezing of the Palestine and Transjordan balances of about £100,000,000. Even in that instance the right thing was done for the wrong reason.

Agreements funding sterling balances are concluded on terms under which excessive amounts are realesed, partly in dollars and partly in sterling. The argument for the defense of this policy is that since the standard of living in the creditor countries is lower than in Britain it would be unfair to drive too harsh bargains with them. The fact which the Government refuses to face is that the position and prospects of Britain's balance of payments is much worse than that of most countries, so that she cannot reasonably be expected to help others if this aggravates the dollar drain.

Large quantities of goods are exported to soft currency countries, even though they could be exported to hard currency countries, for the sake of maintaining traditional markets. To that end even goods bought in hard currency countries are re-exported to soft currency countries. What the Government does not realize is that it would be wiser to lose the markets for the present and recover them later, for the sacrifices involved in the effort to recover them would be less onerous than the sacrifices involved in the effort to avoid losing them.

The Government displays a childish pride in the extent of the international use of sterling. Yet, the result of such use is a heavy loss of dollars. This is the case in particular with the use of sterling for triangular trade by Belgium. She buys up the sterling balances of other countries and converts them into dollars under the Payments Agreement of September, 1947. The gold losses announced by the British Treasury month after month are largely due to the operation of this exceedingly foolish agreement which Mr. Dalton insisted on concluding against the advice of his experts.

The British exchange control is leaking like a sieve. Volumes could be written about the various methods with which it is circumvented. Many of the loopholes cannot be helped. There are others, however, which are kept open as a matter of policy. The gap of Hong Kong is an outstanding instance. While Sir Stafford Cripps moved heaven and earth to prevent France from adopting a dual exchange rate and a free gold market, that very same system is operating in Hong Kong with the British Government's approval. The resulting loss of dollars is very substantial. A Bank of England official has been sent out to investigate the position, but such measures as are likely to be decided upon are expected to be "too late and too little."

Unfortunately the subject is too technical to arouse widespread interest. Nevertheless, a vague if inarticulate uneasiness is gradually developing among British politicians, similar to the feeling that developed last summer about convertibility, long before the failure of the experiment was offiicially admitted. And in the long run the reputation of Sir Stafford Cripps is likely to suffer as a result of his unwarranted optimism, in the same way as Mr. Dalton's reputation suffered when the British public discovered how hopelessly wrong he was about Britain's capacity to assume the burden of convertibility.

Minneapolis-Honeywell Places Issue Privately

Harold W. Sweatt, President of Minneapolis-Honeywell Regulator Co., announced March 2 that an issue of $7,500,000 2.85% debentures maturing March 15, 1963, had been placed privately with five institutional purchasers through Union Securities Corp. The issue will have a $300,000 annual sinking fund commencing in 1950. Funds received will take the place of a $10,000,000 five-year revolving bank credit which would have terminated April 1, 1952.

Following issuance of these debentures, the company's capitalization consists of the $7,500,000 of 2.85% debentures; $11,000,000 of 3.20% convertible preference stock, Series A; and 1,243,800 shares of common stock.

Columbia Gas Debs. Offered by First Boston

Columbia Gas & Electric Corp. at competitive bidding March 23 awarded a new issue of $45,000,000 debentures due 1973 to a nationwide underwriting group headed by The First Boston Corp. The group submitted a bid of 100.55999, naming an interest rate of 3¼%. The issue is being re-offered today at 101¼ and accrued interest to yield 3.18% to maturity.

Proceeds from the financing will be applied to the current construction program of Columbia Gas System incidental to storage and distribution of natural gas brought from the southwest. Initiated in 1946 with an expenditure of over $19,000,000, the program of additions and betterments was continued during 1947 when $32,279,024 was expended. It is estimated that an additional $47,000,000 will be spent during the present year.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

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 Machinery Corp., Orlando, Fla.
March 11 (letter of notification) $295,000 10-year first mortgage convertible 6% bonds, due 1958, and an undetermined number of common shares (20c. par), to be held for conversion of bonds. **Underwriter**—Gordon Graves & Co., New York. To pay income taxes and for working capital.

● **Angelus Beverage Co., Los Angeles, Calif.**
March 17 (letter of notification) 1,000 units of "Series E" U. S. bonds of $75 value and one $25 note for $100. To buy bottling machinery. No underwriting.

Associated Telephone Co., Ltd. (4/6)
March 15 filed 75,000 shares of 5% cumulative preferred stock ($20 par), 1947 series. **Underwriter**—Paine, Webber, Jackson & Curtis, New York, and Mitchum, Tully & Co., San Francisco. **Price**—$21 per share. **Proceeds**—To expand facilities.

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.

● **Atlas Film Corp., Oak Park, Ill.**
March 16 (letter of notification) 50,000 shares ($1 par) common stock, to be offered to the company's 37 stockholders at par. For working capital. No underwriting.

Auto Finance Corp., Charlotte, N. C.
March 10 (letter of notification) 6,000 shares of 5½% cumulative preferred stock. **Price**—$50 each. **Underwriters**—Interstate Securities Corp., Charlotte, N. C.; Citizens Trust Co., Greenwood, S. C. and others. For additional working capital and general corporate purposes.

● **Bennett-Ireland, Inc., Norwich, N. Y. (3/29)**
March 22 (letter of notification) $200,000 15-year sinking fund first mortgage bonds. **Underwriter**—Mohawk Valley Investing Co., Inc., Utica, N. Y. **Price**—Par. Prepayment of mortgage ($130,000). Corporate purposes.

● **Boray Sign Co., Washington, D. C.**
March 17 (letter of notification) 400 shares of common stock. **Price**—$60 each. **Underwriters**—James Privett, C. L. DeHarte and C. Booker Powell, all of Washington. To develop machine tools for production of patented electric signs.

Broadway Department Store, Inc. (3/30)
March 11 filed 80,000 shares of cumulative preferred stock ($25 par). **Underwriter**—Blyth & Co., Inc. Interest rate and offering terms by amendment. **Proceeds**—To redeem $3,000,000 short-term bank loans payable to Security-First National Bank, Los Angeles.

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 to residents of Brockway. **Proceeds**—Construction and purchase of new equipment.

● **California Oregon Power Co. (3/30)**
March 4 filed $4,500,000 first mortgage bonds and 100,000 shares of common stock (par $20). **Underwriters**—Names to be determined through competitive bidding. 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,

NEW ISSUE CALENDAR

March 29, 1948

Bennett-Ireland, Inc. ---------------------Bonds
Cameron Aero Engine Corp.--------------Common
Chicago Milwaukee St. Paul & Pacific
Noon (CST)-----------------Equip. Trust Ctfs.
Texas Electric Service Co.
11:00 a.m. (EST)----------Bonds & Debentures
Utah Power & Light Co.
Noon (EST)-------------Bonds & Debentures

March 30, 1948

Broadway Department Store, Inc.--------Preferred
California Oregon Power Co.
9:00 a.m. (PST)-------------Bonds and Common
Colonial Stores, Inc.------------Pref. and Common
Ohio Power Co., 11:30 a.m. (EST)-----------Bonds
Oklahoma Gas & Electric Co.
11:00 a.m. (EST)-----------------------Preferred

March 31, 1948

Pennsylvania RR., noon (EST)--Equip. Trust Ctfs.

April 1, 1948

Schenectady Discount Corp.-----------Debentures

April 5, 1948

Georgia Hardwood Lumber Co.---Pref. & Common
Michigan Consolidated Gas Co.--------------Bonds
Mountain States Tel. & Tel. Co.---------Debentures

April 6, 1948

Associated Telephone Co., Ltd.-----------Preferred
Southern Counties Gas Co. of Calif.
8:30 a.m. (PST)--------------------------Bonds
Virginia Electric & Power Co.------------Debentures

April 7, 1948

Chesapeake & Ohio Ry.
Noon (CST)------------------Equip. Trust Ctfs.
Solvay American Corp.--------------------Preferred

April 15, 1948

Florida Power Corp.--------------Pref. and Common

May 5, 1948

Southern California Gas Co.------------------Bonds

Peabody & Co. (jointly on bonds); Salomon Bros. & Hutzler; Shields & Co. (bonds only). **Bids**—Bids for purchase of securities will be received at office of American Trust Co., 464 California Street, San Francisco, prior to 9 a.m. (PST) March 30.

● **Cambridge (Md.) Industries, Inc.**
March 15 (letter of notification) 1,000 shares of 6% preferred stock ($100 par). **Price**—$100 per share. To expand plant facilities and furnish working capital. No underwriting.

Cameron Aero Engine Corp. (3/29)
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. **Underwriter**—Henry P. Rosenfeld & Co., New York. To provide operating funds, etc.

● **Central Mining & Development Corp., Central City, Colo.**
March 18 (letter of notification) eight notes of $5,000 each and one $10,000 note. To be secured by 198,000 shares of stock put up by six stockholders. To complete smelter plant. No underwriting.

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.

● **Champion Paper & Fibre Co., Hamilton, Ohio**
March 19 (letter of notification) up to 5,000 common shares, to be sold for the estate of Logan G. Thomson, deceased, at $19 each or better. **Underwriters**—Goldman, Sachs & Co., New York.

Colonial Stores, Inc., Norfolk, Va. (3/30-31)
March 16 filed 40,000 shares of 5% cumulative preferred stock ($50 par), and 49,431 shares of common stock ($2.50 par). **Underwriter**—Hemphill, Noyes & Co., New York. **Offering**—New common stock to be offered present stockholders at rate of one new share for each 12½ now held. **Price**—By amendment. **Proceeds**—To buy machinery, trade fixtures and equipment for new stores.

● **Commercial Finance Corp., Muskogee, Okla.**
March 15 (letter of notification) 14,975 shares of common stock. **Price**—$20 each. For operating expense and indebtedness.

Consolidated Edison Co. of N. Y., Inc.
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 were to be given right to subscribe for debentures in ratio of $5 of debentures for each share held. Due to failure of the New York P. S. Commission to approve the issue, the financing has been postponed. **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 273,566 shares of outstanding $5 cumulative preferred stock and to reimburse treasury for expansion expenditures.

Consolidated Natural Gas Co., New York
March 15 filed $30,000,000 of debentures, due 1968. Int. rate and price by amendment. **Underwriters**—To be determined through competitive bidding. Probable bidders include: White, Weld & Co. and Paine, Webber, Jackson & Curtis (jointly); Dillion, Read & Co. Inc.; The First Boston Corp.; Halsey, Stuart & Co. Inc; Morgan Stanley & Co. **Proceeds**—To be added to general funds for purchase of additional capital stock in the company's operating subsidiaries.

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. Expected early in April.

Dallas (Texas) Power & Light Co.
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 at $60 per share. Texas Utilities Co. (parent) will acquire 62,292, shares. **Proceeds**—Construction program. Bonds expected about April 20.

● **Denver (Colo.) Speedway Bowl, Inc.**
March 17 (letter of notification) 300,000 shares ($1 par) common stock. **Price**—$1 per share. To build a 20,000 seat concrete stadium. No underwriting.

Equipment Finance Corp., Chicago, Ill.
Feb. 26 filed 15,000 shares ($100 par) preferred stock. **Offering**—To be sold to employees and officers of the company and its parent, Curtiss Candy Co. **Price**—$100 per share. **Proceeds**—To be used for trucks in connection with the Curtiss' franchise method of distribution.

● **Esterbrook Pen Co., Camden, N. J.**
March 17 (letter of notification) 1,500 shares of common stock (par $100). **Price**—Par. **Underwriting**—None. **Offering**—Stockholders of record April 7 will be given the right to subscribe for one new share for each four shares held. Rights expire May 7 and subscriptions are payable at First Camden National Bank & Trust Co. For working capital.

● **Ferguson Furniture Co., Inc., Jackson, Miss.**
March 18 (letter of notification) $100,000 of 6% serial debentures. Price, par. For capital structure. No underwriting.

Florida Power Corp. (4/15)
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 of record March 30 will be given the right to subscribe for the new common stock. Rights expire April 14. **Proceeds**—Construction expenditures.

Flotill Products, Inc., Stockton, Calif.
March 6 filed 385,000 shares of 60 cent convertible preferred stock (par $5) and 325,000 shares of common stock (par $1). **Underwriter** — Floyd D. Cerf Co., Chicago. **Price**—preferred $10; common $6. **Proceeds** — Stockholders will sell 260,000 preferred shares and 250,000 common shares and company 125,000 preferred shares and 75,000 common shares. The company's proceeds will be used for general corporate purposes.

● **Gem State Consolidated Mines, Inc., Boise, Idaho**
March 15 (letter of notification) 200,000 shares of non-assessable common stock (5¢ par). **Price**—7½ cents per share. To develop mines. No underwriting.

Georgia Hardwood Lumber Co. (4/5-9)
March 11 filed 69,500 shares $1 convertible cumulative preferred stock (no par) and 10,425 shares of common stock ($1 par). **Underwriter**—Reynolds & Co. Price by amendment. **Proceeds** — To selling stockholders—(Equitable Securities Corp., A. C. Allyn & Co., Inc., and Clement A. Evans & Co., Inc.)

● **Gold Ridge, Inc., New York**
March 16 (letter of notification) 5,000 shares of capital stock (par $1). **Underwriters**—Stein Bros. & Boyce, Baltimore, and Filor, Bullard & Smyth, New York. **Price**—$3 per share. Working capital—development of gold mines.

● **Goodwin (Jay) Industries, Inc., Denver, Colo.**
March 17 (letter of notification) 164 shares (no par) common stock. **Price**—$100 each. For operation of the company. No underwriting.

Graham-Newman Corp., New York, N. Y.
March 11 filed 11,657 shares stock ($50 minimum stated value). **Underwriting**—None. **Offering**—11,571⅔ shares are being offered pro rata to stockholders on basis of one share for each three held, at $100 per share; 85⅓ shares are being offered at net asset value at $110.61 per share.

● **Gulf States Utilities Co., Beaumont, Tex.**
March 19 filed $12,000,000 first mortgage bonds, due 1978. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Stone & Webster Securities Corp.; Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly). **Proceeds**—To finance construction.

● **Kold-Hold Manufacturing Co., Lansing, Mich.**
March 15 (letter of notification) 50,000 shares ($1 par) common stock. **Price**—$2 each. To be sold by H. Barkley Johnson and James J. McQuaid, both of Los Angeles. **Underwriter**—Buckley Brothers, Los Angeles.

● **Kool-Aid Bottling Co., Inc. of Calif., Sheboygan, Wisconsin**
March 22 filed 1,500,000 shares ($1 par) common stock. **Underwriter**—Heronymus & Co., Sheboygan, Wis. **Proceeds**—To open and equip bottling plants in California cities. **Price**—$1 per share. **Business**—Soft drinks.

● **Lakeside Laboratories, Inc., Milwaukee, Wis.**
March 19 (letter of notification) 27,500 shares ($1 par) common stock. **Price**—$6.50 each. **Underwriter**—Loewi & Co., Milwaukee. For working capital.

● **Latin American Airways, Inc., New York**
March 16 (letter of notification) 327,630 shares of common stock (par 50¢). **Underwriter**—Willis E. Burnside & Co., New York. **Price**—50 cents per share. **Offering**—Holders of common stock (par $1) given right to subscribe at par for new stock in ratio of two shares (par 50¢) for each $1 par share held. Rights expire March 29. Pay outstanding claims, etc., working capital.

● **Mammoth Silver Lead, Inc., Spokane, Wash.**
March 15 (letter of notification) 500,000 shares of common non-assessable stock. **Price**—20¢ each, to be sold by the company, and 50,000 shares of same stock to be sold by Morris Pearson, President, at 11 cents each. To develop and equip mines. No underwriting.

● **Martinez-Boll Mining Co., Florence, Ariz.**
March 12 (letter of notification) 25,000 shares of common stock. **Price**—$1 each. To develop mine properties. No underwriting.

Michigan Consolidated Gas Co. (4/5)
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 April 5.

Mountain States Telep. & Teleg. 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 stockholders of record March 24 at $100 per share on a one-for-three basis. Rights expire April 26. American Telephone & Telegraph Co. owns 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 5.

Ohio Power Co., Canton, Ohio (3/30)
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. **Bids**—Bids for purchase of the bonds will be received at office of American Gas & Electric Service Corp., 30 Church Street, New York, up to 11:30 a.m. (EST) March 30.

Oklahoma Gas & Electric Co. (3/30)
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. **Bids**—Bids for the purchase of the stock will be received by the company at office of Chase National Bank, 11 Broad Street, New York, up to 11 a.m. (EST) March 30.

Old North State Insurance Co., Greenville, N. C.
March 15 filed 100,000 shares of capital stock ($5 par). **Price**—$15 each. **Underwriter**—First Securities Corp., Durham, N. C. **Proceeds**—General business purposes.

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.

● **Panther Development Corp., Houston**
March 18 (letter of notification) 4,500 shares of non-assessable common stock. **Price**—$25 each. To stockpile manganese ore at mines in Arkansas and erect an ore mill. No underwriting.

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.

● **Portersville Oil Co., Baltimore, Md.**
March 16 (letter of notification) 2,400 units, consisting of 48,000 shares of "B" common stock at $1 par and 12,000 shares of "A" common at $1 par, in units of 20 "B" and five "A" shares for $25. To drill for oil. No underwriting.

● **Princeton (N. J.) Water Co.**
March 22 (letter of notification) 900 shares of common stock (no par). **Underwriting**—None. **Price**—$60 per share. Repay promissory notes, additions, etc.

Public Service Co. of New Hampshire
Feb. 6 filed 199,627 shares ($10 par) common stock.

(Continued on page 46)

(Continued from page 45)

Underwriters—Kidder, Peabody & Co., and Blyth & Co. Inc., New York. **Offering**—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 which will be purchased by the underwriter. Price by amendment. **Proceeds**—Construction program and retire short-term loans. Expected late this month.

● **Ramie Mills of Florida, Inc., Boston**
March 19 (letter of notification) 55,200 shares ($1 par) common stock. **Price**—Par. For working capital. No underwriting.

● **Schenley Distillers Corp., New York**
March 18 (letter of notification) 3,800 shares of common stock (par $1.75). Stock will be sold on New York Stock Exchange through Wagner, Stott & Co. **Price**—approximately $26 per share.

Shareholders' Trust of Boston
March 16 filed 500,000 shares of capital stock (par $1). **Underwriter**—Harriman Ripley & Co., Inc. **Price**—Net proceeds to the trust will be $20 per share. **Business**—A newly-formed diversified open-end investment company.

● **Smith, Inc., Fargo, N. D.**
March 18 (letter of notification) 4,000 shares 6% cumulative preferred stock ($25 par). Price, par. For general working funds. No underwriting.

● **Soft Water Finance Co., Pueblo, Colo.**
March 17 (letter of notification) 100,000 shares of common stock ($1 par). **Price**—$2 each. For equipment and supplies. No underwriting.

● **Solvay American Corp., New York (4/7)**
March 19 filed 200,000 shares ($100 par) cumulative preferred stock. Price by amendment. **Underwriters**—Lazard Freres & Co. and Harriman Ripley & Co., New York. **Proceeds**—To buy 297,897 shares of Class A stock of Wyandotte Chemicals Corp. at $42.80 each, and for general funds. **Business**—Holding company for chemical firms.

South Carolina Electric & Gas Co.
Dec. 2 filed 80,858 shares ($50 par) cumulative convertible preferred and 404,293 shares ($4.50 par) common for sale, and 687,293 shares reserved for conversion of preferred. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Shares initially will be offered for subscription by company's common stockholders, the preferred on a 1-for-10 basis and the common on a 1-for-2 basis. Unsubscribed shares will be offered publicly. Price by amendment. **Proceeds**—Proceeds together with other funds will be used to purchase all of the outstanding common of South Carolina Power Co. from the Commonwealth & Southern Corp.

Southern California Gas Co. (5/4)
March 16 filed $15,000,000 3¼% first mortgage bonds, due 1978. **Underwriters**—Names by competitive bidding. Probable bidders. Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Harris, Hall & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To reimburse treasury for expenditures made to expand properties. Expected around May 4.

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. **Bids**—Bids for purchase of the bonds will be received by the company at Room 934—810 South Flower Street, Los Angeles, Calif., up to 8:30 a.m. (PST) on April 6.

● **Southern States Iron Roofing Co., Savannah, Ga.**
March 23 filed 40,000 shares of 5% cumulative convertible preferred stock ($25 par) and 80,000 shares ($1 par) common stock, to be reserved for conversion of preferred. **Underwriters**—Equitable Securities Corp., Nashville, Tenn., and Clement A. Evans & Co., Inc., Atlanta, Ga. Price by amendment. **Proceeds**—Corporate purposes and debt payment. **Business**—Roofing and prefabricated buildings.

● **Suburban Gas Service, Inc., Ontario, Calif.**
March 22 filed $500,000 12-year 6% series sinking fund debentures, due March 1, 1960, with purchase warrants attached for the purchase of 50 shares of common stock ($1 par). **Underwriters**—Lester & Co. and Wagenseller & Durst, Inc., Los Angeles. **Proceeds**—To purchase the California Butane Co. **Business**—Utility.

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. **Bids**—Bids for purchase of the securities will be received by the company up to 11 a.m. (EST) March 29 at 2 Rector Street, New York.

● **Texas Gulf Producing Co., Houston, Texas**
March 15 (letter of notification) 11,952 shares ($1 par) common stock, to be issued in exchange for 41,832.5 shares of capital stock in DeLarge Oil Co. on the basis of one Texas Gulf share for each 3½ shares of DeLarge stock. No underwriting.

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.

● **Trans-Marine Oil Refining Corp., South Milwaukee, Wis.**
March 19 filed 850,000 shares ($1 par) common stock. **Price**—$1 each. **Underwriter**—Distribution by company. **Proceeds**—To build and equip machinery. **Business**—Refining of crude oil.

● **Treasure Mountain Gold Mining Co., Denver, Colorado**
March 16 (letter of notification) 50,000 shares of common stock. **Price** — 50¢ each. For mining costs and equipment. No underwriting.

● **Trevorton Water Co., Harrisburg, Pa.**
March 23 (letter of notification) $40,000 4% first mortgage bonds, due April 15, 1973. To be purchased by Merchants & Business Men's Mutual Fire Insurance Co., Harrisburg. Refund $35,750 first mortgage 4% note; pay $5,000 5% demand note; pay 1,250 4½% demand notes held by Engineers Waterworks Corp.

● **Triplex Corp. of America, Chicago**
March 16 (letter of notification) 10,000 shares ($10 par) cumulative 5% preferred shares and 10,000 common shares. To be offered in units of one preferred and one common share for $10. For expansion. No underwriting.

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. **Bids**—Separate bids for the purchase of the securities will be received by the company up to noon (EST) March 29 at 2 Rector Street, New York.

Virginia Electric & Power Co. (4/6)
Feb. 17 filed $11,753,800 convertible debentures due 1963. **Underwriter**—Stone & Webster Securities Corp., Boston. **Offering**—Offered for subscription by common stockholders of record March 15 at rate of $100 of debentures for each 25 shares held. Rights expire April 5. **Price**—Par. **Proceeds**—For construction expenditures, etc. Issue of $10,000,000 3% 1st and ref. bonds, series F, due 1978, offered March 17 by White, Weld & Co and associates at 100.99 and interest.

● **Western World Industries, Inc., Salt Lake City**
March 15 (letter of notification) 40,000 shares of common non-assessable stock (20¢ par). **Price**—50 cents a share. For mining tools and development costs. No underwriting.

Wilson-Jones Co.
Feb. 25 filed 32,937 shares of common stock (par $10). **Underwriters**—None. **Offering**—Offered for subscription by stockholders of record March 24 in ratio of one new share for each eight shares held. Rights will expire April 30. **Price**—$12 per share. **Proceeds**—Plant additions and purchase of securities and assets of other companies.

● **Wisconsin Michigan Power Co., Milwaukee, Wisconsin**
March 22 filed $14,000,000 first mortgage bonds, due 1978. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Blyth & Co., Inc.; Glore, Forgan & Co., and Harriman Ripley & Co., Inc. (jointly); Shields & Co.; White, Weld & Co. and Kidder, Peabody & Co. (jointly); Harris, Hall & Co. (Inc.) and The First Boston Corp. (jointly); Dillon, Read & Co. Inc. **Proceeds**—Proceeds together with $1,000,000 from bank loans and $1,000,000 from the sale of common stock to Wisconsin Electric Power Co., will be used to redeem $12,500,000 of 3¾% of first mortgage bonds at 102¼% and to repay the Central Hanover Bank & Trust Co. and Marshall & Ilsley Bank $200,000 in bank loans.

● **Workers Finance Co. of North Bergen, N. J.**
March 18 (letter of notification) $150,000 6% cumulative deferred debentures, due in 20 years from date of issue. **Price**—Par. **Underwriting**—None. Corporate purposes.

Prospective Offerings

● **Chesapeake & Ohio Ry. (4/7)**
Company will receive bids up to noon (CST) April 7 for the sale of $5,500,000 equipment trust certificates, to be dated April 15, 1948 and due annually April 15, 1949-1958. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. and Lehman Bros. (jointly); Blyth & Co., Inc.; Harris, Hall & Co. (Inc.).

Chicago, Milwaukee, St. Paul & Pacific RR. (3/29)
The company has issued invitations for bids to be received before noon (CST) March 29 for $2,640,000 equipment trust certificates. Certificates will be dated April 1, 1948, and mature in 20 semi-annual instalments from Oct. 1, 1948 to April 1, 1958. Probable bidders include: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kuhn, Loeb & Co., and Blyth & Co. (jointly); Harriman, Ripley & Co, and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.); Kidder, Peabody & Co., and Dick & Merle-Smith (jointly).

● **Commonwealth Edison Co., Chicago**
March 22, in annual report stockholders were informed company will require $100,000,000 of new financing "in due course" to complete its $360,000,000 expansion program, about $300,000,000 of which remains to be completed in the years 1948 to 1951, Charles Y. Freeman said that "no definite program for financing has as yet been formulated, but it is expected that steps will be taken in this direction in the not too distant future."

● **Consumers Power Co.**
March 23 reported company may be in market this year with $15 to $20 million new securities, the nature of which remains to be determined. Probable bidders: Morgan Stanley & Co.; Harriman Ripley & Co., and The First Boston Corp. (jointly); Lehman Brothers.

● **Gamble-Skogmo, Inc.**
April 8 stockholders will consider a proposal to authorize 150,000 shares of new preferred stock (par $50) issuable in series, and to increase the authorized common stock from 2,750,000 to 3,500,000 shares. The directors have not determined when any public offering of the preferred stock would be made, but work is already under way in connection with a possible issue of a convertible series in an amount not yet determined. Goldman, Sachs & Co.; Merrill Lynch, Pierce, Fenner & Beane and Piper, Jaffray & Hopwood are expected to head any public offering of the shares.

● **General Public Utilities Corp.**
The 1947 annual report estimate cash requirements of $74,600,000 for new construction. Of this, $11,900,000 will be financed through preferred stock or bank loan, $18,700,000 through first mortgage bonds and $7,000,000 through common stock, or contributions by holding companies.

● **Kansas Gas & Electric Co.**
March 16 American Power & Light Co. asked SEC permission to sell publicly 250,000 shares of its Kansas holdings. It has also requested to be exempt from the competitive bidding rule. Probable bidders: Dillon, Read & Co. Inc.; Blyth & Co., Inc., and The First Boston Corp.

● **Masco Screw Products Co.**
March 17 company plans issuance of about 150,000 shares of common stock (par $1) late in April, to be offered for subscription by stockholders. Proceeds would finance recent acquisitions and moving of plant.

● **Morris Plan Investors Corp.**
Directors have voted to increase authorized capital stock by $250,000, which will be offered to stockholders pro rata. Proceeds would be used to purchase additional capital stock of Morris Plan Co. of Calif., a subsidiary.

● **New York State Electric & Gas Corp.**
March 24 company has application pending before New York PS Commission for authority to issue $10,500,000 bonds and $6,000,000 of preferred stock. New securities are to be sold through competitive bidding. Proceeds would be used to finance construction. Probable bidders include: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp.; Harriman, Ripley & Co.; Hemphill, Noyes & Co. and Drexel & Co. (jointly); Blyth & Co., Inc. and Smith, Barney & Co. (jointly).

Pennsylvania RR. (3/31)
Bids for the purchase of $10,995,000 equipment trust certificates will be received up to noon (EST) March 31, at office of Geo. H. Pabst, Jr., Vice-President. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kuhn, Loeb & Co. and Blyth & Co., Inc. (jointly); Harriman Ripley & Co. and Lehman Brothers (jointly); The First Boston Corp.

● **Southern Natural Gas Co., Birmingham, Ala.**
March 22 asked SEC for permission to sell $28,000,000 of first mortgage pipe line sinking fund bonds, due 1968, and $11,550,000 of 2½% serial notes. Bonds to be offered under competitive bidding. Probable bidders include: Blyth & Co. Inc. and Kidder, Peabody & Co. (jointly); Halsey, Stuart & Co. Inc.; The First Boston Corp. Proceeds will be used to construct additional facilities.

● **Sunray Oil Corp.**
March 22, reported corporation has been negotiating with investment bankers for a public offering of convertible preferred stock to raise between $9,400,000 and $16,800,000. Corporation has not decided specifically on what the money is to be spent, but it listed as possibilities the buying and development of unexplored and proven oil lands, buying the securities of other producing companies and expansion of Sunray's refining and transportation facilities. Stockholders on April 27 will be asked to increase the authorized common stock from 5,000,000 to 8,000,000 shares and to split the preferred stock four-for-one.

● **United Air Lines, Inc.**
April 13 stockholders will vote on a proposal to increase the authorized cumulative preferred stock from 94,968 to 300,000 shares, and increase from 2,500,000 to 5,000,000 shares of the authorized common stock. W. A. Patterson expressed the belief the company should be in a position to raise additional capital in 1948 if market and other conditions permit. Traditional underwriter, Harriman Ripley & Co., Inc.

● **Wayne Pump Co.**
B. F. Geyer, Chairman, states plans are being discussed for issuance, through underwriters, of 60,341 shares of common stock. Proceeds would be used for working capital.

Report Success With Radioactivity on Crops

Pregel Brothers, executives of Canadian Radium and Uranium Corporation and International Rare Metals Refinery, Inc., have launched program for improving crop yields by application of radioactive materials. Tests reported successful. Plant operated at Mt. Kisco, N. Y., for production of radioactive materials for medical and industrial uses.

The research program in the direct stimulation of agricultural crops by radioactivity, announced by the Atomic Energy Commission and the Department of Agriculture, will continue research launched several years ago by the Canadian Radium and Uranium Corporation and the International Rare Metals Refinery, Inc., both of New York.


Dr. Boris Pregel.

Sixty-three experimental plantings on a variety of crops have been sponsored by these corporations since 1944 at agricultural stations and experimental farms all over the United States. An analysis of the results of these test programs indicates that minute quantities of radioactive materials applied to the soil affect favorably the yield of crops, the size and quality of the fruit and vegetables, and the rate of maturity. In one case an increased yield of 92% has been reported. The most significant results have been with vegetables, especially peas, cucumbers, tomatoes and sweet potatoes.

The purpose of the present program is to confirm the results of the previous experiments both under laboratory conditions and in actual field trials. Parallel to the government programs, the companies will continue to carry on field tests and research with the cooperation of commercial fertilizer companies and planters. The emphasis of the present projects is to determine the optimum dosage and the conditions under which the best results will be obtained. The dosage indicated for one acre is approximately 1/10,000 of an ounce of radioactive material in a neutral carrier. The materials which will be used in these experiments are non-fissionable radioactive compounds prepared by the companies.

Boris Pregel, President of Canadian Radium and Uranium Corporation and International Rare Metals Refinery, Inc., and his brother Alexander Pregel, Vice-President of both companies, began their work on the application of radioactivity to agriculture in France long before the war. The Pregel brothers were both active in the refining of radium and the development of medical and industrial applications for radioactive products. Their work in the agricultural field during 30's led to the development of a product which had been tested and prepared for commercial distribution just before the Germans invaded France. The Pregels escaped from Paris the day the Germans entered and made their way to the United States where they worked on problems connected with the Manhattan Project. The Smyth Report on the history of the atom bomb credits the Canadian Radium and Uranium Corporation with furnishing the materials for the earliest experiments on nuclear fission at Columbia University, experiments which led to the building of the first chain reaction pile.

The Canadian Radium and Uranium Corporation is engaged in the processing of natural radioactive materials, especially radium, and the research into applications of radioactive substances for medical and industrial use. The International Rare Metals Refinery, Inc., owns the only industrial refinery of natural radioactive materials in the country. Its plant in Mt. Kisco, N. Y., produces radium, polonium and a variety of luminous radioactive materials for the medical profession and a variety of industrial uses.

Western Mining Group Head Wants Free Gold Market

At a meeting of the Executive members of the Statewide Mining Committee, held in Sacramento, Calif., on March 5, J. P. Hall of Auburn, Calif., President of the Western Mining Council, Inc., an affiliation of Western mining groups working for the expansion of western mining, disclosed a new monetary plan which will be submitted to Senator Pat McCarran of Nevada and Representative Clair Engle of Red Bluff, Cal. for consideration by Congress. According to Mr. Hall:


J. P. Hall

"We must continue to have gold as the basic element of the nation's monetary system, and there is no other course for all other nations, especially those depending upon loans from the United States or the International Monetary Fund. The weakness of the currencies of all nations with little or no gold bears this out.

"It is now admitted by all that the higher prices paid for gold in many foreign countries are in U. S. dollars. However, the American gold producer, held down by excessive taxation and increased costs, is forbidden the advantages of the foreign market. No other industry is in the same category.

"The spread of U. S. gold in foreign marts will aid the recovery of those nations and stabilize the world gold price now running from $35 per fine ounce to over $100. As stabilized price will have the effect of bringing out of hiding Europe's hoarded gold. Hoarding will cease when the hoarders get in exchange an equivalent in value. Breaking the gold hoard, in this nation as well as in Europe, will also have a deterrent effect on communism.

"Feeling as we do about the situation, our State-Wide Mining Committee has recommended to Congress:

"(1) A world free gold market without the necessity of an export license;

"(2) Restoration of the people's right to hold gold; and

"(3) Continuance of the U. S. Treasury purchase price of $35 per fine ounce.

"Treasury Secretary Snyder has always held that any raise in price would fall as an extra load on the American taxpayer. It will be noted that the above plan will not only not affect the taxpayer, but also will correct monetary conditions abroad, thus reducing the amount of necessary aid by way of loans and the Marshall Plan."

Chile Announces New Plan on External Bonds

The Republic of Chile announced on March 24, the basis of a new readjustment plan to the holders of its external bonds issued in dollars, sterling, and Swiss francs following negotiations with the Foreign Bondholders Protective Council, Inc., of New York, the Council of Foreign Bondholders in London, and the Swiss Bankers Association. The Council has always considered the 1935 plan of service offered under Law 5580 as unsatisfactory, and has repeatedly urged the Chilean authorities to make a better service plan with definite interest rates and maturity date. The readjustment plan, as now proposed, is a recognition on the part of the Chilean authorities of the need for improved service on the external bonds of the Republic. The plan will be submitted promptly to the Chilean Congress and, after appropriate measures have been taken, a further announcement will be made.

Under the new readjustment plan it is proposed that there will be a new issue of 46-year dollar bonds of the Republic of Chile exchangeable on a par for par basis for the presently outstanding bonds, the new issue to bear interest at 1½% for 1948; 2% for 1949 and 1950; 2½% for 1951, 1952 and 1953; and at 3% thereafter; with a 1% sinking fund estimated as sufficient to retire the new issue by maturity. The new bonds will not be secured, but the Chilean Government will agree that if any liens are hereafter created on copper, iodine or nitrate revenues, to secure any external debt, the new dollar bonds will thereupon share in such lien *pari passu* with other creditors.

Among other things the new plan will provide that if, after Jan. 1, 1948, more favorable treatment is accorded to any Chilean external loan or bond than is offered to holders of dollar bonds under the new plan, the Republic of Chile will extend such more favorable treatment to the new dollar bonds.

Past Due Interest—Bondholders who have not assented to Law 5580, but who accept the new readjustment plan when offered, will be issued non-interest-bearing certificates to the extent of payments offered under that Law. Furthermore, bondholders who assented late to Law 5580 will be offered non-interest-bearing certificates to the extent of payments under that Law which were surrendered by them at the time of their assent, regardless of whether or not they still hold such bonds. Coupons on bonds assenting to the new plan that are dated three to three and one-half years prior to the year of such assent, will be cancelled.

The Foreign Bondholders' Protective Council considers that the proposed plan of the Republic of Chile for adjustment of its dollar bonds offers material improvements, including a service on the bonds greater than at present or otherwise in prospect. When the Republic makes a formal offer on completion of the necessary legislative and other formal measures the Council will recommend acceptance by dollar bondholders.

Schedule of Future Payments—During the years 1948-1953, inclusive, the new dollar bonds will share with all other bonds of the external funded debt in a general amortization fund, in an annual amount in dollars of $2,531,000, a sum equal to 1% of the debt outstanding at Dec. 31, 1947, converted at current exchange rates. The fund will be applied semi-annually to amortization of any of the external bonds of Chile, but at least a proportionate amount of the amortization fund must be applied to amortization of dollar bonds assented to the new plan.

Commencing Jan. 1, 1954, Chile will pay total service in the amount of 4% of the aggregate principal amount of new dollar bonds outstanding on Dec. 31, 1953. If under an extension of the proposal, additional new bonds should be issued under the plan, the amount of service will be increased in corresponding proportion. For amortization of the new dollar bonds annually commencing Jan. 1, 1954, there will be provided the difference between the total service requirements and the annual interest requirements on the new dollar bonds at the rate of 3% per annum. The fund will be applied to purchase of new dollar bonds when quoted below par, otherwise by drawings at par.

The Republic reserves the right to apply additional amounts to the amortization of bonds.

The formal offer to exchange outstanding dollar bonds for new bonds will remain open until June 30, 1951. It will be subject to extension by Chile.

DIVIDEND NOTICES

LEHIGH VALLEY COAL CORPORATION

March 18, 1948.

The Board of Directors of this Corporation has today declared a dividend of $3. per share on its $3. Non-Cumulative First Preferred Stock, 50c per share on its 50c Non-Cumulative Second Preferred Stock, and $3. per share on its Preferred Stock ($50 par value); all payable April 12, 1948, to stockholders of record at the close of business on March 29, 1948.

W. J. BURTON,
Vice Pres. and Secretary

a.c.f.

AMERICAN CAR AND FOUNDRY COMPANY

30 CHURCH STREET
NEW YORK 8, N. Y.

There has been declared a dividend of one and three-quarters per cent (1¾%) on the preferred stock of this Company outstanding, payable April 5, 1948, to the holders of record of said stock at the close of business March 29, 1948.

Transfer books will not be closed. Checks will be mailed by Guaranty Trust Company of New York.

CHARLES J. HARDY, *Chairman*
HOWARD C. WICK, *Secretary*

March 18, 1948

BRITISH-AMERICAN TOBACCO COMPANY, LIMITED

NOTICE OF PREFERENCE DIVIDENDS AND BRITISH INCOME TAX CERTIFICATES

The usual half-yearly dividends of 2½% on the Five Percent Preference Stock (less Income Tax) and of 3% on the Six Percent Preference Stock (less Income Tax) both for the year ending 30th September 1948 will be payable respectively on the 31st March 1948 and 30th April 1948.

Coupon No. 89 for the Five Percent Preference dividend must be deposited with the National Provincial Bank Limited, Savoy Court, Strand, London, W. C. 2, for examination five clear business days (excluding Saturday) before payment is made.

Stockholders who many be entitled by virtue of Article XIII (1) of the Double Taxation Treaty between the United States and the United Kingdom to a tax credit under Section 131 of the United States Internal Revenue Code can by application to Guaranty Trust Company of New York obtain certificates giving particulars of the rates of United Kingdom Income Tax appropriate to all the above mentioned dividends.

Stockholders of Six Percent Preference Stock, Five Percent Preference Stock and of Ordinary Stock may also by application to Guaranty Trust Company of New York obtain similar certificates giving particulars of the rates of United Kingdom Income Tax appropriate to any and all dividends on any such stock paid from January 1st, 1945 to April 30th, 1947.

BRITISH-AMERICAN TOBACCO COMPANY LIMITED

DIVIDEND NOTICES

The Weatherhead Company

A quarterly dividend of $1.25 per share has been declared by the Board of Directors on the outstanding Preferred Stock of the Company, payable April 15, 1948, to stockholders of record at the close of business on April 1, 1948.

MORRIS H. WRIGHT
Treasurer

March 11, 1948
Cleveland, Ohio

Edison

SOUTHERN CALIFORNIA EDISON COMPANY

Common Dividend No. 153
Cumulative Preference
Convertible Dividend

The Board of Directors has authorized the payment of the following quarterly dividends:

37½ cents per share on the Common Stock, payable April 30, 1948, to stockholders of record on April 5, 1948.

28 cents per share on the Cumulative Preference Convertible Stock, 4.48% Series, payable April 30, 1948, to stockholders of record on April 5, 1948.

O. V. SHOWERS, Secretary

March 19, 1948

"Call for PHILIP MORRIS"

New York, N. Y.
March 17, 1948

Philip Morris & Co. Ltd., Inc.

The regular quarterly dividend of $1.00 per share on the Cumulative Preferred Stock, 4% Series, and the regular quarterly dividend of 90¢ per share on the Cumulative Preferred Stock, 3.60% Series have been declared payable May 1, 1948 to holders of Preferred Stock of the respective series of record at the close of business on April 15, 1948.

There has also been declared the quarterly dividend of 37½¢ per share and an extra dividend of 25¢ per share on the Common Stock ($5 Par), payable April 15, 1948 to holders of Common Stock of record at the close of business on March 31, 1948.

Pursuant to a resolution adopted at the Stockholders' Meeting held on July 10, 1945, no Certificate representing a share or shares of Common Stock of the par value of $10 each is recognized, for any purpose, until surrendered, and a Certificate or Certificates for new Common Stock of the par value of $5 each shall have been issued therefor. Holders of Certificates for shares of Common Stock of the par value of $10 each are, therefore, urged to exchange such Certificates, for Certificates for new Common Stock of the par value of $5 per share, on the basis of two shares of new Common Stock $5 par value, for each share of Common Stock of the par value of $10.

L. G. HANSON, Treasurer.

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

The Chase National Bank of the City of New York has declared a dividend of 40¢ per share on the 7,400,000 shares of the capital stock of the Bank, payable May 1, 1948 to holders of record at the close of business April 5, 1948.

The transfer books will not be closed in connection with the payment of this dividend.

THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK

Albert J. Egger
Vice President and Cashier

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

Congress is sluggish in responding to the big new swing of the helm in foreign relations, and it is easy to understand why.

During the past several days there has been about as sharp a change in the course of relationships with Russia and the rest of the world as it is possible to imagine taking place in such a short time.

On the diplomatic front, the President and the State Department seem to have ended the general retreat against Russian pressure which has been under way for more than four years. The aggressive stroke of proposing the return of Trieste to the Italians is symptomatic of this. The Administration also is trying to crawl out of the impasse it got into by backing the partition of Palestine. And in the military as well as the diplomatic field, the Administration also has acted. It has proposed to support the 50-year, western European protective alliance against Russia.

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This is rather a sizable dish, and it is not difficult to understand that the Congress, and perhaps the country too, cannot down and digest it at one time.

Congress for a long time has been told that Russia does not want to fight during the next several years. Now the Administration is saying that maybe it is wrong in its calculations, that perhaps Russia will not wait until she has the atom bomb to fight, if necessary, to establish her hegemony over Europe. Or at any rate, if Russia doesn't start shooting, then maybe her little minions will get careless with their firearms.

* * *

Likewise Congress has been assured that economic aid alone would achieve the containing of Russian aggression through hired fifth columns. Now it is admitted that economic aid alone is not enough. The U. S. must prepare to mobilize some of its military power. Then that military power additionally will be used, if necessary, in support of western Europe. So the Marshall Plan has gone the way of lend-lease as a supposed strategem to secure the U. S. against entry into the war.

Small wonder that Congress is a little dizzy.

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Meanwhile, there was another vast possibility that would again practically stand the entire political situation on its ears. Certain well-informed individuals who in the past have been accurate in their forecasts of such things, say that President Truman, shortly before the Democratic National Convention, will announce his withdrawal.

Obviously, however, these sources point out, Mr. Truman cannot confirm and may even deny such an intention. The reason is that he feels it will weaken his prestige in his dealings with Russia and the rest of the world. The announcement by Senator Carl Hatch of New Mexico, a favorite of Mr. Truman, that the President has no intention of withdrawing, is indicative of this state of mind.

Any report at this time of the impending withdrawal of Mr. Truman from the Presidential race must be discounted, for so long as the President waits until the eve of the Democratic Convention, he will be free to decide to run if events materially change national sentiment toward him.

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There are other reasons for the stickiness of the Congressional reaction to the big swing to the bold front against Russia.

For one thing, the Administration has not told the story frankly of what is in store immediately or in the long run.

Immediately the President glossed over what his advisers believe is the key point in the message of last week. That point was that the U. S. shall extend, "by appropriate means, the support which the situation requires." The situation was the western European alliance. This is a commitment from the President of the U. S., the dominant agency of government in foreign affairs, that the U. S. will support militarily and in other ways necessary the western European defensive alliance.

Of course the U. S. cannot openly enter into an alliance with any country without the consent of Congress. Mr. Truman was understandably vague in getting this point across. There is an old notion, which began with George Washington, that the U. S. should not enter into entangling alliances. General Washington's advice on this score, contained in his farewell message, is read every year in Congress come February 22. This point of view is ingrained pretty well in the national feeling. Mr. Truman was hesitant about directly conjuring any such ghosts.

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Hence the failure of Congress to get this point is due directly to the unwillingness of Mr. Truman to spell it out.

Russia, however, probably will get the point. If Congress declines to take the military preparation measures proposed by Mr. Truman, then Russia receives notice that the U. S. commitment falls. This has not yet sunk in. When it has, Congress will realize that it has an embarrassing situation, even if it is not called upon directly to become a party to the western European alliance.

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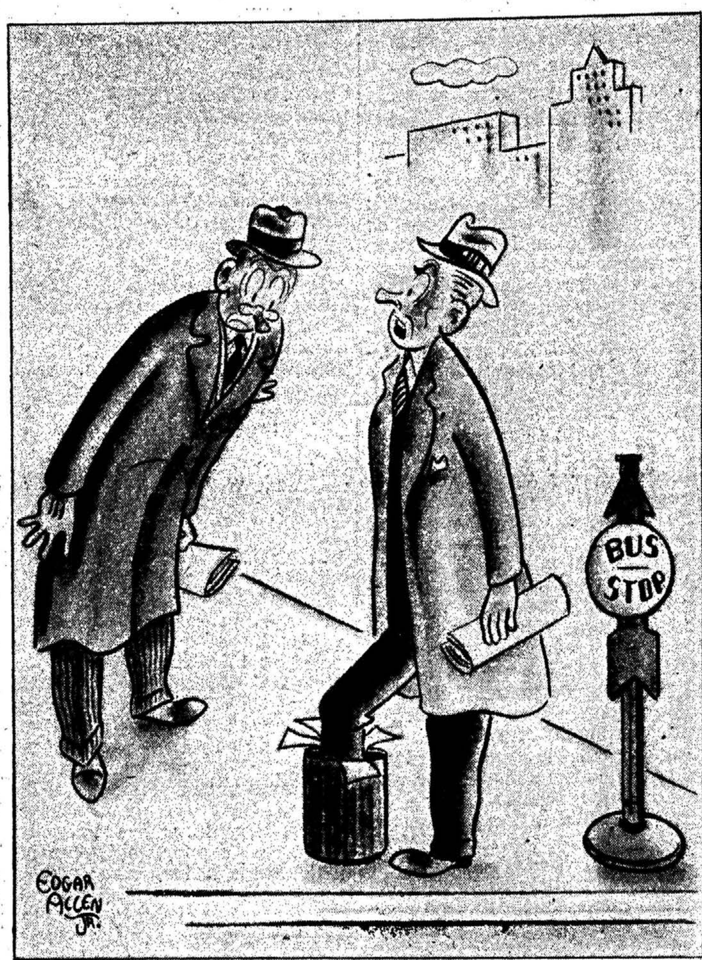
In the long run aspects, the Truman message heralds a violent change, ultimately, in the entire economy.

BUSINESS BUZZ



"I'll be darned if I'll stay in the office after five just to get a waste paper basket off my foot!"

As Congressmen see the message interpreted literally, all the U. S. has to do to show it will back western Europe is to mobilize perhaps several hundred thousand additional men in the armed forces. The private Congressional reaction is that these several hundred thousand additional soldiers are not going to stop Russia, if their intervention is called upon, with their fists.

What there is to be said for the manpower angle, Administration spokesmen will tell Congress, is that Russia actually will be impressed if this nation bestirs itself enough to begin to establish a military force. Joe Stalin knows that the U. S. A. is capable of producing the material of warfare. He knows, because he is using some of these self-same items of military merchandise, made in the U. S. A. Hence the official theory is that the Politbureau boys would sit up and take notice if they thought the U. S. was beginning to get the men who could use the weapons the country can produce so well.

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Ultimately, however, and before many months, the revival of the military manpower draft would have to be followed by at least a limited expansion in arms production. Compared to the figure of around a hundred billion a year during the late war, a limited armaments program doesn't sound like much. But even $10 or $15 billion, in the light of present capacity domestic production for civilian needs, would upset the domestic economy. Even the division of one million men into the armed services alone, with the dregs of labor now employed full time, would in itself create no inconsiderable shortages and bottlenecks.

Hence the implications of the President's new course mean much. They suggest an increase in deficit financing on a substantial scale. They suggest the reappearances of acute shortages as materials are diverted to war production. Ultimately in sight is rationing, allocations, price control, and some more of inflation. These developments mean more and higher taxes in time.

All these things are believed to be in sight, even if the approach is merely to "strengthen" the immediate U. S. military potential, even though the U. S. falls far short of full preparation for world-wide warfare.

* * *

Mr. Truman, of course, would not go so far as to suggest this. If he did Henry Wallace would get a vastly increased increment of popular support. While Mr. Truman did not point out these possibilities, other people do. The President has merely warbled the dawn of a new military day.

The present overwhelming attitude of Congress is that no matter where Harry Truman is from, they are from Missouri on this one. They want to be told a lot of things. They want it explained to them how UMT, which would take at least a year and one-half to produce a partially-trained recruit for the armed forces, is going to do any good in the present trading of diplomatic blows with Russia. They want to be told why it is that economic aid will not stop Russia when for so long the Administration has told them it will.

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So the present attitude of Congress is that it will move cautiously, and only after getting a great deal of information in substantial detail.

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In the background of the entire situation is its political effect. Whether they are correct or not, a great many key Congressmen express the view privately that the greatest "emergency" they can see in store is the prospective defeat of Mr. Truman in next fall's national election. They suspect that a great deal of the motivation behind the big new swing in national affairs was rooted in the belief that the President must have an emergency to aid in his reelection campaign. Whether this interpretation is unfair to Mr. Truman and just biased, it is at the moment held by a very considerable segment of Congressional opinion. Even the Democratic party regulars, for that matter, hope that Mr. Truman's new move of striking forth to contain Russia will quiet some of the revolt among southern elements of the party. This may be a forlorn hope; as yet there is little to bear it out.