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# The COMMERCIAL and FINANCIAL CHRONICLE

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## McCabe and Szymczak on Credit Control

By HERBERT M. BRATTER

**Washington observer gives views of Thomas B. McCabe and M. S. Szymczak regarding extension of credit controls. Szymczak urges reconstruction restrictions on use of credit, and McCabe favors less controversial methods of credit control than enforcement of Special Reserve Plan. McCabe favors controlling bank holding companies.**

WASHINGTON, D. C.—March 30—*(Special to the Chronicle)*: After pursuing a devious course under the direction of its Chairman, Senator Charles W. Tobey (R., N. H.), the Senate Banking and Currency Committee's inquiry into the fitness of Mr. Thomas B. McCabe to be a member of the Board of Governors of the Federal Reserve System last week finally got around to asking the nominee questions directly related to the work of the Board. And this week Senator Tobey, in pursuit of his declared objective of ascertain-

Herbert M. Bratter

(Continued on page 42)

## High Taxes No Longer Serve as an Inflation Deterrent

By WILLIAM F. HAUHART
Professor of Finance, St. Louis University

**Dr. Hauhart contends, because of the peculiar postwar phase of business cycle, high taxation is no longer an effective deterrent to inflation as during the war. Argues high taxes, by preventing accumulation of individual savings and by reducing volume of risk capital, are causing bank credit expansion, and thus intensifying inflationary trend. Sees danger in forcing business corporations to borrow for capital and advocates lower taxes as incentive to increased production.**

It is my purpose to use a somewhat different approach than is found most often in discussing the relationship of taxation to the problem of inflation. The basic elements involved have been well treated in previous articles in the "Chronicle" by both economists and business men. But further analysis will be worth while if thereby aid should be given toward a somewhat clearer understanding of the problem with which we are confronted at the present time.

Dr. Wm. F. Hauhart

One of our difficulties seems to be the notion, rather widely held, that high taxes will have an anti-inflationary effect under all circumstances at all times. Some insist that this no time even to talk of tax reduction. Others are unwilling to lower government expenditures which would naturally facilitate the lowering of

(Continued on page 31)

See PICTORIAL INSERT for pictures taken at 12th Annual Conference of the Central States Group of the IBA, Chicago.

## U. M. T.: Show of Force Or Lack of Sense?

By MELCHIOR PALYI
Professor, University of Wisconsin

**After explaining difficulties of invading Russia, Dr. Palyi points out long continued war with that nation would result in extinction of dollar's purchasing power, repudiation of national debt, and breakdown of nation's social structure. Holds man-force war is archaic, and urges technical training for youth, not military drilling. Sees fallacy in idea mass occupation of Russia is essential in war and contends aerial supremacy eliminates necessity of physical control. Concludes UMT is expensive and has no educational value.**

I

The some 220 divisions Hitler sent into Russia were probably the best organized, best trained, and best equipped the world had seen up to that time. Certainly, in comparison to the substantially larger Russian army, the Nazi might was superior in every way, including leadership. (Goebbels' memoirs indicate that the leadership was in the hands of old-school generals, not of Nazi politicians.) And what did it accomplish? Of course, without the six weeks lost in the summer of 1941 due to the Greek and Yugoslav suicidal resistance, without Allied air attacks on German communications and industries, and without lend-lease to Russia, the final outcome might have been different. Be that as it may; the fact is that such a flawless military machine of some four to five mil-

Dr. Melchior Palyi

(Continued on page 32)

*EDITORIAL*

## As We See It

### Economics, Defense and Relief

To an observer from Olympus it would, we are certain, seem a little strange to hear generally intelligent, and certainly sincere, men and women seriously and repeatedly asserting that gifts to foreign peoples, generous far beyond any historical precedent, and (now more recently, defense expenditures on a greatly enlarged scale) will be sufficient if not necessary to keep the wolf from our door — or in more popular language prevent the development of a depression with its long train of unemployment and hardship. Reactions in a number of markets and in some branches of business to such reasoning as this during the past week or two have been marked.

Conclusions of this sort appear to grow from several roots. One of them doubtless is recollection of the upswing in economic activity which followed our defense program in 1940 and our assumption of the role of the "arsenal to democracy" in that and the following year. President Roosevelt and his New Deal followers had been vainly trying to

(Continued on page 30)

# "Unfinished Business"

By C. E. WILSON*

President of General Motors

**Leading industrialist points out nation's "unfinished business" is indicated in shortcomings of the Taft-Hartley Act and Communist seizure of Czechoslovakia. Scores trade union monopoly power obtained through nationwide bargaining, and attacks attempts of labor organizations to control industries by extending scope of collective bargaining to include managerial function, as well as provisions for pensions, insurance and welfare work. Urges scope of collective bargaining be defined by law, and condemns Communist seizure of Czechoslovakia as indicating increasing threat to free peoples.**

When I accepted your invitation to be your speaker this evening I had in mind talking about the automobile industry, its problems and its responsibilities. Recent events have caused me to change my mind, and I am going to speak this evening on the subject of "Unfinished Business." The events that have caused me to change my mind are: (1) The strikes in the coal and packing industries; (2) Communist seizure of Czechoslovakia; (3) President Truman's speech to the Congress on March 17. The monopoly union strikes in the packing and coal industries remind me that the Taft-Hartley Act went only part way. While the majority of the Congress courageously worked out the best compromise possible under the circumstances, many of the problems the Act might have solved are still unfinished business. While the Act represents real progress and the majority of the people in the country clearly favor its provisions as far as they go, the Act still does not adequately protect workmen themselves and especially the public generally against the abuse of monopolistic union power such as is currently being evidenced in the coal industry.

C. E. Wilson

Monopoly union power exercised through industry-wide bargaining has already challenged the supreme power of government and, if sound corrective measures are not taken, this power threatens to develop to a point where it will destroy our free society.

Americans do not like monopolies or dictators of any kind. They do not like them in government and politics, in finance and industry, and it is becoming increasingly clear that they do not like them in labor either. Americans instinctively fear the loss of individual liberty through the abuse of power that a monopoly or any form of dictatorship creates.

The present industrial unions are the most powerful monopolies that have ever existed. They threaten the economic security of the nation. Those who think they have vested interests in monopolies do not give them up easily. They deliberately attempt to confuse the real issues by using catch phrases like "repressive legislation," "slave labor law," and similar expressions. Many reasons, some of them plausible on their face, have and will be advanced for perpetuating this present unrestricted power. In this, unions may be joined by individual employers and group of employers who think it is to their own self-

(Continued on page 30)

*An address by Mr. Wilson before the Warren Chamber of Commerce, Warren, Ohio, March 23, 1948.

# Have Full Mobilization Now!

By BERNARD M. BARUCH*

Chairman, War Industries Board, World War I

**Elder statesman of two world wars urges action be taken at once to implement both selective draft and universal military training as well as industrial mobilization. Cites errors in unpreparedness of past and says we must be fully armed and prepared so free peoples of world will ally themselves with us. Sees military training as mentally and physically helpful to trainees, and as creating better understanding of democracy by all segments of society.**

There is no peace. The United Nations was established to keep a peace which does not exist and therefore has not been able to function effectively. We now face the necessity of retracing at least partly those steps of scuttle-and-run which were taken immediately after the shooting ended.

That too hurried demobilization was born of the desire to bring our young men back home and of the belief that the mere cessation of hostilities meant peace and of the hope that the United Nations would become effective immediately. We have learned that making peace brings its own ordeals and trials. There is nothing automatic about it.

Bernard M. Baruch

While seeking to bring into existence the conditions which would give life to the United Nations, the American people have been forced to take on vast obligations throughout the world. They are growing obligations. They require economic assistance. They require our spiritual leadership. They also require the mobilization of sufficient military power so that the economic aid sent overseas is not hi-jacked and so that the voice of America will speak of courage and hope, not of fear and disaster.

### Strengthen America

It is against this background of the absence of peace that one must discuss the subject of Universal Military Training, which will affect so deeply the lives of our young men and the future.

The President has wisely requested re-enactment of Selective Service. It should be approved. A return to the draft cannot be considered a substitute for Universal Military Training. Whatever is done to provide the armed forces with the manpower they must have immediately the need for a permanent strengthening of our national security is not lessened. I favored Universal Military Traning in the years before the recent war—not by itself—but as one part of a program of American preparedness which, had it been adopted, would have kept Hitler from breaking loose.

Today Universal Military Training is even more urgent. In the past our measures of national defense always lagged behind the need. We waited to be shown. Not until war had been unloosed were we sufficiently convinced to act.

### We Must Prevent War

Today the necessity is to keep war from starting. So terrible are the destructive potentialities of modern instrumentalities of war, it is no longer good enough to punish an aggressor *after* he has begun a war. Preveting war requires buttressing our national security *before* the crisis is upon us.

(Continued on page 35)

*Testimony by Mr. Baruch before Senate Armed Services Commission, Washington, D. C., March 29, 1948.

# INDEX




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# The Reach for Power

**Practices in securities industry well defined by law, custom and usage long before statutory creation of SEC. Development of new doctrines by SEC criticized. This is a legislative function and not within the ambit of administrative powers. First Hughes case discussed in the light of its doctrine. Dealers act at their peril. No uniform definition of reasonable relation to market price has been reached. The scheme is another cog in SEC efforts at price control.**

Louis Loss, Chief Counsel of the Trading and Exchange Division of the Securities and Exchange Commission, recently addressed a meeting of the Stock Brokers' Associates of Chicago, choosing as his topic "The SEC and the Broker-Dealer."

Outlining the compass of his remarks, Mr. Loss said: "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 the broker-dealer and summarize their present status."

We strongly resent the advent of the Commission in the role of doctrinaire.

Long before the passage of the Securities Act which created the Securities and Exchange Commission, there was, and continues to be, a well defined body of law, custom and usage in the securities industry in connection with broker-dealer and customer relationship, whether that relationship be on the basis of acting as principal or as agent.

The laws dealing with fraud were fixed and clearly understood.

**Our idea of the function of the SEC is that of regulator and not of creator of new laws whether by rule, judicial interpretation, or new usages.**

Among other matters, Mr. Loss discussed the first Hughes case holding it to be 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 price.

Mr. Loss takes the attitude that this doctrine has nothing to do with limiting the amount of the dealer's profit. The logic of that claim is hard to follow.

He said "The 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."

"Another question which in the nature of things was left unanswered in the first Hughes case — and which the Commission, I would guess, is not likely to attempt to answer —is precisely what spread is reasonable in relation to the current market in all cases."

**What a disgusting mess! The securities industry is being told, in effect, that sales made in the over-the-counter market are made by dealers at their peril.**

This is the newly created doctrine of which the SEC boasts.

In one sense, Mr. Loss is correct that the doctrine—particularly when coupled with the "5% spread philosophy" of the NASD—has nothing to do with limiting profits.

Neither the doctrine of the first Hughes case nor the "5% spread philosophy" takes into account the operating costs and expenses of dealer-brokers. These are but arbitrary fiats in a program of price control which we have decried constantly and against which we have inveighed editorially.

Although Mr. Loss speaks of the "5% yardstick" as an NASD product, we choose to regard it as an SEC baby, the brain-child of the Commission.

We believe there is sound background for our point of view.

When oral arguments took place before the SEC, on the subject of whether or not the "5% yardstick" was a rule of the NASD and should, therefore, have been submitted to NASD membership for approval, counsel for a group of security dealers from many states in the Union hurled a challenge at the members of the Commission who were sitting in judgment at the hearing.

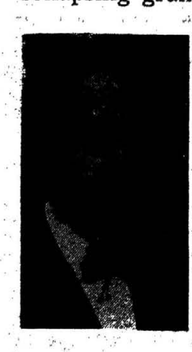
(Continued on page 29)

# Prices After Two Wars

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

**After explaining background of postwar price rises, Dr. Backman contends recent decline in food prices does not indicate basic inflationary pressures have been eliminated. Points out differences in price conditions at present with those following World War I, and contends government and not businessmen are responsible for high prices. Sees little possibility of impending break in general level of prices.**

Prices have been front page news continuously since the end of the war. Higher living costs, higher steel prices, gray market prices for automobiles, rising building prices, collapsing grain prices—these and many other headlines have become familiar to all of us.



Jules Backman

Unfortunately, most of the headlines until recently have dealt with higher prices. In discussions of these developments there has been a woeful lack of perspective. Two recent events furnish interesting illustrations. A rise in steel prices was denounced as inflationary even though steel prices previously had risen substantially less than had other prices and even though the rise in question added less than 1% to the cost of steel. Similiarly, the February decline in grain prices was widely heralded as the beginning of a postwar collapse in the price level without much emphasis being given to the immediately preceding rapid rise in these prices or to the reversal of the forces causing that earlier rise. Today, I would like to paint the backdrop against which price changes must be evaluated.

### Recent Changes in Prices

The rise in prices since the end of the war may be divided into three phases. First, there was the sharp rise attending the modification and then the termination of OPA in 1946. The official consumers' price index rose about 15% in 1946 with most of the rise taking place in the latter part of the year. This was followed by a period of relative stability in consumers' prices in the first half of 1947. Many students of prices were in agreement that the price level then prevailing reflected adequately the underlying inflation and that the immediate postwar peak probably had been reached. Then, in the Summer of 1947, there were three events which resulted in a further rise in living costs to new high levels in January of 1948. I refer to:

(1) The sharp reduction in our domestic corn crop. Until June, it had been hoped that the corn crop would total three billion bushels. However, the crop rapidly deteriorated and the final harvest was only 2.4 billion bushels. This lost 600 million bushels was a crucial factor in the renewed price rise after June. It was particularly important because of the second factor, namely:

(2) The grain crop failure in Europe. This development led to a greater demand upon our reduced supplies.

(3) The second round wage increases which inevitably meant higher prices. This was particularly important for railroads, coal and steel since increases in those prices act and interact one upon the other and create pressure upon the entire price structure.

The impact of these forces raised the level of consumers' prices from 157 in June, 1947, to 168.7 in January, 1948—a rise of about 7½%. The January level, however, was more than 25% above the level prevailing under OPA. About two-thirds of this rise in living costs has been due to the rise in food prices.

It is this background which must be kept in mind in appraising the significance of the decline in farm and food prices since the January peaks.

To a large extent, this decline in food and farm prices reflected a reversal of the factors which accounted for most of the price rise since last June. I refer to the improved outlook for our own grain crops, the reported improvement in European crops, and the development of a larger grain export surplus in Argentina and Australia than had been anticipated earlier. In addition, the quantity of grain fed to livestock last Fall fell below expectations and the amount of grain on the farm is reported to be larger than a year ago. This reversal in the food picture has been accompanied by a sharp decline in those prices. Depending upon the index used, wholesale prices of foods fell from 7 to 15% from the middle of January to the middle of February. Since the middle of February these prices have been relatively stable. Up until the middle of February retail food prices declined about 2½% with only moderate changes since that time. Largely as a result of this decline in food prices, the official consumers' price index turned down 1.3 in February.

In evaluating the significance of this decline it is important to keep in mind that we still do not know the size of the 1948 crops. The recent developments can be reversed or made more favorable. Moreover, there has been no reversal of the wage increases which helped to contribute to the rise in prices from June, 1947, to January, 1948. On the contrary, additional wage increases have taken place in some industries and there are widespread demands for still higher wages by many unions.

Similarly, although there has been a moderate reversal of the large wartime Federal budgetary deficits which represent the basic cause of inflationary price increases, such budgetary surpluses have thus far been very moderate in contrast to the accumulated deficits. As against the decline in inflationary pressure due to this budgetary surplus, however, there has been an expansion in bank credit for business loans with the consequent net increase in total deposits and money in circulation. Thus, an appraisel of the forces underlying the recent price declines does not indicate that the basic inflationary pressures have been eliminated or significantly modified. Let me hasten to add that the existence of this inflationary pressure does not mean that prices cannot decline whenever the price level outruns these basic forces. Nor does it mean that prices must move up to new stratospheric levels. I am not attempting to forecast the immediate outlook for prices. I am emphasizing that the underlying inflation is still with us.

### Past Postwar Periods

Many attempts to appraise the outlook for prices have centered around an examination of past postwar experiences. It is a fact that a chart of prices going back to 1800 shows four very high peaks, three of which were followed by very sharp price declines: The War of 1812, the Civil War and World War I. During these previous war and postwar periods, wholesale prices showed the following advances:

**War of 1812**—About 50% (104.9, 1926=100, in 1811 to 154.6 in 1814).

**Civil War**—116% (60.9 in 1861 to 132 in 1865).

**World War I**—145.5% (from 1914 to May 1920).

**World War II**—115% (from 1939 to January 1948).

Each of the three earlier advances was followed by very sharp declines. By 1816 the wholesale price level was lower than it had been in 1811. (1816—103.5; 1811—104.9).

**Civil War**—There was a peak of 132 in 1865 the index had declined to 97.7 by 1868 and averaged 82 to 84 in the early 70's. This was about 33% above the level prevailing just before the Civil War.

**World War I**—From May 1920 when the peak was reached, to January 1922, wholesale prices were cut almost in half. During the 20's they remained at a level about 40% above prewar.

More than 2½ years have elapsed since VJ-Day, and prices, with some exceptions, are still at postwar peak levels. A peak level of this duration is in sharp contrast to the experience after the earlier wars. Prices declined soon after the ending of the War of 1812 and the Civil War and reached their peak 18 months after World War I. By the time we had reached the 31st month following the Armistice in November 1918, a major part of the postwar price deflation had been completed.

Moreover, these earlier postwar declines were quite precipitous. We cannot ignore the fact that there never has been a slow or gradual decline from these stratospheric heights. Only time will tell if we are to reverse history this time.

Consumers' prices showed similar trends although the magnitude of the rise, and in turn the

(Continued on page 28)

*An address by Dr. Backman before the City Club, Cleveland, O., March 27, 1948.



# Sobering Realities Regarding Tax Burdens

By EDMOND E. LINCOLN

**Dr. Lincoln warns high portion of national income consumed by taxes will eventually lead U. S. to low living standards of many European nations. Foresees possibility of drop in U. S. national income from $200 to $150 billion, and points out in depression or adversity, government expenditures tend to increase. Holds top tax bracket well below 50% must be adopted to maintain our free enterprise system.**

Many small incomes and estates are even now free from all taxation. Several of our states have not yet imposed personal income taxes. Yet for the third year of peace, our Federal Government alone is collecting taxes at the following rates on the higher brackets:

Individual incomes, around 86½% beginning at $200,000 (and 50.35% at only $18,000); the top Federal tax bracket on net estates before credits is 77%; corporate net incomes over $50,000 are taxed at 38%. To all of the foregoing top rates there is in many cases an addition of several percentage points resulting from state taxes on the same incomes or estates.

As of the present time, our Federal, state and local governments are collecting around $56,000,000,000 annually in taxes of all kinds, or roughly close to 30% of the estimated national income "produced" in 1947 ($185,000,000,000 to $200,000,000,000 depending somewhat on the method of calculation).

In normal periods before the Second World War, our state and local governments collected in taxes around twice as much as did our Federal Government. Now, for the third year of peace, our Federal Government is collecting taxes in an amount about four times as high as the taxes collected by all of our state and local governments, i.e., for fiscal 1947 close to $45,000,000,000, as compared with around $11,000,000,000.

Federal tax rates and collections are holding up stubbornly, while state and local government taxes

**Leading Countries of the World: 1929-1930**

Estimated Ratio of Total Taxes of All Kinds to Estimated National Income Produced

| Country— | % of Taxes to Income |
|---|---|
| United States | 11.0% |
| Canada | 11.6 |
| New Zealand | 17.8 |
| United Kingdom | 20.7 |
| Australia | 21.9 |
| Switzerland | 12.7 |
| Denmark | 13.3 |
| Netherlands | 16.8 |
| Sweden | 16.4 |
| Norway | 18.8 |
| Argentina | 13.4 |
| Germany | 22.0 |
| France | 21.2 |
| Uruguay | 16.0 |
| Belgium | 18.0 |
| Spain | 14.5 |
| Irish Free State | 25.0 |
| Austria | 19.5 |
| Chile | 20.0 |
| Czechoslovakia | 14.1 |
| Finland | 18.2 |
| Italy | 16.0 |
| Cuba | 25.6 |
| Porto Rico | 11.4 |
| Hungary | 17.0 |
| Union of South Africa | 22.1 |
| Roumania | 12.7 |
| Yugoslavia | 12.7 |
| Japan (Proper) | 16.7 |
| Costa Rica | 22.4 |
| Greece | 27.5 |
| Poland | 16.4 |
| Venezuela | 20.5 |
| Algeria | 15.7 |
| Colombia | 17.8 |
| Russia (U.S.S.R.) | 28.8 |
| Egypt | 17.5 |
| Peru | 15.8 |
| Portugal | 23.7 |
| Bulgaria | 14.7 |
| Salvador | 16.4 |
| Brazil | 17.9 |
| Philippine Islands | 8.0 |
| Mexico | 26.5 |
| Guatemala | 15.3 |
| Bolivia | 19.0 |
| Ecuador | 20.0 |
| British India | 17.0 |
| Average of 48 Countries | 15.4% |

are bound to increase rapidly for the next few years, because of shifts in population as well as because of the extraordinary population growth during the present decade, and the resultant need for many new improvements and facilities, such as roads, schools, sewers, water supply, etc. Also, wages and salaries of Civil Service employees have almost doubled over the past 10 years.

Looking back a few short years, we find that in the prosperous period 1929-1930, the weighted average taxes collected by all governmental bodies in some 50 leading countries of the world amounted to little more than 15% of the estimated national income produced by those same countries. At the same time, in the United States the ratio was scarcely 11%, or little more than **one-third our present ratio.**

A few of the more backward countries levied taxes up to 25% or more on their national income. The communist and totalitarian state of Russia headed the list at about 29%, or **slightly under the present United States rate!** Greece was next, at 27.5%. Other very important high-tax countries some 17 or 18 years ago were Germany, at 22% of the national income; France, a little more than 21%; and Great Britain, just under 21%. Where are all these countries now? **Bankrupt or totalitarian!**

For long years experts and writers on public finance, based on the historical records, have assumed that no nation could long endure and be prosperous and free, with taxes as high as 25% of the national income. Further, any ratio exceeding 15% was formerly considered too high to be reasonable over an extended period; and any country with a ratio exceeding 20% seemed definitely headed for trouble.

What will, in due course, happen to the United States of America, unless we soon cut our taxes and our public expenditures to a point where the over-all "take" will be not more than 15%-20% of the national income produced in years of normally good, but not "inflated," business activity?

It is not commonly understood that a very mild and to-be-expected decline of 15% in industrial production, and of only 15% in our price level, which has more than doubled since 1940, would probably lead to a 25%-30% drop in our national income produced. We should, in fact, in the light of all past experience, be prepared for a much sharper drop within the next few years, on our present monetary standard.

At any rate, it would not be surprising to see our present national income (according to recent "adjusted" computations) drop from a current level approaching $200,000,000,000 per annum to a level some place between $125,000,000,000 and $150,000,000,000. Even the extreme low of such a decline would leave our national income at a point fully 25% higher than any pre-war year in our history.

It should further be noted that in times of depression or adversity, public expenditures, under

(Continued on page 26)

# The State of Trade and Industry

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

Labor-management disputes and difficulties encountered in obtaining adequate supplies of some materials worked to hold down industrial production the past week.

The setback to total output, however, was slight and many industries continued to operate at a level moderately above that of a year ago.

Speedy settlement of the bituminous coal strike appeared remote last week and further restrictions on railroad transportation were imposed in order to conserve fuel. Should the national coal strike situation remain unaltered the current week many steel producers may be forced to shut down their mills.

The total effects stemming from the action of the soft coal miners in leaving the pits may prove to be a very grave blow to our national economy. According to the magazine "Steel," "steelmaking operations are falling under the impact of the coal strike, and should the mine tieup continue for another two weeks there is a distinct possibility ingot output may drop below 60% of capacity." For the week beginning March 22, 1948, the scheduled operating rate of steel companies having 94% of the steel-making capacity of the industry was 95.7% of capacity.

In terms of total tonnage of bituminous coal losses as a result of the strike the U. S. Bureau of Mines reports that production in the week ended March 20, 1948 dropped to 4,360,000 tons from 13,314,000 tons in the previous week, or a decline of about 67%.

* * *

Of great interest to many taxpayers was the action taken by the U. S. Senate on Monday and the House on Wednesday of last week in approving income tax reductions by margins sufficiently large to overcome the expected veto by President Truman. The President must act on the measure before the deadline on April 5, and failing to do so, it will become a law without his signature. The benefits that will accrue to the taxpayer by the measure becoming a law will in turn result in an estimated loss of $4,800,000,000 in revenue to the government.

In the matter of Federal taxation, with the passing of March 15, the final day for filing Federal income tax returns, it is found that as a result of high business activity and a record national income the budget surplus of the government has soared beyond $7,000,000.000, an all-time record figure. The flow of income tax payments since March 15 accounted for the new peak.

* * *

Considerable rise in retail volume occurred in most sections of the country during the week as consumers rushed to complete their pre-Easter shopping. Total dollar volume in the period ended on Wednesday of last week was slightly above that of a year ago, with unit volume fractionally under that of the corresponding week in 1947. Resistance to high prices and poor quality continued to be strong.

A usual pre-holiday drop in new order volume reduced total wholesale volume moderately during the week, though dollar volume was very close to the high level of a year ago. Re-orders of Spring merchandise continued to be numerous. Buyers remained price-conscious and were hesitant in regard to large orders and long-term commitments.

**STEEL OUTPUT AT 89.4% OF CAPACITY DUE TO COAL STRIKE**

The coal strike has seriously crippled the steel industry and it is now doubtful that the industry will better last year's steel production of 85 million tons, states "The Iron Age," national metalworking weekly, in its current report on the steel industry. It had been hoped that close to 90 million tons would be produced this year.

The current loss of steel along with additional losses which will result from the strike make rigid government allocations of steel similar to wartime controls seem certain.

**In the event John L. Lewis should heed a Federal injunction and have his miners return to work soon, the threat of another strike still confronts the industry.**

If after the 80 days non-striking period required under the Taft-Hartley Law there is no agreement, the coal miners could walk out again and stay out as long as their leader ordered them to without government interference. The end of the 80-day period would come just about the time the present coal pact officially ends, the magazine notes.

What the coal strike will do to steel consumers in the third quarter of this year is only now sinking into the minds of those users who had laid ambitious plans to turn their backlogs into finished manufactured products. Marshall Plan requirements, the probability of a record peacetime defense program and the large scale drum-beating by the oil industry for much needed steel must all be considered in coping with the problem of steel demand.

**In the face of all this, government officials in high places are assuming that rigid controls over steel output and distribution are necessary, according to "The Iron Age."**

They figured that ERP could be handled in normal peacetime fashion, but the President's message on defense needs and the coal strike changed all that thinking. Some top steel heads privately expect strict government controls before the year is out.

At the present moment various defense agencies are inquiring for large quantities of steel products. These orders will mean less plates, pipe and bars for domestic steel fabricators. Aircraft makers have also stepped in with inquiries which will bring to a new tautness the alloy steel bar outlook. Deliveries on this product were three to four weeks early this year, this trade authority points out, but promises today run from three to four months.

The result of current defense inquiries and probable future order volume, the magazine concludes, has led several large steel

(Continued on page 33)

# Observations . . . .

By A. WILFRED MAY

## BRAINS TRUSTING—1948 STYLE

President Truman's Council of Economic Advisers may not be inciting as much spoofing as did the Frankfurter-generated Brains Trusts which operated under President Roosevelt, but its implications are far more important. Domestically its official status has, justifiably or unjustifiably, clothed its activities with far-reaching political and economic implications. From abroad it is reported that the body's economic pronouncements, voiced directly or through the President, have recently been exercising the most marked effect on European electorates.


A. Wilfred May

There is constant evidence of the almost unanimous confusion of our public over this body's legal status and functioning. This of course has not been lessened by such current happenings as the Council's verdict pronounced on the highly-controversial price adjustment by the steel industry, or by this week's reported announcement of its intention to issue privately "Economic Indicators" to a few of the government elite.

Discussion of the Council's doings in the phase of ideology and economic theory—that is, the "substantive" content of its reports—could not possibly be confined to the maximum length of an article. Moreover the unique "procedural" phases of the Council—that is, its status and manner of functioning in the community—are harboring far greater significance. Hence we shall confine this discussion to the latter.

**The Legislative Set-up**

First let it be understood that, under the *Employment Act of 1946* the President himself (and not the Council) is charged with submitting an economic report to the Congress within 60 days after the beginning of each regular session. This document, called "The Economic Report," setting forth the levels and trend of employment production and purchasing power in relation to the stated goal of full employment; a review of the relevant economic program of the government; and legislative recommendations; when submitted to Congress is immediately referred to its especially-established Joint Committee on the Economic Report. This Congressional Committee is charged with studying the various matters contained therein, with recommending the means of coordinating programs, and with guiding the Congress.

Additionally the statute creates in the Executive Office of the President "a Council of Economic Advisers" of three members appointed by the President, and subject to confirmation by the Senate. These individuals are charged with assisting the President in the preparation of his above-cited Report, with gathering timely economic information, with appraising the Federal Government's own programs and activities in the light of their employment-stimulation, with recommending and developing national economic policies, with furnishing reports definitely requested by the President, and with making a report to the President annually.

**President Always Has Freedom of Consultation**

It assuredly is beyond criticism for the President of the United States to get economic information and opinions to whatever extent and from whatever sources he wishes, be it the NAM or the "Daily Worker." President Roosevelt at various times consulted Lord Keynes, the warbling Tom Corcoran, Joseph P. Kennedy, John Lewis, Cordell Hull, Sumner Welles, Isador Lubin, Mayor Hague, B. M. Baruch, etc., etc., etc., but the opinions and suggested policies which he uttered were as his own, standing on his own two feet of responsibility.

At the present time, on the other hand, the set-up of our new statutory Brains Trust is confusing the nation as to whether the President is merely transmitting fool-proof facts from a group of scientific experts, whether the Council is functioning as a rationalizer of the President's notions, or whether perhaps the President and the Council together are expounding jointly-held theories.

**The Political Implications**

There is moreover the very great suspicion that the Council can too easily be used as a device to further *political* aims; as another facile means of milking the respectability of the economics profession to propagandize the electorate, and of supplying impressive window-dressing for political aims.

Defenders of the Council's *raison d'etre* maintain that it fills the alleged need for a mechanism by which the various government actions and programs can be authoritatively reviewed.

No one should think of *any* economist as an objective individual issuing factual words of wisdom from an ivory tower. But economic thinking can at least be free from *political* coloration of its indi-

(Continued on page 37)



## 'Duke' Hunter Reopens New York City Office

Wellington "Duke" Hunter announces the reopening of a New York office for Hunter & Co. 50 Broadway, New York City. The firm previously was located at 42 Broadway and has maintained an office in Saugerties, N. Y. for several years. Mr. Hunter has recently been acting as Vice President of Aetna Securities Corporation.


Wellington Hunter

## Peter Morgan Admits McDonnell as Partner

Peter Morgan & Co., 31 Nassau Street, New York City, announce that John R. McDonnell has been admitted as a general partner in the firm. Mr. McDonnell has been with the firm as head of the trading department.

## New Ira Haupt Phone

Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange, announce that the telephone number of their main office has been changed to WOrth 4-6000.

## Schwabacher Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Robert Wilber has joined the staff of Schwabacher & Co., 600 Market Street, members of the New York and San Francisco Stock Exchanges.

# Who Killed Cock Robin?

**By THEODORE PRINCE, L. L. M.***

**Economist and Investment Counsel, pointing out decline in demand for equity securities in face of heavy industrial capital requirements, lays much of blame for this condition to severe stock margin requirements of Federal Reserve Board. Holds margin restrictions, by reducing available equity capital to business corporations, is an inflationary force.**

President Truman in his State of Union address to Congress on Jan. 7, 1948, stated: "We are today far short of the industry capacity we need for a growing future. At least $50 billion should be invested by industry to improve and expand our productive facilities over the next few years, but this is only the beginning."

Theodore Prince

With the deft economic schizophrenia to which we are now becoming accustomed, the possibility of raising this much needed amount of capital is negated by the Administration which wants it. It may be a far cry to say, that the so-called 75% "margin" rule of the Federal Reserve restricts and impairs the ability of our 412,000 business corporations to secure the capital President Truman claims they need—but, is it? Let us see.

**Industrial Capital Via Equities**

The need for increased investment in equities for the capital requirements of our business corporations is of extreme urgency in the goal of additional production. These 412,000 corporations secured $4.5 billion capital in 1947 (the highest since 1927/28/29) $3.5 billion in 1946 and $1.2 billion in 1945; in 1947 these corporations obtained $3.3 billion by bonds and notes and secured $1.2 billion in equity capital. This was the highest amount of securities issued since 1929 when $2 billion was issued in bonds and notes and $6 billion was obtained through equity capital. It should be noted that in 1945, equity financing furnished 50% of the capital obtained as against only 25% in 1947; further, during the six years from 1940 through 1945 these corporations secured from the issue of equities and bonds a total of only $150 million more than the $4.5 billion secured in 1947.

From 1930 to 1938 these corporations earned, after taxes, $12.3 billion and paid out $32.3 billion in dividends and had a deficit of $20 billion. From 1939 through 1947 dividends paid were $42.7 billion out of $88.9 billion earned, after taxes, leaving $46.2 billion as surplus which has yet to meet the impact of inventory losses and decline of future inventory profits. Thus, of the $17 billion of reported corporation "profits" for 1947 no less than $5 billion is considered inventory profits, leaving $12 billion as surplus. These surpluses are also backlogs as a protection against recession, a reserve for capital needs and for depreciation of plant and inventory. This is stressed in the January letter of the National City Bank, in which, speaking of the two years ending June 30, 1947 of non-financial corporations, it states: "Cash and Government securities were cut down by $10 billion" while $19 billion was necessary "to carry inventories and accounts receivable." "The $11 billion growth in net working capital reflects primarily an absorption of reinvested earnings for covering increased working capital needs." With substantially a 50c to 60c dollar (depending on the particular comparison of time and product) and a national production of over twice that of each of the years 1929 and 1939, how can there be but a crucial need of working capital in very substantial amounts to create the production necessary to offset our inflationary status?

**Need for Capital Funds**

The growing need for capital funds is indicated by the figures submitted below of the Gross National Product (total output at market price of everything made, and grown, plus services rendered) with accompanying capital expenditures (in billions of dollars—1948 estimated):

| Years | Gross Nat'l Product (In Billions | Capital Expenditures of Dollars) |
|---|---|---|
| 1939 | 90 | 5.2 |
| 1940 | 100 | 6.5 |
| 1941 | 125 | 8.2 |
| 1942 | 160 | 16.1 |
| 1943 | 193 | 4.5 |
| 1944 | 211 | 5.2 |
| 1945 | 213 | 9.2 |
| 1946 | 204 | 14.7 |
| 1947 | 228 | 17.8 |
| 1948 | *240 | *17.0 |

*Estimated

The increase in total long-term debt of some 21 important manufacturing companies from 1946 to 1947 is particularly significant. That increase ranged from 37% in the case of Union Oil of California to 66% in Electric Auto-Lite; from none in both Dow Chemical and Union Carbide and Carbon to approximately 50% of total capital, excluding surplus. Monsanto Chemical, a company of outstanding financial strength, had to postpone issuance of $25 million preferred stock (since accomplished) and arrange for a line of bank credit for that amount. For the entire group, the debt aggregate rose from $502 million in 1946 to $1,274 million in 1947.

Another phase to the urgency of public financing as against bank borrowing is that the latter by creating new deposits is inflationary while financing from public sources is supplied by expendable money or savings and is, therefore, not inflationary. Borrowing, however, for capital needs can lead to dismal consequences when and if a depression should take hold at some future time. This increase of bank loans appears proceeding at a high rate. There were $22 billion of bank loans in 1939 which rose to $38 billion in 1947, and of this increase $7 billion took place in 1947.

The large supply of capital from life insurance companies and mutual savings banks is limited in most instances to investment in bonds. The supply of public funds for investment in equities is also limited by prevailing high income taxes, the double taxation of dividends and the high cost of living. As a result of these circumstances, plus the inflationary financial policy of the Government in supporting government issues at artificially high prices, we find that high grade bonds of every description are selling to yield no more than 3%, as contrasted with the yield of 5.75% on equities, a gap of over three times the difference which prevailed in May, 1946. Again, the

(Continued on page 29)

*Theodore Prince is an economist, investment counsel and lawyer specializing in corporate practices and taxes and a financial circle figure for 30 years, and was for 20 years head of the Stock Exchange firm which bore his name.—Editor.

# Gold and Our Managed Currency

**By THOMAS I. PARKINSON***

**President, The Equitable Life Assurance Society of the U. S.**

**Mr. Parkinson describes process whereby purchase of gold by Treasury increases bank deposits and adds to money supply of nation, thereby being one of the chief causes of our growing inflation. Says process creates bastard dollars which have no connection with existing business relations or activity.**

During the past two years there has been an addition to our gold supply of nearly $3 billion; but this is not an unmixed blessing. It is one of the chief causes of our growing inflation.

The Treasury pays $35 an ounce for all gold offered to it; payment is made in a way which costs the Treasury nothing because it creates new money for the purpose. That new money is in the form of bank deposits or paper having no further relation to the gold it paid for. Someone has said that the purchased gold sires a flock of paper money which foams through the country without any support from its parent.

T. I. Parkinson

When gold comes into this country, it must by law be sold to the Treasury, except gold earmarked as owned by a foreign government, which may be held on deposit by the Federal Reserve Bank.

To take a hypothetical case, let us suppose that the British Government sells us $100 million of gold. The Treasury issues its check on its account with the Federal Reserve Bank to pay the seller of the gold. The check for $100 million which the British Government receives for its gold is deposited with a commercial bank, thereby increasing bank deposits by $100 million.

In this operation the Treasury has decreased its bank deposits with the Federal Reserve by the issuance of the check for the gold purchased. To this point, the purchase of the gold is like any other exchange of a commodity for a bank deposit.

However, we have developed an extraordinary process under an old act of Congress which permits the Treasury, having paid by check for the gold, to issue a gold certificate—no, not actually even to issue it, but just to make a bookkeeping entry to the effect that circumstances justify its issue—and thereupon, the Federal Reserve Bank restores the Treasury's deposit as it was before the gold purchase check was issued. The gold certificate is money, and its amount is added to the Treasury's bank balance. Wouldn't it be nice to be able to buy a refrigerator with a check on your bank account and write the bank that since you have the refrigerator please restore its cost to your account?

This all means that the Treasury has paid nothing for the gold, and that the British Government has a bank deposit for $100 million in our banks. The gold has not depleted the Treasury's bank funds, and the curious transaction ends in its ignominious burial at Fort Knox. Perhaps after what it has gone through, it deserves to be buried.

Let us suppose that Great Britain now draws on its bank account established as a result of the sale of the gold. At this time, it would be more probable that the money would go to pay for trucks and farm machinery which would be sent out of the country to Great Britain or her colonies. The checks made in payment for this machinery are merged in the money supply of this country. The gold is in Fort Knox, and the machinery has gone abroad. There remains behind $100 million of addition to our bank deposits and our money supply.

However, the worst of the money making process is yet to come. For when Great Britain deposited that $100 million with a commercial bank, that bank was required to put up with the Federal Reserve system a legal reserve against the deposit of approximately 20%. The balance, or $80 million, remained as excess reserves in the banking system, and could and probably would result in a further increase in bank deposits of approximately $400 million.

This further addition to our money supply results from the fact that the bank can use the $80 million of excess reserves to make loans for which it creates new deposits for which it is required to place with the Federal Reserve only approximately 20% legal reserve—the $80 million becomes the legal reserves for another $400 million. This is the well-known "5-for-1" of Federal Reserve banking.

The net result is that the purchase of $100 million of gold has actually increased bank deposits by $100 million and, at the same time, has supplied the source of another $400 million of increase in our money supply. And all of these bank deposits can at the option of the depositor be turned into Federal Reserve Bank notes. This is our managed or mis-managed currency!

It is difficult for one who used to believe in gold as the soundest base for currency and the most reliable security for future values to realize that it has now been reduced to the point where it is no longer money itself; it no longer backs up that which we use for money, and worse than all this, in its progress from the foreign seller to its cemetery in Fort Knox, it has produced and left to circulate a huge quantity of additional paper or deposit money.

And what makes this even more striking is the fact that it is not at all necessary that this great volume of paper money should result from our purchase of gold. We could purchase that gold, if we wanted it badly enough, without this incidental increase in money supply.

What we do instead is, through the manipulation of bookkeepers and the so-called managers of our economy, create bastard dollars which have no connection with existing business relations or activity and which circulate through the country adulterating our currency and reducing the purchasing value of our dollar. Hence a further rise in prices which we all bemoan.

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

## Vilas & Hickey Admit

Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock Exchange, will admit Lulu Harris Knies to limited partnership on April 8.

# *From Washington Ahead of the News*

By CARLISLE BARGERON

Those Americans who are ashamed of their country, who have an inferiority complex towards Europe, particularly the bandit ridden countries of Eastern Europe, can take pride in an episode of a few days ago which shows that we have really "grown up." It shows that while we may have been naive and unsophisticated in world affairs in the past, we have now learned the technique. The scheming and conniving that have characterized the dictators for centuries past, we are now quite adept at their trade.

Carlisle Bargeron

I imagine, in fact, that the historians of the future who will write about how our nation freed itself from the old world intrigue and became the most prosperous nation in all the world, and the most powerful, only to become bored at the estate it had attained, and then returned to the old world which it had once scorned; these historians will mark the time when we definitely graduated in the old world school as the great submarine scare story of 1948.

The New Deal under Roosevelt lowered high public office to the cheapest place it has ever reached in this country. I remember that when I was a boy the Federal government was high in majesty. We could play tricks and have fun with the city policeman, the symbol of local law. But you didn't fool with the Federal government. A Negro postman was once arrested in my town, while delivering the mail, for a misdemeanor and my parents assured me gravely that the arresting officer would surely get into trouble because he was interfering with a Federal officer.

There was a deputy United States marshal with a gun and a badge who lived in my block and we kids lived not only in mortal dread of him when he rode by in his horse and buggy, but of his son as well.

It was this respect of, awe of, Federal authority, of course, that caused a steady whacking away at States' Rights as we turned more and more regulatory authority over to the Federal Government. Our local utility commissions, we were told and came to be convinced, were spineless and corrupt and but putty in the hands of the Power Trust. But an enforcement officer on the Federal level could not be touched. He could handle the monster. So we came to give the Federal Government increasing power over all of our activities.

The New Deal proved that we were wrong, that Federal officials could be just as small, just as incompetent, just as irresponsible as the smallest town constable.

Thus, a few days ago when we were in the throes of the eight hundred and ninety-fifth crisis which we have had since the New Deal came in, a high Washington official appeared before a Senate committee and announced gravely that a Russian submarine had been sighted 200 miles off California. Well, he didn't say Russian. He wanted to be more intriguing so he described it as a submarine not of a country west of the Iron Curtain.

But it is a commentary on something that not one of the Senators present, not one of the more than 700 correspondents and radio commentators, asked him what he meant.

No single person has yet asked him what were the implications of his statement. Are the seas free? Isn't it a fact that a Russian submarine would be perfectly entitled to surface in any one of our ports? Was it his point that this submarine's presence 200 miles off our coast was unusual? Was it significant? Did it mean that the Russians were scouting our shores or preparing to move in? By any chance do we have any submarines testing their cruising radius, operating within 200 miles of Russian shores?

I am not suggesting the answers to these questions. The amazing thing is that they were not asked, not by Senators nor by newspapermen.

It strikes me as amazing that if this submarine was out there in the Pacific and if this was unusual, that the State Department would not have asked the Russian Ambassador just what was cooking. But no one has approached the Russian Ambassador on the subject at all.

No, the whole thing served for one day's scare headline. It is not without significance that the Military is trying to get a draft, Universal Military Training, increased appropriations and that the Administration, perversely, wants to kill the tax reduction bill.

This is not my injection. It is an amazing commentary on the low estate to which our Federal officials have fallen, that it is rather the general impression in Washington in Congressional and newspaper circles that the submarine episode and the crisis are closely related to these enterprises of the Brass and the Administration. It is pretty cheap stuff. But it is the way they do things in Europe. So we are getting to be hot shots in world affairs, and in world intrigue.

## 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.

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

**May 25, 1948 (Cincinnati, Ohio)**
Municipal Bond Dealers Group of Cincinnati Annual Spring Party at the Kenwood Country Club.

**June 4, 1948 (New York City)**
Bond Club of New York Annual Field Day at the Sleepy Hollow Country Club, Scarborough, N. Y.

**June 11, 1948 (New York City)**
Corporation Bond Traders Club of New York Spring Outing and Dinner at the Wingfoot Golf Club, Mamaroneck, N. Y.

**July 16, 1948 (Toledo, Ohio)**
Bond Club of Toledo annual outing at the Inverness Country Club.

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

# Why the Ruhr Is Lagging

By JOACHIM JOESTEN

(Author of "Germany—What Now?" etc.)

**Political economist asserts continuation of Ruhr's present state of "economic coma" would doom Marshall Plan to failure. Maintains disappointing coal production is due to food insufficiency, consumer goods shortage, political agitation, uncertainty about mines' ownership, and Communist obstruction. States following remedial steps required: (1) sweeping currency reform; (2) food stabilization, rather than abundance; (3) large equipment investment; and (4) morale.**

While Congress argues the pros and cons of the Marshall Plan, the economic disintegration of Europe continues apace. According to a late report from the U. S. Military Government Office in Berlin, Ruhr coal production is down again to some 260,000 tons daily, or little more than the level of one year ago. This is far below the production targets set at the Anglo-American coal conference in Washington last August, which envisaged a daily output of 330,000 tons by the end of 1947. On the basis of this performance, the chances of attaining the 484,000-ton goal by the end of this year look decidedly slim.

Joachim Joesten

Unless the Ruhr can be roused from its present state of economic coma, the Marshall Plan is doomed to failure, no matter how many billions of dollars are spent on it. For revival of the Ruhr is the core of the European Recovery Program.

Europe's need of coal is second only to its need of food. The two needs, of course, are closely interrelated and interdependent. In fact, all of Europe's economic ills can be traced back, at least in some measure, to the fuel shortage.

For example, one of the reasons why Europe's lumber supply today is so short is that Sweden, Norway and Finland, which normally supply large quantities of lumber for export, for lack of coal are burning wood, even to produce electric power. In its turn, the lumber shortage hampers efforts designed to increase coal production. Pit props are hard to get, new housing projects for miners cannot be completed, and so on and so forth. Coal is the beginning and the end of Europe's vicious circle of economic stagnation.

### Britain No Longer Coal Exporter

In the years immediately preceding the outbreak of World War II, European countries imported some 66,000,000 short tons of coal from the two principal producers, England and Germany. Today, and probably for years to come, Britain is out of the picture as a coal-exporting country. In its stead, Poland has emerged as a major supplier, but its export surplus of about 20 million tons a year is largely earmarked for Russia and her satellites in Eastern Europe.

Germany, which in its best year before the war shipped some 50 million tons of coal to foreign countries, exported only 14,723,500 tons in 1946. Even this comparatively small amount, taken out of a total production of 130,271,900 tons in that year, could be spared only at the expense of urgent domestic requirements. By comparison, in 1937-1938, Germany's coal production, *exclusive of the areas now under Polish administration*, amounted to 242,220,000 tons, of which 44,220,000 tons were exported.

### U. S. Fills Gap

The yawning gap which the simultaneous eclipse of England and Germany left in the European coal supply picture has been filled to a considerable extent by imports from the United States in

(Continued on page 40)

*"Germany—What Now?"—a comprehensive study of Germany's political, economic and social evolution since the surrender, by the author of the above article, was published on Feb. 27 by the Ziff-Davis Publishing Co.—EDITOR.*

# Trends Affecting Real Estate Values

By WILLIAM A. MARCUS*

Senior Vice-President, American Trust Co., San Francisco
Vice-President, Savings Division, American Bankers Association

**Asserting although intrinsic value of real estate changes slowly, ABA official expresses belief we are near top of present price swing, particularly in housing, and prices are headed downward. Cautions regarding mortgage loan expansion by banks, and hints Taft-Ellender-Wagner Act, if passed, may prove dangerous. Says Veterans Housing Act has given artificial stimulus to real estate prices, and housing construction, since war has kept pace with housing needs. Looks for more stable realty values in future.**

At the outset I should like to define limits and indicate the approach to my subject, and would also like to confine my comments to the field of housing and home finance. Let me be perfectly frank in stating that I am not qualified to chart the course of real estate prices or values but I will try to relate to this subject those occurrences which I think have happened in the mortgage lending business during past few years and what is happening now. It will be my purpose to analyze those trends which will have some bearing on the future values of real estate. Without becoming too technical I would like to differentiate between value and price. The term "value" needs some definition. My dictionary contains several, one of which seems particularly well suited for this purpose: "the desirability or worth of a thing; intrinsic worth; utility." Price on the other hand is defined as "the amount at which current transactions take place in the market." To illustrate, using my definition of value, the desirability or worth of a thing will vary under different conditions in the eyes of various persons. When I consider the value of my home I think of its contribution to the comfort and enjoyment of my wife and children, of its shelter from the cold and its access to the sunshine, of the social times around the fireplace, of its restful change from the busy market place, of the birds that wake me with their song, and the neighbors whose greeting is always friendly.

William A. Marcus

These values to me are high, but the realtor in pricing my house for sale must look at structural soundness, replacement costs (less depreciation), character of neighborhood, transportation facilities, proximity of schools, churches, shopping districts, the scarcity of homes and the price at which similar houses are selling in today's market.

We have been in a period where the scarcity of housing, combined with desirability, induced by a great increase in personal incomes, in marriages, and easy mortgage credit have resulted in abnormally high prices. We might call this a condition of scarcity value.

**Passing of "Scarcity Value"**

As the demand becomes more and more satisfied, particularly with the demand for single family ownership, and as easy mortgage money is replaced by more selective lending practices, scarcity value will become less and less a price stimulant. As the single family ownership demand is now fairly well satisfied and as mortgage credit progressively tightens, scarcity value is diminishing in importance, and utility or worth value is coming into its own.

So I believe I can safely steer clear of arguments based on guesswork as to future prices on real estate with the observation that the fundamental value of real estate has changed slowly and will continue that slow pattern, changing only as the desirability and utility of the properties themselves will change, but that the price of real estate will follow the erratic but rhythmical course that it has followed since the record of price swings has been kept.

I believe that we are at or near the top of the present price swing, particularly in the field of housing, and that the prices are headed downward. Likewise do I believe the recent drop in the commodity markets marked the turning point in the high cost of living, and that 1948 has a good chance of going down in history as a year of returning economic sanity.

**The Mortgage Factor**

There are many factors, of course, which affect the market price of real estate as well as other types of properties and services. Mortgage lending is not the major factor in price determination; in fact it might be termed a minor factor, yet it is an important one and it is the one where you and I helped to write yesterday's history and where what we do today and tomorrow will leave some imprint on the nation's economy.

Thus, I believe we should not minimize the part we as bankers are now playing, but that we should study carefully the results of the last two years of savings and mortgage activity and chart the course for the next 12 months if not for a longer period.

You as savings bankers and lending officials know the importance of mortgage credit. Mortgage loans are the principal investments of savings banks and savings and loan associations, and one of the largest items of the assets of insurance companies. Mortgages of record are estimated to be over $40 billion, of which $14 billion is lodged with banks, divided about $9 billion with insured commercial banks and about $5 billion with mutual savings banks.

Since the end of 1945, the rate of increase of savings and time deposits has slowed down materially, whereas the rate of lending on real estate mortgages has greatly speeded up. I would like to offer some comments based upon statistics from the report of all insured commercial banks in the United States as shown in the February, 1948 Federal Reserve Bulletin. I have projected the 1947 mid-year figures to give an estimate of those for Dec. 31, 1947. As the mutual savings banks figures on mortgages have not varied greatly over the past two years, I am excluding them in making these comparisons in order to em-

(Continued on page 38)

*An address by Mr. Marcus at the Eastern Regional Savings and Mortgage Conference of the American Bankers Association, New York City, March 16, 1948.

# When Stalin Dies—What Then?

By HENRY J. TAYLOR*

**Radio commentator, pointing out Stalin is only mortal and his death must be considered, predicts new blood purges, but concludes, as result, there will be a certain throwing into the air of the whole Soviet foreign and domestic policy.**

What happens if Stalin dies? It could be very important to us, my friends.

You've had this feeling. So have I. When you read the newspapers these days, watching Russia follow step after step the Nazis took in the thirties, doesn't it seem like an old-time continuous movie? Perhaps you sat there with your best girl, looking at the screen. Then you nudged her and said, "Molly, this is where we came in. We know the ending. Let's go. We've seen it all before."

Henry J. Taylor

It's as pat as that, this unfolding of events in Europe.

Nevertheless, the world is not a moving picture, cut and dried and unchangeable. Events can happen, and do happen, that change things greatly.

**Stalin Is Only Mortal**

One event that is sure to happen, and which can change things greatly, is the death of Stalin. Nobody can know the effect, of course. But that it will have great effect, that much is certain.

This is so fundamental that we must think about it now, before we make up our minds that all is cut and dried, and lose all hope for the future.

We cannot make up our minds about anything abroad today without considering the death of Stalin.

**His Death Must Be Considered**

Stalin is now 68. Let's start with his health and get that out of the way. I've sought, in the most reliable quarters, verification for rumors that Stalin is ill I can find none. Certainly I can tell you that, to my own personal knowledge, our American ambassador in Moscow, General W. B Smith, is at present reporting to the very top of our State Department exactly the reverse. Stalin is on the job, and seems to be about in the same condition of health as he has been for the past five years.

But that Stalin will die—that is going to happen.

Again, may I repeat, we cannot make up our minds about anything abroad today without considering the death of Stalin.

**No Second Man in Dictatorship**

Now I've worked as a newspaperman, a dismal chore, in just about every totalitarian state—Italy, Germany, Spain. They're all just alike in this respect: there is no second man in a totalitarian state. Some man may **think** he's second but it doesn't work out that way.

There was no second Mussolini. There was no second Hitler.

(Continued on page 39)

*A broadcast by Mr. Taylor over the Mutual Broadcasting System, March 29, 1948.

## *Dealer-Broker Investment Recommendations and Literature*

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

**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.

**Chemical Fibre Industry**—Outlook for the industry with specific reference **Celanese Corporation of America**—Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

**Copper Outlook**—Memorandum—Bache & Co., 36 Wall Street, New York 5, N. Y.

**Eaton & Howard Balanced Fund 1948 Yearbook**—Compendium of data and material descriptive of the Fund, its policies, record, and investment philosophy—Eaton & Howard, Inc., 24 Federal Street, Boston 10, Mass.

**Fire Insurance Stocks**—A discussion of their investment values—Dempsey-Tegeler & Co., 210 West Seventh Street, Los Angeles 14, Calif.

Also available is a tabulation of **1947 Insurance Company Results.**

**Municipally Owned Toll Bridges**—Tabulation of 28 municipally owned toll facilities either acquired or constructed by the municipality during the period from 1927 to 1947, including engineers' estimated revenue and actual gross revenue for years 1939 to 1947—Stifel, Nicolaus & Co., Inc., 105 West Adams Street, Chicago 3, Ill.

**New Bond Financing**—Outlook—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also in same leaflet are data on **Continental Baking Co., Northern Pacific Railway,** and **St. Louis Southwestern,** and a brief discussion of **Public Utility Preferred** with sinking funds.

**Public Utility Bonds**—Tabulation of price, yield, etc., for bonds, which are arranged according to rating—Vilas & Hickey, 49 Wall Street, New York 5, N. Y. Also available is a leaflet of current **Railroad Developments.**

**Railroad Equipment Certificates**—Valuation and appraisal—Stroud & Co., Inc., 123 South Broad Street, Philadelphia 9, Pa.

Also available are a valuation and appraisal of **City of Philadelphia Bonds** and **Price Earnings Ratios and Yields** on 120 public utility common stocks.

**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.

**"Switch" Possibilities**—List of stocks offering interesting outlook—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

* * *

**American Machinery Corp.**—Circular—Gordon Graves & Co., 30 Broad Street, New York 4, N. Y.

**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.

**Emerson Electric Manufacturing Company**—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

**Gaylord Container Corp.**—Analysis—Reinholdt & Gardner, 14 Wall Street, New York 5, N. Y.

**Grand Union Company**—Investment appraisal—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Also available is a current reappraisal of **United States Pipe & Foundry.**

**McQuay, Inc.**—New report—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

**National Bank of Tulsa**—Analysis—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

**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.

**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.

**Tacoma Narrows (State of Washington) Toll Bridge Revenue 3¾% Bonds**—Circular—Roosevelt & Cross, Inc., 40 Wall Street, New York 5, N. Y.

## With Westheimer & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, O.—Walter Heekin is with Westheimer & Co., 322 Walnut Street, members of the New York Stock Exchange and other leading national exchanges.

## With Prescott, Wright, Snider Company

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Harold Hunter Jones has been added to the staff of Prescott, Wright, Snider Company.

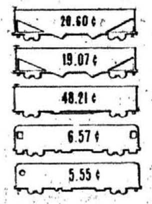
## With Wm. S. Beeken Co.

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA.—Conrad M. Allen is now with William S. Beeken Company, Guaranty Building. He was previously with Southeastern Securities Corp.

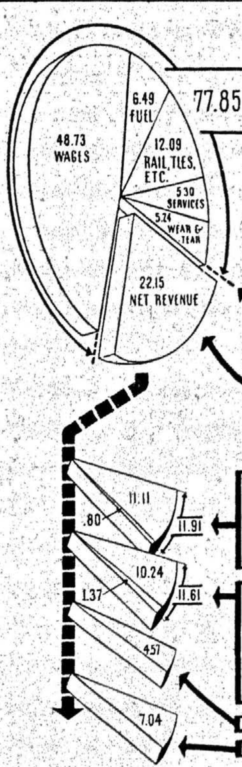
# READING REPORTS *for* 1947

## REVENUES FROM OPERATION




| | December 31, 1947 | Change from 1946 Increase—I Decrease—D |
|---|---|---|
| Hauling anthracite | $ 24,057,840 | $ 210,794-I |
| Hauling bituminous coal | 22,263,541 | 3,847,435-I |
| Hauling merchandise | 56,288,630 | 11,643,597-I |
| Carrying passengers | 7,674,300 | 1,980,966-D |
| Mail, express, and other transportation services | 6,475,731 | 1,613,061-I |
| Total Revenues | $116,760,042 | $15,333,921-I |

## HOW WE USED OUR REVENUES




| | December 31, 1947 | Change from 1946 Increase—I Decrease—D |
|---|---|---|
| **EXPENSES OF OPERATION** | | |
| Wages | $ 56,899,201 | $ 2,921,429-I |
| Fuel | 7,570,111 | 744,084-I |
| Rails, ties, and other material | 14,117,100 | 3,400,380-I |
| Payments for services and expenses | 6,189,406 | 458,847-D |
| Depreciation, amortization, and retirements | 6,118,301 | 772,526-I |
| Total Expenses | $ 90,894,119 | $ 7,379,572-I |
| Net Revenue from Operations | $ 25,865,923 | $ 7,954,349-I |
| **TAXES AND FIXED CHARGES** | | |
| Tax accruals | $ 12,972,305 | $ 3,906,679-I |
| Payments for use of facilities of others, less receipts for use of Company's facilities by others | 941,646 | 426,977-I |
| Net Railway Operating Income | $ 11,951,972 | $ 3,620,693-I |
| Income from investments, rentals, etc. | 1,599,411 | 64,259-D |
| Income Available for Fixed Charges | $ 13,551,383 | $ 3,556,434-I |
| Fixed Charges | 5,335,734 | 64,724-D |
| Net Income | $ 8,215,649 | $ 3,621,158-I |

- Wages of $60,379,874, of which $56,899,201 was charged to operating expenses, were the highest in our history. Wage increases in 1947 will cost the Company approximately $7,825,000 annually.
- Payments to Stockholders totaled $4,197,372. Reading's uninterrupted dividend record on all classes of stock dates back to 1905.
- Future yearly interest payments were reduced $96,995 by the purchase of over two million seven hundred thousand dollars of funded debt.
- Net rents payable to leased roads were reduced $70,978 annually by the purchase of securities in lessor companies.

- Thirty-eight new steam or diesel locomotives, 3,188 freight cars were delivered or ordered during the year. Program commenced for extensive passenger car modernization, of which "Wall Street" is first of three new trains.
- Extensive roadway and terminal improvements will permit use of new heavy motive power over greater portion of system.
- Port Richmond Terminal in Philadelphia exceeded all previous records by exporting more than 26,000,000 bushels of grain and 4,550,000 tons of coal.

*President*

## OUR FINANCIAL CONDITION

| | December 31, 1947 | Change from 1946 |
|---|---|---|
| **OWNED** | | |
| Roadway Property and Equipment, less reserves for depreciation | $278,814,310 | $ 5,223,711-I |
| Stocks, bonds, and notes of other companies | 52,172,613 | 2,316,557-I |
| Current Assets | 37,514,625 | 1,629,441-I |
| All Other Assets | 20,357,971 | 2,995,776-D |
| Total Assets | $388,859,519 | $ 6,173,933-I |
| **OWED** | | |
| Mortgage Bonds and Equipment Obligations | $ 95,564,562 | $ 2,713,322-D |
| Total Current Liabilities | 27,845,920 | 4,810,579-I |
| Other Liabilities | 4,490,444 | 662,864-I |
| Capital Stock and Surplus | 260,958,593 | 3,413,812-I |
| Total Liabilities | $388,859,519 | $ 6,173,933-I |

# Pennsylvania Brevities

## P.T.C. Fare Rise Backfires

Philadelphians are paying the 10 cent cash fares on trolleys and subways and 12½ cent fares on buses which became effective March 21—but with papers attached.

Mayor Bernard Samuel's appeal to the Pennsylvania Public Utility Commission to postpone the effective date of the higher schedule until public hearings had been held was unavailing. In an eleventh hour maneuver the City of Philadelphia petitioned Federal District Judge J. Cullen Ganey to order Philadelphia Transportation Company to distribute rebate slips to all riders paying the increased fares. The petition was granted a matter of hours before the higher rates became effective and added greatly to the confusion incident thereto.

**The City charged the Public Utility Commission with bad faith in permitting P.T.C. to increase fares without holding public hearings in which car riders would have the opportunity of voicing their objections. The P.U.C. has long maintained the stand that permissible fare increases can be determined only by the relationship of earnings to property values and that this involves the application of a formula in which public sentiment, as such, is irrelevant. Commission counsel is expected to argue that the P.U.C. is an arm of the State Legislature and that litigation involving its rulings should be brought in State courts. Thus the intervention of the Federal court will be challenged. In recognition of the criticism directed against it by its alleged hasty action, the P.U.C. has ordered initial hearings on the fare increase to begin in Philadelphia April 1 and 2.**

Informed observers believe that the transportation company will be able to justify its claims in support of the higher schedule and that the P.U.C. order permitting it to be put into effect will stand. If so, the rebate slips now being distributed in compliance with the Federal court order will be valueless.

### Dividends Deferred

At the P.T.C. Board of Directors meeting held March 23, it was announced that "in view of the pending litigation of the company's new fares, consideration of dividend action on both the common and preferred was deferred." Regular annual dividend rates have been 80 cents on the common and $1 on the preferred. The contingent 3% interest on the company's 3-6% collateral trust bonds was declared, payable July 1.

**The directors approved the company's 1947 annual report which disclosed net income, after taxes, of $686,000. Passenger revenues increased $4,198,180 to $61,428,830 for the year, but operating costs advanced at a greater rate. Higher wage rates were granted Feb. 11, 1947, followed by an increase in fares on Feb. 18. Higher costs were somewhat offset by the elimination of overtime in certain departments.**

* * *

### Texas Gas to Philadelphia

Last week Texas Eastern Transmission Corp., operators of the Big Inch and Little Inch gas pipelines, announced that the first cubic foot of natural gas from the Southwest field, 1,280 miles away, had been delivered to the Philadelphia Gas Works Co. Delivery during this month will be approximately 100 million cubic feet. For the present, natural gas will be mixed with the manufactured product for domestic and commercial use. Gas company officials have stated that the introduction of natural gas to Philadelphia was necessary to relieve the fuel shortage and to avoid the raising of rates which would have followed expansion of local facilities.

* * *

### Allegheny Ludlum Preferred

**PITTSBURGH—It is reported that Alleghany Ludlum Steel Corp. is planning the issuance of 107,383 shares of preferred stock to be offered to its stockholders in the ration of one share the new preferred for each 12 shares of common held. A registration statement covering the new issue is expected to become effective about April 13, which will probably also be the record date for rights to subscribe. First Boston Corp. and Smith, Barney & Co. are negotiating with the company in respect to forming a group to underwrite any unsubscribed shares.**

* * *

### U. G. I. Earnings Up

For the year ended Dec. 31, United Gas Improvement Co. and subsidiaries report net income of $3,497,107, equivalent to $2.23 per share, against $3,099,510, or $1.98 per share, for 1946. For the parent company only, not reflecting credits and charges to surplus, net income was $2,858,624 compared with $2,388,013 the preceding year.

* * *

### Scott Paper Co.

**Reflecting a continuance of the improvement shown in 1947, Scott Paper Co. paid a dividend of 55 cents on its common shares on March 12. Dividends in 1947 amounted to $1.95 per share and to $1.80 per share in each of the preceding four years.**

Both dollar sales and volume of production reached new peaks in 1947. Net sales last year amounted to $57,252,636 compared with $46,222,804 in 1946. Net income resulted in per share earnings of $3.02, after preferred dividends, compared with $2.07. These results were achieved despite the fact that the company's large towel-making plant at Chester, destroyed by an explosion in 1946, was not restored to service until late 1947.

* * *

### Penna. R.R. Orders

Martin W. Clement, President of Pennsylvania Railroad, announced that the company has ordered 114 additional diesel-electric locomotives and 2,300 freight cars which will cost approximately $27,500,000. This will bring the company's post-war modernization program to a cost of $173,500,000.

Of the 114 new locomotives, 54 will be built at the Baldwin Locomotive Works, Eddystone. The 2,300 freight cars will be built at the road's Altoona works.

**Mr. Clement stated that the company's diesel installations now in progress are the largest in the country. "By May this year," he said, "we expect that all our important east-west through passenger trains will be handled by diesel power in the non-electrified territory west of Harrisburg."**

* * *

### Penna. Power & Light Co.

ALLENTOWN—Reporting that its post-war expansion program has resulted in an expenditure of about $35,000,000 to date, Pennsylvania Power & Light Co. states that it plans to spend an additional $100,000,000 through 1951.

* * *

### Reading Company

**The 50th annual report of Reading Co. discloses new record-operating revenues for 1947 of $116,760,042. Net income for the year was $8,215,649, equal to $3.87 per common share after preferred dividends. Per share earnings in 1946 were $1.28.**

**Although Reading was originally considered an anthracite road and is still the largest anthracite carrier in the country, freight shipments of merchandise now exceed the tonnage of anthracite and bituminous coal combined.**

### Steel Operations

PITTSBURGH — Despite the problems posed by dwindling coal supplies, steel producers in this area expect to maintain operations at 96.3% during the current week. This compares with 98.5% a month ago and 103.6% a year ago.

* * *

### Pittsburgh Consolidation Coal

**PITTSBURGH — G. H. Love, President Pittsburgh Consolidation Coal Co., has reminded stockholders that a conservative dividend policy is indicated in view of large capital requirements and the need of funds to finance higher inventories and receivables. It is hoped, he said, that the present $2 annual rate can be maintained.**

### Warner Company

Directors of Warner Company have declared 15 cents on the common stock, payable April 15 to stock of record April 1. The last preceding dividend was 30 cents on January 15. Company is expected to complete its $4,500,000 expansion and modernization program, all of which has been financed out of earnings, by midyear, following which stockholders are anticipating the adoption of a more liberal dividend policy. Operations in 1947 were at new high levels and produced earnings of $3.33 per common share.

* * *

Mr. Otho E. Lane, Chairman of the Board, Fire Association Group, Philadelphia, has been relieved of his duties as Chief Executive Officer at his request and has been elected Chairman of the Executive and Finance committees of the companies.





## Phila. Stock Exchange Appoints New Officers

PHILADELPHIA, PA.—At the regular meeting of the Board of Governors, March 17, the following officers of the Exchange were appointed to serve for the ensuing year:

Vice-President: George E. Snyder, Jr., Geo. E. Snyder & Co.; Treasurer: H. Gates Lloyd, Drexel & Co.; Secretary: Merriam B. Barthold.

Howard Butcher, Jr., Butcher & Sherrerd, and Moreau D. Brown, Brown Bros. Harriman & Co., were appointed trustees to serve for three years.

## Walter J. Malatesta Now With Brailsford & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Walter J. Malatesta has become associated with Brailsford & Co., 208 South La Salle Street, members of the Chicago Stock Exchange. Mr. Malatesta was formerly with Ames, Emerich & Co., Inc., and R. C. Harvey & Associates.

## Herrick, Waddell Adds Two

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Paul Herbert and Thomas F. Mangan are now with Herrick, Waddell & Co., Inc., 55 Liberty Street, New York City.

# NSTA Notes

## BOND CLUB OF SYRACUSE

The Bond Club of Syracuse held its annual election of officers on Feb. 18. The following were elected to serve for the coming year:


Edward L. Emmons


E. W. Snyder


Charles T. Heaton

President—Edward L. Emmons, Reynolds & Co.
Vice-President—Everett W. Snyder, E. W. Snyder & Co.
Treasurer—Francis Q Coulter, Syracuse Trust Co.
Secretary—Charles T. Heaton, W. N. Pope, Inc.
Board of Governors—Edward J. Bullock, Reid-Bullock Co.; Marshall W. Day, Geo. D. B. Bonbright & Co.; Drew G. Eastman, Eastman & Co.; George W. Mason, and Norman C. Schmidt, Blair F. Claybaugh & Co.

## NATIONAL SECURITY TRADERS ASSOCIATION


Paul I. Moreland

Paul I. Moreland, Moreland & Co., Detroit, Chairman of the Special Legislative Committee of the National Security Traders Association, Inc., announces that the complete membership of the committee is as follows:

Malon C. Courts, Courts & Co., Atlanta, Ga.
Richard A. Gottron, Gottron, Russell & Co., Cleveland, O.
Oliver B. Scott, Maxwell, Marshall & Co., Los Angeles, Calif.
Sumner R. Wolley, Coffin & Burr, Boston, Mass.
Paul I. Moreland, Chairman, Moreland & Co., Detroit, Mich.

In addition to the five members of the committee, each affiliate of NSTA is designating a representative to advise with the committee proper. The names of these representatives will be announced as soon as their selection is completed.

## INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA

Harry Fahrig, Jr., Reynolds & Co., Philadelphia, a redoubtable pin-smasher in his local Bankers and Brokers Bowling League, will convoy a hopeful group of keglers from Philadelphia to New York on April 18 where they will engage a team chosen from Stany's crack lumbermen. The friendly pogrom, which is scheduled for the night preceding the Stany dinner, has become something of an annual affair, although Philadelphia has yet to win a series.


Harry Fahrig, Jr.

## NATIONAL SECURITY TRADERS ASSOCIATION


W. C. Jackson, Jr.

William C. Jackson, Jr., President and Treasurer of the First Southwest Corporation, Dallas, Texas, has been selected as Chairman of the Municipal Committee of the National Security Traders Association according to word received from R. Victor Mosley, President. Mr. Jackson is very well known in municipal circles and was formerly Chairman of the Texas Municipal Committee of the Investment Bankers Association.

## M. Cantacuzene With Hogan and Farwell

CHICAGO, ILL.—Michael Cantacuzene has become associated with Hogan and Farwell., Inc. He was formerly a partner in Ross, Browne & Fleming.

## B. H. Lapham Joins Staff Of Cohu Co. in Syracuse

SYRACUSE, N. Y.—Beverley H. Lapham has become associated with Cohu & Co., Syracuse Savings Bank Building. He was formerly in business for himself under the firm name of B. H. Lapham & Co.

# Wisdom for a Bull Market

By HERBERT G. KING
Member, New York Stock Exchange

**Colonel King lists as principles to be followed: (1) timing; (2) selection; (3) diversification; and (4) supervision.**

One of the most devastating bear markets in history came to a close during the third week of March, after 22 months. It terminated as undramatically as it had begun and most traders missed the windup completely. The tip-off was the extreme dullness that accompanied the failure of the Dow Jones Averages to break their old lows in the face of all the bad news, accompanying the foreign selling. The painfully dull sessions gave conclusive confirmation that the end had come to effective liquidation. Following President Truman's message to Congress on March 17, the rally began that lifted the industrial averages 8¼ points and increased the volume from 650,000 shares to over two million. No news appeared to account for the abrupt upturn, but the speculative belief that a major turn was at hand spread rapidly.


Col. Herbert G. King

Speculative success comes only to those who follow the time-worn rule of never arguing with the tape and recognizing that prolonged dullness marks the end of a bear market and that a sudden rally out of quietude indicates the stirrings of a new forward movement. So far the public has remained immune to the contagion of a rising stock market, but the psychology of the trader has changed and the public will soon recognize the superiority of equities to cash.

With the coming of the new bull market there are four cardinal principles that the shrewd investor should keep in mind and if properly used will bring rich rewards:

(1) TIMING purchases so as to buy when certain issues are selling at under-priced levels and then to sell when they reach over-priced levels.

(2) SELECTION of the issues with the best earnings and the strongest financial positions and management.

(3) DIVERSIFICATION of purchases in order to minimize risks.

(4) SUPERVISION of holdings in order to check losses, take profits and be on the outlook for any sudden changes that might affect the market objectives of profit or income.

These guiding principles, carefully followed, will bring success and enable the investor to realize the maximum benefit from the new bull market.

## Quits SEC Post

**James A. Treanor, Jr., Director of Trading and Exchange Division, resigns to enter private law practice in New York.**

It was announced by the Securities and Exchange Commission that James A. Treanor, Jr. will resign his post on April 1 as Director of its Trading and Exchange Division to take up the practice of law in New York City. Mr. Treanor, who was a U. S. attorney under the National Industrial Recovery Act in 1933, and was later special counsel for the Federal Communications Commission in its telephone investigation, entered the service of the SEC in 1936 and became Director of the Trading and Exchange Division in June, 1941. He graduated from Holy Cross College in 1924 and from the Boston University Law School in 1927. He intends to practice law in New York with Desmond T. Barry, former Mayor of Hastings, N. Y.

J. A. Treanor, Jr.

## Third Chase Branch Opened in Germany

A branch of the Chase National Bank has been opened in Heidelberg, Germany, for the convenience of Americans there, according to word received at the head office of the bank here. Established with the approval of the authorities in Washington and the U. S. Military Government in Germany, the branch will offer limited banking facilities to U. S. military and authorized personnel, including those of allied countries, in the American zone.

The branch at Heidelberg, with quarters at 1 Friedrich Elbert Allee, is the third Chase location in Germany, two other offices having been opened at Frankfurt and Stuttgart within the past four months. W. H. Promann is in charge of the Heidelberg branch.

### New Carlson Branch

BESSEMER, ALA.—Carlson & Company have opened a branch office at 1818 Third Avenue under the direction of Cecil Cosby.



# Bank and Insurance Stocks

By E. A. VAN DEUSEN

## This Week — Bank Stocks

First quarter reports of the banks will soon be appearing—during the first week of April. What may they be expected to show? How are net operating earnings, or indicated earnings, for the first quarter of 1948 likely to compare with those of the first quarter of 1947?

It may be of interest to compare the situation as to earnings, assets, deposits, interest rates, etc., for the two quarters. Tables I and II, present bank loans as reported by the Federal Reserve Board for Member Banks in New York City for the first quarter of 1947 and 1948:

TABLE I
*FIRST QUARTER 1947*
*($000,000)*

| | Brokers' Loans | Securities Loans | Commercial & Agric. Loans | Misc. Loans | Total Loans |
|---|---|---|---|---|---|
| Jan. 1 | 1,007 | 334 | 3,776 | 684 | 5,801 |
| 8 | 832 | 309 | 3,781 | 711 | 5,633 |
| 15 | 778 | 307 | 3,784 | 733 | 5,602 |
| 22 | 726 | 298 | 3,848 | 715 | 5,587 |
| 29 | 881 | 302 | 3,883 | 816 | 5,882 |
| Feb. 5 | 676 | 289 | 3,913 | 756 | 5,634 |
| 12 | 799 | 293 | 3,956 | 724 | 5,772 |
| 19 | 816 | 295 | 3,924 | 734 | 5,769 |
| 26 | 837 | 286 | 3,968 | 766 | 5,857 |
| Mar. 5 | 579 | 274 | 4,029 | 863 | 5,645 |
| 12 | 530 | 267 | 4,149 | 766 | 5,712 |
| 19 | 446 | 267 | 4,172 | 728 | 5,613 |
| 26 | 509 | 267 | 4,157 | 783 | 5,716 |
| 13 Wk. Avg. | 725 | 292 | 3,949 | 744 | 5,710 |

TABLE II
*FIRST QUARTER 1948*
*($000,000)*

| | Brokers' Loans | Securities Loans | Commercial & Agric. Loans | Misc. Loans | Total Loans |
|---|---|---|---|---|---|
| Jan. 7 | 488 | 253 | 5,332 | 964 | 7,037 |
| 14 | 422 | 252 | 5,327 | 991 | 6,992 |
| 21 | 468 | 248 | 5,343 | 1,006 | 7,065 |
| 28 | 500 | 247 | 5,324 | 1,014 | 7,085 |
| Feb. 4 | 446 | 241 | 5,267 | 1,084 | 7,038 |
| 11 | 566 | 235 | 5,290 | 1,009 | 7,100 |
| 18 | 584 | 235 | 5,215 | 1,106 | 7,140 |
| 25 | 739 | 233 | 5,208 | 1,081 | 7,261 |
| Mar. 3 | 656 | 231 | 5,164 | 1,036 | 7,087 |
| 10 | 771 | 238 | 5,181 | 1,055 | 7,245 |
| 17 | 589 | 230 | 5,174 | 1,030 | 7,023 |
| 24 | 640 | 232 | 5,160 | 1,015 | 7,047 |
| 12 Wk. Avg. | 572 | 240 | 5,249 | 1,034 | 7,095 |

Average total loans outstanding during the first quarter of this year were $1,385,000,000 higher than during 1947 first quarter; percentwise they are approximately 24% higher. The principal gain has been in commercial and agricultural loans, which average 33% above last year. Loans to brokers and loans for carrying securities are moderately lower than a year ago, while miscellaneous loans comprising real estate loans, loans to banks, etc., average $290,000,000 higher.

With regard to the banks' portfolios of Government obligations the comparison is shown in Tables III and IV. These tables also show "Total Loans & Investments."

TABLE III
*FIRST QUARTER 1947*
*($000,000)*

| | Treasury Bills Ctfs. & Notes | U.S. Bonds | Total U.S.G. Obligations | Total Investments | Tot. Loans & Invests. |
|---|---|---|---|---|---|
| Jan. 1 | 2,783 | 9,230 | 12,013 | 13,077 | 18,878 |
| 8 | 2,621 | 9,212 | 11,833 | 12,880 | 18,513 |
| 15 | 2,771 | 9,194 | 11,965 | 13,012 | 18,514 |
| 22 | 2,885 | 9,165 | 12,050 | 13,087 | 18,674 |
| 29 | 2,574 | 9,150 | 11,724 | 12,757 | 18,639 |
| Feb. 5 | 2,582 | 9,204 | 11,786 | 12,810 | 18,444 |
| 12 | 2,268 | 9,215 | 11,483 | 12,504 | 18,279 |
| 19 | 2,223 | 9,207 | 11,440 | 12,455 | 18,224 |
| 26 | 2,111 | 9,212 | 11,323 | 12,334 | 18,191 |
| Mar. 5 | 2,413 | 9,208 | 11,621 | 12,689 | 18,334 |
| 12 | 2,428 | 9,150 | 11,578 | 12,653 | 18,365 |
| 19 | 2,662 | 9,222 | 11,884 | 12,955 | 18,586 |
| 26 | 2,292 | 9,279 | 11,571 | 12,694 | 18,410 |
| 13 Wk. Avg. | 2,509 | 9,204 | 11,713 | 12,762 | 18,473 |

TABLE IV
*FIRST QUARTER 1948*
*($000,000)*

| | Treasury Bills Ctfs. & Notes | U.S. Bonds | Total U.S.G. Obligations | Total Investments | Tot. Loans & Invests. |
|---|---|---|---|---|---|
| Jan. 7 | 2,396 | 9,515 | 11,911 | 13,138 | 20,175 |
| 14 | 2,127 | 9,504 | 11,631 | 12,850 | 19,842 |
| 21 | 2,374 | 9,501 | 11,875 | 13,073 | 20,138 |
| 28 | 2,285 | 9,286 | 11,571 | 12,765 | 19,850 |
| Feb. 4 | 2,558 | 9,219 | 11,777 | 12,958 | 19,993 |
| 11 | 2,266 | 9,189 | 11,455 | 12,623 | 19,723 |
| 18 | 2,203 | 9,191 | 11,394 | 12,558 | 19,698 |
| 25 | 2,193 | 9,085 | 11,278 | 12,424 | 19,685 |
| Mar. 3 | 2,509 | 8,530 | 11,039 | 12,198 | 19,285 |
| 10 | 2,654 | 8,526 | 11,180 | 12,394 | 19,639 |
| 17 | 2,569 | 8,504 | 11,073 | 12,275 | 19,298 |
| 24 | 2,283 | 8,512 | 10,795 | 12,040 | 19,087 |
| 12 Wk. Avg. | 2,370 | 9,047 | 11,415 | 12,608 | 19,701 |

Holdings of Governments average moderately below the first quarter of 1947. All classes are down only approximately $300,000,000 or 2.5%. Treasury bills, certificates and notes are lower by $139,000,000 or 5.5%, while bonds are down $157,000,000 or 1.7%. Offsetting this loss has been an increase in rates on Treasury bills and certificates, as well as some stiffening of the rate on Government bonds.

It will also be noted that "Total Investments" average fractionally below their totals of 1947 first quarter. "Total Loans & Investments" are $1,228,000,000 or 6.7% higher.

With regard to deposits, weekly totals of "demand deposits" of New York Clearing House Banks averaged $21,413,000,000 during the first quarter of 1947, and $21,408,000,000 during the first quarter this year. In other words, there is substantially no change from a year ago.

To summarize: brokers' and security loans are down, miscellaneous loans are up, commercial and agricultural loans are up and total loans are up; holdings of Government obligations are moderately lower; deposits are substantially the same; interest rates on Government obligations are somewhat higher, as also are interest rates on commercial loans. On the other hand, operating costs and payroll charges have increased over those of a year ago.

It seems likely that first quarter earnings of the banks this year, on average, should at least equal those of last year and in a number of instances good improvement may be shown.



## Exchange Employees Strike

**Workers of New York Stock Exchange and New York Curb Exchange fail to report for work on March 27, and, with aid of members of seamen's unions, began mass picketing before exchange premises. Violence results in injury and arrests, but operations of the exchanges are uninterrupted.**

On March 27, without formal notice, the long threatened strike of the United Financial Employees, Local 205, AFL, against the New York Stock and the New York Curb Exchanges became a fact. Before the exchanges opened for operations, picket lines were formed at the entrances of the exchange buildings, and were enlarged by recruits from members of the AFL seamen's unions. Despite the picketing, however, and the suddenness of the strike order, both exchanges conducted operations and business was of a normal character. On Tuesday, March 30, a number of the pickets attempted to prevent entrance in the exchange buildings by lying down in front of the doorways. When forced to get up by the police, violence ensued and 12 strikers were injured, and 45 arrested. Two policemen also were reported to have received injuries.

Emil Schram, President of the New York Stock Exchange, following the street fracas, issued a statement expressing "deepest regret" because of the violence, and adding that "there have been no provocative acts of any kind on the part of the Exchange and there will be none." He said he was glad to know that most of those involved were not employees of the Stock Exchange.

The only section of stock exchange business which was affected by the walkout was the quotation service, which was suspended for a brief period at the beginning, but was soon partially restored. According to Mr. Schram, every precaution has been taken to maintain peaceful operation of the exchanges. It was reported that about 675 of the New York Stock Exchange's 1,300 employees were out on strike, and of those striking, about one-fifth were women. Meanwhile, the Federal Mediation Service, through consultations with the exchanges and the union officers, is endeavoring to settle the disputes. The question at issue is not only that of increased wages but a demand by the union for a closed or union shop.

On Wednesday afternoon, March 31, it was reported that pickets were thrown around 70 Pine Street, and that they passed out notices saying: "Brokerage employees in this building be ready for a general strike of all Wall Street and the entire financial district."

## Spencer Phillips With Emanuel, Deetjen Co.

Emanuel, Deetjen & Co., 52 William Street, New York City, members of the New York Stock Exchange, announce that Spencer Phillips has been appointed manager of the firm's investment and underwriting department.

Spencer Phillips

Mr. Phillips has been engaged in the investment banking and brokerage field with Tucker, Anthony & Co. from 1928 to 1946, except for a year when he was retained as investment adviser by insurance and banking companies. Because of his extensive experience as an investment consultant, he was invited to join Kalb, Voorhis & Co. in 1946 as one of the partners who coordinate studies of the firm's research department with the requirements of its institutional clients.

# Steps Toward Easing European Intra-Continental Exchange

By ERNEST H. WEINWURM

**Mr. Weinwurm calls attention to multilateral monetary compensation agreement as a significant step toward self-help, as suggested by Marshall Plan. Says nine nations have joined compensation scheme and Great Britain shows increasing interest after initial reluctance. Under plan, Bank for International Settlements as central agent will collect valuable information for future expansion of original restricted scheme.**

The European Recovery Program as proposed by the United States Government has been insisting all along upon a maximum of self-help and co-operation among the 16 participating nations. Europeans were rather startled when first confronted with that American position. For they have been accustomed since time immemorial to think in terms of rather narrow national interests without much regard to broader continental viewpoints. However, there has been gradual realization of the long-term beneficial effects which may result from the American proposals.

Ernest H. Weinwurm

Every practical step toward European co-operation should be encouraged and appreciated in this country. This would strengthen the postion of those courageous statesmen who are struggling against heavy odds to achieve positive results. This is particularly important in the field of international payments restrictions.

There is virtually unanimous consensus, in theory at least, that those restrictions hamper expansion of trade and should be eased step by step. But there is also considerable anxiety in responsible quarers lest the precarious balance now being maintained with much difficulty by various countries may be suddenly upset with disastrous effects to their national economies.

Americans may be somewhat impatient and exasperated in face of timidity and slow progress. But they may better leave it to the men on the spot to decide how fast they can go ahead. Any attempt at interference or pressure may do more harm than good.

**An Initial Step to Relax Restrictions**

Five nations among the sixteen participants in the Marshall Plan have taken the initiative in concluding an agreement for multilateral compensation. It represents a cautious but significant step in the struggle to get rid of present almost intolerable restrictions and may provide a suitable starting point for further expansion in various directions.

The report of the Paris Conference of the sixteen nations suggested a scheme to achieve "transferability" of European currencies based on a proposal submitted by

(Continued on page 46)

# Economic Tendencies

By A. W. ZELOMEK*

Economist, International Statistical Bureau, Inc., and Fairchild Publications

**Mr. Zelomek reviews situation during last 12 months, in which he notes slight business recession and weakening in economic and price structure. Says war is not imminent, and holds tax reduction will have stimulating effect on prices and business activity. Concludes economic forces are "hanging in the balance," and basic difficulty is still too much production at too high a price.**

I believe that a discussion of economic tendencies should be a little bit like reading a book. After you have read the first 200 pages, you should be able to make a reasonable guess about what happens in the last fifty. The author has created certain characters and has placed them in a certain situation. Unless he has done a poor job, or unless you have been listening to the radio while you read, you should be able to guess what will happen next.

A. W. Zelomek

Of course, if haven't read the first two hundred pages, you are completely in the dark. So would we be, in any discussion of economic tendencies, if we gave no thought to the significant developments and indicative trends of the last 12 months. The first thing we must have is a quick flashback to the action that has brought us where we are.

**Last Twelve Months**

Here is a very brief statement of the things that deserve our attention at the moment.

*Address by Mr. Zelomek before the Kiwanis Club, New York City, March 31, 1948.

First, there was a moderate recession in business activity during the second quarter of last year. Production dropped by about 7¼% between April and July. Wholesale prices eased off slightly.

What I call to your attention is the fact that this moderate decline occurred at the tail end of a fiscal year in which the defense budget had been 14¼ billion dollars. It came at a time when United States exports were at a peak.

This little recession did not go far and it did not last long. It was cut short by mid-Summer, and most measures of activity — particularly value measures — were in new high ground by the end of the year.

Why did this happen? Is it possible that the modest decline in the second quarter represented a full-scale adjustment of any distortions there were in the postwar economy? Or was the reversal caused by outside developments that will not repeat themselves the next time a decline gets under way?

There is much to be said for the belief that:

(a) the economic situation as a

(Continued on page 43)

## Arthur Kiendl Heads Govt. Sec. Dealers

Arthur H. Kiendl, Vice-President in charge of the United States Government bond department of Guaranty Trust Company, has been elected Chairman of the Government Securities Dealer Group, to serve for one year. Mr. Kiendl succeeds R. C. Morris, Vice-President of Bankers Trust Company. Chemical Bank and Trust Company has been admitted to membership in the group, which now numbers 20 dealers specializing in U. S. Government securities.

## Five With Hemphill, Noyes

INDIANAPOLIS, IND.—Hemphill, Noyes & Co., member of the New York Stock Exchange, announces that five registered representatives have been added to its organization in Indianapolis, Ind. The five, all formerly with Paul H. Davis & Co., are Paul Campbell, Michael J. Duffecy, Maurice L. Fogarty, E. N. Gimbel and A. G. Matzke.

Hemphill, Noyes & Co. maintains offices in the Merchants Bank Building in Indianapolis.

## Bingham, Walter Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—William C. Bilsborough, Jr., has been added to the staff of Bingham, Walter & Hurry, 621 South Spring Street, members of the Los Angeles Stock Exchange.

## Boenning Adds Gribbel

PHILADELPHIA, PA.—William G. Gribbel is now associated with Boenning & Co., 1606 Walnut Street, members of the Philadelphia Stock Exchange and New York Curb Exchange (Associate), as a registered representative.

## With Davies & Mejia

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — John C. Poshepny has been added to the staff of Davies & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges.

## Joins L. W. Chamberlain

(Special to THE FINANCIAL CHRONICLE)

RED WING, MINN.—N. C. Lien has joined the staff of L. W. Chamberlain & Co., Inc., 315 East Avenue.

## California Oregon Pwr. Securities On Market

Financing in behalf of the California Oregon Power Co. is being undertaken today to the extent of $6,650,000. Halsey, Stuart & Co. Inc. is offering to the public $4,500,000 first mortgage bonds 3⅛% series due April 1, 1978 at 101% and accrued interest. The award of the bonds was won at competitive sale on a bid of 100.5311. Blyth & Co., Inc., and the First Boston Corp. are heading a group which is offering 100,000 shares of common stock (par $20) at $21.50 per share. This issue was awarded at competitive sale on a bid of $19.91 a share.

Proceeds of the bonds will be applied to the prepayment of note indebtedness incurred to retire debt and for extensions and additions. Proceeds of the common stock will be applied to the 1948 construction program.

The California Oregon Power Co. is an operating public utility providing electricity and to a small extent water in southern Oregon and northern California.

# Railroad Securities

The railroad reorganization bill was passed by Congress late last week and sent to the President. While no White House action had been taken at the time of this writing there is no reason to doubt that it will be signed. There has not been the opposition to it that there was to the two earlier efforts to enact similar legislation. The bill as passed has one new feature in it. It is extended to include voluntary stock recapitalizations as well as bond readjustments. Thus, it goes further than a mere effort to afford a speedier solution to insuperable fixed charges and impossible principal maturities than Section 77 gave.

So far as debt relief is concerned there is little question but that Lehigh Valley will be the first railroad to take advantage of the new legislation. It has a very heavy debt maturity schedule starting in 1948 and extending over the next few years. Also, it is generally conceded that fixed charges are too high. This will probably be corrected in any readjustment plan by putting at least a portion of junior interest on a contingent basis. So far as the expanded scope of this new legislation is concerned, Missouri-Kansas-Texas is expected to be the first to attempt any action.

Press reports from St. Louis state that Mr. R. J. Morfa, Chairman of the road's Board of Directors, said last week that a recapitalization plan for the road might be put into effect this year. He did not discuss any details of a proposed plan to be attempted but it would naturally be aimed at providing in some way for the accruals of interest on the road's adjustment bonds (payment is at the sole discretion of the directors but is fully cumulative) and at eliminating the very large dividend arrears on the 7% preferred stock. Granting that a recapitalization of this nature is probably desirable, it seems most optimistic to even hope that it could be consummated this year.

The adjustment 5s are outstanding in the amount of $13,555,865. Interest is in arrears in the amount of $5,083,449, or 37.5% per bonds. The preferred stock is outstanding in the amount of $66,693,877 and bears cumulative dividends of 7%. No dividends have been paid on the stock since 1931 when $5.25 a share was distributed. Prior to that the regular rate had been paid for the years 1927-1930, inclusive. In 1926 only $5.75 had been paid and in 1925 there was a payment of $5 a share. Dividend arrears will amount to $124 by the end of this year, a total of roundly $82,700,000.

The road's total mortgage debt, exclusive of the adjustment 5s, amounts to approximately $47 million. In addition, the road has serial bank loans and has reached an agreement with the government to pay off certain back income taxes serially. These serial principal payments amount to $1,450,000 each in 1948 and 1949, $2,150,000 in 1950 and $1,675,000 in 1951. Its working capital at the end of last year amounted to less than $5 million. Net income in 1947 amounted to $2,820,000. It should be higher this year but at best is not likely to top $4 million unless maintenance outlays are cut substantially. Under these circumstances it is obvious that the company will have little leeway for the use of cash in trying to work out any compromise readjustment plan.

The difficulty of the job is apparent when it is realized that the total par or face value of the affected securities (the adjustment bonds and preferred stock) is in excess of $80 million and the total interest and dividend accruals thereon is close to $88 million. Total debt senior to the adjustments, including equipments, bank loans and the serial tax payments, is around $57 million. Capitalization junior to the preferred stock is represented by 808,966 shares of no-par value common stock. It is virtually impossible to see how any plan could be devised to take care of the combined claim of some $168 millions of the adjustment bonds and preferred stock and still leave anything at all for the present common.



## Firm Name Changed to Mullaney, Wells & Co.

CHICAGO, ILL. — Announcement is made of the change in name of Mullaney, Ross & Co. to Mullaney, Wells & Co., 135 South LaSalle Street. Charles C. Wells, Vice-President, recently was named President of Clyde Porcelain Steel Co., Clyde, Ohio.

His early career was in teaching and the book publishing field and was later with the Continental Illinois National Bank and Trust Co. and Chase Securities Corporation. He is President of Goodwill Industries of Chicago and Treasurer of the Evanston, Illinois, Hospital Association. He is also a director of Wayne Pump Co. and director and chairman of Minneapolis Knitting Works.

Paul L. Mullaney, President of Mullaney, Wells & Co., is a director of the Trust Co. of Chicago and before establishing his own investment firm here in 1938 was with the Continental Illinois National Bank and Trust Co. and Lawrence Stern & Co. He has actively participated in various civic activities.

Harry B. Heign, also a Vice-President of the Company, is well-known in LaSalle Street financial circles. Mr. Heign, Mr. Mullaney, and Mr. Wells are all directors of Minneapolis Knitting Works.

## Correction

In the "Financial Chronicle" of March 18th it was reported that James R. Page had become associated with Hannaford & Talbot, 519 California Street, San Francisco, Calif. This was an error as Mr. James R. Page has not been in the investment business since 1943. John Raymond Page has joined the staff of Hannaford & Talbot.

## Charles L. Cleveland Dead

Charles L. Cleveland, one of the founders of the New York investment firm of Granbery, Marache & Lord, died at his home after a long illness at the age of 59.

## Two With A. G. Becker Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Michael W. Gerrard and John D. Kipp are now connected with A. G. Becker & Co., Inc., 120 South La Salle Street.

# Railroads as Factor in More Production

By GUSTAV METZMAN*
President, New York Central Railroad

**Prominent rail executive tells of wartime accomplishments of American railroads and points out measures taken to improve and expand their facilities to promote greater peacetime production. Cites difficulties of railroads in obtaining capital and contends only way railroads can hope to have adequate earnings is to allow adjustment of rates to meet higher costs of producing their services. Expresses faith in future of railroads.**

In this second world conflict, agriculture, industry and the railroads, working always as partners in progress, made production records which surpassed even the most optimistic military logistics. With one-fourth fewer employes, one-third fewer locomotives, one-fourth fewer freight cars and one-third fewer passenger cars than they had in World War I, the railroads of the U. S., each month, on the average, produced enough transportation service to move twice as many troops, operate more than twice as many passenger miles, move more than five times as much Army freight and express, twenty times as much Navy freight for overseas destinations, and nearly double as many ton miles of freight of all kinds as they moved in the first war—and without serious congestion.

Gustav Metzman

Last year, despite a critical car shortage, the railroads moved the heaviest volume of freight traffic in their peacetime history. In fact, they hauled enough freight to average 12 ton miles of transportation service each day in the year for every man, woman and child in the United States.

The increased efficiency which the railroads have been constantly attaining over the past 25 years has been an important factor in achieving these results. Equally significant has been the cooperation among the shippers, railroads and government agencies which had its greatest expression during and since the last war. Indeed, this cooperative effort on the part of all affirms that the American way of mass production and mass consumption can best be linked by mass transportation under private management. As further testimonial to this is the fact that of all the railroads in the entire world with few minor exceptions, the Canadian Pacific in Canada and the railroads of the United States are virtually the only railroads left which are privately owned and operated. Practically all others are government owned and operated with taxpayers' money.

Today, you of industry and agriculture and we of the railroads once again are face to face with the problem of production. This problem becomes all the more serious when we realize that since April 1940 the population of the United States has increased an estimated 14 million people, and is now growing at a rate which is equivalent to adding almost three cities the size of Lansing to our population each month. Our growing nation, the pent-up demands to satisfy wartime shortages at home, and the enlarged markets abroad, all combine to create a production problem which calls for the same ingenuity, and the same efficiency which enabled America to win the battle of production in times of war. Let us never forget that the inspiration to achieve a goal must at all times be backed up with the sweat of each and everyone of us. Only by maintaining high production can we hope to maintain our high standard of living. In very truth, the productivity of labor must go hand in hand with the wages of labor.

*From an address of Mr. Metzman at the Lions Club luncheon, Lansing, Mich., March 30, 1948.

### What Railroads Are Doing

America's railroads are fully aware of their responsibilities in the solution of this production problem. In their efforts to meet these obligations, they have undertaken the largest new equipment program in their history. Like the need for materials in the automotive industry, the railroads have been unable to obtain the large number of cars they have ordered. And like the shortage of automobile supplies, this scarcity of railroad cars makes it increasingly difficult to meet all the demands of those who wish to buy railroad transportation service.

For example, during the last two years, over 1,000 new industrial plants were located along the lines of the New York Central System. Those established in 1947 alone will produce more new freight traffic for our company than was gained from new industries in any other peacetime year. In fact, this new traffic is equivalent to adding a new major city to our System. We are glad to welcome these new industries to the long list of older friends for whom we work.

In order to meet all these new demands for additional transportation service, the railroads at present have on order approximately 120,000 new freight cars and since the resumption of passenger car building halted by the war, they have ordered over 4,000 new passenger-train cars. Assurance has been given that sufficient steel will be allotted for the construction of 10,000 new freight cars each month. But such output must continue at this rate for the next several years if the railroads can ever hope to replace worn-out equipment, provide for constantly expanding traffic requirements, and thus overcome the present car shortage. Let me assure you that the railroads are making every effort to increase their supply of equipment and fill the demands of *all* for railroad transportation. The railroads are still waiting for equipment ordered two and three years ago. And almost every month that deliveries are delayed, the cost of this new equipment goes up and the expense to the railroads is increased.

These and the soaring costs of fuel, materials and supplies, taxes and wages, all combined to give the railroads, in 1947, despite record traffic and efficiency, a return of only 3.3% on their net property investment. Such return is far from sufficient to attract new capital . . . one of the parts essential to the railroads' production line of more and better transportation service.

This is not unlike an automobile assembly line . . . unless all parts flow at the proper time and in sufficient quantity, it is impossible to produce the finished product. The railroads, too, must have all their parts—enough freight and passenger traffic, sufficient manpower, adequate rates, and ample private capital—all flowing steadily, in order that the railroads may produce their only product—*transportation service*—and produce it efficiently, satisfactorily, and in sufficient quantity to meet the needs of a growing nation and the expanding markets of the world.

### Private Capital Needed

The railroads will be able to meet these responsibilities only as they can count on this steady flow of private capital. The productivity of capital is no different from the productivity of labor. Private capital will produce only as it is assured of payment for services rendered. The incentive for the employment of private capital in the railroad industry at present is far from sufficient to make such employment attractive. A return of only 3.3% is certainly inadequate to encourage private capital toward working for the railroad. In fact, it would not be sufficient to warrant working for any industry.

Consequently, with the exception of equipment purchases, railroads must depend primarily upon the reinvestment of earnings for the expansion of their plant and facilities to meet the demands for increased production. Unless such earnings are maintained at an adequate level, the ability of the railroads to continue such improvements and expansion, in order to provide you with sufficient and dependable transportation service, may be seriously threatened. The only way the railroads can hope to enjoy adequate earnings is to be allowed, just as other industry is allowed, to adjust the price of their services to the cost of producing it. Only in such a way can the railroads pay private capital a living wage and thus provide the quality and quantity of transportation service which the public demands and rightfully expects.

### Has Faith in Railroads

I have faith in the ability of the railroads to continue as a vital, pulsating part of our expanding economy. I have faith in their capacity to meet their ever-increased responsibilities as the nation's basic transportation system. And I have faith in the intelligent self-interest and inherent fairness of the American people to see that they are permitted to continue as a vigorous part of our free enterprise system. Only in such a way can the railroads hope to meet the production demands of a growing nation. And only in such a way can they hope to maintain their strength as mighty defense lines against any emergency.

It is in that faith that we of the railroads face the future. Today, despite production records all along the line; despite the highest standard of living of any nation; despite the largest national income in our history; despite all these, there are still those who face the future despondent and fearful. They think they see storm clouds gathering on the economic horizon; they fear they will burst wide open and drown them in a deluge of economic disaster; they fear another depression; a third world war; an atomic bomb. None of these do I discount; I am too much of a realist not to be aware of the obstacles that may lie in our path. But with faith in our country, in ourselves, and in our work, we can turn stumbling blocks into stepping stones of

(Continued on page 35)

# Profligacy and Taxes

"For using the highways, Americans pay over two billion dollars a year. Federal excise taxes take another eight hundred million, while State and local taxes account for a final billion and a half, or a total of four billion, three hundred million dollars, and even in the face of this staggering bill, State legislatures in many States are considering proposals to increase automotive taxes to new high levels." — George Romney, formerly Managing Director, Automobile Manufacturers Association and now Assistant to the President of Nash-Kelvinator Corporation.

George Romney

This is, of course, a heavy load which the owners and users of automotive vehicles are required to carry.

**We hardly need add that these are by no means the only onerous taxes now being paid by American citizens.**

**We could not, naturally, even if we would, in this space so much as suggest in a general way what taxes should be reduced and by what amounts to create a sound tax system or systems from the confusion and inequities now existing.**

**What we can say is that the burden of taxation can be reduced generally only if government expenditures are sharply lowered.**

**Here is the spot at which attacks should be first of all directed—that is at public profligacy—and it is here that the least effective effort is ordinarily made.**

## Winkler Opposes Chilean Debt Plan

**Gives six reasons why proposals are not fair to bondholders.**

Dr. Max Winkler, of Bernard, Winkler & Co., members of the New York Stock Exchange, has issued a statement, as of March 25, summarizing his reasons for opposing the recent offer of the Government of Chile to redeem its outstanding dollar bonds for a new issue. These reasons are:

Dr. Max Winkler

(1) The increase in payment is apparent rather than real because of tax feature of distributions under the existing plan.

(2) Expectation that larger payments would be received because of the retirement of the debt through amortization and because of the probable increase in the income from copper and nitrate has been eliminated.

(3) Chile's debt to the Amortization Bureau, i.e., to bondholders, amounting to about $24 million is cancelled.

(4) Of the first payment to be received, bondholders will be asked to contribute a total of about $165,000 to the Agency which effected the new debt plan.

(5) The new plan provides for no security for bonds whereas under the old plan, Chile's income from copper, nitrate and iodine was specifically earmarked for that purpose.

(6) Under the new plan, sinking fund payments for the period 1948-53 are fixed at $2,531,000 annually, compared with an average annual sinking fund of $4,372,150 for the period 1938-1947 under the old plan.

## Schroll & Co. Formed

JERSEY CITY, N. J. — Howard F. Schroll has opened offices at 20 Van Housten Avenue to engage in the securities business under the firm name of Schroll & Co. He was formerly associated with Peter Morgan & Co. in New York City in the sales department.

## Schafer, Miller & Co. Opens in New York

One of the oldest names in the securities business is returning to the financial roster with the admission of Schafer, Miller & Co., as a member firm of the New York Stock Exchange, with offices at 15 Broad Street, New York 5, N. Y.

Oscar Straus Schafer, third generation of his family in the securities business, was for many years a partner in Schafer Bros.—a firm founded in 1860. Partners will include Benjamin Miller, John R. Meaney, Exchange member, and Gerald B. Nielsen, recognized expert in the foreign trading investment field, who organized foreign departments for E. I. duPont & Co., Merrill Lynch, Pierce, Fenner & Beane and Kalb, Voorhis & Co.

The principals are former partners of Kalb, Voorhis & Co. The Unlisted Trading Department of Schafer, Miller & Co. will be under the direction of Mr. A. Kingston Ghegan and Mr. Herbert E. Greene, formerly of Kalb, Voorhis & Co.

The Schafer name has been prominent in the nation's financial circles for almost a century. Edward Schafer, brother of Oscar Schafer, is a member of the Stock Exchange as are their cousins, Myron Schafer, one of the few half-century members of the Exchange; Myron L. Schafer and Charles E. Schafer.

Schafer, Miller & Co. will offer brokerage and research facilities to individual, investment and dealer accounts with correspondents in principal cities throughout the country.

Formation of the new firm was previously reported in the "Chronicle" of March 18.

# Requirements for National Security

By ARTHUR M. HILL*

Chairman, National Security Resources Board

**Industrialist, heading important national defense agency, stresses serious world situation and points out measures now being taken to meet it. Says our strength lies in our national resources and lays down as requirements for national security: (1) a clear, just and honorable foreign policy; (2) strengthened armed forces; (3) increased stockpiles of strategic materials; (4) encouragement of discovery of new sources of materials; and (5) mobilized spiritual resources of the people.**

We will all agree, I am sure that we are living in an era of turmoil and uncertainty. We are not at peace with the world—actually or by statute. It is generally described as a "cold war." Perhaps a better term would be a state of world revolution with the line-up between two ideologies — international communism against the democratic way of life; slavery under dictatorship against the democratic and free way of living.

Arthur M. Hill

I feel that the remarks of that great world leader, Field Marshall Jan Christian Smuts, recently along this line are so germane to the present occasion that I should like to quote his words as they appeared in "Time" Magazine:

"Something is happening in the world today which is going to shake our civilization to its very foundations. What is called the new 'democracy', is making its appearance today—it has come to Czechoslovakia—but it is a state of things which in ancient days we used to call slavery. If a halt is not called, then the end of civilization as we know it and cherish it is inevitable.

"We are passing through the greatest crisis in human history. Fifty years from now the world may be an entirely different place. Are we going to play our part in it? Are we going to submit and bow down to it, or are we going to stand up to it and meet its challenge on behalf of human dignity?"

The realization of such a state on the part of our nation is typified by bi-partisan approval and acceptance of the European Recovery Plan; similarly, in the acclaim and general acceptance in Congress of the findings of the President's Air Policy Commission and the almost identical conclusions of the Congressional Air Policy Committee.

While I am in no sense of the word a political appointee, but rather a business man selected for a job, in spite of my politics, I support whole-heartedly and implicitly the President's recommendations to Congress on March 17, wherein he outlined the world situation and urged the prompt passage of the European Recovery Program, Universal Military Training and the re-enactment of Selective Service. In my opinion, he was fearless, forthright and sincere in his appraisal of the situation and in his conclusions as to the course we should follow.

Under no circumstances can we afford the risk of not being able militarily to support our diplomatic commitments. This nation has fallen heir to world leadership and we cannot avoid our responsibilities with honor or safety.

While much has been said with respect to our diplomatic and military problems, the plain unvarnished fact remains that our strength in the world stems from our resources—all of them. For the purpose of discussion and simplicity, I have listed them as human and spiritual, industrial and natural resources.

By human and spiritual resources I mean not only the men and women of the country, from which source we obtain our leaders, scientists, professional people of all kinds, our labor and, in wartime, our soldiers and sailors as well, but also that dynamic force that has made America—the belief of our citizens in God, in our country and institutions, in the dignity of the free man, of generosity and fellowship toward other peoples. It is the spirit of this great nation of ours. When the people of this land are informed and understand the issues, they may always be relied upon to pursue the right course.

It would be fatuous for me to expand too far on industrial resources and production before this audience, in this great industrial city. Our techniques of mass production have made this nation great in peace and invincible in war. They have given us the highest standard of living in the world during peace, and, as General Knudsen said during the war, "It deluged the enemy with production!"

General Eisenhower said recently that on D-Day plus four he flew over the English Channel and actually counted 300 ships damaged or sunken. Yet his armies still had adequate supplies to carry on, and he marveled with pride at the ability of his country to so back up its military forces.

When we come to our natural resources, the picture is not quite so comforting. We have been prodigal with our natural resources for the benefit of the world, both in peace and war. While nature richly endowed this land of ours, it was never in-

(Continued on page 27)

*An address by Mr. Hill at the Annual Meeting of the Pittsburgh Post of the American Ordnance Association, Pittsburgh, Pa., March 25, 1948.

### With Mullaney, Wells Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Roland C. Roos and David W. Shirley are with Mullaney, Wells & Co., 135 South La Salle Street.



# Mutual Funds

By HENRY HUNT

### *Turkeys and Trading Profits*

"As we recall it, Arthur Brisbane was the first to tell this story and it's a good one. A friend of Brisbane's was boasting about his in-and-out trading profits on the Stock Exchange. Brisbane replied that he too had indulged in this so called sport but that his experience had been similar to that of the novice wild turkey trapper in the backwoods of Georgia.

"It seems that in Georgia you don't use guns on wild turkeys—you trap 'em. You build a turkey hutch with a trap door. You put plenty of corn inside the hutch and a liberal sprinkling of corn leading up to the hutch. Then you hide yourself in a bush 'blind' with a long string in your hand attached to the trap door, the idea being to pull the string when you get enough turkeys inside the hutch. Only sissies settle for less than a pair of birds.

*A Sport for Early Birds*

"The turkey trapper gets up before daylight and settles down in his 'blind' while the turkeys are still roosting in tall trees. A friend of Mr. Brisbane's described his first experience at trapping turkeys somewhat as follows:

"Shortly after sunrise while the dew was still on the bushes, my nerves tensed at the sound of turkey hens 'clucking' and turkey cocks 'gobbling.' In a minute, I could see them approaching, pecking away at the trail of corn. It was a large flock, nearly twenty birds. It seemed hours but was probably only a few minutes, before the first one, a large gobbler, walked into the hutch. My finger twitched but my judgment told me, not yet, there are plenty more getting closer. A minute later, another bird walked in. Then another, and another. 'This is the life,' said I, as three more joined their mates in the hutch, making seven in all. Just then, however, two walked out and then two more. 'What a sap I am,' said I to myself, 'I should have pulled the string when I had seven turkeys.' But no, I was wrong—they started going back into the hutch, first one, then a pair and and another pair. Eight birds were in the hutch! 'I'll make it an even ten,' said I as three more approached the open door. One walked in and another was close behind. Just then I was startled by the sound of a gun shot not far behind me. I looked around involuntarily and saw nothing. But the turkeys had heard that shot too. When I looked back, my hutch was empty and remained so for the rest of the day.

"The moral of this tale is obvious; when trapping turkeys or trading in the stock market, it takes a good man to know when to pull the string."—Quoted from **National Views** written by Henry Ward Abbot.

*Morning After*

Have you ever felt like the Chinese philosopher, My Tee Lo?

*On the Rocks*

"These Things Seemed Important," published by **Selected Investment Company,** quotes from the "London Economist" as follows: "Britain faces bankruptcy. The only proper, the only long-sighted, the only courageous course would be for Britain to pursue now the policy it would pursue if the Marshall Plan were reduced to a half or a third and to use the surplus thus created to build up reserves, to modernize industry, develop economic integration in Western Europe and undertake now the program of hard living and hard working in which in the long run salvation alone will lie."

*Affiliated Takes Down Another $1 Million*

With net assets up more than $7,000,000 in six weeks as a result of sales of new shares **Lord, Abbett's Affiliated Fund** has increased its bank loan to $11,000,000, all borrowed at 2%. Including the bank loan, total assets now exceed $48,000,000.

*Freight Car Shortage*

**Distributors Group** in a recent bulletin quotes from "The Wall Street Journal" as follows: "The nation's 'number one emergency' is its shortage of freight cars and enough steel should be directed immediately to car-building plants to build 300,000 cars in the least possible time, Col. J. Monroe Johnson, director of the Office of Defense Transportation, said here.

"Rapid building of freight cars is no less important for peace than it is for war, Col. Johnson said. 'Whether or not there's a World War III, if something isn't done for the railroads, with production at its present level, we're going to have a difficult time for an indefinite period. We could build 10,000 cars a month forever, and still not solve the immediate problem,' he said."

*Notes:—*

Net assets of **Investors Mutual, Inc.,** as of March 11, 1948, were $108,280,555 with shares currently owned by more than 58,000 shareholders.

**National Investors Corporation** added two new portfolio issues during the month of February, Corn Products and Gulf Oil.

**Hugh W. Long** points out that an equal investment in **Manhattan Bond Fund, Diversified Investment Fund,** and **Fundamental Investors** affords a current return of 5% and provides 12 monthly dividend checks a year.



### John C. Stewart To Be Partner in Hicks & Price

CHICAGO, ILL.—John C. Stewart will acquire the New York Stock Exchange membership of George Brown and become a partner in Hicks & Price, 231 South La Salle Street, members of the New York and Chicago Stock Exchanges, on April 8. Mr. Stewart was formerly a member of the Chicago Exchange and in the past was a partner in Hicks & Price.

### J. Albert Williams To Be Nugent & Igoe Partner

EAST ORANGE, N. Y.—J. Albert Williams will on April 15 be admitted to partnership in Nugent & Igoe, 592 Main Street, members of the New York Stock Exchange. Mr. Williams has been an officer of J. Albert Williams & Co. for many years.

# A Western European Currency Union?

By PAUL EINZIG

**Asserting results produced thus far by 16 Western European nations toward establishing a freely convertible currency have been disappointing, Dr. Einzig points to need of harmony between monetary policies prevailing in nations concerned, thus requiring each first to put its monetary house in order. Calls solution urgent.**

LONDON, ENGLAND.—The experts of the 16 European nations concerned in the Marshall Plan are at the time of writing busily engaged in discussing problems of the economic integration of Western Europe. They are examining the possibilities of co-ordinating their systems of production, in order to be in a better position to meet each other's requirements and to reduce competition against each other. They are also considering the more remote possibilities of a Customs Union. More important and more urgent than any of these problems is, however, the problem of breaking the monetary deadlock that is threatening to strangle trade between Western European countries. For instance, France had to curtail drastically her imports of much-needed goods, not only from the dollar area, but even from countries such as Britain or Belgium.

Dr. Paul Einzig

To overcome the deadlock, it was proposed in September that all Western European countries should make their currencies freely convertible into each other. This plan was accepted without reservation by France, Italy, Belgium, the Netherlands and Luxembourg, while Britain and other countries adhered to it to a limited extent. In practice, the result produced so far has been disappointing.

More recently a new plan was put forward from Belgian quarters. It provides for the establishment of a Western European Dollar Pool, for which the dollar reserve would be provided under the Marshall Plan. There is also some question of creating an international unit of account for use in trade between Western European countries. The currencies of the participating countries would have to be related to this unit.

Obviously, the solution does not depend entirely, or even mainly, on the discovery of some ingenious formula. Its successful adoption would not be possible unless and until some degree of harmony has been achieved between the monetary policies and trends prevailing in the countries concerned. To that end each of these countries would have to put their monetary house in order. If they all suffered from the same monetary disease and approximately to the same extent, the problem would be relatively simple. The difficulty is that there are considerable differences, both of degree and of kind between their respective monetary diseases.

For instance, while sterling is rigidly stabilized, the franc is fluctuating in the free market. Prices and wages are rising in both countries, but more rapidly in France than in Britain. It would be idle to try to link Western European currencies with each other unless and until inflation has been checked or at any rate until it has been brought under a more or less uniform control.

Over and above all, there is the obstacle of Britain's large external floating debt represented by the wartime sterling balances held overseas. Britain is the only Western European country with such external debt. It is weighing heavily and unilaterally on sterling and is a source of weakness. The governments of Western European countries are reluctant to share this burden by linking their currencies to a system in which sterling is bound to play a predominant part.

Members of the British Government and British Treasury officials live in a world of make-believe when imagining that the heroics with which Britain is shouldering the burden of the wartime sterling balances, instead of insisting on their scaling down and funding, makes for prestige to sterling and to Britain. A visit to continental capitals would make them realize that the opposite is the case, and that so long as the present burden of the sterling balances exist, sterling is considered the least trustworthy of all currencies. Continental experts are aware of the extent to which these sterling balances lead to unrequited exports and increase pressure on Britain's balance of payments. Unless and until the British Government can be persuaded to face its responsibility in this respect instead of seeking expensive popularity abroad by satisfying the needs of all and sundry, there can be no question of establishing a Western European Monetary Union.

Another difficult problem is that of the devaluation of the European currencies. It is urged from American side, and there is reason to believe, notwithstanding official denials, that it has been discussed between the European Governments mainly concerned. There may have to be a co-ordinated devaluation of several currencies to correct their respective overvaluation or undervaluation. As far as sterling is concerned, the British Government refuses to consider the idea. The French and Belgian Governments, however, are keen on a devaluation of sterling, partly for considerations of prestige and partly in order to be able to buy cheaper from the Sterling Area. There is no reason to believe, however, that a devaluation of sterling would be insisted upon as a preliminary condition of a Western European Monetary Union.

The situation calls for urgent solution. While co-ordination of production and customs union are long-term remedies, a solution of the monetary problem would produce immediate results. Possibly the adoption of the Marshall Plan would help matters, as it would ease the foreign exchange position of Western Europe, and to that extent it would enable the governments concerned to take the necessary action to bring their monetary trends more or less in conformity with those of other participating countries.

### With Marshall Company

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, WIS.—Mrs. Vera M. Sholts and Monnie Elholm have become associated with The Marshall Company, 762 North Water Street. Both were formerly with the Sholts Investment Co., which has been dissolved following the death of Bud Sholts.

# Int'l Trade Organization Sets Up Charter

**Representatives of more than 50 nations at Havana approve document providing a code for world trade. Would restrict and control international cartels, prevent government-operated enterprises from exercising special privileges, bring about eventual reduction of tariffs, import quotas, import and export controls and bilateral preferences. Commerce Secretary Harriman lauds Charter as healthy instrument for expanding world trade by reducing controls to minimum.**

After many months of deliberation, representatives of over 50 nations meeting at Havana, Cuba, finally approved, on March 23, a Charter for an International Trade Organization under the United Nations. The Charter consists of nine chapters and 106 articles, and covers matters of policy as well as organization. Before final implementation, the Charter must be ratified by the nations concerned, and the International Trade Organization (ITO) made a division of the United Nations.


W. Averell Harriman

Concerning the significance of the ITO Charter, Secretary of Commerce W. Averell Harriman issued on March 24, the following statement:

"Representatives of more than fifty nations have agreed upon a code to guide them in working together to build a freer and more prosperous world trade. This code—a Charter for an International Trade Organization under the United Nations—will provide the nations of the world with a means of arriving at agreements as to the way they do business with one another. In a world that is troubled by serious disagreements and by the jealous guarding of national rights and powers, it is highly encouraging that the representatives of so many nations have agreed on a Charter which they will recommend to their governments for ratification.

"Out of the long discussions at Geneva and Havana has come a Charter which is aimed specifically at removing some of the shackles that have restricted international trade. All through the last half century and especially during the past decade we have seen a rapid growth of trade controls of all kinds. Many of them, such as our own export and import controls, were imposed during the war to conserve scarce materials and to make sure the limited supplies went to the right places. But world trade has been hampered for several decades by many other restrictions that have been making it more and more difficult for nations to get what they need from other nations and to sell their goods freely in the markets of the world. Prosperity can only be promoted by the freest interchange of goods between nations.

"As early as the first two decades of this century the markets for certain kinds of manufactured goods were being controlled by giant combinations of manufacturing concerns. They agreed not to compete with one another in certain countries. And they agreed as to the prices they would charge in their carefully staked out markets. The result was a loss of healthy competition in international trade. One of the aims of the Charter is to restrict and control the operations of these international trusts, or cartels.

"Another aim of the Charter is to make sure that government-operated trading enterprises are not given special privileges that work to the disadvantage of private business. They are to be subject to the same regulations and to the same trading conditions as those that govern private traders.

"The Charter provides also for the eventual reduction of such restrictions as tariffs, import quotas, import and export controls, the preferred treatment extended among some groups of countries to one another's products, and the controls on the amounts of certain kinds of currencies that can be spent in other countries.

"A further objective of the Charter is to make it possible for nations to work out agreements for buying and selling certain kinds of agricultural products and raw materials—wheat for example—at reasonable prices. In the past, countries producing and selling such basic commodities have suffered when world prices declined. Low prices led to declines in production; and the resulting scarcity in turn produced high prices for the buying nations. Producing and consuming countries alike suffered from sharp fluctuations in the prices and supplies of these commodities. By means of inter-governmental agreements, much can be done to keep production and prices reasonably stable.

"No one expects that all of these objectives can be realized as soon as the Charter is ratified by the participating governments. The world has not recovered sufficiently from the destruction and economic dislocation of the war to permit an immediate return to the relatively free conditions of international trading that existed forty or fifty years ago. The Charter itself recognizes these facts. It contains escape clauses that permit the participating countries to retain some of their restrictions on trade if the restrictions are needed to cope with special difficulties.

"The Charter is important because it represents a voluntary effort of the world's great trading nations to resist the strong tendency all over the world for each nation to set up special regulations to cope with its own trade problems. Carried far enough, this trend would result in anarchy, with each nation having its own way of doing business, and with no generally recognized rules of trade among nations.

"We in the United States believe in competition. We believe in reducing controls on business to a minimum. We have taken the lead in encouraging the establishment of an International Trade Organization because we believe it is to the ultimate advantage of all nations and will lead to a better life for our own people and the people of the world."

The following is the official summary of the ITO Charter, as issued from Havana, by the Department of Public Information of the United Nations:

### CHAPTER 1

**Purposes and Objectives**

The first Chapter (Article 1) states in broad terms the purpose and objectives of the Charter and of the ITO. The purpose is defined by reference to Article 55 of the Charter of the United Nations. The objectives are listed as:

(a) To assure a large and steadily growing volume of real income and effective demand, to increase the production, consumption and exchange of goods, and so to contribute to a bal-

(Continued on page 34)

# The Budget of the United States

By JAMES E. WEBB*

Director, Bureau of the Budget

**Director Webb contends 1949 budget is geared not only to nation's place in world today, but also in world of tomorrow. Points out effects of war and efforts to prevent future war account for 79% of total budget, and current budget must cover three broad areas of: (1) our international responsibility; (2) our national defense, and (3) our domestic programs. Estimates ERP cost as $4 billion in 1949 and $5 billions following year, and says it represents only minute fraction of national income and will save future national defense costs. Holds Administration's policy has been to curb domestic outlays, wherever possible.**

I cannot avoid prefacing my speech tonight with a reference to the recent events in Central Europe. I refer, of course, to the destruction of the Czechoslovakian Republic for the second time in 10 years. These developments cause us to think constantly of the maintenance of our liberties and our national life. Surely, we can all agree that the defense of our nation and our ideals requires careful judgment and steadfast will. It transcends partisan considerations. Under these conditions particularly, the actions of our government—its programs to meet international and domestic problems—have the utmost significance. They vitally affect our existence as a strong and free nation.


James E. Webb

Tonight, I should like to talk about the subject I know best—the Budget of the United States. The Government's programs are reflected in the Budget. For the year 1949 this budget has been shaped and molded in the light of our position in the world.

The United States in the world today is a mighty nation. More important, it is a nation whose citizens are free to order their own affairs, and the affairs of their government.

The budget is an essential instrument in this ability of each citizen to review and control the affairs of his government. The budget document makes available to him a complete and detailed plan for all government activity. And most important: no single part of this plan can be carried out without the approval of the elected representatives in the Congress. They are free to reject, to modify, or to add to this plan. Every dollar must be voted by the Congress before it can be spent.

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

**The Preparation of Budget**

The preparation of the annual budget symbolizes the responsibility of the President to plan for the common defense and the general welfare.

The Budget Director works with the President as he formulates his operating plans, considers the goals to be reached and the obstacles to be overcome. As business leaders, you go through a similar process in laying the operating and financial plans for your enterprises.

The President as the Chief Executive must bear full responsibility for what is excluded as well as for what is included in the budget.

As you well know, the budget proposed for 1949 is nearly $40 billion. You might well ask, how did it get that way? What is the derivation of that figure? What are the decisions which result in a recommendation for that amount? I should like for a few moments to try to describe some of the basic considerations.

First of all, the Government of the United States is a going concern. It operates on the basis of a large and complex body of laws which have been developed through the years. These laws are the result of the expressed needs of our people.

The President is, in the fullest sense, the servant of the law. He is in duty bound to execute faithfully the provisions and requirements of the law of the land as enacted by Congress. The significance of this fact is clearly revealed in the 1949 budget.

For example, more than $9.3 billion is required to meet costs of pensions, tax refunds and interest on the public debt. These are fixed and inescapable obligations established by law.

Grants to states for long-term programs amount to an additional $2.3 billion. Under the laws establishing these programs the amounts spent by the states largely determine the Federal obligation.

Veterans readjustment benefits add another $2.6 billion to the budget. This amount is largely determined by the number of persons eligible under provisions of existing law. In all these cases, the President has little or no control over the amounts to be spent. The problem is one of estimating future work loads with the greatest possible accuracy and applying to them the requirements of the law.

In addition, throughout the rest of the budget there are many large, continuing programs which would be difficult to change on short notice. For example, large public works projects are not susceptible to rapid contraction without serious economic waste. In the field of national defense, such programs as aircraft procurement, ship construction and others, cannot be rapidly adjusted within any one year.

These continuing programs have a basic momentum which is reflected in the budget year after year. They are not sensitive to the pressures of an annual budget policy. The responsibility of the President is largely to insure that the specific requirements of laws enacted by Congress are carried out with efficiency and economy. Substantial budgetary reductions in most of the areas of heavy fixed commitments can only come from congressional action in revising the basic law.

**Budget in Light of World Realities**

But the true significance of the 1949 budget does not lie in comparisons of non-controllable and controllable items. It lies in the fact that where judgment was exercised, it was made with full awareness of the realities of the world situation.

The 1949 budget is geared not only to the United States in the

(Continued on page 36)

# Canadian Securities

By WILLIAM J. McKAY

Since the introduction of the austerity measures Canada has made slow but nevertheless definite progress following her efforts to correct the imbalance of trade with this country. The Dominion's reserve of gold and U. S. dollars mounted at the end of February to a total of $527 millions from the December low level of $461 millions. This improvement, moreover, is not the result of merely negative measures of restriction of U. S. imports but is also a consequence of expanded U. S. dollar-earning exports.

The Dominion is not content to rely on external factors to improve its foreign exchange position, but is planning independent steps to increase exports to hard currency areas. As a concrete example, Ottawa is now adopting an export incentive plan, whereby the automobile, electric appliances, radio and office machinery industries in particular, will be encouraged to expand their sales south of the border instead of concentrating on the domestic market. The most encouraging development in this direction to date is the arrangement made by the newly established Studebaker Corporation of Canada with the parent firm in this country, as a result of which the Canadian branch will handle the bulk of Studebaker's foreign business. In the normal way the Canadian automobile industry constitutes a drain on the Canadian U. S. dollar reserves as it depends on U. S. imports for a large proportion of its requirements. Previously there has been no compensating offset but with the operation of the new incentive plan whereby the Canadian automobile industry will be given a higher U. S. dollar quota in proportion to its expansion of hard-currency sales, it is expected that other firms and other industries will soon follow the Studebaker example.

A further indication of Canada's constructive attitude towards her current economic problems is the announcement by Reconstruction and Supply Minister Howe that during 1948 approximately $2,800 millions will be spent on types of goods, which will tend to increase the Dominion's productive capacity. This figure represents an increase of 17% over the capital goods expenditure of last year and the largest amount in history.

Apart from Canada's own efforts, the overall situation is certain to be improved following E.R.P. expenditures in the Dominion during the coming year which are currently estimated at $500 to $1,000 millions. In addition, contemplated war stockpiling operations south of the border would also operate to Canadian advantage. As the world's leading exporter of base metals it is logical that the Dominion will be called upon to boost still further its production of strategic metals. In this connection it is interesting to note that the Aluminum Company of Canada has reopened its Shawinigan Falls No. 2 plant as a result of expanded U. S. demands. In this field also Canada can play a leading role especially in view of the stepped-up demands of the U. S. aircraft industry and the Canadian record during the war as a major supplier of low cost aluminum.

The Canadian productive capacity in the mining industries has also been increased recently as a result of the Dominion's vigorous immigration policy which is now operating to reduce the chronic labor shortage which plagued this industry during the war years. Thus as the combined effect of internal effort and external developments the Canadian foreign exchange situation can now be viewed with a greater measure of optimism. The Canadian authorities, however, are fully aware that the corner has not yet been definitely turned and there will be no relaxation of the current drive to conserve and earn U. S. dollars until the deficit has been reduced to manageable proportions.

During the week the external section of the bond market was dull and inactive and the internals fluctuated within a narrow trading range. Free funds also were steady and the proceeds of sales of registered bonds were readily absorbed by current requirements. Canadian stocks were stronger in sympathy with the trend in New York led by the industrial and base metal issues. The golds also recovered after their recent decline and Canadian Pacifics were a strong feature as a consequence of the recent railrate increase.

## Grimm & Co., Will Open Br. Office in Orlando, Fla.

ORLANDO, FLA. — Grimm & Co., members of the New York Stock Exchange, will open an office at 145 North Main Street. Associated with the new branch will be J. Don Haggerty, Sidney W. Haley and Bert S. Long. All were formerly with A. M. Kidder & Co. and Cohu & Torrey.

## Blair & Co., Inc. Elects Two

Blair & Co., Inc., has announced that Harold W. Abele and Richard W. Denton, Jr., have been elected assistant Vice-Presidents. Mr. Abele has been associated with the firm in the Chicago office at 135 La Salle Street. Mr. Denton has been in the New York City office at 44 Wall Street.

## New York Stock Exchange Weekly Firm Changes

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

Kaiser & Co. retired as an Exchange member firm on March 25, when the membership of Leland M. Kaiser was transferred to John G. Carhart.



# What Should Be Done About Russia

By H. MURRAY-JACOBY*

Formerly U. S. Ambassador-at-Large

**Former diplomat urges meeting of President Truman and Joseph Stalin in effort to avoid war with Russia. Warns of disastrous economic effects of war with Russia, and says President Truman should not only open door for peace talks, but "should break down the door."**

When I spoke to you in October of last year, I said that President Truman should never have permitted Congress to go home but should have kept it in session so that the ERP would have had a chance to be passed in the Fall. It is my conviction that had this happened, Czechoslovakia would still be an independent nation and Jan Masaryk would be very much alive. We are once more at the crossroads and probably for the last time. On Jan. 20 of this year, when addressing the Palm Beach County Federation of Women's Clubs, I made three recommendations of a policy to be pursued towards Russia: First, because of an imminently pending takeover of Czechoslovakia, the Marshall Plan should be passed without delay and in an unemasculated form; second, that there should be a direct meeting between President Truman and Marshal Stalin; that such a meeting should take place at a neutral point and that President Truman's statement that he was willing to meet Stalin at any time in Washington was not enough; and thirdly, that if such an attempt at reconciliation would fail, we should then with top speed create a system of protective quasi-alliances among the democratic powers.

H. Murray-Jacoby

It is significant that Winston Churchill shortly thereafter made the suggestion of a Truman-Attlee-Stalin meeting, probably sensing as I did that this was our last chance to avoid a shooting war. This suggestion was ruled out by Mr. Attlee and, unfortunately, also by Mr. Truman.

It is further significant that Premier Jan Smuts of the Union of South Africa in a recent speech pointed out that apparently three great systems were shaping themselves through an evolutionary process which we would have to look at realistically: Our Free Enterprise System and that of the other free democratic nations; the Communistically dominated system; and a system yet in the formative stage of the Asiatic powers which would be different in its conception from the other two; and that no necessity existed that these systems would have to go to war with each other.

On March 5th, the highly responsible publication, "U. S. News," now combined with "World Report" and published by David Lawrence in Washington, made a front page statement which, because of its importance, I wish to quote at length:

"Joseph Stalin, late in January, sought a meeting with President Truman. The purpose apparently was to try to find a basis for armistice in the cold war between U. S. and Russia. An emmissary of Russia's Premier made the proposal. The American Official who received it replied that Mr. Truman had made it clear that he would not travel to Russia. The suggestion then was made that a meeting be held in Stockholm. Proposal for a Stockholm meeting between President Truman and Marshal Stalin was carried to George Marshall, U. S. Secretary of State. It came on the initiative of the Russian Premier. The decision of President Truman and Secretary Marshall was to rebuff the suggestion. A technical denial is made by the Secretary of State that there have been 'peace feelers' from Russia. The White House too, through a press secretary, tended to discount reports that a meeting had been proposed. The fact is that the proposal was brought to Washington and turned down. . . . Mr. Truman insists that any future meeting with Joseph Stalin must be held, if it is held, in Washington. The President reiterates that attitude."

So far Mr. David Lawrence's "U. S. News" insists that its information is correct. Apparently, we are willing to gamble the lives of some ten million young Americans for some Emily Post nonsense and Protocol rubbish. I began writing against Communism in April, 1919, when a statement of mine attacking Lenin's teachings was first quoted in the N. Y. "Times." On April 2, 1939, the "Times" gave me a full-page interview with the headline "Left danger seen in South America; Ex-Envoy urges counter drive to offset Propaganda of Dictator Powers." But at all times I felt the necessity to explore the fundamental difference between our philosophy and that of Communist Russia on a scientific, dignified basis, ex-mud slinging and ex-war mongering. What we need then are three things: Firmness, Clarity and a willingness to bring about a reconciliation with Russia as a world power, not a compromise with Communism which is something totally different. The late President Theodore Roosevelt, a vigorous American with much knowledge of travel and Foreign affairs once summed it up, and I have quoted it now for two years as the desirable American Policy: "Speak softly and carry a big stick." We have done neither. We are at last showing firmness but we are not showing clarity. Marshall Stalin still does not know after the President's declaration precisely how far he can go without inviting war. We should have drawn a definite line together with our democratic associates, a line which if violated would mean war and this should have been stated in the clearest language. But simultaneously with such a move we should invite Rusia to freeze the status quo and in this connection we would have to produce an entirely different atmosphere and climate so that we could expect some cooperation, and not as heretofore the closed door in our negotiations with Russia.

Finally, our people should be made to realize just what war with Russia would mean. We now have an annual cost of government of forty billions. We do not feel this too much at this moment as our national income, the income produced by all the people, is around $190 billion. But if we would fall down to the super boom level of 1929 when it was $86 billion, half of such income would go to the support of the government; and if it were to fall to the depression figure of $44 billion, no one in the United States could keep a dollar. This is the rosy situation ex war with Russia. If now on top of this we would say create a debt as large as that of the last war—say another $200 billion — could our economy stand a $460 billion debt when you consider that from the time of George Washington up to the outbreak of World War I our entire accumulated indebtedness was around $1 billion. The answer is that our entire economy would go haywire just as it did in otherwise normal countries like Germany, France and Italy and that then and then only we would face internal danger from Communism, another word for despair. And while without doubt we, with our superior resources and organization, would certainly win over Russia the cost of such a victory would be so gigantic that we would in effect suffer defeat through victory. Thus then, we should explore every avenue that may lead to peace. We should not merely render lip service to the Sermon on the Mount which was never a visionary dream but in fact the most practical instrument ever given to mankind. And if Mr. Truman says in his address that the door is always open for peace talks, the American people should let him know in unmistakable language that he should break down that door.

*Talk by Mr. Murray-Jacoby before the Kiwanis Club, Delray Beach, Fla., March 25, 1948.

# Business Man's Bookshelf

**Behavior of Wages**—Jules Backman and M. R. Gainsbrugh—National Industrial Conference Board, Inc., 247 Park Avenue, New York 17, N. Y.—paper—$1.00 (lower rates for quantity orders.)

**Britain's Battle of the Gap**—Discussion of aftermath of the war in Britain — British Information Services, 30 Rockefeller Plaza, New York 20, N. Y.—paper.

**Economics of Money and Banking, The**—Lester V. Chandler—Harper & Brothers, 49 East 33rd Street, New York 16, N. Y.—cloth—$4.50.

**Production Cost Trends in Selected Industrial Areas**—Philip Neff, Lisette C. Baum and Grace E. Heilman—University of California Press, Berkeley, Calif.—cloth—$4.00.

**Recent Developments in Dominion-Provincial Fiscal Relations in Canada**—James A. Maxwell—National Bureau of Economic Research, 1819 Broadway, New York 23, N. Y.—paper—50¢.

**Should Fertilizer Production Be Subsidized?**—An analysis of the National Soil Fertility Act of 1947 — Richard Bradfield — American Enterprise Association, Inc., 4 East 41st Street, New York 17, N. Y. —paper—50¢.

**Spinning Rayon Staple on the Cotton System**—Research Department, American Viscose Corporation — fabricoid — copies will be sent free to all technical qualified people who request it of American Viscose Corporation, 350 Fifth Avenue, New York 1, New York, on their business letterheads.

## Recommends Enactment of Buffett Bill

**Members of Economists' National Committee on Monetary Policy express approval of measure to restore gold coin standard.**

Prof. Walter E. Spahr, Executive Secretary of the Economists' National Committee on Monetary Policy, having offices at One Madison Avenue, New York City, and comprising in its membership some of the leading economists of the country, has made public a statement signed by 42 members, recommending the enactment of the Buffett Bill (H. R. 5031), introduced by Representative Howard Buffett (Rep.—Neb.) and printed in the issue of the "Chronicle" of Jan. 28. The Bill provides for a restoration in the United States of a gold coin monetary standard. The text of the statement follows:

Walter E. Spahr

We, the undersigned, members of the Economists' National Committee on Monetary Policy, recommend enactment of the Buffett Bill, H. R. 5031, for the following reasons:

(I) Most of the paper money of the United States carries promises to pay which are not honored, cannot under present laws and regulations be honored, and are therefore dishonorable. No nation, if it can avoid doing so, should permit its Treasury and banks to circulate such promises. Our country can and should avoid practices of this kind.

(II) Although these irredeemable promises to pay are currently maintained on a parity with gold by a roundabout system of indirect conversion leading through the Federal Reserve banks back to the gold held by the Treasury, their circulation in the form of irredeemable paper money permits and invites a much freer and less responsible issuance of circulating media than would be possible if promises were redeemable in gold on demand. Our present system, consequently, contributes to a depreciation in the purchasing power of our dollars in terms of goods and services.

(III) Restoration of a gold-coin monetary standard and system would return to the people a high degree of direct control over the government's use and abuse of the public purse and would help members of Congress free themselves from the relentless drives of pressure groups which are among the dominant factors, if they are not the dominant factor, in the spending of the people's money.

(IV) Restoration of a gold-coin monetary standard in the United States would not only reestablish integrity in the promises to pay issued by the Treasury and Federal Reserve banks but it would prove helpful in providing leadership for other countries which are struggling to reestablish sound bases for their money, industry, and commerce.

(V) Action now in restoring a gold-coin monetary standard and system in the United States should prove of strategic aid in working toward a greater freedom from regimentation. Of necessity, this involves scrapping or substantially modifying any system of "managed" irredeemable paper money which accompanies highly developed schemes of governmentally-managed economy.

(VI) The monetary gold stocks of our country are at the highest point in history, and they increased during 1947 by $2\frac{1}{2}$ billion. These stocks are ample, in ratio and in amount, to back an adequate volume of circulating media on a fully convertible basis provided our government follows a reasonably prudent course in the use of public funds and thereby helps sustain the confidence of the people in their money.

SIGNED

CHARLES CORTEZ ABBOTT, Harvard University.
BENJAMIN M. ANDERSON, University of California at Los Angeles.
CHARLES C. ARBUTHNOT, Western Reserve University.
JAMES WASHINGTON BELL, Northwestern University.
CLAUDE L. BENNER, Continental American Life Insurance Co., Wilmington Delaware.
ERNEST L. BOGART, New York City.
FREDERICK A. BRADFORD, Lehigh University.
J. RAY CABLE, Missouri Valley College.
WILBUR P. CALHOUN, University of Cincinnati.
*ARTHUR W. CRAWFORD, Chamber of Commerce of the United States, Washington, D. C.
WILLIAM W. CUMBERLAND, Ladenburg, Thalmann & Co., N. Y. C.
D. W. ELLSWORTH, E. W. Axe & Co., Inc., Tarrytown, N. Y.
*FRED R. FAIRCHILD, Yale University.
*ROY L. GARIS, University of Southern California.
LEWIS H. HANEY, New York University.
E. C. HARWOOD, American Institute for Economic Research.
WILLIAM F. HAUHART, Dean Emeritus, Southern Methodist University.
FREDERICK C. HICKS, University of Cincinnati.
*JOHN THOM HOLDSWORTH, The University of Miami.
MONTFORT JONES, The University of Pittsburgh.
DONALD L. KEMMERER, University of Illinois.
WILLIAM H. KIEKHOFER, The University of Wisconsin.
WILLIAM H. KNIFFIN, Bank of Rockville Centre Trust Co., L. I.
FREDERIC E. LEE, University of Illinois.
*J. L. LEONARD, University of Southern California.
A. WILFRED MAY, Executive Editor, "The Commercial and Financial Chronicle," N. Y. C.
*ROY W. McDONALD, Donovan, Leisure, Newton, Lumbard and Irvine, N. Y. C.
DAVID H. McKINLEY, The Pennsylvania State College.
MELCHIOR PALYI, Chicago, Illinois.
FRANK PARKER, University of Pennsylvania.
CLYDE W. PHELPS, University of Southern California.
CHESTER A. PHILLIPS, The State University of Iowa.
LELAND REX ROBINSON, 76 Beaver St., N. Y. C.
R. G. RODKEY, University of Michigan.
OLIN GLENN SAXON, Yale University.
CARLTON A. SHIVELY, "The New York Sun."
WALTER E. SPAHR, New York University.
JAMES B. TRANT, Louisiana State University.
RUSSELL WEISMAN, Western Reserve University.
NATHANIEL R. WHITNEY, The Procter and Gamble Co., Cincinnati.
EDWARD WIEST, University of Kentucky.
MAX WINKLER, College of the City of New York.

*Indicates minor changes are recommended in text of bill, or in terms of endorsement.

## John D. Hines With Dean Witter in N. Y. C.

Dean Witter & Co., members of the New York Stock and Curb Exchanges and other leading stock and commodity exchanges, announce that John D. Hines, formerly with Kaiser & Co., has become associated with the firm as a registered representative in the New York office, 14 Wall Street, New York City.

John D. Hines

# Food Supply and Food Prices

By HOWARD T. CUMMING*

President, Curtice Brothers Co., Rochester, N. Y.
President, National Canners' Association

**In reviewing world and domestic food situation, Canners Association's executive stresses continuing foreign demand for American foods as well as postwar expanded U. S. food production and processing. Points out deficiencies and dangers in government food program under farm parity guarantee, and denies food prices are out of line or profits of producers excessive. However, looks for a downward price tendency arising from more plentiful future food supplies.**

Many of the early events of the recent war have already faded from memory, but in the food business we still recall the slogan "Food will win the War and write the Peace." We cannot claim that food alone won the war, but we do maintain that it played an all-important part in the victory. With no real peace attained as yet, we cannot contend that food has written the peace. But it is playing a leading role and will continue to do so as we persist in our effort to bring peace into the world. Food and its supply thus possesses world-wide significance.

Howard T. Cumming

Two and a half year after V-E Day we find the world food scarcity more acute than at any time in recent history. In 1946 food production in Western Europe was only about 80% of the prewar figure. Unfavorable weather reduced 1947 crops still further. Even under conditions of favorable weather, several years of good crops will be necessary in order to restore world food reserves to safe levels. It is a reasonable assumption that until the food-producing nations of Europe regain economic and political stability their requirements for imported foods will remain at a high level.

### Foreign Food Demand

Farmers and food processing industries in this country may expect a continued demand from abroad for at least two or three more years. It would be a mistake, however, to count on smooth sailing in our attempt to satisfy that demand. Some of the peoples abroad who have the greatest need for food may not be able to make purchases because of their inability to earn or borrow money. Others may not have access to food because of political barriers. Consequently, in spite of a potential world demand, we might find ourselves approaching a more balanced supply and demand situation than we have known since the beginning of the war. That would be particularly true if, in the face of a possible declining demand, agriculture continues to be subjected to the artificial stimulus of war-born Government support programs.

The impact of the world situation is not the only influence affecting our food production and supply today. In this country there are specific influences at work worthy of special consideration in any discussion of this subject.

To begin with, agriculture and the food industries demonstrated during the war an ability to expand with great rapidity and reach extremely high levels of production.

Total food production in 1947 was 41% larger than the prewar 1935-39 average. Production of food grains doubled during this period; vegetables, meat animals and poultry increased by 50%, fruits by 30, and dairy products by 20%.

My own industry — canning— practically doubled its ouptut, increasing its production from 260,000,000 cases of canned fruits, vegetables and juices in the prewar period to about 500,000,000 cases in 1946, and this does not include the large quantities of canned milk, meat and fish packed. That high productive capacity exists today. Generally speaking, food manufacturers had no reconversion problem. Food was in itself a munition of war and few food manufacturers were diverted to making armaments. The demand for food was so great that they simply put on pressure, expanded their facilities, and kept on producing those things they had always turned out. Their plants stand ready and willing today to produce at a wartime rate, if this should become necessary.

Our farmers likewise reacted to the stimulus of high prices and a wartime demand and broke all their previous production records, despite labor shortages and other handicaps. They accomplished this by dint of long hours, sweat, and great ingenuity. They were and still are being assisted by constant improvements in the technics of growing. The betterment of their varieties from the standpoint of both quality and disease-resistance; the discovery of more effective insecticides; the development of more efficient farm equipment; and the spread of greater knowledge among farmers; all these make for a greater potential production on a given acreage with a given amount of labor.

### New Food Industries

Another factor that has encouraged greater food production and supply in this country in recent years has been the development of whole new industries within the food industry. We are the only country in the world whose very young babies are fed so extensively from cans and jars. Infants consume $100,000,000 worth of processed foods annually.

The quick-freezing of fruits, vegetables, fish and meats has de-

(Continued on page 37)

*An address by Mr. Cumming before the National Marketing Conference of the Chamber of Commerce of U. S. A., St. Louis, Mo., March 12, 1948.

# Securities Salesman's Corner

By JOHN DUTTON

Last week in the "Chronicle" an article entitled, "Is Salesmanship Essential to Distribute Securities?" by Douglas Laird, Vice-President of National Securities & Research Corporation, made this point: "FIRE ALL THE SALESMEN IN AMERICA AND GET DOWN TO TOMBSTONE ADVERTISING, AND YOU WILL SEE THE GREATEST DEPRESSION IN THE HISTORY OF MANKIND." With that, as well as the rest of Mr. Laird's clearly explained position regarding the various phases of security salesmanship, we heartily agree. If you missed his piece, look back in the March 25 issue (page 7) of your "Chronicle" and read his article. If you sell securities you will find much that is both stimulating and helpful in it.

But to go on—the point Mr. Laird makes about the place of the salesman in our national life—all salesmen, not only securities salesmen for that matter—is so absolutely true that we wonder how anyone could fail to realize the importance of his work if he makes a living selling. Yet, time and again, we have heard men depreciate the work they do if they happen to be salesmen. We have heard others say, "Oh, he's only a salesman." We have been present when some men have been asked what they do for a living and they have answered in a self-conscious sort of way that they just do some "peddling." Self effacement and a subconscious feeling of inferiority underlies the failures of most men in sales work—as well as other fields of creative endeavor. What Mr. Laird says in his article is that salesmanship is an art and a highly skilled one at that. That any man who is a good salesman has accomplished something worthwhile in his life. Besides he is contributing to the welfare of his country in a sphere of activity that is so important to the well being of his fellowman, that without his efforts our entire economic machine would collapse.

Think about it a minute: Before there are jobs there must be machines, tools, facilities—before they can be obtained salesmen must convince others to part with money to finance these things (that's us boys). Then salesmen must sell the stuff after all the rest of the people dig it, convert it, style it, change its form again and again, keep records about it, ship it, wholesale it, retail it, and if there was no one to sell it **when people didn't want it**, Mr. Laird you're right—that state of economic immobility that is called a depression would become a more frequent condition of American life.

They say an egotistical man is in the long run his own worst enemy. But there is a vast difference between having an understanding, and an appreciation of what you are doing as you walk through life, and being a pompous blowhard. Th man who knows he is good because he has studied his job—made a go of things when obstacles have appeared before him—studied through his own mistakes and developed a technique for accomplishing his objectives—that man has a feeling of confidence in his own powers that will enable him to make a success out of his job and his life. That is the way men who ARE EXPERT SALESMEN feel about their job. They know it is a worthwhile field of activity in which they are engaged—they wouldn't allow any man to place them in a position of inferiority—they have perspective!

There is a reason I have written this little column at this time. Not only was I impressed by Mr. Laird's insistence that selling securities was a most laudable way of earning a living (for my part as great a benefit to mankind as any of the professions, or other lines of business that we undertake in our free land) but I believe that the thought I have expressed here is indeed timely right now. For many years, those of us who have continued in the investment securities business have been under attack by our own government officials, by assorted demagogues and by leftists and cranks of every persuasion. We have seen our business and our way of making a living, maligned and caricatured until it is no wonder that some of us, when asked what we do, have answered in a self-conscious sort of way, "Well, I sort of work in Wall Street."

Every man who is engaged in the investment securities business in this country should eject any and every thought of inferiority from his mind. Ours is a good business—a vital business—a damned tough business where brains and and character count—and remember this—if we don't sell, THEY DON'T EAT! THAT GOES FOR THE PAYROLL BOYS WHO WORK FOR THE GOVERNMENT, TOO, WHO ARE SO FOND OF TELLING US HOW TO DO WHAT THEY THEMSELVES COULDN'T ACCOMPLISH IF THEY STUDIED THEIR LAW BOOKS FOR ANOTHER FIFTY YEARS. Ours is a good business—never forget it—and the more you believe this the more business will come to you.

## McDonald & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, O.—Robert J. Ress is with McDonald & Co., Union Commerce Building, members of the New York and Cleveland Stock Exchanges. He was previously with White-Phillips Co. of Davenport.

## Herlitz With E. F. Hutton

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—William Herlitz has become associated with E. F. Hutton & Co., 160 Montgomery Street. He was previously with Walston, Hoffman & Goodwin and Dean Witter & Co.



# We Must End "Creeping Munich," Declares Liberal Educator

**Bryn Hovde asserts our military endorsement of democracy must immediately be impressed on Stalin, as it should have been on Hitler and the Kaiser.**

What is left of democracy in Europe can be saved only by backing up the European Recovery Program with a clear statement that the United States will fight to preserve it, Dr. Bryn J. Hovde, President of the New School and former UNESCO official, declared. "Hitler could have been stopped in 1939, and the Kaiser in 1914 by such a declaration," he said.

Bryn J. Hovde

Writing in the New School weekly "Bulletin," Dr. Hovde asserted that even without "rattling the sabre" Soviet expansion in Czechoslovakia might have been stopped had the United States been prompt with economic assistance. ERP was conceived too late, he stated, adding that Czechoslovakia, Finland and even Poland would have come into the ERP despite Soviet Russia a year and a half ago.

Dr. Hovde blamed lack of knowledge on the part of America of eastern and central European conditions for our failure to take constructive steps in time. A high ranking member of the Czech foreign ministry told him last summer, he said, that American policy was "hypocritical" because "it stirred up trouble with the Soviet Union by strong words unsupported by adequate force." The official added, Dr. Hovde said, that "it would make all the difference in the world so far as Czech-Soviet relations were concerned, if the U. S. would support Czech freedom with a clear declaration of willingness to use arms to defend it."

## First Guardian Securities

First Guardian Securities Corporation is engaging in an investment business from offices at 160 Broadway, New York City. Arthur H. Baum is a principal of the firm.

## Hastings Represents Parker

CHICAGO, ILL.—Bryon Hastings is acting as Illinois representative for the Parker Corporation, making his headquarters at their office at 120 South La Salle Street.

## With G. Brashears & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Kenneth N. Simonds has been added to the staff of G. Brashears & Co., 510 South Spring Street, members of the Los Angeles Stock Exchange.

## Edgerton, Wykoff Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Ralph M. Dahl has been added to the staff of Edgerton, Wykoff & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange.

## E. F. Hutton & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF—E. F. Hutton & Co., 623 South Spring Street, have added Frank P. Flint II to their staff.

# Sees Serious Shortage of Venture Capital

**Guaranty Trust Co. of New York holds new tax measure will accomplish little to aid capital market and advocates thorough reexamination of whole Federal tax structure and other situations discouraging vital function of industrial risk-taking.**

"A striking feature of the testimony on the tax-reduction bill was the emphasis placed on the need for stimulating the flow of risk-taking capital into industry. The sluggishness of this flow has been a matter of concern to close observers of the security markets for some time, but it is doubtful whether even now there is adequate recognition of the sweeping changes that have taken place in the factors determining the supply of venture capital and the seriousness of their possible effects on the nation's economy, according to 'The Guaranty Survey,' monthly review of business and financial conditions, published today by Guaranty Trust Company of New York.

"The bill, if enacted, would accomplish little toward the restoration of a more healthy state of affairs in the capital market. What is needed is a thoroughgoing reexamination of the whole Federal tax structure and of the other conditions that tend to discourage the performance of the vital function of industrial risk-taking.

"There seems to be no serious disagreement as to the existence of a large shortage of venture capital. The National Association of Manufacturers estimates the current deficiency at $8 billion annually and points out that commercial bank loans rose rapidly in 1946 and 1947, while individual holdings of corporate securities showed no increase whatever, indicating that business concerns were forced to resort to commercial banks to meet some capital requirements that should have been financed by the sale of securities to investors. The New York Stock Exchange calculates that in no year since 1935 has as much as 12% of total corporate expenditure for new plant and equipment been financed by stock issues. The proportion for the entire period 1936-1947, inclusive, is less than 6.2%.

"It is generally agreed that the country now faces a period of large and sustained demand for new capital to supply the needs of a growing population, replace worn-out and obsolete plant and equipment, and give effect to technological improvements. These needs must be filled at a time when prices and costs will, in all probability, be considerably higher than they were before the war. The inactive capital demand that has long served to conceal the limitations on the supply of venture capital seems to be giving way to a radically altered situation, in which the problem of venture capital must be frankly faced and constructively dealt with if our economy is to expand and thrive.

### Causes of the Scarcity

"The situation appears to be attributable to numerous causes. One of these is the heavy tax burden that has been laid on individual incomes, especially those in the higher brackets, which, it is generally agreed, are the principal source of the savings that normally supply the great bulk of venture capital. The almost confiscatory rates on large incomes leave relatively little surplus for investment in equity securities and little incentive to assume the risk that such investment necessarily involves. The situation is aggravated by the estate taxes, which further weaken the incentive to risk-taking investment and which depress the market for equity securities both by forcing hasty liquidation and by breaking up large estates into smaller units for which such securities represent a less suitable form of investment. The double taxation of dividends is without theoretical justification and is certainly harmful in its practical effects. Although the law makes a distinction in favor of income derived from capital gains, this partial exemption appears insufficient to induce an adequate amount of risk-taking investment.

"The long-term outlook for business concerns has been weakened by tax laws and by high and inflexible costs. Tax rates on corporations represent a strong deterrent to expansion, especially that of the more venturesome sort. Changes in the price structure have been such as to narrow the margin between raw-material costs and selling prices. Wage costs have risen sharply and have become more inflexible, creating a situation that is not a serious handicap to most divisions of industry as long as production, employment and prices remain at high levels but that could become a heavy burden in the event of a general decline in the volume of activity and the price level. The rising 'break-even' point for industry—that is, the level of activity that marks the dividing line between profit and loss—has become an object of increasing concern.

### Unsettling Factors

"The hesitancy of investors to supply equity capital is probably due in no small measure to the attitude of disapproval and distrust toward profits in general, which has given rise to persistent pressure on industrial concerns to keep prices down in the face of rising costs and which was manifested recently in the official investigation of the rise in prices of certain steel products. Some of the early postwar views concerning relationships between prices and costs have been rather thoroughly discredited by events, but it seems that the essential role of profits in a free-enterprise system has not yet gained full recognition.

"International affairs also have played an important part in creating the present situation in the market for venture capital. The unsatisfactory state of international relations is necessarily a major unsettling factor in the domestic business outlook; and the urgent need for American goods and American dollars abroad has resulted in the liquidation of some domestic securities owned by foreigners, with a depressing effect on the market. If the European Recovery Program is enacted and proves successful in achieving its objectives, its effects should be helpful, both psychologically and otherwise.

"In the long run, an inadequate supply of equity capital must inhibit industrial expansion, limit employment opportunities, and weaken the financial position of business concerns and their ability to weather the varying economic climate that the passage of time will inevitably bring. If free enterprise in America is to expand and progress in the future as it has done in the past, our laws and regulations must be so revised as to restore to risk-takers the means and the incentives to resume their essential role in our economy."

## Paul Beamer Opens

(Special to THE FINANCIAL CHRONICLE)

SOUTH BEND, IND.—Paul Beamer is engaging in a securities business from offices at 1714 Kessler Boulevard. Mr. Beamer was formerly with Maxson Securities Company, Inc.

# Reducing Bank Bond Holdings—Effective Debt Management

By MORRIS M. TOWNSEND*
Director, Banking and Investments,
U. S. Savings Bond Division, U. S. Treasury Dept.

**Treasury official enumerates progress of reduction in bankholdings of U. S. debt, and its contribution in fight against inflation. Stresses importance of continuation of Savings Bond selling campaign as part of program against inflation, and urges bankers' cooperation in the move.**

I made a statement in 1946 which was a new idea then but commonly accepted now. I said "The soundness of our national economy depends much upon ownership of the public debt by individuals and other non-bank investors. This can only be insured through the continuation of a Savings Bonds Program. Every dollar placed by individuals in Savings Bonds lessens the threat of runaway inflation — a danger very much present with us now."

Morris M. Townsend

I hardly need remind you that events have borne this out. I appealed to the bankers of the nation for all-out support of the Savings Bond Program. I am happy to report that you have done a splendid job of it.

Secretary of the Treasury Snyder recently told a group of industrialists, meeting in Washington: "The Savings Bond Program has met with the practically universal support of banking. Prior to the end of the war, I felt that banking would be in here very shortly after the end of the war and say: 'Now, get out of this private field that belongs to the banking industry and is not part of what the government ought to be doing.' Strangely enough, a few months ago, at a meeting, banks assured us that they wanted the government to stay in this field because it was proving a stimulus to their own savings departments; that the presentation was such that it made people start thinking about saving, and if they didn't have enough to buy a bond, they would perhaps come down and open an account."

The Secretary further said: "Throughout the recent critical years the Treasury Department has called upon the financial institutions of the United States for support and assistance upon many occasions and in many different capacities." And he added that they had never failed to come through.

It is impossible for me to express adequately my own appreciation, and that of the Treasury, for the services bankers have rendered, and for the services that bankers continue to perform in our behalf, and for the welfare of the people of America.

I would stress particularly the contribution of the banks to the Treasury's financing programs, especially to the promotion of our various war loan drives, and to the continuing sale of Savings Bonds since the end of hostilities. No group in this nation has provided a more effective, more unselfish, more patriotic service in this respect. We thank you from the bottom of our hearts. Now I'd like to report just a little of what you have helped us to accomplish.

**Reduction in Bank Holdings of Debt**

On Feb. 28, 1946, the gross national debt was $279.8 billion. Since that time it has been reduced to approximately $254.2 billion—a net reduction of $25.6 billion. About $20 billion of this reduction was made with cash from the over-subscribed Victory Loan. The reduction in the bank-held debt has been even more than $26 billion through transfers of ownership.

Since I appeared before this distinguished group we have sold in excess of $15 billion in Savings Bonds. This provided the Treasury with funds to meet redemptions and maturities of other Savings Bonds and left a surplus of $3 billion. It is obvious that this $3 billion represented merely a shift of ownership from banking institutions to non-banking investors. I would like to emphasize that the net proceeds from the sale of Savings Bonds do *not* increase the national debt, but are used for the retirement of bank-held obligations.

In addition to removal of direct purchasing power from the consumer market, this operation removes a credit expansion potential of from $6 to $7 for each dollar so retired from the banking system. This means that we have withdrawn that much purchasing power from the market and six to seven times that much or about $20 billion from the credit potential. The Savings Bond sales since the Victory Loan have covered the redemption and maturities of all Savings Bonds issued since 1935. If we had not been selling Savings Bonds, the Treasury would have been able to retire $15 billion less of bank-held debt and the existing inflationary potential would have been about $110 billion greater than it is now. This is the full measure of the anti-inflationary effect of the Savings Bond Program in the past 21 months.

The banking system held $116.7 billion dollars or 41.9% of the Federal debt in February 1946, when the debt reached its all-time high. By the end of December 1947 this had been reduced to $91.1 billion or 35.8%. The amount now held by commercial banks is $68.6 billion or 26.9%, against a high of $93.8 billion or 33.7%.

During the same period individual ownership of government securities increased from $63.5 billion or 22.8% of the debt to $65.3 billion or 25.7%. Nearly all of this increase is due to the buying and holding of Savings Bonds by individuals, for there has been no marketable bond offered since the Victory Loan.

In our economy, purchasing power has outrun production; and prices have come up all along the line. Today our major economic problem at home is to make sure that the amount of money outstanding does not further outrun production. We must see that the gap is narrowed until supply and demand get into reasonable balance.

There are two major bills before Congress that emphasize the necessity of this more than ever. One is the $5 billion $3 million-dollar European cooperation, or Marshall Plan bill; the other is the tax reduction bill which, according to the papers might run as high as $4 billion dollars. You can readily see that these two bills together would add about $9 billion purchasing power to the market if they pass.

The nation is indeed fortunate to have Secretary Snyder and Secretary Wiggins in control of our monetary problems at this critical hour. We owe them a debt of gratitude. I am afraid that most of their accomplishments are not fully known to the people. Those who are familiar with government finances recognize that there were several courses which could have been taken in debt management. I am sure everyone will agree that they have followed a very wise course.

To give you an idea of the magnitude of the debt problem facing the Treasury, among other things the Treasury has to raise $72,000 every minute, night and day, Sundays and holidays, to run the U. S. Government, the biggest business in the world—and nearly all that cost is military, past and present. It costs us $9,000 a minute for interest on the national debt.

**Savings Bonds in War and in Peace**

The American people were quick to grasp the necessity for lending their funds to their government during the years when we were battling ruthless enemies for our existence in a shooting war.

The necessity for an expanded drive to sell Savings Bonds *now* is hardly less urgent, but the complex factors that caused the Treasury, with the complete support of the President and his other economic advisors, to institute this new campaign are, perhaps, less readily understood.

**Why Push Savings Bond Sales Now?**

The government now is operating with a surplus of revenues over expenditures. The continued high costs of the aftermath of war, and of our national security and foreign aid programs are being met. The unprecedented national income has provided tax receipts sufficient to permit continued reduction of the debt. Sound fiscal policy dictates that we must, in these prosperous times, endeavor to reduce further that national indebtedness which now amounts to about $6,435 for each family in the United States.

Why, then, does the Treasury still seek to borrow from the American people? Why an expanded Savings Bond sales drive?

First, it must be stated emphatically that the Savings Bond Program does not contemplate an over-all increase in the national debt.

**Savings Bonds and Debt Management**

Specifically, this Savings Bond Program constitutes a major attempt to spread the national debt without increasing the over-all total. There are many factors that affect the impact of the public debt upon our economy. Distribution is one of them. Large holdings of United States bonds in the banking system may, under certain conditions, provide a base for greatly expanded credit, which in our present inflationary situation could be dangerous to the economy.

But a successful sales program of Savings Bonds to individuals can have an even more direct effect in reducing dangerous inflationary pressure. Dollars thus taken from the spending stream

(Continued on page 27)

*An address by Mr. Townsend at the annual meeting of the Central States Conference, Chicago, Ill., March 23, 1948.

## With Wilson, McMaster Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Calvin J. Webb has become associated with Wilson, McMaster & Co., 134 South La Salle Street.

## Joins Reinholdt & Gardner

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, ILL.—Rodman C. O. Matheny, Jr., has become associated with Reinholdt & Gardner of St. Louis. He was previously with the local office of A. G. Edwards & Sons.

## With Albert McGann Co.

(Special to THE FINANCIAL CHRONICLE)

SOUTH BEND, IND.—Charles W. Magner has been added to the staff of Albert McGann Securities Co., Inc., 131 West Washington Avenue.

## Charles E. Bailey Co. Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Lester L. Lodge has become affiliated with Charles E. Bailey & Co., Penobscot Building, members of the Detroit Stock Exchange.

## St. Louis Southwestern Railway Company

*Invitation for Tenders*

**To the Holders of St. Louis Southwestern Railway Company General and Refunding Mortgage 5% Gold Bonds, Series A, Due July 1, 1990:**

St. Louis Southwestern Railway Company (hereinafter called the Company) hereby invites tenders for the purchase by it of its General and Refunding Mortgage 5% Gold Bonds, Series A, due July 1, 1990 (hereinafter called the Bonds). The Company is prepared to expend up to $1,000,000 if Bonds are offered on favorable terms.

Interest on Bonds accepted for purchase will be paid to April 21, 1948, but not thereafter.

**All tenders must be submitted in triplicate on the Form for Tender which will be supplied by the Company upon request. Forms for Tender may be obtained by addressing the Company at its offices, Room 2105, 165 Broadway, New York 6, N. Y., marked "Attention Mr. Paul J. Longua, Secretary," or Cotton Belt Building, St. Louis, Missouri, marked "Attention Mr. F. H. Millard, Vice President and Comptroller."**

This Invitation for Tenders is made pursuant to the regulations prescribed by the Interstate Commerce Commission in its order of October 6, 1919, as amended October 4, 1920, in its Docket Ex Parte No. 54.

In conformity with regulations of the Interstate Commerce Commission, each tender must state the name and address of the maker of the tender (owner of Bonds), and, if a corporation, the names and addresses of its officers, directors, general manager and purchasing or selling officer or agent in this transaction, and, if a firm, partnership, or association, the names and addresses of each member and of the manager, purchasing or selling officer or agent in this transaction.

Tenders must be enclosed with accompanying papers in a plain envelope, securely sealed, bearing no indication of the name of the maker of the tender or the amount of the tender and marked "Bid under Proposed Contract No. NY 100," and addressed to Mr. Paul J. Longua, Secretary, St. Louis Southwestern Railway Company, Room 2105, 165 Broadway, New York 6, N. Y.

All tenders must be received at the office of the Secretary of the Company, Room 2105, 165 Broadway, New York 6, N. Y., at or before twelve o'clock noon, Eastern Standard Time, on April 5, 1948. Tenders received will be opened by Mr. Paul J. Longua, or in his absence by Mr. F. H. Millard or Mr. C. E. Scott, at said office, immediately after twelve o'clock noon, Eastern Standard Time, on April 5, 1948. Makers of tenders or persons representing them may be present and examine each tender if they so desire.

Notices of acceptance of tenders, in whole or in part, or notices of rejection of tenders, will be mailed not later than twelve o'clock noon, Eastern Standard Time, on April 7, 1948, to makers of tenders or their authorized representatives, at the addresses appearing in their respective tenders.

All Bonds delivered pursuant to the acceptance, in whole or in part, of a tender must be delivered in negotiable form and must be so delivered during the period April 7 to April 21, inclusive, 1948, to the **Chemical Bank & Trust Company, Agent, St. Louis Southwestern Railway Company, Corporate Trust Department, 165 Broadway, New York 15, N. Y.,** where payment therefor will be made.

All Bonds in coupon form delivered pursuant to the acceptance, in whole or in part, of a tender must be accompanied by all appurtenant coupons, maturing on and after July 1, 1948. All coupon Bonds registered as to principal only must be accompanied by duly executed bond assignments, with signatures guaranteed.

Tenders must be signed by the owner of the Bonds and, if the principal amount of Bonds tendered by any one person (other than by a bank, trust company, insurance company, or a member of a national securities exchange or association) does not exceed $100,000, principal amount, arrangements must be made with a bank, trust company, or member of one of such exchanges or associations to surrender the Bonds tendered, in case of acceptance, in whole or in part, of the tender. Banks, trust companies, insurance companies, and persons tendering Bonds in excess of $100,000, principal amount, desiring to do so, may make arrangements with a bank, trust company, or member of one of such exchanges or associations to surrender the Bonds tendered, in case of acceptance, in whole or in part, of the tender. The bank, trust company, exchange or association member signing the tender form in the space provided therefor, delivering and accepting settlement for Bonds pursuant to and in accordance with an acceptance, in whole or in part, of a tender of another party or person, will be paid by the Company $2.50 per $1,000, principal amount, thereof.

United States Stamp Taxes are not payable on the sale, as Bonds purchased are to be cancelled.

The Company reserves the right, in its absolute discretion, to accept or reject any or all tenders of any of said Bonds, or to accept any portion of the Bonds covered by any tender and to reject the balance.

ST. LOUIS SOUTHWESTERN RAILWAY COMPANY,
PAUL J. LONGUA, *Secretary*.

New York, N. Y., March 22, 1948.

# World Bank Grants $16 Million Loan to Chile

**Bulk of proceeds to be applied to government sponsored hydro-electric projects. Represents first World Bank loan to South American nation. John J. McCloy, President of Bank, to tour South America.**

The International Bank for Reconstruction and Development announced on March 25 that the Board of Executive Directors approved two loans to Chile totaling $16 million.

The first is a loan of $13.5 million for hydro-electric development in Chile to Corporacion de Fomento de la Produccion (Fomento), an instrumentality of the Chilean Government created to promote Chilean economic development, and Empresa Nacional de Electricidad, S. A. (Endesa), a subsidiary of the Fomento organization. The second is a loan of $2.5 million to the Fomento organization for the purchase of agricultural machinery.

John J. McCloy

Both loans are to be guaranteed by the Government of Chile.

The loans are the first which the Bank has approved in the development field and are in accord with one of the main objectives of the Bank's policies—namely, to assist in the development of territories of members by facilitating the investment of capital for productive purposes, including the encouragement of development of productive facilities and resources in less developed countries.

The $13.5 million loan to Fomento and Endesa is for a term of 20 years; amortization payments will begin in the sixth year and are calculated to retire the loan by maturity. This loan carries an interest rate of 3½%. The $2.5 million loan to Fomento is for a term of six and one-half years; amortization payments will begin in the third year and are calculated to retire the loan by maturity. This loan carries an interest rate of 2¾%. In accordance with its Articles of Agreement, the Bank will also charge a commission of 1% annually on both loans to be set aside in the Bank's special reserve fund.

The purpose of the $13.5 million loan is to provide foreign exchange for the purchase and importation into Chile of equipment and supplies which are required for the development of electrical power and water facilities and resources in Chile.

The purpose of the $2.5 million loan is to provide foreign exchange for the purchase of agricultural machinery in order to increase the productivity of Chilean agriculture.

In accordance with Bank policy, the loan agreements provide that the Bank shall be furnished with full information showing that the funds to be disbursed will be used for the purposes specified in the agreements, and that representatives of the Bank shall have full opportunity to check the end use to which all purchases are put.

The two loan contracts were signed on March 25, 1948 by R. L. Garner, Vice President, on behalf of the International Bank for Reconstruction and Development; and by Roberto Vergara, New York representative of the Corporacion de Fomento de la Produccion on behalf of the borrowers.

### To Tour South America

Following the announcement of the loan to Chile, it was stated that John J. McCloy, President of the International Bank for Reconstruction and Development, will leave for a tour of South America on April 1. He will be accompanied by Luis Machado of Cuba, Executive Director, Chester A. McLain, General Counsel, Drew Dudley, Director of Public Relations, and Enrique Lopez-Herrarte of the Office of the Vice-President. Victor Moller of Chile, Executive Director, will join the group in Santiago.

Mr. McCloy's visit to South America, similar to the one he made last fall to several European capitals, will be for the purpose of acquainting himself with the economic and development problems of those countries.

The group will arrive in Bogota, Colombia on April 2; from there they tentatively plan to visit Ecuador, Peru, Chile, Uruguay, Brazil and Venezuela.

Luis Machado as Executive Director of the Bank represents Mexico, Cuba, Peru, Uruguay, Ecuador, Dominican Republic, El Salvador, Honduras and Nicaragua. Victor Moller represents Brazil Chile, Philippine Republic, Bolivia, Costa Rica, Guatemala, Paraguay and Panama.

# Report High Production, but With Declines More Pronounced

**Business Survey Committee of National Association of Purchasing Agents, headed by Robert C. Swanton, sees new disturbing elements in war talk and coal strike. Says worker productivity and efficiency are better.**

Expressing the composite opinion of its members, the March report of the National Association of Purchasing Agents Business Survey Committee, whose Chairman is Robert C. Swanton, Director of Purchases of Winchester Repeating Arms Corp., confirms the change in general business conditions reported at the end of February, and more clearly defines the trends—production generally remaining in high gear, although the inclination to decline is more pronounced. Luxury items are prominent in the slowing of demand. Backlogs of orders are disappearing rapidly and, while still substantial (52% report maintaining previous large order book), 34% show a decrease, compared to 14% increasing. This is the result of continuing close buying commitment schedules and inventory reduction policies.

Robert C. Swanton

Two new disturbing elements—war talk and the coal strike—added to the uncertainties of the aid to Europe plans—have contributed to the development of more cautious policies. Purchasing agents' over-all opinions are that, basically, business is sound; demand exceeds supply in many products, and production and sales would remain in good volume for several months, at least, if these disruptive conditions could be speedily eliminated. For the immediate future, extreme caution is generally advised by our reports.

### Commodity Prices

Industrial material prices are almost static, with a tendency to lower, as competition increases. Worker productivity and production efficiency are reported better. Supplies are coming into closer balance with demand. Some of the fears of cost increases on another wave of wage demands have been lessened by the easier employment situation. Escalator clauses are reported dropping off again, which is a general gauge of the competitive climate.

### Inventories

Industry is measuring inventories with extreme caution. They are somewhat lower than February, but new pressure is being exercised to continue the downward trend. Steel production, which is the most serious bottleneck, is adversely affected by the coal strike. Reduction in steel delivery allotments will create unbalanced inventories of other materials, even with the present short commitment policy. Selective examination of inventory items is advisable.

### Buying Policy

The predominant purchasing policy continues within 90-day commitments. 95% report this policy, with accent on the 60-day limitation. The few exceptions are purchases of critical materials from foreign countries, where a longer range is indicated by upset foreign conditions. Purchase order quantities are being reduced in proportion to the drop-off in order backlogs, and to a basis that will maintain current production schedules.

### Specific Commodity Changes

No important price changes stand out, the "downs" overbalancing the "ups" by a slight margin. Many more items are reported easier to get.

**Increased in price were:** acetone; aluminum; bottles; coal; coal-tar products; conduit; die blocks; dolomite; felts; formaldehyde; glue; platinum; rope; news ink; saccharin; small tools; twine.

**On the down side:** ethyl alcohol; burlap; butyl acetate; cocoa butter; cotton goods; some foods; glycerin; hides; leather; jute; lead cable; gum rosin; rubber; linseed oil; menthol; mercury; sugar; tallow; some textiles; yarns.

**In tight supply:** steel; aluminum; building materials; china; lead; zinc; nails; methanol (good grades); some lumber; tin.

**Easier to get:** some types of automobiles; brass; bronze ingots; containers; cotton twine; small motors; fuel oil; pine oil; paint; polystrene; thermoplastics; valves.

### Employment

Employment is down, the greatest number (34%) reporting lower pay rolls than at any time since the war—15% more than February. These reports do not cover the more recent layoffs caused by the coal strike. Overtime and extra shifts are fading out of the picture. The more efficient employees are being retained and are accelerating productivity. Northern California is hard hit by the power shortage, and its limitations on industrial production.

### Canada

In general business, production has leveled off with the trend to go lower. Backlogs are holding up better than in the United States. Prices are on the downgrade. Inventories continued to be reduced. Employment is down. Buying policy duplicates that of the States.

# Reports "Further Clouding" by New Export Controls

**National Industrial Conference Board says most exporters are strongly opposed to new rulings and are skeptical of their efficiency.**

Manufacturers find the immediate outlook for foreign sales further clouded by the recent introduction of a new set of licensing controls by the Department of Commerce, according to the latest survey of business practices which has just been completed by the National Industrial Conference Board.

According to the Conference Board, most exporters are strongly opposed to these new controls and question the need for additional restrictions at this time. Even among the minority who believe that some degree of regulation may be necessary there are many who are skeptical as to "the efficiency and effectiveness of the new rules." In particular, the price provisions are regarded as inpractical and as giving undue authority to Office of International Trade personnel. The 90-day license period is frequently regarded as too short, and generally it is feared that inordinate delays in the issuance of licenses are inevitable. Consequently, many fear that the OIT will be bogged down with paper work and that export trading will suffer. More serious consequences are looked for by a few producers who fear that losses "may be more than temporary," while some others speculate as to whether the new controls are a forerunner of still broader regulations.

### Foreign Sales Continue High

Foreign sales of the majority of manufacturing exporters participating in the survey "have continued at high levels, with an upward trend often in evidence." The survey notes, however, that "a number of manufacturers report considerable shrinkage in export shipments." This is generally attributed to "shortage of dollar exchange, import restrictions of foreign governments," and, in a few cases, to "increased foreign competition." These factors, some manufacturers point out, have caused them to focus their sales efforts upon new territories. The most frequently reported shift in foreign markets is away from sterling countries.

### New Licensing Regulations Opposed

Many business executives are opposed to the new regulations as a matter of principle. Several manufacturers found them unrealistic because of the government's failure "to consult practical men who have spent years in export trade."

There are numerous manufacturers who, in the light of previous experience, cannot see how additional government controls can be expected to solve any of today's serious trade problems. Instead, they believe the problems will be aggravated and that "the only hope lies in giving the enterprise system more freedom by encouraging the free exchange of goods both here and abroad."

### Price Provisions Severely Criticized

Some of the severest criticism was directed against the use of price criteria in granting licenses. This principle was established by Section 3b of Public Law 395, but a majority of executives regard it as "unworkable and impractical and easily subject to abuse." It is contended that OIT personnel have been given excessive powers which might lead to unfair discrimination. For many products, manufacturers believe that few outside of experts in the industry are qualified to make proper price comparisons.

### Efficient Administration of Regulations Doubted

The consensus of manufacturers opposing the new controls is that they "will not and cannot be administered in a simple and business-like fashion." Considerable skepticism is expressed as to whether the OIT will be able to obtain properly qualified personnel. The net result is that exporters look for costly delays, "unjustified red tape," and additional credit, shipping and import licensing problems. Scheduling of orders and production planning are also expected to become more difficult.

Another frequent criticism of the new regulations is that the 90-day license period is not long enough for many products. This time factor is held as of particular importance to producers of heavy equipment.

### Effect on Trade

Because of the delays and difficulties foreseen as a result of the new regulations, the majority of executives fear that export trade may suffer a temporary setback. A few believe that this setback may be more than temporary.

### South America as Back Door for Exports to Europe

Many executives are wondering whether the licensing regulations will be extended to cover exports to non-European countries, particularly South America.

It is contended that under the present regulations an export sale could be made to South America where no licenses are required for items not on the positive list and that the products might then be channeled to Europe. These executives speculated as to the effectiveness of present controls if such back doors to Europe exist.

A few executives fear that the extension of government licensing might lead to a greater degree of state trading and that the private commercial channels may be gradually blocked out of the picture.

### Minority Favor Controls

The minority of business executives favoring more stringent controls feel that the cost of an ERP must be held to a minimum. They say that large sums of the American taxpayers' money will be spent under ERP and that "final control of the use of these funds must rest in this country."

# Curb Quarter Century Club Elects Officers

At the annual meeting of the New York Curb Exchange employees' Quarter Century Club, Louis S. Burgers, a supervisor of personnel on the exchange trading floor, was elected President succeeding Henry H. Badenberger. Mr. Burgers, who joined the Curb Exchange staff on June 27, 1921, was Vice-President of the club during the past year.

Martin J. Keena, director of the Curb department of Securities, was elected Vice-President of the organization. Christopher Hengeveld, Jr., will serve as Secretary and Treasurer for another year.

# Bonds of Irish Free State Drawn for Redemption

Holders of Irish Free State (Saorstat Eireann) external loan sinking fund 5% gold bonds due Nov. 1, 1960 are being notified that $16,000 principal amount of these bonds have been drawn by lot for redemption on May 1, 1948 through the sinking fund at par. The bonds will be redeemed at the head office of The National City Bank of New York, American fiscal agent.

# NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At the regular meeting of the Board of Directors of **The National City Safe Deposit Company of New York** held on March 25, Wm. Gage Brady, Jr. was appointed Chairman of the Board, W. Randolph Burgess was appointed Chairman of the Executive Committee, and Howard C. Sheperd was appointed President. James S. Rockefeller, a Vice-President of **The National City Bank of New York,** was elected a Director of the Safe Deposit company to succeed the late Gordon S. Rentschler. Mr. Brady was also appointed Chairman of the Board of the **International Banking Corporation** at a meeting on March 25, Mr. Burgess was appointed Chairman of the Executive Committee and Mr. Sheperd was appointed President, General Manager and New York Agent, and DeWitt A. Forward was elected a Director to fill the vacancy created by the death of Mr. Rentschler.

* * *

Arthur S. Kleeman, President of **Colonial Trust Company of New York** announced on March 25 the appointment of Herbert H. Dawson as Vice-President in charge of Personal Loan and Consumer Credit activities of the bank. Mr. Dawson, who was a Lieut.-Commander in the Navy during World War II, was with the Colonial Trust Company prior to his military service. His experience includes several years with CIT Corporation and Commercial Credit Corporation, of which latter company he was a Vice-President.

* * *

E. Chester Gersten, President of **The Public National Bank and Trust Company of New York,** announces that Albert J. Kuenzler, Chief Clerk of the 39th Street and 7th Avenue Office, and Eugene J. Kerns, assigned to the 5th Avenue Office, were appointed Assistant Cashiers.

* * *

At the March 29 Board meeting of the **Port Chester Savings Bank of Port Chester, N. Y.** Dennis A. McKay was elected to the newly created post of Chairman of the Board. At the same meeting Edward P. Pedlowe was elected President. Mr. Pedlowe has been Executive Vice-President of the bank since February, 1941. Prior to joining the staff of the bank, Mr. Pedlowe was a senior examiner in the New York State Department of Banking. Previously, he had been associated with New York accounting and investment banking firms; and gained his early bank experience with the National City Bank of New York. He is a certified public accountant, and a member of the New York State Society of CPA's and of the American Institute of Accountants.

Edward P. Pedowe

Mr. McKay, who is President of Hauxwell & Smith, Inc., has been a Trustee of the 83-year old mutual institution since 1934. He has long been active in the civic and community affairs of Port Chester, and until recently served as President of the Board of Education.

The Bainbridge Avenue Office of the **North Side Savings Bank of New York,** located at 3125 Bainbridge Avenue in Bronx Borough, celebrated its first anniversary on March 24. Under the direction of President Fred Berry, a birthday party was held with local residents and depositors invited to visit the bank, at which time Mr. Berry thanked the members of the community whose patronage had served to bring the savings deposits of the Bainbridge Avenue Office to the $5,000,000 mark in the past 12 months.

* * *

The **Franklin Square National Bank of Franklin Square, N. Y.** increased its capital from $625,000 to $750,000 effective March 1 through the sale of new stock to the amount of $125,000.

* * *

Bryant Glenny has been elected a trustee of the **Buffalo Savings Bank of Buffalo, N. Y.** is was made known on March 15 by President William S. Rogers. In reporting this the Buffalo "Evening News" stated that Mr. Glenny is General Manager of the Scientific Instrument Division of the American Optical Company. He is a nephew, of William H. Glenny, who was a trustee of the Buffalo Savings Bank from 1877 to 1929.

* * *

**The Byram National Bank of East Port Chester, Conn.** increased its capital Feb. 27 from $65,000 to $162,500. According to the March 3 bulletin of the Office of the Comptroller of the Currency the amount was increased from $65,000 to $130,000 by a stock dividend, and from $130,000 to $162,500 by the sale of new stock.

* * *

**Land Title Bank & Trust Company of Philadelphia** has announced the resignation of George W. Elkins as a member of its Board of Directors and the election of George W. Elkins, Jr., a partner in Elkins, Morris & Co., to succeed him.

* * *

**The Tradesmens National Bank and Trust Co. of Philadelphia** announces the appointment of Joseph B. Roberts as Assistant Vice-President on March 25. Mr. Roberts was formerly Assistant Cashier.

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The election of James C. Fenhagen as Chairman of the Executive Committee of the Baltimore Clearing House at the organization meeting of the Committee on March 10 was reported in the Baltimore "Sun" of March 11, by J. S. Armstrong, Financial Editor of that paper. Mr. Fenhagen, who is Vice-Chairman of the Board of the **Baltimore National Bank,** succeeds in the Clearing House position. A. H. S. Post who is Chairman of the Board of the **Mercantile Trust Company,** resigned. The Baltimore "Sun" says:

"Mr. Post resigned the Chairmanship of the Committee at the expiration of his 1947 term. He has been associated with the Clearing House as a member of its Executive Committee since 1923 and has served as Chairman of that Committee since 1931.

"Heyward E. Boyce, Chairman of the Board and President of the **Maryland Trust Company** is President of the Clearing House. James D. Harrison, President of the **First National Bank of Baltimore** is its Vice-President.

* * *

With a capital of $250,000 and surplus of $50,000, the **Shirlington Trust Company of Arlington, Va.** began business on March 9. Joseph Cherner is President, and George F. Hoheim is Executive Vice-President. Reference to the organization of the institution appeared in these columns Dec. 18 last, page 2492.

* * *

An increase in the capital of the **First National Bank of Fostoria, Ohio,** from $150,000 to $200,000, was effected on March 2 by the sale of new stock.

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The capital of the **National Bank of Commerce of Pine Bluff, Ark.** has been doubled, from $100,000 to $200,000, a $50,000 increase having been brought about by a stock dividend of that amount, and an additional $50,000 having been realized by the sale of new stock. The increased capital, according to the Office of the Comptroller of the Currency, was effective as of Feb. 26.

* * *

The first dividend on the capital stock of the **La Salle National Bank of Chicago** since 1939 was declared on its capital stock on March 18. As to the dividend just declared the Chicago "Journal of Commerce" of March 19 reports:

"Directors voted a 50-cent-a-share payment, which will be made April 15 to stock of record April 9. It places the stock on a $2 annual dividend basis. The institution has outstanding 30,000 shares of $50 par stock.

"John C. Wright, President said a recent capital increase from $600,000 to $1,500,000, accomplished through issuance of stock purchase rights to shareholders and continued good earnings made the dividend action possible."

The increase in the bank's capital was referred in these columns Feb. 12 page 731 and March 11, page 1125.

* * *

Walter L. Stock, Deputy Commissioner of Banks in the Wisconsin Banking Department, will become Vice-President of **Cudahy State Bank at Cudahy, Wis.,** effective April 5 it is announced according to the Milwaukee "Journal" of March 18. It is added that he will succeed Dayton F. Pauls, who will become President of the **Citizens State Bank of Sheboygan,** where J. W. Hansen, President of Citizens is moving up to the post of Chairman of the Board.

* * *

William H. Bryce, Memphis, Tennessee businessman, has been named a Class C Director and Deputy Chairman of the Board of the **Federal Reserve Bank of St. Louis** by the Board of Governors of the Federal Reserve System. He succeeds Douglas W. Brooks, also of Memphis, whose term expired last December. The appointment is for a term ending Dec. 31, 1950. Mr. Bryce is Vice-President and General Manager in charge of Memphis operations of the Dixie Wax Paper Company whose head office is in Dallas, Texas. He was one of the original promoters of the company 25 years ago and has served as Vice-President since its organization. The new director of the St. Louis Reserve Bank was born in Minden, La. He was graduated from Culver and the University of Alabama. In 1917 he joined the first Officers' Training School at Fort McPherson, Georgia, and served during World War I as an artillery officer with the 82nd Division in France.

* * *

Announcement to the effect that James C. Shelor would become Vice-President of the **Fulton National Bank of Atlanta, Ga.** effective March 12, was made by President Erle Cocke according to the Atlanta "Constitution" of March 7. The paper from which we quote states that Mr. Shelor, among his other activities, is Chairman of the Research Council of the American Bankers Association.

(Continued on page 40)

## *Our Reporter on Governments*

By JOHN T. CHIPPENDALE, JR.

Despite the squeeze of income tax payments the money markets continue buoyant because the pressure of liquidation by non-bank investors of Treasury obligations has slowed to the point where it is no longer a factor of importance in the trend of prices of government securities. . . . Government Trust Accounts can easily take care of this liquidation, which may cease entirely in the near future. . . . As a matter of fact certain non-bank investors are putting funds into long governments in preference to mortgages and other loans, that do not seem to embody the quality they are looking for now. . . .

**Commercial banks continue to switch from shorts into intermediates and longs, with many of these institutions now meeting tighter money market conditions through the sale of near-term issues instead of the distant maturities, which was the procedure not so very long ago. . . . Although the money markets are not without uncertainties, even the more conservative and more timid bank buyers are now bold enough to look at securities with maturities longer than those of certificates. . . .**

### PRICE TREND

The feeling seems to be growing in bond circles that the trend of prices of the intermediate and long Treasuries is upward for the time being because investors, traders and dealers have returned to the constructive side of the market. . . . No runaway or wild splurge is looked for but a firm to better price level is believed to be in the making, with the restricted obligations apparently the more favored issues at this time. . . .

**Evidently many non-bank investors have either too fully depleted their holdings of "longs" or have too largely increased their positions in "shorts" so that a turn about in the operation is now taking place with funds going out of the near-term maturities into the more distant obligations. . . . As a result the top bonds have been acting very well with prices holding well above support levels. . . .**

### CONFIDENCE

The statement by Mr. Thomas B. McCabe (nominee for Federal Reserve Board Chairman), before the Senate Banking Committee, that continued support of long-term governments at par seems to be the right pattern, along with the opinions of such prominent money market authorities as Dr. Marcus Nadler and Mr. Beardsley Ruml that "pegged prices" of long Treasuries could and would no doubt be maintained, appears to have helped to instill confidence among present and former holders of long governments. . . . **This better feeling among buyers of Treasury obligations has brought about a good demand for most of the longer maturities, especially from out-of-town bank and non-bank investors. . . .**

### LONGER BONDS IN FAVOR

The big city banks have been stepping out into the more distant maturities with important purchases reported in the eligible taxable 2¼s due 1956/59 and the 2½s due Sept. 15, 1967/72. . . . This is the first time for a considerable period that what appear to have been rather sizable positions have been taken by the large city institutions in the longer taxable bonds. . . . Previously commitments in the more distant maturities were confined principally to the partially-exempts. . . . Purchases were also reported to have been made in the intermediate-term obligations particularly in the 2s due Dec. 15, 1952/54. . . .

**Savings banks continue to be very prominent in the government market adding to their positions in both the eligibles and tap issues. . . . There has been switching out of the shorts by these institutions into both the eligible intermediate and the longer ineligibles with preference for the more distant maturities. . . . The move into the ineligibles has been rather substantial with all issues coming in for buying with the 2¼s due 1959/62 and the 2½s due June and Dec. 15, 1967/72, evidently the current favorites because of the small amount of premium involved. . . .**

### PREMATURE

Considerable discussion goes on about deficit financing and the way it might be handled in line with larger expenditures for defense purposes and tax reductions, but the feeling in most quarters is that it is a bit early to indicate when the Treasury may be faced with that type of operation. . . . The only tangible near-term results that some money market followers expect from the changing conditions is no further hardening of interest rates, until the authorities have had more time to study general economic conditions and the probable effects upon it of enlarged government spending. . . .

### PARTIAL EXEMPTS HIGHER

The partially-exempts continue to be in favor with large buyers evidently in the market and the financial district apparently short of certain of these securities. . . . In an attempt to supply this demand for the tax-protected issues as well as to cover positions, dealers and traders have been bidding for these securities which has helped to bring about higher prices for the partially-exempt Treasuries. . . .

### LARGER RESERVES?

**Testimony of Mr. Thomas B. McCabe before the Senate Banking Committee appears to have been reassuring to the money markets although there seemingly is less confidence now in the "Street" that important new bank regulations may not be asked for from the Congress in the not distant future. . . . While the Eccles idea of "Special Reserves" supposedly would not even be considered in any new banking limitations, larger reserve requirements do, however, come in for much discussion among informal money market followers.**

# *Public Utility Securities*

## Columbia Gas System

Columbia Gas & Electric, having disposed of its electric subsidiaries, Dayton Power & Light and Cincinnati Gas & Electric, has now changed its name to "The Columbia Gas System, Inc." Columbia is one of the oldest and largest of the natural gas distributing systems. Together with Consolidated Natural Gas (the old Standard Oil system, now independent) it serves the larger part of the so-called eastern territory (except New England). Its 19 operating subsidiaries serve a population of about 7,000,000 in the States of Kentucky, Maryland, New York, Ohio, Pennsylvania, Virginia and West Virginia, and the District of Columbia. Subsidiaries constitute an integrated unit with each company dependent on another either for gas supplies or markets. The system is divided into four principal groups—Charleston, Columbus, and Pittsburgh, and the oil and gasoline group.

Natural gas accounts for about 92% of system revenues (which in 1947 amounted to $111,700,000) with gasoline and oil making up most of the balance. Residential sales account for about 47% of gas revenues, industrial 23%, commercial 7% and wholesale and municipal 23%. Some of the principal cities served are Cincinnati, Columbus, Dayton, Marion, Springfield and Zanesville in Ohio; part of Pittsburgh and New Castle in Pennsylvania; Charleston, Wheeling and Huntington in West Virginia; and Washington (wholesale).

The company in the past obtained the greater part of its supplies of natural gas from the Appalachian area, including other producers as well as its own wells. Dependable reserves were declining, however, and heavy withdrawals during the war-time period further depleted reserves. Hence, the company found it necessary to obtain gas elsewhere and it is now tapping the big southern and mid-western fields by obtaining daily deliveries (under long-term contracts) of 350 million cubic feet through Tennessee Gas Transmission, 150 million from Texas Eastern Transmission, and (beginning April 15, 1948) 50 million from Panhandle Eastern Pipe Line. Based on these contracts, the system now has gas reserves of 6½ trillion cubic feet available, of which 2½ are in the Appalachian area and 4 trillion in the Southwest.

Columbia Gas has long had a sound financial structure and in recent years this has become stronger. Even after giving effect to the recent sale of $45 million debentures, due 1973, the capitalization is definitely on the conservative side—about 48% debt and 52% common stock and surplus. Before divestment of the electric companies and retirement of the preferred stock the common stock equity was only 36%; this was increased at the end of 1947 to 61%, and is currently decreased by the large bond issue to 52%. The present stock ratio seems likely to increase gradually due to the operation of serial maturities, sinking fund retirements, and reinvestment of earnings.

Pro forma earnings per share of common stock have been as follows (including projected estimates for 1948-49 based on net income figures presented to the SEC) have been as follows:

| Year— | Amount |
|---|---|
| 1941 | $0.79 |
| 1942 | 0.87 |
| 1943 | 0.93 |
| 1944 | 0.92 |
| 1945 | 0.98 |
| 1946 | 1.20 |
| 1947 | 1.36 |
| 1948 (Est.) | 1.34 |
| 1949 (Est.) | 1.63 |

While earnings were relatively steady during the period 1937-42 (ranging between 56¢ and 91¢) dividend policy was erratic, with nothing paid in 1938-39 and 1942. As a result the stock sold as low as 1 during the weak utility markets of 1941-42. Beginning in 1943 dividends have been paid in each year, with the annual totals increasing steadily from 10¢ in 1943 to 75¢ last year. The regular quarterly rate is now 15¢ supplemented by year-end extras.

The stock is currently selling around 11½ to yield about 6½%. The price earnings ratio is 8½. As indicated above, share earnings are not expected to show much change in 1948, but 1949 may show a substantial gain (which, however, might be diluted if the company should decide to do some equity financing). The company expects to increase its capacity about 80% by 1950, and seasonal peaks will then be handled much more easily through the use of huge underground storage reservoirs.

# New York Bond Club Field Day June 4

The 1948 Field Day of the Bond Club of New York will be held at the Sleepy Hollow Country Club, Scarborough, N. Y., on Friday, June 4, it was announced by T. Jerrold Bryce, Clark, Dodge & Co., President of the Bond Club. This year's outing will be the 24th annual event of its kind.

C. L. Morse, Jr., of Hemphill, Noyes & Co., has been named Chairman of the Field Day Committee. He will be assisted by four Vice-Chairmen—George K. Coggeshell of Schoellkopf, Hutton & Pomeroy, Inc.; Robert H. Craft of Guaranty Trust Co. of New York; P. Scott Russell, Jr., of Glore, Forgan & Co., and J. Emerson Thors of Kuhn, Loeb & Co.

In addition to the perennial features of the Field Day, such as publication of the "Bawl Street Journal," trading on the Bond Club Stock Exchange and golf and tennis tournaments, many new entertainment events are planned this year, Mr. Morse announced. The various activities will be under the direction of the following committee chairmen:

Attendance: E. Jansen Hunt, White, Weld & Co.

"Bawl Street Journal": John W. Valentine, Harris, Hall & Co., Inc.

Circulation: Norman P. Smith, Merrill Lynch, Pierce, Fenner & Beane.

Publicity: William H. Long, Jr., Doremus & Co.

Stock Exchange: Robert J. Lewis, Estabrook & Co.

Golf: William M. Rex, Clark, Dodge & Co.

Baseball: Gardiner H. Rome, Stone & Webster Securities Corporation.

Tennis: Clifton A. Hipkins, Braun, Bosworth & Co., Inc.

Horseshoe Pitching: Gerald B. West, Stone & Webster Securities Corporation.

Trophies: Harold H. Cook, Spencer Trask & Co.

Entertainment: Edward Glassmeyer, Jr., Blyth & Co., Inc.

Dinner: Gordon B. Duval, Guaranty Trust Co. of New York.

Carnival & Side Show: William P. King, Harris, Hall & Co., Inc.

Pool: David W. Lovell, Laurence M. Marks & Co.

Music: W. Laud-Brown, Bankers Trust Co.

Indoor Sports: William B. Chappell, The First Boston Corp.

# Sobering Realities Regarding Taxes

(Continued from page 4)

our present philosophy of government, tend to increase and not to decrease. Hence, our total public budgets and tax collections, under the assumptions above indicated, could easily turn out to be as much as 40%-50% of our entire national income. Does any one believe that we would be other than a nation of "slaves" under such conditions?

Hence, as stated above, as there is little probability or possibility of any decline in the state and local government expenditures and taxes, we must look to the Federal Government for any substantial reductions. Even though the present budget of $40,000,000,000 or more should be cut in two, as **should and could be done if the voters were sufficiently aroused,** we would still be confronted with a total tax burden which by 1950 might be close to $35,000,000,000, or **still fully 25% of a reasonably "shaken down" national income.** Even such a burden as this would be, year in and year out, almost unsupportable—and **it is the kind of burden which has completely ruined the finances of the once powerful Great Britain.**

In order to effect the necessary reductions in our tax burden, top bracket rates will have to go well below the theoretical 50% level, if we are to encourage the creation of venture capital, and the maximum production of goods, and are to maintain our free enterprise system. We will have to get back once more to top brackets **nearer 25%,** and virtually all citizens will have to pay **something directly** toward the support of their government.

In considering the question of top bracket rates, long experience indicates that any newly launched business has far less than a 50% chance to succeed. Also, even among established businesses, year in and year out, not more than 50% make profits. Hence, it is evident that the cards are definitely "stacked" against either the individual enterpriser, or the corporation, if the public powers levy taxes exceeding 25% of the total taxable net income; and probably any top bracket rate over 25% tends to check individual initiative.

The American voter must be definitely informed as to the inevitable disasters which lie ahead, provided our government continues to spend **our money** in peacetime at anything like the present rate. It is the road to fiscal ruin and to individual enslavement by the State.

The larger incomes and estates have already been substantially "redistributed." Within a few short years it will be impossible further to mislead the mass of the voters by telling them that the "rich," or those of moderate incomes, can bear the tax burden, while the masses will largely escape taxation. There will soon be no rich. All incentives to risk taking and the production of more wealth and income will be removed. The spirit of enterprise will be broken. Our standard of living will be reduced to that of the moribund countries of the Old World which we are now trying to support and revivify at our further expense.

Unless our course is speedily reversed, like the Gadarenian swine, we shall rush madly down the steep place into the sea; and we ourselves, through our public extravagances and lack of willingness to fight each day for freedom from over-centralized government, will have become the unconscious agents of our own suicide.

The tax bill now being enacted for 1948 is merely a temporary vote-getting expedient. It must be followed by a drastic downward revision of the higher brackets next year.

# Investment Association Issues Results of Questionnaire

**Education Committee of Junior Investment Bankers and Brokers Association reveals data regarding age, education, earnings and prospects of personnel in securities business.**

On Feb. 5, the Education Committee of the Junior Investment Bankers and Brokers Association sent a questionnaire to all its members requesting following data: Age, Years of College, Number of Dependents, Years in Securities Business, Position or Department, Total Income from Job During 1947, Did You Have to Use Other Financial Resources in 1947? Expected Income in 1950 and 1960, Do You Expect to Stay in the Securities Business? and the Reasons therefor, and Other Comments. Approximately 60% of the 220 questionnaires sent out were returned. The more pertinent and interesting data contained in these replies follow:

| Pos. or Dept. | No. of Replies | Age | Years of College | No. of Dependents | Years in Sec. Bus. | 1947 Job Income $ | Used Other Resources | Expected —Income— 1950 $ | 1960 $ | Expect to Stay in Secur. Bus. Yes | ? | No |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 58 | 27.5 | 3.6 | 1.4 | 1.8 | 2,900 | 88% | 6,700 | 16,800 | 69% | 21% | 10% |
| Analysts | 26 | 26.8 | 4.3 | 1.2 | 2.2 | 3,100 | 73 | 5,700 | 15,200 | 73 | 19 | 8 |
| Buying | 23 | 28.0 | 4.4 | 2.0 | 2.3 | 3,700 | 67 | 7,000 | 19,000 | 52 | 35 | 13 |
| Trainees | 10 | 27.2 | 3.4 | 1.2 | 0.9 | 2,300 | 90 | 5,300 | 19,600 | 80 | 0 | 20 |
| Overall | 130 | 27.4 | 3.8 | 1.5 | 1.9 | 3,300 | 83 | 6,600 | 17,700 | 69 | 20 | 11 |

In this and the following tables, Sales includes traders and men in municipal department; Analysts includes economists, statisticians, and research and investment advisory men; Buying includes syndicate and new businessmen; and Overall includes, in addition to the above, replies from members such as partners and accountants, which did not fall within the major categories.

The following table shows 1947 incomes by positions or departments:

| 1947 Income Classifications | —Sales— No. | % | Analysts No. | % | —Buying— No. | % | Trainees No. | % | —Overall— No. | % |
|---|---|---|---|---|---|---|---|---|---|---|
| $4,500 and over (*) | 4 | 7.5 | 3 | 11.5 | 7 | 31 | 0 | -- | 18 | 15 |
| $3,500-$4,499 | 4 | 7.5 | 3 | 11.5 | 4 | 17 | 0 | -- | 14 | 12 |
| $2,400-$3,499 | 31 | 57.0 | 15 | 58.0 | 11 | 48 | 1 | 20 | 62 | 51 |
| Under $2,500 | 15 | 28.0 | 5 | 19.0 | 1 | 4 | 4 | 80 | 26 | 22 |
| | 54 | 100.0 | 26 | 100.0 | 23 | 100 | 5 | 100 | 120 | 100 |

(*) Ten had incomes of $5,000 or above and two of these had incomes of $10,000 or over.

Possible reasons for the differences in the levels of income on an overall basis are indicated below:

| 1947 Income Classifications | Avg. No. of Years in Securities Business | Average Ages (Years) | Average No. of Years of College |
|---|---|---|---|
| $4,500 and over | 2.9 | 28.2 | 4.3 |
| $3.500-$4,499 | 2.3 | 27.9 | 3.5 |
| $2,500-$3,499 | 1.9 | 27.3 | 3.9 |
| Under $2,500 | 1.6 | 27.4 | 3.5 |

It would appear from the results that the number of years in the securities business may be the principal reason for the differences in income between positions and departments as well as overall, as shown below:

| Income Classifications | —Average Number of Years in Securities Business— Sales | Analysts | Buying | Trainees | Overall |
|---|---|---|---|---|---|
| $4,500 and over | 2.1 | 3.2 | 3.5 | -- | 2.9 |
| $3,500-$4,499 | 2.0 | 2.7 | 2.1 | -- | 2.3 |
| $2,500-$3,499 | 2.0 | 1.8 | 1.7 | 2.0 | 1.9 |
| Under $2,500 | 1.5 | 2.5 | 2.0 | 1.4 | 1.6 |

As indicated by the large percentage of those replying needing to use other resources in 1947 (83), the problem of remuneration was mentioned most by those not expecting to stay in the securities business. In addition many of those with no expectation either way at the present time mentioned that they might be forced to leave the business because of inability to live within their present incomes. All except two of those saying that they did not expect to stay in the securities business earned less than $3,100. However, it is interesting to note that those in the Buying Department (average 1947 remuneration $3,700) had the smallest percentage of those expecting to stay in the business.

On the other hand, the predominant reasons given by those expecting to stay in the securities business were (1) interesting business (2) opportunities, principally resulting from the lack of young men in the business and (3) high salary potentialities.

Many of those replying made additional comments, the most common relating to younger men's problems. An example of such a comment is "The desire of the securities business to hire high caliber men cannot be realized so long as the salaries offered are so far below those of industries with whom it must compete for manpower, and not everyone has outside income."

# Halsey, Stuart Group Offers Ohio Pwr. Bonds

Halsey, Stuart & Co. Inc. heads an underwriting group that is offering publicly today $40,000,000 The Ohio Power Co. first mortgage bonds, 3% series due April 1, 1978 at 100.99% and accrued interest. The group won award of the bonds at competitive sale on its bid of 100.52999.

Net proceeds from the sale of the bonds, together with $7,000,000 received from the sale of 7,048 shares of common stock to the company's parent, American Gas and Electric Co., will be used for the redemption of gold debenture bonds 6% series due 2024; prepayment of bank notes; and for the company's construction program. The cost of its construction program for 1948 through 1951 is estimated to be approximately $71,344,000.

Regular redemption prices for the bonds are set at 104.50% to par, while special redemption prices are scaled from 101% to par.

The company is engaged primarily in furnishing electric service throughout a substantial area in Ohio, which includes the cities of Canton, Lima, Portsmouth, Steubenville, Zanesville, Newark, East Liverpool, Lancaster, Tiffin, Ironton, Cambridge, Fremont, Fostoria, New Philadelphia, Coshocton, Mt. Vernon and Bucyrus.

## With Brashears Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—H. H. Foster has joined the staff of G. Brashears & Company, 510 South Spring Street, members of the Los Angeles Stock Exchange.

## With Merrill Lynch Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Kenneth R. Rearwin has been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

# U.N. Unit Reports on 1947 Exchange Exhaustion

**Its Department of Economic Affairs points out task of European and Far East reconstruction is far greater than foreseen when International Monetary Fund and World Bank were formed.**

In response to a resolution of the Economic and Social Council of the United Nations, passed March 26, 1947, the Department of Economic Affairs of the United Nations has released a report on the foreign exchange position of the devastated countries. This report, however, has not been brought up to date, since the data does not extend beyond August, 1947. According to the report the comparison of foreign exchange requirements for 1947 with the foreign exchange earnings of the countries under review reveals that nearly all the countries had large deficits on current account in 1947. The deficits have recently tended to grow larger than was anticipated, and are, in some cases, an inadequate measure of the gravity of the foreign exchange problem since foreign exchange requirements in these cases have to be met in one kind of currency while foreign exchange resources accrue in different kinds of currency, not convertible into the first. In some cases the deficits may be met entirely or substantially by drawing upon remaining foreign exchange resources and utilizing the balances of foreign loans already granted. Other countries less fortunately placed may, of course, have to reduce their deficits on current account by a curtailment of imports. In either case, however, the year 1948 will see most of the countries with their foreign credits exhausted and their foreign exchange assets rapidly running out, if not already depleted, unless further external assistance is forthcoming.

The Interim Report of February 1947, which included a smaller number of countries and an even smaller proportion of the total deficit than the present report, concluded by stating that "it is clear that until action is taken by private organizations, governments, or international agencies to augment the loanable resources now known to exist, the import programs of the governments cannot be financed in full." Since that time it has become even clearer that the task of European reconstruction, not to mention that of the Far East, is far greater than was foreseen when the International Bank for Reconstruction and Development and the International Monetary Fund were created and when the major postwar intergovernmental credits were granted. In this connection, the second annual report of the International Bank, recently published, states: "Because the requirements are greater than anticipated, because the scope of activity and loanable resources of the Bank are limited, it is manifest that the Bank can provide only a part of the answer to the problems which confront the world today." The United States, which has so far been the principal source of external financial assistance for the devastated countries, is now considering means of further assistance.

# Requirements for National Security

(Continued from page 17)

tended to be the storehouse for the world. Consequently, it seems that it is timely to take stock of our situation and make our plans and arrangements for other sources of supply while conserving as much as is reasonably possible in our country for a possible rainy day.

Furthermore, there are many critical and strategic materials of which we have no sources in this country. We hope that arrangements of mutual interest will eventuate through the operations of our foreign relations activities in the State Department and through the European Recovery Program that will channel greater supplies into this country. I am confident that in time this desirable condition will come about.

Another great possibility is inherent in chemical synthesis. Our American-made synthetic rubber is a shining illustration of doing just that under pressure. Similarly, petroleum products through synthesis are already beyond the stage of more speculation. Pilot and demonstration plants have been in operation for some time under the direction of the Bureau of Mines. Interior Secretary Krug has recommended a long-term program of construction, and an immediate program to build three plants of commercial size for the synthesis of petroleum from coal by two different processes and one from oil-bearing shale. Notably a great experiment is under way near Pittsburgh by two of our great corporations—the Pittsburgh Consolidation Coal Company and the Standard Oil Development Company. In Texas and Kansas commercial plants are under construction to convert natural gas into petroleum products and chemical by-products. Having been born in Charleston, West Virginia—the chemical capitol of the world—I have unbounded faith in the possibilities of synthesis. I became convinced years ago when I tasted ethyl alcohol (mixed with ginger ale) made from gasoline!

We in the U. S. A. are an enthusiastic people and sometimes we go too far, such as in the present case of oil use in this country. Due to a combination of circumstances, which are unnecessary for me to enumerate, it would appear that all of us suddenly decided to install oil heat in our houses, in hotels and in industrial installations. The cumulative effect, if it continues, will be a definite shortage of oil, which certain parts of the country felt keenly this last winter. It may be of interest to add in passing that jet engines use fuel from the same cut from crude oil that is used for manufacturing heating fuel.

There are many fascinating possibilities of substitute materials under study and many beyond the laboratory stage. I shall not pursue the subject further, for it is a complete discussion within itself. The developments have been of such significance as to require a re-examination of the critical stockpile list.

The foregoing leads to the logical question: Why am I here and what are we doing about it?

### National Security Act

I hope all of you have read the National Security Act of 1947. I do not want to bore you by paraphrasing a law. Briefly, it provides for three coordinate agencies on an equal level: The National Military Establishment headed by the Secretary of Defense, established for unification of the Armed Services; the National Security Council composed of the President as Chairman, the Secretaries of State, Defense, Army, Navy and the Air Force, and the Chairman of the National Security Resources Board, designed to keep abreast of events and situations throughout the world in their relationship to our own national security; and the National Security Resources Board, of which I am Chairman, a civilian organization designed to advise the President concerning the coordination of military, industrial and civilian mobilization in the event of war.

In addition to the Chairman the National Security Resources Board consists of the Secretaries of State, Treasury, Defense, Interior, Agriculture, Commerce and Labor. Under the statute the Chairman of the Board must be appointed from civilian life, and reports directly to the President.

Coupled with the phrase "coordination of military, industrial and civilian mobilization," the Board's duties and responsibilities are vast and cover virtually all aspects of our economy, except strategy and tactics of the military and the functioning of our foreign relations. The latter, as I have pointed out, are integrated in the Security Council.

You may rightfully ask at this point: What have we accomplished to date? My answer is that we have been organized slightly over three months, and we are still looking for the best talents we can find to head some of our important divisions.

Therefore, while I cannot be too specific in telling you what we have accomplished, I can say this: In spite of a still incomplete organization, those of us who are on the job have already rolled up our sleeves and are making our best endeavor to be prepared for war whenever it might come—including the immediate future.

### What National Resources Board Is Doing?

To begin with, we have done somewhat more than dust off some of the more important records of World War II, and are prepared to suggest ways of avoiding some of the more obvious mistakes that were made during that conflict. We are now far enough removed from World War II to give us a fairly good perspective of the general pattern of industrial mobilization, as well as a number of other important aspects of our national capacity to wage war.

We have had the benefit, for instance, of certain work on the subject instituted by the former Army and Navy Munitions Board and published in tentative form last Fall as a master plan with one of its hundred-odd annexes—that relating to the organization of the War Production Board.

One of the most important aspects of industrial mobilization is that of contact and planning between the military procurement agencies and their prospective suppliers. The output of certain industrial plants, as well as government-owned plants and those which have been disposed of subject to the national security clause, have been assigned to the various military services by the Munitions Board. Through educational orders, cooperative engineering by government and industry, procurement plans and the like, many of the plants and industrial companies are already aware of their respective roles and missions in war production—particularly, with recpect to military end products. It is obviously impossible to extend this method of output allocation down to the production of basic materials and certain common components which are necessarily subject to allocation.

We are also well along in intenesive studies relating to fiscal and monetary policies—measures to restrain inflation. problems presented by the necessities of price controls and measures to apportion equitably the smaller available supplies of foodstuffs and essential consumer goods.

We are studying various aspects of manpower problems so that we may be able to recommend the proper type of legislation for the eventuality of war, as well as an efficient organization set up for its administration!

Projects are underway for the study of potential supply of various basic materials, of industrial capacity, transportation, power and fuels—to the end of weighing these capabilities against the estimated military and civilian requirements in the event of war.

We are making organizational charts of civilian wartime agencies, indicating their interrelationship in the light of experiences in World War II, with the objective of smoothing out the rough places and of eliminating potential jurisdictional conflicts. It is our hope that much, if not all, of the authority exercised by some 36 separate agencies during World War II can be soundly coordinated.

We are undertaking the preparation of necessary legislation and executive orders. Equally as important, we shall endeavor to build up and keep a current roster of qualified men to be selected to fill the jobs outlined at the top echelons and get them to thinking of their problems in advance.

We have spent a great deal of our time in trying to persuade capable business executives to come down to Washington for limited periods of time to help orient and give direction to our work. The problem breaks down into so many categories that we must have at least a dozen topflight men to help us work our way into the clear. It seems to me that for a job of such paramount importance we are very modest in our requests to industry and that we should receive the necessary cooperation without having to plead for it. I scarcely need to refresh your memory concerning the criticism from businessmen of the way the war agencies were set up and operated in World War II. I readily concede that much of that criticism was justified. I know how distasteful it is for business executives to disrupt their busy routines and come to Washington to work on industrial mobilization plans which we all hope will never be used. But if our business and industrial leaders do not make the sacrifice now in helping their government, I feel that they are entitled to little complaint if such plans are not to their liking.

We need men with a knowledge of industry, production, machine tools, facilities, raw materials, management experts, men skilled in organizational problems, in personnel training, price controls, finance, economic stabilization, industrial engineering—and all of the other facets of our economic life.

I have enumerated only some of the problems. There are many others. Your patience would not stand more details. I only hope I have given you some idea of the scope of the whole problem. You have been generous and hospitable, and I cannot thank you enough for the opportunity to meet with you as your guest in this great industrial city of Pittsburgh.

### Requirements for National Security

I am going to conclude with what I conceive to be some of the answers to the question: What Are the Requirements for National Security?

(1) Pursue a clear, just and honorable foreign policy.

(2) Strengthen our armed forces, and thus serve notice on friend or potential enemy that we have the military capabilities to back up our diplomatic commitments. To do this we should adopt without delay universal military training legislation to give our nation powerful, trained reserves over the course of the years ahead. We should immediately re-enact Selective Service, as President Truman has recommended to Congress to bring our armed forces up to the required numerical strength.

(3) Increase our sources and our stockpiles of critical and strategic materials. Direct our research and development activities toward the further discovery of substitutes by the application of science.

(4) Encourage in every way new discoveries, in this country and in this hemisphere, of new sources of metals and minerals—including petroleum.

(5) All of the foregoing, while essential and important, will be of no avail unless it is supported by the mobilized spiritual resources of all of our people.

Finally, I am sure that I speak the minds of all Americans when I express the ardent hope that this nation shall not be thrust into another armed conflict. I hope that as disquieting world events unfold, both in the immediate and remote future, we shall all be able to keep our hearts and heads where they ought to be. But, if despite our best and most honorable efforts, war should suddenly descend upon us, let us get and keep ourselves in a state of constant readiness. We shall make every honorable effort to prevent war. If our efforts are of no avail, we are determined to be prepared to win it.

# Reducing Bank Bond Holdings—Effective Debt Management

(Continued from page 23)

cease to compete for scarce goods, with attendant bidding up of prices. Such dollars, as savings, are held available for future spending under conditions more advantageous to the individual, and more advantageous from the standpoint of the national economy.

Such thrift constitutes a bulwark for business stability; it is a contribution to the happiness and well-being of the investor. America has grown great under the tenets of personal thrift.

### Why Should Bankers Continue to Support the Savings Bond Program?

That is a fair question. The financial executive has the right to ask what he can expect to gain from the promotion of Savings Bond sales. Will it strengthen his position businesswise? Will it pay off in a tangible way?

*Considered in the broader sense, the answer to the first question is an obvious one. What's good for the country, what's good for his community, what's good for his customers is good for the bank and the banker.*

No business group has a greater stake in sound government finance and a sound national economy. Selling Savings Bonds contributes to both. Under present conditions, anything that can be done to check spiraling prices will help all financial institutions. The fight to stabilize the economy is *your* fight! One of the most effective fronts on which bankers can fight is in the Savings Bond campaign.

Each Savings Bond that Mr. and Mrs. America buys and holds is stored up purchasing power for the future. In Series E or F bonds, this buying power will grow with each six months the security is held. Series G bonds bring interest checks into your community each six months. The value of those bonds held by individuals today is $46 billion. It will grow if we keep promoting and selling bonds with all our skill and all our might.

# Prices After Two Wars

(Continued from page 4)

subsequent decline, was smaller than shown for wholesale prices. Thus, during and immediately after World War I, consumers' prices more than doubled (106%). When the post-1920 decline had been completed, consumers' prices remained about 70% higher than they had been before World War I. The rise in consumers' prices since 1939 has been smaller than it was during and after the last war; this also has been true of wholesale prices. In fact, at the peak of their rise, consumers' prices are now up as much as they were *after* the post-World War I decline, namely about 65 to 70%.

**Differences—Post-World Wars I and II**

Several important distinctions must be made between this postwar period and the earlier ones.

The magnitude of the changeover to a war economy and hence the magnitude of deferred demands was smaller in World War I than during the recent conflict.

The magnitude of the inflation in World War I was considerably smaller than it was in World War II. Our total spending for World War I, including war debts, was less than $35 billion. In 1943, 1944 and 1945, we spent more than that amount every 5 months. During the recent conflict, we spent approximately $300 billion and this spending has not yet been completed.

After World War I we didn't have support prices for agriculture; we have them today.

After World War I there were substantial wage increases, but they were not so large as during the past two years, and the labor unions did not have as much economic power as they have today.

Our price system today is on higher labor cost stilts than ever before in our history—and it is difficult to visualize our being able to come off these stilts. In fact, as I have previously noted, the stilts threaten to become bigger. Breakeven points have been raised to new high levels in many industries. In this connection, too, it is significant to note that the rise in labor productivity after World War I has been estimated at as much as 30%, whereas this time the increases thus far have been much more moderate, and in some cases, non-existent.

Finally, after World War I, the world disarmed much more quickly, while today armaments expenditures are still being made on a vast scale. For example, total government spending in this country declined by 5/6ths from the World War I peak. This time, the decline has only been about 60%, and if current armaments proposals are adopted, part of this decline will be reversed. This has been and threatens to continue to be a major difference between the two periods.

In other words, the qualitative and quantitative differences between World Wars I and II have been so significant as to explain the differences in behavior of prices in both periods.

There is another aspect of the two postwar price increases which is of considerable importance—although it has received little attention. I refer to the relationship between major groups of prices at the postwar peaks. The magnitude of the World War I price rises for farm and non-farm products was not significantly different.

| | *1914 to May 1920* | *1939 to Jan. 1948* |
|---|---|---|
| All commodities | 145.5% | 114.8% |
| Farm products | 138.5 | 205.1 |
| Foods | 127.7 | 155.5 |
| Non-farm | 147.6 | 98.7 |
| Non-farm, non-food | 152.4 | 82.2 |

The price rise this time has witnessed a wide divergence between both groups of prices—farm prices have more than tripled, and food prices have risen 155%, while the increase for other products has been only 80%. In other words, a wide disparity has developed between these prices as compared with the relationship prevailing before the war. Of course, it must be remembered that these relationships were unbalanced during the prewar years because farm prices were too low. But it seems probable that a significant distortion has now developed the other way. Additional support for this statement is evident if we take other years as the basis for comparison.

For example, as compared with 1926, farm products in January 1948 were 99% higher, food prices were 80% higher, while other prices were only 52% higher.

If the comparison is made between recent peaks and the post-World War I peak in 1920, farm and food prices are about one-fifth higher now than at that time while other wholesale prices are 13% higher.

These comparisons are significant because they suggest that a decline in farm and food prices helps to correct a serious distortion in prices. Such a decline helps establish better balance between these different categories of prices. That is why the February decline in farm and food prices was widely regarded as a heathy development.

One final word concerning these price relationships. It would be misleading to leave the impression that no prices seemed out of line in 1920 while today some are out of line. In the earlier period, prices of textile products and building materials were the bad actors. They increased by substantially greater proportions than did other groups of prices. This time that high position has been held by food and farm prices. However, individual items in other groups have also had substantial increases (e.g., lumber). At the other extreme, the smallest rises in both periods were found in the prices of metal and metal products — an area recently subject to much public discussion and official investigations because of a relatively minor adjustment in prices.

**Effects of High Prices**

When prices rise at different rates and price relationships are significantly altered in short periods of time, the flow of goods and services tends to be affected. Large price increases cut the purchasing power of those groups whose incomes do not increase so rapidly as do prices. Pensioners and other fixed income recipients, government employees, white collar workers, etc., have been in this general category. One effect is a growing volume of resistance by these groups to higher prices.

Similarly, business firms have had a higher cost of living. Depreciation reserves based upon original cost, are proving to be inadequate to replace plant and equipment. In some cases, this has created a need for new borrowing which in turn feeds the prevailing inflation. Wholesale prices remained on a plateau during the 20's about 40% above the prewar level. A similar development this time—and I am not predicting such a decline—would mean a wholesale price level of 114 or a decline of 45 points from the present level. The importance of such a price level in terms of replacement of plant and equipment will be realized when I point out that it is higher than for any years from 1890 to date except 1917 to 1920 and 1946 and 1947.

Similarly, industry finds a growing proportion of its profits or working capital tied up in inventories valued at higher prices. This, too, has led to an increase in borrowing. As a result of the postwar price rise; large inventory profits have been made but these will disappear rapidly when prices stabilize, and they will become inventorial losses when prices decline. It certainly would not seem to be a wise policy to speculate in inventories at this time. Finally, price rises wipe out the gains of past wage increases—which have contributed in part to the rise—and lead to new waves of labor unrest. We are currently witnessing a renewed drive for higher wages based upon these factors.

With such significant effects of rising prices, it is not surprising that there are many demands to "do something about it." Much of the discussion, however, seems unrealistic in terms of what can be accomplished within the framework of our existing institutional arrangements. It should be useful to review some elementary economics.

Prices perform two tasks in our economy. They determine the total volume of supplies and how these supplies shall be divided among buyers. Rising prices stimulate greater supplies and cut off the buyers with the least insistent demands. Declining prices have the reverse tendency. Through this price mechanism a point is reached where supply and demand are in balance at the prevailing price. The important point to remember is that both functions are important. Thus, if profits are high, a price increase may not be required to obtain greater supplies. But the increase may be necessary in order to determine which buyers will obtain the limited supplies (e.g., automobiles).

If demand is greater than supply and prices do not determine who gets how much, then supplies will be divided in one of three ways: (1) standing in line, or first come, first served, (2) some system of rationing, allocation or priorities, or (3) special influence may be exercised in order to obtain supplies. As we saw in 1946, when price is not permitted to do its job, all three of these alternatives will be adopted. It is well to remember that price is merely an objective, impartial, device to divide available supplies. Those persons who desire the product most intensively will pay the higher price. Those whose needs are less intense will fail to obtain as much of the product as they would be willing to buy at lower prices. Sometimes it is said that under such a system only the rich will obtain the available supply of goods. While that may be true for a few special luxury products, it certainly is not true when it comes to the necessaries of life or semi-luxuries. The basic fact is that for most products it is vital that mass markets be reached if available supplies are to be sold.

As you know, in many segments of the economy this supply-demand-price system operates more efficiently in theory than it does in practice. However, in the organized commodity markets such as we have for cotton and grains and for perishable foods such as vegetables and meats, it would be difficult, if not impossible, to prevent price rises in most instances under conditions where large insistent demand here and abroad exceeds available supplies. These demand-supply forces have been fully operative for food as we saw last summer and fall. With the change in the situation, the trends shifted promptly and dramatically in February.

For manufactured products, on the other hand, the producer can make a deliberate decision *not* to raise prices much, to keep them unchanged, or to cut them regardless of the fact that demand is temporarily in excess of supply. Under shortage conditions such as those prevailing currently in many lines, such a decision means that many consumers who are willing to pay the prevailing price and even a higher price are not able to obtain the product. Inevitably, some of these potential customers will bid above the established price determined by the producer. Automobiles furnish an interesting illustration particularly in the used car market for *new* cars. As I pointed out earlier, it is these manufactured goods prices which have had the smallest increases in the war and postwar periods. The paradox has been that these are the very industries which have been made the whipping boy for the price rise.

Although it is popular to blame businessmen for today's high price level, they are not responsible for many of the factors which have caused this rise.

They are not responsible for rise in food prices which has been the main factor in the rise in living costs.

They are not responsible for the higher freight rates which must be paid because of higher wages or for the many other price increases which have been attributable to higher wages.

They are not responsible for the huge volume of credit inflation created during the war years. *This is the primary source of inflation and explains the tremendous pressure which has been exerted for upward movements in the price structure.*

They are not responsible for the foreign policy of our government which led to large purchases of grains, which purchases in turn forced those prices to record high levels and created serious new distortions in our economy.

Although businessmen are not responsible for the foregoing actions, they connot escape responsibility for what happens in their own bailiwick. Large demands have made possible substantial price increases. And prices have accordingly been raised for many products.

Similarly, farmers are not fully responsible for the conditions which have made it possible for them to receive record prices and record levels of farm incomes. They are the beneficiaries of a market economy, not the prime movers in the higher prices attending a record volume of demand.

While labor has some responsibility for the acceleration of price rises attending excessive wage increases, their actions, too, reflect largely the result of the underlying inflation rather than its prime cause.

The fundamental fact is that the price spiral flows directly from government policy, past and present. I refer particularly to the inflation of bank credit and money supply and to the unwillingness to take the bold steps necessary to reverse these tendencies.

This raises the question, do we really want lower prices? I think the answer is the same as that given to OPA in many cases. We want lower prices for the things we buy; not for the products or services we sell. Labor wants lower living costs—which is what it buys—and higher wages for what it sells. Businessmen are enthusiastic about lower costs but not about lower selling prices. The same is true of farmers. The politicians have been no exception. Many talk about higher taxes, which is the price for the service they sell—and a pretty expensive one. I might add—while demanding lower prices from industry. Every one seems to be interested in having prices reduced —for someone else. The fact seems to be that high prices are popular to every group which has something to sell and which is in a position to share in these high prices.

We can get lower prices. But let me caution you not to delude yourselves into believing that wishing will make it so. High prices are a result of underlying pressures—they can be brought down only by modifying or reversing those pressures. But there will necessarily be a price to pay to obtain a significant downward readjustment in the price level. That price is a deflation in business activity. Deflation is unpopular—politically and socially. It means a lower national income. It means smaller profits. It means less overtime and smaller pay checks. It means smaller farm incomes. It means losses on investments and business failures. It means unemployment. It means lower tax receipts and inevitably pressure for more government spending.

On the other hand, all history shows that the excesses of a boom have had to be paid for, sooner or later. The sooner the payment, the smaller the price to be paid. The longer it is postponed, the more severe the maladjustments become and the greater are the pains of readjustment.

Of course, such a readjustment is not all net loss. In the past, such readjustments have been accompanied by an improvement in labor and industrial efficiency. Relief would be given to the millions of sorely pressed persons with fixed income. The disenfranchisement of this steadily growing bloc of consumers is creating grave social problems, as well as creating economic difficulties.

There is little point in ignoring the fact that price deflations are unpopular. Nor the fact that after past postwar inflations, these declines have not been gradual, but drastic. Ordinarily there is no way of making sure that we will have "just a little deflation." However, there is one major factor in the

**CONSUMERS' PRICE INDEX**
**1935-39=100**

| | —Percentage Increase— Dec., 1914 to June, 1920 | Average, 1939 to Jan., 1948 | June, 1920 | Jan., 1948 | Percentage Change, June, 1920 to Jan., 1948 |
|---|---|---|---|---|---|
| All items | 105.8 | 69.8 | 149.4 | 168.8 | +13.0 |
| Food | 120.5 | 129.3 | 185.0 | 209.7 | +13.4 |
| Clothing | 199.6 | 91.1 | 209.7 | 192.1 | — 8.4 |
| Rent | 29.2 | 11.1 | 119.1 | 115.9 | — 2.7 |
| Fuel, electricity | 67.7 | 30.8 | 104.8 | 129.5 | +23.6 |
| Housefurnishings | 175.9 | 89.8 | 169.7 | 192.3 | +13.3 |
| Miscellaneous | 92.2 | 45.4 | 100.7 | 146.4 | +45.4 |

**WHOLESALE PRICES**
**1926=100**

| | —Percentage Increase— Average, 1914 to May, 1920 | Average, 1939 to Jan., 1948 | May, 1920 | Jan., 1948 | Percentage Change, May, 1920 to Jan., 1948 |
|---|---|---|---|---|---|
| All commodities | 145.5 | 114.8 | 167.2 | 165.6 | — 1.0 |
| Semi-manufactured | 261.4 | 103.9 | 253.0 | 157.0 | —37.9 |
| Raw materials | 141.7 | 162.0 | 163.4 | 183.9 | +12.5 |
| Finished products | 132.7 | 96.0 | 157.8 | 157.6 | — 0.1 |
| Nonagricultural commodities | 147.6 | 98.7 | 165.4 | 158.0 | — 4.5 |
| Other than farm and food | 152.4 | 82.2 | 170.6 | 148.1 | —13.2 |
| Farm Products | 138.5 | 205.1 | 169.8 | 199.2 | +17.3 |
| Foods | 127.7 | 155.5 | 147.3 | 179.9 | +22.1 |
| Hides and leather | 172.5 | 109.0 | 193.2 | 199.8 | + 3.4 |
| Textile products | 244.9 | 110.9 | 188.3 | 147.0 | —21.9 |
| Fuel and lighting | 182.3 | 77.8 | 159.8 | 130.0 | —18.6 |
| Metals and metal products | 93.9 | 63.6 | 155.5 | 154.5 | — 0.7 |
| Building materials | 212.0 | 113.4 | 164.4 | 193.1 | +17.5 |
| Chemicals and drugs | 113.4 | 82.6 | 173.7 | 138.8 | —20.1 |
| Housefurnishing goods | 152.3 | 63.5 | 143.3 | 141.1 | — 1.5 |
| Miscellaneous | 96.3 | 65.1 | 176.5 | 123.5 | —30.0 |

picture at this time which suggests that if we had put on the brakes, any deflation would have been kept within moderate limits. I refer to the large demand for the products of the heavy goods industries. So long as we can still sell all the automobiles, heavy electrical equipment, railroad equipment, oil equipment and farm implements that can be produced, the probability of a decline of the 1920-21 variety would appear to be remote.

Finally, we cannot ignore several heavy black clouds on the horizon. If we embark upon an expanded armaments program, it is probable that the usual postwar deflation will be deferred still further and that new inflationary forces may be set into motion. The magnitude of the third round wage increases and the extent to which they are accompanied by strikes and the bounty of Mother Nature in the 1948 harvest are other factors which will play a significant role in the months ahead. As we have seen, the meat strike has meant higher meat prices and the coal strike has meant a smaller production of steel, automobiles, and other products. These are not the ingredients for a precipitous decline in the price level. A large grain crop, here and abroad, could more than offset these current pressures for higher prices. So far the crop portents have been good, but it will be several months before we know the actual results.

For most non-food products except possibly some textiles, there is little evidence of an impending break in prices. The outlook for food prices depends upon the size of crops here and abroad. In summary, it appears that the delay in the development of a sharp postwar price decline has been due to factors which continue to be significant.

# Who Killed Cock Robin?

(Continued from page 6)

price-times-earnings ratios, of stocks are low (the lowest since 1923) and their price comparison to commodities, based on a 50c or 60c dollar, is also low, and their present market price makes no allowance for present replacement valuation of plant and machinery.

A comparison of present Dow Jones Industrial Stock Averages with wheat prices shows in the stock average a high of 159 and a low of 121 in 1939 against about 173 today. In wheat, it was $1.12 high and $0.62 low in 1939 as against $3.20 high within a year and today approximately a low of $2.36 which is twice the high of 1939, against stocks selling 8% above the highs of 1939.

Financing through equities, being on an attractive basis to the investor, should, therefore, help solve the fundamental problem of securing additional equity capital and thus enable production through increased plant facilities to control inflation. Why, if we have a partial but important situation to help reduce and balance our inflationary trend, why can't we use it?

**The Increased "Margins" Imposed By the Federal Reserve Board**

Here then, enters the villian of the play! On Feb. 5, 1945, the Federal Reserve Board directed in effect "margins" be increased to 50% on the authority of the act charging the Board with the responsibility of determining "whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate or commodities." The term "undue use" would mean in ordinary language abnormal, harmful or unusual. To give the Board the autocratic despotic right to use their judgment as to what extent credit may be used for a basic need and implemental means of production and expansion seems going far afield. Such power would appear to be a device for restricting credit for seemingly punitive purposes. Why not curb life and fire insurance companies from loaning 50% or 60% on value of real estate which means only 50% or 40% margins respectively? Why not have restricted speculation in commodities by imposing 50%-60% and even 75% "margins" instead of allowing them a "margin" of only 20% raised lately to 33⅓%, the maximum ever imposed?

This liberality (which could not have a political motivation?) enabled extended speculators to raise the "staff of life" to prices unheard of in the history of the country. Surely no one could claim this furious speculation and price rise was essential to our financial or economic well being! **On the contrary, it probably was responsible, in largest part, for the rise in the cost of living, consequent rise in wages and resulting uncontrollable inflation!** And why should the Board dogmatically impose, without any consultation of any city, state or governmental agency or bureau an economic credit restriction, when the banks are wide open to decide on basis of their own judgment how much is to be loaned to an individual bank or company. Why not let the SEC have control of "margin" requirements where decisions could be based on appropriate hearings? Why not, as the writer proposed in 1933 to the Federal Trade Commission, construct a graduated scale of restrictions on lending on marketable securities, which should be based on a certain relation between the rate of activity and degree of appreciation or depreciation. A bar is no guide, a graduated measure of control might be. On July 5, 1945 the Federal Reserve Board raised the "margin" to 75% and on Jan. 21, 1946 it was raised to 100%. The former increase was made just before the end of the war, at which time a recession, accompanied with some eight million unemployed, was being predicted for the Spring of 1946 by governmental experts. The latter increase was based on the following statement: "The reason for so drastic (increase to 100%) a requirement was that inflationary pressures were very strong and any growth whatever in stock market credits would increase them."

On Feb. 1, 1947, the "margin" was reduced to 75% where it is today. Accordingly, a 100% "margin" was held through the entire deflationary period in stocks for fear that "any growth in stock market credit would increase inflationary pressures." Well, it looks as though business with the Government's blessing on wage increases proceeded merrily on its inflationary course, while the stock market continued just as merrily on its deflationary course, branded as "inflationary" by the anti-inflationary pundits of the Federal Reserve Board. Certainly, the imposition of a 100% cash requirement must have had a large share in the "bust" of 1946 during which period this veritable "prohibition" prevailed. Certainly any requirement similar in degree of severity applied to loans, reserves, borrowing could have produced a panic! History is not mute as to controversies of much less stringent requirements bringing on the 1929 crash. During these radical restrictions on the buying power of the stocks of companies upon which our might and power depend what serious extension or abuses of credit facilities developed?

Loans on stocks, bonds (including Government) and commodities averaged annually from about $400 million to $600 million between 1939 and 1944 and $1 billion in each of the years 1944 and 1945. In 1946 and 1947, these loans were $357 million and $300 million respectively. Today, there are $250 million loaned on stocks and bonds, other than Governments. **It is to be remembered loans were $8½ billion in September, 1929, and averaged $6½ billion for the year.**

**High Margin Requirement Inflationary**

Accordingly, it is difficult to find any sound reason for the high "margins" indiscriminately imposed on the purchase of the stock of even the soundest of corporations, or to find any beneficial effect this restriction of credit had on our economy. It does appear that these high and unusual "margins" accelerated inflationary tendencies by banning equity financing and "panning" would-be purchasers. This is obvious to any ordinary observer particularly since the peak of the market in 1946; formerly, rights given to stockholders to subscribe to new stock caused a rise in the stock, for the stockholder figured that optimism of the company's prospect prevailed and the new money would be used for increased production, expansion and the reduction of costs. Since the period mentioned offering of rights for subscription to new stock has caused a break from 10 to 20 points and in 1946 the right to buy Montgomery Ward stock declined from over 100 to around 70. Today, the holders of the rights to buy new stock are not imbued with sufficient optimism to make this operation of securing capital an easy one, or a profitable one as it would be if the buyer were not restricted in his credit opportunities. The same dividend approximately on a lower price level raises the cost of securing capital as much as 20% from a 5% to 6% basis. That is not sound business and adds to cost of product indirectly through a pinching or decreasing of surplus.

**Our capitalistic system requires money from equity financing. Would-be purchasers should be allowed to pay a half of the purchase price and remain indebted for the other half, which is a fully secured credit. Certainly a protection of 100% for his indebtedness, should be permitted.**

**Mathematical Miscalculation?**

In fact, the restriction seems so unfounded and illogical that the writer believes it possible to be the result of a mathematical miscalculation which is set forth for what it may be worth. "Margin" is a poor term and the writer has purposely accentuated it. It is lacking in all other credit operation of mortgages, pledges, collateral, etc. The so-called 50% "margin" means that for a $10 thousand purchase there shall be $5 thousand unimpaired market value for the $5 thousand advanced by the broker or lender to the purchaser; accordingly the stock must decline to around 50% of the purchase price to endanger the loan.

When 20% "margin" was the practice in 1929, it meant that the amount advanced by the broker was four times the amount put up by the purchaser. If you raise a 50% margin by 50% and thus make it 75% (as I assume the Federal Reserve Board figured) you do not raise it 50%, you multiply the amount required as margin by three fold; in other words, a 50% margin or pledge is equal to the amount loaned—$5,000 to $5,000 is one to one. On a 75% "margin" the amount is three times the amount loaned which is one to three or, in the above $10 thousand transaction, $7500 paid by the purchaser to $2500 advanced by the broker. **There is no transaction of pledge, collateral, loan or mortgage that requires a 300% protection to the amount loaned, particularly of a pledge that is the most readily marketable of all pledges. Why this discrimination against a present market value of some $66 billions marketable securities, representing substantially the economic supremacy of the world, is beyond all reason and understanding.**

The summary edict by which the "margin" was raised to 75% on July 5, 1945, on a rough computation, eliminated 25% of the $70 billion market value (averaged for the year) of stocks listed on the N. Y. Stock Exchange, or $17 billion, while the average loaned for that year ($1 billion) on such listed stocks was less than 1½% of their averaged market value. Similarly, on Jan. 21, 1946 raising the margin to 100%, on the record of 1945 did not change these figures materially, except that $35 billion of buying power was eliminated. These are startling figures and must cast serious doubt on the wisdom, judgment and ability of the Federal Reserve Board.

Again the Board fails to show consideration for maintaining free markets, in their rule of July 16, 1945 (11 days after raising "margins" to 75%) prohibiting the exchange of any security, in an under margined account for another of equal market value, unless in effect the 75% "margin" is restored. That means that an account thus under margined is totally frozen and an undesirable security must be retained even though it would result in further diminishing the margin by declining in market value, and even becoming worthless. The broker or his customers thus cannot relieve themselves from ill advised purchases even if the credit balance remains unchanged. This to the unfortunate investor must appear like Dostoievsky's "Crime and Punishment!" The rule has lately been abrogated and is no longer to remain in effect after March 31, 1948. **Why, we may ask, did it need almost three years for the absurdity of this regulation to reveal itself to the Federal Reserve Board?**

Further it must be remembered that the present outstanding issues of some $66 billion market value of stocks on the N. Y. Stock Exchange developed on a "margin" of less than 50%. With a tremendous increase of costs (in labor and depreciation), volume (over 100% in national products), in national income (over 100%), and in necessitated expansion, a much larger cash capital would be required to maintain normally these outstanding issues and such increases as industry should obtain by additional equity capital. To increase "margins" by 200% necessitates a still larger amount of cash capital. This brings about an imbalance to our industrial progression that cannot fail to be of permanent injury to our much needed expanding economy.

The conclusion seems irresistible that these same anti-inflationary pundits of the Federal Reserve Board have elected to impose arbitrary conditions that hamper and impair financing with equity capital, vitally needed for our effective functioning in this crucial world period. Their action could be compared with a decision of the "elders" in a community suffering from a declining birth rate, to require strict continence of all males!

**The right to buy shares of representative enterprises on reasonable credit facilities is fundamental to the continued success of the American System of free enterprise and should not be abrogated by shot gun edicts. From the foregoing, it would seem that it would not require a financial or economic authority or even an "ornithologist" to conclude, "who killed Cock Robin?"**

# The Reach for Power

(Continued from page 3)

It was then urged, for the purposes of the record, that the members who were sitting indicate what negotiations had taken place in which the SEC and NASD participated, out of which the "5% philosophy" grew.

Counsel for these securities dealers pointed out that in their opinion, if the SEC participated in any conferences or had anything to do with creation of the "5% yardstick" then the Commission should disqualify itself from sitting in judgment on the price spread "philosophy" of its own creation.

The members of the Commission remained strangely silent. They refused to go on record. The public has never since learned just what hand the Commission had in the creation of the "5% philosophy."

We had hoped to flush the Commission out and get a statement on the subject but our editorial efforts were in vain.

If the SEC had nothing to do with the creation of the "5% spread philosophy," it would have been a simple thing for the members of the Commission who were then sitting to say so. This they did not do.

In our opinion, from their silence, only one reasonable conclusion can be drawn.

**In this instance, the body that preaches disclosure chose concealment as its weapon.**

The emergence of the SEC and the NASD as doctrinaires in a program of price control through joint activity, continues to be one of the barnacles of the securities industry.

**In a field wherein law, custom and usage have created a great measure of uniformity in practice and certainty in operation, the Commission has reared the head of uncertainty and disturbance and has placed broker-dealers in a position of peril during the course of their daily activities.**

We like our laws and doctrines established by the legislature and not by administrative bodies and their satellites.

**WE SUBSCRIBE TO THE CONCEPT OF GOVERNMENT BY LAW AND NOT BY MEN.**

Our adherence continues to be to the system of free enterprise upon which our government was founded.

We abhor the tendency of state participation in and control of business.

**We particularly deprecate the fostering by administrative bodies of new doctrines in the securities industry.**

# As We See It

(Continued from first page)

get rid of unemployment, and to convert the untoward business situation into prosperity for more than a half dozen years. Before the end of 1941 the output of goods was at a record level, and between the draft and the demand for workers, unemployment had begun to give signs of complete disappearance.

**There is also the memory of the panic and depression which followed the first world war — a recollection which in some minds at least appears to confuse the 1920 break with that of 1929. At any rate a surprising number of people have long ago come to the conclusion that another depression must follow World War II in the normal course of events. With many it is, indeed, long past due. So much has at one time or another been said about this inevitable recession that its appearance at some time in the near future has for a good while past, by the great rank and file, come to be taken almost for granted. This line of reasoning obviously gave rise to the need of something different from the last time in order to break the supposed line of cause and effect.**

### Spread of Foolish Notions

Then, of course, the decade and a half since the New Deal appeared upon the scene has spread a great deal of popular misunderstanding about the nature of the economic system and about what makes the wheels of industry whirl. The followers of Mr. Roosevelt, the high priest of this order, were more often than not, like their master, ignorant of economic principles, and when it came to plain everyday matters of business, devoid of common sense. But again like their master they frequently were exceptionally capable when it came to spreading queer notions among the vast masses of the people. Much of what is now being said about what is required to prevent the appearance of a business depression would never pass muster among those conversant with the elementary principles of economics — if the sorcerer's wand had not been waved over their heads.

**But however all this may be, it is of some importance that certain basic principles involved in these matters and these lines of reasoning be understood and evaluated. Quite conceivably, a period of readjustment was, and perhaps still is in order. The Lord knows there are factors enough which needed to be brought back into proper relations with others. There is, of course, no gainsaying that huge gifts to foreign peoples, particularly if these gifts are financed in such a way that they do not diminish consumption in this country or correspondingly enlarge production, may serve to defer required readjustments and postpone the day when conditions are set aright again. Naturally the gearing of the economy to a vast output of war goods again would require many adjustments in its own right, but would not very likely cause or even permit the development of widespread unemployment and idleness — at least for a period of time.**

But is this sort of thing really prosperity? May we regard it as a gain in economic welfare? Is, literally anything, as many appear to suppose, which "makes jobs" and which causes all elements in the population and most of the branches of the economy to become and remain active, even feverishly active, a contribution to the economic welfare of the country or of the world? Obviously, some sort of reservations must be made here, or else we must regard those war years when one could have only a limited quantity of meat to eat, shoes to wear, gasoline to travel, and all the rest, examples of great prosperity. Of course, they were not; of course, the imbalances which developed in those years are what we all fear will at one time or another in the future force a major recession in the rate of business activity.

### What Business Is Supposed to Do

If the economic system of any country is to be regarded as having one and only one function, namely that of providing the peoples of that country with the greatest possible amount of goods and services of the sort they most want and in doing so require the least amount of work and inconvenience — if this is the real function of our economic system, we must be very cautious in supposing that many of the things being talked about today can in the nature of the case bring lasting economic benefits.

**Of course, it is necessary for the industry of any people to do that which is necessary to protect it from outside attack. That is to say if the nation is threatened, its industry must provide the sinews of modern war—which are not only exceedingly expensive but wholly necessary. Opinions may well differ as to the degree in which we are at the moment being threatened from without. But even if we, for the sake of the argument, concede that it is necessary to divert much of our attention and our effort to producing articles which have no usefulness except in conducting modern warfare, we still must remember that the production of these things is only a necessary evil, that they are really useful only in a negative sense, that is necessary in order to continue to exist in a free state. Neither their production nor their employment—except in conquest, which does not enter the picture in our own particular case—advances our economic welfare one iota.**

### Relief and Prosperity

Such gifts as are being projected under the European Recovery Plan are in a slightly different category, but they certainly are not to be grouped with articles we produce to exchange for other goods we desire from abroad. By raising wheat and giving it to undernourished peoples in Europe, we may well satisfy an innate desire to do good; we may, if we produce more than otherwise would be the case without reducing production elsewhere, find that our generosity has not cost us very much, but the direct, immediate economic benefit we can expect from it is limited, to be sure. It is one thing to be feverishly active; it may be quite another to get ahead.

**These are simple, homely truths, but they are now often being overlooked.**

# "Unfinished Business"

(Continued from page 2)

ish interests to use unions to establish monopoly control and restrict competition in their industries.

I am sure I will be accused of being anti-union for what I am saying here this evening, but I am not. I am simply pointing out the problem stripped of the emotional and political confusion that usually surrounds it. The simple fact is that monopoly unions through industry-wide bargaining exercise power over the industrial life of the nation. No minority group, not elected by the people and not responsible to the people, can be allowed to exercise such power. The problem we face with unions is similar to the eternal one we face with government itself.

No intelligent person will argue that we should not have government. The question is how can we limit and restrict the use of government power by the men to whom it is given so that they cannot use it to destroy the fundamental rights of other citizens. The problem remains one of the most important pieces of "unfinished business" facing the country. It is becoming increasingly clear that such labor monopolies, operating with little or no regard for the public interest, must be restricted in a practical way or they must be broken up.

The Labor-Management Relations Act of 1947 failed to deal effectively with several other important matters. One of these is compulsory unionism. Many of the same people who are loudly demanding anti-discrimination legislation based on race, creed, color or national origin are still advocating and supporting discrimination in employment based on union membership. As an example, they are demanding the elimination of the poll tax while advocating compulsory unionism which amounts to an industrial poll tax on the more basic right to work and earn a living. It is worth remembering that monopoly union power is largely based on and enforced by compulsory unionism. Thus, monopoly union power and compulsory unionism are tied together.

### Scope of Collective Bargaining Not Defined

Another piece of "unfinished business" is the failure of the new labor law to properly define the area and scope of collective bargaining. This failure is resulting in continuing conflict over pensions, insurance, paid lunch periods and various other payments that have nothing to do with wages paid for work performed.

Before the National Labor Relations Act was passed, this issue does not seem to have been very important. Unions generally confined their negotiations with employers to the narrow issue of wages, working hours and other specific conditions of employment. Many craft union agreements in pre-National Labor Relations Act times were practically one-page affairs, simply stating what the wage rate was and the rate for overtime.

With the rise of industrial unionism, under the National Labor Relations Act, a new concept of collective bargaining has appeared. For example: Several years ago the President of the CIO proposed a plan for the reorganization of American industry on the basis of "industrial councils" to be established in each business, and in each industry. These councils were to consist of union representatives, representatives of management and government officials, who, collectively, would make all of the key decisions with respect to industry's operations. This would be equivalent to putting union and government executives on the boards of directors for each business, and then setting up a super-board of directors for each industry, composed of the same elements. This plan is very similar to that which many persons advocated during the late and unlamented N.R.A. It has many features that are identical with the Syndicalist set-up of industry under Italian Fascism. Writing more recently on this subject, the President of one of the largest unions in the CIO expanded this concept further in the planning and control of all industrial action through such joint industrial councils.

The Labor Management Conference in 1945 attempted to reach an agreement with the representatives of the principal union federations as to the area in which management should make decisions on its own responsibility without consultation with unions and not subject to union veto. The union leaders were unwilling to make any agreement in this matter. However, these sessions served one very useful purpose. They brought out sharply and forcibly the fact that there is a basic conflict on this matter that cannot be resolved by collective bargaining. Furthermore, it is an issue which cannot be resolved satisfactorily under the provisions of the new law, because nowhere within that Act is the subject matter of collective bargaining accurately delineated and the limits of the area of collective bargaining defined. The reference in the Act to wages, hours of employment, working conditions and other conditions of employment can be stretched to comprehend almost anything that might indirectly and ultimately affect the employment of the individual workman.

The old National Labor Relations Board itself showed a tendency to support the contentions of the labor leaders that practically any matter that might even remotely affect the employment or income of an employe can be considered as being within the area of collective bargaining, and hence that employers can be legally required to bargain about it.

The desire of some union leaders to stretch the scope of collective bargaining must be appraised in terms of the ultimate limits to which that process may take us.

One of the things I got out of calculus when I studied engineering was the principal of carrying ideas to their limits of zero and infinity, and looking at them under each of these circumstances. If we consider the ultimate result of this tendency to stretch collective bargaining to comprehend any subject that a union leader may desire to bargain on, we come out with the union leaders really running the economy of the country, but with no legal or public responsibility and with no private employment except as they may permit. Under these conditions the freedom of management to function properly without interference in making its every-day decisions will be gradually restricted. The union leaders—particularly where they have industry-wide power—will have the deciding voice in all managerial decisions or at least will exercise a veto power that will stop progress. Competition will be stifled and progress in the improvement of industrial processes which reduce the cost and price of the goods produced by industry will be halted.

### Should Define Collective Bargaining

Only by defining and restricting collective bargaining to its proper sphere can we hope to save what we have come to know as our American system and keep it from evolving into an alien form, imported from east of the Rhine. Until this is done, the border area of collective bargaining will be a constant battleground between employers and unions, as the unions continuously attempt to press the boundary farther and farther into the area of managerial functions.

The law will be principally responsible for this continuing conflict. As long as the law is not clear on this issue the unions will feel that they are justified in their efforts to drive ahead in this direction. On the other hand, employers will be equally determined to resist these efforts to restrict management's functions at the expense of progress.

By defining this area sharply and clearly, Congress could eliminate many issues of potential dispute. This would also relieve industrial management of its present fear based on its experience under the National Labor Relations Act, that the aim and purpose of that Act was to accomplish a revolutionary change in the nature and structure of the American economic and political system.

### Unions and Welfare Plans

Group insurance and welfare plans can be, and usually are, of great benefit to employes and the movement in this regard, which was initiated by progressive employers decades ago, should not be restricted. Nor should there be any limitation upon the right of unions to establish such plans for the benefit of their members.

But participation by employes in such plans, whether sponsored by employers or unions, should be entirely voluntary and not a condition of employment. Since the needs of individual employes in these matters vary widely, they should be free to participate or not, in either employer-sponsored or union-sponsored plans, as they may personally desire, without in any way affecting their status as employes.

Furthermore, the technical problems involved in the formulation and adminstration of these plans would be very difficult to resolve in collective bargaining. Such employe benefit plans are involved in a very complicated maze of state and federal insurance, tax and corporation laws. Pension plans also must be established on a time basis that is of much longer duration than the usual union agreement, and therefore it is impractical to include them in union agreements as such. The Wage & Hour Law is also involved as contributions to such plans in certain cases must be included as wages and become subject to overtime payment when the employe works over 40 hours per week.

Not only do these plans present many difficult problems in their development and formulation, but their joint administration will create equally difficult and far more numerous issues. Every claim under such a plan will be the potential basis of a labor dispute, the peaceful resolution of which will be much more difficult than the standard, every-day cases which arise under seniority and wage agreements.

In these circumstances, it is sufficiently difficult for employers and unions, acting independently, to establish sound benefit plans on their own responsibility. It will be much more difficult to deal with these problems jointly in collective bargaining.

In addition, when a large employer does business with a number of different unions, it will be impossible to have uniform benefit plans for all of his employes without regard to their union status or affiliation, if these plans are to be made the subject of collective bargaining with each of the various unions involved.

Thus, the inclusion of health and welfare plans within the area of collective bargaining can only create new and unexplored areas of industrial disputes, difficult—if not impossible—to solve. The Federal Government has already preempted the area of old age pensions with respect to the first $3,000 of annual income of all employed persons. To require or permit this highly complex issue of pensions also to become subject to collective bargaining will add still further confusion in the matter of Social Security.

Welfare and similar plans should be excluded from the area of collective bargaining, and it should be made illegal for unions to attempt by economic force to require employers to bargain collectively over such plans, or to make participation in any such plans a condition of employment for employes. This would leave both employers and unions free to develop sound plans independently of each other, without complicating collective bargaining on the ordinary issues of wages and hours of employment still further.

Accordingly, the law should be amended to specify that only rates of pay, hours of employment, and the circumstances and conditions under which employes actually perform work, come within the area of collective bargaining required by law. It should also be amended to protect employers in the event that unions attempt, through strike action, to compel them to bargain over other matters.

I wish to make it clear that what I am proposing would not prohibit an employer and a union, by entirely voluntary agreement, from including other subjects in the scope of their collective bargaining. Nor do I recommend that satisfactory arrangements that have been entered into should be disturbed or prohibited. All that I am urging is that no employer should be required by law to extend the area of collective bargaining beyond that which I have outlined, and that no union, operating under the protection of the law, should be permitted to force him to do so.

The current coal strike, which apparently is over the question of pensions, forcibly illustrates my point. The coal strike is already beginning to cripple the industrial life of the nation. Our modern industry is completely dependent on a continuing flow of raw materials starting with coal and steel. Crippling industry strikes are bad at any time, but they are particularly bad now when it has become clear that threatening war clouds still hang over the world. The coal strike forcibly calls attention to this "unfinished business" in the area of labor-management relations.

### Communist Seizure of Czechoslovakia

Another piece of "unfinished business" has been dramatically brought to the American public's attention by the communist seizure of Czechoslovakia following the progressive taking over of the Balkan countries. This has caused most Americans to realize that communism is a very real and increasing threat to the free peoples of the world. During the war many people talked as though Russian communism, based on Marxist philosophy, and Americanism, based on individual rights, were much the same and maintained that there was no essential conflict between them. It is a distinct shock to many Americans to realize that individual human rights do not and cannot exist under the Russian system. The two systems are as different as night and day. The ideological and practical conflict between slave states and free societies is now becoming clearer. The magnitude of the gulf between the idealism as expressed by the propaganda of professional communists and the realism of their action when they have the power to enforce communism on a nation is becoming equally clear. Communist actions speak so loudly that we are daily becoming less and less impressed by what they say.

Many well meaning people have been duped and "taken in" by communist propaganda and their claim that their system is democratic. It is democratic only if you accept Lenin's definition of a democracy. Here is that definition:

"A democracy is a state which recognizes the subjection of the minority to the majority, that is, an organization for the systematic use of violence by one class against the other, by one part of the population against another."

Contrast this with the principle upon which our system was founded as set forth in the Declaration of Independence:

"We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are Life, Liberty and the pursuit of Happiness. That to secure these rights, governments are instituted among Men, deriving their just powers from the consent of the governed."

The fundamental principle of our republic is not unlimited or arbitrary rule by a majority, but the constitutional protection of the fundamental rights of minorities and individuals. Communism denies and destroys every one of the rights which our system recognizes and protects.

Communism achieves and maintains its power through Greed and Bribery; through Intimidation and Terror; through Hatred, Envy and Jealousy, and through Lying Propaganda, based on the theory that the end justifies the means.

Thus, under communism the mass of the people become completely subservient to the dictatorship of the power-drunk few.

As a matter of fact, to Marx they meant the same thing, and he frequently used these terms interchangeably. It is no accident that the official name of the Russian Government is the "Union of Soviet *Socialist* Republics," and for that matter, that the Nazi party in Germany was the "National *Socialist* Workers' Party."

One of my friends recently said that communism was an express train and socialism was a slow freight, traveling on the same track toward the same destination. One might also say that a communist is a socialist in a hurry. As a matter of fact, totalitarianism under any name can only enslave and brutalize the people.

The great delusion of those who subscribe to Marxism and have never endured it is that a people will be happier and more prosperous in some communistic or socialistic form of society than they can or will be in a free society based on the fundamental principles recognized by the founders of our republic. Our Americanism is still the new, revolutionary, liberal philosohpy in the world. Those who advocate communism, socialism or any form of statism, while flying the flag of liberalism, are in fact advocating a system of society which when put into effect in a nation enslaves its people.

This conflict between communism and freedom is a piece of "unfinished business" not only here in America but all over the world. As long as it remains "unfinished business" there can be no sound basis for world peace.

# High Taxes No Longer Serve As an Inflation Deterrent

(Continued from first page)

taxes. Still others fear that we might not be able to develop a budgetary surplus for making a payment on the national debt, if we would reduce our present scale of taxation. The latter group would not admit that a revised tax system might facilitate the development of a budgetary surplus.

My position is that the efficacy of tax reduction as a counter-influence to inflation depends on what phase of the inflationary cycle we happen to be passing through. One phase of this cycle, the war period, is over. The second phase may be referred to as the immediate postwar, or transition period in which we are now moving along. This phase might also be referred to as the "Aftermath" of the war. This in turn we expect to be followed by a third phase which we hope will be a more or less normal period during which the present problem of inflation will be finally solved.

I wish to emphasize that during the wartime part of the inflationary cycle, severe taxation was quite appropriate but that during the transition period, where we are now moving, these high scale taxes have no longer any virtue in combating inflation. As a matter of fact, excessive taxation may at that time increase the severity of the inflationary trend. During the emergency proper (war) the scale of taxation was appropriately quite high. I was one of those who at that time advocated a Federal sales tax as a complement to our high income taxes in order to mop up the excess purchasing power that at such a time gets into the hands of the people. For the same reason it goes without saying that the excess profits tax in vogue at that time was very much to the point.

### Taxation vs. Borrowing

In planning the financing of a war, the balance that is struck between taxation and borrowing is of prime importance. Taxation should have been emphasized more during our recent war. In such an emergency a goodly part of the funds spent by the government should be syphoned back into the National Treasury. There is no need at such a time to think of the untoward effect of high taxation on business and production in general. The government appears then in the markets as the great and almost sole demander. It will absorb nearly all the goods and services that can be produced. Full employment will be maintained since an all out market is available and necessary to supply the sinews of war for ourselves and our allies. Moreover, under the influence of the patriotic motive, citizens will bear the heavy load of taxes without serious objection. This is not true of the transition period at present. People easily become restive if the war level of taxation is continued. As a consequence their motivation in economic matters is much more easily affected than it was during the war when they were buoyed up considerably by their patriotism.

While taxes could have been maintained at a higher level during the conflict the less efficient part of our planning for the war relates itself to the methods of borrowing adopted by the Federal Government. This has turned out to be rather fateful. The war debt made up an additional heavy layer on top of the deficit financing of the years 1931 to 1940. Moreover, too much reliance was placed on the credit resources of the banking system. This method was adopted instead of offering a higher rate of interest which would have attracted the savings of the people at large. The artificially low rate of interest which was used in tapping the credit of our commercial banking system, brought in its train a series of maladjustments in public as well as private finance. A gap was thereby created between the money rate of interest and the natural or effective rate of interest. The result is now in part before us, but the full effects of this policy are still in the making. The natural rate of interest depends upon the productivity of capital in our economy. Eventually it will be clear that the rate of interest is only another one of the prices in the market which the government cannot permanently fix. The real rate of interest is bound to show itself in the capital value of government bonds. Our business units are hungry for more capital and the Federal Government will have to compete with this trend in the long run.

By the extensive use of the resources of the commercial banking system in Federal borrowing, all the credit instruments created by the government could be monetized by the banks with the help of the Federal Reserve System. Largely in this way the basis was laid for the inordinate expansion of our currency and demand deposits. This well known fact is our financial inheritance from the war and the deficit financing that preceded it. It has given us the gigantic problem of inflation which we now have on our hands. And now the authorities who have created this dilemma are suggesting that they should have more power to combat the unhappy results in their own unique way.

### Taxes Now Not An Inflation Preventive

Excessively high taxes, as we still have them, can no longer be an element in the prevention of further inflation. We can no longer offset in this way the effect of the enormous amounts of money and demand deposits created by the Treasury with the cooperation of the Federal Reserve Banks. Taxes should now be reduced as a stimulus to economic activity and specifically to augment savings and investments. Capital accumulation as well as tax relief in general are the desirable goals to be attained by lower scale taxation. This relates to the ability of corporations and individuals to save and invest. I read with interest a number of the statements of Presidents or General Managers of larger businesses which were presented in the "Commercial & Financial Chronicle" at the turn of the year. These estimates were to give us an overall picture of the status of business at the beginning of 1948. One note was fairly common to a large number of these analyses of future business prospects. It expressed the acute need of more venture capital and equity investments in case of corporations and other industrial business units. One or two of the writers stressed the practical non-existence of capital markets from which new risk capital could be obtained for the expansion of business. It is generally recognized that satisfaction for this need of capital is now sought through new bank loans. Large banks have recently increased sharply this type of loans. The result is evident that high taxes are in this instance encouraging debt while they retard equity financing.

### More Savings Required

When the need for more savings and investment at the present time is mentioned, the response is sometimes given that we have practically full employment now and therefore there is no outlet or use for additional savings and investments. It should borne in mind however that even under the assumption that all available labor is now employed there is still one royal road to promote greater production and that is to give the employed laborers more capital in the form of additional tools and machinery. This requires more savings and investments, which will be made possible by lowering of taxes. It is hardly necessary to repeat the fact that the great productivity of American labor is due at least in part to the fact that it is more liberally supplied with tools and machinery than the laborers of any other country.

It is also being suggested that the "aftermath" of the war has complicated the present struggle against inflation. Large continuing expenditures which are deemed necessary by some will preclude, it is claimed, the possibility of any tax reduction. Some of these expenditures are due to European gifts and loans as well as to the continued swollen Federal civilian payroll and other budgetary requests. It is my feeling that we still have it in our power to keep the costs of these items down to such proportions that a sizable cut in taxes may be effected. No one objects to the humanitarian program for giving Western Europe food, fuel, and fertilizer for their fields. Beyond that, however, all is speculation.

In conclusion, the excessive taxes which were appropriate during the war emergency are now ineffective as a deterrent to inflation. The stimulation of individual initiative which will bring about increased production is the soundest method of procedure. This can be done by making savings and investment available to producers and giving the tax payers of all grades some relief from their burden. It may be argued that this is a long-term remedy. This is correct but it is also true that the melioration or cure of inflation cannot be effected in a short period of time. We shall do well to reject the short time expedients and devices involving control of our economy.

# U.M.T.: Show of Force or Lack of Sense?

(Continued from first page)

lion men never got further than west of the Leningrad-Moscow-Stalingrad line. It would have had to go almost twice as far, and use at least 50% more force, to reach a final show-down with the Soviets.

Today, the Russian army is presumably better trained, equipped and organized than ever before. There are more Russians, too; in addition, the Soviets can enlist many divisions from the satellite countries, just as Hitler enlisted them, and even more so. The territory we would have to overrun also has greatly expanded by 500,000 square miles in Europe alone, to Moscow's strategic advantage. How large an army, then, would we need in a next war, if we are to avoid the fate of Charles XII, Napoleon the First, and Adolf the Last? And how could we possibly transport millions of men within less than a matter of years? Two hundred and twenty divisions would not do; they have to be supported by technical forces, manpower for the supply lines, etc., possibly duplicating the number of men in the actual fighting forces. The problem of ferrying such a fantastic army across the Atlantic—and by the same token, wouldn't we have to do a similar job on the Pacific side as well?—staggers the imagination, to say nothing of the financial costs.

If a war with Russia has to be fought by American mass invasion of the Soviet empire, we might as well consider it lost from the outset. It would take years to get an army of such dimensions mobilized and equipped, transported and supplied. Nor could the overrunning of the Russian lands or of their vital parts, in the face of desperate resistance, be a matter of months. A war of such duration, magnitude and expense would double or treble our national debt. A prolonged war with Russia would mean the destruction of Europe, leaving a reconstruction problem on our hands, compared to which the present one would fade into insignificance. It all would add up to the virtual extinction of the paper dollar's purchasing power, if not the repudiation of the national debt, with the breakup of this nation's social structure in its wake. To many Americans, appeasement may not seem too expensive a price for avoiding such a disastrous "victory" — assuming we would win that war.

### Mass Invasion War Fantastic

In short, the idea of a mass-invasion war against Russia is fantastic and its implications suicidal. But if Universal Military Training means something, it means preparation for just that kind of a war. The idea is interesting, however, inasmuch as it throws light on the archaic military mind that still dominates the Pentagon.

The notion of sending over millions of Americans to fight Russia—the only potential enemy worth consideration—is nonsensical, for one thing, because it implies that we would fight single-handed. But it is preposterous to assume that we would have no allies. Actually, the entire world outside the "sphere" which the Soviets rule (with our connivance) is bound to go with us. Now then, Western and Southern Europe, from Scandinavia to Greece and Turkey, come close to matching Russia's population—even with her satellites (250 million against 310 million). Is is not the logical thing to assume that these countries, possibly including North Africa, the Middle East, and some British Dominions, would have to bear the brunt of direct manpower requirements? Between them, in numbers as well as in quality, they would be better than equal to the enemy, and they would not have the transportation problems to overcome with which we are faced. Similarly, Chinese, Korean, perhaps also Indian and Japanese manpower could be used on the eastern side of Russia. If there should be another war fought with millions of bayonets and machine guns, the logical thing is that we produce the armaments and supply the technicians, including air power, rather than let Europe and the Far East do that job for which they are scarcely prepared, especially not while under enemy aerial bombardment, as they very well might be. Even in the last war, our decisive role in Europe was technical in the broadest sense of that word. Incidentally, the American manforce that beat Japan was numerically far inferior to the Nipponese.

### Mass-Warfare Archaic

The conception of preparing for mass-warfare is as typical of archaic-mindedness in military matters as is the bogus fear of a coming depression in the economic field. It is no sheer coincidence that the same Administration that has been preparing for years against mass unemployment on the pattern of the 1930's, also is the one that wants to prepare for a mass-war on the pattern of the early '40s. It does not seem to have grasped as yet how little bayonets mean in the age of atom bombs, jet-propelled rockets, supersonic missiles, "death-clouds," and what have you. If we cannot beat the enemy by destroying from the air his supply centers and communications, then we would be up against another five-to-ten-year contest with a very doubtful outcome. If war preparations there must be, instead of wasting our material resources and manpower on universal training, we should concentrate on two things: on **maximizing the amount of decisive air-borne weapons** and what goes with them, including the highly trained personnel of limited numbers; and on **arming the potential allies.** Even in the last war, antiquated as its technique appears now, every country found it neccessary to keep men of military age and strength working in key industries. How much more important will it be in the next conflagration to keep the basic industrial machine running. And that takes in farms as well as mines: this country is bound to be, in war even more so than in peace, the fundamental supply source for the better half of the world. Technical training is what we should give our youth, and more of it, not military drilling.

### Fallacy of Mass Occupation

The alleged need for a vast American manpower is based on a further fallacy which is rarely mentioned, but definitely seems to play a role in the military (or pseudo-military) thinking. It is the failacy that after World War III a huge army will have to occupy the immense Russian territory — and to "re-educate" the Russians for democracy?—as we have done in Germany and Japan. But cf course. millions of Allied soldiers would be available for such occupation, if that would come in question at all. In reality, all one might have to occupy are the border areas on the east and west sides of the Soviet empire, i.e., mainly the territories beyond the 1938 Russian frontiers in which the vast majority of population is anti-Russian anyway, and would join us as soon as our troops arrive. Possibly, some areas in the Caucasus, the Ukraine, etc., might be invaded, too. The point is that we do not need to conquer the whole of Russia or even a major part of it for the sake of winning the war. The mere loss of the border lands, combined with constant bombing of internal centers and communications, would more than suffice. In this respect, historical parallels such as with Napoleon's and Hitler's problems in conquering Russia would be of no avail under present circumstances, as it should be evident at once. Previous would-be conquerors of Russia were up against her ability to carry on the war indefinitely unless her territory is actually invaded. At present, aerial supremacy would eliminate the necessity of physical control; the Soviet system could scarcely survive at home if deprived for good of its vital supply sources, and morally shaken by military defeat. Even if the Soviets would continue the fight, the rearmed Central Europeans alone should be strong enough to hold their own lines against a mutilated and disorganized, if not totally defeated Russia.

### II.
### UMT Expensive

Time and again, UMT is being presented by War Department spokesmen as a sort of corollary to the Reserve or the National Guard. The trainees were not to become "soldiers," but would merely constitute a manpower-pool—for what? Whether to be used abroad or at home, the fallacy of UMT remains the same. Or does anyone seriously contemplate protecting America's soil againt a huge invading army, as Churchill contemplated in 1940 to defend England against the Nazis? Or like the Polish, Serb, and Russian guerrillas fought in the backwoods? The idea is so silly that one hesitates to discuss it. We will win or lose the next war in the skies, not on the old-fashioned battlefields, still less in the backwoods. That is the fundamental technological change in warfare, so simple that a child should grasp it, but apparently not palatable to political generals and general-politicians.

Economically, Universal Military Training is just about the most expensive way to national self-protection. In the first place, it is costly in itself. Every year, one or two million young men would have to be maintained at a high level of consumption, housed and trained, all at the expense of the taxpayer and with no productive contribution from them in return. In many instances, family members may have to be publicly supported. Moreover, the economic system that is suffering from a manpower shortage would be doubly damaged: by losing the men in training—and those who train them—and by the need of refitting them later for productive occupation. Also, a vast quantity of scarce materials would be diverted from productive employment. The added pressure on the markets necessarily will result in higher wages, in turn adding fuel to the fire of inflation and to the social tensions in its wake. Also, after another war, the number of fresh "veterans" would be enhanced out of all proportion to their actual combat usefulness—and so would be the costs to the taxpayer in the form of veterans benefits of one kind or another, on top of a current fiscal burden of some $5 to $10 billion each year.

By its very nature, universal training in itself does not relieve the country of other military expenditures. Not an atom bomb, not a single plane or gun will be rendered superfluous by UMT. As a matter of fact, more men have to be supplied with more weapons, whether or not they ever serve a "useful" military purpose. Nor will the kind of training meted out to the young men, say in a year's time, add to the number of highly-skilled technicians wanted in modern warfare. In other words, the cost of preparing for, or of fighting the next war is not in any way reduced by augmenting it with the extravagant price of UMT.

True, the manpower demands of tomorrow's war will be substantial, too. It will require an army of engineers as well as all types of auxiliary personnel. But what can UMT accomplish in providing technical skill? What the armed forces will need are tens of thousands of college graduates with specialized skills rather than 10 million high school youngsters with enthusiasm, and that necessity could be satisfied even without recourse to the "formidable machine" of Selective Service.

To sum up, quoting Senator Taft's recent speech at Providence, R. I.: "UMT would provide some ten or twelve million partially trained men for mass movement, most unlikely to occur in any war we can foresee. We certainly do not need any such number of men for defense against sudden attack. If it should become necessary to send a mass army abroad, it would take two years to provide the new weapons and methods of transport for any such army. During that time, additional men could be trained, and trained in the methods of the war they are to fight instead of the war of 1944. I believe we want a smaller reserve on a volunteer basis, highly trained to carry on the technical activities so necessary in modern war and paid for the time they have to spend. In spite of the propaganda for UMT an astonishing number of the best officers in all of the services do not believe in compulsory military training. Because of the Administration policy and propaganda, they naturally remain silent."

### III
### No Educational Value in UMT

Some advocates of UMT have the temerity to claim that it has **educational** value, a "collateral benefit." President Truman, last December, spoke sanctimoniously of a "universal training program, giving our young people a background in the disciplinary approach(!) of getting along with one another, informing of their physical makeup (sic!), and what it means to take care of this Temple which God gave us." And more specifically: "I want our young people to be informed on what this government is, what it stands for—its responsibilities. And I think the best way to do this is through a universal training program." As if family life, schools, churches, youth clubs, sports, and so on and so forth, would not offer the same and better educational and "disciplinary" effects that **might** be ascribed to a military conscription—which is what UMT amounts to—without the serious drawbacks of spiritual militarization, and without its staggering costs.

Note the President's emphasis on the disciplinary approach. That democracies do not provide discipline is one of the most shopworn articles in the totalitarian propaganda store. In a scathing editorial of "Human Events," Feb. 5, 1947, the old liberal fighter, Oswald Garrison Villard, commented on Mr. Truman's eulogy of conscription: "That was Hitler's idea also—the indoctrination of the entire youth of his country by military men. It is the exact opposite of the American tradition that all public education should be under the control of local, not national, government. It is the exact opposite of Washington's thoughtful condemnation, in the Farewell Address, of: '. . . those overgrown military establishments, which under any form of Government are inauspicious to liberty, and which are to be regarded as particularly hostile to Republican Liberty.'"

Even in Western Europe it is customary to sneer at American lack of discipline, as it used to be customary to admire the Prussian (and later also the Japanese) discipline notoriously inculcated by military drill. That, indeed, has produced the blind subordination to the gold-braided superior which resulted in the lack of ethical discipline displayed by Hitler Youth, SS formations, and the Gestapo.

Under modern conditions, and especially under those of America's geographic and economic position, universal conscription is a hopelessly futile idea, to put it mildly. If we have war within a year or two, the conscripts will not be available as yet. In five or 10 years, the training wears out completely. What is even worse than its futility: conscription is an insidious idea. It is scarcely believable that military authorities who propagate it should not be aware of its uselessness. If they insist on it, they do so presumably for other reasons. **What conscription might accomplish is not military security for this country, but authorization control over the country**—and many, many jobs for the brass hats.

### V.
### How Russia Can Be Kept in Check

However, there is a deeper problem at stake than UMT itself. What are we after with all these armaments? More precisely: what is the Administration after? Its mind has to be read since it has Congress and the whole country in tow.

With or without conscription, the big idea is to frighten Russia from "further" aggression. Note the "further": there is no implied intention to get her out of Warsaw or Bucharest, of Prague or Korea. She should be stopped along a line that is not even clearly defined, but apparently runs north of Greece and the Dardanelles, and east of Trieste as well as of Scandinavia. Finland and Manchuria are obviously doubtful items.

But do we need armaments on any major scale, to say nothing of conscription, to hold the Russian steamroller within any such defined line? The fact is that they never step over any line if it might embroil them in war with a major power. Upon our insistence, they got out of Iran and they never went back, although there would be no resistance there and they have vital interests involved. They asked Turkey emphatically for "joint defense" of the Dardanelles; when we said NO, that was that. There are no Russian troops among the Greek guerrillas, or no one has ever seen their trace.

In other words, the problem is not to contain the Moscowites forcefully within their borders, i.e., within the limits assigned to them by the appeasing generosity of Messrs. Churchill and Roosevelt. They did not go beyond, and will not go beyond, until they are willing to fight a war, which they cannot dare unless they master the atom. Once they do so, our present armaments will be obsolete altogether. Presently, they are aware of our immense industrial supremacy, and the last war has taught them of our ability to use it. All we need is a preparedness to deal out a deadly blow, a preparedness that means perhaps 70 air groups instead of 40, more carriers, more atom bombs, and the securing of proper bases.

War preparations on the contemplated scale will weaken us rather than strengthen. The true nature of the international problem is not the danger of Russian aggression, direct or indirect, open or camouflaged. Its true nature consists in Russia's ability to obstruct world-wide economic normalization and financial stabilization. The Soviets are in the position to sabotage every effort at reconstruction in Europe as well as in Asia, and can do so without sending a single soldier beyond their own sphere. Germany cannot be reconstructed as long as the Russians hold the eastern half. China and Korea cannot be put in order as long as the Russians have the geographic key to those countries in their hands. Money poured into France and Italy is wasted as long as their Communist parties can sabotage production by strikes or otherwise. Money poured anywhere is wasted as long as the over-hanging threat of war discourages capitalistic investment, incites capital flight, and provides a rational pretense for the economic irrationality of bureaucratic blundering.

Instead of stopping this menace, our present approach is not only futile (just as Byrnes' "tough talking" turned out to be) but actually promotes the Soviet objective. Temporarily, while dollars are flowing freely, the countries under the Soviet menace may relax somewhat. The moment the dollar flood ebbs, the menace will revive. And ebb the dollar outpour must, sooner or later.

ERP was proclaimed only two months ago as the only alternative to armaments. Presently, both policies of dissipating our resources are getting fully under way, with their combined cost to the nation probably to reach $25 billion—without UMT—in the next fiscal year, and more to come. In due course, the inflationary effects will become cumulative. **The internal strength and coherence of the United States will be greatly weakened if not undermined.** Nothing would serve the Russian objective better.

If world reconstruction depends on Russia, then "stopping" her further aggression is meaningless. Long-range programs, UMT in particular, are meaningless, too. What is necessary is not to stop, but to reverse the Soviet tide—to dam it back right NOW. Our long-range preparations ignore both: the bloodless diplomatic potential we still possess and the risk of a future bloody war we conjure up by not using that potential at present.

# Central States I. B. A. Holds 12th Conference

CHICAGO, ILL. — The Central States Group of the Investment Bankers Association of America held its twelfth annual conference on March 23 and 24th, at the Drake.

Speakers at the Conference were Dr. Robert E. Wilson, Chairman of the Board of the Standard Oil Company of Indiana, who addressed the gathering on "Supplying the Middle-West with Petroleum Products"; Harold Long, McMaster, Hutchinson & Co., who spoke on the "Outlook For Canada"; Walter J. McCarter, General Manager of the Chicago Transit Authority, who spoke on "The Present Situation of the Chicago Transit Authority"; Clifton M. Utley, whose topic was "Hour of Decision"; and John K. Langum, Vice-President of the Federal Reserve Bank of Chicago, who spoke on "Government Financing and the Economic Situation." Julien H. Collins, Julien H. Collins & Co., President of the I. B. A., and Murray Hanson, General Counsel of the Association, also addressed the conference.

## Edw. W. Rogers Dead

Edward W. Rogers, one of the founders of the firm of Rogers & Tracy, Inc., Chicago, passed away in Hollywood, Fla., on March 20, where he had made his residence for the past nine years. Mr. Rogers has been inactive in the firm since his retirement in October, 1939, but held the title of Chairman of the Board.

# The State of Trade and Industry

(Continued from page 5)

companies to warn their customers that third-quarter quotas will be cut.

**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 89.4% of capacity for the week beginning March 29, 1948, a decrease of 6.3 points, or 6.6%. This compares with 95.7% one week ago. A month ago the indicated rate was 94.6%.**

**This week's operating rate is equivalent to 1,611,400 tons of steel ingots and castings as against 1,725,000 tons last week, 1,705,000 tons a month ago, 1,669,400 tons, or 95.4% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.**

### FREIGHT LOADINGS OFF 12.1% FOR WEEK DUE TO COAL STRIKE

Loadings for the week ended March 20, 1948, totaled 700,482 cars, according to the Association of American Railroads. This was a decrease of 96,551 cars, or 12.1% below the preceding week, due to labor difficulties in the coal fields. It represented a decrease of 143,559 cars, or 17% below the corresponding week in 1947, and a decrease of 104,124 cars, or 12.9% below the same week in 1946.

### ELECTRIC PRODUCTION CONTINUES DOWNWARD TREND

The amount of electrical energy distributed by the electric light and power industry for the week ended March 27, 1948 was 5,064,555,000 kwh., according to the Edison Electric Institute. This was 80,875,000 kwh. below the preceding week and was the lowest turnout since the week ended Jan. 3, 1948 when production amounted to 4,868,011,000 kwh. The current figure was, however, 335,670,000 kwh. in excess of output in the week ended March 29, 1947. The peak was reached in the week ended Jan. 24, 1948 when 5,436,430,000 kwh. were produced.

### AUTO OUTPUT AFFECTED BY CUTBACK DUE TO MODEL CHANGEOVERS

Production of cars and trucks in the United States and Canada declined last week to an estimated output of 108,057 units, "Ward's Automotive Reports" states. This compares with a revised total of 115,556 units in the preceding week and 100,355 units a year ago.

The slump in auto production was attributed by "Ward's" to a cutback in schedules by Ford to permit a changeover to new models. It further stated that the coal mine shutdown is taking on a more serious aspect. It warned that the situation for the auto industry could take on crisis proportions the next week as pig iron and sheet steel supplies tighten. "Ward's" added there is no concern in the industry however, over unconfirmed reports that the government has been piling up copper stocks since, this trade authority commented, adequate supplies are on hand.

### BUSINESS FAILURES OFF SLIGHTLY

Continuing the mild fluctuations characteristic of the past month, commercial and industrial failures fell off slightly in the week ending March 25. Dun & Bradstreet, Inc., reports a decline from last week's 106 to 101, considerably more casualties than in the comparable week of 1947 when 63 occurred and over five times the 18 in the same week of 1946. Failures remained at about one-third the prewar level; a total of 301 businesses succumbed in the corresponding week of 1939.

**Liabilities of the majority of the week's failures exceeded $5,000 each. Eighty-seven concerns with losses of this size failed, against 90 a week ago, and 54 last year. Of the 87, there were seven with losses of more than $100,000.**

The week's failures occurred principally in manufacturing and retailing where 35 and 36 concerns, respectively, went out of business with probable loss to creditors.

**Manufacturing was the only industry or trade group in which mortality increased from last week, rising from 26 to 35 and exceeding by 10 the number in 1947's corresponding week.**

Retailers failing declined from 44 a week ago but remained above the 21 occurring last year. Wholesale failures totaled 14, commercial service 9, and construction 7; business succumbing in these three lines were only slightly more numerous than in the same week of 1947.

Geographically, casualties were heavily concentrated in the Pacific States with 34, rising from 28 last week. The Middle Atlantic States had the second largest number, 20, followed by the East North Central with 15 and the South Atlantic with 11. The latter area experienced the sharpest upswing from the 1947 level when only 2 were reported.

### FOOD PRICE INDEX AGAIN MOVES UPWARD

The wholesale food price index, compiled by Dun & Bradstreet, Inc., continued slightly upward last week, rising to $6.72 on March 23, from $6.70 a week previous, and the year's low level of $6.61 touched on March 9 and Feb. 24. On the corresponding date a year ago the index figure stood at $6.56.

Commodities that rose during the week included beef, butter, cheese, coffee, cottonseed oil, tea, cocoa and potatoes. On the lower side were flour, wheat, corn, rye, oats, barley, hams, bellies, lard, beans, eggs, steers, hogs and lambs. Although declines in individual items outnumbered advances, the slight rise in this week's index reflected higher prices for some foods which have a relatively high per-pound value.

### COMMODITY PRICES RALLY IN LATE TRADING BUT CLOSE WEEK LOWER

Commodities generally moved upward on a broad front in the latter part of the past week, but the rise was insufficient to wipe out earlier losses. The Dun & Bradstreet daily wholesale commodity price index finished at 278.47 on March 23, off 1.0% from 281.22 a week earlier, but still above the 268.03 registered on the corresponding date a year ago.

**Although showing strength at the close, leading grain markets were unsettled during most of the past week with prices trending irregularly lower.**

Trade demand for cash wheat was slow but the government was an aggressive buyer. Prices, however, broke sharply as the result of a flood of offerings from farmers. It was estimated that the government had purchased around 17,000,000 bushels of wheat and flour equivalent since the resumption of buying on March 5. Domestic flour sales continued slow with bakers and other large users showing little or no interest in forward commitments.

Corn prices showed considerable weakness, reflecting heavy selling of futures by speculative interests. After showing strength in early dealings, oats turned downward in sympathy with other grains. Domestic demand for cash lard was slow and futures prices on the average slightly lower, reflecting expectations of heavy hog marketings as soon as the strike of stockyards workers is over. Irregular fluctuations featured the Chicago livestock markets with both cattle and hogs prices finishing slightly higher for the week.

**Moving in a narrow range, cotton prices registered a slight net rise during the past week.**

There was some uneasiness in the early part of the week due to weakness in outside markets. Strength in the closing days was attributed to Congressional approval of additional interim aid funds for France, Italy and Austria. Inquiries in spot markets were fairly numerous but sales declined for the week. Total sales reported in the ten spot markets were 80,600 bales, as against 110,800 bales in the previous week and 85,500 in the same week a year ago.

**Shippers' demand for cotton, particularly for better qualities, was good but mill buying was slow.**

Consumption of cotton, as reported by the Bureau of the Census, totaled 785,200 bales in February, compared with 860,200 in January, and 339,400 bales in February a year ago. Consumption per working day was equal to 39,900 bales for the month. This was slightly under that for January and compared with 42,000 bales per day in February 1947. Carded gray cotton cloth markets were relatively slow and prices were steady to slightly lower for some construction.

Trading in the Boston raw wool market was reported at a minimum during the past week as buyers awaited developments that may result from lower prices in foreign primary wool markets. Although moderate weights of wool were contracted for in the West, the movement so far has been far below expectations.

### RETAIL AND WHOLESALE TRADE CONTINUES A TRIFLE ABOVE 1947 LEVEL

Favorable weather and the approach of Easter boosted retail sales in the final week before the holiday. Total dollar volume rose appreciably in the period ended on Wednesday of last week and was slightly above the level of the corresponding week a year ago, according to Dun & Bradstreet, Inc., in its current review of trade.

**Despite this sharp dollar volume rise, unit volume remained fractionally below that of a year ago.**

Retail food volume generally was steady and close to previous high levels. The consumer demand for meat increased slightly and requests frequently were directed toward the lower-priced cuts. Purchases of fish and poultry remained high and there was an insistent consumer demand for fresh fruit and vegetables. The price of butter and some meats increased a trifle the past week.

There was a sharp increase in the demand for apparel during the week. The medium-priced lines attracted considerable attention as many shoppers continued to shun expensive apparel and low-quality goods. Children's wear and men's worsted and gabardine suits were eagerly sought. Women's lightweight skirts and blouses were among the best sellers.

**The demand for shoes remained steady and retail shoe volume held moderately below the levels of a year ago.**

There was an appreciable seasonal rise in the demand for goods such as paint, housecleaning supplies, gardening equipment and used automobiles. Interest in jewelry, gift items, confectionery and Easter cards rose moderately, but it was below that of a year ago. Floor coverings, curtains, and slip covers attracted much attention. Interest in furniture and some appliances was moderately below previous high levels.

**Retail volume for the country in the week 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 3 to 7, East 7 to 11, South 4 to 8, Northwest 9 to 13, Middle West 6 to 10, Southwest 8 to 12 and Pacific Coast 2 to 6%.**

While there was the usual pre-Easter dip in new order volume in the week, numerous reorders were placed. Total order volume was close to the high level of a year ago, but it declined moderately from that of the previous week. The number of buyers registered in principal markets dropped considerably in the week.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended March 20, 1948, increased by 9% from the like period of last year. This compared with an increase of 4% in the preceding week. For the four weeks ended March 20, 1948, sales increased by 6% and for the year to date increased by 6%.

**Following a slow start, retail trade here in New York closed Easter week very active. Thursday's volume was very heavy and set a fresh record for a single pre-Easter day.**

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to March 20, 1948, increased 3% above the same period last year. This compared with an increase of 1% in the preceding week. For the four weeks ended March 20, 1948, sales decreased 1% and for the year to date rose by 5%.

## Two With Paine, Webber

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—John N. Cornish and Thomas B. Drummond have become associated with Paine, Webber, Jackson & Curtis, 626 South Spring Street. Mr. Cornish was previously with Dean Witter & Co.

## Crowell Weedon Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Charles E. Hodge is now associated with Crowell, Weedon & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with First California Co.

# Int'l Trade Organization Sets Up Charter

(Continued from page 19)

anced and expanding world economy.

(b) To promote industrial and general economic development, particularly of those countries which are still in the early stages of industrial development, and to encourage the international flow of capital for productive investment.

(c) To further the enjoyment by all countries, on equal terms, of access to the markets, products and productive facilities which are needed for their economic prosperity and development.

(d) To promote on a reciprocal and mutually advantageous basis the reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international commerce.

(e) To enable countries, by increasing the opportunities for their trade and economic development, to abstain from measures which would disrupt world commerce, reduce productive employment or retard economic progress.

(f) To facilitate the solution of problems relating to international trade in the fields of employment, economic development, commercial policy, business practices and commodity policy.

### CHAPTER 2
### Employment and Economic Activity
### (Articles Two to Seven)

Chapter 2 declares that the avoidance of unemployment and underemployment is not of domestic concern alone but is also a necessary condition for the realization of the general objectives of the Charter, including the expansion of international trade, and for the well-being of all other countries.

Under Article 3 (Maintenance of Domestic Employment) each member will take action to achieve and maintain full and productive employment and a large and steadily growing demand within its own territory through measures appropriate to its political, economic and social institutions. Members will seek to avoid measures creating balance-of-payments difficulties for other countries. Where persistent maladjustment in a member's balance-of payments leads to balance-of-payments difficulties for other members, which would handicap them in maintaining full employment without resort to trade restrictions, the member is to make its full contribution and appropriate action is to be taken by the other members concerned to correct the situation. Such action should expand rather than contract international trade.

Article 6 (Safeguards for Members Subject to External Inflationary or Deflationary Pressure) recognizes that members may need to take action to safeguard their economies against inflationary or deflationary pressure from abroad. In the case of deflationary pressure special consideration is to be given to the effect on any member of a serious or abrupt decline in the effective demand of the other countries. Article 7 (Fair Labor Standards) calls on members to do whatever is appropriate and feasible to eliminate substandard conditions of labor, and refers in this connection to cooperation with the International Labor Organization.

### CHAPTER 3
### Economic Development and Reconstruction
### (Articles Eight to Fifteen)

Chapter 3 (Economic Development and Reconstruction) recognizes that all countries have a common interest in the productive use of the world's human and material resources. Under Article 9, members are obligated progressively to develop and to reconstruct industrial and other economic resources and to raise standards of productivity. There must be cooperation between members and with the Economic and Social Council and with the ITO to promote economic development as well as reconstruction of war-devastated countries. Members undertake, under Article 11, not to impose unreasonble impediments in the way of obtaining facilities for development or reconstruction, nor to take action injuring the enterprise, skills, capital, arts or technology supplied by other members.

Article 12 deals with international investment for economic development and reconstruction. It recognizes that public and private international investment can be of great value in promoting development and reconstruction. But members have the right, without prejudice to existing international agreements, to insure that foreign investment is not used as a basis for interference in their internal affairs or national policies, and to determine to what extent and upon what terms they will allow future foreign investment. Members also have the right to state, in just terms, requirements as to the ownership of existing and future investments. Subject to these rights members undertake to provide reasonable opportunities for investments acceptable to them and adequate security for existing and future investments. They also agree that it is desirable to avoid discrimination between foreign investments.

The need for governmental assistance to economic development and reconstruction of particular industries or branches of agriculture in the form of protective measures, such as quantitative import restrictions, is recognized in Article 13. But unwise use of such measures would put a burden on the economies of the members using them and unwarranted restrictions on international trade. A distinction is made between measures conflicting with negotiated obligations (i.e., obligations assumed through negotiations with other members but not conflicting with the commercial policy obligations under the Charter) and measures that do conflict with Charter obligations.

Protective measures of the former type are to be settled mainly by direct negotiations between the members concerned. Measures of the latter type must be referred to the ITO for approval. Automatic ITO approval will be granted if certain stated criteria are fulfilled. These criteria relate to certain types of industries and their date of establishment. The Article also deals with damage to trade resulting from protective measures, emergency action to offset excessive imports and the need for secrecy in administering the provisions.

Special circumstances may justify preferential agreements for economic development and reconstruction (Article 15). The ITO must be informed of any proposed new preferential arrangements and may authorize it by a two-thirds majority. ITO approval will, however, be given automatically if the new preferential arrangement fulfills stated conditions or criteria. Among these are (a) contiguous territories among the parties to the arrangement, or belonging to the same economic region, and (b) the preferential rates involved must insure a sound market for the branch of industry or agriculture to be protected. If the new arrangement is found to be likely to injure the trade of members outside the arrangement, procedures are laid down for negotiating satisfactory compensation.

### CHAPTER 4
### Commercial Policy
### (Articles 16 to 45)

*Section A. Tariffs, Preferences, and Internal Taxation and Regulation*—Under Article 16, members agree to give most-favored-nation treatment to other members in all matters respecting customs duties, charges on imports and exports or on transfer of payments for imports and exports and importing and exporting rules and formalities. Existing preferential systems are allowed to remain, subject to the commitment, under Article 17, which obliges members to undertake negotiations directed to a substantial reduction of tariffs and to the elimination of preferences on a reciprocal and mutually advantageous basis. Existing preference margins are not to be increased. Rules are laid down for conducting such negotiations.

If a member is found to have failed to negotiate in good faith, the ITO may authorize the withholding of benefits under the most-favored nation clause. Successful conclusion of negotiations will have the effect of bringing members into the group of contracting parties to the General Agreement on Tariffs and Trade.

Article 18 provides that internal taxes and trade regulations are in general not to be more severe upon products imported from other members than upon domestic products. One of the exceptions (Article 19) permits, subject to certain conditions, the use of screen quotas to protect national film industries.

*Section B. Quantitative Restrictions and Related Exchange Matters*—Quantitative restrictions on imports and exports are in general prohibited (Article 20). But a number of temporary and permanent exceptions, other than those on balance-of-payments grounds, are permitted. Among the temporary exceptions is the preventing or relieving of a critical shortage of food. Restrictions covering agricultural or fisheries products needed for the enforcement of internal government control schemes are also excepted.

Article 21 deals with restrictions to safeguard the balance of payments. It is recognized that while it is primarily the responsibility of each member to maintain a stable balance-of-payments situation, an unstable situation may harm the position of other members and may affect international trade. A member may, to safeguard its external financial position, restrict the quantity or value of its imports, subject to the rules and within the criteria laid down in this Article.

Article 22 sets out the way in which quantitative restrictions to safeguard balance-of-payments should be administered without discriminating between exporting countries.

Article 23, in view of the problems of postwar adjustments, authorizes members, with suitable safeguards, to deviate from the principle of non-discrimination during a transitional period. Until March 1, 1952, ITO approval is not required. But members who discriminate in their import restrictions must promote the maximum development of multilateral trade during the transitional period. Alternative procedures, known as the "Havana option" and the Geneva "option," are available for members requiring to operate under this Article.

Article 23 also permits a member applying quantitative restrictions for balance-of-payments purposes to direct its exports in such a way as to increase its earnings of hard currencies, provided it does not deviate from the non-discrimination principle laid down in Article 21.

Working arrangements between the ITO and the International Monetary Fund are defined in Article 24. The ITO is obligated to accept all statistical and other facts presented by the fund. This includes matters concerning monetary reserves, balance of payments and foreign exchange. The ITO may require non-fund members to enter into a special exchange agreement with the ITO. Such agreements would place on such members obligations similar to those under the fund.

*Section C. Subsidies*—Articles 25 to 28 deal with subsidies, including any form of income or price support, that operate to maintain or increase exports or to reduce (or prevent an increase in) imports. Members are obliged to give full details of the subsidies they are using and to discuss limitation of subsidies with members whose trade is affected.

The abandoning of export subsidies as a general policy is to take place as soon as possible and in any event not later than two years after the Charter enters into force, although the ITO has power to grant extensions. However, as regards primary commodities, special provision is made for the use of export subsidies in certain defined circumstances. Members may not use subsidies on primary products to gain more than a fair share of world trade in the products concerned.

*Section D. State Trading*—Articles 29 to 32 lay down the principle that state-trading enterprises must be guided by commercial principles in buying and selling and must avoid discrimination. Marketing organizations are included. An exception is allowed for imports of products for governmental use. State trading is also brought within the Charter obligations for reduction of preferences.

*Section E. General Commercial Provisions*—The general purpose of the so-called technical articles, Articles 33 to 39 is to provide standard rules for the administration of freedom of transit, valuation for customs import and export formalities, marks of origin, trade regulations and trade terminology. This section also provides rules covering anti-dumping and countervailing duties.

*Section F. Special Provisions*—Article 40 deals with emergency action allowed in the event of concessions under this Chapter resulting in a sudden flood of imports that threaten serious injury to domestic producers.

Articles 42, 43 and 44 deal with the territorial application of this Chapter. They allow for measures otherwise inconsistent with the Charter for a group of countries to take steps toward forming a customs union. The formation of free-trade areas, involving the elimination of tariffs and other commercial restrictions between a group of countries is also provided for.

Article 45 deals with general exceptions to Chapter 4. In addition to the standard exceptions to commercial treaties, there are a number of temporary exceptions connected with emergency conditions, such as postwar shortages.

### CHAPTER 5
### Restrictive Business Practices
### (Articles 46 to 54)

Members are obligated to take action against restrictive business practices in international trade wherever they are contrary to the principles of the Charter. A procedure is laid down for the ITO to investigate complaints concerning the effects of such practices as price-fixing, territorial exclusion, discrimination, production quotas, restrictions, misuse of patents, trade-marks and copyrights. The powers of the ITO will be limited mainly to instructing the offending member to correct the abuse and to publication of the facts.

As regards services such as transportation, insurance and the commercial services of banks, the ITO will have only restricted authority for dealing with complaints of harmful practices. If direct negotiations between members is unsuccessful, the ITO will refer such complaints to the appropriate international agency, where one exists. In other cases, the ITO may be asked to make recommendations

### CHAPTER 6
### Intergovernmental Commodity Agreements
### (Articles 55 to 70)

Recognizing the special difficulties affecting primary commodities, Chapter 6 lays down the objectives of intergovernmental commodity agreements, the procedures for conducting study groups and for holding commodity conferences, the general principles which are to govern commodity agreements and the types of agreements which may be concluded. The ITO is to be concerned with all types of agreements, including "expansionist" agreements intended to enlarge world production and consumption of a commodity. But the ITO is specially concerned in laying down rules to cover "control" types of agreements, which may have harmful restrictive effects on trade.

Members are obliged to enter into new control type agreements only through Charter procedures. If, however, there is unreasonable delay, interested countries may proceed by direct negotiation.

Commodity-control agreements are to be entered into only when there is a burdensome surplus or widespread unemployment which could not be corrected by normal market forces alone. These agreements are to insure the availability of supplies adequate at all times to meet world demand at reasonable prices. Guiding principles for administering control agreements are laid down, but particular methods to be used for dealing with specific commodities are not given, this being left to be worked out by the countries especially interested through defined procedures.

Disputes arising out of control agreements will normally be settled in the appropriate commodity council. If this fails, they will be referred to the ITO.

The main exceptions to the Charter directly relate to commodities dealt with under state-trading arrangements, to agreements between one exporting and one importing country, to agreements dealing only with fair distribution of scarce commodities and to agreements concerned with conservation of exhaustible resources or of fisheries, migratory birds and wild animals.

### CHAPTER 7
### The International Trade Organization
### (Articles 71 to 91)

Chapter 7 sets out the structure and functions of the ITO (except for settlement of differences).

*Section A*—(Articles 71 to 73) lays down the conditions of membership and provides for the admission of separate customs territories and United Nations Trust Territories under certain conditions. Article 69 lists the main functions of the ITO, in addition to those functions specified in other Chapters. The structure of the ITO is to comprise a Conference an Executive Board and such Commissions as the ITO may establish. There is to be a Director General and staff.

*Section B*—(Articles 74 to 77) details to composition, sessions, procedure, officers, powers and duties of the Conference. Each member will have one vote in the Conference.

*Section C*—(Articles 78 to 81) details the composition and powers of the Executive Board. The board will consist of 18 members, to be selected partly as representing members and customs unions of chief economic importance, and partly by a two-thirds majority vote. Each member of the board will have one vote.

*Section D*—(Articles 82 and 83) gives the Conference powers to set up Commissions.

*Section E*—(Articles 84 and 85) lays down regulations covering the Director General and the staff.

*Section F*—(Articles 86 to 91) deals with other organization provisions. Under Article 86 (Relation with the United Nations) members recognize that the ITO should not attempt to take action that would involve passing judgment on essentially political matters. Any measure taken by a member directly in connection with a political matter brought before the United Nations in accordance with the provisions of the United Nations Charter will fall within the scope of the United Nations and will not be subject to ITO Charter provisions.

Other articles in Section F deal with relations with other organizations, the international responsibilities of the Director General and his staff, the legal status of the ITO, and contributions.

**CHAPTER 8**

**Settlement of Differences**

**(Articles 92 to 97)**

Charter 8 provides procedures for dealing with complaints by members.

If any member considers that any benefit accruing to it directly or indirectly, implicitly or explicitly, under any of the provisions of the Charter is being nullified or impaired, the member concerned may first resort to consultation or arbitration, keeping the ITO informed. Failing settlement, the dispute may be referred to the Executive Board (Article 94), with provision for appeal to the Conference (Article 95). The ITO may, under Article 96, request from the International Court of Justice advisory opinions on legal questions arising within the scope of ITO activities.

In dealing with complaints and settlement of differences, members undertake not to have recourse to any procedures other than those envisaged in the Charter. Members also undertake, without prejudice to any other international agreement, not to resort to unilateral economic measures of any kind contrary to the Charter provisions.

The rules of procedure for settlement of differences will be established by the ITO.

**CHAPTER 9**

**General Provisions**

**(Articles 98 to 106)**

Nothing in the Charter will preclude any member from maintaining economic relations with non-members (Article 98), but members recognize that arrangements with non-members to obtain preferential trade treatment or to conduct trade with non-members in a way that would injure trade with members should be avoided. The problems arising out of relations with non-members will be studied further by the ITO.

Article 99 lists the general exceptions to the Charter. No member will be required to give information that it considers contrary to its essential security interests. No member will be prevented from taking whatever action it considers necessary in relation to fissionable materials, traffic in arms or in time of war or other emergency in international relations, or in carrying out agreements made by or for a military establishment for the purpose of meeting essential requirements of national security. Nothing in the Charter will override the World War II peace settlements.

Articles 100 to 102 deal with amendments, review of the Charter, withdrawal and termination.

The Charter will enter into force (Article 103) 60 days after ratification by a majority of governments signing the Final Act. If by April, 1949, the Charter is not in force, the ratification of only 20 governments will be needed. If the Charter is not in force by October, 1949, the governments that have ratified it will discuss on what terms they desire to bring the Charter into force.

Articles 104, 105 and 106 deal with territorial application, the annexes and authenticity of texts.

## Railroads as Factor In More Production

(Continued from page 16)

progress. Let us not forget that skillful pilots gain their reputation from storms and tempests. The great challenge today is to face the future unafraid. By our own fear we can become the instrument of our own disaster. But by our own strength we can dissipate fear.

America's strength is bound up with its tremendous capacity to produce under a free economy. The great need today is for increased production, individually and collectively. If we keep our eyes straight ahead on our objective—*increased production*—we shall overcome many of the problems confronting us today. Indeed, work, production and distribution, under our free economy, are the foundation of America's strength. The trouble right now is that few seem inclined to want to work. We will reach our objective only as each and every one of us takes off his coat, rolls up his sleeves and goes to work. There are few, if any, substitutes for hard work.

The power of American production then will be felt, just as it was during the war, in every corner of the earth, and its strength will be as a mighty force for the protection of our national security and the preservation of our free institutions. As the wartime Governor of Michigan said in a message to the Legislature in 1863, over 85 years ago:

"The true glory of the Republic must consist, not only in the beneficence and freedom of our institutions, but also in our ability and courage to defend and protect them."

## Savings Banks Report Deposits Gain of $48 Million in Feb.

Savings in saving banks during February, 1948 exceeded gains of a year ago both in dollar deposits and accounts opened, it was reported for the 131 mutual savings banks of the State of New York. Net deposits increased by $48,385,342 as compared with a gain of $46,483,691 in February, 1947.

This marks the 67th consecutive month in which savings banks have experienced a net gain in new savings, bringing total savings deposits in the State to $9,904,010,410. The State of New York now has approximately 51% of all savings deposits in the savings banks of the nation.

The February gain in savings accounts, totaling 20,934, is above the increase of 19,953 during the same month a year ago, and brings total accounts held by savings banks in the State to a high of 7,152,687. The average account for the State of $1,384 is in marked contrast to the $1 326 of a year ago and, at the same time, is well above the $968 average account for the country as a whole.

## A. H. Bennett & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—A. H. Bennett & Co., 1004 Baltimore Avenue, has added John L. Blocher to their staff.

# Have Full Mobilization Now!

(Continued from page 2)

Never again do we dare permit our own lack of preparedness to encourage any potential aggressor into attacking this country or into overrunning other peaceful nations.

It would be a tragic illusion, of course, to believe that military training, by itself, can prevent war. We would deceive ourselves to rely on any single measure of defense, on the atom bomb, on an air force, no matter how greatly augmented. All war has become total war. An adequate defense must be a balanced defense, with all of its varied elements integrated into one whole.

**Get Ready to Mobilize**

Supporting military training—even without military training—must be a ready-to-go plan for the full mobilization of our nation. Such a program should be enacted into law *now*, with the understanding that it would come into effect by proclamation of the President with the concurrence of Congress.

At different times, before other committees of Congress, I have outlined what such a mobilization plan should cover—a system of industrial mobilization with priorities, allocations, and rationing powers; a ceiling over all prices, wages and rents, to prevent inflation; taxation to take the profit out of war; the accumulation of strategic raw materials which may be lacking or in short supply; a work-or-fight wartime draft; the organization of pools of labor of all kinds and in all professions and sciences; intensified scientific research; expanded intelligence and information services; retention of war plants in stand-by readiness the decentralization of industry to guard against an over-concentration which could be a strategic liability; up-to-date surveys of underground industrial facilities; uniform war contracts.

**We Have No Slack**

Through the interwar years I repeatedly urged that such a program be placed on the statute books to be ready to function in case war came. It was not done. The result was a fumbling and faltering in the mobilization which unnecessarily lengthened the recent war, cost many lives, many extra billions. Much of our current inflationary troubles can be traced to the piecemeal price control law which was adopted when the war began, a law which legalized inflation.

Prompt enactment of such a mobilization plan is made ever more pressing in present circumstances. When the last war broke out, a large proportion of our resources were not being fully utilized. Plants were idle; some millions were unemployed; there were sizable carryover stocks of cotton and wheat. It was possible to start our mobilization for war by taking up this slack first and only later cutting into the normal civilian economy.

Were war to burst upon us in the near future, the civilian economy would have to be drastically curtailed immediately. There is no slack today in materials, factories, food, labor, prices, in anything. Unless the government were able to act quickly, with full mobilization powers, the confusion and inflationary havoc of sudden and full rearmament would be ghastly.

The same threats which justify re-enacting the draft and other measures require the immediate adoption of an economic mobilization plan which can be put into effect without delay. If we are to be prepared, it must be on all fronts.

**Constant Inventory Needed**

As it is today, even without war, we must watch the impact of the partial mobilization being entered upon. The demands upon our economy swell rapidly—aid to Europe, to Turkey, to Greece, to China, to the occupation areas. Returning to Selective Service would withdraw several hundred thousand potential workers from productive labors. Increased armament needs will add to the strains upon our economy.

I should like to see someone charged with responsibility for maintaining a constant inventory of what all these programs and commitments add up to in men, money, materials and other resources, so that corrective measures and controls can be applied promptly, should they become necessary. In whatever we undertake we must be guided by the necessity of not wrecking ourselves, for that would defeat all we attempt.

Maintaining this constant inventory, this debit and credit sheet of our commitments and resources, might be entrusted to the National Security Resources Board. It should be someone's job.

**Must Change Our Habits**

Enactment of Universal Military Training would be a departure from established American habits. Many oppose it for that reason. This same resistance of vested habit may seek to block an industrial mobilization plan. Different groups may refuse to agree now on the restraints and disciplines they would have to accept in case of another war. Labor may refuse to say "yes" today to a ceiling on wages; business to a ceiling on its profits; farmers to a ceiling on their prices. All may clamor "Let us wait and see" whether these things are really necessary when the emergency comes.

This "wait and see" habit, so deeply ingrained in our natures, must be broken, if we are to use America's power effectively to prevent war.

The greatest single necessity in the world today is for America to make up its mind where it stands, so that the other free peoples on earth know where to rally. Unless we come to decision among ourselves, we invite a scattering of our friends and another war.

**We Still Seek Peace**

Knowing where we stand, I believe, would make possible renewed endeavors to find some basis of settlement with the Soviet Union. It is my hope that an understanding with the Soviets may yet be attained. Because of the terrible scorching of the last war, everyone wants to guard against the dangers of the past and to make certain of the future. We should continue striving for success in the peacemaking, even while guarding against possible failure. Only by standing guard do we gain the time to continue seeking peace.

**Don't Waste Training**

If military training is adopted, the training period must be adequate. It would be useless to take the precious time of our young men to train them insufficiently. I gravely doubt that the six months provided in the legislation before this Committee is long enough. The minimum time should at least equal the minimum required for basic air training. Anything less than a year, I fear, is worse than nothing.

**Rehabilitate Our Youth**

As part of any Universal Military Training program there should be some *compulsory* means of rehabilitating youths with physical and mental defects which can be corrected. The neglects of the past should not be perpetuated by simply turning these youths back to their communities. It would be better to take them into the service and, as part of their training, to rehabilitate them, unless State authorities are prepared to undertake the task.

It has been said that it is useless to train men in handling weapons, since the particular weapons will soon become obsolete. I do not envision Universal Military Training as mere drilling in a manual of arms. I see it as mental and physical training, in discipline, in self-control and in other traits, so valuable in every field of activity.

**Democracy Encouraged**

These young people will learn to live together. Coming from different parts of the country and different segments of society, they will learn to understand one another, to treat one another more democratically and with greater tolerance.

**Use Our Strength**

While the time for decision has come, there is no reason for panic or even fright. In fact, it might be said again "all we have to fear is fear itself." The resources, economic, military and spiritual, which the free peoples of the world hold, are vastly superior to those which the totalitarians can command. In every field the advantage is ours, in materials, and in access to all the far reaches of the world, in industrial capacity, technical skills, yes, even in manpower, and above all in the spiritual strength of free men. We have but to mobilize enough of these resources and to apply them intelligently, vigorously and *promptly* to achieve the stability in the world which lasting peace requires.

That is the choice before this country today. Shall we mobilize now, for peace? Or, in letting slip precious time, will we leave ourselves no alternative but to mobilize for war in the future?

**Law Against Force**

For so-called moral or "pacifist" reasons, some would deny the use of power, as being evil in itself. That is to invite war, even as it encouraged Hitler's war. Others will protest that the measures I have proposed depart from "free enterprise" and are methods of the police state. Such people value freedom low indeed to be unwilling to accept the temporary restraints and disciplines necessary to preserve freedom in these critical times.

The issue is one of law against force. Shall we use our power in support of rule by law, with all peoples free to choose how they are to govern themselves? Or shall *force without law* be permitted to dictate its slavish terms?

Never was the democratic world in greater need of constructive leadership than today. That leadership can come only from this country, for we alone have the strength to give vigor and life to moral principles. Without power, those principles will be left to find their sad expression in protest by suicide.

## J. Thackston in Knoxville

KNOXVILLE, TENN.—John A. Thackston is conducting an investment business from offices in the Knoxville Bank Building, under the firm name of John A. Thackston & Co.

## With Flynn & Levitt

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Austin Gatlin has become connected with Flynn & Levitt, 411 West Seventh Street.

# The Budget of the United States

(Continued from page 19)

world of today but to the United States in the world of tomorrow.

As a truly great statesman recently said: "No private program and no public policy, in any sector of our national life, can now escape from the compelling fact that if it is not framed with reference to the world, it is framed with perfect futility." These are the words of Henry L. Stimson.

The budget for 1949 illustrates this point. The effects of war and our efforts to prevent a future war account for 79% of the total budget. Only 21% will be devoted to all other activities of the government.

In contrast, the proportions in 1939 were reversed. Only 29% of the budget for that year went for war-related items, while 71% was devoted to other government activities.

A budget in which 79% of the total can be traced directly to the effects of war and our efforts to prevent a future war is framed with reference to the world. It recognizes our leadership in the family of nations. It recognizes the destruction, distress and economic dislocation in the rest of the world. It recognizes the will to recover and to cooperate which still exists among free peoples.

This budget raises the basic question of today—how much shall we invest for peace and national security?

The answer is not easy. The world situation is dynamic. While we have tremendous power to influence the course of future events, we cannot always predict shifts and changes which have equally great power to influence us. Increasingly, in world affairs, inaction is as far reaching a policy decision as action. In this dynamic situation we must follow the best course that wisdom, foresight and statesmanship can provide.

In the face of these conditions —which are not matters of political opinion, but the facts of our present world—it is fatuous to look backward to find a base for governmental operations. The budget of 10 years ago cannot become the budget for today.

### Provision for Substantial Public Debt Payment

The 1949 budget is the third consecutive balanced budget. If its essential pattern and balance are retained by the Congress, it will provide funds for a substantial payment on our national debt.

For our purposes tonight, however, it is important to go further than the common meaning of a "balanced" budget in which dollar income is compared with dollar outgo.

The budget for any enterprise —be it a general store or corporation—is a way of expressing, in terms of dollars and cents, the operating plans of that enterprise. You recognize that the real significance of any budget is in terms of balanced plans—the relative emphasis to be placed, for example, on production and research, sales and advertising, plant expansion, and many other factors. This balance must be struck in terms of the policies and goals of the enterprise—in terms of the economic and market conditions under which the enterprise will operate.

### Three Broad Areas

Likewise, in the case of the Federal Government, budgetary balance is not merely a relationship of receipts to expenditures. In the 1949 budget the significant balance lies in properly relating three broad areas: our international responsibility, our national defense and our domestic programs.

The first area—our international responsibility — will cost slightly more than $7 billion in 1949. This is about 18% of the budget. The great bulk of this amount is for the European Recovery Program and our commitments for government and relief in the occupied areas, notably Germany, Japan and Korea.

This figure of $7 billion is the answer to one of the most significant questions which faced the President in preparing the 1949 budget.

How was this question posed?

Last spring it was apparent that a number of relief programs would be completed in the fiscal year 1948. As a result, it appeared that 1949 expenditures might be reduced at least $2.5 billion. While the budget was being prepared, however, the worsening of the European situation required the re-evaluation of our entire world position and of the character and cost of aid we should extend.

Since the surrender of the Axis powers we have made available abroad more than $15 billion by direct assistance and through international organizations, more than two-thirds of it to the nations of Western Europe. Of necessity, these funds have been turned mainly to relief needs, rather than to longer-term recovery goals.

Against this background, three alternatives as to our future course became clear.

**First:** We could continue relief indefinitely.

**Second:** We could stop relief and gamble that Europe somehow would regain economic and political stability without our aid.

**Finally:** We could take the opportunity to invest in the ability of 270 million productive people to help themselves recover through a planned and cooperative effort.

### Cost of European Reconstruction

You are familiar with the decision that was made among these alternatives. The President chose to aim at reconstruction; at the establishment of Europe as a going concern without the need for continued and costly relief.

This was the essence of Secretary Marshall's statement at Cambridge last June when he said that "any assistance that this government may render in the future should provide a cure rather than a mere palliative."

In making this choice we are, of course, taking a calculated risk. We are assuming that dollars spent now to promote the recovery of free peoples in Western Europe will yield a very great return to this Nation by furthering world-wide economic recovery and political stability.

Given the combined judgment of leaders in and out of government as to the value of our aid to European recovery the essential budgetary policy involved two elements. First, what could this country afford; second, what were Europe's needs? These budgetary decisions were worked out in what was a truly magnificent cooperative effort.

Probably no other program in our Nation's history, either domestic or international, has been subjected to such searching analysis in its formulation as the European Recovery Program. This effort included the work of business leaders, legislators, labor representatives and government personnel. I am referring to the work of the Harriman Committee, the Herter Committee, the Krug Committee, the Council of Economic Advisers, and many others.

The expenditures of the European Recovery Program, as submitted by the President, are estimated at $4 billion in the fiscal year 1949 and $5 billion in 1950. Atfer that, they should decline and cease after 1952, except for liquidation expenses.

How can we evaluate this 1949 investment of $4 billion in world recovery? It is only 2% of our estimated national income of $210 billion. It is slightly more than 1% of $340 billion, the money cost to this Nation of the last war, not counting the loss of life, the suffering and the tremendous drain on our resources.

Our aid to European recovery is a bold undertaking. It has been honestly presented to the country in its full scale. There has been no attempt—nor will there be—to complicate its appraisal by presenting it in easy stages or using complicated fiscal arrangements.

### Cost of Occupied Areas

The other major international expenditure anticipated for 1949 is $1.25 billion for government of occupied areas and for the relief necessary to prevent disease and unrest in those areas.

This item is a direct and inescapable responsibility resulting from our occupation of former enemy territory. We must assure conditions in these occupied areas, particularly in Germany, which will permit a minimum of occupation forces and guarantee the effectiveness of European recovery.

For the past few moments we have been examining the character and cost of our $7 billion international program. These international expenditures must be weighted and balanced with the other two large areas in the 1949 budget — namely national defense and our domestic responsibilities.

### National Defense

Let us next consider national defense. The decision on the size of this program was difficult to make.

As we emerged from the war there were no easy guide posts to determine the cost of maintaining an adequate military strength. Yet the Congress in 1948 had made a number of determinations as to the size of the defense program, and the President had established certain preliminary policies. Based on these facts our first studies last spring indicated a possible reduction of at least a billion dollars in national defense expenditures for 1949. This early estimate had to be revised as a result of international uncertainties and continued occupation needs. Instead of a saving, the President was faced with departmental proposals which, if adopted, would have added more than $2 billion to defense costs in 1949. They would have led to even greater costs in future years.

In addition, it was necessary to consider the relationship between our national defense requirements and our program for international recovery.

The President clearly stated this relationship in his Budget message when he said:

"The budgetary implications of failure to achieve recovery in Europe and other crucial areas deserve additional emphasis. Should failure of these programs result in further expansion of totalitarian rule, we should have to reexamine our security position and take whatever steps might be necessary under the circumstances. The costs of added military strength, if Europe should succumb to totalitarian rule, would far exceed the costs of the program of economic aid now before Congress."

The decision was reached to hold defense expenditures to their 1948 level in view of our vigorous program to achieve more stable world economic conditions. Eleven billion dollars is included in the budget—about 28% of the total—to provide for the minimum requirements of the National Defense program.

I should like to comment particularly on some aspects of the program because of their implications for future years.

As progress toward unification of the armed forces is achieved, a more efficient utilization of funds will be possible. Secretary Forrestal, the National Security Council, the National Security Resources Board and the Joint Chiefs of Staff are now engaged in an intensive review of the missions and programs of the various services.

Even in the 1949 Budget, progress toward a more modern and better balanced armed force is emphasized. Through economies and reductions elsewhere in the defense program, it has been possible to increase our procurement of military aircraft and the size of our civilian reserve components.

On the other hand, substantially higher expenditures will be needed in future years to maintain our current military strength. For some time the military establishment has been living largely on its wartime stocks. These inventories are now nearly exhausted and many wartime weapons are obsolete. As they are replaced, the cost for national defense will rise.

The size of our national defense budget will be substantially affected by the adoption of universal training. Although this program would eventually cost about $2 billion annually, this will be partially offset by reductions in the size of the standing forces.

Another important segment of the National Defense program is the stockpiling of strategic materials, such as rubber, tin, zinc and chromium.

The Congress, in 1946, authorized a five-year stockpiling program with requirements now involving over $3 billion. We had to recognize, however, that many stockpile materials are scarce in terms of world-wide demand and are essential to the recovery of the Western European countries. Heavy stockpiling by the United States could have a drastic effect on the price and availability of these materials. Thus, procurement has been curtailed for 1949 but must be given a high priority in future years.

Each of these considerations affecting national defense emphasizes that 1949 is a year of transition. The actions taken are in line with what we now believe will be the long-term development of our National Defense program. But its scope and operating details must be reconsidered when firm decisions have been reached on these matters.

### Our Domestic Program

The third broad area in the 1949 budget, our domestic program, had to be weighed against international responsibilities and national defense requirements.

Wherever possible the decision was made to postpone expansion and restrict expenditures. The President had a firm desire to keep governmental expenditures in 1949—a year of strong inflationary pressures—at the lowest point consistent with required and economical standards of operation. The necessity for heavy military and international expenditures reinforced the decision to limit expenditures for the conservation and development of our human and material resources.

Let me give two brief illustrations:

Nearly $3 billion is included in the budget for public works. As we enter fiscal 1949 construction will be under way on $12 billion worth of projects. Congress has authorized an additional $9 billion in projects on which work has not yet started. For three years, budgetary policy has held new starts to a minimum because of high construction costs, labor and material shortages—and as an anti-inflationary measure.

It was determined that $2.6 billion would be required in 1949 to maintain the minimum economical rate of construction on projects already under way. To do less would mean waste and inefficiency and would further postpone the benefits from our investment in public works.

Only $61 million or about 2% of all public works expenditures for 1949 will be for new starts on direct Federal public works. In holding to this decision the President had to deny requests for new starts which would have added at least a billion dollars in expenditures over the next few years.

On the other hand, it was determined to move forward on the peacetime development of atomic energy. There are provisions in the 1949 budget for increased expenditures for the development of new laboratories and production plants and to step up the training of vitally needed scientists and technicians. This program will involve expenditures of nearly $700 million in 1949.

I have described to you the fundamental decisions of national policy which are reflected in the budget for 1949. I should like to emphasize that the factors which influenced these decisions may be so altered in the coming year that they cannot hold for 1950. However, these decisions represent the careful and considered judgment of the President, Secretary Marshall, Secretary Forrestal and other Cabinet officers in the light of facts now available. They will move us farther ahead toward the solution of tomorrow's problems than any other decisions we could make at this time.

The magnitude of our responsibilities and the deepening crisis throughout the world require that we think and act with maturity and statesmanship.

This is a growing, expanding nation now coming into the fullness of its promise. Our population has increased 14 million since 1939. Our national income has tripled — from $70 billion to $210 billion. Our employment is the highest in history; our industrial production twice what it was 10 years ago.

This is a nation, too, which has played a major role in waging and winning the greatest war in history. Responsibilities undreamed of in 1939 have been forced upon us. Our veterans population has increased from 4 million to more than 18 million; our national debt from $47 to $255 billion. In our hands, for a short time, rests the grave duty to convert to peacetime benefits that tremendous and little-understood new force—atomic energy. Truly, it has been 100 years since 1939.

We hold, also, in our national strength and the firmness of our will the priceless ingredients from which can come a world that is safe for our children and their children.

If there is one thought I would like to leave with you tonight, it is this: the budget of the United States should be considered as a whole. It is a reflection, in dollar terms, of our national policy—a balance carefully and painstakingly struck in the light of the world situation today. More than three-fourths of this budget is related to the effects of war and our firm resolve to prevent a future war.

I wish that I could say that the problems we faced in framing the 1949 budget will not have to be faced in 1950 and the years beyond. No man in possession of the facts can honestly make that statement. But the one thing certain about our world position is that there must be constant reexamination of the issues and factors involved.

I have spoken tonight, gentlemen, in a spirit which I know governs your consideration of public affairs—a spirit of realism, of seriousness, of great faith in the future of this country. I have a firm faith that we are forging, through democratic processes, a balanced operating plan which truly reflects our position in the world today.

I have equal faith that our courage and our vision in carrying out this plan will lay the foundation for a better world.

# Food Supply and Food Prices

(Continued from page 21)

veloped into enormous volume. The pack of frozen fruits and vegetables increased from 180 million pounds in 1937 to 975 million in 1946.

In very recent years the packaging and transporting of fresh fruits and vegetables has accelerated radically. We can now get our vegetables, and even dried soup, in a cellophane bag.

We can have a complete variety of fruits and vegetables on our tables the year 'round. This trend towards disappearance of the seasonal characteristic of many of our foods—which began so many years ago with the art of canning—is heightened now by the many improvements in other methods of food preparation and delivery.

Our food habits and the amount of food we consume also are being influenced by our rapidly growing knowledge of nutrition. As we come to learn with more confidence what constitutes a suitable diet we shall eat different foods and probably more food in total. Well-informed nutritionists do not agree with those who claim we are the best-fed nation on earth. Nor do they even agree that we are well-fed. Too large a percentage of our population is still undernourished.

### Ability to Buy Food

But perhaps the strongest influence on our food supply will be the ability of the American people to buy food. With increased employment (from 29 million employees in non-agriculture establishments in the 1935-39 period to about 44 million recently) and with greatly increased spendable income (from $66.6 billion prewar to $175 billion in 1947) our people eat more food and better food. It is sometimes said that the stomach will hold only so much and won't take more, yet in this country we've witnessed a 17% increase in per capita consumption of food since prewar, and who is to say it has reached its limit? Total consumption has increased even more, since there has been a 9% increase in population in this period. Moreover, as spendable income declines, food is the last item to suffer in sales volume. So long as our people are employed there will be great pressure on our food supply.

We may thus conclude that, subject to the hazards of weather—which we in the food business must always recognize—we have the capacity to maintain a high level of supply, and that many strong influences are at work encouraging that supply. It is my belief that this country need have no fear of running short of food. I cannot conceive that we will ever require a ration program in time of peace. We might better adopt a program aimed at prevention of our enormous waste of food.

### Government Food Program

In that connection I should like to speak briefly about the government program which sets support prices under some basic agricultural commodities, together with tobacco and cotton. You may recall that following the first World War there came a time when prices of agricultural commodities fell to such low levels that many farmers were ruined. With an enormous oversupply came depressed prices. There was plenty of food but people couldn't get it. Some of the New Deal programs with which we are familiar reached back into that period for their supporting arguments.

In an effort to avoid repetition of this experience of the '20s, legislation was passed early in the recent war to establish guaranteed grower prices on many agricultural commodities. Our Government told farmers they could count on a price for a particular commodity that would equal 90% of parity—the parity price for any commodity is one that has increased since the base period, by the same percentage as the prices of things farmers buy. As the price of these items advanced, so did the parity price. The legislation provided that these price guarantees should remain in effect for two years following the war. They expire on Dec. 31, 1948, unless extended. It is hardly to be expected that Congress, in a presidential election year, will want to tackle this subject and take chances with the farm vote. In all probability the present act will be extended as is.

The possible effect of this program can be seen in our experience with potatoes last year. The market price declined to a point where the government, to make good on its guarantees, had to step in and buy. It had no outlet for the potatoes, so millions of bushels were lost. A few were exported and some went to make high-cost manufactured products such as starch. About $80,000,000 was lost on this operation. As consumers we were denied the lower prices that the supply seemed to justify. As tax payers we paid for the loss.

This program threatens to get us into much more serious difficulties. Other commodities decline and the government is forced to step in and buy. For our purpose here, thinking of food supply, it is interesting to note how this support program tends to encourage the growing of commodities way in excess of our needs—and at a possible cost to the taxpayer that cannot be justified. When and if supply catches up with demand and the government finds itself a really big buyer, it would seem as if the program simply cannot stand the pressure of criticism that will be leveled against it. But by that time the damage will have been done.

If agriculture, in the interest of our over-all economy, is entitled to some protection, then at least let a program be set up that will not result in creating disastrous oversupply with the penalties that are bound to be associated with it. My purpose in mentioning the program is not to criticize it so much as to indicate how it can and does affect our normal supply of some basic foods.

### Food Prices

We come now to the most common thing said today about food—namely that its price is too high. Certainly every price advance is featured in the papers, and certainly the labor organizations make the most of high food prices in their bargaining for higher wages. To the comment that consumer prices of food are too high I would ask: "too high in relation to what?" Compared with prewar, food prices do seem high and to many "too high." But in relation to our wherewithal to buy—our spendable income—they are not too high; in fact are low. Whereas a given quantity of food products cost consumers a dollar at retail in the 1935-39 period, in January, according to the Bureau of Labor Statistics, that same food would cost $2.10. But that 1935-39 dollar, as disposable income, has become $2.75. The price of food has not climbed as high as the ability to buy it. Today we can buy the same amount of food we bought in 1935-39 and have more money left to buy other things, or to put into savings, than we could then. Thus it can hardly be said that food prices are too high.

There is nothing mysterious about the price of food. In the last analysis, the price that the ultimate consumer will pay is related to cost. Many elements get into that price. Chief among these are the cost of agricultural products such as grain, fruits and vegetables, meat and fish, and the labor, transportation and distribution costs incurred at the several different stages of the approach of the raw products to the retail store where the consumer purchases them in the processed or unprocessed form. There are taxes and profits also at each of these stages. Let us consider three of these cost elements and very briefly comment on some others.

Our food supply starts with the grower. Time and again it has been claimed that the grower's share in the consumer price is too small. I presume it is safe to generalize and say that the law of supply and demand ultimately will determine that share. If we find ourselves with a surplus of agricultural commodities in the face of a declining demand, the prices of these commodities will decline—and at a more rapid rate than consumer prices, if the surplus is sufficiently great at the grower level.

There are forces at work that tend to offset that relationship. The support program is one. The organization of grower cooperatives is another. The general increased efficiency of the grower is a third. But what has recent experience shown in this respect? At the end of 1947 the U. S. Department of Agriculture reports that out of the consumer's dollar 55 cents went to the farmer. This compares with 40 cents prewar.

### A Downward Price Tendency

It is impossible to project with certainty what is going to happen to grower prices, but it seems safe to believe that they are going to tend definitely downward. With our great capacity to produce and with a possible lessened demand we can look for lower prices for agricultural commodities in the near future.

Labor, of course, plays an important part in the overall food industry. Its chief characteristic is that much of it is seasonal and much of it is unskilled. We employ a high percentage of women.

While large sections of cannery labor are unionized, other large sections are not. Since efficiency per man-hour declines in a period such as we have been in, and are in, it probably declines at a more rapid rate in the food industry. Prewar, the labor rates were relatively low in important sections of this industry. With the acute shortage of labor during the war it was natural that rates would advance rapidly. Every type of person, including labor from Mexico, the West Indies and Canada, and Italian and German prisoners of war, was employed to meet seasonal needs. Obviously these people were unskilled, and since they were paid the going rates, unit labor costs were high. Actually the wage rates in this industry are 2½ times prewar.

Consequently, labor costs have contributed in an important way to such price increases as we have had. There are those who claim that labor rates will never decline. That may be true as regards highly skilled workers in some branches of this industry. But, certainly some of the unskilled and seasonal labor, so much of which we employ, will be working at lower rates as we move into a more normal period. Moreover, with a nearly adequate labor supply and competition for jobs, we can look for greater productivity. Finally, the great strides in the development of labor-saving machinery in this industry will have an important bearing on the unit labor cost. It would seem safe to conclude that an adjustment in labor rates may be forthcoming in the not distant future.

If there is one thing that chiefly characterizes the distribution of the various foods that the consumer buys, it is the great number of people engaged in it. There are more than 600,000 retail food stores; if restaurants and other eating places are included the number of retail food outlets would approximate one million. This makes for the keenest kind of competition for the housewife's food dollar. It also makes for the lowest possible distribution cost at the retail level. The net profit of our great grocery chains ranges very close to 1½%. It is difficult to maintain that distribution costs are high. Of course, the recent advances in freight rates find their way into price and when it is remembered that they apply at all levels they become important in the unit price.

### Food Industry Highly Competitive

I would make one significant observation as to the profit that enters into the price of food. The industry is so competitive at all levels that profits cannot become excessive. Some companies, through having developed outstanding character over the years, have seemed to make themselves quite secure in respect to profit. But as one studies profit figures in this industry, he is struck with the modest net rate of profit, considering the hazards and risks involved.

I am no prophet, and I lay claim to no ability to look into the future. My guess as to what may happen to food prices in the months ahead is no better than the next man's Apply all the reasoning you will and your belief that food prices may go up or down may be completely upset. Only a few months ago sugar was a scarce item and figured prominently in a black market. Today it seems to be in surplus. Certainly the market is weak. A sudden change in weather can upset our best-laid plans. But trying to look at the guiding factors, we have, I'll hazard the guess that with a great potential to produce food and with a world demand for it that is bound to decline, it would seem as if we're in for gradually declining prices. Some prices will decline too far; in fact, they already have. Processed citrus products are being sold below cost today. On the other hand, some food commodities are selling at very high prices, partly due to their seasonal character and partly due to shorter supply; meat for example. But across the board the housewife who is willing to shop carefully and selectively may look for a lower food bill to feed her family.

# Observations

(Continued from page 5)

vidual subjective bias. Surely it is not overly-skeptical to harbor the suspicion that three individuals appointed by the President and operating in his Executive Office, will not at all times confine themselves to the judicial view of events, trends and policies. And is this not particularly true when related to appraising the activities of "the boss" and his Administration, of which they are members? At the very best, it is surely difficult for anyone to realize where the political factor begins and ends.

If the Council's shortcomings are the result of the statute, there is no reason why the law cannot be altered. But there appears to be nothing in the law which compels it to make pronouncements for *public* consumption. For the President to have economic experts quietly and directly working for him as do his press, diplomatic, military, and other technical advisers, is unobjectionable. But the Council's provision of a device for giving a coloration of economic science to his controversial political policies is quite a different thing. This is typically done when the Council comes out as a protagonist in its own annual reports, or when it is directly quoted on the pricing activities of the steel companies. No group of this kind can simultaneously serve two masters—the Chief Executive and the public. For the latter it puts on a show of savants creating an intellectual atmosphere and certification of independent expertism to rationalize the President's political strategy. Witness as a typical result the recent $40-per-vote income tax bonus plan whose authorship was openly hung on the Council.

### Pamphleteering

The Council's annual report recently issued to the public can by no stretch of the imagination be called an objective analytical appraisal of conditions—but rather a pamphleteering vague philosophic essay. Whether wittingly or unwittingly it is a paper arguing for its own basic economic theories—as have some of its members from the platform and over the air waves. In an objective discussion of wages and prices, the possibility that a rising wage scale could be one of the effective causes of rising prices should at least have been mentioned, even if completely disagreed with. But the Report completely glosses over this. Likewise regarding the critical problem of inflation, the many alternative ways of dealing with it should have been explored concretely and in detail.

While this writer, as stated above, considers the merit of the ideological argument irrelevant to this article, he would point out the large content of subjective bias contained in the Report's many inferences and assumptions—as in its continuing attack on the principles of the free competitive system, and in its attempting to make industry the scapegoat for future depressions. It repeatedly asks the rhetorical question whether we can continue to trust our economic affairs to private enterprise; to which query, besides an implied negative, it fails to give both sides of the controversial answer. Our government economists do, however, find space to observe that "the accumulations of capital over the years have in fact involved deprivations of the rank-and-file worker"; and that increased production must go increasingly to filling in the consumption of the erstwhile poor.

### Public Entitled to Factual Reporting

**If the Council insists on reporting to the public, they should use documents of an entirely different kind. All generally controversial conclusions should be eliminated, and instead there should merely be an historical factual accounting of events, and even trends, with non-controversial statistical data. All else should be exclusively devoted to the personal education of the President, in lieu of the electorate.**

**Quite apart from the incidence of politics, the elevation of the Council to administrative government rank gives its findings authority and prestige which are not warranted in the case of *any* existing economist, or by the profession itself in its present status in its struggle for scientific exactitude.**

* * *

In any event, the implications of this unique advisory-propaganda mechanism to our democratic process should be fully explored.

## *Tomorrow's Markets Walter Whyte Says—*

By WALTER WHYTE

**Conflicting war and tax talk halts market advance. New move after sharp decline a possibility.**

* * *

We are approaching a period of rapidly advancing markets and at the same time there is an increasing possibility of a sharp intermediate break.

* * *

I know this sounds confusing but it is no more so than the action of the market.

* * *

In the last two weeks you have seen a sharp advance after an almost equally sharp break. During the past week you have seen what amounts to dullness though at a high level. The advance has been fed — and is still being fed — by headline news of an impending war and the preparations for it. It's not too difficult to figure that if a war occurs, plants will start operating on double and triple shifts producing for the war effort. Obviously the major—and even the minor — companies who have been shaking their heads at the prospect of future business will once again be in a position to show tremendous profits. This potential business is behind the public appetite to absorb stocks. And if whetted sufficiently, will cause them to zoom still further.

* * *

On the more realistic side there is the tax picture. We know we have a tremendous debt from the last war. Yet we see a tax cut being passed while at the same time we are preparing to spend additional billions for a new war. The thing just doesn't make sense. Or maybe it makes much better sense than is generally realized. Perhaps all this war talk is deliberate, aimed for a specific purpose. What this is I can only guess at, but if the coming war is just talk then the stock market, once it realizes it (or rather if the people who buy and sell realize it) a turnaround in the trend can occur with equal rapidity.

* * *

Oddly enough, as mentioned in the opening paragraph, signs pointing to both possibilities are present. For example the figures mentioned last week where specific issues would meet selling, were the figures at which stocks ceased advancing. So far none of the stocks we have in our list have broken their stop levels, but that doesn't mean they won't.

* * *

The strike of Exchange employees makes good headline news. Its effect on the market picture is unimportant. Some of the mechanics of buying and selling will be interfered with and brokerage houses will probably be hurt. But that is about all I can see for the time being.

* * *

Meanwhile, maintain your positions in the stocks recommended. Perhaps by next week more significant clues will arise.

* * *

The list you have now is:

| Stock | Purchase Price | Stop |
|---|---|---|
| Anaconda | 31½-32½ | 32 |
| Avco | 4 - 4½ | 4½ |
| Bethlehem | 30 -31 | 31 |
| Caterpillar | 54 -55 | 52 |
| Douglas | 50 -52 | 54 |
| Cons. Vultee | 12 -13 | 12 |
| Dresser | 21 -22 | 22 |
| G. L. Martin | 15 -16 | 16 |
| Lockheed | 13 -15 | 15 |
| United Aircraft | 23 -24 | 23 |

More next Thursday.

—Walter Whyte

[*The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.*]



### Ruble Now With Corbrey

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Carl B. Ruble has become associated with Carter H. Corbrey & Co., 650 South Spring Street. Mr. Ruble was formerly with Harris, Upham & Co. and E. F. Hutton & Co.

### Joins Crowell Weedon

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Horace Donnell has joined the staff of Crowell, Weedon & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with First California Company.

### Pendelton With Buckley Bros.

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CALIF. — Clarence T. Pendleton has become associated with Buckley Brothers, 625 Broadway. He was formerly San Diego manager for First California Company and Nelson-Douglass & Co.

### Chapin With Marache, Sims

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Robert H. Chapin has become associated with Marache, Sims & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange.

# Trends Affecting Real Estate Values

(Continued from page 8)

phasize the deposit and loan trend of the state and national banks.

At the end of 1945, real estate loans stood at $4,670,000,000, or 16% of ordinary time deposits of somewhat over $29 billion. Using the estimates for the year end of 1947, real estate loans had increased almost 100% to $9,300,000,000 and stood at over 27% of estimated deposits of $34 billion.

Express this another way: In the two years 1946 and 1947, time deposits rose $4.7 billion and real estate loans rose by practically the same amount. In the one year of 1947 we loaned a billion dollars more than we increased our time deposits.

#### Rapid Use in Real Estate Mortgages

I do not suggest that the overall real estate loan to time deposit ratio of 27% in the insured commercial banks of the country is a dangerous one, but I do point out that the increase from 16% to 27% in two years constitutes a rapid rise and is a cautionary signal. It is this rise plus the rise in commercial and consumer credit which shows us how closely our business has followed the pattern of the nation's economy.

With a full recognition of the dangers of inflation and with the knowledge that inflation has been caused by government deficit financing, by large governmental expenditures during and after the war and by an over-abundance of money competing for goods in short supply, Mr. Dodge as President of American Bankers Association successfully worked out a program of voluntary credit control to which the banks of the nation have promptly and enthusiastically responded. Events moved quickly in the field of credit and economies as Mr. Dodge and his associates moved across the country from important center to important center explaining the objectives of the plan and asking for the cooperation of bankers in every state. Mr. Dodge stressed that bank loans are a symptom of inflation—not a cause. But he also pointed out that in the field of action to combat inflation banks could play a most important part by discouraging credit which would add to the inflationary trends and by encouraging credit which would aid production of needed goods. Mr. Dodge and the American Bankers Association have presented a good case showing how inflation can be corrected only by attacking the causes and not by setting up a system of artificial control laws. I am sure that every one of you will agree with Mr. Dodge's statement that while banks have not created the inflationary problem, they do have a vital interest in it.

And so in this talk I want to show how our mortgage lending has followed the government's inflationary pressures and why we as bankers should in our daily acts, in our public utterances and in our contacts with government officials do a little better job in preserving what is left of sound law and practice and in eliminating some of the cancerous growths that are commencing to plague us. I do not wish to infer that all laws pertaining to money and credit enacted since Franklin Roosevelt was first elected are bad. My opinion is that many of them are good and show improvement over former practices, but I believe that they should be reviewed to see which are beneficial and which are injurious to the economic welfare of the nation, and I believe we should more carefully scrutinize each new measure as it is proposed to Congress.

#### Changes in Form of Mortgage Lending

A great change in the form of mortgage lending took place in the thirties when the pattern of long-term instalment loans almost completely replaced the practice of making one year flat loans. It was under the former practice that second mortgage financing so often proved costly and even disastrous to borrowers. While many banks had already swung to 10 year instalment loans, the National Housing Act, passed in 1934, offered a nationwide method of lending for longer periods at uniform rates on a single mortgage pattern and provided a system of insurance relieving the lender of much responsibility and creating a wider market for this type of paper. Notwithstanding the danger of national controls inherent with government guarantees and government insurance, many bankers saw elements of merit in the system, and undertook to make the plan work, hopeful of preserving FHA as a servant of private enterprise. Fortunately, the administrative heads of the FHA have so far adhered to a non-political program. There is, of course, the ever present possibility of bureaucratic control of home financing if the country is not constantly on its guard to prevent the passage of seemingly harmless legislation which step by step may develop into complete control by government. The proposals for yield insurance, for loans to provide dwellings on farms and for public housing as offered by the Taft-Ellender-Wagner Act are steps which would undoubtedly prove dangerous.

In fairness to the FHA, it must be stated that its record of accomplishment prior to the war and during the war was excellent. Five billion dollars of loans under Title II were insured, producing receipts from insurance in excess of the amount necessary to pay losses. However, it has been in existence only in a rising market and has not yet been called upon to meet the test of economic depression.

It was this FHA experience in particular that pointed out to many the ease with which housing could be financed if the borrower's capacity to make monthly payments was related to the size of the loan and if the rate of interest was at a level which would attract funds from the large institutional lenders.

The relatively high standard of construction and credit requirements which prevailed before the war were lowered during the war in order to provide housing, particularly in the war industry areas. Since the war these lowered standards have been continued because of the scarcity of materials, inferiority of quality, shortage of production and excess of demand, all contributing to the acute housing shortage. With the sudden ending of the war the country was confronted with the problem of returning to a peacetime economy as quickly as possible. An immediate problem at hand was veteran hospitalization, education and assistance in employment, as well as aid in providing housing for the veteran as quickly as possible and on the most favorable terms, within the system of private enterprise and without resorting to public housing.

#### Veteran Housing Loans

So in view of the success of the FHA mortgage financing program, it is easy to understand the reasoning behind the provisions of the Servicemen's Readjustment Act of 1944, and amendment thereto.

Thus, there was written into this law the provision that the United States Government would guarantee an amount up to $4,000 (not to exceed 50% of the debt) of each veteran's loan made to aid in the purchase of a home. The rate of interest was fixed at 4%. Likewise the rate of interest on Title VI FHA loans had been fixed at 4% by amendment to the National Housing Act under date of May 2, 1946. Bankers as well as legislators, and the public at large, did everything possible to make this program work. Committees for Veterans Welfare, committees on Real Estate Loans, and committees on Publicity organized by the banking fraternity held open meetings, schooled their employees, explained the provisions of the Servicemen's Readjustment Act and did everything possible to aid the veterans. Bankers endeavored to temper emotion with reason based on long experience with the working of economic laws pertaining to money and credit. However, when reason interfered with emotion, many set aside reason. Lenders content with the fact that a part of the loan was guaranteed went so far as to grant loans up to $10,000 without bothering to appraise properties themselves, but depended solely upon outside appraisers who often merely rubber-stamped the sales price. This in effect was furnishing to each veteran a $10,000 letter of credit for buying a home with no down payment. More conservative lenders, convinced that an owner equity in the property was a safeguard for both the veteran and the lender, asked that the owner have at least a modest cash investment in the property, carefully analyzed the character, credit and financial position of each applicant in order to make certain that the home purchased was based on a loan within the capacity of the borrower to service and repay. In other words, their objective was to prevent "overbuying" on the part of the veteran. It is my opinion that such a lending procedure was actually the intent of Congress, yet the head of the Veterans' Administration vigorously espoused the cause of 100% loans.

For two years nearly all of the new housing has been reserved for the veteran, with two thoughts in mind: first, providing a roof over his head and, secondly, reducing the cost of housing. That the first undertaking has been partially accomplished cannot be denied with the 1947 record of 850,000 completed houses, mostly for veterans. But the second effort proved to be a cruel jest to the veteran and those of his friends who sincerely wanted to help him. Instead of lowering the price of either new or old construction, throwing this huge volume of easy credit on a short market resulted in builders and owners raising their prices because there was little or no sales effort required to market their properties. In fact, there were long lines of waiting veterans competing among themselves to buy at any price as long as no down payment was required. With care to avoid discussion of the real reasons of rapidly increasing housing costs, many builders, real estate brokers, labor leaders, politicians, and others endeavored to convince the public that any means of reducing the monthly payment of the ultimate purchase would reduce the cost of the house. Five minutes of serious thought on the part of listeners should have shown them that the easing of terms to the home purchaser merely increases the demand and does not reduce the cost of home erection by one dollar. On the contrary, the artificial stimulus given to the sale of properties merely invited price increases, a temptation too great to be ignored by most builders. On the score of what easy terms meant to the home purchaser, little or no emphasis was placed on how much more it would cost a purchaser to buy a $10,000 home financed for 25 years at 4% than it would cost if he borrowed but $8,000 on the same home for 20 years at the same rate of interest. In this simple illustration it could have been pointed out that the borrower would pay $2,200 more in interest alone on the larger amount.

In 1948, we find the President and Congress and the financial bureaus of Washington deeply concerned by the course which inflation has taken and urging steps to curb it. On the other hand, we find many who believe that they can solve the housing problem by still further easing purchasing terms, or giving government guaranties or subsidies. These groups often say that private enterprise has failed. Let us analyze that statement. Despite the shortages of materials, black markets, labor inefficiency, ills of distribution and particularly the system of government controls, private enterprise completed more houses last year than any other year since 1925. True, most controls were taken off on Dec. 24, 1946, making this record possible. A number of controls still remain—rent limitations and fixed money rates being two of the most important. I am not prepared to say when the best date will be for the lifting of rent control—it must come sooner or later. But the day requiring the lifting of money rate control may be closer than we think.

**Lending Institutions Already Cluttered**

Already the savings and loan associations are well loaned up. Some banks would have almost reached their statutory limitations had not the Servicemen's Readjustment Act taken those limitations off for the purpose of making loans to veterans (another instance where emotion overruled reason and experience). Any further lowering of the rate or lengthening of the term of individual loans is now apt to have the serious effect of causing the mortgage money market to dry up, which would in turn really retard home construction.

You are probably aware of the fact that one-half of the nation is normally housed in rented quarters. Yet because of easy credit and of rent control 85% of the housing erected in the past two years has been for ownership and only 15% for rental. Unsound as the program is, Section 608 of the National Housing Act provided practically the only attractive plan for builders to finance the erection of rental units. However, the limitation of the rate of interest to 4% and the control of rents recently placed on these projects will in my opinion discourage the production of this needed form of housing. The term of 32 years and seven months is considered by many bankers to be too long for the employment of savings money, but many have been willing to finance these rental units during construction for a moderate fee or servicing charge. With the softening of the bond market and the rise in money rates generally, insurance companies, which are virtually the only market for FHA 608's, are unwilling to pay a servicing charge large enough to warrant the bank's share in this operation. I believe if are to get rental housing from this source the rate of interest will have to be increased to 4½% and governmental controls lessened on newly constructed units. Here, again, private enterprise cannot be blamed while the government sits in the driver's seat.

High prices have caused increased production of materials, increased production has meant less delay in construction; less delay has permitted considerable saving in the cost of the finished job. Builders who erected homes in 90 days prior to the war required 10 to 12 months to do the same job in 1946 and 1947. Today many of those builders are back to a three or four months' basis.

Unfortunately, those savings have been largely offset by increased labor costs. Despite the prospect of continued demands for wage increases the end of spiraling costs should soon be in sight.

**Houses More Plentiful**

Notwithstanding the large figures shown by theoretical surveys as to the number of houses needed to adequately house all of our population, you no longer have to put your name on the waiting list to buy a new home. The builder is trying to sell you one today, cutting his asking price in many cases. As far as older properties are concerned, the scarcity premiums are fast fading out of the picture. For the past several months in the metropolitan areas of many states, it has been possible, in fact, easy, for a non-veteran to find and purchase a new home which has been held 30 days for veterans' preference, with no takers.

Testimony presented by Mr. Douglas Meredith before the Joint Housing Committee in Washington, D. C., the week of Jan. 12, pointed out that according to the Bureau of Census the number of families in the United States, including those doubled up and those living in separate quarters, increased 4,900,000 from the beginning of 1940 to the early part of 1945, whereas in the same period there was a net increase in dwelling units of 4,400,000. In other words, in spite of the war the increase of housing units had very nearly kept pace with the housing needs. A change in business and industrial activity could very easily cause lessened demand, doubling up of families and even produce rental vacancies.

I sincerely believe that the nation is looking to bankers for help and guidance. And I am delighted that bankers generally are responsive to their public obligations. You have already heard quite a bit about the pilot meetings conducted by ABA. You will hear a great deal more on this subject as the various State Associations and local bankers expand the program of the voluntary control of credits to combat inflation. This ABA remedy is new and wholesome, but it lacks some of the appeal that is offered by political remedies. Great care must be exercised in applying the medicine which we offer.

**Bankers Should Exercise Caution**

No system of extreme liberality of credit followed by a virtual stoppage of lending could by the wildest imagination be deemed good for the nation. To bring a fast moving train to an immediate stop would jar the passengers and might wreck the train. A skillful engineer applies the brakes evenly as he approaches a curve, but he still keeps his train moving in order to reach his proper destination. And so the banker is asked to distinguish between those forms of credit which increase demand for goods and services which are in short supply and those which increase production of needed articles. Obviously, loans to increase the demand would be an aid to inflation, whereas loans to increase production would tend to reduce prices at the consumer level. How do we apply those principles to mortgage credit? Certainly not by stopping lending altogether, but by analyzing credit use—at one end encouraging the production of housing, but at the other end insisting that the consumer credit (home buyers' credit) be on a sounder basis than we have seen during the past two years. Will that program cause home buying to cease? It should not. There is still a shortage of housing and the non-veteran market has been virtually untouched. The non-veteran group, while having ample conservative credit, is not supplied with the same free and easy mortgage formula placed so carelessly in the hands of many veterans. Conventional borrowers who must put considerable of their own money into the purchase of property are far less inclined to pay excessive prices for homes than those who have little or no equity in such purchases. As a consequence, any process of slowing down the demand will have the triple benefit of retarding inflation, of reducing the price of housing through competitive selling, and aiding the veteran to buy a new or existing home at a price level nearer his ability to pay.

**Erection of Rental Units Is Greatest Housing Problem**

Don't get the idea that this program is in any way intended to injure the veteran—quite the reverse is true. The medicine formerly offered to reduce the cost of his home had just the opposite effect. Now we are asked to write a prescription which will aid 13 million veterans as well as to help the larger problem of the other 130 million people of the nation. Housing is still one of the greatest needs of the country, therefore, mortgage credit should be discouraged wherever possible on non-essential types of building whose erection could quite properly be deferred, and encouraged on residential rental units wherever such buildings can be erected on a sound basis. I believe that the erection of rental units is our greatest housing problem of today. Almost daily private enterprise is challenged to produce this type of housing or surrender that portion of our economy to subsidized public housing. I am convinced that private enterprise can do the job in this field but that governmental controls which retard this construction will have to be modified and that a more effective medicine be found than the formula now in use.

**Non-Housing Mortgage Credit**

I have largely concentrated my remarks on housing loans because this is where the inflationary fires have burned most furiously. But there are other forms of mortgage credit which come in for consideration. In the light of today's conditions, the purpose of each loan application should be carefully studied to distinguish between the inflationary and non-inflationary nature of the request. Certainly loans to buy land for subdivision and sale of lots on a speculative basis should not be made. A farmer who has his land clear, or subject to a small mortgage, should not be encouraged to go into debt heavily to buy more land. A retail lumber dealer or builder should not borrow in order to buy standing timber in the hope of the sale of those timber lands at a profit later on. Loans to erect stores in advance of the actual requirements of the neighborhood should be declined. Applicants for loans to erect summer homes, resorts, theatres, cocktail parlors, and certain types of eating houses should be asked to postpone their plans until building materials and labor are in more adequate supply. Many other loans which might otherwise be considered safe on appraisal of the collateral offered should be turned down because of their inflationary character. And, of course, when loans are made, they should be based on conservative appraisals with a recognition of the inevitable drop following periods of high prices and speculation.

The mortgage market had turned before the ABA program was announced. Likewise the volume of real estate transactions had reached its peak and was on the decline. Many factors in addition to the supply of credit contributed to the change in direction. So far we have seen no pronounced drop in the price of real estate. However, just as easy credit contributed substantially to rising costs, particularly in the housing field, so tightening credit at the consumer level is bound to bring down the sale price of individual houses if present production is maintained. If our reasoning is sound, then future values of real estate will be more stable and we can avoid the topheavy mortgage position which existed at the end of the twenties. With a proper mortgage structure underlying real estate values, it is entirely logical that when depression comes the price declines will be more orderly than those experienced in the last major depression when a high rate of foreclosures and the sale of distressed properties did much to accentuate the downward course.

We must not avoid our individual responsibility in exercising voluntary credit controls, but whatever we do to retard credit, let us bear in mind that we are obligated not only to give the soundest of advice, but also to extend credit in such a fashion that the entire nation may be best served. Never before have the nation's mortgage lenders been presented with a great opportunity to show economic statesmanship.

# What Happens When Stalin Dies?

(Continued from page 8)

There's never any second man in a totalitarian state. The whole system works in another way. That is what is important to us.

**The One-Big-Man Principle**

We're not dealing with the 192 million people in Russia. Only 10 or 12 men run things in Russia. The whole government is built up on the one-big-man principle.

The others around him got into their positions by being indispensable to the big boss, not by being indispensable to each other. They get next to the throne by pushing each other—by pushing other people down, not by cooperation. In fact, they get where hey are by **eliminating** others, just as Stalin himself came to the top, not by cooperation and team play with his associates, but by two-timing others, one by one.

**Lenin's Warning**

When big boss Lenin died, what happened? Purges, blood purges at the top. There was no second man. Lenin on his death bed, as you know, even warned his followers against the very man who finally did come to the top—Stalin.

Stalin himself got to the top by doing away with others, such as Trotsky—by the deadly process of elimination, one by one.

Moreover, that was the road to the inner circle followed by each man around Stalin today.

It's exactly the reverse of what makes a large company grow and function in our country. Here we see cooperation between the different men in charge of inter-related departments. We advance on merit—on the ability to cooperate, **not** on the ability to cut each other's throats and tie ourselves inseparably to the favor of the man at the top of the enterprise.

That's the American free opportunity system. It works, and it can be perpetual, as history has shown.

When the man at the top goes there **are** second men. There are numerous second men, who have not been fighting with each other, but have been helping each other independent of the big boss. They are ready to accept one of their own number to carry on smoothly when the top man of the enterprise dies or retires. You see that every day in American business, and in our very biggest and most complicated companies.

**This Happened in Germany**

On the other hand, look what happened in totalitarian Germany. I saw Herman Goering the day after he was captured at the end of the war. I'd seen him many times in Berlin before the war. Now I went to interview him in confinement in a little workman's cottage near Augsburg, Germany.

There stood Goering, inside the low wooden fence in front of the cottage—his legs apart and his feet firmly planted. The tunic of his pearl gray field marshal's uniform was open. His shirt was wet with perspiration. He was puffing like a porpoise. But his blue eyes were hard as flint, small and sharp and luminous against his sallow skin—like bright spots gleaming on a china plate. As he spoke you could see the bitter glint in his eyes.

Did he speak about the war, or lament the suffering of the German people? No. He began at once a tirade about his Nazi rivals. There was nothing on earth a man could say about another man that Goering did not say to me about German Foreign Minister Ribbentrop. Goering called Ribbentrop a liar, a fool. He blamed him for many of Goering's own troubles with Hitler. You see, whenever Ribbentrop went up in Hitler's favor, Goering went down; and vice versa.

Goering was equally terrific in speaking about Himmler and Goebbels. On the other hand, if you read Goebbels' personal diary, now being published in our country, you will notice how Goebbels speaks about Goering.

There's no question whatever that if Hitler had died as early as 1937—that early, mind you—the first thing Goering would have done would have been to shoot Ribbentrop and Goebbels. Actually shoot is what I mean.

The first thing Ribbentrop and Goebbels would have done would have been to shoot Goering, while Himmler would have shot all three of them if he could have done it first.

**Kremlin Crowd the Same**

The Kremlin communist crowd are cut out of the same cloth. They sit where they sit by the same system.

On Stalin's death new blood purges can have an immense effect on events of the future, affecting us in your land and mine. The continuity, the moving picture of Russian foreign policy and Russian capabilities, will be immensely affected when death leaves its vacuum at the top and the rat race is on.

The outcome is a great imponderable. But come what may, for better or worse—and it does seem as if any change in the present Russian movie script is bound to be for the better, from our point of view, because the present outlook couldn't be much worse—there will nevertheless be a certain throwing up into the air of the whole Soviet foreign policy, domestic policy and everything else.

**We Seek Long and Honorable Peace**

What this country of ours seeks is not a great and terrible war, but a prolonged and honorable peace.

Now is the time to be hopeful, even as we prepare for the worst, and make our country stronger and stronger and stronger—for there is no possibility of peace unless America is strong, and unless our peacemakers use our new strength more intelligently for peace than they used our even greater wartime strength for peace in the past.

Where there's life, there's always hope. And, in this case, where there's death, there is hope too.

Again we cannot reach conclusions about anything abroad today without considering the death of Stalin.

# Why the Ruhr Is Lagging

(Continued from page 7)

the past two years. Indeed, during 1946-1947, this country, which before the war shipped coal to Europe only as ballast, provided about one-half of the coal imported by European countries. Shipping difficulties, costs and the Europe-wide dollar shortage make it unlikely that last year's import from the United States, averaging two and a half million tons per month, can be exceeded or even maintained in 1948.

The only source from which a substantially larger amount of coal can be obtained to supply Europe's needs and provide a solid foundation for ERP is Germany and in particular the Ruhr. Ever since the first steps were taken toward a merger of the American and British occupation zones in Germany, a year and a half ago, top military government officials of both countries, and their technical staffs, have combined their energies and concentrated their attention on the problem of making the Ruhr again a going concern. Unfortunately results cannot be said to be commensurate yet to their efforts.

There are many reasons for this unsatisfactory state of affairs. In fact, the Ruhr problem in all its aspects—technical, financial, political, social and what not—is of an almost incredible complexity.

### Manpower Shortage

To begin with, there is an acute manpower shortage in a desperately overcrowded country. This seeming paradox, of course, is not confined to the Ruhr area alone but exists in greater or less degree everywhere in present-day Germany. Due to the recent influx of many millions of refugees from Eastern Europe into a drastically reduced rump-Germany, all occupation zones, but in particular the British, are far more densely populated than they have ever been. Yet this human congestion does not mean a corresponding affluence of the labor market, for the vast majority of the "resettlers" are women, children and old or disabled men.

Last spring, official estimates figured that at least 100,000 additional workers would be required in the Ruhr mines to reach the production targets set for 1947-48. The State of North Rhine-West phalia, where the Ruhr district is located, was not expected to provide more than one-half of the required manpower from the existing population. Extensive recruiting drives were therefore organized in the other states of "Bizonia" and in Berlin which have been at least partly successful. However, the influx of labor recruits from other parts of the country has been hampered greatly by a desperate housing shortage. Thousands of newcomers, finding that they could obtain only temporary billets, frequently of a very primitive nature, deserted the mines again after a brief stay, either returning home or disappearing in the vast recesses of the black market.

Of those who stayed, large numbers proved to be a burden rather than a help, either because they were inexperienced or weakened by long years of privation, or disinclined to work, or all of these things together.

### Low Labor Productivity

Indeed, the low productivity of the labor force on hand is the No. 1 problem of the Ruhr today. In a recent German magazine article, Herr A. Halbfell, Minister of Labor of the State Government of North Rhine-Westphalia, revealed interesting details about the poor performance of Ruhr miners since the end of the war.

In June 1947, Halbfell disclosed, more workers (345 000) were employed in the mines of the Ruhr and Aachen districts than in the peak production year of 1938, when the total was 338,000. At the same time, however, productivity was down almost 40%. Whereas in 1938 the average yield per underground worker and shift was 1.97 tons of coal, it was only 1.17 tons in June 1947. In terms of the total working force of the mines, the decline was even greater: from 1.55 tons per person and shift to 0.86 tons. In this connection, the Minister points out that, due to the bad repair of overground installations as well as because of widespread malnutrition, a far greater number of workers must be kept above ground these days than before the war.

To increase the individual working performance of the Ruhr miners, a number of incentive schemes have been devised in recent months. Experience has shown that the daily coal output figure of the Ruhr, which all Europe and indeed the whole world follows as anxiously as one watches the fever curve of a critically sick friend, rises and falls in exact and immediate relation to the availability of food supplies or the lack of such.

For example, a slow but steady increase in Ruhr coal production which had progressed from month to month in the winter of 1946-47 was suddenly thrown into reverse last March and April when the food supply situation in the British zone took an abrupt turn for the worse. In May, the daily output again dropped below the 200,000-ton mark, which had been passed on the upward trend eight months earlier. Then emergency supplies were rushed in, mostly from American stocks, and a new advance began. By late August, 242,000 tons were being mined daily. In mid-September a new slump set in, at the exact time when a large supply of CARE packages set aside for bonus distribution to deserving workers had been exhausted. Then the incentive system devised at the Washington Coal Conference was put into effect and a new upward trend got under way. October, and in particular November, were peak months in postwar production. An all-time high, for the postwar period, was reached on Nov. 29 when 284,400 tons were mined. Thereafter another decline began, as fresh food shortages spread through the British zone; in little more than a month's time, the daily output figure dropped 17%.

### Food Insufficiency

Insufficient food rations are the primary cause of low productivity in the Ruhr mines, but not the only one. After all, the miners do get—at least on paper—more than twice the amount of calories available to the ordinary consumer. The generally unsettled state of the German economy, with an almost total lack of consumer goods except at black market prices, and an uncertain, internationally worthless, currency has made work, especially hard work, most unattractive to the average person. All Germany today is marking time, waiting for something to happen or for somebody — somebody else — to do something that will set the economic stone rolling again.

Add to all this the uncertainty about the eventual ownership of the mines; the political agitation surrounding the choice of the new German Management Group installed last November; the international controversy about the level-of-industry and related issues; and the Communist determination to wreck the Marshall Plan—there are a thousand and one reasons why the Ruhr is lagging. And, as long as it does, the recovery of Europe will be delayed.

There is, to be sure, no panacea and no wonder cure for the tragic, confusing plight of the Ruhr. One thing is certain: the stopgap aid policy, based on CARE packages, emergency food rations, premiums and promises, has not worked. It may have a soothing effect but it is not a remedy.

### Currency Reform Needed

Bolder and more constructive steps are required. Probably the most immediate and lasting effect could be achieved by a sweeping currency reform that would give the miner a new incentive to save even if he cannot immediately buy all he wants. Who wants to make money and save in a currency about which only one thing is certain—that sooner or later it will be drastically amputated? The sooner this necessary operation is performed and the road is cleared for savings of lasting value, the better.

It is also imperative to stabilize the food situation. Stability, rather than abundance — which cannot be achieved now or in the foreseeable future—should be the watchword. As long as the hop, skip and jump method of food distribution continues, the coal output barometer will continue to oscillate in unison.

A large investment in money and materials, especially steel and pit props, is required to halt the progressive decay of the mine installations and equipment both above and below ground. Such an investment has already been decided upon and its implementation will become an integral part of the European Recovery Program.

But in the last analysis it is the human factor that will determine the future of the Ruhr as the hard core or the cancer of the European Recovery Program.

## Gearhart Director

Frederick D. Gearhart, Jr., has been elected a director of Lear Incorporated, manufacturers of radio and aircraft electronic products and electro-mechanical products. Mr. Gearhart is President of Gearhart & Co. Inc., New York, financial underwriters, and is a director of Higgins Industries, Inc., Consolidated Industries, Wilcox-Gay Corp., Radio and Television, manufacturers of Brunswick Radios, and several other companies.


F. D. Gearhart, Jr.

Lear manufactures parts for many types of civilian and military aircraft including Republic P-84, Lockheed P-80, North American P-86, Boeing B-50 and Boeing 377 Stratocruiser.

To provide the production necessary to meet its large backlog of government orders, Lear plans to expand its facilities through the acquisition of several other companies. It will be Mr. Gearhart's function to investigate and negotiate for these additional facilities.

## With Mitchum, Tully

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Richard W. Jones is, with Mitchum Tully & Co., 650 South Spring Street.

## With Keenan & Clary, Inc.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF.—Roy D. Waters is with Keenan & Clary, Inc., Security Building.

# News About Banks and Bankers

(Continued from page 25)

The **Citizens & Southern National Bank of South Carolina, at Charleston, S. C.**, increased its capital March 3 from $1,000,000 to $1,500,000 through the sale of $500,000 of new stock.

* * *

Alfred D. Boylston, Jr. has become New Vice-President in charge of the trust department of the **Trust Company of Georgia, of Atlanta**, it is learned from the Atlanta "Constitution." As Senior Trust Officer, says the "Constitution," Mr. Boylston has been associated with the Trust Department since shortly after he joined the bank 23 years ago.

* * *

Through the sale of $500,000 of new stock, the capital of the **National American Bank of New Orleans, La.**, was increased March 10 from $1,500,000 to $2,000,000.

* * *

The capital of the **First National Bank of Arizona, at Phoenix**, has been increased from $550,000 to $1,100,000 by the sale of $550,000 of new stock. The bulletin of the Office of the Comptroller of the Currency gives the date of the increase as of March 2.

* * *

Joseph F. Vanden Broecke former chief of the Financial Section of the Belgium Economic Mission to Washington, has been appointed Assistant Vice-President in the **Bank of America's (San Francisco) International Banking Department** according to anouncement by L. M. Giannini President. Mr. Vanden Broecke will be associated with the bank's Far Eastern activities. His experience in banking began in 1927 after his graduation from the University of Antwerp in his native Belgium. His career includes service in China, England and Turkey.

* * *

A call has been issued by L. M Giannini, President of **Bank of America, of San Francisco**, for a State-wide conference of all of the bank's branch managers and many of its administrative officers, according to Executive Vice-President E. A. Mattison, who is general Chairman of the affair. The conference is to be held April 17-18-19 at Asilomar, near Pacific Grove, Cal., on the Monterey peninsula. Unique in banking history, gathering together as it does more than 600 of the key representatives of a single bank, from some 307 communities throughout the State, Mr. Mattison pointed out that it is not a convention, but is a working management conference, devoted almost entirely to business meetings and exchange of views and ideas. The conference will open on April 17 with a general assembly at which President L. M Giannini will deliver an address on the subject, "What's Ahead?", after which he will lead a free discussion. Following this, a series of departmentals will be held through Sunday, ending on Monday, April 19, with another general assembly. All sessions will be closed. A. P. Giannini, founder-Chairman of Bank of America, will be guest of honor.

* * *

T. E. Ivey, Jr., Vice-President of **California Bank of Los Angeles** completes today (April 1) 40 years of service with that institution where he is a director and member of the executive committee. Mr. Ivey started his banking career as a messenger with California Bank in 1908 and advanced to Assistant Cashier in 1912. Following service in the Army Air Forces during World War I as a Second Lieutenant, he returned to the bank and in 1923 was promoted to Cashier and elected Vice-President five years later. He also holds directorships in California Trust Company, Widgeon Land Company, Los Angeles Better Business Bureau, Downtown Business Men's Association, and the Hospital Service of Southern California (Blue Cross), being also Chairman of the finance committee and Treasurer of the latter organization. Mr. Ivey is also a member of the Los Angeles Chamber of Commerce, American Institute of Banking, Reserve City Bankers Association, and is a former Chairman of the California Bankers Association, Group 5, and former State Vice-President of the American Bankers Association. He is a member of the California Club and Los Angeles Stock Exchange Club.

* * *

Three promotions in the Bakersfield offices of the **Anglo California National Bank, of San Francisco**, were announced on March 22 by Allard A. Calkins, President. Fred H. Carlisle has been appointed Vice-President and manager of the Bakersfield main office; Laurence J. Robin, Assistant Vice-President and manager of the East Bakersfield office; and John F. N. Cox, an Assistant Manager of the Bakersfield main office. All appointments are effective April 1. Mr. Carlisle, who has been Assistant Vice-President and manager of the East Bakersfield office of the bank since 1945, will succeed Don C. Shannon, who has resigned. Mr. Carlisle in 1927 joined the staff of the First National Bank, Bakersfield, predecessor of the Anglo Bank, as a messenger. During the years that followed he had a broad experience in various departments of the bank. Mr. Robin, a native of Montana, had an extensive experience in banking in that State before coming to California in 1942. He has been asssistant manager of the Fresno office of the Anglo Bank since 1946. Mr. Cox has been associated with the Anglo Bank since 1928, his present position being that of assistant to the officer in charge of branch loan administration, head office, San Francisco. His father, the late Frederick N. Cox, was well known in diplomatic and banking circles in Central America and was President of a bank in Costa Rica.

* * *

J. Floyd Ragan was recently appointed Manager of the Alhambra office of the **California Bank of Los Angeles**, where he is associated with Assistant Vice-President Al Beyer, Jr. Mr. Ragan has been a member of the bank's staff since 1933 and during the war served one year in the Army Field Artillery. On his return to the bank in March, 1946 he was appointed Assistant Manager and assigned to the Alhambra branch.

Earl K. Simpson, Auditor of the California Bank, has been named Chairman of the Finance Committee of the National Association of Bank Auditors and Comptrollers regional conference to be held in Los Angeles May 12-14.

* * *

R. A. Reid, Vice-President of the **California Bank, of Los Angeles**, recently completed his 25th year of service with the bank where he is in charge of the Long Beach Office. Starting his banking career at the Bank of Montreal, Canada, in 1921, Mr. Reid joined California Bank's staff in 1923 and after various promotions was appointed branch manager in 1936, elected Assistant Vice-President in 1943, and last December was elected Vice-President. He is a member of the Long Beach Chamber of Commerce Industrial Committee, the Mayor's Special Committee, board of directors of the Travelers Aid Society, and Treasurer and member of the board of directors of the Kiwanis Club.

# 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— | April 4 | 89.4 | 95.7 | 94.6 | 95.4 |
| Steel ingots and castings produced (net tons) | April 4 | 1,611,400 | 1,725,000 | 1,705,100 | 1,669,400 |
| **AMERICAN PETROLEUM INSTITUTE:** | | | | | |
| Crude oil output—daily average (bbls. of 42 gallons each) | Mar. 20 | 5,240,250 | 5,264,850 | 5,342,325 | 4,861,600 |
| Crude runs to stills—daily average (bbls.) | Mar. 20 | 5,344,000 | 5,407,000 | 5,399,000 | 4,830,000 |
| Gasoline output (bbls.) | Mar. 20 | 15,600,000 | 15,608,000 | 15,807,000 | 14,309,000 |
| Kerosine output (bbls.) | Mar. 20 | 2,531,000 | 2,547,000 | 2,520,000 | 2,089,000 |
| Gas oil and distillate fuel oil output (bbls.) | Mar. 20 | 7,472,000 | 7,754,000 | 8,127,000 | 5,887,000 |
| Residual fuel oil output (bbls.) | Mar. 20 | 9,006,000 | 9,292,000 | 9,199,000 | 8,545,000 |
| Stocks at refineries, at bulk terminals, in transit and in pipe lines— | | | | | |
| Finished and unfinished gasoline (bbls.) at | Mar. 20 | 113,247,000 | 111,918,000 | 109,886,000 | 104,609,000 |
| Kerosine (bbls.) at | Mar. 20 | 9,948,000 | 9,677,000 | 9,731,000 | 10,095,000 |
| Gas oil and distillate fuel oil (bbls.) at | Mar. 20 | 30,723,000 | 32,108,000 | 34,004,000 | 31,872,000 |
| Residual fuel oil (bbls.) at | Mar. 20 | 47,603,000 | 48,546,000 | 49,782,000 | 42,380,000 |
| **ASSOCIATION OF AMERICAN RAILROADS:** | | | | | |
| Revenue freight loaded (number of cars) | Mar. 20 | 700,482 | 797,033 | 805,376 | 844,041 |
| Revenue freight rec'd from connections (number of cars) | Mar. 20 | 689,062 | 711,433 | 719,990 | 740,829 |
| **CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS-RECORD:** | | | | | |
| Total U. S. construction | Mar. 25 | $137,910,000 | $90,318,000 | $128,741,000 | $60,132,000 |
| Private construction | Mar. 25 | 69,598,000 | 32,729,000 | 49,139,000 | 33,639,000 |
| Public construction | Mar. 25 | 68,312,000 | 57,589,000 | 79,602,000 | 26,493,000 |
| State and municipal | Mar. 25 | 63,630,000 | 38,877,000 | 27,712,000 | 20,753,000 |
| Federal | Mar. 25 | 4,682,000 | 18,712,000 | 51,890,000 | 5,740,000 |
| **COAL OUTPUT (U. S. BUREAU OF MINES):** | | | | | |
| Bituminous coal and lignite (tons) | Mar. 20 | 4,300,000 | 13,314,000 | 12,900,000 | 12,918,000 |
| Pennsylvania anthracite (tons) | Mar. 20 | 1,182,000 | 1,214,000 | 1,229,000 | 1,165,000 |
| Beehive coke (tons) | Mar. 20 | 47,500 | *122,700 | 131,700 | 134,200 |
| **DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100** | Mar. 20 | 312 | *278 | 249 | 286 |
| **EDISON ELECTRIC INSTITUTE:** | | | | | |
| Electric output (in 000 kwh.) | Mar. 27 | 5,064,555 | 5,145,430 | 5,251,935 | 4,728,885 |
| **FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.** | Mar. 25 | 101 | 106 | 93 | 63 |
| **IRON AGE COMPOSITE PRICES:** | | | | | |
| Finished steel (per lb.) | Mar. 23 | 3.23940c | 3.23940c | 3.23940c | 2.86354c |
| Pig iron (per gross ton) | Mar. 23 | $40.29 | $40.29 | $40.37 | $33.15 |
| Scrap steel (per gross ton) | Mar. 23 | $40.25 | $39.75 | $40.00 | $39.50 |
| **METAL PRICES (E. & M. J. QUOTATIONS):** | | | | | |
| Electrolytic copper— | | | | | |
| Domestic refinery at | Mar. 24 | 21.200c | 21.200c | 21.200c | 21.225c |
| Export refinery at | Mar. 24 | 21.425c | 21.450c | 21.575c | 22.450c |
| Straits tin (New York) at | Mar. 24 | 94.000c | 94.000c | 94.000c | 70.000c |
| Lead (New York) at | Mar. 24 | 15.000c | 15.000c | 15.000c | 15.000c |
| Lead (St. Louis) at | Mar. 24 | 14.800c | 14.800c | 14.800c | 14.800c |
| Zinc (East St. Louis) at | Mar. 24 | 12.000c | 12.000c | 12.000c | 10.500c |
| **MOODY'S BOND PRICES DAILY AVERAGES:** | | | | | |
| U. S. Govt. Bonds | Mar. 30 | 100.92 | 100.78 | 100.72 | 104.72 |
| Average corporate | Mar. 30 | 111.44 | 111.25 | 111.07 | 117.40 |
| Aaa | Mar. 30 | 116.80 | 116.41 | 116.22 | 122.50 |
| Aa | Mar. 30 | 115.04 | 115.04 | 114.85 | 120.43 |
| A | Mar. 30 | 110.70 | 110.70 | 110.52 | 117.20 |
| Baa | Mar. 30 | 103.80 | 103.47 | 103.64 | 110.34 |
| Railroad Group | Mar. 30 | 106.21 | 105.86 | 105.52 | 112.75 |
| Public Utilities Group | Mar. 30 | 113.12 | 112.93 | 112.93 | 118.60 |
| Industrials Group | Mar. 30 | 115.43 | 115.24 | 115.04 | 121.04 |
| **MOODY'S BOND YIELD DAILY AVERAGES:** | | | | | |
| U. S. Govt. Bonds | Mar. 30 | 2.44 | 2.45 | 2.45 | 2.18 |
| Average corporate | Mar. 30 | 3.09 | 3.10 | 3.11 | 2.78 |
| Aaa | Mar. 30 | 2.81 | 2.83 | 2.84 | 2.53 |
| Aa | Mar. 30 | 2.90 | 2.90 | 2.91 | 2.63 |
| A | Mar. 30 | 3.13 | 3.13 | 3.14 | 2.79 |
| Baa | Mar. 30 | 3.52 | 3.54 | 3.53 | 3.15 |
| Railroad Group | Mar. 30 | 3.38 | 3.40 | 3.42 | 3.02 |
| Public Utilities Group | Mar. 30 | 3.00 | 3.01 | 3.01 | 2.72 |
| Industrials Group | Mar. 30 | 2.88 | 2.89 | 2.90 | 2.60 |
| **MOODY'S COMMODITY INDEX** | Mar. 30 | 412.2 | 407.4 | 413.4 | 424.2 |
| **NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:** | | | | | |
| Foods | Mar. 27 | 232.7 | 232.1 | 227.0 | 222.7 |
| Fats and oils | Mar. 27 | 248.8 | 246.2 | 239.1 | 321.4 |
| Farm products | Mar. 27 | 251.1 | 251.5 | 250.1 | 251.0 |
| Cotton | Mar. 27 | 329.7 | 322.5 | 310.3 | 339.5 |
| Grains | Mar. 27 | 275.7 | 266.7 | 263.2 | 254.0 |
| Livestock | Mar. 27 | 236.1 | 241.0 | 242.3 | 240.1 |
| Fuels | Mar. 27 | 220.8 | 220.8 | 220.8 | 168.8 |
| Miscellaneous commodities | Mar. 27 | 175.0 | 173.5 | 172.7 | 163.3 |
| Textiles | Mar. 27 | 211.7 | 210.8 | 211.1 | 217.9 |
| Metals | Mar. 27 | 163.5 | 163.5 | 163.5 | 147.9 |
| Building materials | Mar. 27 | 233.3 | 233.4 | 232.8 | 203.4 |
| Chemicals and drugs | Mar. 27 | 156.8 | 156.8 | 157.0 | 154.5 |
| Fertilizer materials | Mar. 27 | 137.6 | 137.7 | 137.6 | 128.0 |
| Fertilizers | Mar. 27 | 143.7 | 143.7 | 143.0 | 133.7 |
| Farm machinery | Mar. 27 | 138.8 | 138.1 | 138.1 | 126.3 |
| All groups combined | Mar. 27 | 216.8 | 216.5 | 214.6 | 200.5 |
| **NATIONAL PAPERBOARD ASSOCIATION:** | | | | | |
| Orders received (tons) | Mar. 20 | 157,299 | 188,104 | 160,330 | 155,794 |
| Production (tons) | Mar. 20 | 192,531 | 188,587 | 171,191 | 176,918 |
| Percentage of activity | Mar. 20 | 104 | 102 | 99 | 103 |
| Unfilled orders (tons) at | Mar. 20 | 439,166 | 481,757 | 436,430 | 574,090 |
| **OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100** | Mar. 26 | 145.4 | 145.9 | 147.0 | 155.0 |
| **WHOLSALE PRICES—U. S. DEPT. OF LABOR—1926=100:** | | | | | |
| All commodities | Mar. 20 | 161.5 | 159.8 | 159.2 | 149.0 |
| Farm products | Mar. 20 | 187.6 | 184.9 | 181.7 | 182.9 |
| Foods | Mar. 20 | 176.4 | 171.2 | 170.3 | 166.2 |
| Hides and leather products | Mar. 20 | 185.9 | 187.1 | 193.3 | 174.9 |
| Textile products | Mar. 20 | 145.6 | 145.9 | 146.9 | 138.7 |
| Fuel and lighting materials | Mar. 20 | 131.7 | 131.7 | 131.6 | 101.7 |
| Metal and metal products | Mar. 20 | 156.0 | 155.9 | 155.5 | 140.3 |
| Building materials | Mar. 20 | 192.6 | 192.5 | 191.9 | 176.7 |
| Chemicals and allied products | Mar. 20 | 135.8 | 136.5 | 134.9 | 133.0 |
| Housefurnishings goods | Mar. 20 | 144.3 | 143.7 | 143.6 | 126.6 |
| Miscellaneous commodities | Mar. 20 | 119.9 | 119.5 | 119.1 | 114.6 |
| Special groups— | | | | | |
| Raw materials | Mar. 20 | 176.5 | 174.9 | 173.6 | 164.3 |
| Semi-manufactured articles | Mar. 20 | 153.3 | 153.7 | 155.9 | 145.1 |
| Manufactured products | Mar. 20 | 156.3 | 154.3 | 153.5 | 143.1 |
| All commodities other than farm products | Mar. 20 | 155.7 | 154.2 | 154.4 | 141.6 |
| All commodities other than farm products and foods | Mar. 20 | 147.3 | 147.3 | 147.3 | 131.3 |

*Revised figure.

| | Latest Month | Previous Month | Year Ago |
|---|---|---|---|
| **ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)**—Month of January: | | | |
| Total shipments (thousands of pounds) | 139,588 | 138,066 | 126,437 |
| **AMERICAN IRON AND STEEL INSTITUTE:** | | | |
| Steel ingots and steel for castings produced (net tons)—Month of February | 6,940,653 | *7,472,776 | 6,422,062 |
| Shipments of steel products, including alloy and stainless (net tons)—Month of Jan.: | 5,410,438 | 5,613,036 | 5,030,008 |
| **AMERICAN ZINC INSTITUTE, INC.**—Month of February: | | | |
| Slab zinc smelter output, all grades (tons of 2,000 lbs.) | 66,784 | 71,505 | 65,198 |
| Shipments (tons of 2,000 lbs.) | 68,396 | 84,431 | 76,074 |
| Stock at end of period (tons) | 53,473 | 55,085 | 162,461 |
| Unfilled orders at end of period (tons) | 72,224 | 67,562 | 57,081 |
| **BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESEVE SYSTEM—** | | | |
| Month of February (in thousands) | $90,266,000 | $105,190,000 | $81,567,000 |
| **BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FED. RESERVE BANK OF NEW YORK** — As of February 28— | | | |
| Imports | $167,840,000 | $168,108,000 | $163,775,000 |
| Exports | 42,742,000 | 53,198,000 | 34,539,000 |
| Domestic shipments | 11,344,000 | 11,081,000 | 11,749,000 |
| Domestic warehouse credits | 12,551,000 | 15,657,000 | 12,524,000 |
| Dollar exchange | 1,846,000 | 1,450,000 | 104,000 |
| Based on goods stored and shipped between foreign countries | 16,504,000 | 12,537,000 | 7,340,000 |
| Total | $252,827,000 | $262,031,000 | $230,031,000 |
| **COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—** | | | |
| As of February 27 | $301,000,000 | $290,000,000 | $243,000,000 |
| **COTTON SEED — DEPT. OF COMMERCE—** | | | |
| Received at mills (tons) Aug. 1 to Feb. 29 | 3,869,610 | 3,795,325 | 2,918,480 |
| Crushed (tons) Aug. 1 to Feb. 29 | 3,190,799 | 2,778,869 | 2,467,974 |
| Stocks (tons) Feb. 29 | 778,339 | 1,115,984 | 568,212 |
| **EDISON ELECTRIC INSTITUTE:** | | | |
| Kilowatt-hour sales to ultimate consumers—month of December (000's omitted) | 19,617,041 | 18,726,158 | 17,450,280 |
| Revenue from ultimate customers—month of December | $351,460,200 | $335,687,200 | $311,020,400 |
| Number of ultimate customers at Dec. 31: | 38,431,950 | 38,248,940 | 36,140,291 |
| **METAL PRICES (E. & M. J. QUOTATIONS)**—Average for month of February: | | | |
| Copper (per pound)— | | | |
| Electrolytic, domestic refinery | 21.200c | 21.200c | 19.349c |
| Electrolytic, export, refinery | 21.507c | 21.532c | 20.403c |
| Lead (per pound)— | | | |
| New York | 15.000c | 15.000c | 13.182c |
| St. Louis | 14.800c | 14.800c | 12.982c |
| Silver and Sterling Exchange: | | | |
| Silver, New York (per ounce) | 74.625c | 74.625c | 72.329c |
| Silver, London (pence per ounce) | 45.000 | 45.000 | 44.475 |
| Sterling Exchange, "Checks" | $4.02514 | $4.02679 | $4.02625 |
| Tin (per pound)— | | | |
| New York Straits | 94.000c | 94.000c | 70.000c |
| New York, Chinese or 99% | 93.500c | 93.500c | 69.125c |
| Gold (per ounce U. S. price) | $35.000 | $35.000 | $35.000 |
| Quicksilver (per flask of 76 pounds) | $76.409 | $78.303 | $86.864 |
| ¶Antimony (per pound) (E. & M. J.) | 36.120c | 36.082c | 31.190c |
| Antimony (per pound) bulk, Laredo | 33.000c | 33.000c | 28.250c |
| Antimony (per pound), in cases, Laredo | 33.500c | 33.500c | 28.625c |
| Antimony (per pound), Chinese, Spot | Nominal | Nominal | Nominal |
| Platinum, refined, per ounce | $68.864 | $66.000 | $58.000 |
| †Cadmium (per pound) | $1.750 | $1.750 | $1.61364 |
| ‡Cadmium (per pound) | $1.775 | $1.775 | $1.63864 |
| §Cadmium (per pound) | $1.800 | $1.800 | $1.66364 |
| Aluminum, 99% plus, ingot (per pound) | 15.000c | 15.000c | 15.000c |
| Magnesium, ingot (per pound) | 20.500c | 20.500c | 20.500c |
| Zinc (per pound)—East St. Louis | 12.000c | 11.077c | 10.500c |
| **MONEY IN CIRCULATION — TREASURY DEPT.**—As of Jan. 31 (000's omitted) | $28,110,578 | $28,867,631 | $28,262,149 |
| **NEW BUSINESS INCORPORATIONS—DUN & BRADSTREET, INC.**—Month of January | 11,000 | 10,126 | 12,112 |
| **NEW YORK STOCK EXCHANGE—** As of Feb. 28 (000's omitted): | | | |
| Member firms carrying margin accounts— | | | |
| Total of customers' net debit balances | $536,636 | *$567,769 | $572,917 |
| Credit extended to customers | 56,968 | 56,409 | 66,060 |
| Cash on hand and in banks in U. S. | 396,428 | *414,137 | 407,825 |
| Total of customers' free credit balances | 596,416 | *622,246 | 681,134 |
| Market value of listed shares | 63,158,207 | 66,090,349 | 68,838,633 |
| Market value of listed bonds | 136,313,176 | 136,232,046 | 141,033,364 |
| Stock price index, 12-31-24=100 | ---- | 73.9% | 81.1% |
| Member borrowings on U. S. Govt. issues | $74,121 | $63,062 | $86,301 |
| Member borrowings on other collateral | 217,026 | 222,255 | 204,554 |
| **PAINT, VARNISH, LACQUER AND FILLER (DEPT. OF COMMERCE)**—Month of Jan.: | | | |
| Total sales reported by 680 establishments | $88,473,000 | *$68,628,287 | $83,788,171 |
| **REAL ESTATE FINANCING IN NON-FARM AREAS OF U. S. — HOME LOAN BANK BOARD** — Month of Jan. (000's omitted): | | | |
| Savings and Loan Associations | $263,649 | $302,275 | $246,114 |
| Insurance companies | 79,812 | 79,345 | 52,155 |
| Banks and Trust Companies | 226,068 | 253,110 | 230,492 |
| Mutual Savings Banks | 49,317 | 61,561 | 44,761 |
| Individuals | 161,773 | 165,973 | 160,297 |
| Miscellaneous lending institutions | 128,828 | 144,342 | 113,224 |
| Total | $909,447 | $1,006,626 | $847,043 |
| **SOFTWOOD PLYWOOD (DEPT. OF COMMERCE)**—Month of January: | | | |
| Production (M sq. ft. 3/8-in. equivalent) | 156,567 | *150,538 | 140,058 |
| Shipments and consumption (M sq. ft., 3/8-in. equivalent) | 150,748 | *158,842 | 136,048 |
| Stocks (M sq. ft., 3/8-in. equivalent) at end of month | 36,674 | *31,479 | 30,712 |
| Consumption of logs (M ft., log scale) | 68,399 | *65,085 | 64,091 |
| Stocks (M ft., log scale) at Jan. 31 | 188,647 | *216,106 | 137,669 |
| **STEEL CASTINGS (DEPT. OF COMMERCE)**—Month of January: | | | |
| Shipments (short tons) | 141,068 | 148,124 | 139,029 |
| For sale (short tons) | 108,282 | 110,970 | 101,140 |
| For producers' own use (short tons) | 32,786 | 37,154 | 37,889 |
| Unfilled orders for sale at end of month (short tons) | 491,745 | 489,364 | 365,476 |

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot, packed in cases, f. o. b. New York. ‡‡Monthly average in year 1946.

# McCabe and Szymczak on Credit Control

(Continued from first page)

ing who "decapitated" Mr. Eccles, called as witness Secretary of the Treasury John W. Snyder. But the latter, obviously determined to disclose the minimum possible information, merely repeated what has been known: That President Truman asked his opinion on Mr. McCabe's qualifications as a Board member.

Since the first several sessions of the hearings starting March 3 dealt exclusively with the work of the Office of Foreign Liquidation Commissioner, which Mr. McCabe had headed, and since those sessions produced no direct cross examination of the nominee, the public found the procedure most unusual; and even Mr. McCabe began to wonder whether the strategy was to wear him out. In fact, so far as a visitor at the early hearings could tell, Mr. McCabe's position on Federal Reserve policies was a blank and there was no evidence that he could even read or write. When the first hearing opened Senator Tobey had a clerk read a long statement on the OFLC prepared in the Senator's name; and a week later Mr. McCabe had the same clerk read a long reply prepared in his own name.

During a subsequent hearing on March 24, in reply to questions Mr. McCabe revealed that he favors as much decentralization as possible in the operation of the Federal Reserve System. He made it clear that he believes in cooperating with those with whom he must work at the Board's chairman. He thought that the Board's government-bond support policy of last December was wise. But, as for most other FRB problems about which he was asked, the nominee stated that he favored having careful studies made before committing himself.

### The Special Reserve Plan

Asked about the controversial "special reserve plan" advanced by the Board under Mr. Eccles' chairmanship and leadership, Mr. McCabe testified that he would favor some less controversial method of strengthening the Board's control over credit, should such strengthening be necessary. Mr. McCabe's observations on this point illustrate his philosophy of seeking the smoother way and making as few enemies as possible.

It must be noted, of course, that the new chairman will preside over a Board still largely disposed to favor the special reserve plan. Not only was that plan advanced in the Board's annual reports of 1945 and 1946, and through Mr. Eccles last year, but as recently as March 19 in the Federal Reserve Bulletin the Board again expressed its opinion that it needs additional powers to control credit on the theory that we are still under predominantly inflationary pressures, leaving the clear implication that "a man convinced against his will, is of the same opinion still." This impression is fortified by comments given the writer only a few days ago by Governor Matt S. Szymczak, who during Mr. Eccles' March vacation served as the Board's chairman pro tem.

### Szymczak's Views

Questioned by the "Chronicle" concerning the Federal Reserve Bulletin article and the Board's powers over the credit structure, Mr. Szymczek gave his comment in detail, saying:

"In the light of all the considerations, the Federal Reserve Board has recommended to Congress the adoption of a plan which we feel would restore some of the powers over the money supply which have been lost because of the great increase in the public debt. Very simply, this plan involves a temporary increase in reserves which all banks would be required to hold, except that instead of being legally required to add to their cash reserves, banks would be permitted to hold certain income-producing assets, namely short-term Government obligations. The proposal has come to be called the Board's special reserve plan.

"As an alternative to the special reserve plan, the Board in its 1945 and 1946 annual reports also asked Congress to raise the limits to which required cash or primary reserves may be increased. To increase required cash reserves far enough to be relatively certain of effective bank credit restriction, however, would mean reducing the earnings of banks below expenses and a reasonable return on capital. Notwithstanding this certain effect, many bankers favor this method over the Board's special reserve plan as a means of dealing with the present problem of too easy bank credit.

"The need for bringing the money supply more definitely under control by providing additional authority for regulating the level of bank reserves has also raised the problem of appropriateness of our existing system of reserve requirements. This scheme has long been recognized as inequitable in certain respects; indeed the System has engaged in many studies of methods to improve it. Ultimately, it will be desirable to have our reserve requirements based on the type of banking business conducted by a bank rather than on the basis of location, as is now the case. But this is a complicated matter, as matters of equity invariably are, and will take time to remedy," Mr. Szymczak emphasized.

### Money Supply Excessive

"Meanwhile, we confront a situation of an excessive and highly expansionary money supply, and the problem is to find some way of regulating growth of bank credit in the public interest, with the object of preventing recurrent outbreaks of inflation. Either the Board's special reserve plan or authority to raise further existing reserve requirements seems to be the most feasible, available restraint for this purpose, taking into account the over-shadowing size of our public debt.

"There has been little need for increased reserve requirements during the past three months because of the Treasury's favorable fiscal developments which have made possible a substantial retirement of bank-held public debt. Such retirement has temporarily exerted pressure against bank credit expansion. But in the future this type of pressure will not be available in the same degree, and bank credit conditions may become unduly easy. If this should happen, the need for some special, additional restraint will be urgent. It is better to have authority to deal with a situation as it develops than to have authority provided, if at all, too late to be used." (What Governor Szycmczak here had in mind, of course, was the pending Act to reduce tax revenues and its effect on the surplus.)

"The urgency for the Federal Reserve Board's proposal, or some other proposal to curb credit expansion, will be especially great if we relax our current fiscal policy while inflationary dangers exist," Mr. Szymczak amplified. "Fiscal policy is by far the most effective way to deal with the demand side of inflation just as production, and particularly more production per man-hour, is the most effective way to deal with it on the supply side. This means rigid government economy and deferment of all deferrable expenditures. It also means as large a surplus of tax receipts as possible, so that dollars are removed from the spending stream and used to retire public debt held by the Federal Reserve System. This takes dollars out of the money supply by an equivalent amount and is a reversal of the wartime process by which the money supply was expanded. The classical precept of sound finance, that debt should be paid off in boom times, has peculiar virtue in the case of a public debt the size of ours, so much of which is held by the banking system.

Thomas B. McCabe

M. S. Szymczak

Hon. C. W. Tobey

John W. Snyder

### Commends ABA Program

"As you know, curbing of inflationary pressures cannot be accomplished by monetary and fiscal policy alone. Among other necessary measures are appropriate private decisions. Bankers, for example, must ask themselves whether, as a group, they are extending credit on a sound basis—credit which will stand up in whatever storms are ahead of us. In this connection, I commend to your attention, as well as to the attention of bankers, the program formulated some time ago by the American Bankers Association, and the joint statement on "Bank Credit Policy During the Inflation," issued Nov. 24, 1947, by the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Executive Committee of the National Association of Supervisors of State Banks.

"I suggest that the reconstruction and strengthening of policy controls over the use to which the credit supply is put also requires careful and conscientious study. I do not suggest that we keep reaching out for more power and more controls, but I am aware of the fact that in honestly and sincerely seeking to promote economic stability at a high level, new effective techniques may perhaps be devised to meet the changing situation. For many years the Board has been able to control the flow of bank credit into the securities market, and during the war it was given the task of regulating consumer credit. The Board has recently asked Congress to renew the latter power, at least so far as installment credit is concerned.

"It is possible that central banking policy will find the instruments necessary to perform its tasks under the new conditions which we face in a combination of traditional controls over the supply of money and selective controls over the use to which credit is put. If this be so, cooperation will be necessary between the central banking authorities and other agencies.

"The problems which monetary and credit policy must face today are different from those of a few years ago. On our success in finding ways to deal with these problems will depend in no small measure our success in reaching the goal of sustained prosperity."

### Szymczak Confirmed Without Hearing

With the spotlight on Mr. McCabe. the Senate paid only perfunctory attention to the renomination of Mr. M. S. Szymczak for a full fourteen year term as Board Member. Because Mr. Szymczak had been a Member of the Board so long some objection was expressed by certain Committee members who felt that he had been long enough in his present position. However, when the matter came on the floor no objection was raised and Mr. Szymczak was confirmed.

Mr. Szymczak, who last year returned to the Board from a special assignment as Director of the Economics Division of OMGUS in Berlin, first came to Washington at the invitation of President Roosevelt in 1933. When the Banking Act of 1935 came into effect Mr. Szymczak enterd upon a new 12-year term as Member of the Board of Governors in 1936. That term came to an end Feb. 1, 1948. Thus Mr. Szymczak has served more than fourteen years.

From a well informed source the writer learns that Mr. Szymczak was Governor Eccles' choice as Vice-Chairman of the Board at the time Mr. Eccles expected to be reappointed to the Chairman's post; and that he was also Mr. McCabe's choice as Vice-Chairman. With Governor Eccles away on leave Szymczak is now Chairman pro tem. of the Reserve Board.

With the testimony of Secretary Snyder and renewed interrogation of Mr. McCabe on the pending bank holding company bill Senator Tobey on Tuesday announced the hearings ended. A vote would be taken within a few days, he stated. Both Senator Tobey and Fulbright during the hearing this week evidenced the strongest determination to fight for enactment of the bill S.829, a measure considered to be aimed primarily at the Transamerica interests. Tobey stated his doubt as to the efficacy of the Buck amendment which would authorize bank holding companies within state limits.

Between last week's and this week's hearings Mr. McCabe did the requested "homework" on the pending bill. After briefing at the Federal Reserve Board, Mr. McCabe presented the following prepared statement:

"In compliance with the request of this Committee I have made a quick analysis of the proposed Bank Holding Company Act—S.829—and have read the June 19, 1947 report of this Committee to the Senate as well as the published report of the hearings held on May 26, June 2 and June 11, 1947. I have also conferred, at considerable length, with the members of the legal staff of the Federal Reserve Board who assisted in the preparation of the Bill. They expressed astonishment at my very optimistic hope of mastering the essential features of the Bill in such a short time. As one of them expressed it: 'We have been working on this legislation for more than five years and it will be difficult to give you what you want in such a short time.' I have persisted, however, and in addition to conferring with them I also talked with Mr. Harold Amberg, the legal counsel of the First National Bank of Chicago and a former associate of mine in government service. Mr. Amberg, as you know, collaborated in drafting the recommendations of the Reserve City Bankers on this legislation.

"Since I am not a lawyer and much of the reading material is expressed in legal language, I found my homework over the Eastern holidays a little difficult but certainly worthwhile from the standpoint of the possible future administration of the Act.

"As a result of this study there is no question in many mind concerning the desirability of the broad principles of regulating and controlling bank holding companies especially those whose expansion programs are inconsistent with principles of adequate and sound banking.

"In arriving at this conclusion I have been particularly impressed by the extensive study which the Board and its staff have given to this general subject over the past several years. There appear to have been innumerable discussions of the matter at the Board itself, as well as between representatives of the Board and those of other governmental agencies including the Justice Department, the Comptroller of the Currency and the FDIC. The Federal Advisory Council also has studied the Bill and I understand that certain amendments were suggested by the Board and approved by your Committee as a result of the Council's recommendations on the subject. Outside the government, the need for bank holding company legislation seems to have been urged upon the Board and the Congress by the Association of Reserve City Bankers, the two Independent Bankers Associations, some 10 or 12 State Bankers Associations, the National Association of Supervisors of State Banks and by a considerable number of independent bankers throughout the country. I understand that various of these organizations have contributed suggestions affecting the draftsmanship of the Bill, some of which are already included in the Bill, while others form the basis of certain amendments which the Board is even now proposing to the Congress. I find that even the bank holding companies themselves have taken part in discussions with representatives of the Board relating to the terms of this proposed legislation. Finally, your own Committee has voted unanimously to report the Bill favorably to the Senate.

"In the light of this extensive background of expert study and support for the Bill I am without hesitation in renewing my previous endorsement of the principles of the Bill and to state my conclusion that there appears to be a definite need for early Congressional action in this field. I agree that the Congress and the bank authorities should diligently strive to establish such rules and regulations as will preserve the maintenance of competition among all banks. Certainly the ownership by bank holding companies of unrelated businesses is not conducive to a sound banking policy, nor is it fair competitively for the umpire of the game—the government—to follow certain traditional policies in regard to the expansion activities of independent banks and another policy with regard to bank holding companies. The legal regulations concerning supervision, examination, loan policy and maintenance of adequate reserves should be written only with the view of establishing equitable competition between all classes of banks and not for punitive reasons. I think that S. 829 establishes the principles which I have already mentioned.

"I think it only fair, however, to point out that I have not been able to become an expert on the precise provisions of the Bill in a short period of time. As I pointed out last week, this subject is not one which has been of particular moment at the Federal Reserve Bank of Philadelphia and even my intense course of briefing over the past week has not brought me sufficient familiarity with the *minutiae* of the problem to enable me competently to choose between different methods for achieving the same objective. I do hope, however, that, if in the course of debate on this measure it should appear that changes are required, they will not affect the fundamental objectives.

"I wish to repeat, Mr. Chairman, that I am in favor of this proposed legislation in principle. And if Congress should see fit to pass S.829 in substantially the form recommended by your Committee, I can assure you that, if confirmed, I will join with the other Governors of the Board in administering it with fairness and with diligence. I sincerely hope that the final Act will embody the broad principles to which this Committee has subscribed."

# Economic Tendencies

(Continued from page 15)

whole was ready for some decline, but its weaknesses were limited;

(b) that outside developments, however, probably prevented a sharper decline in the Fall of 1947.

You will recall that there was a partial failure of the corn crop; that the government engaged on a rather reckless grain buying program; that many businessmen had become cautious prematurely and by mid-Summer were short of requirements; and that wage advances and a rather irresponsible discussion of the Marshall Plan contributed to inflationary psychology. Speculative inventory buying was resumed by businessmen.

There were also stimulating factors that influenced the public. Retail trade through August showed a rather disappointing trend, but cash payments to veterans in September helped stimulate sales. Perhaps more important, the Administration ran such a concentrated advertising campaign about the prospect of inflation and higher prices that the public kept on buying heavily through Christmas.

### Weaknesses Appeared

This was an impressive performance by business. 1948 began with what everyone regarded as a high level of momentum, and optimism was rampant. During January, however, there was a marked slowness in many wholesale markets. There was a feeling of growing uneasiness. During February there was one of the broadest and sharpest declines in speculative markets that had occurred for some time. Businessmen as well as economic observers began to suspect that the economic situation was not as strong as it looked only 60 to 90 days previously.

There is not much doubt that the economic and price structure was weakened in many respects during the last 12 months. Very briefly, here are some of the things that began to receive more attention, and that caused quite a bit of caution in business operations.

(1) *Inventories were much higher.* Total business inventories at the end of March, 1947 were $38.3 billion, and had increased to $41.8 billion at the end of January.

(2) *Prices were higher.* Led by farm commodities, the wholesale price index rose again toward the peak reached in 1920. How could businessmen be expected to feel strong confidence in the price level, when prices had only been higher once or twice before in the country's entire history, and when such levels had always in the past been followed by sharp declines?

(3) *Unit volume has begun to lag.* There is no measure of unit consumption, but anyone who has spoken to retailers of almost any description during the past 12 months has been aware that unit demand for an increasing number of items has been slipping.

(4) *Exports were declining.* The all-time peak was reached in the second quarter of 1947. Although the ERP will prevent the decline from going much farther, the level of exports from now on, and particularly net exports, will be below the peak.

(5) *The financial position of business has deteriorated.* Despite record high earnings, business had to raise extensive amounts of new money in order to meet its financial requirements. Bank loans advanced and corporations had to draw on the capital markets despite the difficulty in selling new issues. There was also a deterioration of current assets. Cash and its equivalent declined, while inventories and accounts receivable advanced.

(6) *There was steady tightening in credit conditions.* Monetary authorities took several small steps to tighten credit. In addition, they urged voluntary credit restriction on the banks, and the banks adopted this program with a great deal of effectiveness. Consequently, it is more difficult to obtain new money and its costs are somewhat higher; although still low as compared with earlier standards. This not only tends to discourage inventory speculation and excessive buying, but is among the factors causing some reappraisal of plant expansion and modernization programs.

(7) *World agricultural conditions have improved.* This has already been at least partially reflected in the price level of farm commodities. If growing weather continues favorable, however, there will probably be further price declines.

Such a development has important effects. Declines in commodity futures markets have an impact on general psychology and a sympathetic effect on other markets. Declining farm prices also affect rural demand; this was evident in February.

It seems to me that these considerations justify some sort of a conclusion. We have seen that there was a small decline in business last year; that this was interrupted and reversed; but that the business position at the moment seems to be weaker than it was then. I can think of no good reason why there should not be another decline this year, and why it should not be bigger than the one last year, if nature is left to take its course. That brings us to the war scare and its potential effects.

### War Not Imminent

I do not believe there is much chance that there will be a war involving Russia and the United States in the near future. I have not met any well-informed person who honestly believes that there is much chance of such a development. There is a certain amount of fear that an incident or accident of some sort might generate armed conflict. It is recognized that there will probably be civil war in any one of a number of locations. It is quite possible that opposing sides will be backed respectively by the United States and Russia. But it is unlikely that the conflict between these two countries will become open and direct in the near future.

It may seem like guesswork, and dangerous guesswork, to state such a conclusion. I believe, however, that the logic of the situation points in that direction.

Will the United States attack Russia? The whole history of our tradition is that we become involved in wars only on the greatest provocation involving direct attack on our shipping, or on our outposts.

Will Russia attack the United States? Even those who believe that Russia may *sometime* attack the United States admit that she could probably pick a better time than the present. The mere fact that Russia has followed an aggressive foreign policy does not mean that her internal position is strong and healthy. On the contrary, she has only a limited amount of economic energy. When she goes fast abroad, she is forced to go slow at home and conversely. Her aggressive foreign policy has netted some gains. Her position, however, is by no means consolidated, and progress on her internal economic front has lagged seriously.

### New Stimulus

The question at the moment, therefore, is what effects there will be from international developments short of war.

There are two developments that are bound to have a stimulating effect on prices and business activity. One is tax reduction, which I believe Congress will pass over the President's veto. The other is a prospective increase in the defense budget for the coming fiscal year of about $3 or $4 billion, which I have no doubt Congress will also pass.

There is no doubt that reduction in personal income taxes will be helpful to retail sales. The public has been badly squeezed. Even the moderate to higher income families have had to be careful in their budgeting in order to meet current living costs. There is not much doubt that the tax reduction will be translated more or less directly into sales.

Similarly, the increase in defense spending means more Federal purchases and orders for some industries. Nevertheless, these two stimulating factors must be judged in relation to a broader perspective.

To the extent to which either of them prevents price decreases or causes price increases, any gain in unit volume will be either small or absent entirely.

The tax reduction alone is not large in relation to total consumer spending. In fact, a further drop in farm prices or a small increase in unemployment would cancel it off.

An additional $4 billion would raise the total defense budget for the next fiscal year to $15 billion or only slightly higher than it was in fiscal 1947; and it was in the latter part of that year that a moderate business decline developed.

### Cross-Currents

Since the beginning of the year we have seen a certain economic pattern developing. An inflationary price trend was gradually readjusting itself to a deflationary path. The war scare and Congressional action on tax reduction have now set up some cross-currents. The effects of these is to retard the rate of downward readjustment and to stimulate some markets.

Machine tool makers can expect a somewhat more favorable trend of new orders as more funds are appropriated for the air forces. Metal markets and some equipment lines have shown greater tightness in anticipation of larger defense spending. Retailers can expect sales in the next few months to be slightly higher than they would have been without a tax reduction.

Psychology so far has not been greatly stimulated. However, I doubt that the war scare period is at an end. If I read the situation correctly, we are likely to experience a series of scares, rather than a single one. I doubt that a peak will be reached in the present state of international tension before late Summer or Fall.

### Public Calm

A great deal of what happens in our economy is determined by the actions and attitudes of the "man in the street." In this respect I have noticed a peculiar situation during the past two weeks.

I have had many casual conversations with different individuals, who don't know too much about foreign developments except what they read in the newspapers. A great many of them seem to be very fatalistic. Most of them, I would say, accept the possibility of an early war without much question, in contrast to the attitude of the experts. This is what one would gather from conversations.

Nevertheless, the public has not acted as though it were badly frightened. It has not rushed to the stores in a rush of panic buying. Even in the used car market, the pickup in activity and the strengthening in prices during the past few weeks seems to be seasonal rather than apprehensive.

This calm attitude might change if Universal Military Training was actually passed. But Congress is not anxious to pass UMT unless it is literally forced to do so by some foreign development. This is more than a question of mere politics, since many opponents of UMT believe sincerely that other methods of preparedness would be much more effective.

Best guess at the moment seems to be that Congress will ready an emergency draft measure, and quite probably pass it if there are difficulties in Italy. Most political observers believe, however, that UMT will not be passed unless some very drastic development in the foreign field changes the whole attitude.

### Monetary Factor

The reduction of taxes and projected increases in Federal spending can very quickly convert a Federal surplus into a Federal deficit. Following the price decline in February, monetary authorities refrained further from tightening up on credit restrictions. Any sign that inflation is being revived, however, would probably be the signal for a further tightening in credit conditions. *I believe that Congress would listen more willingly to proposals for additional monetary controls than to proposals for direct business controls.*

### Conclusions

It seems fair at the moment to describe economic forces as hanging in the balance. A mild deflationary trend became evident during the first quarter of the year. Recent developments set up cross-currents that have tended to retard this movement. Intensification of the war scare would quite probably strengthen these cross-currents.

Nevertheless, the basic difficulty is too much production at too high a price. Domestic and foreign demands seem to have passed their peak. Even at their peak, they were satisfied with something to spare for inventory. Unit volume has either turned down, or its rise has been appreciably restricted, for an increasing number of items.

We have never had a postwar period just like the present one. It would be foolish to use past history as an analogy for what may happen next. It would be rash to predict that there will soon be a decline similar to that of 1920-21.

Nevertheless, we had a small demonstration in the second quarter of 1947, and another one in the first quarter of this year, that the rise in prices cannot go on indefinitely. We are able to detect many weaknesses which suggest caution in operations. We are willing to recognize the stimulating forces of tax reductions and increased defense spending, but the magnitudes involved do not suggest much leverage in the entire business structure.

The next few months will be ones of watchful waiting. Most businessmen of my acquaintance still expect a downward adjustment in prices and production rather than a revival of inflation. They believe that some such readjustment is necessary before a longer-term period of high-level activity, based on a less vulnerable price structure, can get under way.

# Halsey, Stuart Group Offer Pennsylvania RR. Equip. Trust Ctfs.

An underwriting group headed by Halsey, Stuart & Co. Inc. won the award March 31 of $10,995,000 Pennsylvania RR. equipment trust, series S, 2⅜% equipment trust certificates due $733,000 annually July 1 1948-1962, inclusive, and were re-offered by the group, subject to Interstate Commerce Commission authorization, at prices to yield 1.15% to 2.65%, according to maturity.

The certificates, issued under the Philadelphia plan, are the final instalment of an authorized issue of $32,910,000 trust certificates, series S. The aggregate principal amount of these certificates will be issued to finance not more than 80% of the cost, estimated at $41,137,500, or 27 diesel-electric 6,000 h.p. passenger locomotives; 22 diesel-electric 6,000 h.p. freight locomotives; 28 diesel-electric 1,000 h.p. switching locomotives; 34 diesel-electric 600/660 h.p. switching locomotives; 1,000 freight train box cars; and 9 passenger train cars.

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**• INDICATES ADDITIONS SINCE PREVIOUS ISSUE**

**• Allegheny Ludlum Steel Corp., Pittsburgh**
March 25 filed 107,383 shares of cumulative convertible preferred stock (no par). **Underwriters**—The First Boston Corp. and Smith, Barney & Co. Price by amendment. **Offering**—To be offered to common stockholders in ratio of one preferred share for each 12 common shares held. Record date expected to be about April 13 and subscription period will extend two weeks. **Proceeds**—$1,000,000 for retirement of bank loans and the balance for plant improvements.

**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.

**• Augusta (Ga.) Grocery Co.**
March 22 (letter of notification) $100,000 5% serial debentures bonds and 4,500 shares of 6% ($20 par) participating preferred stock. **Underwriter**—Johnson, Lane, Sapec & Co., Inc., Augusta. To purchase assets from stockholders of a predecessor corporation.

**Bennett-Ireland, Inc., Norwich, N. Y.**
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.

**• Broad Street Investing Corp.**
March 22 filed 100,000 shares (par $5) capital stock. **Underwriter**—Broad Street Sales Corp. **Proceeds**—For investment.

**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.

**Cameron Aero Engine Corp.**
Dec. 29 (letter of notification) 101,000 shares of common stock (par $1), of which 85,000 shares will be sold to the public; 8,500 shares will be issued to underwriters as additional underwriting consideration and 7,500 shares will be issued to American Die & Tool Co. for investment in return for cancelling $15,000 open account for machine tools. **Price**—$2 per share. **Underwriter**—Henry P. Rosenfeld & Co., New York. To provide operating funds, etc.

**• Carosanti, Los Angeles**
March 24 (letter of notification) 3,000 shares (no par) common stock. **Price**—$10 each. **Offering**—To be sold to nine persons. For operating expenses in the perfume and cosmetic business. No underwriting.

**• Central Mining & Development Corp., Central City, Colo.**
March 25 (letter of notification) 150,000 shares of class A common stock ($1.50 par) and 34,125 shares ($1 par common) stock. **Price**—Par for each class. **Underwriter**—Carter H. Corbrey Co., Chicago. For mine development and working capital.

**Central Power & Light Co.**
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. **Underwriter**—Kidder, Peabody & Co. **Proceeds**—For property additions and expenses.

**• Central Vermont Public Service Corp., Rutland, Vt.**
March 30 filed $1,500,000 Series E first mortgage bonds and an unspecified number of shares (no par) value common stock. **Underwriters** — Names to be furnished by amendment. **Proceeds**—For a construction program and repair of flood damages.

**• Clinton Industries, Inc., Clinton, Iowa**
March 26 filed $7,000,000 15-year debentures, due 1963. **Underwriters** — Smith, Barney & Co., New York and Newhard, Cook & Co., St. Louis, Mo. **Proceeds**—To repay a $1,500,000 bank loan to J. P. Morgan & Co., Incorporated and purchase outstanding stock of American Partition Corp. and its sales affiliate. **Business**—Manufacture corn products.

**Colonial Stores, Inc., Norfolk, Va. (4/6)**
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**—Preferred publicly April 6. New common to be offered present stockholders of record April 6 at rate of one new share for each 12½ now held. Rights expire April 15. **Price**—Preferred, par; common by amendment. **Proceeds**—To buy machinery, trade fixtures and equipment for new stores.

**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. (4/20)**
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. Expected about April 20.

**• Crader Oil Co., Oklahoma, City, Okla.**
March 22 (letter of notification) 50,000 shares ($1 par) capital stock. **Price**—$1 each. For drilling and developing oil lease. No underwriting.

**Crampton Manufacturing Co. (4/12-16)**
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.

**• Cuddy Mountain Mining Co., Spokane, Wash.**
March 22 (letter of notification) 300,000 shares of common stock. **Price**—25 cents each. **Underwriters**—William Ray Bellows, Wellman Albert Clark, Robert Maurice Cooper, all of Spokane, and Gerry Moore & Co., Seattle. To begin mining operations at Grants Pass, Ore.

**Dallas (Texas) Power & Light Co. (4/5)**
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. **Bids**—Bids for the purchase of the bonds will be received up to April 5.

**• Detroit Edison Co., Detroit, Mich.**
March 25 filed 450,000 shares of capital stock ($20 par). Stock being sold by American Light & Traction Co. in accordance with SEC divestment order. **Underwriters**—Names to be determined through competitive bidding. Probable bidders include: Spencer Trask & Co. and Coffin & Burr (jointly); The First Boston Corp.

**• Empire Chemical Corp., Seattle, Wash.**
March 24 (letter of notification) 60,000 shares of common voting capital stock. **Price**—$5 each. Business costs. No underwriting.

**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.

**Federal Electric Products Co., Newark, N. J.**
Feb. 27 filed 150,000 shares ($1 par) common stock. **Underwriting**—To be filed by amendment. **Proceeds**—To repay loans made by the company and a subsidiary, Cole Industries, Inc.

**Florida Power Corp.**
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 will be given the right to subscribe for the new common stock. **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.

**• Formsprag Co., Detroit**
March 22 (letter of notification) 136,268 shares ($1 par) common stock. **Price**—$1 each. For working capital. No underwriting.

**• Gamble-Skogmo, Inc., Minneapolis, Minn.**
March 30 filed an unspecified number of shares ($50 par) cumulative preferred stock, convertible prior to July 31, 1958. **Underwriters** — Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Beane, New York, and Piper, Jaffray & Hopwood, Minneapolis. Price and number of shares by amendment. **Proceeds**—To reduce short-term bank loans totaling $13,850,000. **Business**—Holding company for durable goods retail stores.

**• Genuine Parts Co., Atlanta, Ga.**
March 30 filed 150,000 shares ($5 par) common stock, of which 50,000 are being offered by company and 100,000 by five stockholders. **Underwriter**—Courts & Co., Atlanta, Ga. Price by amendment. **Proceeds**—From the sale of the 50,000 shares. $400,000 of bank indebtedness will be retired and balance for working capital. **Business**—Wholesale automotive parts and supplies.

**Georgia Hardwood Lumber Co. (4/12-16)**
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.) March 30 stockholders voted to change name to Georgia-Pacific Hardwood Lumber Co.

**Gulf States Utilities Co. (4/19)**
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); Lehman Brothers. **Proceeds** — To finance construction. Expected about April 19.

**• H. & B. American Machine Co., Attleboro, Mass.**
March 24 (letter of notification) 60,000 shares (no par) common stock. **Price**—$5 per share. To reduce mortgage indebtedness. No underwriting.

**• Helicopter Engineering Research Corp., Philadelphia**
March 26 (letter of notification) 150,000 shares of common stock (par $1) and 50,000 shares of $1 6% non-cumulative preferred stock. To be issued from time to time in small lots at prices ranging between par and $2 per share. Operating capital.

**• Industrial Bancshares Corp., St. Louis, Mo.**
March 29 filed 327,105¾ shares ($4 par) common stock. **Underwriter**—None named. **Offering**—To be sold to banks and similar financial institutions only. **Proceeds**—To buy controlling interest in banks and similar financial institutions. **Business** — Banking and loan operations.

**International Asbestos Co., Ltd., Sherbrooke, Quebec**
Jan. 30 filed 1,500,000 shares ($1 par) common stock. **Underwriter**—Paul E. Frechette, Hartford, Conn., is the U. S. authorized agent and principal underwriter. **Price**—$1 each. **Proceeds**—To construct milling plant and purchase equipment.

**I-Odoral, Inc., Wilkinsburg, Pa.**
March 8 (letter of notification) 200,000 shares of common stock (par $1). **Price**—$1 per share. **Underwriter**—Sterling Graham Co., Pittsburgh. Purchase of products, etc.

**Kingston Products Corp., Kokomo, Ind.**
March 5 (letter of notification) 14,618 shares common ($1 par). **Underwriter**—Alison & Co., Detroit. Proceeds to selling stockholders.

**• Kist Bottling Co., Los Angeles, Calif.**
March 22 (letter of notification) 250,000 shares ($1 par) common stock. **Price**—$1 each. For new buildings and facilities.

**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.

## NEW ISSUE CALENDAR

**April 5, 1948**

Dallas Power & Light Co.----------Bonds
Michigan Consolidated Gas Co.
11:00 a.m. (EST)----------Bonds
Oklahoma Gas & Electric Co.----------Preferred
Upson Co.----------Common

**April 6, 1948**

Associated Telephone Co., Ltd.----------Preferred
Colonial Stores, Inc.----------Preferred
Mountain States Tel. & Tel. Co.
11:30 a.m. (EST)----------Debentures
Public Service Co. of New Mexico
11:00 a.m. (EST)----------Common
Southern Counties Gas Co. of Calif.----------Bonds
Virginia Electric & Power Co.----------Debentures

**April 7, 1948**

Chesapeake & Ohio Ry.
Noon (CST)----------Equip. Trust Ctfs.

**April 12, 1948**

Bangor & Aroostook RR.----------Equip. Trust Ctfs.
Crampton Manufacturing Co.----------Bonds
Georgia Hardwood Lumber Co.----------Pref. & Common
Texas Power & Light Co.----------Bonds and Debs.

**April 13, 1948**

Latin American Airways, Inc.----------Common
Solvay American Corp.----------Preferred

**April 19, 1948**

Gulf States Utilities Co.----------Bonds

**April 20, 1948**

Consolidated Natural Gas Co.----------Debentures

**May 3, 1948**

Wisconsin Michigan Power Co.----------Bonds

**May 4, 1948**

Southern California Gas Co.----------Bonds

● **Laguna Investments, Inc., Laguna Beach, Calif.**
March 25 (letter of notification) 3,500 shares common stock. **Price**—$10 each. To finance and build small houses. No underwriting.

● **Lake Superior District Power Co., Ashland, Wis.**
March 30 filed 52,800 shares of 5% convertible second preferred stock, cumulative ($20 par). **Offering**—To be offered common stockholders at the rate of one new for each 2½ shares now held. **Proceeds**—Construction program.

**Latin American Airways, Inc., N. Y. (4/13)**
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 April 12. Pay outstanding claims, etc., working capital.

● **Longchamps, Inc., New York**
March 24 (letter of notification) 200 shares of capital stock (par $1). **Price**—$6 per share. **Underwriter**—Delafield & Delafield, New York. Proceeds to selling stockholders.

● **M and M Wood Working Co., Portland, Ore.**
March 26 filed 293,076 shares ($5 par) capital stock. **Underwriter**—Kidder, Peabody & Co., New York. Price by amendment. **Proceeds**—To purchase 75% of the stock of F. Richardson Co., holder of timberlands in Oregon, pay indebtedness, and add to general corporate funds. **Business**—Manufacture of plywood doors, wood pipe and lumber.

● **Maryland Credit Finance Corp., Easton, Md.**
March 22 (letter of notification) 2,900 shares of 6% cumulative preferred stock ($100 par) stock to be offered to stockholders at $100 each and to the public at $102.50. For working capital. No underwriting.

● **Mica Mountain Mines, Inc., Salt Lake City, Utah**
March 26 (letter of notification) 1,539,780 shares of common stock. **Price**—5¢ each. For mining costs. 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. **Bids**—Bids for the purchase of the bonds will be received at company's office, 415 Clifford Street, Detroit, up to 11 a.m. (EST) April 5.

● **Montgomery (Edwin Jones), Tucson, Ariz.**
March 22 (letter of notification) $300,000 of personal notes, bearing 6% compound interest. To refinance current business and personal indebtedness. No underwriting.

● **Moore-Handley Hardware Co., Birmingham, Ala.**
Mar. 29 filed 350,000 shares ($1 par) common stock. **Underwriters**—Paul H. Davis & Co., Chicago and Johnston, Lemon & Co., Washington, D. C. Price by amendment. **Proceeds**—Shares are being sold by Equitable Securities Corp., Nashville, Tenn.; Union Securities Corp., New York; Tri-Continental Corp. and Selected Industries Corp. **Business**—Hardware.

**Mountain States Teleph. & Teleg. Co. (4/6)**
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. **Bids**—Bids for purchase of the bonds will be received at Room 2315, 195 Broadway, New York, up to 11:30 a.m. (EST) on April 6.

● **Narragansett Electric Co., Providence, R. I.**
March 30 filed $10,000,000 Series B first mortgage bonds, due 1978. **Underwriter**—To be determined under competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co. and Stone & Webster Securities Corp. (jointly); White, Weld & Co.; Lehman Brothers and Goldman Sachs & Co. (jointly); Blyth & Co., Inc. and Harriman Ripley & Co. (jointly). **Proceeds**—To reduce short term loans and continue a construction program.

● **National Sportsman, Inc., New York**
March 29 (letter of notification) 3,000 shares of $5 cumulative preferred stock (par $100) and 3,000 shares (no par) common. **Price**—$100 per preferred share with one common share as bonus. **Underwriting**—None. Liquidate bank loan, etc.

● **Newelkhorn Queen, Inc., Elkhorn, Mont.**
March 24 (letter of notification) 400,000 shares of common stock. **Price**—5¢ each. To develop a mine. No underwriting.

**Oklahoma Gas & Electric Co. (4/5)**
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 scheduled for March 30 at office of Chase National Bank, 11 Broad Street, New York, postponed to April 5.

**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.

● **Osco Drug, Inc., Chicago**
March 22 (letter of notification) $25,000 of debentures due 1967 and 731 shares of common stock ($100 par). Debentures are to be sold to L. L. Skaggs, a director, and the stock to stockholders at par. To finance the purchase of a drug store at Marshalltown, Iowa, and for additional working capital at Danville and Kewanee, Ill., stores. No underwriting.

**Pacific Gas and Electric, San Francisco**
Jan. 29 filed 686,953 shares ($25 par) common stock. **Underwriting**—none. **Offering**—To be offered at par to holders of outstanding common stock of record Feb. 27 at the rate of one share for each 10 held. Rights expire April 9. **Proceeds**—To finance a construction program.

● **Pacific Lighting Corp., San Francisco, Calif.**
March 26 filed 321,726 shares (no par) common stock. **Underwriter**—Blyth & Co., Inc., New York. **Price**—$40. **Offering** — To be made to holders of common stock at rate of one new share for each five held. **Proceeds**—Expansion program for company and subsidiaries, Southern California Gas Co. and Southern Counties Gas Co. of Calif.

● **Palmer Mabelle Gold Mines, Inc., Seattle, Wash.**
March 18 (letter of notification) $25,000 of production notes, at $1 each, and $2,500 of stock, at one cent each. **Underwriting**—Frank Joseph Speckert, Seattle. For development work at Palmer, Alaska.

● **Pecos Potash Co., Denver**
March 24 (letter of notification) 20,000 shares of common stock ($1 par). **Price**—$5 each, and 39,055 shares ($1 par) common capital stock to be sold by William Arthur Snyder, Denver. Mr. Snyder is offering to exchange this stock for a like amount of the stock of Southern Potash Co. No underwriting.

● **Peninsular Telephone Co., Tampa, Fla.**
March 26 filed 35,374 shares (no par) common stock. **Underwriters**—Morgan Stanley & Co. and Coggeshall & Hicks, New York, and G. H. Walker & Co., Providence, R. I. **Offering**—Stock to be offered present holders at the rate of one for five. Price by amendment. **Proceeds**—General corporate purposes.

● **Personal Book Shop, Boston, Mass.**
March 24 (letter of notification) 930 shares of preferred stock. **Price**—$100 each. Offered by three officers and directors, Bushrod H. Campbell, John C. Campbell, and Adah F. Hall. No underwriting.

● **Powers Oil & Drilling, Inc., Casper, Wyo.**
March 23 (letter of notification) 200,000 shares (25¢ par) common stock. **Underwriter** — John G. Perry & Co., Denver, Colo. For a drilling program.

● **Public Relations, Inc., New York**
March 26 (letter of notification) 8,700 shares of 6% cumulative preferred stock (par $10) and 2,900 shares of common stock (par $1). **Price**—$31 per unit. Corporate purposes.

**Public Service Co. of New Hampshire**
Feb. 6 filed 199,627 shares ($10 par) common stock. **Underwriters**—Kidder, Peabody & Co., and Blyth & Co., Inc., New York. **Offering**—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.

**Public Service Co. of New Mexico (4/6)**
March 3 filed 339,639 shares common stock (par $7). **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Blyth & Co., Inc.; The First Boston Corp.; Harriman Ripley & Co.; Glore Forgan & Co. **Proceeds**—Cities Service Co. is selling the stock. **Bids**—Cities Service Co. is inviting sealed, written bids for the purchase from it of 339,639 shares of common stock (par $7) of Public Service Co. of New Mexico. Such bids are to be presented to Cities Service Co., at Room 1600, 70 Pine St., New York 5, N. Y., before 11 a.m. (EST).

● **Reliable (The), Fresno, Calif.**
March 25 (letter of notification) 75,000 shares (no par) common stock. **Price**—$4 each. **Underwriter**—Loewi & Co. will offer 25,000 shares; remaining shares are not underwritten. To pay for the purchase of stock in the Innes Shoe Co.

● **Rotary Mills, Inc., Seattle, Wash.**
March 23 (letter of notification) 1,000,000 shares common stock (par 1¢). **Price**—10¢ each. For milling equipment. No underwriters.

● **St. Cecilia Opera Co., Inc., Brooklyn**
March 26 (letter of notification) 400 shares (par $5) class A stock and 1,600 shares (par $5) class B stock. **Price**—$5 per share. **Underwriting**—None. Purchase equipment, etc.

● **Sardik Food Products Corp., New York**
March 26 (letter of notification) common stock not to exceed $100,000. Price at market. Proceeds to selling stockholder. **Underwriting**—None.

● **Securities, Inc., Toledo, Ohio**
March 22 (letter of notification) 30,000 shares of 5% preferred stock ($10 par) cumulative and convertible into two-thirds of a common share. For working capital. No underwriting.

● **Segal Lock & Hardware Co., Inc., New York**
March 24 filed $2,000,000 15-year 6% convertible sinking fund debentures, due 1963. **Underwriter**—Floyd D. Cerf Co., Inc. Price by amendment. **Offering**—To be offered initially to stockholders on basis of one $100 debenture for each 100 shares held. **Proceeds**—For repayment of two notes and general corporate purposes.

**Service Caster & Truck Corp., Albion, Mich.**
Jan. 30 filed 80,000 shares of common stock (par $1). **Underwriters**—Names to be filed by amendment. **Price**—$7. **Proceeds**—Proceeds together with funds from private sale of $600,000 of 4¾% debentures and $250,000 of 6% subordinated debentures, will be used to pay off indebtedness.

**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.

● **Sierra Pacific Power Co., Reno, Nev.**
March 26 filed $3,500,000 first mortgage bonds, due 1978. **Underwriters**—To be determined by competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. **Proceeds**—Construction costs and the payment of $650,000 to National Shawmut Bank of Boston for construction notes.

**Silver Bell Mines Co., Denver**
Feb. 26 filed 125,000 shares ($1 par) capital stock. **Price**—$2.50 each. **Offering**—To be made to present stockholders on a pro rata basis during first 10 days of sale. **Proceeds** — Exploration work, working capital and indebtedness.

**Solvay American Corp., New York (4/13-21)**
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.

**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.

(Continued on page 46)

(Continued from page 45)

**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.

**Sperti Foods, Inc., Hoboken, N. J.**
Feb. 26 (letter of notification) 30,000 shares 5% cumulative convertible preferred stock, ($10 par). **Price**—$10 each. **Underwriters**—White, Noble & Co., Detroit, and Clair S. Hall & Co., Cincinnati. To operate pharmaceutical division and for general corporate purposes.

**Steak 'n Shake, Inc., Bloomington, Ill.**
Feb. 2 filed 40,000 shares of 50c cumulative convertible participating preferred stock, ($1 par) and 160,000 shares (50c par) common stock, of which 40,000 will be sold and the remainder reserved for conversion. **Underwriter**—White & Co., St. Louis, Mo. **Price**—$8 for the preferred stock and $2.50 for the common. This stock is being offered by stockholders who are members of the Belt family.

● **Suburban Development Corp., Shreveport, La.**
March 25 (letter of notification) 170 shares of participating preferred stock. **Price**—$100 each. Working capital for construction and real estate business. No underwriting.

**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.

● **Sylvan Seal Milk, Inc., Philadelphia**
March 24 (letter of notification) 2,000 shares of common stock (no par). **Price**—$8 per share. **Underwriter**—Penington, Colket & Co., Philadelphia. Proceeds to selling stockholders.

**Texas Power & Light Co. (4/12)**
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. Expected about April 12.

**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.

● **Ultrasonic Corp., Cambridge, Mass.**
March 22 (letter of notification) 10,000 shares ($5 par) common stock, **Price**—$20 each. For general working capital. No underwriting.

● **United Rayon Corp., New York City**
March 29 filed 9,950 shares (no par) common stock. **Price**—$1,000 each. Each share is to be accompanied by a "production warrant" permitting the holder to buy a proportionate share of the company's output. **Underwriting**—None. **Proceeds**—To provide capital for the purchase and operation of a plant with an annual productive capacity of 4,000,000 pounds of viscose filament rayon and 8,000,000 pounds of viscose staple fiber. **Business**—Rayon manufacturing.

● **United States Sheetwood Co., Seattle, Wash.**
March 17 (letter of notification) 300,000 shares ($1 par) common capital stock. **Price**—par. For industrial and chemical research work to improve manufacturing.

● **Upson Co., Lockport, N. Y. (4/5)**
March 26 (letter of notification) 4,500 shares of common stock (par $10). **Price**—Market (approximately $14.50 per share). **Underwriter**—Hamlin & Lunt, Buffalo. Proceeds to selling stockholder.

**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.

● **Verla Oil Corp., New York**
March 24 (letter of notification) 10,000 shares of common stock (par $1). **Price**—$1.50 per share. **Underwriting**—None. Pay expense of incorporation and to acquire interest in oil properties in Arkansas.

● **Western Air Lines, Inc., San Francisco, Calif.**
March 24 (letter of notification) 12,500 shares of capital stock. To be sold by William A. Coulter at about $8. No underwriting.

● **West Texas Utilities Co., Abilene, Texas**
March 29 filed $5,000,000 Series B first mortgage bonds, due 1978. **Underwriter**—To be determined by competitive bidding. Probable bidders include The First Boston Corp.; Harriman Ripley & Co., and Blyth & Co., Inc. (jointly); Halsey, Stuart & Co. Inc. (bonds only); Lehman Brothers; W. C. Langley & Co.; Kidder, Peabody & Co.; Stone & Webster Securities Corp. **Proceeds**—For a construction program. **Business**—Utility.

● **West Texas Utilities Corp., Abilene, Texas**
March 24 (letter of notification) 1,983 shares $6 cumulative preferred stock (no par). **Price**—$113. For general funds. No underwriting.

● **Whitehall Fund, Inc.**
March 22 filed 50,000 shares of capital stock (par $1). **Underwriter**—Broad Street Sales Corp. **Proceeds**—For investment.

**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. (5/3)**
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 and Goldman, Sachs & Co. (jointly); Drexel & Co. and Hemphill, Noyes & Co.; The First Boston Corp.; 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 $3\frac{3}{4}$% of first mortgage bonds at $102\frac{1}{4}$% and to repay the Central Hanover Bank & Trust Co. and Marshall & Ilsley Bank $200,000 in bank loans. Expected about May 3.

# Prospective Offerings

● **American Bemberg Corp.**
March 25 Attorney General Tom C. Clark instructed the Office of Alien Property to undertake immediately all necessary steps for expeditious sale of controlling stock interest held by the U. S. Government in both the American Bemberg Corp. and North American Rayon Corp. Probable bidders: Kuhn, Loeb & Co.; Lehman Brothers, and Glore, Forgan & Co. (jointly).

● **Bangor & Aroostook RR. (4/12)**
The company has issued invitations for bids to be received April 12 for the purchase of $700,000 equipment trust certificates. The certificates will be dated April 15, 1948, and are to mature in 20 semi-annual instalments from Oct. 15, 1948, to April 15, 1958.

**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.).

● **Consumers Power Co.**
March 25 rumored groups being formed to bid on some $20,000,000 preferred stock. Probable bidders: Harriman Ripley & Co. and The First Boston Corp. (jointly); Morgan Stanley & Co.; White, Weld & Co. and Shields & Co. (jointly).

● **Illinois Bell Telephone Co.**
March 24 directors approved financing program contemplating issuance of $60,000,000 first mortgage bonds, series "B" and 389,995 shares of capital stock (par $100). Stock will be offered to stockholders of record June 2 in ratio of one new share for each five held. Bonds will be sold through competitive bidding: Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.

● **Maracaibo Oil Exploration Corp.**
May 3 stockholders will vote on increasing authorized capital stock from 400,000 to 500,000 shares.

● **Mathieson Alkali Works**
March 30 stockholders voted to increase by 500,000 the number of shares of authorized common stock and to reduce preferred shares to the number now outstanding. The holders voted also to change the name of the company to Mathieson Chemical Co. There are no current plans to issue any additional stock. Traditional underwriter: Hayden, Stone & Co.

● **North American Rayon Corp.**
Alien Property Custodian instructed to dispose of stock held by government (see American Bemberg Corp. above).

● **Pacific Finance Corp. of Calif.**
The stockholders on March 16 authorized an increase in the capital stock by the creation of 300,000 shares of new preferred stock (par $25).

# Steps Toward Easing European Intra-Continental Exchange

(Continued from page 15)

the Benelux countries (Belgium, Netherlands, Luxemburg).[1] This scheme provided for considerable American assistance in order to enable those European countries with an intra-European payments deficit to pay dollars to the nations with an intra-European payments surplus. In this way, the latter group would be able to earn dollars needed for purchases in the Western Hemisphere.

However, the National Advisory Council on International Monetary and Financial Payments, the policy-making group of the U. S. Administration, did not favor those ambitious proposals, and thus the President in his message to Congress recommending the Marshall Plan advised to defer until a later date any consideration of loans for monetary stabilization.

The European nations, then, were put on notice to rely first upon their own resources in attempting to relax intra-European payments restrictions and to shelve temporarily their broader plans.

A Committee on Payments Agreements met first in London and subsequently in Paris. It prepared a draft of an Agreement for Multilateral Monetary Compensation which was signed on Nov. 18, 1947 by France, Italy and the Benelux countries. This agreement is the first positive step to implement the Marshall Plan in the financial field through European cooperation rather than outright American assistance. This gives it an importance far beyond the limited scope of its provisions.

### Signifcance of Bilateral Arrangements

Americans are so strongly opposed to all kinds of trade and exchange restrictions that most of them refuse even to consider the possibility that those schemes may fill the needs of some peculiar situations.

However, bilateralism has developed into a powerful force. It has created strong vested interests both ideological and material. Some of its principal features are bound to stay for quite a while. They are the outgrowth of specific economic conditions and they will be continued as long as those conditions prevail. They will not be discarded merely as a result of resolutions adopted by international conferences organized under the auspices of the United Nations.

Thus American business and financial leaders with interests in foreign countries will have to give attention to the methods and practices of bilateralism—whether they like them or not.

Bilateralism first developed out of an emergency situation. The financial crisis of the early thirties which culminated in the German standstill agreements, Britain's abandonment of the gold standard and the Hoover debt moratorium threatened some of Europe's weaker countries with complete loss of vital imports. Foreign suppliers refused to continue business relations without assurance of payment in freely exchangeable funds rather than in inconvertible currency of countries which had lost most of their reserves of gold and hard currencies.

Those countries then proposed to apply the proceeds of their exports as security to foreign exporters. Foreign buyers of their products would not pay in the accustomed way of settling direct with the seller but would deposit the purchase price with their domestic central bank. Funds thus accumulated would be used to satisfy claims of exporters who would be paid by the central bank in their own convertible currency whenever the buyer in the other country would have deposited an appropriate sum in inconvertible currency with his own central bank. As a result, there would be no actual transfer of funds from one country to the other; all partners would deal in their domestic currencies only.

The scheme looked very promising in theory; at any rate it led to resumption of trade though on a restricted scale. However, as time went on, a multiplicity of troubles developed. Among the major sources were artificial exchange rates, differences in terms of payments, need to provide for non-trade payments, efforts to avoid use of the clearing in spite of threatening stiff penalties.

Large balances of over-valued currencies tended to pile up with one central bank while in the other country exporters had to wait for a long time until sufficient funds had been deposited by importers. For these often were able to avoid the clearing mechanism with its artificial exchange rates and pay direct to the seller in his own currency which they would acquire on the free market at a considable discount. Central banks of countries with a sound currency were under pressure to prepay frozen claims of their exporters whose working capital was increasingly immobilized. They had to give way in spite of the obviously inflationary effects of such a policy.

Eventually, strict limitations had to be imposed upon the size of outstanding bilateral clearing balances; overdrafts had to be settled in gold or hard currency. In addition, permission had to be granted for compensations between individual importers and exporters with flexible exchange rates subject to negotiations in each case regardless of official unrealistic quotations.

### Bilateralism as a Weapon of Economic Policy

It was the Nazi and Dr. Schacht's ingenuity who turned the emergency scheme into a powerful weapon of commercial policy. During the depression of the 'thirties producers of foodstuffs and raw materials suffered heavy losses and were willing to sell almost at any price to acquire exchange for the imports of essential finished goods.

The Nazis were eager to acquire virtually unlimited quantities of those goods to increase their war-reserve stocks. They paid in mark balances available for the purchase of those German goods the German Government was willing to sell for export. In the end, foreign mark accounts increased by leaps and bounds and the owners suffered heavy losses. These sad experiences are still very much alive. The British who relied on their power of large-scale buyers have been hard hit by the reluctance of foreign producers of foodstuffs and raw materials to accept payment in inconvertible sterling.

Finally, bilateralism has become an important tool of economic planning and regulations. Those governments that wish to continue wartime regulations and restrictions as a matter of political priciple have found that bilateralism fits well into their schemes of controlled economy

1 Committee of European Economic Co-operation, General Report Appendix E: Report of Financial Experts, Chapter II: Inter-European Payments Agreements.

and they are most reluctant to give up such a useful and powerful weapon.

These trends are not only obvious in the policies of individual countries but they have been dominating discussions at the Havana Conference on Trade and Employment as well. The governments favoring bilateralism were able to achieve their aims of securing continuation of those policies over strenuous opposition by the United States delegation which was eager to promote repeal of quantitative restrictions and expansion of multilateral trade.

Undoubtedly, trade restrictions will continue as long as currencies remain inconvertible and every country tries desperately to avoid accumulating foreign exchange balances which cannot be utilized for the purchase of needed goods.

Thus the short-run chances for abolishing bilateralism are slight indeed; the only way to progress points toward agreements to extend bilateralism gradually over an ever increasing number of individual countries as steps to eventual full multilateralism. Then overdraft balances which under existing arrangements have to be settled in gold or hard currency may be compensated not only between two partners but among a much larger group, thus avoiding the use of gold or dollars.

It is here where the Paris agreement for multilateral compensation comes in. Its main purpose is to work toward that expansion of bilateralism which is the only practical means of avoiding its most damaging restrictive features upon international trade.

### The Mechanism of the Paris Compensation Scheme

The agreement provides for participation of all European countries upon admittance by the "charter members." This "open door" attitude has been underscored by appointing as "central agent" the Bank for International Settlements in Basle, Switzerland which counts among its members almost all nations of Europe both in the West and in the East.

Two classes of membership with different obligations are designed to make adherence more attractive to countries unwilling to make advance concession in the field of economic policy. Permanent members agree to carry out the agent's proposals for compensation without individual scrutiny. However, this is restricted to proposals resulting in a reduction of bilateral balances, for the time being; in all other cases the right of individual approval is maintained. The five signatories of the Paris agreement are the first permanent members.

On the other hand, occasional members assume no obligation of automatic compliance with the agent's suggestions; they merely agree to give them due consideration.

However, all members will furnish the agent with information regarding terms and functioning of their several bilateral agreements as well as the monthly balances arising under those agreements. This is probably the most important provision of the Paris covenant. For it will put at the disposal of an impartial and experienced organization a wealth of information which up to now has never been made available to anyone beyond the officials of the respective partners. Now the staff of the B.I.S. will be in a position to analyze and evaluate those data and use them as a basis for appropriate suggestions leading to amendments, improvements and possible expansion of the machinery.

A number of meetings on the technical level have been held at the Bank's headquarters. Information has been submitted by fourteen out of the sixteen nations participating in the European Recovery Program as well as by the three Western zones of Germany. The Paris agreement provides for monthly technical meetings of delegates from the member countries; other interested nations may be invited to those meetings.

The Bank for International Settlements acting as central agent will restrict itself to policy-making functions. It will analyze the data and submit the proposals for compensations. But all clerical work involved in carrying out the complex transactions will be left to the central banks of the respective countries. This will keep expenses at a minimum.

### The British Position

Great Britain has joined as one of the "occasional" members together with the three Scandinavian countries (Denmark, Norway and Sweden) and the French zone of Germany. Britain was most reluctant originally during the preliminary discussions of the Paris agreement although it clearly was intended to facilitate international trade on which Britain is so much dependent. That surprising attitude was a direct outgrowth from last Summer's debacle of "automatic" sterling convertibility.

British authorities were under the impression that they had been treated unfairly by some of their foreign trade partners and they decided to resort to a system of "administrative" convertibility which concentrated all decisions exclusively at the Bank of England.

They were afraid that the Paris agreement might be just one more device to milk Britain of some additional scarce dollars. However, there has been increasing awareness of the fact that the obligations of an "occasional" member of the multilateral compensation agreement can be reconciled without much difficulty with the practice of "administrative" convertibility. As a result, Britain has taken a more co-operative attitude in recent months. Obviously, the predominant position of Britain in world trade lends particular significance to her policies with regard to the compensation scheme.

### First Results of the Compensation Agreement

The Paris agreement became operative at the beginning of the current year and the B.I.S. has made the first proposals for compensations. As was to be expected, the initial results have not been particularly significant. Few balances were reported which were found to be suitable for compensation. Some countries are creditors everywhere, others are debtors throughout. Sound functioning of the scheme presupposes that each partner is both creditor and debtor under various conditions.

However, there is no reason for discouragement. More far-reaching effects may be expected over a period of time only, once participating countries have made appropriate adjustments of their trade policies which take into consideration the possibilities of multilateral compensation which were unavailable up to now.

The Bank for International Settlements feels that it has the wholehearted cooperation of the nations participating in the European Recovery Program including those that like Switzerland have not yet joined officially but are important trade partners.

Since the Bank is still the meeting place of central bank leaders from all over Europe, its staff may find possibilities for improving payment arrangements with countries outside the Marshall Plan area as well, in the interest of expanding trade on the European continent. Although the chances do not seem to be good at this time, this is a long-range proposition and it is important to have a working organization available at any moment to step in whenever the situation appears to be favorable.

One of the incidental effects of the Paris agreement has been to enhance greatly the standing of the B.I.S. in this country. There has been increasing realization in responsible quarters of its peculiar position and of the special services it may be qualified to render in connection with the tremendous job of European reconstruction.[2] This is in striking contrast to the atmosphere a few years ago, when the Bretton Woods Agreement administered a death sentence without "due process of law."

There is no reason to overemphasize the importance of the multilateral compensation scheme in the vast enterprise to bring about economic unification of Europe as a whole or at least in part. The Paris agreement, at this time, is a symbol rather than any significant achievement. But under present conditions, initial steps may have psychological importance far beyond their intrinsic real value. The great work will have to start from a number of apparently small endeavors. There will be setbacks and difficulties. But eventually the humble beginnings may merge into a powerful stream and may lead to results which more cautious souls believe to be unattainable.

[2] See the editorial in the Feb. 27 issue of the New York "Times": Two Notable "Comebacks."

## *Our Reporter's Report*

Bankers who acquired Ohio Power Co.'s $40,000,000 of new first mortgage, 30-year bonds, at competitive bidding appeared to be facing a bit of a chore in the task of marketing the issue judging from reports in dealer circles.

At any rate those who are in a position to see what is going on report that there was nothing to indicate an "out-the-window" deal here.

### Preferred Still Snagged

The market for new-preferred stocks is still pretty much of an unknown quantity as potential issuers of that class of security are becoming more and more aware.

Oklahoma Gas & Electric Co. is the latest of prospective issuers to forego a projected sale having decided to postpone the offering of 65,000 shares of new preferred which had been scheduled for last Tuesday.

**This action came about when groups which had been formed to bid for the stock found numerous of their participants withdrawing on the conviction that they could not bid a price that would be acceptable to the utility.**

The company, needing funds for expansion purposes, has invited bankers to try it again next Monday.

### Bits and Pieces Around

While the new issue market has been behaving satisfactorily, by and large, it has not been a case of merely opening subscription books and closing them in all cases.

**Dealers report that portions of several recent new offerings are still around. While by far the bulk of Columbia Gas & Electric Corp.'s $45,000,000 of 25-year debentures have been placed there is still a smattering of this issue to be taken up.**

Likewise in the case of West Penn Power Co.'s new 4.20% preferred stock. Sales have been satisfactory, but there still remains the task of cleaning up an unsold balance.

### California-Oregon Power

Underwriters who took on the California-Oregon Power Co.' new bonds and common stock encountered a brisk demand for both issues, according to market observers.

The $4,500,000 of new first mortgage bonds were purchased from the company as 3⅛% at a price of 100.5311 and priced for reoffering later, subject to SEC clearance, at 101 to yield the buyer 3.07%.

**Pre-sale inquiry was reported such as to assure quick closing of the books here. The same held true in the case of the 100,000 shares of common stock for which successful bidders paid the company $19.91 a share. Interest in the reoffering here, slated for $21.50 a share, likewise was said to indicate ready sale to investors.**

### New Filings with SEC

Three latest utilities to go into registration with SEC for new issues are topped by Pacific Lighting Corp. which is processing a block of 321.726 shares of additional common stock.

**Shareholders will be given the right to take up the additional shares at the rate of one for five now held, with bankers having agreed to underwrite any unsubscribed balance.**

Narragansett Electric Co. plans to offer $10,000,000 of new first mortgage 30-year bonds, and has filed covering registration, while West Texas Utilities Co. has registered for the sale of $5,000,000 new first mortgage bonds, also of 30-year maturity.

# Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

Despite all the drama and big words of the President's stop Russia special message to Congress, you can at the moment write off the immediate military preparedness program as something which is almost of minor significance to your business affairs.

This outlook applies, however, only for the moment. Under the most favorable and ideal circumstances, it may be a very long "moment," perhaps several months. On the other hand, it may be only a week or two or a month or two before there is another sharp change.

**With all the build-up given the program, something important was expected. Indeed, the interpretation which was not too privately placed upon the program by officials led to the belief—incident to the promise to support the western European alliance militarily — that the program was going to amount to something.**

**Yet the actual concrete program presented by the military chiefs was a dud. The defense chiefs, with Defense Secretary Forrestal presiding, went into hasty labor and belatedly gave birth to a specific program to implement the President's message. It was far from the sensational thing it was heralded to be.**

* * *

To the comparative handful of combat troops the U. S. now has available, the military would add another couple of handfuls. There might be enough troops to garrison Newfoundland or Iceland on request, but scarcely enough to stage a respectable retreat from a new Dunkirk. If this is the sum of U. S. military power which can be brought to bear, and not before several months, to support the western European defensive alliance against Russia, the western Europeans will not be much impressed.

There is nothing suggestive in the program that the U. S. is going into a military economy in the near future. Of the proposed three to four additional billions for the armed services, a substantial proportion will go for the cost of the additional personnel. Of that set aside for expanded procurement a part will consist of contract authorization, and hence a delayed expenditure.

**All in all there is no reason for suspecting that the program as thus far revealed will either lead to a lot of business for the "war babies," except for the aircraft companies, or cause any great material shortages or bottlenecks. Even the amount for building a new, modern air force — the long range force which four or five years from now would be equipped to fly from the American continent to Moscow and back — is piddling. Hence there is no need at present for reserving any floor space in Washington hotels for "legislative engineers" to help guide the Congress and the military bureaucracy into placing contracts with one's company.**

Finally, there is nothing yet of building ordnance and aircraft and millions of other things the nation's de facto western European allies could use in increasing their military potential. There is thus no hint yet of a new military lend-lease program.

* * *

Among them, the military chieftans, without quite spelling it out simply, outlined what is the present strategic planning of the U. S.

For the next few years the U. S. would acquire just enough troops to garrison a few islands and Alaska. These places obviously would be air bases sufficiently close to the potential enemy so that the available aircraft, the B-29's could fly into the enemy's territory and return. Obviously the military could give no hint, other than Alaska and Newfoundland, as to what these bases might be. It is possible that they might be Greece, Turkey, and points elsewhere in the Mediterranean.

**These B-29's could carry atom bombs. Hence the U. S., in a few months, would be able to offer the prospect to the Politbureau that, in the near future, if they tried to swipe any more territory openly, they might have U. S. atom bombs served in their potato soup. The military indicates its belief that this would possibly be sufficient to restrain Russia for the time being. It may or may not have a deterring effect against stealing countries with 5th columns.**

**So the actual program is one to mobilize the Air Force and supporting combat and service troops at points where atom bombing could be arranged if needed.**

This restraint, it is calculated, would last four or five or some indefinite period of years, until the Russians themselves developed the atom bomb and the means of offering it free to the U. S. without solicitation. So the UMT would provide basic training for a few years. From the basically trained recruits the armed services would further train specialists to operate the Buck Rogers war—if it should develop — some indefinite period of years hence.

**If this interpretation of strategic plans is correct as given, it implies that the U. S. does not actually fear that France and Italy will be taken over by either home-made or Soviet Communists at any time in the near future. It would indicate that the U. S. probably anticipates instead that the Reds will fail to make any decisive strides toward the control of Italy at the April 18 elections in that country. It scouts the rumored possibility that Yugoslav forces might actually attempt to invade northern Italy's industrial region, with or without communist gains in the Italian elections. It assumes that the U. S. will have several years to prepare. It indicates no present fear of all out war with Russia.**

* * *

It is possible that officials have a much broader strategic program than the defense officials have so far indicated. It may be that their unrevealed estimate of the situation requires a much larger military force and a greater procurement program, but that they adopted this modest starter on the assumption it represented the maximum possibility of legislative achievement this spring.

If this proves to be the case, then look for more later. Whenever the top officials feel they have a chance to get more of a preparedness program adopted by Congress, it is anticipated that they will request more. Any further unmistakable evidences of Russian imperialism of the Finnish-Czechoslovakia style would clear the way for such consideration.

**So this is one of the factors which suggests that the present prospective limited effect of the preparedness program upon domestic business is inherently an affair of the moment. Another factor is what Russia does in the near future.**

If Congress appropriates sufficient to make a start on the limited program and it does the job of discouraging Russia, then risks of war may be delayed or abated. On the other hand, the U. S. is admittedly so far from being in a position to strike, as to suggest the possibility Russia may want to test the U. S. will to resistance further. Another country stolen by the Reds would provide a test. It also would lead, it is not doubted, to a magnifying of present preparedness plans.

**Hence it is far too soon to accept the superficial evidence of the defense chiefs' limited program as an indication that the leaping into the military phase—if only the first step—from the economic aid phase, is not something charged with far-reaching possibilities. The military phase can be discounted only when Russia shows evidence of abandoning the westward march.**

* * *

It may now be revealed that the official report of the special Congressional Joint Committee on Housing, was written for the most part by some of Ray Foley's bright boys. Mr. Foley is head of the Administration's top housing bureaucracy, the Housing and Home Finance Agency, and chief proponent, next to Harry Truman of a Federal public housing program.

So the committee plunked for public housing, along with a lot of fancy new housing subsidies of one sort or another to try to swing the nation back to rental housing, even if it is not enthusiastic about rental projects in the light of rent controls and the danger they might at any time get tighter rather than looser.

**What happened was that Rep. Ralph Gamble, Chairman of the special housing committee, had his staff prepare a report and recommendations. While the report was critical of many practices in the building industry, it did recommend against public housing. When the special committee assembled, Senator Flanders of Vermont pulled out the report prepared by the Foley assistants and offered it for adoption. Flanders, another "liberal" GOP member, and Tobey voted with five Democrats to make it the report of the committee.**

Taken completely by surprise, the conservative group sought to have the special housing committee extended for three months so that the anti-public housing report, intended to be the majority report, could be filed at least as a minority report. New Dealers in the Senate limited the committee extension to "administrative affairs of the committee," i.e., prohibited it from filing minority views.

**So the report now is simply an unclassified piece of printed matter entitled "Housing in America." Without official status. However, as an analysis of the housing problem, it rates looking at. Write to your Congressman for a copy if you want it.**

## BUSINESS BUZZ


**"Giving a client a prospectus, Miss Carter, does not include your phone number!"**

## Olsen With Conrad, Bruce

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, OREG. — Arthur S. Olsen has become associated with Conrad, Bruce & Co., 813 Southwest Alder Street. He was formerly with Russell, Hoppe, Stewart & Balfour and Stephenson, Leydecker & Co.

## Hansell With Byllesby

(Special to THE FINANCIAL CHRONICLE)

PHILADELPHIA, PA.—Charles Hansell, formerly of Hiscox, Van Meter & Co., is now associated with H. M. Byllesby & Co., Inc., Stock Exchange Building.

# Central States Group of I. B. A.

Julien H. Collins, *Julien Collins & Co.*, Chicago, President of the I.B.A.; Wm. H. Marshall, *The Marshall Co.*, Milwaukee

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Thompson M. Wakeley, *A. C. Allyn & Co., Inc.*; Franklin B. Schmick, *Straus & Blosser*

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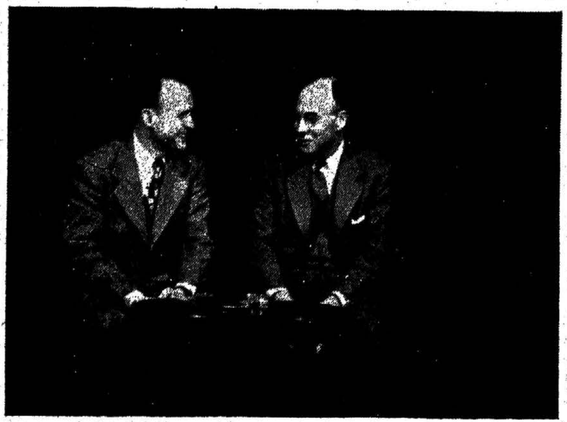
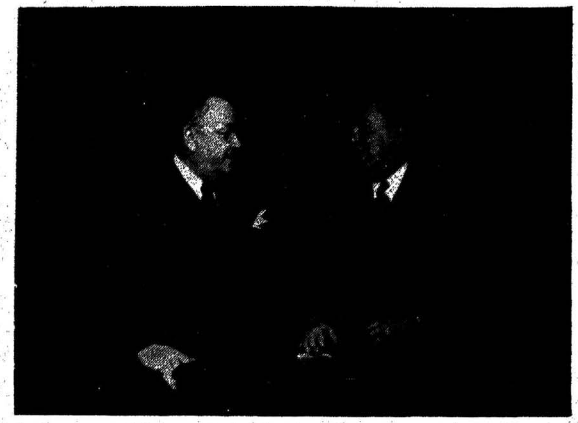
# Twelfth Annual Conference



Carl W. Jackson, *Harris Hall & Co.*, Chicago; Alford J. Baschen, *Northern Trust Co.*

Henry T. Berblinger, and Clarence A. McCarthy, both of *Sills, Minton & Co.*



Roy D. O'Brien and Tuthill Ketcham, both of *Ketcham & Nongard*

Don G. Miehls, *William Blair & Co.*; Ray Olsen, *Stranahan, Harris & Co.*, Chicago; Ross A. Gustafson, *Northern Trust Co.*

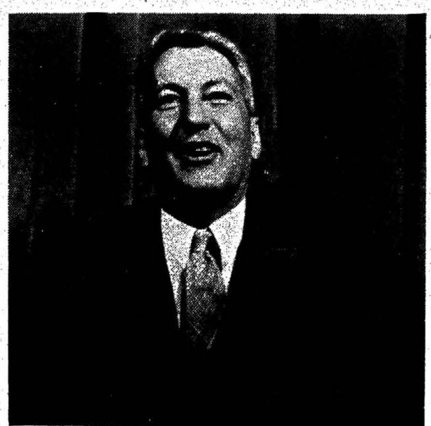
Frank Duffy, Eldridge Robinson, S. Albert Trimarco, and James N. Bay, all of *Fred W. Fairman & Co.*

George F. Noyes, *The Illinois Co.*; J. F. Brady, *Secretary of District No. 8 of the N.A.S.D.*; Rupert Bippus, *formerly Securities Commissioner of the State of Illinois*; Carl McGlone, *Carl McGlone & Co.*

Harry L. Nelson, *Blyth & Co., Inc.*, Chicago; George R. Torrey, *Kebbon, McCormick & Co.*; Fred T. Rahn, *The Illinois Co.*; Lawrence W. Marr, *E. H. Rollins & Co.*, Chicago; Francis W. McDonald, *Lee Higginson & Co.*, Chicago

P. K. Van Winkle, *Paine, Webber, Jackson & Curtis*, Chicago; H. Frank Burkholder, *Equitable Securities Corp.*, Nashville, Tenn.

Alfred J. Betar, Chris J. Newpart, S. Knox Kreutzer and Edward G. Chase, all of *Merrill Lynch, Pierce, Fenner & Beane*



Nathan D. McClure, *Harriman Ripley & Co.*, Chicago

# Held March 23 and 24, 1948

Howard F. Detmer, *Detmer & Co.*; Walter J. Fitzgerald, Jr., *Walter Fitzgerald & Co.*; L. M. Rieckhoff, *Northern Trust Co. of Chicago*

Arthur W. Curtis, *A. G. Becker & Co.*, Chicago; Clarence E. Torrey, *Kebbon, McCormick & Co.*

William F. Hunter, Gordon Booth, and O. G. Corns, all of *H. M. Byllesby & Co.*, Chicago

Nathan S. Sharp, *R. S. Dickson & Co.*, Chicago; Lore W. Alford, *Harris Hall & Co.*, Chicago; Charles R. Park, *Greenman & Cook*, St. Paul, Minn.

E. Cummings Parker, *Glore, Forgan & Co.*, Chicago; Robert A. Podesta, *Julien Collins & Co.*, Chicago; Paul L. Mullaney, *Mullaney, Wells & Co.*

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C. W. Evans, *Harris Hall & Co.*, Chicago; J. Franklin Bickmore, *Boettcher & Co.*, Chicago; H. A. Talbert, *Blyth & Co., Inc.*, Chicago

Robert R. Brinker, *John Nuveen & Co.*, Chicago; Chas. A. Capek, *Lee Higginson Corp.*, Chicago; Chester W. Laing, *John Nuveen & Co.*, Chicago

Joseph D. Blosser, Franklin B. Schmick, and Frederick W. Straus, all of *Straus & Blosser*

Russell T. Stern and Byron G. Webster, both of *Merrill Lynch, Pierce, Fenner & Beane*

# In Chicago, Illinois

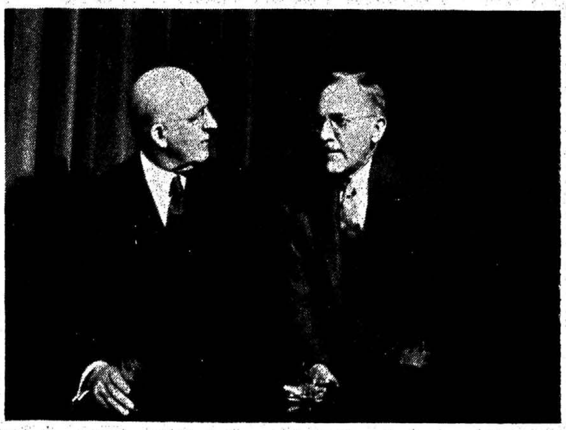
George J. Gruner, *Lee Higginson Corp.*, Chicago; James F. Quigg, *Paine, Webber, Jackson & Curtis*, Chicago; Charles Fry, *Chicago Journal of Commerce*; Harry L. Nelson, *Blyth & Co.*, Chicago; David L. Shillinglaw, *Shillinglaw, Bolger & Co.*

Jos. P. Condon, *McDougall, Condon & Co.*, Chicago; Matthew J. Hickey, Jr., *Hickey & Co.*; Wm. D. Kerr, *Bacon, Whipple & Co.*

Chas. E. Enyart, *Enyart, Van Camp & Co.*; Jean A. Horacek, *Enyart, Van Camp & Co.*; John A. Kelly, *Smith, Barney & Co.*, Chicago

Joseph O. Stuart, *F. S. Yantis & Co.*; O. G. Corns, *H. M. Byllesby & Co.*; H. A. Talbert, *Blyth & Co.*, Chicago; D. K. Searles, *Blyth & Co.*, Chicago;

Walter E. Kirstner, *A. C. Allyn & Co.*, Chicago



Harold A. Tubby, *Hemphill, Noyes & Co.*, Chicago; Plummer P. Purdham, *Burns, Potter & Co., Inc.*, Omaha, Neb.

David J. Harris, *Sills, Minton & Co.*

Wm. A. Grigsby, *John Nuveen & Co.*, Chicago; Paul Hackbert, *Goldman, Sachs & Co.*, Chicago

Charles Higgins, *Merrill Lynch, Pierce, Fenner & Beane*; Harris E. Wilder, *The Illinois Co.*