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Holds Gold Standard Key to Liberty

Philip Cortney writes Congressman Buffett inconvertible currencies deprive individual of inalienable right to move his person and wealth as he desires. Says use of paper standard permits government squandering.

Mr. Philip Cortney, President of Coty, Inc., has written the following letter, dated March 23, to

Philip Cortney

Howard Buffett

Congressman Howard Buffett (R.-Neb.), author of a bill before Congress to restore the gold coin standard in the United States:

"Dear Congressman Buffett:

"Section 15(b)4 of Senate Bill S2202 is a good illustration of the appalling confusion in the minds of the people on fundamental issues. It is most disheartening to me to realize that it has been possible for this section to pass

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PICTURES taken at 32d Annual Dinner of Bond Club of Detroit appear on pages 29, 30, 31.

Where Are We in the Business Cycle?

By NEIL CAROTHERS*

Dean of the School of Business Administration, Lehigh University

Holding only way to stop depressions is by controlling excessive development of booms, Dr. Carothers asserts, because we are in the most bloated and feverish boom in all history, we may expect severe depression. Cites as means of easing slump: (1) reduced government spending; (2) retention of corporate profits as surplus; and (3) moderation of wage demands.

There is no certain method of controlling the business cycle. No government has ever been able to prevent industry, agriculture and labor from taking advantage of prosperity and forcing it into a bloated boom condition. Once depression has come, there are no artificial devices to end it. Our governmental schemes to end depression have, in the main, been blunders. The one way to control the business cycle is to stop depressions before they start, by controlling the excessive developments of the boom period. Three special conditions change the regular development of the business cycle and create special cycles of their own. One is a steady reduction in the supply of money. It will gradually depress the whole economic system. A second special factor is any violent inflation of the supply of money and credit. This will create an unnatural, infla-

Neil Carothers

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*Excerpts from address by Dr. Carothers at Eastern Spring Conference of the Controllers Institute of America, New York City, April 5, 1948.

Fiscal Policy and Debt Management

By A. L. M. WIGGINS*

Under Secretary of the Treasury

Maintaining task ahead of administering sound and effective fiscal policy is not easy, high Treasury official stresses importance of public debt management. Foresees possible Federal deficit of $700 million in 1949 fiscal year, and urges it be met by increased sale of savings bonds. Defends Treasury's low interest rate policy, but admits, in long run, there is a real natural rate of interest and monetary authorities are not omnipotent in suppressing it. Hints at possible need for restoration of economic controls.

My discussion tonight will be devoted primarily to debt management as a part of fiscal policy. Overall fiscal policy is concerned with the desirable amount and sources of Government revenue and the amount and uses of expenditures of the Federal Government, on the basis not only of financial but of economic considerations as well.

However, in actual practice, the amount of receipts is often determined as much by a consideration of what it is feasible to collect as it is by a broad consideration of consumer and business [illegible] and the amount of goods ava[illegible] for purchase. The total amou[illegible] the Federal Government's expenditures is often determined by other than economic considerations. Our huge war expenditures were made in order to win the

A. L. M. Wiggins

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*An address by Under Secretary Wiggins before the Academy of Political Science, New York City, April 1, 1948.

EDITORIAL

As We See It

A Second Look

It is time that the people of this country took a second look at the various measures taken and proposed to improve our international position. Thanks in very substantial part to the behavior of the Kremlin, something close to a revolution has apparently occurred in the attitude of the people of this country regarding the situation. This drastic change of heart was of course carefully nurtured by the still powerful propaganda organization in Washington, but it is doubtful if this campaign could have been nearly so successful at best had not there been such effective help forthcoming from Moscow.

The change that has occurred in public sentiment in this country is well attested to by the final Congressional vote on the ERP bill, by the near unanimity among politicians in their support of such programs, by the repeated call by most of them for a "get tough" policy, by the demand which appears in considerable part to come from the "grass roots" for some one of the military heroes of the day for President, and by an attitude among the rank and file which appears to take for granted that rearmament outlays de-

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New and Imponderable Questions In Credit and Fiscal Policy

By AUBREY G. LANSTON*

Executive Vice-President, First Boston Corporation

Mr. Lanston, in stressing uncertain aspects of impending financial developments, holds there is not likely to be reduction of interest burden on National Debt. Attacks Treasury's offerings of non-marketable bonds to professional investors as major threat to free enterprise and warns of adverse deflationary effect of reduction of commercial and Federal Reserve bond holdings. Points out Treasury's cash surplus arising from trust fund receipts reinvested in non-marketable bonds as factor in reducing money supply, but raising interest cost to government, and concludes present banking and credit situation is influenced in part by Treasury's low interest rate policy and in part by pressure against its market "pegs."

Many aspects of our domestic affairs are in a state of uncertainty. The near-term trend of business became the subject of increasing controversy as grain prices dropped shortly after the turn of the year. The expenditures involved in an enlarged armament program may prove to be the bolstering factor in a deteriorating business sentiment, or may prove a stimulant to further price inflation. Encompassing wage and price controls could follow. We are about to launch a European Recovery Program which may cost less, but probably more than is provided in the proposed legislation. Organized labor continues to demand increased wages and benefits. A universal military training program and a selective draft are in prospect. Tax reductions have just been sanctioned by Congress, despite the President's veto of the bill. The net result of all of these things will be reflected into the supply and demand of consumer and durable goods; into the availability of industrial and agricultural manpower, into the levels of business profits, of agricultural and national income, and the volume of demand for net capital and credit. New, and almost imponderable uncertainties are thereby introduced into Government fiscal policy, credit and debt management.


Aubrey G. Lanston

Do increased armament costs and the need for debt reduction make tax reductions impractical? In view of the new tax law, will Treasury receipts be reduced as much as has been estimated? If presently contemplated additional armament is voted, are those who envision Treasury deficit financings cor... in their analysis? What changes in the credit restrictive program of the Treasury and the Federal Reserve System are likely to result. Is the program likly to be reversed because of the new Treasury borrowing needs. The Joint Economic Committee of Congress starts hearings on April 7 on the need for new credit controls. Will the result be unexpected Congressional support of the Eccles' plan? Will there be a shift to a demand for increased cash reserve requirements? Are Treasury short-term borrowing rates and the rediscount rates of the Federal Reserve Banks likely

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*An address by Mr. Lanston at the 54th Annual Convention of the Florida Bankers Association, St. Petersburg, Fla., April 6, 1948.

France—The Free Gold Market and The Blocking of Franc Notes

By ROBERT FELSETTE

Investment Cousel

Mr. Felsette states free gold market with amnesty for hitherto illegal gold hoarders, and blocking franc notes with penalty against holders of legal tender, causes undermining of confidence in French currency. Maintains these measures arise from combination of economic and political necessities. Concludes commingling of liberal doctrine with planning is hampering French recovery.

In conjunction with the recent devaluation of the franc, France has created a free gold market and at the same time has blocked all 5,000 franc notes. It is ironical that those who kept faith in the franc by holding on to legal tender should be penalized whereas the distrustful who hoarded gold illegally should be completely exonerated. Why did France, one of the most democratic countries in the world, take such drastic steps?


Robert Felsette

To comprehend the monetary policy of the French Government one has to bear in mind the following points:

(1) Production in France is hampered by war destruction, the use of obsolete machinery, lack of raw materials, and an inadequate supply of coal. The French are making great strides toward reconstruction but the budget still shows a large deficit.

(2) The French Government is wavering between two schools of economics; the first is the liberal doctrine, which prevailed before the war and is best fitted to the French temperament — individualism, and disdain for all rules and regulations; the second, a controlled economy, which in the opinion of a number of economists appears to be the only solution for a country suffering from underproduction and where shortages are widespread.

(3) In the Parliament, the government is not supported by a real majority, therefore it is compelled to bargain constantly with the three most important parties, all holding contradictory views. Furthermore, the government can be overthrown almost overnight by the Parliament.

(4) The Government Treasury is frequently short of cash. There is not only a shortage of dollars but also a shortage of French francs. To provide for immediate government needs, temporary measures are continuously resorted to but a sound long range program has not yet been instituted. Since the turn of the year, the primary aim of the Treasury is to acquire enough francs, gold, and foreign currencies, to tide the country over until the implementation of the Marshall Plan.

Gold Hoarding and the Creation of a Free Gold Market in France

Large quantities of the gold and foreign currencies which the government so desperately needs are held by individuals within France. It is believed that French hoarders hold over 3,000 tons of gold as compared with only 392 tons held by the Bank of France. In

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The SEC and Perversity

The SEC should treat in confidence the financial statements filed with it by dealers and brokers. A rule accomplishing this result should be adopted immediately. This would be some penance for past mistakes. The Commission's errors in U. S. vs. Grayson and Hallgarten vs. Lee discussed. The securities industry and the Congress alerted. "Pigeon-Holing" will not be tolerated.

Readers will recall arraignment of the Securities and Exchange Commission for its failure to accord confidential treatment to the financial statements filed annually by brokers and dealers, pursuant to Rule X-17 A-5 of the Commission.

We pointed out editorially that the Maine Securities Dealers Association and a number of dealers and brokers had gone on record in opposition to this attitude of the SEC. These opponents, in communications addressed to the Commission, to their Congressmen, and to the "Chronicle," strongly urged that the financial statements filed by brokers and dealers pursuant to Rule X-17 A-5 be treated confidentially by the Commission.

On the defensive, representatives of the Commission wrote to members of the Congress pointing to SEC helplessness under the existing rule and saying, in effect, that consideration would be given by the Commission to the future adoption of a rule which would accord confidential treatment to these financial statements. The Commission promised to consider whether it was "in the public interest" to do this.

To the Commission's argument that an investor has a right to know of the financial standing of his broker or dealer or both, we countered by pointing out that on a voluntary basis this is absolutely true. Of course, the investor may ask for a financial statement from his broker and dealer just as a person in commerce may do the same, but this by no means is equivalent to the compulsory filing of financial statements required by the Commission's rule.

It is all tantamount to the difference between the *mandatory* on the one hand and the *permissive* on the other, regimentation as against free enterprise

Now we are wondering what has become of the Commission's promise to re-examine the rule and consider the advisability of passing a new rule which would afford confidential treatment to those financial statements.

We hope that in this instance the securities industry will not be subjected to the devious devices of the "pigeon-hole" artist.

At times, the Commission has the unfortunate habit of doing what it shouldn't and of not doing what it should.

This was pointedly illustrated in connection with "Confidential Treatment" in the case of *United States* v. *Stanley Grayson* which was argued in the United States Circuit Court of Appeals for the Second Circuit.

In that case, the Commission refused to produce "Sales Reports" pursuant to subpoena (the so-called G forms) upon the ground that these were privileged because of the regulations of the Commission and, therefore must receive confidential treatment.

In reversing the conviction of Grayson, Judge Hand, speaking for this Appellate Court, said: "We have twice held that a conviction should not stand when the accused has been denied access to documents relevant to his defense, which are in the possession of a department of the government whose regulations make them unavailable at the trial."

That wasn't an isolated instance by any means for in the case of *Hallgarten* v. *Lee*, the Commission refused to produce sales reports despite the fact that these had been subpoenaed and there the SEC also asserted that pursuant to its regulations, these were privileged.

In this latter case, the Commission occupied a unique position. Coming in as a so-called "friend" (amicus) of the court, the SEC submitted a voluminous brief attempting to promulgate the doctrine of "reasonable relationship to the market price." Although these sales reports were the best

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Rearmament and Prices

By MARTIN R. GAINSBRUGH*
Chief Economist, National Industrial Conference Board

Economist, decrying prospect of "a little beneficial deflation," sees in rearmament program a threat of more inflation and renewal of higher taxes. Looks for possible budget deficit, and concludes, until inflation is offset by increased productivity, move to higher plateau of prices will be resumed.

Our national history reveals no single instance of the introduction of "a little beneficial deflation" after the cataclysm of war. Instead, the historic pattern is that of a series of violent, chain reactions which produce drastic deflation, until a subsequent period of postwar recovery is established. Furthermore, this avalanche of downward price readjustments after a major war requires little time, relatively, to overwhelm the price structure. Our wholesale price index, for example, fell by some 60 to 70 points from the early summer to the end of 1920. Certainly the burden of proof rests with anyone in government or business who, against this fatal backdrop of unrestrained postwar deflation, contends that this time the historic sequence may not be repeated.

Martin R. Gainsbrugh

Deeper rooted, perhaps, than this fatal overhang of past postwar collapse is the conviction on the part of millions of consumers, producers and distributors alike that today's prices for goods and services are excessive, and must collapse of their own weight. Inflation tightens its pincers in all quarters, and a lower price level—but not depression—is regarded as the universal antidote. In the midst of this growing discontent with our present price structure, there exists this curious paradox. Few, if any, individuals will concede that the prices they receive for their own personal services or for the commodities they sell are too high. Yet none of us can escape the hard fact that what is one man's income is another man's cost, or that the price paid by the buyer is the income of the seller.

Effect of Rearmament Program

A highly volatile new element has been introduced into the price equation during the past month. We seem to be moving rapidly into the initial stages of a giant rearmament program, possibly similar in dimensions to that of the year ending with Pearl Harbor. In that calendar year we spent about $10 billion for defense; in the months immediately preceding the attack, defense expenditures hit an annual rate of nearly $20 billion. At today's price level, such a program would cost at least twice that amount. This is not intended as a forecast of the cost of implementing the ERP program along military as well as economic lines. Thus far, the additional proposed expenditures are far less, in official statements. But these figures are indicative of the rapidity with which such expenditures might mushroom, once the initial commitment has been made.

In some sectors the new rearmament program has been welcomed as a timely offset to the connotations of depression, which some have read in the recent price break. Those who read into this movement the same "healthy" stimulus to business activity as in 1940-41, pass over too quickly significant economic distinctions between the economy of that period and today. We embarked upon World War II with slack in our labor force and with excess capacity in many of the durable goods industries of pivotal armament importance. Our agricultural plan was functioning at low gear, and construction and capital markets were greatly depressed. As late as January, 1941, we had nearly eight million unemployed. Steel production in 1940 was only 67 million tons, while the industry was operating at about 80% of capacity. The total volume of manufacturing production in 1940 was little more than half of what it is today.

Against this background of slack it was possible then for this nation to have both guns and butter as we moved toward the active phases of a shooting war. Today, in contrast, we have virtually every member of our normal labor force at work. In fact, about 1.5 million of the "abnormal" recruits to our wartime labor force are still working. In addition, we are straining at existing capacity ceilings in almost every pivotal durable goods industry that would be essential in armament production. Finally, wholesale prices are about double what they were in the last guns-and-butter period, and our public debt is some $200 billion greater.

Because of this change in economic environment, it would not require much of an increase in our present military budget to swing the balance toward renewed inflation. Heightening the physical requirements for rearmament of tight commodities, such as steel, could shift us rapidly from a guns-and-butter stage in a new, yet sadly familiar, period of growing scarcity of civilian goods, with all the accompanying restrictions such a development would introduce.

Using figures which have already had some circulation in Washington, let us assume, just for purposes of illustration, that the Federal budget is raised to $50 billion or $55 billion, primarily as a result of expenditures which are found to be necessary for purposes of national security. Such a budget would actually represent a lower percentage of our gross national product than was recorded in 1941. Yet this increase of say $15 billion for this purpose would bring in its wake the necessity for deficit financing and the additional inflationary impact of the resort to "printing press" money to offset deficit operations. The Federal surplus has in recent months been one of the major factors exercising restraint upon credit and upon further price increases. With the armament budget in question, this restraint would be replaced by a rapid expansion of our entire credit mechanism.

More Taxes?

Think, too, of the subsequent changes in the tax structure under intensified rearmament. The current drive toward tax reduction would be short-lived under this assumption. Furthermore, since we are already at capacity operations, there would quickly come the demand for allocation of essential industrial materials, allocations of essential manpower, and, without question, price and profit controls of various types. About the only major area of slack is the length of the workweek. If we were to resort again to suction wage rates and premiums for overtime, even this slack might prove highly inflationary in its results. To advocate or accept rearmament as the answer to our present economic dilemma—which arose primarily from the cost and the burden of financing the war just ended—is to sow the wind and reap the whirlwind.

Significant changes have occurred during the past year which bear directly upon the current and future course of prices. These changes suggest that the zenith of the inflation of World War II has been approached, if not passed, and that we are moving from the first, or "catch-up" stage of our postwar evolution to a second stage which needs far more study that has thus far been given it. Money supply is turning from an active to a passive role. Price is determining cost, instead of cost determining prices, as in Stage One. Markets are changing character, with sharp declines recorded in numerous types of consumption expenditures. Meanwhile, cost rigidity—primarily in labor costs—limits price reductions.

The Board's study early in 1946 concluded that we were moving up at that time toward a new plateau, as in the Mid-Twenties, for our whole wage-cost-price structure. This plateau would be reached with the cost of living some 40% to 50% above prewar, with a slightly higher percentage increase in the structure of wholesale prices. I see no forces at work which make a downward adjustment necessary in the probable level at which this postwar plateau will finally emerge. Unless an answer is found for the failure to improve productivity, this plateau will be struck at an even higher level.

*Excerpts from an address by Mr. Gainsbrugh at the Eastern Spring Conference of the Controllers Institute of America, New York City, April 5, 1948.

War Financing in Two World Wars

By R. C. LEFFINGWELL*
Chairman, J. P. Morgan & Co. Inc.

Prominent banker contrasts Treasury's methods of financing in World Wars I and II, and relation thereto to inflation. Says in both wars, though methods were different, great public-spirited, nationwide efforts were made to avoid inflation, but following hostilities in first war all inflation checks were abandoned. Sees no possibility of war on pay-as-you-go basis.

I am reminded of the day nearly 31 years ago when, almost at the door of Plattsburg, I was summoned to the Treasury at Washington and told by Secretary McAdoo to go off with Mr. Broughton, the able Chief of the Division of Loans and Currency, and write a circular for the First Liberty Loan. The loan bore 3½% interest fully tax exempt, and was for $2 billion. The ablest bankers thought that no such amount could be sold! They were wrong.

R. C. Leffingwell

The next thing to do was to set up the machinery for depositing the proceeds of the loan among all the banks of the country pro rata to the subscriptions made through them. No such machinery had ever existed before. Treasury deposits had previously been made by the Secretary of the Treasury according to his judgment or whim. With the aid of a distinguished committee, consisting of James Alexander of the Bank of Commerce, George Davison of the Central Hanover, and Jerome Hanauer of Kuhn, Loeb & Co., the automatic and equitable machinery was then created which, with appropriate modifications, has been used ever since. For that First Liberty Loan provision had to be made to secure the government's deposits by the pledge of miscellaneous bonds and commercial paper, for there were not any government bonds then to speak of.

The total government debt upon our entrance in the war in 1917 was only about $1¼ billion. It grew to be 26½ billion at the peak in 1919. Now our government's annual budget is 1½ times that.

Treasury methods were different in those days. Fiscal fashions change like the length of women's skirts or the width of their shoulders. The Treasury was severely criticized for not paying high enough rates of interest, though the rates on Liberty Loans rose from 3½% to 4¾%. Now as you know the highest rate is 2½%.

When the Second Liberty Loan came the Treasury persuaded Congress, not without difficulty, for the first time in American history to issue taxable bonds. The bonds were subject, with minor exceptions, to income surtaxes and to excess profits taxes. From that time forward fully exempt United States bonds have not been issued, though some of the Fifth or Victory Loan notes were issued fully exempt.

In those days the Treasury shunned the practice of direct borrowing from the Federal Reserve Banks, although persons and corporations were encouraged to borrow from their banks to buy Liberty Bonds, and the banks in turn borrowed from the Federal Reserve. The reverse policy was followed by the Treasury in the Second World War, when borrowing to buy bonds was discouraged while direct borrowings by the Treasury from the banks and Federal Reserve open market purchases were a matter of course.

In the First War the Treasury never pegged the price of its bonds, though the War Finance Corporation and the Bond Purchase Fund supported them to some extent without pegging. Nowadays pegging is the regular practice.

When the first war was over and inflation was rampant the Treasury and the Federal Reserve cooperated in applying the classical method of inflation control, and the Federal Reserve Bank rate was raised to 6% and then to 7% in 1920. My last act before I retired from the Treasury at the end of June, 1920 was to issue a 6% one year certificate of indebtedness. Dear money resulted in a drastic deflation. Now the rate on certificates is 1⅛%. The Treasury and the Federal Reserve have kept money very cheap by Federal Reserve buying when necessary. This is not the occasion for me to discuss that policy.

The first time I ever spoke to the Academy of Political Science was in the Spring of 1920 when I ddressed the Academy on "Treasury Methods of Financing the War in Relation to Inflation." Now again inflation is a problem.

Both the First World War and the Second World War were well financed, and inflation was on the whole well controlled during the wars. Methods were different, but in both wars a great effort was made, a great public-spirited, nationwide effort was made, to avoid avoidable inflation. The only fundamental difference arose after the wars.

It has been suggested that a pay-as-you-go policy be adopted, if a Third World War comes, which God forbid. Now the truth is that a pay-as-you-go policy in war is not a practical policy. Economically speaking war is the business of destruction. To engage in the business of destruction prudently and conservatively, avoiding any greater government expenditure than the taxpayers of the country can meet out of current taxes, means that we shall send our sons and grandsons to war with bare fists, and lose the war, prudently, with a balanced budget and a dear money policy; and leave it to our conquerors to inflate us. It is a doctrine of unutterable nonsense. What must be done, and what was done in both wars, is to raise taxes as high as, in the judgment of Congress and the Treasury, they can be raised, consistently with maximum production for the conduct of war, and to sell as many bonds as possible to the people. War is economic waste. The consequent inflation represents the difference between the government's necessary expenditures for the conduct of the war and the current savings of the people collected by the government in taxes and war loans.

*Introductory address of Mr. Leffingwell at the meeting of Academy of Political Science, New York City, April 1, 1948.

The State of Trade and Industry

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

Total industrial production again showed a moderate falling off the past week. Notwithstanding the fact that many industries continued to operate at a level slightly above that of a year ago, curtailment of transportation facilities and labor troubles hampered operations in several sections of the country. General weather conditions were favorable for outdoor work and order blacklogs remained at a high point in some lines.

* * *

In the bituminous coal industry, production suffered a further decline last week as the miners' strike remained unsettled. Output of soft coal in the week ended March 27, 1948, as estimated by the Bureau of Mines, was 2,120,000 net tons, as against 4,360,000 tons in the preceding week. Production in the corresponding week of 1947 was estimated at 12,182,000 tons.

Stocks of bituminous coal and lignite held by industrial consumers and retail dealers, the Bureau of Mines reports, decreased 1.9 and 14.5%, respectively, during February. Industrial consumption and retail dealer deliveries also decreased during February, leaving reserves of both of these products on hand sufficient to last 28 days on March 1, 1948.

Notwithstanding the temporary restraining order served upon John L. Lewis on Monday of the current week by U. S. District Court Justice Matthew F. McGuire, the mine leader conferred with his attorneys but remained silent. Meanwhile the majority of the nation's soft coal miners failed to return to work. As for the bituminous coal operators, it is believed they will abide by the court order to bargain collectively with the United Mine Workers of America. On Tuesday of this week 7,000 anthracite miners in an answer to the threat of contempt action against the United Mine head struck in sympathy with their brother miners in the soft coal fields.

* * *

In keeping with the promises of both Houses of Congress, President Truman's veto of the income tax bill which is calculated to provide $4,800,000,000 in tax relief to the country's weary taxpayers was promptly overriden. The tax cut, it is felt, may be of short duration because of large governmental outlays already set up for European recovery and proposed plans for national defense.

* * *

Heavy consumer buying in the few days just before Easter boosted total retail volume in the week moderately above that of the previous week. Total dollar volume was well above that of a year ago when Easter was on April 6, two weeks later than this year. Favorable shopping weather prevailed in most sections of the country.

Wholesale volume rose slightly during the week. Although new order volume was low, re-orders of Spring merchandise continued to be numerous. Total volume was close to the high levels of a year ago. Buyers continued to be price conscious and were insistent that ordered goods be delivered promptly.

STEEL OUTPUT DROPS TO 84.4% OF CAPACITY DUE TO COAL STRIKE

By the end of this week close to 600,000 tons of steel will have gone down the drain due to the coal strike—almost enough to support a third of the direct steel requirements for the first year of the Marshall Plan, states "The Iron Age," national metalworking weekly, in its review of the steel trade.

It is not far-fetched to expect that before the steel industry regains its normal operating schedule the coal strike may cost two million tons or more of steel that cannot be made up, the magazine notes. This means a tighter steel supply, more controls, more mal-distribution and much harm to steel mill equipment and furnaces.

If the coal strike should be suddenly settled the steel industry has more recuperative powers than is generally indicated by dire predictions, "The Iron Age" points out. In past coal strikes the resumption of operations to a high level has been more rapid than generally estimated. It remains, however, that when steel is lost—it is lost and it cannot be made up when the pre-strike rate had been close to capacity.

As to the steel shortage because of the coal strike, states this trade authority, the South, the Southwest and the West Coast have been hit much harder than the East. Those areas are the ones which could least stand the drop in steel supplies. Thus, once again, the Western and Southern customers will be among the first to pay heavily for months to come because of a coal strike. Part of the blame for the laxity of handling the coal crisis must be laid at the door of the Administration.

Based on the current situation the gamble which many steel firms took, in an effort to keep their open hearths busy, was a rugged one. In the final stages it may be costly to coke ovens, blast furnace linings, scrap supplies and general maintenance and spells trouble in maintaining steel output later.

With all these headaches the steel industry bids will to furnish its critics with plenty of so-called ammunition on the capacity problem and why there is a shortage of steel 2½ years after the war when other shortages are more or less cleared up. The real facts are, the magazine concludes, that since the war the industry has faced five coal strike crises, a major steelworkers' strike, numerous setbacks due to weather and other unforeseen reasons and a general wearing out of equipment, all of which lost millions of tons of steel.

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 84.4% of capacity for the week beginning April 5, 1948, a decrease of 5 points, or 5.6%. This compares with an actual rate of 88.3%

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Observations . . . .

By A. WILFRED MAY

Confiscation Continues

Under the New Tax Reduction Act

The final enactment of the tax reduction bill has probably settled for at least a year the rates of taxation payable by the country's individuals, but the attending Presidential veto and public discussion reveal widespread misconception about the nation's tax status—past, present and future. Realistic clarification of our true position in the long-term picture must be made, if we are to avoid economic and political disaster.

A. Wilfred May

In the first place much of the presumably-impartial editorial commentary as well as that which is politically-inspired, has been based on the premise that the issue at stake is a drastic reduction of taxes to an abnormally low level as a kind of windfall to the rich.

Nothing is further from the truth! **In its true long-term perspective, the fact that the current reduction for all but the lowest income groups is merely a small chipping-off from the wartime emergency burden** can be appreciated from the following data showing the tremendous *net* increase in the individual taxpayers' burden.

Effective Rates of Tax at Various Income Levels
(For single person without dependents)

Net income	$2,000	$10,000	$25,000	$100 000	$1,000,000
1925-27	.3%	1.5%	4.9%	16.1%	24.1%
1936-39	1.6	5.6	11.2	33.4	68
1945-46	14.3	23.5	37.5	63.5	84
1948 (new law)	11.6	21.2	34.4	58.8	77

The crux of the matter is that for all tax-payers even the new "bargain" rates are far higher than they were pre-war. Presumably the larger 10-year boosting of rates in the lower brackets is due to the earlier reaching of the limit of confiscation of our wealthier citizens; the millionaires having had 68% deducted already ten years ago. The current measly gesture toward alleviation of their plight surely can do little to enable them to contribute to the improvement of the capital markets or the encouragement of enterprise.

Tax Confiscation of Inflated Income

The above-indicated tremendous degree of tax increase in the low and middle brackets, together with the completion of the confiscation of the upper-level recipients, more than overbalances any alleged ameliorating effects from our intervening national inflation. This is so in the case of wage and salaried workers as well as fixed-income recipients. It is true that the salaried worker of ten years ago, even without improvement in the job he performs, has been elevated to a higher income bracket as a result of the inflation. But, in the first place his living costs have also risen, and in the second place, the boost to his income has been nowhere nearly commensurate with the multiplication of his tax levy.

This is illustrated by the following summary of a recent study of the relation of our tax rises to living expenses. It is based on the assumption of a rise of 60% in the general cost of living during the past 10 years.

If 1939 gross income (of married man—no dependents) was	$20,000
His after-tax income was	18,486
Today's after-tax income for equivalent living standard	31,149
Today's gross income needed to yield such after-tax residue	52,751

In other words, the $20,000-income man of a decade ago now requires $52,751 to retain his same real position in the community. Similarly the $50,000 man of 1939 now requires no less than $176,435 of gross income to maintain his erstwhile consumer status.

The attempt to defend our higher tax rates on the basis of the nation's greatly increased debt and other inflationary factors is likewise disproved by the rising *proportion* of the national income taken by taxes. As was shown by Edmond E. Lincoln's article in the "Chronicle" of April 1, taxes now take a full 30% of the national income, contrasted with only 11% in 1929-1930.

More Rate Progression or Capital Levy?

The extent to which the distribution-of-wealth aim in addition to revenue-garnering, has been accomplished through the politically-attractive progressive-rate technique has recently been demonstrated by Senator Millikin.

The $5,000 income man has been paying 10 times as much as

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W. E. Hutton & Co. Wire to Mesirow

W. E. Hutton & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, announce the installation of a direct private wire to Norman Mesirow, 135 South La Salle Street, Chicago, member of the New York Stock Exchange.

Cleaver With Dittmar Co.

DALLAS, TEX.—James S. Cleaver has become associated with Dittmar & Co., Wilson Building. Mr. Cleaver, a native of Dallas has returned from Chicago where he received investment banking training with Halsey, Stuart & Co. Inc. He served as a pilot in the Naval Air Corps during the war.

Future Trend of Interest Rates

By CLAUDE L. BENNER*
Vice-President, Continental American Life Insurance Company

Although asserting it can be taken for granted that not only present but any future Administration is likely to want to keep interest rates low and thus continue their control, Mr. Benner holds too much stress is placed upon this policy, and, if followed through by Federal Reserve bond price "pegging," may cause further inflation. Contends immediate inflation danger is passed, barring drastic rearmament program, and under present pattern of interest rates, mortgage rates are too low.

In any discussion of interest rates today it must always be kept in mind that they are controlled by some government agency. They are not determined by the free play of the forces of supply and demand. This is the fact whether it is the rate on long term bonds or on real estate mortgages. The agency controlling the rate on bonds is the Federal Reserve Banks. Since mid-November of last year these institutions purchased nearly $6 billions of government bonds in order to keep their price from going below par. In the case of mortgage loans, as you all know, the level of interest rates has been more or less established by the Veterans and the Federal Housing Administrations.

Claude L. Benner

Moreover, I think that it can be taken for granted that not only the present Administration but any Administration that is likely to follow it is going to want to keep interest rates low. Frankly, I think that in spite of our large Federal debt, it is a mistake to put so much emphasis upon the necessity of low interest rates. But at the moment the trend of thinking in this connection is opposed to mine and you would do well to base all your calculations on the fact that the government in the foreseeable future will make every possible attempt to keep the general level of interest rates no higher than it is at the present time.

Assuming this to be true, there are only two fundamental questions on interest rates about which there can be much difference of opinion. The first is to determine what are the limits to the government control of the interest rate. The other is to decide what is the proper differential in interest rates that should exist at the present time among various classes of investments such as bonds, stocks and real estate mortgages.

*Remarks by Mr. Benner at a meeting of the Mortgage Bankers Association of America, New York City, April 6, 1948.

Federal Reserve "Pegging" Policy

Stripped down to its barest essentials, the only way the government can control the interest rate is for it to decide what rates it wants to support on the various issues of its bonds and then have the Federal Reserve Banks buy as many as may happen to be offered to it at this price. Without attempting to explain how it works, it is a fact that such purchases by the Federal Reserve Banks increase the money supply of the nation. Other things being equal, an increase in money supply tends to make prices go up. It can be definitely and categorically stated, therefore, that the limits to which the government can control interest rates will depend upon the degree to which it it willing to increase the money supply of the nation and, consequently, endanger the price level. In other words, the danger of inflation is what the government runs when it supports the bond market at an interest rate lower than that which would be established by a free market.

In considering, therefore, whether or not interest rates will go somewhat higher over the immediate future, it seems to me that we should turn our attention to a consideration of the factors which will determine the movement of prices during this period of time. If one feels that there is any appreciable danger that prices will continue to go up and that the country may have further inflation, then I believe the public would not countenance central bank activities, which would feed the fires of inflation, merely to keep government bonds at par. The harm that would result from any appreciable further inflation is infinitely worse than any harm that might result from government bonds selling below par.

Immediate Danger of Inflation Over

Time does not permit me to set forth all the reasons why I think the immediate danger of inflation is ever, barring a drastic rearmament program which would lead to further huge government borrowing, but the following are some of the principal reasons for my belief.

(1) Our manufacturing companies have already completed on the whole about 75% of their postwar expansion programs. By the end of the year they will have completed close to 90% of this program. It seems almost certain, therefore, that we cannot expect such a large demand in the capital goods industries after 1948 as we have had during the past three years. It would appear at the moment that there will be fewer new securities offered and that bank credit will not expand to the same extent in the coming year as it did in the past. With the exception of real estate, and possibly public utilities, the de-

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From Washington Ahead of the News

By CARLISLE BARGERON

Washington commentator says professional politicians are actually behind campaigns in behalf of MacArthur and Eisenhower and cites conflicting philosophies of behind-the-scene propagandists as warning to "political amateurs" against becoming involved in political arena. Asserts real objective of "manipulators" is to regain previous power in national politics.

If those political amateurs who are forming clubs around the country in behalf of such and such a man for the Presidency realized what the professionals are doing, they would probably allow that politics is quite a game and return to their knitting. They are moved undoubtedly by the success of the Willkie volunteers in 1940. But those things happen only once in a blue moon. There is every evidence this year that the strings are being pulled, the manipulating being done by the professionals. The amateurs if they persist are certainly going to get burned.

Carlisle Bargeron

None but the professionals could think up such a candidacy as that of the 68 year-old MacArthur. None but the professionals could work out such a way of taking a world-famed warrior to head off the internationalists.

Indeed, it is a commentary on something that rival Isolationists and Internationalists—both terms being used in the broad and loose sense in which they are applied by the propagandists — would rally behind two military men the Internationalists behind Eisenhower. Presumably both men think equally in what is known as "global" terms. It is difficult to see the difference between them on this score.

Yet, although amateurs were about as far as the Eisenhower boom got before his withdrawal, the professionals were about to take it up and they would have been the Internationalists.

Similarly, the professionals in charge of the MacArthur campaign are the Isolationists whom the political turn of events in recent years have cast into the discard, and the General's strength is in what has been known as Isolationist territory.

These men are seeking a comeback and they have a darned good vehicle with which to do it. Front and center of it is Phil La Follette, former Wisconsin Governor and son of the elder La Follette who founded the famous Wisconsin dynasty that was to play such a prominent part in National politics for years and years. Along with him is Hanford MacNider, former President of the American Legion. He is an Iowan.

The absurdity to which the isolationist and internationalist terms are applied is emphasized in his case. He was a hero of World War I and he insisted upon going back as a combat officer in World War II. Unlike Stassen or Phil he was not a staff officer or a flag officer. This time he succeeded in losing an eye.

Yet he was an America Firster and is therefore one of the despicable isolationists, in the eyes of the Eastern propagandists.

It takes the professional touch which they have, however, to seek to stage their political comeback with a General. Yet there must be some basis for their reasoning. Col. McCormick of the Chicago "Tribune," an Isolationist, was one of the first to flush the General's candidacy. Presumably be still feels kindly towards him although he seems to have switched his allegiance to Taft, after the General suggested to him that he ought to remain in the background of the campaign. But his journalistic vociferousness has been taken up by William Randolph Hearst, an Isolationist.

It is doubtful if any of these professionals behind MacArthur expect to make him President. More likely they hope to block Dewey and Vandenberg, and Stassen to the extent that he needs blocking. In 1940 Dewey was looked upon as an Isolationist but he is considered as embracing the Eastern Internationalists in 1944.

As MacArthur's campaign stands today, his progress redounds to the advantage of Taft. This presumably would suit his backers fine.

The lesson to be drawn by the innocent bystanders, though, is that while they put much stock in the personality and glamor of the various candidates, the main importance attaches to those who are behind them. When two groups of politicians of widely conflicting philosophies on international affairs, are prepared to rally behind two generals, of almost the identical training in life, of almost identical outlooks, there seems to be a situation in which the uninitiated should be wary about becoming involved.

Eisenhower, under the circumstances, was a very wise man to get out, and he will be wise if he stays out.

Compulsory Retirement as a Social Problem

By WILLIAM R. SPINNEY

Writer sees in expanded compulsory retirement and pension plans incentive by labor to enforce upon society unwise pension exactions and creation of a class of pensioners with dominating political power. Says misuse of pension systems may harm employee relations and cause disservice to industry and warns of dangers of high pension commitments in depression periods.

Innovations affecting the economic and financial functionings of society, no matter how benevolently conceived, frequently develop unexpected results which do more damage than was occasioned by the conditions which the innovations were designed to remedy. That is the present threat of current systems of compulsory retirement of industrial employees on pensions.

William R. Spinney

Encouraged by incentive taxation, and stimulated by the desire of employers to quiet industrial unrest, the pension retirement idea has spread rapidly in the past few years. Now two unforeseen results are beginning to manifest themselves, both of which could have a profound influence upon our society.

The first, and most immediate result, is the threat of labor to seize control of the pension initiative and to force upon society, through industry, unwise pension exactions, including a labor union tax upon products. This is not the first time that John L. Lewis has set a pattern for other labor leaders. They may be expected to follow his lead again.

The second, and eventually the most far reaching result, is the creation of a class of pensioners upon an income basis inadequate for their requirements, who may become easy recruits to such public pension movements as that of Dr. Townsend, which a few years ago came so uncomfortably close to gaining control of the Congress.

The first industrial pensioners are now filtering into the population. Many of them are finding their incomes but a fraction of their former earnings, and so they are walking the streets hunting for work. This they are seldom finding even in the present period of strong business activity. With a pension psychology created by the small amounts they now receive it is an entirely human reaction for them to turn to public old age pensions as soon as hopelessness replaces their present ambition to supplement their private pensions with earnings from a new job. The potentialities of this possibility over the years ahead are rather terrifying.

The proper time to control a development harmful to society is at its inception. The longer the delay in the application of remedial action the greater the damage caused, and the less effective the action finally taken.

It would appear that the responsibility for meeting these two new threats to the future welfare of the whole people will fall largely upon two categories of interested individuals: employers and legislators.

To expect much from legislators if employers fail in their responsibility is rather futile wishthinking. Labor as a pressure group is too potent to resist unless the legislator is dealing with conditions capable of developing popular support for any adverse stand he may take. There is not likely to be much popular support for legislation restricting labor taxation of products, or for resistance to demands for larger old age pensions, if our population develops an appreciable percentage of industry-pensioned people trying to live on an income which is manifestly inadequate.

Industry pensions are probably here to stay. Properly used they are basically sound. Although the period of experience is still short, there have been notable examples where their application has reduced, rather than increased, the cost of production. But there have also been notable examples where their misuse has harmed employee relations and done a disservice to industry. A business entity which has been absorbing old age dependence by continued employment of superannuated workers, creates insecurity rather than security if it adopts an inadequate pension schedule and retires its older employees on an income below subsistence. Employees are quick to recognize this fact, and under such circumstances any appropriation for pensions is worse than wasted so far as employee relations are concerned.

Most of our pension experience has fallen within a period of high business earnings. It is certainly not to be advocated that a firm should make pension commitments in a period of high earnings which cannot be met in a period of recession. Possibly the answer lies in a combination of a minimum pension, plus profit sharing integrated with the pension scale. This gives flexibility of costs to meet changing business conditions, incorporates the principle of incentive compensation, and enables the smaller business organizations to set up deferred compensation plans comparable in employee appeal to those offered by larger companies.

Whatever the plan adopted, those employers who are conscious of the broader social aspects of their actions will not overlook the threat of labor taxation of products for social benefit funds, where adequate social benefits are not supplied by industry direct, and they will not neglect to appraise the political effect of large numbers of voters trying to live on inadequate pensions.

Sees Military Outlays Increasing Inflation

Jules I. Bogen, of New York University, tells Mortgage Bankers inflation will not only swell demand for funds, but will also lead to artificial measures by Federal Reserve and Treasury to curtail supply of money.

The possibility that universal military training and the draft with their stimulation of heavy government purchases of many types of goods and a contraction of the labor supply, will give inflation a new lease on life for a year or longer was asserted on April 6 by Dr. Jules I. Bogen, professor of Banking and Finance of the Graduate School of Business Administration of New York University, in an address at the Eastern Mortgage Clinic of the Mortgage Bankers Association of America which opened yesterday at Hotel Commodore.

Dr. Jules I. Bogen

According to Dr. Bogen, "The trend of interest rates for the next year or longer will be determined more by the duration and intensity of the present inflation than by any other single factor. It is a powerful force making for higher rates of interest throughout the economy. It does so through increasing the demand for funds and fostering credit control and public debt management policies of a restrictive nature that raise interest rates artificially," Dr. Bogen declared.

"The reversal in the trend of interest rates over the past year was brought about in large part by the more active demand for money from corporations, municipalities and the building industry. We would have had some increase in the demand for capital in any event, but the increase was exaggerated by the simultaneous rise in commodity prices and wages. The higher price level expanded greatly the borrowing requirements in both the bond and mortgage markets. Corporations, for example, reported an increase in inventories and receivables of $11 billion in 1947, chiefly because of the price rise. If this major rise in working capital requirements had not occurred, corporate borrowing at the banks and corporate bond financing would have been substantially smaller.

"Inflation not only swells the demand for funds through what might be called 'natural' causes, but leads also to 'artificial' measures to curtail the supply of money on the part of the Federal

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Sees Current Profits Enormously Exaggerated

Henry Hazlitt says depreciated money unit falsifies comparison of current business gains with those of other periods. Cites inadequate depreciation and replacement provisions.

Henry Hazlitt, Associate of "Newsweek," in a talk before the Controllers Institute of America in New York City on April 6, vigorously combatted the contention that present business profits are swollen and abnormal.

"In our world today," Mr. Hazlitt said, "a very strange thing has happened. Profits, though always uncertain, and likely at any moment to become losses, are regarded as sinful. Only wages are virtuous. Moreover, profits have come to be regarded not only as sinful, but as unhealthy for the national welfare. Reformers tell us that past depressions were the result of the fact that profits were too large. Yet when we look at the figures, we find that profits constitute an astonishingly small proportion of the national income. In 1947, corporate profits after taxes amounted to 8½% of the national income, in 1946 to 7%, in 1945 to 5%. Even in 1929 they were less than 10%, and in 1931, 1932 and 1933 they were actually a negative sum. In 1947 profits averaged 5½ cents per dollar of sales.

Henry Hazlitt

"Against this, wages of employees usually run in the neighborhood of 60 to 70% of the national income. Yet it is the upward variation in the amount of profits—usually a minute part of the total national income—that now usually gets the blame for causing economic trouble."

Continuing his talk, Mr. Hazlitt remarked:

"All profits have come to be stated in terms of a single commodity—the commodity that is used as money. The amount of profits is determined by bookkeeping. In the evolution of bookkeeping, constant efforts are being made toward increasing precision. Business men seek to determine not only whether their business is profitable as a whole, but the relative profitability of different parts and branches of it. And this has led to the refinements in cost accounting.

"Yet when the value of the monetary unit in which all books are kept is itself rapidly changing, and when the value of the monetary unit is debased by government overproduction of such units, traditional bookkeeping and accounting methods give false results. Traditional accounting methods assume that the purchasing power of the monetary unit is stable. When this purchasing power changes, the accounts give misleading information. Compared with the prewar period 1935-39, the dollar today has a wholesale purchasing power of less than fifty cents.

"This by itself falsifies all profit comparisons. Corporations are

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United Front in Securities Industry

By HOMER A. VILAS*
President, Association of Stock Exchange Firms
Partner, Cyrus J. Lawrence & Sons, Members of New York Stock Exchange

Stressing need for unanimity of purpose and united front by all members of securities industry, Mr. Vilas points to recent progress in settling major problems. Calls attention to efforts in Congress to reverse trends in tax structure which have hampered equity capital, and is optimistic regarding Federal Reserve easing of present margin restrictions. Calls for action to combat demagogic and uninformed attacks on securities business, and urges more public education regarding its functions and operations.

This gathering indicates a unanimity of purpose within our industry which is significant, and which will, if carried to fruition, mean much to that objective. We are engaged in a great industry and whether we specifically represent the Chicago Stock Exchange or the New York Stock Exchange, our common problems can be solved best by coordinated action. Never in my 33 years in this industry have I seen such a sincere desire on the part of nearly everyone in it to contribute unselfishly everything possible to the welfare of the business—so that it may perform its essential functions in the nation's economy and to do its part in making our nation the power for peace it should be.

Homer A. Vilas

I wish, indeed, all of you might have been at the recent meeting of the Board of Governors of the Association at Atlanta. There was apparent a unanimity of purpose without our ranks—representative of the Stock Exchange industry, the investment banking industry and the other divisions of our business—which was encouraging to see. I am confident that there is that same spirit here at Chicago and particularly within the Chicago Stock Exchange Membership.

If I sensed correctly what was in the minds of the members of the Association there and the members of the Board of Governors as they represented the thinking of the industry in all sections of the country, it was that demagogues, economic theorists, bureaucrats and politicians have toyed with our national economy enough—that it has gone beyond the point where individual industries, like ours, are unfairly and inequitably restricted in their normal and propr functions. And furthermore, that it is up to us to give our active support to those in government who are as interested as anyone else in the preservation of the American Way.

In my opinion the feeling of the Association Board of Governors is identical to that of the Boards of the Chicago, New York, Boston and other exchanges as well as the Boards of the IBA and the NASD and the other segments of our securities industry.

Coordinated action will bring results.

Progress on Major Problems

I am glad to be here this afternoon to discuss some of our problems with you because I confidently feel that I can report progress with respect to our major ones. If the major problems are solved the minor ones will take care of themselves, to a large extent.

In the first place, the American economy is fundamentally sound. The people engaged in it have not succumbed to ideological influences to which they have been subjected for several years. As evidence increases that the American system yields both greater

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*An address by Mr. Vilas before the Stock Brokers Association of Chicago, Chicago, Ill., April 6, 1948.

Business Man's Bookshelf

Bank Credits and Acceptances in International and Domestic Trade — third edition — Wilbert Ward and Henry Harfield—The Ronald Press Company, 15 East 26th Street, New York 10, New York—cloth—$4.50.

Business Organization and Finance—Homer V. Cherrington—The Ronald Press Company, 15 East 26th Street, New York 10, N. Y.—cloth—$4.50.

Constructive Labor Relations — Experience in four firms—Industrial Relations Section, Department of Economics and Social Institutions, Princeton University, Princeton, N. J.—paper—$2.00.

Economic Aid to Europe: The Marshall Plan — Compiled by Robert E. Summers—H. W. Wilson Company, 950 University Avenue, New York 52, N. Y.—fabrikoid—$1.50.

Money Market Primer—A study of the Institutions and operations of the New York Money Market—John T. Madden, Marcus Nadler, and Sipa Heller — The Ronald Press Company, 15 East 26th Street, New York 10, N. Y. — cloth—$3.00.

Personal Finance — Elvin F. Donaldson — The Ronald Press Company, 10 East 26th Street, New York 10, New York—cloth—$4.50.

Postwar Monetary Plans and Other Essays — Third Edition — Dealing with the problem of economic stability in both its domestic and its international aspects—John H. Williams — Alfred A. Knopf, New York—cloth—$2.65.

Questions and Answers About the International Bank for Reconstruction and Development—available in English, Spanish and French — International Bank for Reconstruction and Development, 33 Liberty Street, New York 5, N. Y.—paper.

Dealer-Broker Investment Recommendations and Literature

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

Comparative Insurance Stock Prices—Tabulation—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

Low-Price Dividend Payers—List of 24 low-price dividend payers with appreciation possibilities—Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

New York City Banks—Preliminary earnings for first quarter 1948 for 20 New York City Banks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

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

Strength of the Textile Industry with particular reference to cotton textiles and rayons—brochure—Baker, Weeks & Harden, 1 Wall Street, New York 5, N. Y.

When Is the Time to Buy Securities? — Circular — Herbert E. Stern & Co., 30 Pine Street, New York 5, N. Y.

* * *

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

Bendix Aviation Co. — Investment appraisal—Kalb, Voorhis & Co., 25 Broad Street, New York 4, N. Y.

Cleveland-Cliffs Iron Co.—Circular—Gottron, Russell & Co., Union Commerce Building, Cleveland 14, Ohio.

Cooper Bessemer Corp.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Also available is a memorandum on **Electric Power & Light Corp.**

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

Dorset Fabrics, Inc.—Memorandum—Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

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

40 Wall Street Corp.—Special report—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Also available are reports on **Alden Hotel Corp.; Broadway-Trinity Place Corp.; Cerana Apartments; Hotel Drake Corp.; Lombardy Hotel Corp.; Sherneth Corp.; Waldorf-Astoria Corp.; Wall & Beaver Sts. Corp.; Westinghouse Building**; and a supplemental report on **79 Realty Corp.**

General Crude Oil Co.—Memorandum for broker-dealers only—J. W. Gould & Co., 120 Broadway, New York 5, N. Y.

Home Insurance Co. — Merger developments, possibilities and future—White & Co., Mississippi Valley Trust Building, St. Louis 1, Missouri.

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

Northern Engineering Works—Memorandum—Fitzgerald & Co., Inc., 40 Wall Street, New York 5, N. Y.

Northern Indiana Public Service Co.—Analysis—Berwyn T. Moore & Co., Inc., Marion E. Taylor Building, Louisville 2, Ky.

Also available is an analysis of **Texas Eastern Transmission Corp.**

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.

Portsmouth Steel—Data—Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **Central Illinois Public Service, Beryllium Corp.**, and **Seminole Oil & Gas.**

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

Pure Oil Common Stock—Survey—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Time, Inc.—Memorandum—Bond & Goodwin, Inc., 63 Wall Street, New York 5, N. Y.

United Air Lines — Summary and analysis—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

United Aircraft Corp.—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

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.

May 28, 1948 (Pittsburgh, Pa.)
Pittsburgh Securities Traders Association Annual Outing at the Shannopin 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.

June 18, 1948 (Boston, Mass.)
Municipal Bond Club of Boston annual outing at the Country Club, Concord, Mass. To be preceded by parties at the Hotel Statler on the evenings of June 16 and 17 from 9:30 p.m. until midnight.

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.

Will Tax Reduction Mean More Inflation?

By A. M. SAKOLSKI

Dr. Sakolski contends question whether reduction in taxes will have an inflationary or deflationary effect depends on varying circumstances and no generalization is valid. Argues, in present situation, recent reductions in income tax rates will not be inflationary because: (1) tax decreases are moderate; (2) high taxes have already been shifted to higher wages; and (3) consumer spending neurosis is abating and evidence exists upward inflationary spiral is flattening out.

There have been in recent months many expressions of views as to the effects of proposed tax reductions on inflation. Opponents of tax reduction, of whom President Truman is most outspoken, say it will accentuate present inflationary trends, while proponents of tax reduction say it will act as an inflationary curb. As an illustration of diverse opinion, a bipartisan Senate-House Subcommittee investigating prices on March 13, reported: "Outright tax reductions at this time will increase net personal incomes and prolong the period of price increases." And President Truman in his tax veto message of April 2, stated: "The bill would greatly increase the danger of further inflation, by adding billions of dollars of purchasing power at a time when demand already exceeds supply at many strategic points in the economy, and when government expenditures are necessarily rising." The National Association of Manufacturers as well as Republican Party leaders are equally emphatic that tax reductions will reduce prices. Like most economic generalizations, both views express only partial truths.

A. M. Sakolski

Whether reducing taxes, particularly individual income taxes, at the present time, will be inflationary or non-inflationary depends on a number of circumstances. These circumstances include such matters as the amount and amplitude of the reductions, the economic position of the taxpayers receiving the reductions, either as groups or as individuals, the present phase of the inflation or business cycle, and, lastly but not least, the psychological attitude toward spending and saving (i.e. "the propensity to consume," as the late Lord Keynes states it), of the general public.

The Amount and Amplitude of The Reductions

Under the recent Congressional Act giving tax reductions, there appears to be little ground for fear that lower amounts to be paid by the bulk of individual taxpayers will intensify the inflation spiral. As a result of the legislation, there will, indeed, be more "take home" pay, but, for the vast majority of taxpayers, the amount will be relatively insignificant, and will be offset for the most part by other circumstances, which, as shown later, will tend to lower individual earnings or income, and thus lead to an absorption or spread of the tax reduction throughout the whole economy. The effect will be very much like raising and lowering atmospheric pressure moderately. This is not felt individually, and is hardly noticeable generally. Of course, the very low income groups would feel the effects of the reductions most—but it should be borne in mind, that it is this group—supposedly on the subsistance level—that, in the nature of the taxing process, has been compelled, and therefore is able, to shift the whole or a large part of the taxes they pay to those who employ them. So, lowering of their taxes may actually have the effect of curbing the rise in the price level, and, unless their wages are reduced because of the lowered taxes, they benefit to the extent that the cost of living remains the same after as before tax reduction.

As for the higher income brackets, the percentages of the reduction in tax rates, though aggregating more in actual dollars than in the lowest brackets, is so relatively small, that, for the individual, and for the whole economy, it will mean an insignificant change in spending power and should therefore have little effect on inflation. It is these high income groups, whose slight relief from taxation would be utilized in more savings and capital investment, and thereby would furnish a further impetus to production and employment. In this way, their tax relief would benefit the lower wage earning groups as well as themselves. When taxes are levied on any group to the extent that the living standards of that group are not appreciably impaired, a tax reduction does not result, as a rule, in more consumer spending, but rather in less saving and investment. *This appears intrinsically to be the situation today.* Moreover, workers or wage earners in the higher income brackets, if they have the economic power, can as readily pass on their taxes to their employers or clients as those in the very lowest income brackets. Hence, a lowering of taxes on high income groups, such as skilled workers, professional men, and executives, should have a deflationary effect, since the higher earnings they demand because of higher taxes, merely means higher prices.

Tax Reduction and the Phase of The Inflationary Cycle

Prof. Hauhart of St. Louis University in an article in "The Chronicle" of April 1, 1948 ably presents the factors in the present business cycle which would prevent tax reductions from becoming inflationary. According to Professor Hauhart:

"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.

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Can Democracy Act Without a Crisis?

By LEON H. KEYSERLING*

Vice-Chairman, Council of Economic Advisers

Asserting there is now no crisis in our domestic affairs, Presidential adviser holds real test ahead is not what to do in event of depression, but what uses we make of prosperity. Advocates, as three dimensional program to be blended with forces to resist aggression: (1) better housing, adequate diets and other social developments; (2) a better balanced economy for continuous full production and full employment; and (3) a national prosperity budget formulated by government, after consultation with industry, labor, agriculture and consumers.

In view of the concentration of my interest upon our domestic economy, I shall confine my remarks mainly to problems within this field. This discerning group, however, will never for a moment lose sight of the inseparable connection between the stability and health of our home affairs and our capacity to influence the peaceful and fruitful settlement of world-wide issues.

Leon H. Keyserling

It has become fashionable to bewail the slowness with which a democracy responds to crisis. Some even have questioned whether our freedom-loving system can respond rapidly enough to insure its own salvation.

But I submit that there is nothing in the recent history of America which marks this problem of action in crisis as our main problem crying for solution. When faced with the economic crisis of early 1933, we rose to the occasion and regained our feet. When faced with the crisis of Pearl Harbor, we again rose to the challenge and won our way to victory. We surmounted these trials because they brought to our people both clearness of purpose and unity of endeavor. Whenever this purpose and this unity are added to our immense resources and skills, there is no accomplishment beyond our reach. Our whole experience refutes as superficial the proposition that our democracy cannot cope with imminent disaster.

But the question I want to raise today is far more fundamental and provides a far more searching test of our democracy. This question is: Can democracy act without a crisis?

There is now no crisis in our domestic affairs. Problems we have, but nonetheless we are enjoying uniquely high levels of production and employment and national income. Can we under these favorable circumstances seize the opportunity for further economic and social progress never before so nearly within the reach of man; or must we crash back into the valley of depression and then begin another slow and painful ascent? Can we look upon vigorous government economic policies, not as something to rust in dis-use until everything else has failed, but rather as a constant guardian of our economic health no less than our civil liberties?

Can we look upon resolute leadership, not as something to be called into play only in time of dire peril and then retired like Cincinnatus, but rather as something the use of which at *all times* is the very premise on which democracy rests? Can our people as a whole draw upon the morale and spiritual reservoirs within them, can they achieve the clearness of purpose and the unity of endeavor to which I have referred, can they have high ideals and fill them with the content of specific goals, only when they are in extremity, or also when they are full of life and potential vigor?

This, indeed, is the core problem of democracy in the Twentieth Century. For even as we by firmness in foreign policy avoid a clash of arms with totalitarian forces—and I believe that we can do this only by firmness and not by weakness—there still remains the ideological conflict competing for the minds of men and the decisions of whole peoples. The totalitarian system does not have purpose and unity only in times of crisis. It has these dynamic qualities at all times. Democracy, to thrive and triumph in this ideological conflict, cannot afford to have purpose and unity only on occasion. We must achieve a continuing purpose, by inspiration rather than by arbitrary decree. We must achieve a continuing unity, by glad consent rather than by suppression. We must

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*An address by Dr. Keyserling at Annual Luncheon of League for Industrial Democracy, New York City, April 3, 1948.

Plain Talk On Freedom

By ODY H. LAMBORN*
President, Lamborn & Company, New York City

Asserting market places are an integral and priceless part of our freedom, Mr. Lamborn pleads for their preservation. Upholds role of speculator as assuming a necessary and inescapable risk, and points out recent publicity given to future trading transactions is evidence of "a police state," and that "road to socialistic hell" has already begun in this country.

Anyone who observed and thinks knows that this country slowly but surely is sinking into the quicksands of socialism. Yet we are the avowed enemies of communism and, in fact, any form of socialism. So strongly are we opposed to these isms that we recently fought them at a great sacrifice of blood, life and money. Presumably we are willing to fight again for the same purpose and at the same, or greater, cost.

Ody H. Lamborn

The principles of socialism and those of a free society are diametrically opposed. Our economic freedom is the keystone of the arch of all our freedoms. Economic freedom, in a broad sense, denotes the right of any American to produce and consume, to buy and sell whatever he wants, whenever he wants and without government interference or control. That idea, that concept, is foreign to anything in the socialistic or communistic states. The socialistic state must control the economic life of the people before it can completely enslave them—before it can destroy freedom of speech, freedom of religion and the other freedoms. Under socialism the state becomes the entity that has the sole power to buy, sell, produce and distribute. This is the first gear in a shift to socialistic slavery.

There are many false prophets in this country who, in the name of democracy and by the specious argument that "it is good for the people," would place under state control the complete direction of the commerce of the nation. The sugar-coated pill labeled "Security" is their chief come-on. These people do a great dis-service to the nation. By their actions, by their work, by their accomplishments, they promote the gradual deterioration of our free society, so priceless in the past, so needed in the present, and so vital to the future. These false prophets make great strides whenever the apathy of the citizenry permits. Too frequently the masses are rocked to sleep by the belief that concentrated government power can be used for the benefit of all. Too frequently business, labor and agricultural leaders accept socialistic doctrines because they either satisfy *their* "book" or because they feel that opposition is useless.

The far-seeing pioneers who, 100 years ago, founded the Chicago Board of Trade—that greatest of grain markets — were intelligent, practical, realistic American citizens. They understood that production is not an end in itself, but rather only the beginning of the commercial cycle. They knew that intelligent, effective and efficient distribution is a prerequisite to a healthy economy and to the welfare of the farmer, the laborer, the community and the nation. That was the case then, it is now, and will always be—in a free society.

The liberty loving founders of the Chicago Board of Trade did not have the words "collectivism" or "statism" in their thoughts or vocabulary. If any one of them was an authority on history he knew that the ancient Greeks and Romans had tried unsuccessfully to control by various means, even invoking the death penalty, the law of supply and demand. He knew that those were dead and discredited theories. He knew that they were contrary to the concepts of the democracy, contrary to the dignity of man and foreign to the good, practical commonsense of the American breed of 1848. To these truly progressive pioneers it would have seemed perfectly ridiculous to consider a reversion to ancient and medieval economic theories as being liberal or progressive.

Commodity Trading

Trade in commodities is as old as civilization. It antedates the discovery of the principle and utility of the wheel. As men down through the ages have learned to adapt this principle of the wheel to meet the needs of today's highly mechanized society, so our modern day markets—our commodity futures exchanges—have been developed to meet the marketing needs of the people under the American concept of a free society. The crude trading outposts of yesteryear, where one could only market what he carried in his wagon—where every transaction was on a spot or immediate basis — developed into the efficient, streamlined and indispensable commodity exchanges of today.

Our market places are an integral and priceless part of our freedom. The freedom of those markets—freedom from the control of the state—must be preserved else we will have taken the initial drastic step towards socialism. After such a step there will follow the other steps leading to the destruction of our individual freedom. Commerce is the core of any society and socialism must direct its primary attack against this core if it is to make progress.

Each year we see in our country a greater mixture of politics and economics. Increasingly, production, distribution and prices are influenced by government legislation. A form of socialism has been not only begun in this country, but also has been well developed and promises to grow more rapidly. Although admittedly the politician has found it expedient from the standpoint of vote-getting to support such socialistic programs, certain agriculture, labor and business interests have had a strong hand in promoting this trend. Call it robbing Peter to pay Paul, or the equalization of wealth, such socialistic programs violate the principle of a free society and, continued, will destroy it.

The public is constantly confused and misled on many issues by government officials. The tactics of government officials are well illustrated in their recent castigation of free markets and speculators on whom they put the blame for current high food costs. Surely our leaders have heard of the law of supply and demand. Surely, they know of the great increase in the per capita consumption of food in this country. Of a certainty, since our government leaders have had a great deal to do with the shipment of vital foods and goods abroad, they must know that such shipments have contributed chiefly to the run-up in prices. And surely these same leaders know simple arithmetic. Why, then, have they not told the truth to the public concerning the high prices instead of creating a smokescreen to hide it? The leaders do a dis-service to the people of the country when they blame one of our most priceless assets—the free market place —and unjustly and incorrectly as being the cause of high prices. The simple fact is that with or without free market places or speculators any time total production is inadequate to supply the total demand, the price naturally rises. These are the real facts that the people should be told—they should not be deliberately misled.

Role of Speculation

A great deal has been said in recent months about speculators and their influence pricewise. The speculator in this country is an old and familiar political whipping boy. When prices are high the politician blames it on speculators. When prices are low the politician blames it on speculators. Up or down, the speculator is a great asset to the unprincipled politician.

There is a great misconception on this whole question of speculation. In a free society with free prices, who is not a speculator? Obviously someone must assume the risk of price from the time of planting to the time of final consumption or use. The farmer who prepares the land and sows the seed is a speculator. The farmer who waits until his crop has been harvested is speculating as to the price he will get for his production. The farmer who only sells a part of the grain in his barn is a speculator. The miller is obliged to be a speculator to the degree that he has to take the risk from the time he buys wheat until he has sold flour. The merchant who handles grain or other commodities is obliged to be a speculator—he takes a risk. The housewife is a speculator to the degree that she lives beyond a day-to-day existence. All who enter into the production, distribution and even consumption of goods enter into speculative risk. It is a necessary and inescapable risk. Any simpleton should know that.

You simply cannot eliminate a money risk in a free society, you can only pass it on to the other fellow. And in a controlled society—in the socialistic state—you simply have different kinds of risk and hazard. But since risk is inherent in life even in a socialistic state where the central authority buys and sells all commodities and fixes prices the risk is assumed by the public since after all, the public pays in one form or another for the errors of omission and commission of centralized and bureaucratic government.

As to the out-and-out speculator—the man who is buying or selling a commodity with the purpose of securing a profit—he assumes a risk in making such purchases or sales. He may win or lose. But the moment he buys a bushel of wheat or corn there has been transferred the price risk of that commodity from the shoulders of the farmer, miller, or merchant, to the speculator's shoulders. Such a speculator, then, fully justifies his existence as a risk bearer. After all, it is his money that is being risked and he

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*An address by Mr. Lamborn at the Centennial Banquet of the Chicago Board of Trade, Chicago, Ill., April 3, 1948.

Pittsburgh Bond Club Elects New Officers

PITTSBURGH, PA.—The annual meeting of the Bond Club of Pittsburgh was held at the Roosevelt Hotel on Tuesday, March 30, 1948. At the business session, reports of the officers were received and the Nominating Committee submitted its slate of officers for the fiscal year 1948-9. Ernest O. Dorbritz, of Moore, Leonard & Lynch, was elected President for the ensuing year, Bernard C. Kelley, of

W. Stanley Dodworth

Ernest O. Dorbritz

Edward C. Kost

Halsey, Stuart & Company was elected Vice-President, and W. Stanley Dodworth, of Buckley Brothers, and Edward C. Kost, of A. E. Masten & Company, were reelected for another term as Treasurer and Secretary respectively. Governors elected for the two-year term, are James D. McKee, of Green, Ellis & Anderson and A. E. Tomasic of Thomas & Company. S. W. Steinecke, of S. K. Cunningham & Co., the retiring President, was elected a governor for a one-year term. Following the business session, a dinner was held in the Gold Room, at which Mr. J. K. B. Hare, President of the Chamber of Commerce of Pittsburgh, was the principal speaker. Harry J. Steele, of Fauset, Steele & Company, was Chairman of the Committee in charge of the affair.

Capital Gains and Losses as Applied to Security Dealers

Text of I. T. 3891 of Internal Revenue Code which defines position of securities acquired by dealers solely for investment purposes.

Because of several inquiries coming to "The Chronicle" from security dealers regarding recent changes in the section of the Internal Revenue Bureau Code (I. T. 3891), regarding tax status of securities held by dealers for investment we print below a part of Section 117 of the Internal Revenue Code dealing with this matter.

Section 29.117-1: Meaning of Terms. 1948-4-12749
I. T. 3891

INTERNAL REVENUE CODE

Where securities are acquired and held by a dealer in securities solely for investment purposes, such securities will be recognized as capital assets, as defined in section 117 (a) (1) of the Internal Revenue Code, even though such securities are of the same type or of a similar nature as those ordinarily sold to the dealer's customers. I.T. 3828 (C. B. 1946-2, 68) modified.

Reconsideration of I. T. 3828 (C. B. 1946-2, 68) has been requested. In that ruling the question presented was whether a dealer in securities may treat as capital assets, as defined in section 117 (a) (1) of the Internal Revenue Code, securities acquired solely for investment purposes.

In the case involved in I. T. 3828, supra, a partnership doing business as a dealer in securities invests its surplus funds in securities solely for the purpose of making an investment of such funds. The securities thus acquired are segregated physically and in the partnership accounts from securities held for sale to customers. They are not included in the partnership inventory, are never sold to customers, and are not of a type ordinarily sold to customers. The conclusion was reached (syllabus) that:

"A dealer in securities may treat as capital assets, as defined in section 117 (a) (1) of the Internal Revenue Code, securities acquired for investment purposes, provided it is established that (1) such securities are acquired and held for investment and are not part of those held for sale to customers, and (2) they are not of a type ordinarily sold to the dealer's customers."

It is contended that the position taken in I. T. 3828, supra, particularly requirement (2)—that the investment securities may not be of a type ordinarily sold to the dealer's customers—is unwarranted and results in bona fide investment transactions not being properly recognized as such for Federal income tax purposes.

After careful reconsideration of the position adopted in I. T. 3828, supra, the last two paragraphs of that ruling are withdrawn and the following substituted therefor:

"Securities held for sale to customers in the ordinary course of business are not capital assets as defined above, and gains and losses on sales of such securities by dealers in securities are not subject to the limitations of section 117 (b), (c), and (d) of the Code. However, securities owned by a dealer in securities, if acquired and held for investment rather than for sale in the ordinary course of business, are capital assets subject to the limitations of section 117 of the Code. (See I. T. 2502, C. B. VIII-2, 128 (1929).)

"The securities in the instant case are originally acquired solely for investment, are segregated physically and in the partnership accounts, are not included in the partnership inventory, are never sold to the partnership's customers, and are not of a type ordinarily sold to its customers. They clearly qualify as capital assets under the definition contained in section 117 (a) (1) of the Code and will be recognized as such for Federal income tax purposes. The same rule is applicable even though the securities acquired for investment are of the same type or of a similar nature as those ordinarily sold to the dealer's customers."

The Stock Market Outlook

By G. Y. BILLARD
Partner, J. R. Williston & Co., Members New York Stock Exchange

Market analyst sees deflationary forces at home and elsewhere pitifully weak in contrast to inflationary factors and looks for latter to be reflected in upward thrust of stock market spiral. Cites Pure Oil Co. common as being indicative of kind of grossly undervalued equities available.

Dominant Factors

Early irregularity on receding volume, followed by renewed demand with heavier trading and then subsequent easing with weekend profit-taking characterized dealings in the stock market last week.

Dominant factors were the passage of the European Recovery Program and the consequent expected heavy expenditures for foreign aid, for defense and armaments, and for stockpiling for military purposes. Such factors completely overshadowed increasing tension in the European situation.

Gordon Y. Billard

Long smoldering inflationary forces have once again emerged triumphant and it is this realization which is now in the process of being translated into a new upward thrust in the stock market spiral which, if history is any guide, has a considerable distance yet to go. In short, deflationary forces at home, as elsewhere throughout the world, appear pitifully weak in contrast to existing inflationary factors which promise to mount rather than lessen in intensity.

The Great Inflation

Seeds of the enormous bond inflation which have been sown during the past decade and a half are now too widely scattered and flourishing throughout the economy ever to be effectively weeded out. Periodic mowing down of the ever rapidly growing crop can never produce more than temporary results. Complete plowing under is too difficult and, in fact, politically inexpedient. Such a course was attempted once by a pious Quaker administration to correct evils growing out of World War I, but it will be a long, long time before similar drastic remedies will be applied again—as they surely will have to be. In short while it is difficult to be other than pessimistic as to the end result, there is, in our opinion, no media available in so far as the average investor is concerned superior to selected equities in domestic corporations with managements sufficiently astute to cope with changing conditions.

Axiomatic

Winning the peace after war is invariably a more costly proposition than war itself. This has been demonstrated down through the ages. Lessons following World War I amply illustrate this axiom. In the present situation enormous demands are being made on our economy—aid to Europe, to Turkey, to Greece, to China, and to the occupied areas. A military program of at least \$16 billion instead of \$11 billion is now indicated. Lend-lease of military equipment to European countries is in the cards. Aid for Europe, plus Greek and Turkish aid is being approved for the full amount requested—above \$6 billion in the coming fifteen months. Military training would withdraw large personnel from productive pursuits thereby creating greater civilian scarcities. Curtailment of civilian production to meet armament needs will inevitably add to existing strains. Armament costs will be high in the foreseeable future, war or no war, and war, of course, would mean stupendous expenditures. Great inflations have followed all wars and this is about to be demonstrated with greater viciousness than ever. Deflation expressed in terms of existing prices for selected equities valued in terms of existing or prospective replacement values, earnings, and dividends is as unrealistic now as it was at the bottom of the market in 1921, 1923, 1932, 1938, or 1942.

Basic Considerations

Lest the foregoing seem like an exaggerated statement we call attention to the simple fact that a dollar invested in equities today provides about as large a return in relation to income from bonds as was the case at the bottom of all major turning points in the market for the past quarter century. For instance, the ratio of earnings yield on stocks (earnings divided by price) to the yield on high-grade bonds—using Barron's indices—stands at present at 0.27 compared with 0.21 in April 1942, 0.29 in March 1938, 0.37 in July 1932, 0.37 in July 1923, and 0.58 in June 1921. In addition it might be pointed out that stocks are as strongly held at present as at any of the foregoing times. Note for instance that the ratio of brokers' loans to market value of all listed stocks is presently 0.46 compared with 1.07 in April 1942 and 1.64 in March 1938 and 1.18 in July 1932. Are investors today likely to convert 5% to 6% sound income-producing equities into 2½% bonds or into unproductive cash? The foregoing statistical history provides the most effective answer.

Need for rearmament dollars will necessitate deficit financing which in turn will require continuation of an easy money policy. Already spectacular strength has been reflected in the tax-exempt market, with longest-term Ohio bonus bonds commanding a premium of two points above the recent offering price and gains of nearly as much in the New York State issue to say nothing of a more spectacular advance in Los Angeles issues.

As for the prospective business recession—this looms as more of a mirage than ever. Shortages instead of disappearing will, in all probability, become more acute in various segments of the economy — particularly in steel, metals, and oils. In short, high business activity will continue to be underwritten by (1) the extraordinarily large unfilled United States civilian demands; (2) vast civilian needs of devastated friendly nations; (3) demands of the United States military to defend this country, and (4) requirements of allies to rearm and to defend themselves against aggression. The stock market cannot indefinitely insulate itself against such surroundings.

Values

Now take the case of one company selected more or less at random and see what kind of values can be found at present prices.

The Pure Oil Company is one of the medium sized complete oil units with strong crude oil interests in important producing areas in the United States. At its incep-

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Current Credit Problems

By M. S. SZYMCZAK*
Member, Board of Governors, Federal Reserve System

Federal Reserve spokesman explains grounds for expanded credit controls, comprising regulation and control of bank holding companies; restoration of consumer credit controls, and additional reserve requirements for commercial banks. Sees little prospect for increased production as inflationary curb, and contends, because of reduced taxes, there is likely to be little reduction of public debt, and thus fiscal policy is ineffective against inflation. Defends Federal Reserve's special reserve proposal and argues bank reserve requirements "have not caught up with the facts."

Three years ago at this time we were all looking forward eagerly to the end of the war, which in the European theatre was only a month away. It then seemed that if only the fighting would come to a stop, our troubles would be over. But three years have passed and difficulties, economic and political, are thick all around us. No matter what the field of interest, uncertainties as to the future are weighing down heavily and problems face us demanding solution and at the same time defying it. These problems are both domestic and international.

M. S. Szymczak

The Board of Governors of the Federal Reserve System, of which I am a member, is no better off in this respect than anybody else. Difficulties are normal, of course; we always have them, and if it isn't one thing it's another. But just now, both in the field of bank supervision and in the field of central banking, varied problems seem to be pressing on each other and crowding for attention to a degree I have seldom if ever observed before. I should like to take this occasion to review some of the things that are of immediate interest to the Board—not merely because they are of personal interest to me but because they are of interest to you. They concern banking, and banking in turn concerns all of us. These matters all involve legislation, either pending or prospective, and relate either to the supervisory or central banking responsibilities of the Board.

Holding Company Control

The first of these is a measure proposed by the Board, and now pending in Congress, to provide more effective supervision and control of bank holding companies. Bank holding companies, as you know, are organizations engaged in owning or controlling banks. There are a number of such companies in various parts of the country which control substantial groups of banks and, in some instances, have major nonbanking interests. In the Banking Act of 1933, Congress attempted to deal with the problems presented by this development but experience has demonstrated that the existing law is inadequate. In substance, it merely forbids a holding company to vote any stock it owns in a member bank unless it first obtains a voting permit. As a practical matter, submission to regulation is to a large degree voluntary and the regulatory powers which can be exercised by the Board are very limited.

It is inherently dangerous to permit companies which are not subject to regulation to dominate major portions of the banking facilities in particular sections of the country and, particularly, to combine with that activity the control or operation of businesses unrelated to banking. To deal with this situation, the Board has recommended legislation which would regulate all bank holding companies, treating them in much the same manner as banks themselves and including provisions controlling their expansion and requiring them to divorce nonbanking activities. The proposed bill provides that bank holding companies meeting the prescribed definition shall register with the Board and, having registered, shall be automatically subject to all of the regulatory provisions of the statute.

In controlling expansion and requiring the separation of banking and nonbanking activities, the proposed legislation would be applying to bank holding companies accepted principles of bank regulation. Existing law does not permit banks to establish additional offices without the approval of supervisory authorities or permit them to engage in any business other than banking; and there is no justification for permitting bank holding companies to do so. The abuses resulting from unregulated group banking and the potential dangers thereof continue and the need for legislation is urgent.

Guarantee of Small Business Loans

In the field of central banking the Board has several proposals. One of these is a recommendation to Congress that the Federal Reserve Banks be authorized to grant partial guarantees of loans made by chartered banks to business. The purpose of the guarantees would be to insure that financial assistance is made promptly available to small business firms that might find financing otherwise difficult. The small individually owned business has a basic need for long-term funds, but it has not recourse to the machinery for raising such funds through the flotation of securities in the money markets that large scale business has. Federal Reserve Bank guarantees would be subject to a charge proportionate to the percentage of the loan guaranteed. A part of this proposal is that the existing provisions of law authorizing direct loans by the Federal Reserve Banks under terms of Section 13b of the Federal Reserve Act be repealed.

These proposals of the Board are aimed at making existing provisions of the law simpler and more effective by providing that the Federal Reserve Banks should not make direct loans to business but should guarantee loans made by private banks to business. The changes proposed would remove the Federal Reserve Banks from any appearance of competition

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*An address by Mr. Szymczak at the Northwest Town Kiwanis Club, Chicago, Ill., April 6, 1948.

Illinois Brevities

Charles Y. Freeman, Chairman of Commonwealth Edison Co., in the company's annual report released on March 23, said that no definite program for new financing has as yet been formulated but that it is expected that steps will be taken in this direction in the not too distant future. In this connection, he added: "The strong cash position built up during the war years in anticipation of large postwar expenditures has made it unnecessary to do any financing up to the present time. Taking into account the substantial cash resources on hand at the end of 1947 and the cash which will become available over the period through depreciation provisions and retained earnings, it is estimated that about $100,000,000 of new financing will be required in due course."

* * *

A group of investment bankers headed by Halsey, Stuart & Co. Inc. on April 1 publicly offered $40,000,000 of Ohio Power Co. first mortgage bonds, 3% series due 1978 at 100.99 and interest. Other Chicago investment houses which were included in the syndicate were: A. G. Becker & Co. Inc., William Blair & Co., Dempsey & Co., Martin, Burns & Corbett, Inc., Mason, Moran & Co., Mullaney, Ross & Co., (now Mullaney, Wells & Co.) Patterson, Copeland & Kendall, Inc., and F. S. Yantis & Co., Inc.

* * *

An issue of $20,000,000 Interstate Power Co. first mortgage bonds, 3¾% series due 1978 and 555,039 shares of $3.50 par value common stock of the same company were publicly offered on March 25, the bonds at 102.72 and interest, and the stock at $7.35 per share. They were issued under a plan of reorganization under the Public Utility Holding Company Act of 1935.

The Chicago bankers who participated in the sale of these securities were: A. C. Allyn & Co., Inc., H. M. Byllesby & Co. (Inc.), Central Republic Co. (Inc.), Julien Collins & Co., Paul H. Davis & Co., Farwell, Chapman & Co., Mullaney, Ross & Co. and Sills, Minton & Co., Inc.

* * *

Halsey, Stuart & Co. Inc. headed another group of underwriters which on March 10 publicly offered $37,396,000 Central Pacific Ry. Co. first mortgage 3⅝% bonds, series B, due Feb. 1, 1968, at 100.35% and accrued interest. The net proceeds are to be used to purchase from time to time outstanding first mortgage 4% gold bonds, which are not callable. Other Chicago bankers participating were Harris, Hall & Co. (Inc.), F. S. Yantis & Co., Inc., Dempsey & Co., Welsh, Davis & Co., Alfred O'Gara & Co., Ketcham & Nongard, Mason, Moran & Co., McMaster Hutchinson & Co., Patterson, Copeland & Kendall, Inc., and Robert Showers. The issue was oversubscribed.

* * *

On March 24, Halsey, Stuart & Co. Inc. (the sole purchaser) publicly offered $5,000,000 Kansas Gas & Electric Co. first mortgage bonds, 3⅛% series due 1978, at 101.25 and interest.

On the same day, Halsey, Stuart & Co. Inc. headed a group of underwriters which publicly offered $12,000,000 West Penn Power Co. first mortgage bonds, series M, 3% due March 1, 1978 at 101.19 and interest.

William Blair & Co. was among the group of bankers which, in addition, offered 50-000 shares of West Penn Power Co. 4.20% preferred stock, series B, par $100, at 101.205 and accrued dividends.

* * *

Ames, Emerich & Co., Inc. and Mullaney, Ross & Co. participated in the underwriting of an issue of $6,084,000 4½% 15-year convertible sinking fund debentures due March 15, 1963 of The Laclede Gas Light Co., which first were offered to Laclede common stockholders of record March 8, 1948 at par and accrued interest.

* * *

Harris, Hall & Co. (Inc.) and The Illinois Co. were among the group of underwriters which on March 17 publicly offered and sold an issue of $75,000,000 Pacific Telephone & Telegraph Co. 30-year 3¼% debentures due March 1, 1978 at 102¾ and interest.

* * *

The stockholders of International Harvester Co. on May 13 will consider increasing the authorized common stock from 6,-000,000 shares to 18,000,000 shares to effect a three-for-one split-up.

* * *

A. C. Allyn & Co., Inc., William Blair & Co., Julien Collins & Co.; The Illinois Co., Mullaney, Ross & Co., Farwell, Chapman & Co. and Mason, Moran & Co. were the Chicago group which on March 25 participated in the public offering of $5,000,000 Columbia Gas & Electric Co. 3¼% debentures due 1973 at 101.25 and interest.

* * *

The report of Advance Aluminum Castings Corp. for the year ended Jan. 3, 1948 reveals that the company has been granted an unsecured 10-year loan of $350,000 from the Prudential Life Insurance Co. to help finance the cost of its modernization and expansion program. The loan is evidenced by 4¼% notes, payable annually from 1949 to 1957, inclusive.

* * *

A. G. Becker & Co. Inc., A. C. Allyn & Co., Inc., Central Republic Co. (Inc.), Paul H. Davis & Co. and Bacon, Whipple & Co. participated on March 11 in the public offering of 100,000 shares of no par value common stock of Minnesota Power & Light Co. at $27.50 per share. This sale marked the first public distribution of the utility company's common shares.

* * *

Aetna Ball & Roller Bearing Co., Chicago, reports that net earnings for the year 1947 were $520,698, or $1.92 per common share, an increase of 59% over the $326,484, or $1.19 per share, as reported in 1946. These figures are net after all charges, including provision for depreciation, local State and Federal taxes.

* * *

Another group of underwriters headed by Halsey, Stuart & Co. Inc., and which included, among others, F. S. Yantis & Co., Inc., on March 17 publicly offered an issue of $10,000,000 Louisiana Power & Light Co. first mortgage 3⅛% bonds, due March 1, 1978, at 100.485 and interest.

* * *

Sales of Allen B. Wrisley Co. for the fiscal year ended Dec. 27, 1947 totaled $12,090,965 as compared with $11,735,523 for the fiscal year ended Dec. 28, 1946. Despite this slight increase, net profits after all charges and taxes declined to $258,407 as compared to $612,682. At the same time net working capital showed an increase from $1,135,439 to $1,686,-439 due primarily to financing last Spring.

* * *

William Blair & Co. also on March 17 participated in the public offering of $10,000,000 Virginia Electric & Power Co. first and refunding mortgage 3% bonds, series F, due March 1, 1978 at 100.99 and interest.

* * *

Stone Container Corp., in its annual report for the year 1947, the first full year of operations in which the company operated its own paper mills, states that net sales amounted to $13,617,275, an increase of 38.5% over 1946. Net earnings were $2,040,126, or $2.91 per share on 700,000 shares, compared to $1,321,282, or $2.10 per share on 600,000 shares of stock in 1946. A 50,000 square foot addition to the Chicago plant is planned for erection this year.

* * *

Harris, Hall & Co. (Inc.) also on March 16 participated in the public offering of $10,000,000 American Optical Co. 20-year 3⅛% sinking fund debentures due March 1, 1968 at 100.35 and interest.

* * *

Net profit of Crane Co., Chicago, for the year 1947 totaled $12,744,072, after charges and income tax reserves, or equal to $5.17 per share on 2,348,628 common shares outstanding after provision for preferred dividends. This compares with $8,597,317 of net profit for the year 1946. Net sales amounted to $191,672,400 for the year 1947, as against $142,-445,818 for the preceding 12-month period. Current assets at Dec. 31, 1947 were $76,773,539, while current liabilities totaled $12,364,030.

* * *

On March 11, Halsey, Stuart & Co. Inc. and associates publicly offered $10,000,000 San Diego Gas & Electric Co. first mortgage 3% bonds, series C, due 1978 at 101.39 and interest. Included in this group were Dempsey & Co., The Illinois Co., Mullaney, Ross & Co. and F. S. Yantis & Co., Inc.

* * *

M. J. Spiegel, Jr., President and General Manager of Spiegel, Inc., in the company's annual report, states that "it is anticipated that 1948 capital improvements will be approximately half of those made in 1947. They are expected however, to be somewhat in excess of depreciation charges." Net sales for the year 1947 were $125,-183,210, an increase of 13.2% over the $110,577,606 sales in 1946. After taxes, earnings were $2,-231,985 compared with $2,834,223 in 1946. This represented $1.12 per share on 1,599,676 shares of common stock compared with $1.50 on 1,591,376 shares a year ago.

* * *

Central Republic Co. (Inc.) and Harris, Hall & Co. (Inc.) on March 31 were participants in the public offering of $5,000-000 3¼% sinking fund debentures due 1973 of Texas Electric Service Co. at 102.125 and interest.

* * *

United Biscuit Co. of America and its subsidiaries report for the year ended Dec. 31, 1947, consolidated net income of $5,026,275 after interest, depreciation and other charges, and after a provision of $3,450,000 for estimated Federal and State income taxes. This was equal to $5.28 per share on the 951,565 shares of common stock outstanding. Net income for 1946 amounted to $4,333,554 after all charges including a provision of $2,940,000 for estimated Federal and State income taxes. This was equal to $4.56 per share upon the number of shares then outstanding after giving effect to the stock split-up in May, 1947. Sales for 1947 amounted to $80,434,923, as compared with $60,876,762 for 1946.

* * *

Straus & Blosser and associates on March 16 publicly offered 100,000 shares of Parkview Drugs, Inc. (Kansas City, Mo.) 35-cent annual dividend preferential cumulative participating stock ($4.50 par value) at $5.25 per share. Holley, Dayton & Gernon also participated in this offering.

Sec. Snyder Voices Opposition to Tax Cut

In address at Shreveport, La., he states measure was most inadvisable in view of meeting obligations of foreign aid within balanced budget.

John W. Snyder

In the course of an address at the Annual Luncheon of the Red River Valley Association at Shreveport, La., on April 7, Secretary of the Treasury, John W. Snyder took occasion to voice his disapproval of the recent tax reduction measure passed by Congress over the President's veto. Said Secretary Snyder:

"I have many times stated, and still firmly believe, that hasty and politically expedient tax reduction will prove a definite deterrent to our fiscal solvency and economic security. I am entirely opposed to the recent action which has been taken in lowering our present revenue level before we have determined what our total outlay of expenditures is to be for the fiscal year 1949 and before consideration was given to the revision of the inequities in our tax structure.

"In my opinion, it was most inadvisable to have reached conclusions on tax reduction before meeting the prerequisite obligations of foreign aid within a balanced budget, adequate provision for debt reduction, and equitable tax revision.

"Our overall fiscal policies must be courageously predicated on the permanent national interest and not on immediate advantages or individual profit.

"We all know the gravity of the struggle in which we are now engaged—a struggle which has put in issue the very essence of our modern civilization.

"Every policy we adopt, every course we follow, must be considered in the light of its effect upon our strength at home and our position before the world."

L. H. Rand Opens Own Firm in New York

Louis H. Rand has formed L. H. Rand & Co. with offices at 37 Wall Street, New York City, to engage in the securities business. Mr. Rand has recently been with Bonner & Gregory. Prior thereto he conducted his own investment firm in New York.

Form Henry Mann Securs.

Henry Mann Securities Corp. has been formed with offices at 63 Wall Street, New York City, to conduct an investment business. Mr. Mann formerly did business as an individual dealer.

New Capital Formation in the Petroleum Industry

By JOSEPH E. POGUE and FREDERICK G. COQUERON*
Of the Chase National Bank, New York City

Petroleum experts analyze capital formation in petroleum industry during last decade and conclude: (1) the industry has obtained bulk of capital from its own resources; (2) has been retaining an increasing share of earnings for reinvestment; and (3) will have less recourse to capital markets in 1948 than in 1947, despite 57% rise in construction costs. Estimates rise in construction and technological costs since 1939 has averaged 26.8%.

Introduction

One of the most important mechanisms in any economy is the one through which requisite capital is obtained. A clear perception of the theory and practice of capital formation, and of the manner in which capital may be shifted from one place to another and transferred from the future to the present through the intervention of credit, is essential to the understanding of our capitalistic system and to the management of its corporate units. It is the nature of this mechanism which constitutes one of the prime characteristics of our system of private enterprise, sometimes called finance capitalism.


Joseph E. Pogue


Frederick Coqueron

We may throw some light on the processes of financing capital requirements by taking the petroleum industry as an example and by tracing what has happened over a period of years. Studies by the Petroleum Department of The Chase National Bank furnish a detailed record of the combined operating and financial results of a group of 30 representative oil companies for the years 1934-1946.[1] A review of this record provides a case history of what has happened in an industry undergoing rapid growth and offers the basis for a discussion of the theoretical aspects of capital formation and capital flow.

Sources of Capital Funds

Industry obtains its capital from two primary sources: internal, from retained cash earnings; and external, from the capital markets. The first source is the more important and is predominant in the case of the petroleum industry. It utilizes the principle of generating capital out of corporate earnings and its relationship to the outside economy is governed by consumer demand and the price level. The consumer, through the price he pays, and the corporation, through its operating methods, technology, and fiscal policy, determine the margin of income converted into capital available for reinvestment.

No growing industry, however, can ordinarily finance its capital requirements entirely out of its own savings, so there is always a marginal amount of capital funds which must be obtained from the capital markets; that is, from outside savings. The resources which are tapped may be existing savings of individuals or institutions, or they may be future savings transferred to the present through the instrumentality of credit. In the latter case, these amounts must be paid back out of future corporate income as time goes on. The avenues through which outside funds are obtained include borrowings from banks, insurance companies, other institutions, and the public; and the issuance of common and preferred stocks. Each of these sources may represent some admixture of actual and future savings. The utilization of actual savings of corporations and individuals is more desirable than the employment of future savings with their inflationary implications.

The source and disposition of capital funds of 30 Oil Companies for the years 1934-1946 are shown in Table 1.

Generation of Capital Within the Petroleum Industry

During the thirteen-year period, 1934-1946, the 30 Oil Companies generated 14.2 billion dollars, after all cash expenses, which represent net income plus non-cash book charges. At the same time this group paid $3.3 billion to its stockholders and minority interests in the form of common and preferred dividends, leaving $10.9 billion for other corporate purposes. The capital expenditures of the 30 Oil Companies for this period aggregated $10.6 billion dollars. Thus, these outlays were covered almost exactly by the funds internally generated.

While this balance was quite close during most of the years of this period, capital requirements in 1946, accentuated by rising costs and increasing demands necessitating plant expansion, began to exceed internally generated capital (after cash dividends) by a substantial margin. In this year the insufficiency of such funds relative to capital requirements amounted to $178 million, in 1947

(Continued on page 48)

[1] See "Financial Analysis of Thirty Oil Companies for 1946" by Joseph E. Pogue and Frederick G. Coqueron, The Chase National Bank, August, 1947.

*A Paper Presented before the Controllers Institute of America, Atlantic City, April 5, 1948.

H. W. Bartling With Carter Corbrey & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Herbert W. Bartling has become associated with Carter H. Corbrey & Co., 650 South Spring Street. He was formerly in the underwriting department of the First California Company.

Stern & Co. Install Wire To Mitchell, Hoffman

Announcement is made by Stern & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, that they have installed a direct telephone to the offices of the recently formed firm of Mitchell, Hoffman & Co., Inc., of Washington, D. C., and Baltimore, Md.

Hornblower & Weeks Adds

CHICAGO, ILL.—Hornblower & Weeks, 39 South La Salle Street, have added Thomas G. Meers, Sr., to their staff.

Our World Trade Outlook

By THOMAS C. BLAISDELL, Jr.
Assistant to Secretary of Commerce for International Trade
Director, Office of International Trade, Department of Commerce

Commerce Department expert lists as major factors in future U. S. foreign trade: (1) size and character of ERP; (2) pattern of exchange rates; (3) stability of foreign exchange, and (4) maintenance of high level of domestic production, employment and purchasing power. Foresees exports at about 10% below 1947 level if proposed scale of ERP is enacted, and stresses need of eliminating tariffs and other trade restrictions. Praises ITO charter and urges higher level of U. S. imports as factor in maintaining prosperity.

American foreign trade will be shaped for some time to come by four major factors. First, when the Congress votes in the next few weeks on the European Recovery Program and fixes its size, it will, in large measure, determine the volume and the dominant characteristics of our foreign trade not only for the current year but for some years ahead.


Thos. C. Blaisdell, Jr.

A **second** factor affecting the flow of United States trade as well as the entire international movement of goods is the way in which the postwar pattern of exchange rates is eventually established. If sufficient aid is given, it will do much to make possible the restoration of the economies of the countries of western Europe; it will help check inflation in this area and will facilitate European programs of monetary reform. Until these economic steps are taken there can be little hope of the emergence of a lasting and satisfactory exchange rate structure.

A **third** factor is closely related to the character and extent of the foreign aid program and to the development of a greater measure of exchange stability. It is the question of whether, once reconstruction has taken place, and goods are again available to move in ample quantity in international trade channels, these channels will be blocked by trade barriers.

Fourth, the future of American trade and, in fact, of the entire flow of international commerce, will rest on the extent to which this country is able to maintain high levels of production, employment, and purchasing power, and to prevent a repetition of the kind of cataclysm which shook the world in 1929.

While there are other factors which will help to shape the trade outlook, these four warrant special consideration.

Foreign Trade and ERP

Let us consider the trade outlook first in relation to the European Recovery Program. All available evidence indicates that if the $6.8 billion assistance appropriation recommended by the Administration is approved, our exports this year can be expected to maintain a level not as high as in 1947, but perhaps about 10% below that level. The aid program, in helping to increase production in the countries which were the theaters of war, will also contribute toward a rise in exports from those areas which are today shipping goods to the United States in substantially smaller quantities than in prewar years.

If no aid is authorized, a break in United States foreign trade can be expected. The Department of Commerce estimates suggest a decline in exports of at least 30%, if not more, below the 1947 rate. The countries of the world still have pressing needs for United States products but dollar resources have dwindled rapidly. Credits and grants are virtually exhausted. When account is taken of expected United States imports, of remaining credit balances, gold and liquidable dollar assets, of likely private investment and of dollars which may be available from the World Bank and Fund, a total of around nine and one-half billion dollars would seem to be available for purchases of goods in the United States this year—and this figure may err on the generous side.

In presenting this sharp contrast in trade possibilities, I do not mean to suggest that the American interest in the European Recovery Program is based on a desire to maintain exports this year at last year's level. Purchasing power at home remains unprecedentedly high. Domestic demand is sufficient to absorb that share of United States production of most commodities currently being exported. Exports made possible by a substantial foreign aid program will mean a sacrifice to the American consumer, but one, I am confident, that he will gladly make. For the American public is making clear its understanding of the issues which are at stake and its awareness that there can be little hope for long-range economic stability at home in an economically unsettled world.

I want only to present the facts as we see them which those interested in American foreign trade will want to face.

As has been pointed out, the decision on foreign aid will, in substantial measure, influence the volume of trade this year. It will also shape its geographic distribution. But more important are the long-run trade implications. An aid program that fulfills its objectives contributes to the maintenance of free institutions and thus to the comity of nations on which peace and security depend; it helps to restore Europe to self-sustaining levels of productivity and again to take its place in international trade. The accomplishment of these objectives will mean higher levels of trade for all countries and higher living standards. For a high living standard here and abroad we need sustained trading relations with Europe as with the rest of the world, and Europe is no less dependent on trade with us.

Failure to authorize the recommended aid program would lead to hunger and to actual starvation in many areas. From these afflictions Europe would no

(Continued on page 46)

Railroad Securities

As a group railroad stocks continue to give a good account of themselves. They have far out-performed most other sections of the list so far in 1948. This should not be surprising. In relation to earnings and dividends they are still considerably lower than most other groups. The traffic outlook, ex-strikes which would also be damaging to other industries, is excellent. It is not believed likely that any recessionary trend that might set in would seriously curtail volume of activity in industries which are the most important from a traffic standpoint. The rate outlook is more favorable than it has been in any years. Finally, if excess profits taxes are to be reimposed it is reasonable to expect that the railroads would again occupy their relatively sheltered position.

While the general action of the rail market has been highly encouraging the strength has by no means been uniform. There are many individual stocks that have shown very little in the way of recuperative powers. In many cases this dilatory action has been fully warranted on the basis of the relatively bleak earnings and dividend outlook for the specific road. There are instances, however, where it is difficult to justify the laggard market performance. A case in point is Northern Pacific. At recent levels around 20 the stock has been selling only 2¼ points above the year's low. Railroad analysts feel that eventually this stock must sell at levels more nearly reflecting the earning power of the properties and the favorable longer term prospects.

It is possible that one dampening factor has been the highly conservative dividend action of the management in recent years. In the last six years, since the company resumed dividends following the depression, less than 20% of earnings has been distributed to stockholders. A $1.00 payment has been made in each year, in one instalment early in February. It is expected in some quarters that this policy may be liberalized over the fairly near term future, possibly by institution of semi-annual payments. Certainly such action would be justified.

At the outset of the period of high earnings, Northern Pacific did not immediately embark on such an aggressive program of debt retirement as many other carriers. Rather, it elected initially to utilize these earnings for financial rehabilitation, and on the property and new equipment. Once it got started on debt retirement, however, it did an impressive job. As recently as 1940 fixed charges amounted to $15,100,000. Now they are down to an indicated level of around $10,300,000. After taxes this saving is equivalent to more than $1.20 a share on the stock outstanding. Moreover, heavy sinking fund commitments assure further systematic reductions in both principal of debt and fixed charges.

Even without allowing for this cut in obligatory requirements the earnings record of the road has been quite favorable. Reported earnings over the past 10 years have averaged $3.81 a share, of which an average of only $0.50 a share has been distributed in dividends. The balance has gone to improve the basic investment standing of the stock through improvements to the property and retirement of prior claims. In only one year of the past 10, the recession year 1938, did the company report a deficit. Even in that year it would have reported a net profit with its present reduced fixed charges.

Last year the company showed earnings of $5.40 a share. The current year has started out quite poorly. Net operating income for the first two months amounted to only $333,692 compared with $2,-386,960 a year earlier. For the most part, however, this showing reflected severe weather conditions that handicapped most of the railroads in the country. It is not a sign of any serious deterioration in the road's efficiency. Moreover, normally the opening months of the year are of little significance earnings wise for Northern Pacific. Most of its normal annual operating income accrues in the last five months of the year. Despite this poor start, it is generally expected that the full year 1948 will witness share results at least modestly above those realized last year. The stock is only selling about three times possible 1948 earnings.

Michael D. Dearth to Manage Merrill Branch

DES MOINES, IOWA—Merrill Lynch, Pierce, Fenner & Beane, members of the New York Stock Exchange, are opening a branch office in the Des Moines Club Building, under the management of Michael D. Dearth. Mr. Dearth was formerly President of the firm of McCrary, Dearth & Co., which has been dissolved.

Michael D. Dearth

Schafer, Miller & Co. Appoint Four Mgrs.

Schafer, Miller & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, announce the appointment of Jack Feinsinger as manager of the Board Room; A. Kingston Ghegan, manager of the Over-the-counter Trading Dept.; Herbert E. Greene, manager of Dealer Relations; and Harry J. Long, manager of the Investment Department.

Oscar H. Riggs With Hoppin Bros. & Co.

Hoppin Bros. & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce the association with the firm of Oscar H. Riggs and Fabyan R. Saxe. Mr. Riggs was formerly a partner in Dreyfus & Co. and was with A. M. Kidder & Co.

Railroad Common Stocks as Investments

By GERALD M. LOEB*

Partner, E. F. Hutton & Company
Members, New York Stock Exchange

After reviewing trend in railroad stock prices, Mr. Loeb lays declines in value to maturity of railroad growth and competition of other forms of transportation. Cites also increase in rail wage payments compared with revenues, and holds higher rates have not kept up with wage increases. Points out stockholders' share of rail earnings has been decreasing since 1920, but sees future market movement of rail shares linked to level of general business.

What happens to railroad common stockholders when trouble hits the industry and the reasons behind the depressed markets for railroad securities are subjects of paramount interest, not only to railroad security holders, but also to every citizen of the United States.

Gerald M. Loeb

We participate in the railroad securities market through our insurance policies and savings bank accounts. And our means of daily livelihood and our safety in time of war depend upon a prosperous and efficiently functioning railroad system.

The verdict of the marketplace is that something is wrong. Students of the stock market have for many years used the stock price averages compiled by Dow Jones Co., Inc., the publishers of the "Wall Street Journal," as indices reflecting the daily changes in market prices. Their index which uses 20 railroad stocks was 76% of their index which uses 30 industrial stocks back in 1920, when the troubles which beset the industry really began.

By 1929, at the top of the biggest stock boom in history, railroad stocks were up like everything else, and this rise obscured the fact that the average of rails had dropped to 50% of the industrial average. In 1932 the bottom of the market came and the railroad average was only 32% of the industrial average.

The all-time comparative low was made in 1938 when it stood at 19%. Then the war came along and railroads had a new lease on life. They were able to improve their position so much that at the top of the postwar market in the Summer of 1946, the rail average was 32% of the industrials. At this writing, the ratio stands about 29%.

This long-term downward trend in the ratio of railroad stock values to industrials has been mainly a reflection of a shrinkage in the earning power and dividend paying ability of the railroads as a group, which in turn has resulted in a decline in the popularity of and confidence in railroad securities as investments. Today $1 of railroad earnings power is no longer worth what it used to be because investors question the future.

Perhaps the fundamental trouble has been that the railroad industry has grown to maturity and passed it. The growth of the autmobile industry, the airplane, pipe lines and the expansion of water-borne traffic have all had their effect. A whole array of statistics can be examined to prove this point.

For instance, the railroad industry's proportion of all United States commercial freight tonnage was 68% in 1946 in comparison with 76% in 1926, 20 years previously. In the same period intercity trucks almost doubled and oil pipe lines almost tripled their ratio of available business. Automobile registrations in 1946 were more than triple those of 1920. Domestic airline traffic today is nearly 15 times that of 1937. It is not surprising then, to find that railroad revenues, expressed as a percentage of national income, are decreasing. They were 6.2% of it in 1920, 5.5% in 1929, and down to 4.3% in 1947.

At first glance, it might seem encouraging that Class I railroads' tonnage in 1946 was 9.5 higher than in 1920 and 17% higher than in 1929. But these gains are unimpressive when measured against the Federal Reserve Board index of Industrial Production, which advanced 128% and 55% respectively, in the same years.

Effect of Competition

The effect of competition is apparent all along the line. For instance, back in 1926, 90% of livestock shipped to market went by railroad and in 1946 only 40% went this way. Railroad petroleum tonnage in 1946 was 30% below 1929, despite a 60% rise in domestic refinery output.

While the railroads were losing out in many profitable tonnage items and gaining only moderately in tonnage overall, other basic industries were moving ahead by leaps and bounds. Between 1929 and 1946, crude oil production jumped 73%, machinery output 85%, and paper volume 75%, to mention a few.

If competing forms of transportation had never been invented, the railroad picture today would be far different. Much greater capital expenditures for improvement would be possible. Today, a railroad will attempt to prop its position with some new track program or signal program here and there and some new cars, but a really fundamental improvement—for example, a high speed monorail line between New York and Chicago—is out of the question with transportation competition thriving all around.

There is no question that, other things being equal, investors today are attracted by and prefer to put their money in industries still in their infancy, or where labor costs are a small proportion of total cost and where products sold or services rendered are as far away as possible from governmental regulation. Railroads hardly quality on any of these points.

Previous reference has been made to the probability that the railroads have passed their maturity. As to labor, wages are now 55% of gross rail revenues against 46% in 1929. Wages have risen nearly 50% since 1929 while gross revenues are only up 20%. This is true even though gross revenues have increased at a greater rate than tonnage. The good showing of the railroads in this respect, on an absolute basis, becomes mediocre when considered in the light of the terrific sales gains made by most industries, particularly the chemical, oil, drug, airline and retail trades.

The battle between increased wage rates and increased freight rates works to the disadvantage of the railroads because costs tend to rise further and faster than can be offset by rate increases over a period of time. There is always a lag while the Interstate Commerce Commission considers the merits of requested rate increases. Frequently it has been shown that rate increases are not necessarily in line at all times with traffic costs and competitive conditions.

Burden on Railroad Management

All of these factors place a great burden on railway management. It is much easier in some of the newer and fast-growing industries to captain your boat downstream than to battle the current, which is what must be done in running a railroad today.

Public indifference, ineffectual and destructive governmental regulation, near-sighted labor and shipper interest and, in some cases, a lack of vigor and imagination on the part of some of the railroad managements themselves have all contributed to keeping the situation in an unsatisfactory state. The great volume of war traffic was a life-saver, and railroad management made much progress in reducing debt.

Also, to the extent that their situation permits, railroad managements in many cases are currently attempting to correct some of the shortsighted policies which have been partly responsible for leading the railroads into their present condition. For example, motive power is being considered more in line with present technological developments. Traffic control systems are being streamlined. Much is being done in the way of new trains, new methods of selling tickets and extending credit on their purchase, and providing new and more convenient through-car routings to compete with the airplane and the automobile.

Railroad Capital Structure

An important angle from an investor's point of view is the manner in which most roads are capitalized. There is a great deal of "leverage" in the railroad business itself and a lot more "leverage" in railroad capitalization. By "leverage" we mean that the nature of the railway business itself magnifies relatively small changes in gross revenues into relatively large fluctuations in net operating income.

This is because so many of the costs of railroad operations are more or less static, whether traffic is heavy or light.

This "leverage" effect on earnings for common stockholders is magnified the second time where railroads have large amounts of bonds or preferred stocks outstanding which come ahead of their common shares. To cite a few examples, the Class I railroads' gross revenues dropped 50% between 1929 and 1932, but the "leverage" in operations caused net operating income to shrink 75% and earnings for stockholders to drop from $897 million to a deficit of $139 million. Even when revenues dropped only 15% between 1937 and 1938, net railway operation income receded 37% and a profit of $98 million for stockholders was turned into a deficit of $123 million.

Investors cannot readily forget that in 1939 railroads representing 31% of the nation's mileage and 23.5% of aggregate investment in road and equipment were in receivership or bankruptcy and that many others escaped financial difficulties only because of government assistance. This was

(Continued on page 33)

*Reprinted from "Railway Progress," April, 1948, published by the Federation of Railway Progress.

CANADIAN PACIFIC RAILWAY COMPANY

Sixty-Seventh Annual Report of the Directors of Canadian Pacific Railway Company, Year Ended December 31, 1947 (Abridged)

HIGHLIGHTS

	1947	1946	1945
Gross Earnings	$318,585,919	$292,495,828	$316,109,358
Working Expenses	295,693,720	271,652,778	280,055,024
Net Earnings	22,892,189	20,843,050	36,054,334
Other Income	24,788,927	22,779,794	15,106,957
Interest and Rental Charges	$15,787,174	$18,488,113	$19,547,129
Preference Stock Dividends	4,557,682	4,557,682	5,031,500
Ordinary Stock Dividends	16,750,000	16,750,000	16,750,000
Balance for Modernization & Other Corporate Purposes	10,586,260	3,827,049	9,832,662
Ratio, Net to Gross Earnings	7.19%	7.13%	11.41%
Average Interest Rate	3.64%	3.66%	3.84%
Preference Dividend Rate	4%	4%	4%
Ordinary Dividend Rate	5%	5%	5%
Tons of Freight Carried	59,034,547	51,400,892	54,822,012
Number of Passengers Carried	14,636,353	15,583,990	17,740,684
Revenue per Ton Mile	0.95c	0.93c	0.83c
Revenue per Passenger Mile	2.40c	2.12c	1.97c
Total Pay Rolls, All Services	$193,960,029	$178,982,649	$172,203,023
Number of Employees	83,528	82,180	84,062
Average Annual Wage	$2,322	$2,178	$2,049

To the Shareholders:

The volume of traffic on the railway in 1947 greatly exceeded expectations and established a peacetime record. Among the factors contributing to this were the condition of almost full employment in Canada, the backlog of need for construction materials and durable consumption goods, special efforts to move grain and flour to ocean ports for export, heavy imports in many categories from the United States, and record exports of wood pulp and newsprint paper to that country. Passenger traffic continued to decrease but was still much above the pre-war level.

The application of the Railways for a 30% increase in freight rates filed in October, 1946, was the subject of public hearings throughout Canada before the Board of Transport Commissioners, commencing in February and ending in December. A decision had not been rendered at the end of the year. The Interstate Commerce Commission of the United States meanwhile authorized two increases in freight rates, additional to that authorized in 1946, and the Board of Transport in each instance authorized the application of these increases to international, overhead and certain import and export traffic in Canada. Notwithstanding these increases the average revenue received for hauling one ton one mile in 1947 was 95/100 of a cent only, compared with 93/100 in 1946 and with an average exceeding one cent during the ten years 1920-1929.

Working expenses continued to increase. The general wage increase of ten cents an hour made effective June 1, 1946, was applied for the full year 1947 compared with the seven months of 1946. Applications were received from various groups of employees for higher rates of pay and in certain instances upward adjustment was made, but there was no general increase in wages during the year. The average cost of locomotive fuel in 1947 was $6.75 per ton, compared with $5.99 in 1946; creosoted ties cost $2.04, as against $1.96; and the price of rails was $63.80 per ton, an increase of $3.59. Wage rates average 45% more than prior to the war and costs of materials and supplies were far above pre-war levels.

Net earnings from railway operations were again markedly inadequate. A substantial improvement might have been expected from the upward revision of freight rates on the international traffic referred to, as well as from the larger traffic volume. Instead, the increase in gross earnings was almost wholly offset by rising costs; and the ratio of net to gross earnings remained practically the same as in 1946 when an all-time low was reached. It is startling to compare this ratio of but 7.2% with the average of 19.9% for the period 1920-1929, when traffic volume was much less. On the other hand, a betterment in net earnings of Consolidated Smelters resulted in larger dividends from that source which brought Other Income up to a new high record.

The total income available from all sources to meet your Company's financial requirements amounted to $47,681,116, of which the railway—the main undertaking—contributed only 48%.

Fixed charges, lower than in any year since 1928, amounted to $15,787,174. After providing for these and for the four per cent. dividend on Preference Stock, the earnings per share of Ordinary Stock amounted to $2.04, compared with $1.53 in 1946.

The accounts of your Company show the following results for the year ended December 31, 1947:

Income Account

Gross Earnings			$318,585,919
Working Expenses (including taxes)			295,693,730
Net Earnings			$ 22,892,189
Other Income			24,788,927
			$ 47,681,116
Fixed Charges			15,787,174
Net income			$ 31,893,942
Dividends:			
Preference Stock			
2% paid August 1, 1947	$ 2,278,841		
2% payable February 2, 1948	2,278,841		
		$ 4,557,682	
Ordinary Stock			
2% paid November 1, 1947		6,700,000	
			11,257,682
Balance transferred to Profit and Loss Account			$ 20,636,260

(The final dividend of 3 per cent. on the Ordinary Stock which was declared subsequent to the end of the year and is payable March 31, 1948, amounting to $10,050,000, is not deducted in the accounts for the year 1947.)

Profit and Loss Account

Profit and Loss Balance December 31, 1946		$269,126,972
Final dividend of 3 per cent. on the Ordinary Stock, declared from the earnings of the year 1946, paid March 31, 1947		10,050,000
		$259,076,972
Balance of Income Account for the year ended December 31, 1947	$ 20,636,260	
Portion of steamship insurance recoveries representing compensation for increased cost of tonnage replacement	636,825	
Miscellaneous—Net Credit	304,583	
	$ 21,577,668	
Deduct:		
Adjustment to prevailing official rates for sterling in respect of capital expenditures for steamships in years 1943-1946	1,530,679	
		20,046,989
Profit and Loss Balance December 31, 1947, as per Balance Sheet		$279,123,961

Railway Operations

Gross Earnings in 1947 increased $26,090,091, or 8.9%, over those of 1946, and were but $285,115 below those of 1944, the year of highest earnings.

Freight Earnings amounted to $250,893,574, an increase of $32,342,966, or 14.8%, over 1946. The total was greater than in any previous year and $17,775,101 in excess of 1944, the next highest year. Increases in rates on international, overhead and certain import and export traffic produced more than $10,000,000 of the year's freight revenue.

Greater earnings were reported from general manufactures, grain and grain products, petroleum, lumber, paper and merchandise. No serious declines occurred in the movement of important commodities but small decreases were recorded in coal and coke, livestock and meat products. It was impossible at all times to meet fully the demand for freight cars but the situation was eased in the latter part of the year with the delivery of a substantial number of new cars.

The volume of business, measured in ton miles, was 11.6% greater than in 1946, but 4.3% and 3.9% respectively less than in 1944 and 1945. Tons handled, at 59,034,547, established a new record.

Passenger Earnings totalled $40,322,874, which were $5,057,771, or 11.1%, less than in 1946, and $16,531,423 below the wartime peak of 1945. There was a decline of $6,664,000 from military traffic, which was heavy in the early part of 1946, and some increase in revenue arising from trans-Atlantic passengers, traffic from the United States, as well as domestic travel.

The number of passengers carried one mile totalled 1,665,585,000, a decrease of 21.7% from 1946. This arose from a decrease in passengers carried of 6.1% and a reduction in the average journey from 136.4 miles to 113.8 miles. Coach traffic declined more than first class traffic and while earnings from sleeping, parlor and dining car services were less, available space continued to be well taken up. The fare per passenger mile averaged 2.40 cents as against 2.12 cents in 1946, due in part to certain fares over routes competitive with United States lines having been increased concurrently with increases authorized by the Interstate Commerce Commission.

Working Expenses increased $24,040,952, or 8.8%. Wages and salaries increased $10,916,533, of which approximately $6,500,000 was due to bearing the full year's cost of the wage increase of 10 cents per hour granted June 1, 1946. The balance arose from the greater number of hours worked, together with certain wage adjustments and changes in working conditions granted various groups of employees. Expenses for material and supplies and other items increased $13,828,748, while tax accruals were $704,329 less.

The ratio of working expenses to gross earnings was 92.81%, a reduction of a bare .06 from last year's ratio, which was the highest on record.

Maintenance Expenses totalled $117,061,922 for the year, of which $54,776,657 was for maintenance of way and structures and $62,285,265 for maintenance of equipment. This was an increase of $7,370,322 over the expenses of 1946. In total they represented 36.7% of gross earnings compared with 37.5% in 1946.

Track maintenance included the placing in track of 2,382,860 treated and 731,060 untreated ties, the laying of 382 single track miles of new rail and application of 23.2 miles of rock ballast and 214.6 miles of other types of ballast. The Sperry detector car, which is used in the examination of rails for hidden defects, tested 8,090 miles of track.

The programme for renewal of rails, fastenings and ballast was below a level adequate for a year of heavy traffic volume owing to short supply of both material and labour, but some progress was made in overtaking deferred maintenance of ties. To provide for renewals deferred during the year, less what was overtaken on ties, a net amount of $2,400,000 was charged to maintenance and carried to Maintenance Reserves.

Rolling stock maintenance included complete overhauls of 767 locomotives, 28,379 freight train cars and 1,294 passenger train cars. At the end of the year 98.2% of freight cars and 93.5% of locomotives were in serviceable condition. Owing to the situation as to material and labour, the rolling stock maintenance that was done, while adequate for the traffic volume, did not effect any reduction in the deferred work accumulated during the war years.

Transportation Expenses amounted to $133,952,979, an increase of $16,055,016, or 13.6%, over 1946. The heavier traffic, together with higher wage rates, increased prices of fuel and other supplies, and widespread severe weather conditions in the early part of the year accounted for the greater expense.

Freight train operating performance showed improvement, reflecting in part the intensive efforts to obtain maximum utilization of the limited supply of equipment. Miles made per car on line average 16,973 compared with 16,177 the previous year, and the proportion of empty to total car miles was the lowest in many years. The average mileage per locomotive was 44,591, compared with 42,316 in 1946. Uncontrollable costs so predominated, however, that transportation expenses took 42.1% of gross earnings, a proportion never before reached, compared with 40.3% in the previous year.

The following statistical averages are indicative of the general level of efficiency in operations:

	1947	1946
Freight Train Load—gross tons	1,723	1,688
Freight Train Speed—miles per hour	15.9	16.1
Gross Ton Miles per Freight Train Hour	27,456	27,187
Freight Train Fuel Consumption—pounds per 1,000 gross ton miles	115	116
Freight Car Load—tons	31.2	30.8

Railway Tax Accruals amounted to $16,172,935, of which $12,000,000 was provision for Dominion Income and Provincial Corporation taxes, a reduction of $1,000,000 from the 1946 provision.

Net Earnings from railway operations were $22,892,189, an increase of $2,049,139. Out of each dollar of gross earnings, only seven cents of net was realized. In 1944 when gross earnings were roughly the same as in 1947, net earnings amounted to $43,159,664, or nearly double

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the 1947 figure. In this comparison the 1947 results are favoured by the increase in earnings derived from the rate increases on international traffic to which previous reference has been made.

Other Income

Other Income, at $24,788,927, was the highest in your Company's history. It was $2,009,133 more than in the previous record year of 1946.

The net earnings from ocean and coastal steamship operations decreased $401,917. Ocean steamship earnings were greater, due principally to the addition of the sixth Beaver ship to your Company's North Atlantic fleet and the return to passenger service in July of the Empress of Canada. The decline in net earnings of coastal steamships, chiefly due to increased costs of operation, more than offset the improvement in ocean steamship earnings. Higher freight and passenger charges were put into effect on the British Columbia service on the removal of price control but were not effective early enough to affect greatly the year's results.

Net earnings of your hotels were better than in any previous year; they exceeded, by $545,870, those of 1946 which had been the highest up to that time. Labour and material costs have been advancing rapidly over the past few years and in order to catch up with these costs it became necessary in the early summer to increase charges for meals and rooms in all your hotels. This, together with the larger volume of business enjoyed by your resort hotels, was responsible for the more favourable results.

The revenues from communication services were augmented by an increase of 20% in rates on telegraph traffic to and from the United States which was authorized by the Board of Transport Commissioners for Canada on June 6, 1947, following a general increase allowed by the Interstate Commerce Commission. Domestic rates remained unchanged throughout the year. As a result of rising costs, net earnings were $302,392 less.

Earnings from miscellaneous properties decreased $380,216, of which a large portion was due to the lower earnings from the old Hotel Vancouver. The lease of this property to the Citizens' Rehabilitation Council was renewed to April, 1948. An option for sale of the property was granted by your Company which remained open for acceptance at the end of the year.

Dividend income increased by $5,984,263. Dividends from The Consolidated Mining & Smelting Company of Canada, Limited at $8.00 per share amounted to $13,160,000 compared with $4.25 per share and $7,150,625 in 1946. The sustained heavy export demand and the marked improvement in world market prices for base metals enabled larger returns to be realized than were earned during the past several years.

Net income from interest, exchange, separately operated properties and miscellaneous sources decreased $3,436,475. Interest from the Steamship Replacement Fund decreased $298,207, owing to withdrawals from the Fund for expenditures on ships. Exchange account decreased $1,514,259. There was a decrease of $1,995,455 as a result of stating sterling expenditures for fixed charges at the official rate, but this was offset in part by the benefit for a full year of the revaluation, effective July 6, 1946, of the Canadian dollar in relation to the currencies of the United Kingdom and the United States. The earnings of your Air Lines were $956,637 less and there was an increase of $337,162 in the deficit of the Northern Alberta Railways, half of which is borne by your Company.

Fixed Charges

Fixed charges amounted to $15,787,174, a decrease of $2,700,939. Of this, $705,484 was brought about principally by a reduction in funded debt outstanding and in leased line rentals. The balance is the result of stating interest and rents payable in sterling at the official rate instead of at par of exchange.

Net Income and Dividends

Net income amounted to $31,893,942, an increase of $6,759,211 over 1946. Dividends declared from the year's net income aggregated $21,307,682, of which $4,557,682 was for two half-yearly dividends on the Preference Stock of 2 per cent. each and $16,750,000 for dividends on the Ordinary Stock of 2 per cent. paid November 1, 1947, and 3 per cent. payable March 31, 1948. The source of income for the payment of dividends on the Ordinary Stock was indicated clearly in special announcements made by your Directors. The last such statement, issued February 9, 1948, was as follows:

"The Directors consider it desirable to point out that this dividend of three per cent. making a total dividend payment of five per cent. in respect of operations for the year 1947 is made possible only by income from sources other than railway operations. Continued increases in gross earnings from freight traffic had been largely offset by decreases in passenger traffic and by increases in wages and the cost of materials and supplies."

Land Accounts

During the year 133,118 acres of agricultural lands were sold for $650,274, an average price of $4.88 per acre.

Cash received on land account, including initial and instalment payments on principal, totalled $4,312,677. Disbursements, including taxes, were $1,086,415, leaving net cash receipts of $3,226,262. This was a decrease of $800,255 from the previous year.

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Concessions to contract holders similar to those of previous years were again approved for the crop year 1947-1948. Improved economic conditions in Western Canada during the past few years have had the effect of reducing the amount of such assistance required. The total amount of assistance to contract holders since the inauguration of the policy in 1932, up to the end of 1947, was $27,525,518.

Balance Sheet

Total assets at the end of the year amounted to $1,648,453,823, an increase of $26,008,155 during the year. There was a net increase of $32,033,830 in Property Investment, details of which are shown in a supporting schedule to the Balance Sheet. The largest item of expenditure was $26,011,981 for Rolling Stock, of which $19,765,867 was for new freight cars.

Finance

The amount of serial equipment obligations paid during the year was $8,264,000, reducing the Funded Debt by that amount and reducing the amount of Consolidated Debenture Stock pledged as Collateral by $268,000.

As of January 2, 1948, The Royal Trust Company, as Trustee, entered into an agreement under which $20,000,000 principal amount of Equipment Trust Certificates was issued, guaranteed as to principal and interest by your Company. This issue, designated as Series "J" maturing in equal annual instalments from January 2, 1949, to January 2, 1958, inclusive, is payable in Canadian currency, and bears interest at 2% per annum payable semi-annually commencing July 2, 1948. Under this arrangement, equipment constructed or to be constructed at an estimated cost of $25,027,410 in Canadian funds is leased to your Company at a rental equal to the instalments of principal of and interest on the Equipment Trust Certificates, such rental being payable on June 30 and December 30 in each year from 1948 to 1957 inclusive.

Charges to working expenses for pensions amounted to $7,887,000. This includes your Company's proportion of the pension allowances paid during the year, levies in respect of employees covered by the United States Railroad Retirement Act, and the annual contribution of $1,750,000 to the Pension Trust Fund.

Wage Negotiations

At the beginning of the year notice was served by various groups of employees requesting extended annual vacation allowances. Subsequently a Board of Conciliation reported substantially in favour of the extensions asked for and a settlement was then negotiated which will be effective in 1948.

During the year certain groups of employees pressed requests for changes in working conditions in their agreements all of which involved increased expense to your Company. The proposals of the maintenance of equipment employees and the railway telegraphers were disposed of through negotiation. In other cases Boards of Conciliation were established as a result of which settlements were reached after further negotiations. Some cases are still outstanding, notably those concerning maintenance of way employees and conductors and trainmen.

The effect of the settlements negotiated during 1947 will be to increase the payroll expenses by approximately $2,250,000 per annum.

In November representatives of practically all organized employees served notice asking for a general wage increase of thirty-five cents per hour or its equivalent. It was impossible to entertain these requests, and they will be the subject of investigation by Boards of Conciliation early in 1948. A general wage increase of thirty-five cents per hour for all employees of your Company would mean an increased payroll expense of nearly $65,000,000. Your Company, while fully aware of the sharp rise that has taken place in the cost of living during the year, is firmly of the view that the demands made are not justified under existing circumstances.

To relieve the existing labour shortage, your Company made application to the proper authorities to recruit in Europe and bring to Canada for employment in track and other maintenance work a total of 1,720 men. Your Company obligated itself to provide employment for such men for a limited period following their entry into Canada at wage rates and under conditions of employment, including accommodation, not less favourable to the employee than those prevailing in the locality for similar classifications of employment.

Canadian Pacific Air Lines, Limited

The realignment of services following the survey of Canada's air transport requirements conducted by the Air Transport Board, mentioned in the last Annual Report, resulted in the relinquishment during the early part of 1947 of almost all the non-schedule or charter licences held by your Air Lines. On the other hand, certain new routes were assigned, including the scheduled services between Vancouver and Prince Rupert; Vancouver and Calgary via the Okanagan Valley; Winnipeg and Flin Flon via The Pas; and Seven Islands and Knob Lake. In order to meet the requirements of the new services, nine twin-engined aircraft were acquired and 26 of the smaller and older planes were disposed of.

The loss of earnings from the charter operations previously conducted and the cost of organizing and developing the new routes, combined with the increased costs of materials and labour, resulted in a net loss, after depreciation, of $584,266 as compared with a profit of $372,371 in the previous year.

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Minneapolis, St. Paul & Sault Ste. Marie Railroad Company

A dividend on the capital stock of this Company was declared on February 19, 1947, at the rate of $1.00 per share, amounting to $791,104, of which your Company received $359,829.

Gross earnings of the Soo Line for the year amounted to $32,487,992, an increase of $4,517,844 over the previous year. Freight earnings were $4,617,368 higher, principally as a result of the increases in rates authorized by the Interstate Commerce Commission. Working expenses for the year amounted to $30,454,813, an increase of $3,502,733.

Net income for the year, after provision for fixed and contingent charges, amounted to $1,183,000 compared with $154,188 in the previous year.

The voting trust agreement which had been entered into pursuant to the plan of reorganization of the Soo Line was terminated at December 31, 1947, by unanimous action of the Voting Trustees. The effect of this action was to transfer to the shareholders the right to vote the capital stock of which your Company now owns 50.03%.

The Wisconsin Central continues to be operated by the Soo Line as agent for the Trustees of the Wisconsin Central. The plan of reorganization previously proposed by an Examiner of the Interstate Commerce Commission has now been approved with certain modifications by the Commission. Your Company as well as other interested parties have petitioned for an order for further modification of certain features of the plan. On February 2, 1948, the Commission issued an order reopening the proceedings for further hearing.

The Duluth, South Shore & Atlantic Railway Company

The plan of reorganization proposed by the Trustees of the South Shore as a result of the negotiations between your Company and representatives of the holders of a substantial portion of the First Mortgage Bonds, which was under consideration by the Interstate Commerce Commission at the end of 1946, was approved by the Commission on June 19, 1947, with certain modifications. In order to expedite the reorganization proceedings, all parties in interest have agreed not to file any objections to the modified plan, which has now been certified to the District Court.

Gross earnings of the South Shore for the year were $5,323,656, an increase of $1,233,257, of which approximately $731,000 was due to higher freight rates. Net earnings amounted to $537,460, an increase of $526,685 over the previous year.

Rates and Services

Previous reference has been made in this Report to the application filed with the Board of Transport Commissioners for Canada for authority to increase freight rates by 30%. There were certain exceptions to the request for a general increase, namely the statutory grain rates which may only be increased by authority of Parliament and rates on coal and coke for which definite amounts per ton were requested. It was estimated that the overall increase in freight revenues involved in the application amounted to 22.6%.

Following the release from price control of freight and express charges, under order of the Wartime Prices and Trade Board effective September 15, 1947, the railways of Canada took steps to increase by 30% competitive freight rates and competitive express rates.

The railway companies felt justified in proposing these increases in rates which they had voluntarily established to meet competition, because their competitors' costs had also substantially increased and the abnormally low rates could therefore no longer be justified. Such rates as increased would in no instances have exceeded either the normal rates previously established without regard to competition or those fixed as maximum rates by the Board of Transport.

The Board ruled, however, that all rates, including these competitive rates, were under consideration in the general application and that it was desirable that they should continue to be considered together until final disposition. The railways were therefore ordered to suspend these increases.

New Rolling Stock Placed in Service During Year

Locomotives	
Steam	6
Diesel	13
Freight Train Cars	
Box	2,672
Automobile	500
Hopper	251
Refrigerator	55
Caboose	50
Passenger Train Cars	
Baggage	10
Coach	7

Much research has been directed to the various types of motive power required for use in different classes of railway service. Following extensive tests and studies, decision was made during the past year, and action is now being taken, to change over completely to diesel-electric locomotives for all services on the Esquimalt & Nanaimo Railway on Vancouver Island. Investigations are continuing to determine specifically the operations elsewhere on the system where this type of locomotive can be used to greatest advantage.

Diesel switching locomotives are proving their effectiveness in yard operations at major terminals across the system. At the end of the year 55 diesel switchers were in service, of which 13 were received during 1947.

The number of new freight cars received was greater than in any year since 1937, but only half of the units in the 1947 programme were received during the year owing to priorities given to foreign orders.

Much delay has been experienced in the construction of the 50 passenger train cars ordered in 1945. These comprise 10 baggage cars completed in 1947; 35 lightweight coaches, of which 7 were placed in service in 1947 and the remainder are being delivered early in 1948; and 5 roomette sleeping cars, also to be finished in 1948. The coaches are the first to be added since 1942 and their modern features have elicited much favourable comment from the travelling public.

The location of industrial enterprises and warehousing or distributing businesses on your Company's lines is of major importance in the development of traffic. During the year, 563 manufacturing, distributing and warehousing establishments began or expanded their operations on your Company's lines. The needs of 240 of these firms required the construction of 34 miles of siding facilities.

Operating Regions

A reorganization was undertaken during the year under which there were constituted the Eastern, Prairie and Pacific operating regions replacing the previous geographical divisions known as Eastern and Western Lines. The ever-increasing importance of the Province of British Columbia in the Canadian economy was recognized by withdrawing the Company's lines in that Province from Western Lines and establishing the Pacific Region. The remainder of the Company's operations in Western Lines, comprising those in the extensive grain producing areas and the growing industrial centres of the Prairie Provinces, now make up the newly formed Prairie Region.

Steamship Replacement

The Beavercove, fourth of the Atlantic Beavers designed and built for your Company, was delivered during 1947 and entered regular freight service between Canada and the British Isles in September. The Beaverburn and Beaverford, ultimately intended for the Pacific, remained in the Atlantic service throughout the year. The six Beaver ships combined carried 445,960 tons of cargo, principally vital foodstuffs, to the United Kingdom, and carried 91,101 tons to Canada. In addition, 1,295 passengers were accommodated on the Beaverburn and Beaverford.

In July the Empress of Canada, the former Duchess of Richmond, which had been completely overhauled and reconditioned, returned to the Atlantic service and up to the end of the year carried 10,241 passengers and 36,484 tons of cargo.

The Duchess of Bedford was released from troop transport service and is being refitted before returning to the Atlantic service. She is to be renamed the Empress of France. Serious delays have been encountered owing to scarcity of materials and the lack of sufficient numbers of skilled workmen in the shipyards.

In September your Company purchased the former German motor vessel Huascaran and renamed her Beaverbrae. This vessel was reconditioned and is now in service in the transport of displaced persons and immigrants from Europe. The Beaverbrae has a carrying capacity of approximately 800 passengers and 6,000 tons of cargo.

The Princess Kathleen, fully reconditioned and with modernized fittings, re-entered your Company's service on the triangle run between Vancouver, Victoria and Seattle. The two new passenger steamships being constructed for the British Columbia Coast Service are expected to be placed in service before the end of 1948.

Discussions were continued with shipbuilders in the United Kingdom looking toward the placing of contracts for the construction of two large passenger vessels, one for Pacific service and one for the Atlantic, plans and specifications for which were completed in 1946.

Capital Appropriations

In anticipation of your confirmation, capital appropriations in addition to those approved at the last Annual Meeting were authorized by your Directors during the year in the amount of $36,390,854. Included were provisions of $22,720,000 for 63 locomotives and 1,705 freight train cars, $8,000,000 for construction of a new freight yard at Montreal, and $2,738,843 for the acquisition of the motor vessel Huascaran and for betterments to the Empress of Canada.

Your approval will be requested also for capital appropriations of $43,280,017 for the year 1948. The principal items are as follows:

Additions and betterments to stations, freight sheds, coaling and watering facilities and enginehouses	$ 3,615,297
Replacement and enlargement of structures in permanent form	829,327
Tie plates, rail anchors and miscellaneous roadway betterments	1,292,193
Replacement of rail in main line and branch line tracks with heavier section	1,110,299
Installation of automatic signals	372,583
Additional terminal and side track accommodation	759,454
Additions and betterments to shop machinery	494,228
New rolling stock	31,524,072
Additions and betterments to rolling stock	1,489,400
Ocean steamships	90,000
Additions and betterments to communication facilities	1,638,238

Directorate

It is with deep regret that your Directors record the loss by death of a member of the Board, Mr. George W. Spinney, C.M.G., in February, 1948.

Mr. Spinney, who was appointed a Director in 1944 and a Member of the Executive Committee of the Board in 1946, gave to the affairs of your Company the full benefit of his great talents and wise counsel.

Mr. Spinney's sterling character and sound judgment had won for him the respect and regard of Governments and of commercial and financial bodies both at home and abroad. An able administrator, he influenced beneficially many phases of Canadian economic life. His patriotic services in the organization of the First Victory Loan of the Dominion of Canada and his chairmanship of the National War Finance Committee made an important contribution to Allied Victory, which was suitably recognized by His Majesty and by the Government of Canada. His zeal in philanthropic and educational work was a source of inspiration to others, and his warm human sympathies, his geniality and lightness of spirit enriched the lives of all those associated with him.

Early in the present year the health of Mr. W. M. Neal, C.B.E., Chairman and President of your Company, showed signs of deterioration and notwithstanding a prolonged rest he failed to improve. In consequence of advice from his physicians he asked that he be relieved of his responsibilities at the earliest possible date, and your Directors reluctantly felt impelled to accept his resignation.

Mr. Neal's record is one of distinctive achievement in the field of railway operation. Throughout the many years of his service, in whatever office he held, his zeal, ability and energy were conspicious; and, beside serving your Company with great efficiency, he rendered the Country meritorious service in the War of 1914-18 as General Secretary of the Canadian Railway War Board; and again in the recent World War as Canadian representative on the Transportation Equipment Committee of the Combined Production and Resources Board of Canada, the United Kingdom and the United States.

At the meeting of the Board held on the date of this Report Mr. George A. Walker, K.C., Vice-President of your Company, a Director and member of the Executive Committee, was elected Chairman of the Company.

Mr. W. A. Mather, Vice-President of the Prairie Region of your Company's System, was elected a Director, a member of the Executive Committee and President of the Company.

The undermentioned Directors will retire from office at the approaching annual meeting. They are eligible for re-election:

Mr. D. C. Coleman, C.M.G.
Hon. Charles A. Dunning, P.C.
Mr. John W. Hobbs
Mr. R. S. McLaughlin
Sir Edward Peacock, G.C.V.O.

Officers And Employees

Throughout the years an enviable record of devotion to duty has been built up by the officers and employees of your Company. By their efforts the high standards of Canadian Pacific service have been not only maintained but advanced. Your Directors desire to express their appreciation of these achievements and their gratitude for the loyalty to the best interests of your Company continuously expressed through the competent performance of duty.

For the Directors,

W. A. MATHER,
President.

Montreal, March 8, 1948.

CANADIAN PACIFIC RAILWAY COMPANY

General Balance Sheet, December 31, 1947

ASSETS

PROPERTY INVESTMENT:		
Railway, Rolling Stock and Inland Steamships	$ 880,747,256	
Improvements on Leased Property	107,956,776	
Stocks and Bonds—Leased Railway Companies	134,169,779	
Ocean and Coastal Steamships	54,545,167	
Hotel, Communication and Miscellaneous Properties	97,644,309	
		$ 1,275,063,287
OTHER INVESTMENTS:		
Stocks and Bonds—Controlled Companies	$ 69,939,167	
Miscellaneous Investments	47,039,979	
Advances to Controlled and Other Companies	7,236,035	
Mortgages Collectible and Advances to Settlers	1,293,295	
Deferred Payments on Lands and Townsites	10,782,049	
Unsold Lands and Other Properties	13,423,071	
Maintenance Fund	27,600,000	
Insurance Fund	12,460,156	
Steamship Replacement Fund	34,645,823	
		224,419,575
CURRENT ASSETS:		
Material and Supplies	$ 36,712,903	
Agents' and Conductors' Balances	14,741,396	
Miscellaneous Accounts Receivable	17,968,071	
Dominion of Canada Securities	31,667,000	
Cash	42,644,686	
		143,734,056
UNADJUSTED DEBITS:		
Insurance Prepaid	$ 238,296	
Unamortized Discount on Bonds	3,781,185	
Other Unadjusted Debits	1,217,424	
		5,236,905
		$ 1,648,453,823

LIABILITIES

CAPITAL STOCK:		
Ordinary Stock	$ 335,000,000	
Preference Stock—4% Non-cumulative	137,256,921	
		$ 472,256,921
PERPETUAL 4% CONSOLIDATED DEBENTURE STOCK	$ 325,856,729	
Less: Pledged as collateral to bonds and equipment obligations	30,418,500	
		295,438,229
FUNDED DEBT		75,301,000
CURRENT LIABILITIES:		
Pay Rolls	$ 7,053,336	
Audited Vouchers	9,284,072	
Net Traffic Balances	4,491,862	
Miscellaneous Accounts Payable	9,452,084	
Accrued Fixed Charges	938,186	
Unmatured Dividend Declared	2,278,841	
Other Current Liabilities	13,339,604	
		46,837,985
DEFERRED LIABILITIES:		
Dominion Government Unemployment Relief	$ 1,447,223	
Miscellaneous	2,961,578	
		4,408,801
RESERVES AND UNADJUSTED CREDITS:		
Maintenance Reserves	$ 27,600,000	
Depreciation Reserves	324,478,772	
Investment Reserves	3,702,115	
Insurance Reserve	12,460,156	
Contingent Reserves	5,188,998	
Unadjusted Credits	6,475,843	
		379,905,884
PREMIUM ON CAPITAL AND DEBENTURE STOCK		34,458,562
LAND SURPLUS		60,722,480
PROFIT AND LOSS BALANCE		279,123,961
		$ 1,648,453,823

ERIC A. LESLIE,
Vice-President and Comptroller.

TO THE SHAREHOLDERS,
CANADIAN PACIFIC RAILWAY COMPANY:

We have examined the above General Balance Sheet of the Canadian Pacific Railway Company as at December 31, 1947, the Income and Profit and Loss Accounts for the year ending on that date and other related schedules, and have compared them with the books and records of the Company.

The records of the securities owned by the Company at December 31, 1947, were verified by an examination of those securities which were in the custody of its Treasurer and by certificates received from such depositaries as were holding securities in safe custody for the Company.

In our opinion the General Balance Sheet, Income and Profit and Loss Accounts and the other related schedules are properly drawn up so as to present fairly the financial position of the Company at December 31, 1947, and the results of its operations for the year then ended, according to the best of our information and the explanations given to us and as shown by the books of the Company.

PRICE, WATERHOUSE & CO.
Chartered Accountants.

Montreal, March 5, 1948.

With Greenway & Co.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—Vina P. Aitken has been added to the staff of Greenway & Co., Farnam Bldg.

Mutual Funds

By HENRY HUNT

More About Dollar Averaging

Speaking of dollar averaging, **Woodford Matlock,** President of **Broad Street Sales Corporation,** recently told us an interesting and rather amusing case history of a woman who began dollar averaging at the top of the market in 1929. She regularly invested $100 a month in the shares of a common stock mutual fund which sold fractional as well as full shares. Its price was then $60 a share.

At the outset our lady investor received one and a fraction shares a month for her $100 but before long she was getting more than two shares. In 1930 she began to get three shares, then four. She was delighted. In 1932, her joy knew no bounds when, with the stock selling at 10, she received 10 shares for one monthly investment.

In 1933, when the stock had recovered to 18, the lady investor actually had a profit on her entire investment—her average cost being only 17. But was the lady happy? No, she was getting fewer shares a month for her $100 and she didn't like it at all. In fact, when the stock recovered to $25 a share, and her monthly purchases were reduced to four shares, she discontinued her dollar averaging program. Like a housewife today she decided she was not getting enough for her money!

177.20 Comes Up Again

In the parlance of the Harlem "numbers" game, 177.20 "hit" on March 31 for the third time in five consecutive quarters. To wit: the Dow-Jones Industrial Index closed at 177.20 on Dec. 31, 1946. Three months later, on March 31, 1947, it also closed at 177.20. One year later, on March 31, 1948, it again closed at exactly 177.20!

During this period, the "Dow" had a range of approximately 23 full points which gave it 2,300 possible closing prices. The odds against a recurrence of the above mathematical phenomenon are more than 5 million to one.

It is also interesting to note that during the last three quarters of 1947, the "Dow" closed as follows:

June 30, 1947	177.30
Sept. 30, 1947	177.49
Dec. 31, 1947	181.16

Maybe the chart experts, or the astrologists can make something out of the above—we can't.

Spring in the Bronx

Ah, 'tis Spring!
The boid is on the wing!
Why that's absoid
Everybody knows
The wing is on the boid.

ALTHEA FUHR.

The Farmer Buys a Car

"These Things Seemed Important," published by **Selected Investments Company** points out that although a typical new car costs about $1,600 today, as compared with $950 in 1940 in terms of what the farmer raises, cars are a lot cheaper today (for the farmer) than they were eight years ago. For example, in 1940, the farmer had to sell 64 hogs to pay for one car. Today 21 hogs will do the trick. The following table shows costs of new cars today and in 1940 in terms of farm products:

	1948	1940
Steers	8½	12½
Lambs	88	130
Milk (100 lbs.)	343	522
Crates of eggs	96	176
Bu. of wheat	602	1,393
Bu. of corn	717	1,537
Tons of hay	95	126
Bales of cotton	10	19

Repeat Sales

In a recent bulletin **Hugh W. Long and Co.** states in part:

"When investors buy shares of the same company again and again, that is one of the best evidences of shareholder satisfaction. A large number of shareholder accounts were studied to see whether investors who own **Manhattan Bond Fund** make such repeat purchases. On average, 32 out of every 100 shareholders have bought **Manhattan Bond Fund** more than once. Moreover, with each year that goes by, a greater and greater number of shareholders become repeat purchasers.

"For example, 12 out of every 100 shareholders who first bought **Manhattan Bond Fund** in 1947 have already purchased additional shares. By contrast, 43 out of every 100 shareholders who have lived with the Fund for four years or more have increased their original holdings."

The Origin of General Motors

In an interesting folder called **"Is There a General Motors of the Aviation Industry?" Distributors Group** writes in part as follows:

"In 1909 there were 270 companies manufacturing automobiles.

"But there was only one man with a big idea. His name was W. C. Durant.

"He had been in the automobile business long enough to know that there was a demand for automobiles in general, but that this demand shifted from one company's product to another.

"Individual companies fell by the wayside—the industry grew steadily. So Mr. Durant decided to diversify within the industry. Late in 1908, he formed a holding company—and called it General Motors. Here were his original holdings and what they cost in cash, and in General Motors preferred and common stock:

ACQUISITION OF GENERAL MOTORS CO. 1909-1910

from "A Financial History of the American Automobile Industry"

By L. H. SELTZER, PH.D.

Company	Consideration Paid: Cash	Common	Preferred
Buick Motor Co.	$1,500	$2,498,500	$1,249,250
Cadillac Motor Car Co.	4,400,000	275,000	
Olds Motor Works	17,279	1,827,694	1,195,880
Oakland Motor Car Co.	305,523		
Marquette Motor Car Co.	100	161,000	32,200
Cartercar Co.	2,780	137,700	
Elmor Mfg. Co.		600,000	
Randolph Motor Car Co.		204,400	
Reliance Motor Truck Co.	111,993		
Rapid Motor Vehicle Co.	412,348	51,500	
Weston-Mott Co.	230,000	94,000	47,000
W. T. Stewart Body Plant		160,000	80,000
Michigan Motor Castings Co.	37,125		
Northway Motor & Mfg. Co.	212,075		
Ewing Auto Co.	37,800	51,800	
Dow Rim Co.	41,200	28,800	
Welch Motor Car Co.	6,000		
Michigan Auto Parts Co.	76,736		
Jackson-Church-Wilcox Co.	122,450		
Novelty Incandescent Lamp		65,000	
Heany Lamp Companies	112,759	1,111,000	5,908,500

"So it was no accident that General Motors became the dominant unit in its industry. Mr. Durant said:

"'They say I shouldn't have bought Cartercar. Well, how was anyone to know that Cartercar wasn't to be the thing? It had a friction drive and no other car had it. How could I tell what the engineers would say next? Maybe friction drive would be the thing. And then there's Elmore, with its two-cycle engine. That's the kind they were using on motor-boats, maybe two-cycles was going to be the thing for automobiles. I was for getting every kind of car in sight, playing safe all along the line.'

"It is interesting to note that his most expensive acquisition—Heany Lamp Companies—was written off his books as worthless within a few years. But those who exchanged the now worthless assets of Heany Lamp had, by 1927, a market value of $320 million in the General Motors stock they had received, and had received dividends over the period of more than $50 million, because of the earnings from diversified sources."

Wellington in 20th Year

Wellington Fund has issued a new booklet titled **"The Security I Like Best."** In it, an imaginary shareholder says in part:

"In looking over the different Balanced Funds, I found one Balanced Mutual Fund that had been through the 1929 stock market crash and depression. That was **Wellington.** I was glad to find they had about the same investment management now as then. I wanted that management because I found out they had the foresight and common sense to reduce common stocks to 33% of the Fund in the summer of 1929 before the market crash. This same management had been responsible for the satisfactory record of the Fund during the depression, the commodity boom and collapse in 1937-38 and the war years.

"My confidence grew when I found they and their families had increased their original investment in Wellington shares to $850,000.

"I learned that Wellington had paid dividends every three months since 1929."

Shall I Build

By ROGER W. BABSON

Mr. Babson expresses doubt cost of building new houses will decline for some years, and asserts most attractive thing in real estate are old well-built houses in best sections of small cities.

There are many factors connected with new building today which should hold up costs for some time. Most of the increase is due to two main causes:

(1) The increased powers of labor unions causing **higher wages, shorter hours,** and **poorer work.** This is partly due to the higher cost of living, restrictions as to apprentices, and the increased demand for houses. This labor cost applies from the cutting of the timber in the forests through every step of transportation, milling, superintending, marketing, etc., up to the real estate man who sells the house. Moreover, this costly situation is encouraged by Federal and State labor laws, municipal codes, social security deductions and a dozen more additions.

Roger Babson

(2) Another factor is the **taxes** which must be paid by those who cut the tree, mill the timber, sell the lumber and other building material—as well as the taxes which the contractor must pay. These all snowball up one upon another with this result: The house which 10 years ago cost $6,000 now costs $12,000; but 50% of this increase is due to the increased taxes which our present Administration at Washington collects.

Houses Recently Built

In view of the above, I seriously doubt if the cost of building new houses will decline much for some years. It is true that the quality of building materials should improve and that labor may give more value for a dollar of wages because non-union labor competition will become more plentiful. Ultimately, there will be a decline in building costs to a point about half way between the cost of 10 years ago and the cost today. Even such a decline, however, is some time away. **So much for new construction.**

Now as to the price during the next few years of houses already built. There is no building boom ahead. Residential building in 1948 may be less than in 1947; while 1949 may be less than 1948 owing to war preparation restrictions. When Universal Training and the Draft take effect, contractors may begin to unload. They may be glad to get out even and some will be forced to take losses. It's all a question of supply and demand influenced by war preparations. Thus far more people have been moving into most cities—especially returning veterans—than there were houses. Now some of these people will wish to leave and to sell their houses. At first, this may be easy; but after the supply of such houses exceeds the present demand—prices could crumble fast. **So much for houses built during the past three years.**

What About Old Houses?

The most attractive thing in real estate—outside of properly located subsistence farms—are old well-built-houses in the best sections of small cities. These can still be bought for half what they would cost new—and in many cases are better than they could be built today at any price. As people become more war conscious and as the draft takes young men, they will gradually sell their homes in large cities and move into safe communities.

Hence, while big city property is going down in price, these small city properties may be going up in price. If you own such a house, continue to hold it. If you live in a good section, buy a house next to you as an investment. Many of these old houses will double in price while the new houses built for veterans during the past few years may sell at perhaps one-half what is now being asked for them. Unless you want one of these now, then wait for distressed sales.

What About War Outlook?

A great question is whether a war boom honeymoon is again ahead of us? If so, houses, ranches, and most city property could hold up awhile longer. There will be no war this year; but the very preparation for war should stimulate certain buying and retard other buying. One thing that looks good are certain large houses—now on the market at very low prices—which can be made over into apartments. There will always be a demand for well-located apartments. Even these you should live in or near and attend to. There now is no easy way to make money in real estate.

Mann With J. A. Warner

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ME.—Laurence H. Mann has been added to the staff of J. Arthur Warner & Co., Inc., Clapp Building. He was previously with F. L. Putnam & Co.

J. K. Lawwill & Co. Formed in Cincinnati

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, O.—J. K. Lawwill has formed J. K. Lawwill & Co. with offices in the First National Bank Building to engage in a securities business. Mr. Lawwill for the past 18 years has been connected with W. H. Fillmore & Co. Associated with him in the new firm will be Robert Morrison, formerly Secretary of W. H. Fillmore & Co.

Norfolk and Western Railway Company

SUMMARY OF FIFTY-SECOND ANNUAL REPORT FOR 1947

Railway Operating Revenues increased $36,147,000, or 27.87 per cent., over 1946. This increase was due principally to greater freight traffic and to increases in rates authorized by the Interstate Commerce Commission and State Commissions. Passenger traffic decreased. Railway Operating Expenses increased $17,040,000, or 18.45 per cent., due principally to wage rate increases, higher cost of fuel and other materials and greater traffic volume. Balance of Income, after deducting Sinking Funds and Miscellaneous Appropriations, increased $9,559,000, or 42.05 per cent. After deducting dividends on Adjustment Preferred Stock, the balance transferred to earned surplus, $31,413,000, was equivalent to $5.58 per share of $25 par Common Stock.

Condensed Income Statement

		1947	Comparison with 1946	Per Cent.
Railway Operating Revenues		$165,861,514.20	+$36,147,418.17	27.87
Railway Operating Expenses		109,373,838.69	+ 17,039,870.08	18.45
Net Revenue from Railway Operations		$56,487,675.51	+$19,107,548.09	51.12
Railway Tax Accruals:				
Federal	$26,306,989.83			
State, County and Local	5,624,050.88	31,931,040.71	+ 6,865,036.95	27.39
Railway Operating Income		$24,556,634.80	+$12,242,511.14	99.42
Rent Income—Equipment and Joint Facilities—Net		10,502,410.01	+ 863,856.17	8.96
Net Railway Operating Income		$35,059,044.81	+$13,106,367.31	59.70
Non-Operating Income		2,355,352.17	— 1,538,678.76	39.51
Total Income		$37,414,396.98	+$11,567,688.55	44.75
Deductions from Total Income:				
Interest on Funded Debt		$2,035,736.00	— $36,209.46	2.05
Other Deductions		46,764.24	— 322.95	.69
		$2,082,500.24	— $36,532.41	1.72
Net Income		$35,331,896.74	+$11,604,220.96	48.91
Sinking Funds & Miscellaneous Appropriations		3,039,288.71	+ 2,045,022.25	205.68
Balance of Income		$32,292,608.03	+ $9,559,198.71	42.05
Dividends on Adjustment Preferred Stock		879,608.00		
Balance Transferred to Earned Surplus		$31,413,000.03	+ $9,559,198.71	43.74

Condensed Earned Surplus—Unappropriated

Credit Balance, January 1, 1947		$204,836,765.78
Credits:		
Balance Transferred from Income	$31,413,000.03	
Miscellaneous Credits	258,757.70	
Total Credits		31,671,757.73
		$236,508,523.51
Charges:		
Appropriation of Surplus for Dividends on Common Stock	$20,394,003.50	
Miscellaneous Charges	602,486.70	
Total Charges		20,996,490.20
Credit Balance, December 31, 1947		$215,512,033.31

Financial

Under Charter amendment authorized by the Stockholders at the Annual Meeting held May 8, 1947, the par value of the Company's Adjustment Preferred Stock and Common Stock was changed from $100 per share to $25 per share, effective September 3, 1947. The Capital Stock of the Company held by the public was $162,638,500, and represented 77.21 per cent. of outstanding stock and bond capitalization. On December 31, 1947, the Company's stockholders numbered 15,228, an increase of 1,232 over the previous year.

Quarterly dividends were paid upon the outstanding $100 par Adjustment Preferred Stock in February, May and August at the rate of $1.00 per share, and on the new $25 par stock in November at the rate of 25 cents per share. Quarterly dividends on the $100 par Common Stock were paid in March, June and September at the rate of $2.50 per share, and on the new $25 par stock in December at the rate of 75 cents per share. An extra dividend of $3.00 per share of $100 par Common Stock was paid in March from 1946 earnings transferred to surplus, and an extra dividend of $1.00 per share of $25 par Common Stock was paid in December.

Total Funded Debt was $48,016,631.92, and represented 22.79 per cent. of outstanding capitalization. Fixed charges were earned 18.33 times in 1947 and an average of 13.69 times for the last 10 years.

At the end of the year, appropriations to the voluntary sinking fund for retirement of direct Funded Debt and income from investments totaled $4,480,000, and investments in securities had a market value of $4,307,000.

Taxes

Railway Tax Accruals were $31,931,000, an increase of $6,865,000, or 27.39 per cent. Total taxes amounted to $1,383 for each employee, to $6 for each share of Common Stock of $25 par value and 19 cents per dollar of Operating Revenues. Federal Taxes were $26,307,000, an increase of $6,971,000, or 36.05 per cent., and represented 82.39 per cent. of all tax accruals for the year. Included in this amount were accruals for Normal tax and Surtax, $20,500,000, an increase of $5,000,000, or 32.26 per cent., due chiefly to increased revenues, and Railroad Retirement and Unemployment Insurance taxes, $5,775,000, an increase of $1,967,000, or 51.67 per cent., due largely to higher tax rate for employee retirement benefits.

A reserve fund for taxes and contingencies totaled $45,833,000 at the end of 1947. Of this fund, $38,833,000 was invested in United States Government obligations.

Transportation Rates

The increase in freight rates and charges, which became effective January 1, 1947, was not sufficient to cover continued rising costs of materials and fuel and wage increases previously awarded. To meet these steadily increasing costs, the railroads of the country on July 3 petitioned the Interstate Commerce Commission for a further increase in freight rates averaging approximately 17 per cent. Further wage awards became effective September 1, and the carriers then amended their petition for higher freight rates to meet the wage awards and a further advance in prices of materials and supplies. The petition as amended raised the requested increase in rates from an average of 17 per cent. to an average of 27 per cent.

The Commission, pending final decision on the petition, granted interim freight rate increases of 10 per cent. generally and 10 cents per ton on coal, coke and iron ore, which became effective October 13. These interim increases added approximately $1,800,000 to the Company's revenues to the end of the year.

To meet additional wage awards effective November 1, and expected awards, as well as continued higher materials and fuel costs, a further supplemental petition was filed on December 3 for additional increases of 3 percentage points in freight rates and 5 cents per ton on coal, coke and iron ore. On December 29 the Commission rescinded the earlier interim increases and authorized an increase of 20 per cent. in basic freight rates with specific increases of 20 cents per ton on coal, coke and iron ore, effective January 5 to June 30, 1948, unless sooner terminated or modified, pending final decision upon the petition as amended. On volume and character of traffic handled in 1947, it is estimated that this Company's revenues under these interim rates will be $16,600,000 more per year than on basis of rates in effect prior to October 13.

Because of higher operating costs in general, the Commission, during 1947, authorized increases in passenger fares, compensation for carrying mail and express rates. Passenger fares in Eastern territory were increased from 2.2 cents to 2.5 cents per mile in coaches, and from 3.3 cents to 3.5 cents per mile in Pullman cars, with increases in certain round-trip fares all effective on this railroad on June 10. Mail revenues were increased approximately $350,000 in 1947. The effect of higher express rates upon this Company's revenues will be minor.

Wage Increases

On March 25, 1947, organizations representing all non-operating employees demanded a wage increase of 20 cents per hour. The five operating brotherhoods on June 20 presented demands for changes in certain rules and working conditions, and followed this on September 30 with demand for a wage increase of 30 per cent. with minimum of $3.00 per basic day. Through award by an arbitration board, the non-operating employees received an increase of 15½ cents per hour, effective September 1. Through direct negotiation with the Conductors' and Trainmen's organizations, basic daily rates were increased $1.24 effective November 1, and certain rules were revised as of January 1, 1948. On the basis of 1947 employment, these wage increases and rules revisions will amount to $9,800,000 per year for the Company. The demands of the Engineers, Firemen and Switchmen are before a Presidential emergency fact-finding board for recommendation.

Employees

The average number of employees during the year was 23,094. Railway Property Investment averaged $25,749 per employee. The Company's total payroll for 1947 was $70,698,000, an average of $3,061 per employee, compared with $62,380,000 and $2,878, respectively, for 1946. In addition to wages and salaries, the Company paid $6,562,000 in 1947, compared with $4,441,000 in 1946, for Railroad Retirement and Unemployment Insurance taxes and employee relief and pension funds. These payments averaged $284 per employee.

The Board expresses to the officers and employees its appreciation of the continued fidelity, diligence and efficiency with which they have served the Company and the public during the year.

R. H. SMITH,
President.

Securities Salesman's Corner

By JOHN DUTTON

Many people miss their best opportunities in life because they cannot give the other fellow a pat on the back. Flattery for its own sake always fails but sincere praise is another matter. There are some who try to monopolize the limelight—psychologists say they are the ones who suffer most from a universal malady called the inferiority complex. There is a vast difference between being a "pusher" and a "doer." The former is always rebuffed; the latter is sought after.

Years ago we had a sales manager where I worked and he was constantly trying to make everyone conscious of the fact that he was about the world's best salesman. I think he had been a shoe salesman before he became a bond salesman. In those days you didn't have to know much about securities to get a job selling them and this fellow not only knew very little about investments but never made an attempt to learn. Everyone was wise to him including the boss, but he did have some sort of a telephone "line" that brought in business, especially from country bankers who knew less than he did, if that were possible. So he had his title and he puffed out his chest, while other people paid him the homage he thought was his due and behind his back they said what they really thought concerning his supposed ability.

One day I was out of the office making a call. When I returned he met me at the door and with a smile of benign paternalism he told me that he had just made a nice commission for me. It seems as if one of my customers had called at the office while I was away and he proceeded to make a sale for me. That was the last commission I ever made out of that account. He didn't miss an opportunity for self praise. He made such a big shot of himself while he was selling those five bonds that anything that a plain ordinary salesman said thereafter didn't count. I would have been a lot better off, and so would the firm, if he had built up the salesman's importance. He should have told the customer that he didn't wish to interfere in making any investment suggestions but that he knew that the salesman would be pleased to get in touch with the customer as soon as possible and discuss his investment situation with him. This is an extreme case but it well illustrates the point. If you are any good you don't have to knock the other fellow down to prove it.

I have never known a successful man who didn't have something good to say about others. Those who know the most realize that no successful enterprise can be built unless there is the cooperative effort of many able people behind it. If you really appreciate the true wisdom of life and understand how insignificant is our journey upon this planet, you will be impelled to see the good in others and be patient with their faults. For years I have tried to make it a policy to send a few lines of congratulation to friends and acquaintances whenever I have had the opportunity of so doing. This is done because I want them to know that I am not too busy to notice what they are doing and because I believe that we all like to be appreciated. Other people have occasionally shown me the same interest and consideration and you can be certain that I have a warm spot in my heart for them.

Friendship is something that some people have to struggle to obtain. Others find that it comes to them in abundance. Any salesman who has the ability to make friends can sell anything. It is his most priceless asset. You can know about securities until you are a walking Moody's, Standard Statistics and Fitch Publishing Co. combined, but if you have never learned to put that human touch into your relationships with others you are going to be a pretty poor salesman. But combine sincerity and a real desire to like others with knowledge and you are in the right business. THE OTHER FELLOW IS A PRETTY GOOD MAN TOO— LET HIM KNOW IT ONCE IN A WHILE.

Reorganized Firm of Kalb, Voorhis & Co.

The reorganized Stock Exchange firm of Kalb, Voorhis & Co. was formed April 1, with offices at 25 Broad Street, New York City. The firm includes a majority of the partners who in 1946 organized the predecessor firm of the same name. These partners are John Kalb, Peter A. H. Voorhis, Louis Orchin, Wm. Minot Thomas and Horace Silverstone (member of the New York Stock Exchange).

The firm's branch offices in Albany, Philadelphia and Buffalo are being continued, as are the sales offices in Westfield and Batavia, N. Y.

Kalb, Voorhis & Co. maintains an extensive research department which serves banks, trust companies and other institutions throughout the country. It also has direct correspondent relationships with several dealer firms located in various cities.

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

With Mason Brothers

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF.—Frank D. Moller has been added to the staff of Mason Brothers, Central National Bank Building, members of the San Francisco Stock Exchange.

Whipple Bros., Inc.

LACEYVILLE, PA. — Whipple Bros., Inc., is engaging in a securities business.

Some Economic Aspects of The International Situation

By ROBERT L. GARNER*

Vice-President, International Bank for Reconstruction and Development

Pointing out European economy even before war was defective and inefficient, World Bank executive notes some postwar progress, and ascribes recovery retardation to unsound fiscal policies, communist inspired strikes, bad weather, and widening gulf between East and West. Sees slowness of Germany's economic revival as problem, and holds failure of sterling convertibility was blow to European progress. Says urgent need is European unity, if ERP is to be successful. Describes role of World Bank in reconstruction; concludes "it does not expect to carry main burden of financing development."

Nearly three years have passed since the end of the war in Europe and they have seen a steady decline in the high hopes which many entertained for peace, security and rapid economic recovery. In recent weeks international difficulties have risen almost to the point of crisis; and the political, economic and military decisions we now face will have momentous consequences for good or ill. It is important that the issues be clearly understood, that we see current problems in their proper proportions, undistorted by sentiment or hysteria.

Robert L. Garner

Inevitably it is a long, hard task to re-establish political stability and carry out economic reconstruction after a great war—as we of the South know so well from our own history. In the present situation the difficulties have been greatly aggravated by unforeseen natural disasters and by failure of the international cooperation on which we had relied. Nevertheless, serious as the situation is—and I have no wish to minimize its gravity—it is not without some favorable elements.

My purpose tonight is to try to present a balanced appraisal of the international economic picture. I stress the economic side not because I consider it more important that the political and military factors in the situation, but because it is closer to my own experience. In fact, of course, politics and military strategy are closely intertwined with economic problems in this task of world reconstruction.

During most of the time since the war ended our attention has inevitably centered on Europe, from which Americans have derived so much of their political and social system and to which they are bound by so many ties of a common heritage. But the importance of Europe is not merely sentimental. For centuries past its economic and political influence has extended in ever-widening circles over the world. Western Europe provided the resources to start modern development in America, Asia and Africa, and became the major center of international trade. Now the preponderance of strength has shifted elsewhere—to the United States and the Soviet Union—but a united and stable Western Europe could still serve as an important factor in the balance of world power. And with restored productivity it could again be a vigorous force for expanding and stabilizing the whole world economy.

Defective Prewar European Economic Pattern

It would be inadequate, indeed impossible, merely to restore the prewar economic pattern in Europe. It was clear even before 1939 that the European economy, divided into small and often inefficient economic units, and in many cases using obsolete productive equipment and methods, could not hold its leading position. Even then, Europe was living partly on the fat from previous centuries—on income from foreign investments, on colonial produce, on remittances from immigrants to the new world, and the like. This gradual and genteel decline might well have gone on for quite some time except for the two World Wars. As a direct result of the recent war most of Europe's overseas capital was wiped out, much of her shipping and industrial plant was damaged or destroyed, her productive power was crippled for many months, her control over important colonial possessions was broken and her commercial ties with the rest of the world were disrupted.

The Western European countries are rather like a group of famous old manufacturing and trading companies, long leaders in their field, whose production and merchandising methods have lagged behind some of their newer competitors, but who nonetheless have held an important position in the trade because of their high reputation and excellent contacts. Suddenly, they are struck by a series of disasters which damage essential equipment, wipe out their savings and force many of their long-time customers to turn to new suppliers. Their outstanding reputation, their knowledge of the business, their still-valuable plants will not suffice to get back into effective, profitable competition without a reorganization of their capital structure, rationalization of their productive system and provision of enough new money to put them on a sound footing.

That, by and large, is Europe's position. In the necessary reorganization, the United States, through ERP, is playing the role of a realistic investor who evaluates the assets, approves the reorganization plans and provides the necessary new money.

In concentrating on Europe's present difficulties, it is easy to undervalue the very substantial assets that the 16 Marshall Plan countries still possess. They have some 270,000,000 highly skilled people, with educational background and technical know-how surpassed only in the United States, if anywhere. They have great traditions of personal freedom and representative government, a rich culture, and a wide experience in the commercial development and political administration of a large part of the world. Their basic productive capacity, in spite of all the damage caused by the war, compares favorably with that of the United States. None of the European countries, perhaps, can by itself occupy the position of world leadership which several of them have held in the past, but, collectively, they are one of the two wealthiest and most productive areas on earth.

Progress of European Recovery

During the past three years the European peoples have demonstrated their will and their ability to work hard, to endure privation, and to make effective use of their material assets for reconstruction. The extent of their accomplishments has not, I think, been fully realized in this country. In spite of the terrible destruction of railroad bridges, marshalling yards, rolling stock and other facilities, for example, the European railways carried more freight in 1947 than in 1938. At the middle of 1947 Marshall Europe was building ships at a rate almost 50% above the prewar level. Their electric power output in 1947 was 31% greater than prewar. Even coal production on the Continent had climbed back from 41% of prewar in 1945 to 88% by last October.

I could give you many more specific examples, but it is enough to say that despite all obstacles industrial production in Great Britain, Belgium and Scandinavia was running at a higher level in 1947 than in 1937, that France and The Netherlands were close to prewar levels. However, in Italy, Austria and Germany production was still substantially below prewar.

There have been mistakes, many of them—unsound fiscal practices, ineffectual action to curb inflation, Communist-inspired strikes, and so on. But, on balance, the picture is one of courageous, determined and effective action, supported by generous American aid, without which the European efforts would have been unavailing.

In spite of this substantial advance since VE-Day, Europe is still far from fully recovered from the wounds of war. Four factors in particular have retarded its convalescence.

The first was an act of God—the weather. Both the cold and snow of the winter of 1946-47 and the heat and drought of the following summer were of record severity. As a result, Western Europe's slim fuel reserves were exhausted, her industrial and power output curtailed, her grain crop for 1947 only 61% of the prewar average and her need for foreign supplies greatly increased.

The second adverse circumstance has been the widening political gulf between East and West, which slowed the revival of the historic exchange of Western Europe's manufactured goods for food and raw materials from the countries now in the Soviet bloc. No substitute supplies from the Western Hemisphere could fully replace food from the Danube granary, coal from Poland, Finnish timber products and other Eastern European goods. Success of ERP may depend in considerable part upon some revival of this trade between East and West in Europe. There are many difficulties involved—the disruption of transport facilities, exchange controls which impose almost a barter system, and the increasing rigidity of trade restrictions at the Iron Curtain. Russia apparently is trying to redirect much of the trade of her satellites away from the West and thus shield them from possible contamination, but there are strong natural and historical ties between the economies

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*An address by Mr. Garner before the Public Affairs Forum, Memphis, Tenn., April 5, 1948.

The Behavior of Wages*

By JULES BACKMAN, Associate Professor of Economics New York University, and
MARTIN R. GAINSBRUGH, Chief Economist, National Industrial Conference Board

Economists find that long-term changes in wage structure, having originated in our economy's dynamism, have invariably occurred without uniform pattern. Conclude diversity rather than uniformity in wage adjustments is essential prerequisite for our economy's future successful functioning.

American wage earners during the past decade have become accustomed to steady increases in their hourly rates of pay. In four or five of these 10 years, depending upon the industry, major adjustments upward have been made in hourly wage rates. Contents

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of the weekly pay envelope have likewise been increased at a sharper upward rate than for any corresponding period for which wage data are available. Wages in earlier decades had also moved upward, but always in a slow and gradual ascent.

During this past decade, and particularly during the war and postwar years, a widespread belief has emerged that blanket wage increases of substantial and uniform amounts are desirable. It is also widely believed that such uniform patterns of change have to a large extent materialized. Against the background of labor scarcity which has characterized our economy since 1942, it seemed that little was to be gained by exploring or questioning the economic validity of national patterns of wage increases. But as the economy has been more fully converted to a peacetime basis, this question has become increasingly significant.

On several occasions since the war's end, warnings have been sounded by high government officials against the too ready acceptance of either the theory or application of blanket wage increases. Thus in the President's "Economic Report," in January, 1947, it was stated:[1]

"It follows that only through adjustments both in the price and pay structure, made with discriminating regard for specific circumstances rather than on an over-all national basis, can we achieve a sustained demand for the maximum output which the American economy is able to produce this year.

"But just as there can be no universal or uniform rule to govern price reductions, so there can be no uniform rule relating to wages. Both price adjustments and wage adjustments are necessary in the ensuing months. Wage adjustment, like price adjustments, need to be made with a discriminating regard for individual situations throughout the economy."

Again, in the "Midyear Economic Report," issued in July, 1947, a somewhat similar warning was sounded:[2]

"Sound principles of wage settlement require that recognition be given to the peculiar conditions of given firms, industries, or occupations and to the current situation. Over the long run, trends in real wages should be based on general productivity trends."

Despite this admonition, however, the Report, at another point, stated with reference to the increases in wage rates of soft-coal miners:

"The effect of the recent mine settlement (soft coal) is to raise the basic straight-time hourly rate from \$1.18 to \$1.63 and to raise the average hourly wage by 31 cents—from \$1.32 to \$1.63 (or \$1.20 a day). This was quite similar to the settlement during the first half of this year in other major industries. The miners had likewise gained a raise of 18½ cents last year, following a 'pattern' which was prevalent at that time."

With less reservation, Edwin G. Nourse, Chairman, Council of Economic Advisers, speaking before the Brotherhood of Railway and Steamship Clerks, on May 14, 1947, condemned the application of blanket wage increases in the following fashion:

"As an economist—a wealth engineer—I cannot but deplore the way in which we have allowed ourselves in the past few years to drift into the acceptance of over-all formulas and pattern settlements, and this applies to 10% price cuts across the board just as much as to pattern wage increases. This kind of thing is definitely alarming to an agency like our Council which is devoted to the attainment of true economic stability in the nation's economic mechanism. The mechanics adjusting a machine don't say that just because one nut needs to be tightened by 1½ turns all the other nuts must or can be tightened by the same amount. Some may need to be loosened. The only sound question is: Why is the present adjustment wrong and what will happen if we put on more pressure or less?

Diversity Has Ruled

An examination of long-term changes in the wage structure shows conclusively that diversity rather than uniformity has been its outstanding characteristic. This is true whether the measure used is basic wage rates or hourly, weekly, or annual earnings. It is true whether the period examined is peacetime, wartime, or postwar to date. It is true no matter which phase of the business cycle is examined. On no basis and for no period is there revealed anything even remotely resembling a uniform pattern of change.

National patterns of wage increases or of wage-rate leadership by relatively few industries, such as steel, rubber, automotive, electrical equipment, railroads, did not prevail prior to World War II. National wage patterns were developed for the first time as a wartime necessity in connection with wage stabilization activities. However, even under the wartime conditions, with its emphasis upon the Little Steel formula, considerable variations in wage changes developed.

Prior to the war, wages were bargained or adjusted primarily upon the basis of local or industry conditions. There were significant variations between the wage settlements in such pace-making industries as then existed.

A special survey analyzing basic wages in major companies in 14 leading industries since 1936 showed wide variations in changes. During the postwar period, however, there has tended to be a closer relationship in the magnitude and timing of changes in such key industries as electrical equipment, motor vehicles, rubber and steel. But even during this period, variations in timing and magnitude of wage adjustments were provided in other industries such as textiles, department stores, shoes, oil and paper.

An examination of changes in hourly earnings from 1941 to 1946 in 120 industry groups employing 15.7 million workers showed the following diverse tendencies. The largest concentration of wage increases was in the bracket from 35 cents to 37.5 cents, in which were found 34 industries and 3.6 million workers, or less than one fourth of the total. More than one fourth of the workers were in 24 industries in which the rise was less than 32.5 cents an hour. At the other extreme, there were 3.3 million workers, or one fifth of the total, in 20 industries, in which the average rise exceeded 40 cents an hour. The extreme range of increases was from 23.8 cents to 63.8 cents an hour. If the half dozen cases at each end of the range are omitted, the range of changes becomes 26.4 cents to 44.8 cents an hour, a far cry from a uniform pattern.

Although it is widely believed that uniform increases of about 18 cents an hour prevailed during the first round of postwar wage increases, the actual changes in hourly earnings deviated widely from that average. A survey of 153 industries employing 15.8 million workers showed that in the

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1 "The Economic Report of the President," transmitted to Congress, Jan. 8, 1947.

2 "Midyear Economic Report of the President," transmitted to Congress, July 21, 1947.

*A summary of a study issued by the National Industrial Conference Board, April 5, 1948.

Facing Gravest Crisis in Our History

By HON. THOMAS E. DEWEY*
Governor of State of New York

Republican Presidential aspirant attacks Administration's foreign policy as wobbly and as dominated by "dozens of military men." Scores Soviet and Communist activities and urges fighting propaganda with truth. Advocates unity of Western Europe and supports both UMT and Selective Service. Concludes with, courageous and informed leadership and competent government, we need not fear war.

It is grand to be back in Wisconsin. To one who was born and brought up in Michigan it seems almost like coming home to come back to Wisconsin. I'm also glad to be here to take part in the primary election. Two others are entered in that primary. One is a fine American soldier who has served his country well for nearly 50 years. The other is a fine former Governor of your neighboring State of Minnesota. I have the highest regard for both of them.

Thomas E. Dewey

I have come to talk with you tonight in this, the first of a series of speeches, because our National Government is falling apart at the seams in a time of national crisis. As Americans, we cannot allow that to happen, even though the Administration has only 10 months left to serve. For our own security those 10 months have got to be a lot better than the months that have gone before.

We Americans today are faced with one of the gravest crises in our history. Instead of plowing steadily forward toward the goal of peace and security, our ship of state is bobbing around like a cork in a stormy sea. First it goes in one direction and then in another. Today it is up—tomorrow it is down. Last year we were scrapping our military establishment—this year we are building it up. Last year our government was busy stripping Germany of its factories. This year it claims it is trying to stop the stripping and repair some of the damage. It seems to go on and on. Last year we ratified a treaty taking Trieste away from Italy. Now, we are trying to make amends by offering to return it. Last week we were shipping war plane motors and machinery to the Soviet Union. This week we are not — I hope.

In this welter of confusion, tension and crisis, the President has warned in grave terms of danger and most of our people are afraid he is bungling us into a war. And still neither the President nor any officer of the government has stated to our people the real nature and scope of this crisis. They warn of Communist conquest in vague terms. But this is no time to deal in generalities. We ought to get all the facts right out on the table so we can all see them. Then we can know what they are and know what to do. I insist that this is not a war crisis. It is a peace crisis. We must not allow ourselves to be stumbled or bungled into a war when with some intelligence and some competence in our National leadership we can recover our strength and keep this nation both free and at peace.

Soviet Expansion

Now, what is it that threatens us here in America? Why should we get excited about Central Europe or China? The Communist Party has given us the answer. It has a perfectly plain program to set up Communist governments in every nation in the world which will all be run from Moscow.

We have seen that program work in nation after nation. Since 1938 12 nations have fallen before the expanding Communist movement. In addition, Eastern Germany and Eastern Austria have been communized and the occupied areas are now threatened from within.

More recently we have seen in our own newspapers the orders of the Communist leaders in Czechoslovakia to be "merciless" in exterminating the industrial leaders, the labor leaders, and intellectuals who might offer opposition to tyranny. Now the Soviet is putting the pressure on Finland and it is believed that the brave and peace-loving people of Norway and Sweden are next on the Russian list and then Denmark. And Denmark owns Greenland which is right off the Coast of North America.

In these ways the Soviet reaches over the top of the world. It is also reaching into the Mediterranean. In Italy on the 18th day of this month a critical election will be held. The Communists are hoping to seize power there too, and then achieve another Czechoslovakia. So the jaws of the nutcracker in the North and in the South would close around all Europe. The Iron Curtain would then move to Boston Harbor and the Communists would have air bases on Greenland.

In the Far East the situation is just as grim. Today almost half of all China has been overrun by Communist armies and all China is in danger. Meanwhile the ground is now being prepared for revolution among our good neighbors in South America and in Africa.

These are the simple facts. The area of free governments in this world is shrinking. World Communism is on the march.

Communists in U. S.

There are Communists right here in America. But we in the great United States have long experience with the traditions of free government. When we spot a Communist, we know how to isolate him and defeat him. Back in New York City, you know, we have quite a few of them. They poll about 100,000 votes out of 6 million in our State. They come up to Albany to picket us regularly and they honored me two years ago by labeling me their Public Enemy No. 1. I was proud of that. When I ran for reelection as Governor in 1946 we took them on, together with their allies, the Democratic Party, the American Labor Party, the so-called Liberal Party and the PAC, and we licked them all at once by the largest majority in history. That is why I disagree with some of the pronouncements of those who are inexperienced in dealing with Communists. I like to keep them out in the open where we can beat them.

In the rest of the world it is not so simple. In most nations the people haven't had much training in running free governments. Moreover, they are hungry—they are looking desperately just for food and for security. So, the Communists expect to continue to win by exploiting human misery, by using native traitors and by warning simple people they must join up or face the purge. The Communists expect to continue absorbing nations until America, the stronghold, of freedom, is left isolated, alone in the world and then suffocated.

What Should We Do?

Now, in the light of all this, what should we do? So far, two alternatives have been presented.

One is offered by Henry Wallace, the out-of-office wing of the Democratic Party. He proposes that we continue to give in to Russia on each of her increasing demands; that we continue turning aside and looking the other way as the Communists intimidate and murder their victims. That is the policy of trying to buy peace by appeasement. Even if conscience did not forbid such a course, history should teach us that it is perfectly hopeless to try to preserve peace by appeasement. Appeasement always leads to greater and greater demands on the part of the aggressor. In the end, appeasement has always led either to slavery or to war. That policy the American people will wholeheartedly reject.

Course Followed by Truman Administration

The course of the other wing of the Democratic Party, the one the Truman Administration has been following, is neither flesh nor fowl nor even a good red herring. It has a policy of appeasement one day and bold bluster the next. It has no purpose and no direction. It isn't working and worst of all it threatens to lead us into war.

Let's get our thinking clear on this subject. Let's look at the real nature of the situation our foreign policy is supposed to deal with. The most important thing for us to realize is that the Communists win nations by a new and sinister kind of invasion. The countries that are now being put behind the Iron Curtain are not the victims of armies or navies or bombers. They weren't won by war. They were taken over from within by native traitors working under the direction of Moscow. These agents are well-trained civilians, making use of every trick of mob psychology and all the devices of modern propaganda. They promise, they bribe — they intimidate —they frighten—they terrorize— and then they move in.

Their methods are political and social — not military. I repeat — this is not a war crisis. It is a peace crisis. You can't shoot and kill an idea with a gun. Military genius—no matter how excellent —is not the answer that we dare to rely upon for victory in this cold war that gnaws at the peace.

In the face of this obvious fact, the policies of our country today are dominated by dozens of military men who by instinct and training think only in terms of war.

If we are to continue leaving the affairs of our country in the hands of military men we shall virtually confess that we cannot solve the problems of world peace by peaceful means. The answer to the threat of this hour in our nation's history lies in a wholly different approach.

Both the Truman and Wallace programs offer us nothing but chaos and despair. Both programs represent a bankruptcy of statesmanship and lead to ultimate war. They are both absolutely unnecessary. I assert that we can turn back this enveloping threat if we will only start using the skills and the creative genius in which the American people excel every other nation on earth. I assert

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*An address by Gov. Dewey at Milwaukee, Wis., April 1, 1948.

Gov't Bond Dealer Attacks Federal Reserve Open Market Methods

In letter to the "Chronicle," a dealer asserts centralized operation of open market transactions is in violation of original purpose of Federal Reserve Act and leads to political control of central banking

The "Chronicle" has received from a dealer in U. S. Government Bonds, who has requested that his identity not be revealed, the following communication regarding the policies and activities of the Open Market Committee of the Federal Reserve System:

"When the Federal Reserve System was established, President Woodrow Wilson wrote Senator Underwood of Alabama a letter regarding the objectives of the Federal Reserve Act in which he stated, 'No group of bankers anywhere can get control; No one part of the country can concentrate the advantages and conveniences of the System upon itself for its own selfish advantages; I think we are justified in speaking of this as a *democracy* of credit. Credit is at the disposal of *every* man who can show *energy* and *assets*. *Each* region of the country is set to study its own *needs* and *opportunities* and the whole country stands by to assist. It is *self-government* as well as *democracy*.'

"Now any student of banking history would know why President Wilson placed such importance on (1) the apparent Democracy as regards service and facilities of the Federal Reserve System and (2) the decentralization of authority, in his letter. Twice in our history we had had central banks of the United States and twice had the Congress of the United States refused to renew their charters when the time for such action arrived. The Congress representing the Peoples of the United States had apparently determined that in practice these institutions became undemocratic in action, autocratic in principal, and apt to extend privileges to certain groups, interests and sections of the country not available to all. Therefor, except for short periods of time, during which the two Banks of the United States operated under special charters the country had no central banking system and the banks operated under either state laws and systems or the inadequate National Banking Act. The *fear* that the people of this country held of Central Banks must have been very great for them to endure the inconveniences engendered by this hodge podge of banking systems and the recurrent banking panics so prevalent and costly. It is an evident fact that when the Congress of the United States acting for the Peoples of the United States chartered the Federal Reserve System its *Intent* was to establish a Central Banking System with the conveniences and services of a Central Bank while denying to that system the powers that led to abuses during our two previous attempts at Central Banking and so prevalent in European Central Banks. The important thing to the American peoples today is—has the original intent been achieved in results or do we have something different?

"No fair minded person will deny that American institutions and public opinion have undergone a tremendous evolution since 1914 but basically the Constitution of the United States guaranteeing the Right to Life, Liberty, Freedom of speech and the Pursuit of Happiness has remained the same and any one or group of persons thinking or acting otherwise is liable to be courting trouble for all of us. Now it is not the purpose of this article to follow the complete evolution of the Federal Reserve System, its operations or it policies from its date of charter to the present other than to say that it, in the writer's opinion, has assumed a role different, greater and perhaps contrary to the original Intent of Congress. The purpose of this article is to bring to light one important method of operation, one set of regulations as promulgated by a certain group of officials of the Federal Reserve System which apparently had been under consideration for a considerable period of time and were passed unnoticed during the war period which directly contravene the constitutional rights of every American Citizen through establishing in actual practice a monopoly contrary to the Federal Law as enacted by Congress.

"Since the end of World War II laws pertaining to Price Control and Rationing have disappeared from the Statute books and there is no such person existing in this country today as a 'black marketer.' We are supposed to have returned to a free economy in the realm of goods, commodities and services. But what about Money and Credit? Well, we have a privately owned corporation chartered by the National Government and granted certain specific rights subject to certain restraints today rapidly approaching the point where it well may do the rationing and price control work if the Congress doesn't soon stop it.

"One fear the people of the United States have had of Central Banking was that the Bank would come under political control. In an attempt to circumvent this the Banking Act of 1935 provided the Federal Reserve System with a Board of Governors of seven members having terms for 14 years, previously it had been nine members with 12-year terms. By having made the term of office so long the members of the Board of Governors are supposed to have been made remarkably free from Political Pressure which may or may not be true, but certainly in the action of one of its committees upon which all members of the Board of Governors sit, the System acted as though it were an Oligarchy in its own right and not subject to the principles to which this nation is dedicated. The amusing, if any part of it is amusing, reason that would probably be advanced for this action is that it is because of the 'Public Interest Involved in the Government Securities Market.' It is strange how Bureaucrats in whatever nation located always use this 'Public Interest' reason as the excuse for extra curricular activities through which they seize more power. It is also interesting to note that these bodies can only see themselves as the proper interpreters of what is this Public Interest, completely ignoring the fact that usually there are Constitutions and laws stating what the Public Interest is, who shall define it and under what procedure. It is a very difficult matter to change that basic instrument of Public Interest, namely the Constitution in these United States if legal procedure is adhered to by the authorities but some bodies of officials get in the frame of mind that they can do it by just hollering 'Public Interest.'

"Let's get down to facts. Further on is presented, as printed in the thirty-first Annual Report of the Board of Governors, a section of the 'Record of Policy Actions Federal Open Market Committee' pertaining to 'Terms upon which Federal Reserve Bank of New York will Transact Business with Brokers and Dealers in Govern-

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Must Sterling Be Devalued?

By PAUL EINZIG

Noting pressure to devalue British pound comes from United States and European continent, Dr. Einzig says it has failed to impress British policy, since British Treasury holds view devaluation would deliberately give away some of proceeds of British exports. Says present discount of pound below official exchange rate is due to British adverse trade balance and not to over-valuation.

LONDON, ENGLAND.—The British Government has now for months been subject to pressure from abroad in favor of a devaluation of sterling. Pressure within Britain, let it be noted, is virtually non-existant. No British expert of standing is advocating devaluation. No campaigns are waged to that end in the British Press. None of the representative industrial or commercial organizations and very few individual business men have expressed any views that the pound should be devalued.

Dr. Paul Einzig

In British politics the question simply does not exist; the interest of the House of Commons in the subject is confined to occasional questions to the Chancellor of the Exchequer, tabled for the purpose of eliciting an official disclaimer of intentions to devalue rather than for the purpose of pressing the Government to do so. Occasional official statements of the Government's intention of maintaining the pound at its present parities do not provoke any wave of criticism in Britain. Indeed the British reaction to such statements is that they are merely stating the obvious.

Nor are there any indications that the British public is devaluation-minded. There is no sign of any feverish buying activity to hedge against a possible devaluation. Sterling still enjoys the full confidence of British people, even though the moderate rising trend of prices has given rise to vague concern about its ultimate purchasing power.

All the agitation in favor of a devaluation of sterling comes from abroad, in the first place from the United States. British experts are utterly perplexed by this change in the American attitude. For years it was the supreme end of the economic foreign policy of the United States to prevent Britain from devaluing sterling. And now London is actually being pressed from Washington to devalue. For some inscrutible reason, official, political and expert opinion in the United States appears to have become determined to abandon the old policy that had forced Britain into the commitments of Bretton Woods against unilateral devaluation decisions, and to try to induce the British Government to devalue against its wish. What does the United States stand to gain by a devaluation of sterling in existing circumstances? is the question everybody on this side is asking. Or do they really think it is to Britain's advantage to deteriorate her balance of payments further by changing deliberately the terms of trade to her detriment?

The United States are by no means alone in pressing for a devaluation of sterling. There is strong pressure in that sense also from the Continent. Stalin himself is understood to have expressed his belief, in conversation with a group of visiting British Members of Parliament some months ago, that sterling would have to be devalued. His former chief economic advisor, Mr. Eugen Varga, having expressed optimistic views about the position of sterling, was promptly repudiated by the Soviet authorities, and is now in disfavor.

In Western Europe, too, official circles are strongly in favor of a devaluation of sterling. Belgium and Holland are anxious to devalue their own currencies, and for considerations of prestige they would prefer it if sterling were also devalued at the same time. In France the devaluation of sterling is advocated in spite of the fact that at the present rate sterling is grossly undervalued in relation to the franc. The reason is that France is anxious to buy cheaper from Britain and the Sterling Area. This motive must be present in the minds of advocates of a sterling devaluation also in other countries.

All this external pressure has failed so far to make any impression on official British policy. The Government does not want to devalue sterling, at any rate at present. Should the present sellers' market give way to a buyer's market to a much larger extent than is the case at present, the situation would be reconsidered. But at the moment it is the view of the British Treasury that a devaluation would simply give away deliberately some of the proceeds of British exports that could be sold quite easily on the basis of the present exchange value of the pound.

It is true, the discount on "free" pound rates abroad provides an important loophole through which Britain stands to lose much of her foreign exchange resources. But the view is firmly held that, were sterling to be devalued, the unofficial rate would very soon go to a discount also in relation to the new lower official rate. For the cause of the present discount is the unsatisfactory state of the British balance of payments. And since that balance of payments could not possibly be improved by a devaluation, the devalued sterling would be distrusted to the same extent as sterling is at its present value.

It would be unfortunate if the British Government were to yield to pressure from abroad and allowed its policy in this respect to be influenced by quarters which are not in a position to judge the arguments for and against devaluation to the same extent as are the authorities of the country directly concerned. What can the critics of British policy know, for instance, about the extent to which British exportable goods are held up owing to the unduly high exchange value of the pound? The British Government has the full facts at its disposal. It also knows the extent to which a large number of British exporters are booked to capacity for years ahead. It is on the basis of such information, not available to outsiders, that the British authorities have arrived at the conclusion that in existing conditions Britain would stand to lose rather than gain through a devaluation.

The Strength of Dynamic Capitalism

By HAROLD E. STASSEN*
Former Governor of Minnesota

Presidential aspirant condemns Socialism and Communism as destroying freedom, and defends capitalism against controlled economy. Lays down as elements of dynamic capitalism: (1) free markets; (2) sound money; (3) equitable and incentive taxation; (4) labor, free from domination by union or management; (5) free and protected agriculture; (6) no major monopolies; and (7) stable and representative government. Stresses functioning of free markets, and deplores attack on exchanges. Urges U. S. be kept economically and militarily strong.

We meet at a critical hour of a fundamental clash of ways of life. It is evident to all from the sharp focus of recent events that our America is engaged in a basic struggle as to the future freedom of men. The ideology of materialistic Communism which has as one of its most vicious characteristics the enslaving of men to the State, is being aggressively promoted by Russia throughout the world.

Harold E. Stassen

This stark fact presents a challenge to America and the free way of life. It directly counters the underlying concept of our philosophy, drawn from our religious foundation, that man has a spiritual value, that he is an individual of human dignity, that he has inalienable rights endowed by his Creator, that he was meant to be free.

It is my view that individual economic freedom is inseparable from the other human liberties. In other words if men become entirely subject to government as to where they may work, what they may earn, how they may invest, what they may make, and for their food and shelter and clothing, the other human liberties become very hollow and soon cease to exist. This is the reason that I have called classic Socialism and classic Communism, as economic systems, two peas from the same confining pod. It is my view that a free economic system is essential to the future freedom of men.

Capitalism is the only economic system that has been thus far devised that affords individual economic freedom. Thus I hold that it should be our American objective to maintain and develop a dynamic modern people's capitalism and to firmly reject all efforts to pull us down the road of Socialism or controlled economies.

*An address by Mr. Stassen at the Centennial Banquet of the Chicago Board of Trade, Chicago, Ill., April 3, 1948.

Elements of Dynamic Capitalism

I consider these to be the principal elements of a dynamic capitalism:

(1) Free markets.
(2) Sound money.
(3) A favorable tax system, so that the incentive is always present to everyone to invest and earn and produce.
(4) Labor free of domination by either management or union bosses.
(5) Agriculture with a free choice and a fair portion of the national income.
(6) No major monopolies.
(7) A stable and representative government.

When these elements are present the highest productivity is attained, the fairest distribution results, and the best conditions of living for the people are realized.

Each has an essential part in the success of the whole. I consider it to be important that all believers in a free economy should recognize the importance of each factor and be affirmative in their support of each. Neither a people nor an economy can remain free by being passive.

The dangers to the future of economic freedom usually arise from an attack on one of the elements that are necessary for its success. It may be an attempt to so weaken the money that the flow of goods is restricted and the economic machine breaks down. It may be an attempt to so abuse or dominate labor that the balance of the economy is disturbed with disastrous results. It may be a selfish grab for monopolies with resulting stagnation of progress and dislocations, or it may be an assault on free markets.

Functioning of Free Market

It was one of the latter instances which caused me to give more than the usual attention to the functioning of the free market.

I listened with amazement, last October, to an attack by the President of our country upon speculators in grain at a time when he was presumably seeking a united country in support of a food conservation program. I then followed closely the succeeding attacks by the Attorney General, by the Secretary of Agriculture, and by other high officials upon the system and methods by which we marketed and distributed grain and other commodities in America.

It appeared clear to me that a major attack was being made upon our free marketing system and upon our Republican Party in an attempt to blame both for high prices. It further seemed to me that those high prices were caused primarily by a world-wide shortage of goods and secondarily by unsound economics on the part of the government.

Watching this attack develop, and having attained in the course of study of European requirements and of the American capacity to meet them, considerable facts as to governmental purchasing and market operations of government officials, I decided in December that here was a situation that required not a defense of the free market, nor of the Republican Party, but rather a vigorous counterattack of exposing governmental practices and actions of officials.

Major Derelictions of Administration

I therefore charged at Doylestown Pa., on Dec. 10, six major derelictions and mistakes of the present National Administration as follows:

That the National Administration had failed to use its power of export controls to safeguard American prices and permitted needless extreme competition for scarce American food.

That insiders in the National Administration had engaged in profiteering in food which had raised the price of food to the American people.

That the departments of government had been guilty of hoarding scarce commodities in a manner that had increased prices.

That the Administration had carried on its own purchasing program under a method which had placed extra pressure on prices.

That the President by his veto of the first OPA extension law ended controls too quickly and too suddenly.

That the President misled American labor in his postwar addresses claiming that wages could be raised without higher prices and thereby set off a heavy round of strikes with vital loss of production and increased inflation.

I assume you have heard something of the succeeding repercussions and investigations, particularly on the second charge that I made. I will not review them tonight. But I will comment that I have heard no responsible official of government make any attack on either free markets or the Republican Party with respect to the price of commodities since Dec. 10.

It is to be regretted however, that in an effort to evade the facts the Administration in an entirely unjustified manner, published much detailed information of the market trading of thousands of proper, legitimate, private citizens in an apparent effort to becloud and confuse the real issue which had been raised.

Must Advocate Our Economic System

I cite this experience to indicate on the one hand that we must be active on behalf of the essential elements of a free economy. But even more, we must be active in our advocacy of our entire economic system in the world. We have been entirely too passive and appeasing in our approach to the world clash with Communism. It is my view that we should set out affirmatively to defeat Communism in the world on the economic and ideological fronts. If we do so I believe we will have a much better chance of not being called upon to defeat them on the military front.

It is my view that it is entirely unsound to ship machinery and machine tools and electrical equipment and supplies to Russia

(Continued on page 47)

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

Both fire and casualty insurance stocks, as groups, have registered market gains this year. On the other hand, industrial stocks despite recent recoveries, have lost ground. As measured by Standard & Poor's weekly indices and the Dow Jones Industrials, their relative performances have been as follows:

Date—	18 Fire Insurance	9 Casualty Insurance	Dow-Jones 30 Industrial
Dec. 30, 1947	118.3	153.2	180.56
Mar. 31, 1948	123.4	156.6	177.20
Appreciation or Depreciation	4.3%	2.2%	—1.9%

The performance of individual fire insurance stocks has been very uneven, some stocks have even declined since the first of the year, while others have appreciated more than 10%. In the following table are the market performances of 21 representative fire stocks:

Name—	Asked Price Dec. 31, '47	Asked Price Mar. 31, '48	Change
Aetna Insurance	50	47¼	— 5.5%
Agricultural	61½	54	—12.2
Boston Insurance	67	71	+ 6.0
Continental Insurance	55⅝	54	— 2.9
Fidelity-Phenix	57½	58½	+ 1.7
Fire Association	47½	54½	+14.7
Franklin Fire	18¾	20	+ 6.7
Great American	27⅝	30½	+10.4
Hanover Fire	25½	28¼	+10.8
Hartford Fire	109	113	+ 3.7
Home Insurance	24¾	27¾	+12.1
Insurance Co. of North America	98½	101¾	+ 3.3
National Fire	44	46	+ 4.5
New Hampshire	45	44	— 2.2
North River	24¼	24¼	No Chg.
Phoenix Insurance	80½	87	+ 8.1
Providence Washington	33¼	33¾	+ 1.5
St. Paul Fire & Marine	71	74½	+ 4.9
Security Insurance	25	26¾	+ 7.0
Springfield Fire & Marine	43¾	44½	+ 1.7
U. S. Fire	49	51	+ 4.1
AVERAGE OF 21			+ 3.7%

The performances of ten representative casualty insurance follows:

Name—	Asked Price Dec. 31, '47	Asked Price Mar. 31, '48	Change
Aetna Casualty & Surety	85	83½	— 1.8%
American Surety	54½	58	+ 6.4
Continental Casualty	52	52½	+ 1.0
Fidelity & Deposit	150	149	— 0.7
Hartford Steam Boiler	32	35	+ 9.4
Maryland Casualty	13⅞	13⅞	No Chg.
Massachusetts Bonding	31	28⅞	— 6.9
Seaboard Surety	49½	50	+ 1.0
Standard Accident	31½	31¼	— 0.8
U. S. Fidelity & Guaranty	49½	50½	+ 2.0
AVERAGE OF 10			+ 1.0%

Here again, the performance is most uneven, four stocks having declined, five have appreciated, while Maryland Casualty is unchanged.

The market action of some fire stocks is rather difficult to explain on any logical basis, whilst other moves appear fairly rational. For example, Aetna and Agricultural showed exceedingly poor underwriting results in 1947, losses even exceeding net investment income: these stocks have consequently declined 5.5% and 12.2% respectively. On the other hand, Hanover Fire also had underwriting losses in excess of net investment income, yet its stock has advanced 10.8%. Another inconsistent example is Continental Insurance, whose stock has declined 2.9%, despite its being one of the few companies which reported net underwriting profits in 1947 as well as the highest net investment income in its history.

The market appears to like the proposed merger of the Home companies, for the stock of Franklin has appreciated 6.7% and that of Home 12.1%, compared with an average gain of 3.7% for the 21 stocks.

Earnings of these and other fire companies for 1947 were tabulated in this column in the March 25th issue of the "Chronicle."

Best's has recently reported aggregate figures of a group of 100 stock fire insurance companies for 1947 compared with 1946; the following figures have been compiled therefrom ($000 omitted):

Date	Net Premiums Written	Unearned Premium Reserves	Statutory Underwrit. Loss	Net Invest. Income	Federal Taxes	Dividends
1946	$1,322,230	$1,145,797	—$85,136	$79,561	$4,716	$60,077
1947	1,615,710	1,385,716	— 61,800	90,917	4,913	62,265

Net premium volume increased by 22.2%; statutory underwriting losses are less by 27.4%; net investment income is up 4.3%, and dividends are 3.6% higher. It should also be noted that unearned premium reserves are approximately $240,000,000 higher, or 21%; on an aggregate basis the increase in premium reserve equity (40% of this amount) is sufficient to offset aggregate statutory underwriting losses and produce a net aggregate underwriting profit. Dividends were earned 1.46 times by net investment income alone.

Bests' also reports aggregate figures for 115 stock casualty companies, $000 omitted, as follows:

Date	Net Premiums Written	Unearned Premium Reserves	Case Underwrit. P. or L.	Net Invest. Income	Federal Taxes	Dividends
1946	$1,232,743	$589,608	—$59,933	$48,004	$1,363	$42,018
1947	1,376,688	728,649	7,743	53,158	13,796	42,717

With this group, net premium volume increased 36%; underwritings produced a profit vs. a loss in 1946; net investment income is 10.7% higher and dividends 1.7%. It will be observed that Federal income taxes in 1947 were about ten times the 1946 total. Dividends were earned 1.24 times by net investment income; a 15% lower ratio than that of the fire insurance companies.

Reports Higher National Bank Earnings in 1947

Comptroller of the Currency Preston Delano announced on April 3 that the national banks in the United States and possessions reported net profits after income taxes of $453,000,000, a decrease of nearly $42,000,000 in the amount reported for 1946.


Preston Delano

Netoperating earnings before income taxes were $644,000,000 an increase of $22,000,000 in the year. Adding to the net operating earnings, profits on securities sold of $62,000,000 and recoveries, etc., previously charged off of $99,000,000 and deducting therefrom losses and chargeoffs of $169,000,000 and taxes on net income of $183,000,000, the net profits before dividends for the year 1947 amounted to $453,000,000 mentioned above, which at an annual rate amounts to 8.36% of capital funds.

The principal items of operating earnings for 1947 were $621,000,000 from interest on United States Government obligations and $105,000,000 interest and dividends on other securities, a total of $726,000,000, which was a decrease of $78,000,000 in the figures reported for 1946; and interest and discount on loans of $706,000,000, an increase of $199,000,000. The principal operating expenses were $521,000,000 for salaries and wages of officers and employees and fees paid to directors, an increase of $69,000,000 over 1946, and $163,000,000 expanded in the form of interest on time and savings deposits, an increase of $19,000,000. Gross earnings from current operations in 1947 were $1,725,000,000, an increase of $151,000,000 over the previous year. Operating expenses were $1,081,000,000 as against $952,000,000 in 1946.

Profits on securities sold in 1947 amounting to $62,000,000, or $49,000,000 less than in the preceding year, and losses and depreciation on securities in 1947 totaling $70,000,000 were nearly $5,000,000 less than in the year before. Losses charged off on loans and discounts of $74,000,000 were $29,000,000 more than in 1946. Taxes on net income, Federal and State, in year 1947, totaling $183,000,000, were $3,000,000 less than the amount of such taxes paid in 1946.

Cash dividends declared on common and preferred stock in 1947 totaled $184,000,000, in comparison with $170,000,000 in 1946. The annual rate of cash dividends was 3.39% of capital funds. The cash dividends to stockholders in 1947 were 40.51% of the net profits available for the year. The remaining 59.49% of net profits, or $269,000,000 was retained by the banks in their capital funds.

On Dec. 31, 1947, there were 5,011 national banks in operation as compared to 5,013 at the end of 1946.

Future Trend of Interest Rates

(Continued from page 6)

mand for capital should begin to decline by 1949.

(2) The completion of the post-war expansion program will tremendously increase the productive capacity of our manufacturing industries. In some cases productive capacity will be as much as 100% more than it was before the war. A recent survey of the McGraw-Hill Company indicated that on the whole productive capacity of our manufacturing industries will be 52% greater than in 1939. This increase in productive capacity will do much to keep inflation in check.

(3) In spite of enactment of the Marshall Plan, the total volume of exports is likely to decline in the years ahead, while the volume of imports should increase.

(4) There is good reason to doubt that there will be a really large boom in residential building at present high costs of construction.

(5) The drastic drop in commodity prices earlier in the year indicates that basic commodities may not be in such short supply as was thought a few months ago. Barring crop failures, there is small danger of seeing wheat $3.00 a bushel in the near future.

This all adds up to the fact that the nation seems to be running out of a boom. Once there is some excess plant capacity and basic commodities again are in supply, the danger of inflationary price rises is past. Inasmuch as the limiting factor to the Federal Reserve Bank's support of the bond market is the danger that such support through increasing the money supply may foment price rises, and if the danger of such price rises is unlikely on account of an increased supply of goods, there is little reason to think that present interest rates cannot be maintained for the immediate future. My guess at the moment is that they will be.

I believe, however, that the interest rate on residential mortgages is too low and will have to be increased if there is to be a free flow of funds to finance construction. Today a 25-year government bond sells to yield 2½%; corporate bonds of approximately the same maturity to yield about 3%; high grade preferred stocks, to yield between 4 and 4½%, and some of our best dividend-paying common stocks, to yield 6%. A residential mortgage having a maturity of 20 or 25 years, bearing a gross rate of 4% and a net rate to an insurance company of little more than 3% certainly is not an attractive investment under present conditions.

Moreover, when one considers the present high prices of real estate, which is the security for our mortgage loans, he should be certain that the present interest rate on mortgages is too low, risk of loss considered. If Congress wants a free flow of private funds to go into the mortgage market at the present time, it is imperative that interest rates on GI loans should be raised ½ of 1% and also that the return on Title VI 603 FHA loans be raised by the same amount. If this is not done, the government will not only be guaranteeing these mortgages but it will also find itself compelled to furnish the funds to finance the building of the house. There would be no need for the restoration of the Reconstruction Finance Corporation Mortgage Company to furnish a so-called secondary market for GI loans if mortgage interest rates were allowed to rise by ½ of 1% so that they would be competitive with rates offered on other types of investments.

It is just idle to expect life insurance companies to invest any large proportion of the funds of their policyholders in mortgage loans when the net return on them is less than it is on other types of investments when the possibility of loss, expenses of handling, and absence of liquidity is considered. Mortgage rates must be competitive with rates on other types of investments if capital is to go in the mortgage market. At the present time they are too low to be competitive.

Almost exactly four years ago in this city, and before your Association, I spoke on this very same subject. I pointed out that what is commonly called the interest rate on a bond or a mortgage consists of three elements: (1) pure interest, (2) a payment representing insurance against the estimated risk in the loan, and (3) an item to defray the costs incurred in connection with making and carrying out the loan contract.

Since that time certainly the risk in making mortgage loans has increased and there can be no doubt that the costs incurred in handling them have likewise had a marked advance. Nevertheless, today the interest rate on mortgages remains as low or lower than it was in 1944. Considering the yields on other types of investments, it is too low to attract a sufficient volume of funds to finance a large construction program.

In conclusion, may I say that if the country wants a large volume of residential construction financed by private capital, it must permit two things: (1) rents to be high enough to atract equity capital in large scale housing developments and (2) interest rates on mortgages high enough to attract loanable funds from going into other types of investments. If these two things are not permitted, the only way the country will get sufficient additional housing is through government subsidies.

Postwar Financing of Business

By IRWIN FRIEND*

Chief of Business Structure Division, Office of Business Economics, Dept. of Commerce

Commerce Department economist analyzes sources and uses of corporate funds in 1946 and 1947, and indicates financing by internal funds was double amount obtained from external financing. Points out present ratios between dividends and earnings and market price of common stocks are almost identical with those in mid-1920's. Concludes, though there is danger of too great dependence on borrowed capital, present financial corporate structures show lower burden of fixed charges than in previous periods of high business activity.

Business entered the postwar period in a favorable financial position to meet the expansion of facilities required by enlarged markets and the accumulation of needs during the war. During the six years from the end of 1939 to the end of 1945, the net working capital of nonfinancial corporations more than doubled, with almost three-fourths of the total increase of $27.5 billion taking place in the four years following Pearl Harbor. Virtually all of the net increase in working capital over the war period was in highly liquid form, i.e., cash and government securities.

Irwin Friend

The accumulation of liquid resources during the war was a reflection not only of government fiscal policies but also of the restrictions on private capital expansion, so that funds which normally in a period of high business activity would have gone into fixed capital went into liquid assets instead. Most of the increase in cash and government securities was attributable to retained profits and, to a much lesser extent, to depreciation charges in excess of plant and equipment expenditures.

As a result of the limitations on the acquisition of new plant and equipment on private account, and also of the more rapid amortization of war facilities permitted by law, the net property account at the end of 1945 was back to the 1939 level, and about $4 billion lower than 1941.

There was a moderate drop in long-term debt from 1939 to 1945, offset only in part by a rise in equity securities; most of the liquidation of debt occurred during the war years. In addition, the government interest rate policy permitted a general refunding of outstanding fixed-interest-bearing obligations at reduced interest charges, which insured a much lower debt burden in future years.

Large Capital Requirements

In the postwar period, business was confronted with huge capital requirements for expansion of plant and equipment facilities to take care of postwar markets and technological advances, and for added working capital in line with increased peacetime activity and the rising price level. The vastness of these capital requirements, amounting to $50 billion for nonfinancial corporations in 1946 and 1947, inevitably led to a growing pressure of demand upon the available sources of funds for business investment—focusing attention for the first time in many years on the possible deficiencies in the supply of capital, particularly equity capital.

As an initial step in analyzing the capital problems facing industry, this article will describe the capital requirements of business since the end of the war, the manner in which they were financed, and the price paid for funds raised in the capital and money markets. It will compare the postwar and prewar periods in these respects.

*Reprinted from "Survey of Current Business," published by the U. S. Department of Commerce, March, 1948.

Sources and Uses of Funds in 1946 and 1947

To indicate the manner in which business financed all of its needs for funds in 1946 and 1947, it would be necessary to have a complete source and use of funds analysis for the entire business economy. Such comprehensive data are not now available, but it is possible to provide estimates for the corporate sector of the economy which are given in Table 1.

In tracing the flow of funds received and disbursed by business concerns, the sources of funds should be equal to their uses. There are several reasons for discrepancies, however, apart from errors in estimation. First of all, the money received by corporations—largely from unincorporated business—as a result of an excess of sales over purchases of used plant and equipment is not reflected in these statistics. Second, transactions in securities held as permanent investments, i.e., as noncurrent assets, are not covered except where there is a public offering. Third, net new issues, i.e., new security issues less retirements, do not include entrepreneurial capital used in setting up new corporations where there is no offering or sale of securities to the public or to institutions. The liquidation of such corporations similarly is not reflected. These deficiencies, it should be noted, do not appear to be particularly significant.

Internal Funds Twice External Financing

In 1947, in addition to the very substantial capital outlays charged to current account, corporations other than banks and insurance companies expended over $14.5 billion on plant and equipment, close to $7 billion on enlarging their inventories, and added $5 billion to their trade receivables. This aggregate of $26.5 billion—the highest on record—was financed by $10 billion of retained profits, $4.5 billion of depreciation charges, $4 billion of net new capital issues, and $3.5 billion of bank loans (including mortgages), as well as by a billion-dollar increase in trade payables, a $3 billion increase in income tax liabilities and other payables, and a $500 million reduction in liquid assets. Thus, funds available from current operations—that is through retained profits and depreciation charges—were approximately twice as large as those obtained from external sources through securities or bank loans.

Net investment in fixed capital facilities in 1947 was at an unprecedented dollar total, with plant and equipment expenditures exceeding depreciation charges by more than $10 billion. The increase in inventory value, though substantial, was not so high as in the previous year and was attributable in large part to a rise in the prices of the goods held in inventories in addition to a moderate rise in physical volume. The extremely high increase in net trade receivables, i.e., trade receivables less trade payables, amounting to $4 billion, reflected mainly the credit extended by corporations to unincorporated business and consumers and, less important, to the United States Government and to foreign companies.

Liquid Assets Less Available Than in 1946

In comparison with the previous year, there was a rise in capital requirements during 1947, a rise in retained profits, a rise in net security issues, a slight slackening in the rate of increase in bank loans, and a decided tapering off in the rate of reduction of liquid assets. There was not much change in liquid assets in 1947—unlike the $6.5 billion reduction in cash and government securities, mainly the latter, during the preceding year. Part of this difference between the two years in the trend of liquid assets is explainable in terms of the increase in income-tax liabilities during 1947 as compared with the decrease during 1946. A more important reason probably is the disappearance in 1947 of some of the excess liquidity which corporations had in 1946. As business activity and prices rose, there was less leeway for further drawing down of liquid assets.

The very substantial increase in security issues in 1947 is of particular interest. As shown in Table 2, over two-thirds of the amount of net security issues during the past year took the form of bonds. The remainder was distributed between common and preferred stock, with the former much the more important of the two. The volume of net equity issues in 1947, i.e., both common and preferred, was about the same as in 1946, but there was a much larger rise in bonded indebtedness.

The funds raised by corporations, other than banks and insurance companies, through security financing were supplied by the rest of the economy, i.e., by financial institutions and individuals. Banks and insurance companies are, of course, largely restricted by law to the purchase of bonds. While the banking system took only a relatively small amount of corporate securities during 1946 and 1947, life insurance companies absorbed nearly four-fifths of the increase in such securities. Individuals bought stocks and sold bonds on balance in both 1946 and 1947. Their stock purchases in 1946 were offset by their bond sales, with no change in net position; in 1947, although they bought about the same amount of stock, their bond sales declined, and as a result, they added close to $700 million to their portfolio of corporate securities.

The increase in new money raised through bonds in 1947 reflected the change in industrial composition of the issues floated, since the utilities which accounted for a much higher proportion of public financing in 1947 than in 1946 more typically resort to debt issues than do industrials.

Approximately half of the increase in security issues during 1947 is attributable to the industrial and miscellaneous industries, primarily manufacturing. The other half is almost evenly divided between the telephone and electric and gas utilities. The net industrial issues dropped somewhat from 1946, whereas the volume of net public utility issues (other than railroads) increased very substantially. The decline in manufacturing issues from 1946 to 1947 was associated with a doubling of undistributed profits, while capital requirements went up much more moderately.[1]

The 1947 figures on the sources and uses of funds are broken down in Table 3 to show separately three of the major industrial groups—manufacturing, electric and gas utilities, and the railroads. External financing, primarily in the form of new issues, was particularly pronounced for the electric and gas utilities, with retained profits and depreciation charges accounting for one-third of fixed capital expenditures and new issues and bank loans for the other two-thirds. For such companies, therefore, internal financing was only half as large as external financing. For corporations as a whole, in contrast, retained profits and depreciation charges were about as large as the total of fixed capital expenditures and twice as large as funds obtained through securities or bank loans. Manufacturing, it may be noted, showed less dependence on outside sources

(Continued on page 34)

[1] Dividend disbursements also went up from 1946 to 1947, but not so much relatively as net profits.

TABLE 1

***Sources and Uses of Corporate Funds, 1946 and 1947**

[Billions of dollars]

	1946	1947
Uses	23.8	26.7
Plant and equipment:		
New	10.5	14.2
Used	1.1	.5
Inventories (book value)	7.5	6.7
Receivables (trade):		
From business	5.8	4.0
From consumers	1.6	1.3
From government	— 2.0	— .2
Other current assets	— .7	.2
Sources	23.3	26.7
†Retained profits	6.3	10.1
Depreciation	4.1	4.3
Cash and deposits	.3	— 1.0
U. S. Government securities	6.1	1.5
Payables (trade):		
Business	3.8	1.0
Government	— .8	‡
Federal income tax liabilities	— 2.5	2.3
Other current liabilities	‡	0.7
Bank loans (excluding mortgage loans):		
Short-term	1.9	1.6
Long-term	1.4	1.4
Mortgage loans	.6	.7
Reconstruction Finance Corporation loans	— .2	‡
Net new issues	2.3	4.1
Total	7.2	6.6
Plant and equipment	2.2	3.3
Working capital	1.2	1.1
Refunding, refinancing, etc.	3.8	2.2
Retirements	4.9	2.5
Discrepancy (uses less sources)	.5	0

*Excluding banks and insurance companies. †Including depletion. ‡Less than $50 million.

Source: U. S. Department of Commerce estimates based on Securities and Exchange Commission and other financial data.

TABLE 2

Changes in Corporate Securities Outstanding and in Their Ownership, 1946-47

[Billions of dollars]

	1946	1947
*Net issues by industry group:		
Industrial and miscellaneous	2.5	2.0
Public utility (and telephone)	.3	2.1
Railroad	— .5	0
*Net issues by type of security:		
Common stock	1.0	.9
Preferred stock	.3	.4
Bonds and notes	1.0	2.8
†Net purchases by various groups:		
Commercial banks	.3	.2
Mutual savings banks	.2	.2
Life insurance companies	2.0	3.0
Foreigners	— .2	0
Domestic individuals, etc.	0	.7

*New issues less retirements. †Purchases less sales.

Source: U. S. Department of Commerce estimates based on Securities and Exchange Commission and other financial data.

TABLE 3

***Sources and Uses of Corporate Funds, by Selected Industries, 1947**

[Billions of dollars]

	Manufacturing	Railroads	Electric and gas
Uses	14.1	1.1	2.1
Plant and equipment:			
New	7.0	0.9	1.8
Used	.4	†	.1
Inventories (book values)	4.0	.1	.1
Receivables (trade)	2.7	.1	.1
Sources	14.1	1.1	2.1
Retained profits	6.5	.2	.2
Depreciation	2.4	.4	.5
Cash and deposits	— .9	— .1	†
U. S. Government securities	.7	.1	.1
Payables (trade)	.6	.1	†
Federal income tax liability	1.8	.3	.1
Other current liabilities	.3	†	†
Net new issues	1.5	†	1.0
Bank loans (excluding mortgage loans)	1.2	.1	.2

*Other sources and uses are not shown when they amount to less than $50 million in each industry. †Less than $50 million.

Source: U. S. Department of Commerce estimates based on Securities and Exchange Commission and other financial data.

Why Not Cut Outlays?

"The estimates of Government expenditures for the fiscal year 1949 which I submitted to the Congress in January totaled $39,700,000,000. Receipts were estimated at $44,500,000,000, leaving a surplus of $4,800,000,000 for debt retirement and contingencies.

President Truman

"It has since become apparent that despite the most stringent efforts toward economy there will be several important increases in expenditures above the January estimates. Legislation has been enacted increasing payments to veterans. Larger amounts will be required for assistance to certain foreign countries. Legislation to increase the salaries of Federal employees is being considered. It has been necessary to recommend substantial additional appropriations to the Congress to bring our armed forces to a proper strength.

"Altogether these increases, after taking due account of appropriation actions by the Congress to date and of the additional tax refunds which would occur under this bill, involve additional expenditures for the fiscal year 1949 of at least $3,500,000,000 above the January estimates. In the fiscal year 1950 these additional programs would increase expenditures by another $2,000,000,000, or by a total of $5,500,000,000. It is clear that if this bill, which reduces taxes by $5,000,000,000, were to become law there would in fact be a deficit in the fiscal year 1949, even under the more optimistic estimates of revenue used by the Congressional committees."—President Truman.

All of which would be so much more convincing if expenditures really had been cut to the bone or anywhere near it.

Sets 10% as Minimum for Utility Common Stock Financing

A. F. Tegen, President of General Public Utilities Corporation, tells Junior Investment Bankers & Brokers Association that this proportion of new public utility financing is essential to keep capital structures in balance.

In a talk before the Junior Investment Bankers and Brokers Association in New York City on April 2, A. F. Tegen, President of the General Public Utilities Corporation, in the course of explaining the expansion needs for greater utility services, outlined the proposed sources of funds to be acquired.

A. F. Tegen

"Demands for electricity and gas in our System continue at high levels," Mr. Tegen stated. "Although the rate of increase experienced last year was higher, we expect to meet increased loads in the months ahead. If our national economy has entered a deflationary cycle, we do not see signs of it. Of course, prolonged strikes or other interruption of production will alter the situation.

"The electric utilities have seen their reserve capacity shrink to a narrow margin. This is also true of the General Public Utilities System. However, an unprecedented construction program is under way and we think that the reserve capacity available for next winter's peak will be adequate to serve customers without curtailment. Unusual industrial activity to meet defense or the European Recovery Program could of course alter this forecast.

"In addition to the construction which will increase reserve capacity, there is the bright prospect of continual expansion to meet population growth. The increased business to meet currently planned housing will alone assure satisfactory growth.

"The expansion program now under way must be paid for. About 40% of it can be financed internally with funds provided by charges for depreciation and amortization as well as undistributed earnings — the balance will be financed through the sale of bonds, preferred stocks and bank loans. Only about 10% of the total need be financed through the sale of common stock. **But this piece is important in order that the capital structures may remain in good balance.** The sale of common stock is directly related to earnings and earnings prospects. Hence it would seem that regulatory statesmanship would be concerned with adequate returns rather than as in some cases with beating down earnings to the absolute minimum of the new concepts of rate regulation. The continuance of this policy will inevitably lead to curtailment of expansion."

"A further reason for adequate earnings", Mr. Tegen pointed out, "lies in the fact that invested capital in relation to sales is very high for the utilities. For example the Class A and B electric utilities have invested capital of $3.50 per dollar revenue. In heavy industry the invested capital per dollar of sales averages about 75c. In retail establishments the invested capital per dollar of sales varies widely but averages about 25c. Thus the cost of capital (at 6%) per dollar of revenue for the utilities is 21c, for heavy industry 4½c and for retail establishments about 2c.

"At the moment," continued Mr. Tegen, "utility earnings are under pressure from increasing costs. About two-thirds of the coal cost increases can be absorbed. It is more difficult to offset wage increases but the industry has shown its resourcefulness in this regard. In 1936 there were 418,000 persons employed by the gas and electric utilities. In 1946 the number had gone up to only 428,000. Civilian employees of the Federal government in the same period increased from 531,000 to 1,866,000 and employees of Federal enterprises like the RFC, TVA, etc., increased from 343,000 to 463,000. The reason for this is that business managed utility companies must produce adequate earnings or they cannot remain in business. No such pressure exists in government or government enterprises. The data also reflects how resourceful the utility managements have been in meeting the challenge of increasing costs and taxes.

"Utility common stocks have not enjoyed investors' favor in recent months. I know that the accent in investment policy at the moment is on capital gains. But the utilities have much to offer. We sell the largest mass commodity at the lowest cost. What we sell is a necessary part of our lives. We haven't even reached the horizon of our usefulness in the American economy. We have demonstrated our resourcefulness and ability to develop the industry. Our search for economies is relentless. Our stable earning power is a matter of record. When we reach a period of deflation, the price-cost relationships which are now out of line will begin to work in our favor. It may very well be that at the moment we, as an industry, are in an awkward position to raise equity capital but you will find upon examination that many utility equities are excellent income producers. When the economic fog in which all equities are floundering begins to lift, you may also find that many utility equities have excellent appreciation opportunities."

France—The Free Gold Market and The Blocking of Franc Notes

(Continued from page 2)

the hope of acquiring part of this private hoard, the government has created a free gold market and has exempted sellers from any tax liability.

Gold coins at present are worth about 20 times as many francs as prewar, whereas the cost of living is 14 times as high; consequently hoarders of gold have retained their purchasing power and have a profit to boot. Based on $35 an ounce for gold, and at the present official rate of exchange, a 20 franc gold piece world be worth 1,368 francs; actually it is quoted around 4,000 francs. Resumption of arbitrage through the imports of gold from abroad could lower prices considerably.

By way of illustration, if a free gold market were created in the U. S. at this time, and the same quotations prevailed here, a person who bought gold prior to 1933 at $20.67 per ounce, and who held it illegally ever since, would now be permitted to sell it for approximately $70 per ounce and be completely exempt from capital gain.

Frenchmen hoard dollar bills as well as gold but they prefer gold as they not only fear that the dollar may be devalued but also that the U. S. currency may be called in, and in addition they run the risk of getting forged bills.

In spite of the high quotations prevailing for gold coins, Frenchmen are reluctant to part with their holdings acquired as a hedge against inflation. They will not dispose of them until they are definite signs of improvement in France's financial situation and until the threat of a new war in Europe is removed. Experience has taught them that gold is, in France, the best investment in wartime.

Monetary Deflation

The government is aware of this attitude and is attempting to force disposal of these assets by draining working funds by a program of credit restriction and heavy taxation. It is a dangerous policy since it might retard domestic production on which French recovery depends.

To be effective, this deflation policy should be extended to all forms of liquid assets. Belgium and Russia understood this very well; they acted upon currency, savings accounts and banking accounts, all at the same time. The French Government has limited itself to the blocking of currency, and then of only one denomination, the 5,000 franc note (5,000 francs equals $16 at present rate of 305 francs to a dollar). This is like blocking 10 dollar bills while permitting the unrestricted use of one dollar bills regardless of how large individual holdings of the latter may be.

The exact timing of the government action came as a surprise. No one had expected that the blocking of the 5,000 franc notes and the establishment of a free gold market would occur simultaneously. The French Treasury was not immediately notified of the decree and kept on selling government bonds for several hours, accepting 5,000 franc notes in payment. The Treasury also freely exchanged 5,000 franc notes against bills of smaller denominations. Members of the House of Deputies were paid only the day before in 5,000 franc notes. In France it is customary to settle even large transactions by the rather primitive method of remitting currency bills. Wholesale meat dealers did not have enough currency to make purchases, consequently Paris did not obtain any meat the first three days of the blocking. One of the rare humorous episodes concerned the theft of a subway payroll totalling 5 000,000 francs as the gangsters discovered that their loot had become worthless overnight.

The Red Cross received an unusual amount of anonymous gifts . . . all in 5,000 franc bills.

Terms of the Decree

The government decree read: *"5,000 franc notes have ceased to be legal tender. They must be turned in within the next two days and holders must properly identify themselves. Terms of reimbursement will be announced later."*

In Russia, the terms of reimbursement were announced when the blocking occurred. In France, people were left completely in the dark. They had to stand in line for hours and the majority turned in only a few bills, namely those funds which had been retained for emergencies. Shopkeepers deposited the proceeds of the previous day's sales and businessmen turned in what payrolls and working funds they had at the time. The "hit and miss" character of the measure aroused not only resentment but also a degree of despair.

Reasons for Blocking 5,000 Franc Notes

In blocking these notes, the government had five aims:

(1) *From a political standpoint, to secure the approval of the Socialist Party*, which, otherwise, would have rejected the proposed free gold market.

The government succeeded in this particular instance, but two weeks later, it obtained from the Parliament a majority of only 23 votes. This ballot reflected the general dissatisfaction with the government's blocking of the 5,000 franc notes.

(2) *To obtain funds for immediate use* by the Treasury which is now forbidden to borrow from the Bank of France.

By blocking the 5 000 franc notes the government obtained 320 billion francs or about one-third of the 1,000 billion of currency in circulation. One week after the blocking it was announced that holders of one or two notes would be reimbursed immediately. Two weeks later the complete schedule of reimbursement was published as follows:

"(a) Beginning March 4, repayment up to 70,000 francs (approximately $230).

(b) Beginning March 25, repayment up to 120,000 francs (approximately $400).

(c) Beginning Apr. 22, repayment up to 200,000 francs (approximately $660).

(d) Beginning July 1, repayment to those holding over 200,000 francs."

"The government will apply all tax liabilities against deposits of 5,000 franc notes and refund only the balance." In this manner the government automatically collects all taxes from taxpayers who deposited 5,000 franc notes.

As one can readily see, the government will have the use of a large sum to meet its needs for a while, and will end the whole operation with a net profit equivalent to the amount of the 5,000 franc notes not turned in.

(3) *To reduce public purchasing power* as production has not yet caught up with the deferred demand. Nevertheless, one cannot say that currency inflation exists in France for the cost of living is now 14 times the prewar level whereas the note circulation is up only eight times.

(4) *To create a dearth of francs* among holders of gold and foreign currencies and force them to sell such assets.

But the government's purpose was defeated since, after the blocking, businessmen were quick to stress their lack of funds for meeting payrolls and other operating expenses. Consequently, the government had to alter its original deflationary policy by allowing the banks to resume an easy credit policy "for the sake of maintaining production."

(5) *To catch hoarders and black market operators* who never pay taxes, by checking large remittances of 5,000 franc notes against income tax returns.

This aim was partially successful as 5,000 franc notes were offered at 2,500 to 3,000 francs right after the announcement of the blocking — evidence that some people did not care to turn them in and be identified as large holders.

But the majority was certainly prepared as such a move had been rumored from time to time during the last 12 months. Was there no other way of catching tax evaders? By blocking these notes, the government may have succeeded in catching a number of dishonest persons, but this was achieved only at the expense of undermining confidence in the currency on the part of all honest citizens.

Loss of Confidence in French Currency

The immediate reaction was to create fear that other denominations might also be blocked, despite strong government denials that any such steps were contemplated. Some people wondered, as in the case of Germany, whether they would have to resort to barter or to the use of American cigarettes for currency.

This distrust is not confined to currency alone but extends to banking accounts, savings accounts and Treasury bonds as well. Some holders now fear new measures which would affect these investments as in the case of Russia. What would happen to the Treasury if such investments were claimed by their owners? It was indeed surprising that the French people unflinchingly accepted these notes as a means of payment and of savings, despite the widespread knowledge that they had no gold coverage and that their real value decreased every day because of rising prices. Even the recent devaluation of the franc had little effect on the faith Frenchmen evidenced in their currency. This faith in the currency by the public at large has now been impaired.

The government measures will induce those who are obliged to use bills for business transactions to increase their prices to cover the new risks involved. French peasants, who are traditionally big holders of bills, will also increase their prices or withhold their products from legitimate markets. In creating suspicion of the national currency at the time of the establishment of a free gold market, the government is actually encouraging people to *buy* gold instead of selling it. Those who believe that gold is too high will turn to tangible assets as well, such as merchandise, and this is bound to increase prices.

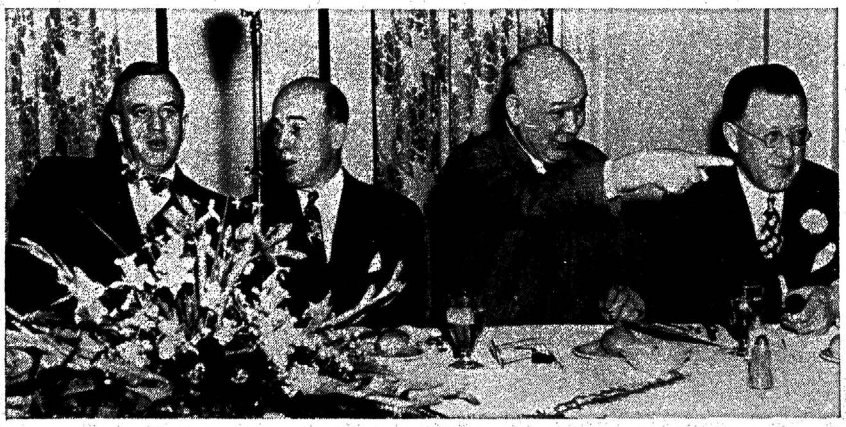
A new wave of rising prices looms as a result of the monetary measures. This is unfortunate as the French Government is desirous of keeping the cost of living from rising and thereby staving off higher wage demands. Last November, as an aftermath of strikes, a wage increase of 20% was granted, but since then the cost of living rose 18%. (This was still prior to the blocking.) Is the inflation spiral — higher prices, higher wages, higher prices —again on the move?

In trying to impose limited deflationary measures, the ultimate effect may be to accentuate the inflation. Consequently, the government thinks again of price controls. This would represent a return to a controlled economy whereas, since last autumn, the free play of prices was being gradually reestablished in many fields and progress was being made towards a free economy. However, ceiling prices would keep products away from legitimate markets and only serve to intensify black market activities that the government desires to suppress.

The lack of success met so far by the recent government measures was promptly reflected in the quotations for black market dollars. In January this rate was as high as 350 francs to the dollar but it declined to 305 francs when the free market in dollars was established. Creation of a free market, it was hoped, would mean the end of the black market for dollars. But this did not follow as the free market is "free in name only" due to imposition of government controls.

The black market for dollars is on the rise again. The latest quotation is 340 francs to the dollar.

Bond Club of Detroit



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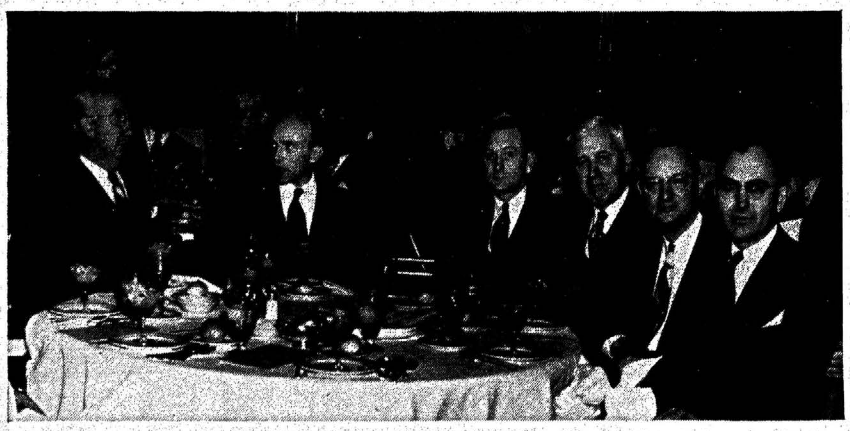

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Charles I. Norman, honorary member of the club; "Sonny" Norman; Arthur J. Fushman, Vice-President, *Manufacturers National Bank;* Ralph Khuen, *First of Michigan Corp.;* Charles A. Parcells, *Charles A. Parcells & Co.*

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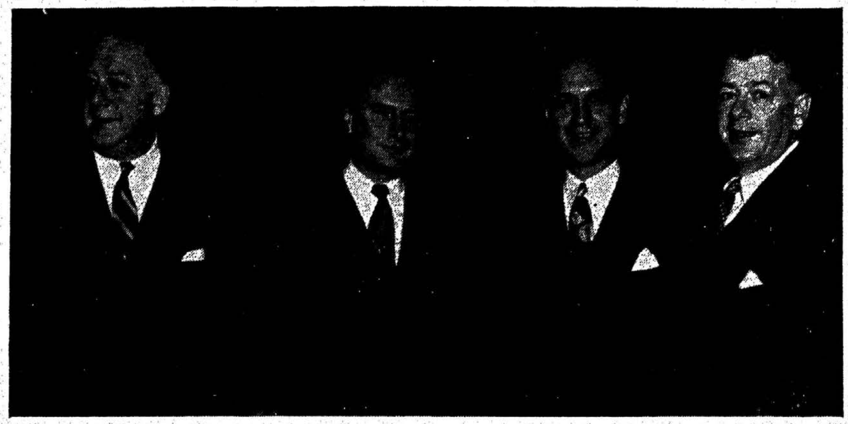
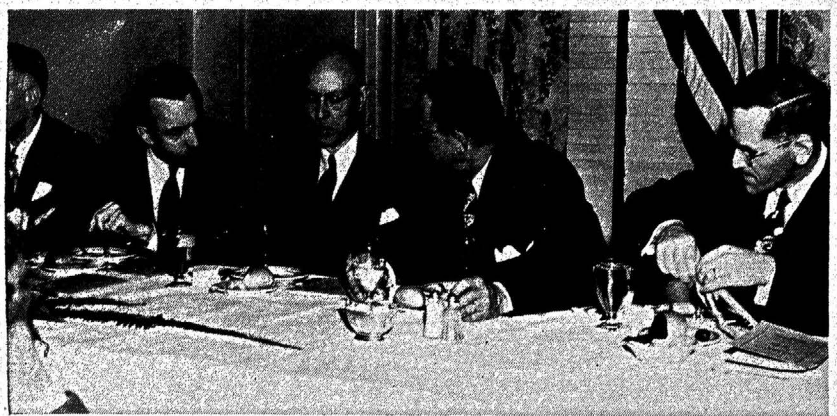
Thirty-Second Annual Dinner

Harold Leach, Vice-President, *Wayne Oakland Bank of Royal Oak;* Frank E. Voorheis, *Goodbody & Co.;* Lee Abrams, Vice-President, *Wayne Oakland Bank of Royal Oak;* Edward O. Patterson, *Goodbody & Co.;* William M. Adams, *Braun, Bosworth & Co., Inc.;* Norris Hitchman, *Kales-Kramer Investment Co.*



Ray H. Murray, Vice-President, *National Bank of Detroit;* Milton S. Bosley, Assistant Vice-President, *National Bank of Detroit;* R. Frederick Sheperd, Assistant Vice-President, *National Bank of Detroit;* John R. Walsh, Vice-President, *National Bank of Detroit*



Douglas H. Campbell, *First of Michigan Corp.;* Harlan Chalfont, Manager of the Detroit branch of the *Federal Reserve Bank of Chicago;* Howard M. Warner, Chairman, *Michigan Corporation and Securities Commission;* Joseph F. Gatz, *McDonald-Moore & Co.*

Carl Orndorff, *Hornblower & Weeks;* Robert A. Benton, Jr., *S. R. Livingstone & Co.;* John A. Hancock, *S. R. Livingstone & Co.;* George E. O'Brien, *S. R. Livingstone & Co.;* Richard W. Pender, *S. R. Livingstone & Co.;* Herbert Schollenberger, *Campbell, McCarty & Co.*

Donald F. Valley, Vice-President, *National Bank of Detroit;* Clarence J. Huddleston, Executive Vice-President, *Wabeek Street Bank;* J. William Siler, *Siler & Co.;* Charles A. Kanter, President, *Manufacturers National Bank*

Gilbert S. Currie, *Crouse & Co.;* E. A. Healy, Jr., *Securities & Exchange Commission;* Edward Anderson, Vice-President and Cashier, *United Savings Bank;* Jones B. Shannon, *Jones B. Shannon & Co.*

Glenn F. Turnbull, President, *Industrial National Bank;* Merle J. Bowyer, *Paine, Webber, Jackson & Curtis;* Oliver D. Marcks, President, the *Equitable Trust Co.;* Raymond T. Perring, Vice-President of *The Detroit Bank*

Thomas E. Hurns, *Detroit Edison Co.;* Charles R. Landrigan, *Detroit Edison Co.;* L. C. Lanterman, *Dean W. Titus & Co.;* Hugh Lindeman, Vice-President, *Equitable Trust Co.*

Held March 4 at Statler

Gordon J. Hill, *Watling, Lerchen & Co.*; Fred Husk, *Hornblower & Weeks;* Harry E. Thurston, *Watling, Lerchen & Co.*; H. John Savage, *Watling, Lerchen & Co.*

Lewis R. Tower; Matthew Carey, *Matthew Carey & Co.*; Philip K. Watson, *Campbell, McCarty & Co.*

Stuart "Doc" Goodspeed, *Baker, Simonds & Co.*; A. A. F. Maxwell; Fred J. Bolton, *Crouse & Co.*; E. B. Watkins, *Watkins & Fordon*

Harry W. Kerr, *Bennett, Smith & Co.*; Oscar L. Buhr, *Detroit Trust Co.*; Henry Hart, *First of Michigan Corp.*; J. Albert Mahoney, *Bennett, Smith & Co.*

Fiscal Policy and Debt Management

(Continued from first page)

war and not because the economy needed them; and this is also true of the proposed expenditures for the European Recovery Program.

It was not deemed feasible nor desirable for total receipts during the war years to equal total expenditures. On the other hand, when national income and production are high, employment full, and inflationary pressures strong, economic considerations should control, so as to produce a budget surplus that may be applied toward economic stability and debt reduction.

The determination of the total amounts and the balance of receipts and expenditures of the Federal Government that is most conducive to a healthy domestic economy should be the basic consideration of fiscal policy in peacetime.

Fiscal Policy and VJ-Day

The condition of the American economy since VJ-Day indicated a fiscal policy of seeking to keep expenditures as low as compatible with the discharge of our domestic and international obligations and of seeking to keep receipts as high as is consistent with a vigorously functioning private enterprise economy and a reasonable untaxed minimum standard of living for persons in the lower income brackets. These objectives continue to call for the maintenance of the present aggregate level of Federal tax revenues.

We would be blind to the stern realities of the hour if we failed to recognize that rapidly changing world events are generating new variables and new problems which will have a profound effect on our entire national economy and on fiscal policy. However, the limits of my time do not permit a discussion of tax policy nor questions of expenditures as basic elements in the determination of fiscal policies. I shall limit my discussion to the area of public debt management.

The number one constant in the equation of debt management is a present Federal debt in excess of $250 billion. The importance of this debt is not merely its size but its proportion to the total of all debt, the impact of its management on all interest rates, the cost of servicing the debt, and proper provision for its retirement.

In the 1920's, the public debt, both Federal and State and local, amounted to a little over $30 billion and was less than 20% of the total public and private debt. Today, the total public debt, Federal and local, is about $270 billion and constitutes some 60% of the total of all debt. In the 1920's, Government securities constituted about 12% of the total assets of member banks; while today they constitute about 50% of total assets. In the 1920's, the rate of interest on the public debt was largely influenced by current financial and business conditions and the rate on private debt; whereas today, the size and the proportion of the Federal debt to the total of all debt makes it the dominating factor in determining interest rates on private debt and the return on investments. In the 1920's, the public debt was only about ⅜ths of a year's gross national product; whereas, in 1947, the public debt exceeded the gross national product for the year.

Importance of Public Debt Management

These figures and comparisons are unmistakable evidence of the importance of public debt management and of the compelling necessity for such management to be directed not merely to the financial considerations of Government itself, as important as they may be, but to the effect of such management on our entire economy. No matter how jealous we may be of the freedoms of private enterprise, nor how abhorrent to our concept of such freedom that control and management by central government may be, the hard facts are that the management of our large public debt is such a dominant factor in the financial and economic life of the Nation that it is imperative that firm control of debt management be exercised by the Federal Government. This must continue as long as the public debt continues at its present relative size and proportions. However, financial and business leadership should be constantly alert and fully cooperative in seeing that the exercise of that power is, at all times, directed toward the broad objective of the national welfare.

In February, 1946, at the highest point, the total Federal debt, direct and guaranteed, was $280 billions. Cash balances of the Treasury amounted to $26 billions. The wartime interest pattern of the debt ranged from ⅜ths of 1% on 90-day Treasury bills to 2½% on long term Treasury bonds. The distribution of the debt was $117 billion held by the commercial banking system, $65 billion held by individuals, $28 billion held in Government trust accounts, and $70 billion held by other investors. For the remaining months of that fiscal year, to June 30, 1946, there was a further deficit in the Federal budget of over $1½ billion. There was a growing inflationary pressure in our economy.

With these factors, the correct policy of debt management was clear. It was to utilize the excess cash balance beyond budget needs for the retirement of the debt. The proper place for such retirement was in the commercial banking field. This policy was followed, with the result that by the end of December, 1946, when cash balances had been brought down to a peacetime working level, the total debt had been reduced by over $20 billion, of which $19 billion were taken out of the commercial banking system.

We then moved into the second phase of postwar debt management. From Jan. 1, 1947, through June 30, 1947, there was a budget surplus of approximately $¾ billion. This represented the reduction of the public debt which it was possible to achieve during this six-month period from an excess of receipts over expenditures. However, during this same period, it was possible to reduce the holdings of the commercial banking system by $6 billion through the application of this surplus, through the use of the proceeds from the sale of Savings Bonds to the public, and through the use of the excess of the cash operating surplus over the budget surplus. The inflationary pressures had increased during this period and, therefore, the economic objective of an anti-inflationary debt management policy was paramount.

The Budget Surplus

For the fiscal year ending June 30, 1948, there is an indicated budget surplus of $7.5 billion. This surplus has been, and is being, used for debt retirement. The Treasury also will receive about $1½ billion from the net sales of savings bonds and from other sources, making a total of approximately $9 billion which will be available for the retirement of the marketable debt. During this period, inflationary pressures have continued high. Therefore, in the interest of stabilizing the economy, the use of these funds has been directed toward a reduction of bank held debt, with particular emphasis on the retirement of debt held by the Federal Reserve banks.

Offsetting the impact of this program to a considerable extent has been the non-bank selling of Government securities to the Federal Reserve banks and the inflow of gold. These factors have diminished the full anti-inflationary effect of the debt management policy this year. However, this policy has been of substantial effect on the credit structure, particularly on long term interest rates of private and municipal credits, and in encouraging a greater degree of caution in the lending field.

The present budgetary surplus as of the end of March is greater than the net surplus indicated on June 30 next. However, an excess of expenditures in the fourth quarter of the current fiscal year above receipts will reduce this amount to the $7.5 billion indicated in the budget estimates. The deficit for this three-month period can be more than offset, however, with withdrawals from the Government's war loan deposits in commercial banks now approximating $2 billion. These withdrawals, together with cash receipts from the sale of savings bonds and net receipts from trust funds, will be available for debt management purposes and will be used to continue the pressure on the money markets.

Throughout the current fiscal year, recognition has been given to the wartime artificiality of the low rates on short-term Government securities. The task was to remove the rigidities of these artificial wartime rates without serious disturbance to the money markets. Through the cooperation of the Treasury and the Federal Reserve System, the rates on 90-day bills were permitted to move up, beginning with the issue of July 10, 1947. Through the issue of ⅞% certificates on August 1, 1947, for an eleven month maturity, an adjustment of the certificate rate was begun. These adjustments have continued until the 90-day bill rate is now approximately 1% and the one-year certificate rate is 1⅛%. The effect of these adjustments in rates has been consistent with the overall

(Continued on page 32)

Fiscal Policy and Debt Management

(Continued from page 31)

debt management policy of the past year.

Outlook for 1949 Fiscal Year

I have indicated that the budget surplus has been the most potent weapon in debt management for the anti-inflationary objective. This leads to a brief discussion of the outlook for the fiscal year ending June 30, 1949. We start with the President's budget estimate of a surplus for fiscal '49 of $4.8 billion. In view of world conditions, we would be unrealistic if we failed to recognize the possibility that this surplus may be considerably reduced through increased expenditures. Furthermore, a tax bill has passed the Congress which, if it becomes law, will reduce the total revenues of the Federal Government by more than 10%. Under this legislation, revenues during the fiscal year ending June 30, 1948, will be reduced by only about $600 million; but revenues for the fiscal year ending June 30, 1949, will be reduced by about $5 billion. Adding to this $500 million, which will be paid out in additional tax refunds, the proposed tax reduction, based on present budget estimates, would convert the expected surplus of $4.8 billion into a deficit of $700 million.

Even on the earlier budget estimates, without consideration of reduced receipts that will result from the proposed tax reduction and without any consideration of increased expenditures beyond original budget estimates for military and economic preparedness, there is indicated no further budget surplus between April 1 and December 31, 1948. The next period of substantial surplus will be in the first quarter of calendar 1949.

For the full fiscal year 1949, with the currently proposed tax reduction and without any net increase in expenditures, there will be a rise in the public debt of $700 million, and the only funds available for debt management vill be the cash receipts from trust funds and the receipts from sales of Saving Bonds in excess of the budget deficit. If, therefore, inflationary pressures continue through fiscal 1949, and if debt management policy is to be continued with an anti-inflationary objective, the ammunition will be severely limited. It is, therefore, highly important in the year ahead that a maximum effort should be devoted to the sale of Savings Bonds to non-bank holders, so as to provide the greatest possible amount of funds to be used in maintaining reasonable pressure on the credit situation.

Recognizing the strategic value of the sale of Savings Bonds to individuals as a dual prpose weapon against inflation that will divert cash from the spending stream and, at the same time, provide funds which may be used in retiring bank reserves and deposits of commercial banks, the Treasury Department is instituting a new and accelerated Security Savings Bond Campaign, beginning April 15. Enthusiastic support for the program by industrial concerns, labor organizations, bankers, retailers, insurance companies, the entire advertising industry, and many others, assures an all-out effort.

I have used the President's budget estimates as the basis of all the figures I have given. Here and there, questions have been raised as to whether these estimates, in some cases, may be too low or too high. The answer is that all estimates of the future are necessarily estimates; they cannot be proven facts. They are as scientifically prepared as is possible, by as competent group of technicians as can be assembled, and are based upon all known facts and the judgment of those in the best position to form a sound judgment in the financial field, in the business field, and in Government. What the national income will be, what the personal incomes for the nation will total, what the national gross product will be between July 1, 1948 and June 30, 1949, is not a slide rule determination on January 1, 1948. Yet a determination had to be made at that time of a base on which to estimate Government revenues for the period six to eighteen months in advance. With a Government budget equal to about 20% of total personal incomes and with the Government revenues determined largely by the total of such incomes, any variation in the base necessarily affects the actual revenue receipts. With many new factors continuously arising that affect the base, the surprise is not in how much the difference is between actual receipts and estimates but how little.

Revenue estimates for the fiscal year 1949 are based on personal incomes of $200 billion for that period. This is $3 billion more than the total for the calendar year 1947 and is $11 billion less than the rate at which such income payments ran in the month of January, 1948. I am fully convinced that the base of $200 billion is as realistic and as uncolored by desires or objectives as reasonable men, using all available material and the most scientific technique, can determine.

On the expenditure side, costs that are products of war and defense constitute 79% of the President's budget. There are few areas in this group where expenditures may be reduced, but, on the other hand, there appear to be potentials in which substantial increases may become the price of self-preservation. In the other areas of the cost of Government, the American people have shown little disposition to deny themselves services that multiply the cost of government. There are some areas in which economies may be, and are being, effected, but, so long as the American people demand of the Federal Government vast operations and services, subsidies and guarantees, substantial reductions in the cost of government cannot be had.

It has been suggested that, in order to improve the budget picture for fiscal 1949, the sum of $3 billion for the foreign recovery program be earmarked and charged against the 1948 budget and credited to the 1949 budget. The result is merely a bookkeeping transaction that would not affect the time of receipt by the Government of a dollar of income nor the time of payment of a dollar of expenditure. From the standpoint of debt management, there would be no effect at all.

Question of Interest Rates

In the field of interest rates, there is but a limited area in which debt management policy can operate. Present rates on long-term Government bonds are practically at the coupon level of 2½%. During the months of March, April and May, 1947, there was an incipient boom in the bond market with heavy pressures on the long-term rate. It was recognized, in the interest of our national economy, that it was undesirable for long-term money to become worth less and less. There was a demand for the issuance of new Government securities to meet investment demand. In order to meet this situation, the Treasury Department, over a period of six months sold long-term bonds from some of its investment accounts to a net amount of $1.5 billion. In September, 1947, the Treasury Department offered a non-market G-type bond to institutional investors under a limited formula, resulting in sales of approximately $1 billion. The effect of these operations was to take the pressure off the market and create the conditions under which prices declined and interest rates moved up. Thus was averted the boom market in long-term securities.

Following this period, the market pressures reversed themselves and there developed instead an increasing downward pressure on prices and upward pressure on rates. The 2½% long-term rate was then stabilized through purchases in the market by the Treasury and the Federal Reserve banks. At present, there appears to be a relative equilibrium in the long-term market.

It should be well recognized that there is no question of the financial adequacy of the Federal Reserve System and the Treasury to maintain the market and the rate and to buy all of the securities that may be required for that purpose. The total amount of marketable Government bonds with a final maturity date of ten years or more presently outstanding is only $64 billion out of the total debt of more than $250 billion.

There are several considerations that argue for the maintenance of the long-term 2½% rate on Government securities.

Whether this rate is the correct one in terms of long-range worth of long-term money or not, it was the rate used in financing the war. That rate, and the market for securities based on that rate, and the liability of institutions that have acquired those assets based on that rate, have been integrated into the financial structure of both public and private institutions throughout the nation. Commercial bank holdings of Government securities are about seven times their capital funds; the holdings of Government securities by mutual savings banks are about six times their reserves. The holdings of Government securities by life insurance companies equal more than five times their capital funds. The average maturity of Government securities held by commercial banks is four years, by mutual savings banks is thirteen years, and by life insurance companies, fifteen years. Any rise in interest rates of Government securities, with a consequent decline in market value, would create a book loss against capital funds of these institutions, multiplied by the ratio of Government bonds to capital assets. A small rise in the interest rate of long-term Government securities would result in a market decline of all long-term securities that would create a book loss on assets held by many such institutions equal to the total of their capital and capital reserves. While such book losses would not be actually sustained, the existence of such market valuation shrinkage in large proportions might threaten the stability of many institutions.

An aggregate of $46 billion savings bonds are held by millions of individuals. These securities bear an interest rate to maturity from 2½% to 2.9%. These bonds are payable upon presentation and demand. A rise in interest rates would be a wholesale invitation for cashing these bonds and would undermine the confidence of the owners in their original investment.

The interest cost to government on the public debt is $5.2 billion per year, or $100 million per week. This item represents 14% of the Federal budget for the fiscal year 1948. Unless there is a substantial reduction in the debt, the total interest cost will continue to rise. There are two reasons for this. One involves savings bonds. The interest rate on E Savings Bonds, if held to maturity, is 2.9%, but the interest charge on these bonds is carried in the budget on the basis of the actual accrual each year. The bracket rates for accrual are graduated and they run up to 4.76%. This top rate will be reached on the largest blocks of savings bonds outstanding during the next two or three fiscal years. Second, the continued accumulation of trust funds is invested, under statutory requirements, at an interest cost to the government up to 4%. To the extent that these funds are used to retire short-term, low rate securities, the interest cost on the total debt will rise. It is of considerable importance to the taxpayer that the interest cost of the debt be held to a minimum.

With interest rates on the Government debt the dominant factor in influencing all interest rates, any rise in long-term rates on Government securities would disturb private business in its long-term planning.

No one can predict today what the financing needs of government may be in the years ahead. To destroy the integrity of the long-term rate with which World War II was financed would multiply the difficulties in any large scale financing that might be needed in the years ahead. Nor should be overlook the fact that, with the present debt, more than $50 billion must be refunded each year.

It has been argued that long-term interest rates should be allowed to seek their "natural" level. What is sometimes meant by the natural level is the determination made by the investment and money markets. But this use of the term "natural" adds little to the discussion, as the determinations made by the money market are, for the most part, merely reflections of the underlying credit policies of the monetary authorities.

However, monetary authorities are not omnipotent. In the long run, there is a real natural rate of interest, and a departure from this rate will collect its own toll. The natural rate of interest in this sense is that rate which is high enough to hold down the amount of capital formation to the currently accruing savings of the economy, yet low enough to permit the savings made at a high level of employment to be fully invested.

A too-low rate of interest will in the long run, encourage more capital formation than can be financed by the current savings of the community. The difference will then be made up by an expansion of bank credit with a consequent upward pressure on prices sufficient to compress consumption enough to release the necessary resources.

On the other hand, a too-high interest rate will not permit as much capital formation as the real savings of the community would make possible. As a consequence, the community will not secure the benefits of all the investment which it could otherwise have, and the labor and capital which would have gone into creating these investments will be unemployed.

It is necessary, therefore, that the monetary authorities recognize the long run economic limitations upon their powers.

It should be fairly recognized that if selling pressures by holders of long-term bonds are offset by no substantial demand except that provided by the Federal Reserve System and the Treasury, the maintenance of the 2½% long-term rate will provide no flexibility for the use of long-term rates as an important factor in credit control. This brings us back to the big constant in the equation, the size of the public debt, the cost of carrying it, its widespread ownership among millions of individual owners, and its preponderant proportion in the assets of commercial banks, savings banks, trust funds, insurance companies, and other institutions. These considerations must continue to control the determinations of public debt management policy.

In the short-term interest field, there is some greater latitude. In that area, financial and economic considerations permit a reasonable adjustment of that rate up or down as the needs develop. It is a delicate mechanism with vast potentials and should be used with great prudence and keen understanding of the effect of every move.

Conclusion

In conclusion, I revert to basic considerations of fiscal policy as they relate to receipts and expenditures. Broad economic considerations should have first place. It is inconceivable that we would take the risk of placing on top of the inflationary pressures growing out of the financing of the war new inflationary pressures that will grow out of deficit financing. The dangers are too great. The alternatives are clear. We must either make up any difference between receipts and expenditures through further taxation or resort to the strait-jacket of rigid controls of our economy. Even with such controls, sound fiscal policy dictates that any deficits be financed through mobilizing the savings of the country, and particularly of individuals, insofar as that is possible. If resort must be had to the banks, the borrowing should be through short-term, low yield obligations, such as bills and certificates, which would be appropriate both from the standpoint of the cost to the Government and their place in bank portfolios.

The task ahead in the administration of a sound and effective fiscal policy is not an easy one. To meet the current and the new situations that may develop, we shall need skill and wisdom. More than that, we shall need restraint on the part of the business and banking community, on the part of labor, on the part of government, and on the part of the consuming public. And all of us will need and should seek Divine guidance.

In our efforts to provide economic stability at home and abroad and to utilize our resources for the high purposes of promoting world peace and world prosperity, a common sacrifice lies ahead to protect this Nation from any weakening of its economy and to guarantee that our great strength, which is the hope of mankind, shall be preserved.

Railroad Common Stocks as Investment

(Continued from page 14)

the disastrous effect of industrial depression and crop failures on a competition - weakened railroad system. Common stockholders suffered badly in the process.

Net earnings for stockholders in the railroad industry have been shrinking since the early 1920's. This is one reason railroad stock prices generally have been in a broadly declining trend. Net income for Class I railroads was $480 million in 1947, a gain of 64% over 1946, but such earnings were only about half of the levels recorded in years like 1926, 1929, and 1942. This is in sharp contrast to the earnings of many other industries which in the recent boom have equalled or surpassed previous years of peak profits. Investors very definitely suspect that similar unfavorable comparisons will evolve in future periods of both good and bad economic conditions, so they are unwilling to capitalize present railroad earnings very highly.

Dividend payments are, of course, an important consideration to many investors, particularly institutions and other conservative stock owners. And the dividend record of the railroad industry is comparatively unencouraging. Whereas dividends paid by Class I railroads in 1946, for instance, were 14% below 1920 and 52% under 1929, cash dividends for all U. S. corporations were far above post-World War I figures and about at the 1929 level.

These are some of the reasons why the Dow-Jones Railroad Average is now under 50, compared with 75 in 1920 (when railroad earnings were lower than in 1947) and compared with a peak of 189 in 1929 (when earnings were only about double present figures). It must be remembered that stock prices are influenced by many factors, including investor psychology. But prices tend to reflect more than anything else an appraisal of conditions for future earnings.

Timing of Stock Purchases

It should be realized that there is a vast difference between the situation existing for the old investor in railroad securities bought many years ago and newer stockholders. The very "leverage" we illustrated as harmful to railroad earnings in bad times works just the same in the opposite direction. It multiplied railroad earnings many times over during the war boom. Buyers of railroad securities who timed their purchases correctly in 1932, 1933, 1938, and 1940 profited very greatly.

There are also marked differences in the characteristics of different railroads. Some are in growing territories and some are not. Some are in highly competitive territories. Some carry traffic particularly susceptible to motor, airline or pipe line competition and others, such as the coal roads, have had very little or none of this to contend with. The capitalization of some roads is much more conservative than others. In addition there are railroads that derive substantial income from such outside sources as oil lands. Actually, however, there are only about a dozen companies among the 131 Class I carriers which still enjoy investor confidence in their common stocks on a long-term basis.

Who buys railroad stock nowadays—individuals or institutions? The answer is mostly individuals, and in many cases speculatively-minded individuals rather than the investor type. Institutions and other long-term holders of stocks have tended, over the past decade, to reduce substantially the proportion of railroad stocks in their portfolios. Investment trust reports seem to show little interest in railroads. Proxy statements show many in top railway management are negligible stockholders in their own companies. I am not aware of any employee stock ownership plans or any large employee ownership of railroad shares. Small stockholders seem to have more faith than large ones. Thus, of the Pennsylvania Railroad's nearly quarter of a million shareholders at the close of 1946, many were dependent women and aged persons in need of dividends. The average holding was close to only 60 shares.

The present low level of railway common stock prices stems from the difficulties enumerated here. Their immediate market future over the next year or so is above all linked with the general level of business in this country. If the boom continues, railway management will have the gross business they need to run prosperous and successful businesses. The lack of investor acceptance of railway stock earnings and salutary effects of "leverage" in good times will probably tend to make railroad stocks recover faster on a percentage basis from this level than the average of most other issues. But, should our economic pattern turn back to prewar volume, the inflexibility of the railroad structure is such that even the shrewdest management will have a very difficult time meeting the situation.

The life blood of any industry is new manpower. Railroading as a career has appealed less and less to the rising generation as the romance of railroading faded. Children years ago wanted to be "locomotive engineers"; now they think of themselves as "dive bomber pilots." The first group of children grew up to be railroad passengers and freight shippers, but their children and grandchildren have their eyes turned toward the sky or down the highway.

The future of the railroads depends to some extent upon whether or not the industry can bring the gaze and interest of enough of them back to the steel rails.

Postwar Financing of Business

(Continued from page 26)

of funds in 1947 than corporations generally.

Comparison of Postwar and Prewar Financing

For the prewar period, only preliminary figures for the sources and uses of corporate funds are available. Since the estimates have not been completed, they will not be presented at this time. However, a few of the more interesting results of this analysis may be pointed out.

It appears that corporations by and large financed their expansion of fixed capital facilities in the immediate prewar period by funds generated through their current operations. This was not true of the '20s, when there was considerable recourse to the capital markets to supplement internal sources of funds. Part of this difference between the two periods is explainable in terms of the generally lower level of business activity and investment in the '30s.

The amount of money raised through the capital markets in the '20s, however, was much more modest than is commonly thought. In the late '20s, including 1929, it is estimated, that net new issues, i.e., new domestic private security issues less retirements, were not much in excess of $2.5 billion annually, exclusive of investment companies. This figure, of course, is far below the level of new issues in that period, and reflects the large volume of refinancing issues and outright retirements.[2] For most of the years during the '30s and up until the end of the war, retirements of securities exceeded new issues. Even in 1936—the highest year for net new issues from the depression low to the postwar period—less than $1 billion was raised on balance from the security markets.

High Rate of New Issues and Bank Loans

Judging from the available data, the $4 billion of net new issues raised through the capital markets in 1947 by corporations other than investment companies[3] seems to be above the levels of the late '20s and probably was the highest in history.[4] The $3 billion increase in corporate bank loans (exclusive of mortgages) in 1947—nearly as high as in 1946—was equaled previously only in 1919-20, following the First World War, and reflects many of the same conditions characterizing that period, including inventory accumulation and rapidly rising, how- Unlike the earlier period, however, long-term bank loans, which first became important in the late '30s, played an important role in the money borrowed from banks by corporations, representing almost half of the total of short- and long-term bank loans. The $700 million increase in mortgage loans to corporations during 1947 is also the highest on record.

2 Domestic corporate real investment issues were estimated at 2 billion dollars for 1929 by George A. Eddy in the May 1937 "Review of Economic Statistics." This total excludes, in addition to investment company securities, a large volume of financial issues which were not intended for real investment purposes. On the other hand, the figure is gross, not net, and no allowance has been made for securities retired with funds obtained from sources other than new issues.

3 Net security issues of investment companies in 1947 were somewhat over 100 million dollars.

TABLE 4

***Relation of Stock Issues to Total Amount of New Capital Issues, by Industry Groups, 1919-47**

[Totals in millions of dollars]

Year—	†All Corporations: Total New Issues	†All Corporations: Stocks as Percent of Total	Industrial & Miscellaneous: Total New Issues	Industrial & Miscellaneous: Stocks as Percent of Total	‡Public Utilities: Total New Issues	‡Public Utilities: Stocks as Percent of Total	Railroads: Total New Issues	Railroads: Stocks as Percent of Total
1919	2,303	63.2	1,907	74.5	278	12.5	117	0
1920	2,710	38.2	2,005	48.8	382	14.4	322	0
1921	1,822	14.7	978	15.4	492	23.8	353	0
1922	2,336	24.6	1,086	24.9	726	38.0	524	5.2
1923	2,702	24.4	1,350	28.2	888	28.2	465	5.8
1924	3,322	25.0	1,217	22.8	1,326	37.5	780	7.2
1925	4,086	29.4	2,224	30.3	1,431	34.3	380	4.3
1926	4,286	26.3	2,342	26.4	1,598	29.1	346	11.8
1927	5,216	27.2	2,645	21.0	2,065	37.4	506	18.0
1928	5,293	45.0	3.117	50.5	1.811	41.8	364	14.6
1929	6,417	62.1	3,939	66.5	1,932	63.6	547	24.3
1930	4,712	30.4	1,549	39.0	2,365	32.2	797	8.3
1931	1,759	17.5	465	11.6	949	26.7	346	0
1932	324	5.8	37	32.4	274	2.2	13	0
1933	160	74.4	113	99.1	34	20.6	12	0
1934	159	21.4	37	91.9	49	0	73	0
1935	402	17.2	245	27.3	83	2.4	73	0
1936	1,202	29.6	811	43.3	124	3.7	267	0
1937	1,225	33.3	840	47.7	153	3.9	232	0
1938	869	7.6	580	10.5	273	1.8	16	0
1939	381	25.5	235	38.7	61	8.2	85	0
1940	735	18.4	322	33.2	268	10.4	144	0
1941	1,062	16.3	411	35.8	399	6.4	252	0
1942	622	18.6	432	19.2	157	21.7	33	0
1943	378	24.3	298	29.9	18	11.1	61	0
1944	663	32.3	527	36.2	48	47.9	88	0
1945	1,264	52.6	1,029	61.5	112	23.2	123	4.1
1946	3,546	41.4	2,602	51.0	818	17.4	126	0
1947	4,749	25.9	2,497	37.9	2,012	14.0	240	0

*New capital issues include issues for the purchase of existing assets. †Excluding investment and holding companies subsequent to 1924. ‡Including communications.

Source: "Commercial and Financial Chronicle."

TABLE 5

Relation of Bond and Stock Yields by Industry Groups, 1919-48

[Percent per annum]

Year—	Total: *Bond Yield	Total: Pfd. Stock Yields (High Grade)	Total: Common Stock †Dividend Yield	Total: Common Stock Earnings-Price Ratio‡	Industrials: *Bond Yield	Industrials: ‡Com. Stock Earnings-Price Ratio	§Utilities: *Bond Yield	§Utilities: ‡Com. Stock Earnings-Price Ratio	Rails: *Bond Yield	Rails: ‡Com. Stock Earnings-Price Ratio
1919	6.3	6.3	5.8	10.6	6.2	11.3	6.2	8.6	6.4	9.8
1920	7.1	6.8	6.1	10.1	6.9	12.1	7.2	10.7	7.1	5.8
1921	7.0	6.8	6.5	4.2	7.0	¶	7.2	12.2	6.9	10.1
1922	6.0	6.1	5.8	8.2	6.0	7.3	5.9	12.3	5.9	8.7
1923	6.0	6.1	5.9	11.4	6.0	10.7	5.8	11.4	6.2	12.8
1924	5.8	6.1	5.9	10.3	5.9	9.4	5.6	10.8	5.9	11.9
1925	5.5	5.9	5.2	11.2	5.6	11.2	5.3	9.6	5.5	12.0
1926	5.2	5.8	5.3	10.0	5.4	9.6	5.1	10.0	5.1	12.2
1927	5.0	5.5	4.8	7.6	5.1	7.2	5.0	8.2	4.8	8.7
1928	4.9	5.1	4.0	7.3	5.1	7.0	4.9	7.2	4.8	9.0
1929	5.2	5.1	3.5	6.2	5.3	6.3	5.1	4.4	5.2	8.8
1930	5.1	5.0	4.3	4.7	5.2	4.5	5.0	4.6	5.0	6.2
1931	5.8	5.0	5.6	3.0	6.1	2.2	5.3	5.1	6.1	1.8
1932	6.9	6.1	6.7	.7	6.7	¶	6.3	7.2	7.6	¶
1933	5.9	5.8	4.0	3.4	5.3	3.2	6.2	6.4	6.1	¶
1934	5.0	5.3	3.9	3.9	4.5	4.2	5.4	5.4	5.0	¶
1935	4.5	4.6	3.9	5.2	4.0	5.6	4.4	5.8	5.0	¶
1936	3.9	4.3	4.4	5.9	3.5	6.2	3.9	5.2	4.2	3.8
1937	3.9	4.4	4.9	6.2	3.6	6.6	3.9	6.1	4.3	1.3
1938	4.2	4.3	4.3	3.9	3.5	4.1	3.9	6.3	5.2	¶
1939	3.8	4.2	4.0	6.4	3.3	6.8	3.5	6.2	4.5	4.0
1940	3.6	4.1	5.6	8.3	3.1	9.1	3.2	6.4	4.3	9.0
1941	3.3	4.1	6.4	11.0	3.0	11.9	3.1	7.3	4.0	21.9
1942	3.3	4.3	6.1	11.4	3.0	11.0	3.1	8.9	4.0	40.9
1943	3.2	4.1	4.6	8.7	2.8	8.4	3.0	6.9	3.6	26.8
1944	3.0	4.0	4.6	8.1	2.8	8.2	3.0	6.3	3.4	18.4
1945	2.9	3.7	3.8	6.5	2.7	6.9	2.9	5.6	3.1	9.6
1946	2.7	3.5	4.6	7.2	2.6	7.3	2.7	5.8	2.9	4.9
1947	2.9	3.8	5.2	11.3	2.7	11.9	2.8	6.4	3.1	11.1
1948 (Jan)	3.1	4.1	5.4	11.6	2.9	12.1	3.0	6.9	3.4	10.9

*Moody's corporate bond yields, averages of daily figures. †Total yearly dividends on New York Stock Exchange common stocks as percent of total market value of these stocks, based on average price during year. ‡Total reported earnings on common stocks as percent of total market value. §Includes communications. ¶Deficit.

Sources: Bond yields are from Moody's Investors Service. Dividend yields and earnings-price ratios through 1938 are from "Common Stock Indexes," Cowles Commission Monograph No. 3; subsequent figures are preliminary estimates made by the Department of Commerce. Preferred stock yields from Standard and Poor's Corporation.

Increase in Internal Financing

In connection with the unprecedented amount of new money raised through the net increase in bank loans and security issues in 1947, the available data indicate that, outside of investment companies, the ratio of such external financing to funds available internally from retained profits and depreciation charges was definitely lower in 1947 than in the late '20s. In this respect, however, the unusually large inventory revaluation reflected in retained profits in the postwar period should be borne in mind. The proportion of money raised through bank loans to total external financing, including net new issues, was higher in 1947 than it had been in the 1920's—even though the relative importance of bank loans had declined from 1946 to 1947.

In comparing postwar and prewar financing, two other points should be mentioned. First, the amount of investment company issues in recent years has been quite small as compared with the 1920's. Though the very substantial amount of money raised in this manner in the late '20s did not finance real investment, it did indicate the plethora of funds seeking equity investment in that period. To the extent that investment companies channeled saving into existing securities which otherwise would have remained in liquid form, they also served to raise stock prices and thus to lower the costs of equity financing to business generally.

Second, the ratio of dividends to net earnings, which affects the level of retained profits, was lower in the postwar period than in the 1920's. This might conceivable indicate a greater reluctance by corporations to undertake new financing as a result of increased difficulties or expense, or it may reflect an additional incentive to retain earnings in view of the much higher individual income-tax rates at present. Trends in the cost of financing will be discussed in a later section. It may be noted here, however, that for the stocks of large companies which are widely held, the ratio of dividends to net earnings is only moderately lower currently than in the '20s generally.[5]

Relation of Stock Issues to Total New Money Issues

In contrast to the very large total of outside capital financing in 1947, equity financing was much less important in historical perspective. Equity financing here refers to new issues of common and preferred stock (other than investment company securities) less retirements and money realized on liquidation by holders of such securities. It does not include the much larger increase in equity or net worth arising from retained profits which has been discussed above.

To compare the amount of new money raised by corporations through equity securities with the amount raised through bonds, it would be desirable to have an historical breakdown of net new issues by type of security. It is possible to approximate this breakdown for recent years from data compiled by the Securities and Exchange Commission. For a comparison covering a longer period of years, it is necessary to use the available information on so-called new capital issues, exclusive of investment companies, tabulated by the "Commercial and Financial Chronicle." New capital issues exclude refunding issues but differ from net new issues in that no allowance is made for securities retired with funds obtained from sources other than new issues, i. e., from retained profits, depreciation charges, or liquid assets.[6]

Furthermore, the "Chronicle" series on new capital issues, exclusive of investment company issues, includes a substantial number of financial issues whose purpose, like those classified in the investment company group, is the acquisition of existing assets or the purchase of outstanding securities. In spite of limitations in the "Chronicle" series, it is useful in indicating the broad trends in the relative importance of stocks and bonds in raising new capital.

Ratio of Stock Issues at Mid-Twenties Level

A comparison of the postwar and prewar ratios of stock with total new money issues, by industry group, is presented in Chart 1 and Table 4. In 1946 the ratio, which was approximately at the 1928 level, was generally above prewar, with the notable exception of 1929. In 1947, the ratio of stock issues dropped to a level somewhat below the 1919-28 period but somewhat higher than in the 1930-41 period. The ratio in 1947 was almost identical with that in the mid-'20s.

In industrials, the ratio of stock financing was larger in 1947 than in the 1920's generally, except for 1928-29; but in public utilities, stock financing dropped markedly in relative importance after 1929 and did not recover in the postwar period. Total new capital issues reached a peak in 1929, whereas the peak for utilities was reached in the following year, when bond rather than stock issues were utilized to finance the completion of expansionary programs. Though in recent years there has been very little stock financing of public utilities, including electric and gas utilities, railroads and communications companies, the telephone industry during 1947 made very extensive use of bonds convertible into common stock.

From these data it appears that the current ratio of equity financing, except for utilities, is not out of line with the average experience during the 1920's and 1930's, but is very considerably below 1929. In that year, equity securities were used extensively to refinance bonded indebtedness. Other stocks were issued to finance the acquisition of existing assets or the purchase of outstanding securities. It may be noted that though the above remarks are based on the relation of total stock financing to total new money issues, trends in the ratio of common stock financing to total new money issues are quite similar.

Relation of Bond and Stock Yields

Further insight into the current relationships between stock and bond financing is given in Table 5 which shows the yield on corporate bonds, the dividend yield on preferred stocks, the dividend yield on common stocks,

4 The real investment which could be financed by net issues did not differ so much in the two periods as the dollar figures would indicate.

5 This is indicated by a comparison of the dividend yield and earnings-price ratio for common stock in table 5.

6 For some purpose, of course, the emphasis is properly placed on gross rather than net issues.

and the ratio of earnings on common stocks to their price, from 1919 to date. The first and last of these ratios are given by industry group. With reference to this table, it should be emphasized that the fourth column is an earnings-price ratio and not the more customary price-earnings ratio. Stated in this manner, a comparison is readily afforded of the cost of different types of financing.[7]

Both the dividend yields and the earnings-price ratios are estimates for common stocks listed on the New York Stock Exchange and, though fairly comparable with the bond yields, are considerably different from the series which would be obtained if it were possible to derive similar figures for all stocks. The earnings figures used in these ratios are those reported by the corporations and are not adjusted in any way.

Return on Common Stock at at Mid-1920's Level

The present ratios between dividends and earnings and the market price of common stocks are almost identical with those in the mid-1920's, though considerably higher than in the bull market which occurred from 1927 to 1929 (Chart 2). In preferred stocks there has been a fairly steady downward movement in dividend yields throughout the period (table 5).

Compared with the two years following the First World War—a period of relatively heavy stock financing—the current dividend yield on common stock is somewhat lower, while the earnings-price ratio is somewhat higher. For the utilities, exclusive of railroads, the current dividend yield and earnings-price ratio are substantially lower than in the years immediately following the First World War or in the mid-1920's.

In view of the conceptual as well as statistical difficulties involved, no adjustment has been made in the earnings figures for inventory revaluation or inadequate depreciation charges. Such an adjustment would of course tend to diminish the differences between the current earnings-price ratio and the ratios in the late '20s.

Since the present dividend yields or earnings-price ratios are not high in relation to the period following the First World War or in the mid-1920's, and about as large an amount of equity financing has taken place, it would appear that equity capital is not much more difficult to obtain now than it was in the earlier period. It is possible, however, that the equity markets today are so thin that a comparatively small increase in the supply of stock would result in a fairly sizable drop in stock prices, and consequently in a corresponding percentage rise in the earnings-price ratios. Though it is very difficult to test this hypothesis, in view of the great effect on price of a variety of factors other than supply, it is of interest to examine the recent reaction of stock prices to new offerings.

An analysis of six of the largest common stock offerings on the New York Stock Exchange made in the past six months indicates that fairly considerable increases in supply were accompanied by moderate price declines. For these issues, which collectively amounted to above $300 million an average increase of 20% in stock outstanding was absorbed—usually in a period of two weeks—with a price decline averaging less than 5%. In the stock market generally, there was little net movement in price during the periods from the beginning to the termination of these offerings.

Low Interest Rates

A more important difference between the cost of investment funds today and in the 1920's, than the developments in the cost of stock financing, lies in the trend of interest rates. Although interest rates have gone up moderately in recent months, they are still extremely low in comparison with previous periods. Corporate bond yields currently average 3.1% as against 7.0% in the early 1920's, 5.2% in 1929, and 3.8% in 1939. Commercial loan rates charged customers by banks in principal cities now average 2.2% as compared with 2.8% in 1939 and much higher rates in the 1920's. Higher rates, of course, are paid by new and small concerns. It is noteworthy that the average rate paid on the very substantial amount of term-loans extended by banks, mostly to large well-established firms, is slightly less than 2%.

The vast increase in liquid assets plus direct government action in maintaining the market for United States bonds have undoubtedly contributed greatly to the present low level of interest rates. Another important reason for this development is the growing institutionalization of savings, with a resultant pressure on banks and insurance companies to find investment outlets.[8] Since, with minor exceptions, these institutions do not buy common stock, there has been a steady growth in the demand for fixed-interest-bearing obligations.

The substantial demand for corporate bonds by life-insurance companies is particularly notable. The current flow of funds into new private insurance at a rate of over $3 billion a year is three times the average of the late 1920's. These companies alone bought on balance during the past two years a volume of corporate bonds in excess of the increase in corporate bonds outstanding. Their enormous holdings of United States Government securities plus the large, steady flow of funds into new insurance would seem to insure a continuance of a strong demand for corporate bonds, at rates not too much in excess of present rates so long as government bonds are maintained at par.

These factors help to explain not only the low level of bond yields and interest rates but, to some extent at least, the widening spread between the cost of financing in equity securities versus fixed interest-bearing obligations. Corporate bonds are currently selling at an average yield of slightly more than 3% compared with a dividend yield of well over 5% on common stocks and earnings on common amounting to over 11% of market value. In 1929, in contrast, the interest rate which borrowers had to pay was above the dividend yield and not much different from the rate at which earnings were capitalized in the stock market. In the mid-1920's, the interest rate was approximately equal to the dividend yield and about half the earnings-price ratio.

Other reasons for the relative weakness of the stock market as compared with the bond market may be found in the complex of factors affecting investors' confidence in the short-run, in possible long-run changes in attitude toward the assumption of risk as a result of developments in our economy, and probably also in the higher rates and increased progressiveness in the tax structure as compared with the 1920's. Since a large proportion of investors in the stock market are more concerned with short-term prospects for capital gains than with long-term prospects for earnings and dividends, this area is particularly sensitive to supposed shifts in the business outlook. However, regardless of shifts in investor psychology, so long as businesses can obtain borrowed funds at the present low rates (incidentally without incurring a tax liability on interest charges unlike the double taxation on dividends), it seems probable that, for some time at least, a high proportion of capital requirements will continue to be satisfied through fixed-interest-bearing obligations.

Current Financial Position

It is obvious that there is a danger in too great a dependence upon borrowed capital, but analysis of the present financial structure indicates that the current burden of fixed interest charges is less than in previous periods of high business activity. Thus for corporations as a whole it is estimated that the ratio of interest payments to profits before interest and taxes amounts to 8% at present, compared with 12% in 1941 and 25% in 1929. The total amount of interest-bearing corporate debt outstanding today is somewhat lower than in 1929, and interest rates are much lower, though profits, prices, and the national income are much higher.

At the end of 1947 the liquid position of corporations was still favorable by prewar standards. Corporate holdings of cash on hand and in banks and United States Government securities amounted to over $35 billion at the end of 1947, compared with a prewar high of about half that amount at the end of 1941. The need for liquid assets for working capital purposes increased greatly over this period but probably not so much as the growth in liquid assets. Several measures of corporate liquidity are presented in Table 6 for the immediate prewar and the postwar years.[9]

TABLE 6

***Liquidity Ratios for All Corporations, 1939-41 and 1946-47**

	—Ratios to Sales—		—Ratios to Current Liabilities—		
Year—	Liquid Assets %	†Liquid Assets Less Taxes %	Liquid Assets	Quick Assets	Current Assets
1939	11.3	10.5	0.46	1.20	1.79
1940	11.3	10.0	.49	1.22	1.83
1941	10.0	7.3	.48	1.18	1.81
1946	16.4	12.6	.87	1.47	2.18
1947—2nd half	11.9	8.9	.72	1.39	2.20

*Excluding banks and insurance companies. Data except for 1947 are averages of year-ends. †Federal income tax liability only.

Source: U. S. Department of Commerce based on data from Securities and Exchange Commission and Bureau of Internal Revenue.

(Continued on page 36)

7 The earnings-price ratio has particular relevance in an analysis of the cost of financing when additional stock may be bought by investors other than existing stockholders.

8 The available data on individuals' savings, though highly tentative for the early years, indicate that today, as in the thirties, a higher proportion of savings takes the form of cash and deposits, U. S. Government securities, and insurance than in the late 1920's while direct investment in corporate securities has become relatively less important.

9 Comparable figures are not available for the 1920's.

Postwar Financing of Business

(Continued from page 35)

The table indicates that the current position of business, though not so liquid as in 1946, compares favorably with prewar. The different ratios are almost uniformly higher at present than they were in the earlier years. The one exception is the ratio of liquid assets less tax liabilities to sales, which though considerably above 1941, is somewhat lower than in 1939 or 1940. In view of the much higher level of activity now, however, it may be noted that as sales increase, the liquid assets required for working capital purposes do not increase as rapidly.

In connection with this discussion of corporate liquidity, it should be pointed out there are a number of individual corporations which are not in so favorable a position as implied in the aggregate, while other corporations may currently feel that they need more liquid assets for precautionary and other purposes than they did before the war.

Financing Capital Requirements in 1947

From the data presented so far, there is no evidence during the past year of any serious difficulty in financing the largest expansion of business facilities on record. On the supply side, funds available from internal operations and from external sources were both very substantial.[10] The main limitation in the supply of investment funds during 1947 appears to be in its distribution between liquid assets available for borrowing and liquid assets available for equity capital.

On the demand side, the high rate of return on invested capital, together with the extremely low interest rates, tended to stimulate capital expansion. Business investment in 1947 was high in absolute terms and above the prewar, 1919-41, average in relation to current output—during a year when the proportion of gross national product going into net foreign investment and Government purchases of goods and services was much higher than the average in the prewar period.

Plant expenditures were lower than average in relation to total output, while equipment expenditures were unusually high.[11] The two together—which accounted for 8.7% of the total gross national product in 1947—were higher than in any year since 1919 with the exception of 1929, when they constituted 9.2% of the total. In contrast, personal consumption expenditures, though at a record level, were a lower proportion of the gross national product than in any year prior to 1941. In a year of peak business activity, such as 1947, however, there would be some reason to expect such a result, since consumption is less variable over the cycle than investment. Furthermore, deferred demands arising from the war may have been proportionately greater and more urgent in investment than in consumption.

The prewar relationships, of course, did not necessarily represent an optimum allocation of gross national product. There are obvious advantages in expanding plant and equipment as much as possible without sacrificing unduly current consumption or other current needs of our economy. In this connection, however, it should be pointed out that our economic resources are already being fully utilized.

10 In connection with the ability and readiness of financial institutions and the public to supply funds for investment purposes, it is well known that liquid assets for the entire economy are much higher today in relation to the level of activity than in prewar years; but it is sometimes overlooked that the current ratio of saving to income, though much lower than in the war years, is also as high as in 1929.

11 Industrial construction was above average while public utility and commercial construction were substantially lower. Residential construction currently is also a lower proportion of gross national product than in the prewar period.

Financing Future Capital Requirements

So far as the capital markets are concerned, there seems to be no special problem in financing in 1948 the large volume of net new issues characterizing 1947—assuming that there is a demand for such capital. Insurance companies alone will probably absorb a major part of such securities. Unless other investment outlets suddenly appear in large quantities, insurance companies and other institutions will have little choice but to channel the public's savings into the capital markets. The volume of new issues in early 1948 continued at the 1947 rate.

It is possible, of course, that corporations may be increasingly reluctant to add to their debt or to pay the price required for raising equity capital, so that in this sense a capital shortage might arise. This, however, seems to be primarily a long-run problem, in part resulting from institutional changes in our economy. While the extent to which it may be necessary to stimulate investment, once the accumulated demands arising from the war have been met, should be an object of appraisal, an analysis of the magnitude of such requirements and the sources from which they might be derived is beyond the scope of this article.

Bank credit may constitute a more significant form of capital shortage in the near future, though even here the indications are far from conclusive. Primarily, of course, is the willingness and not the ability of banks to extend credit which is in question. The large drain on bank reserves during this quarter as a result of income tax collections, the moderate increase in reserve requirements in central reserve cities, the "moral suasion" of the Federal Reserve authorities, the more restrictive attitude of the supervisory authorities, and the growing concern of bank officials about economic uncertainties may all combine to curtail the extension of new loans.

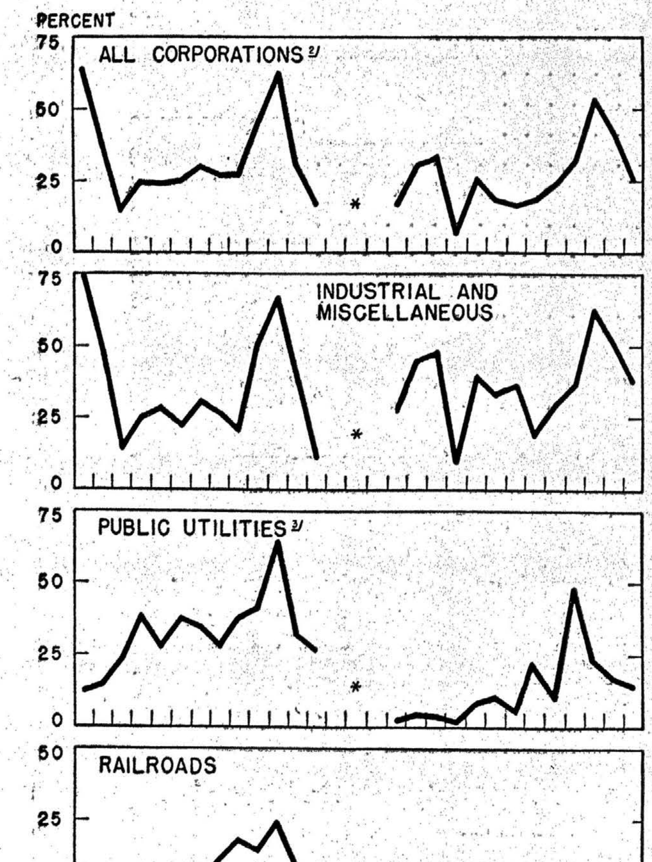
Bank loans have leveled off in recent weeks whereas they increased moderately in the comparable period of 1947. However, bank loans are used primarily for working capital purposes—and it its precisely in this area where the demand for new capital would diminish if prices stabilized. Furthermore, the interest rates on new loans are still very low and have not changed significantly from the end of 1947, though they are moderately higher than a year ago. It is difficult to reconcile the current low rates of interest with any substantial unfilled demands for bank loans by business, unless it is assumed that banks are rationing credit by making it available only to the highest-quality risks.

Summary

In summarizing, two points should be made. First, available data on the volume of capital expenditures, the sources of capital supply, and the cost of financing do not give any definite indication of serious quantitative deficiencies in the supply of capital available to business so far in the postwar period. At any time there are demands for capital which are not met by the suppliers of capital, and probably it is in a period of inflationary pressures, when capital expenditures and financing are already at peak levels, that these unfilled demands appear greatest. At such times any enlargement of capital supply, which does not serve to restrict expenditures elsewhere, is further inflationary. On the other hand, once the boom abates, the easing of capital supply may help to combat deflationary tendencies.

Second, in view of the dangers in debt as compared with equity financing, it is generally agreed that every effort should be made to encourage the latter as part of any long-run financial program. The increased flow of the public's saving into insurance, the greater role played by the Government—reflecting in part a changed world situation, and the related changes in the rates and structures of taxes—all help to intensify a problem of long standing, that of raising risk capital. No workable solution to this problem is likely to be reached which does not recognize these and other institutional changes in our economy over the past few decades.

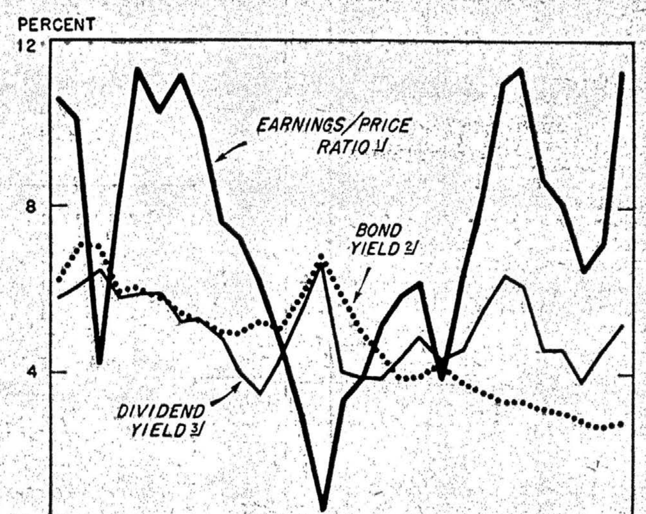
Chart 1.—Stock Issues as a Percentage of Total Amount of New Capital Issues, All Corporations and by Industry Groups[1]



* Ratios omitted in 1932, 1933, and 1934 because of the extremely low volume of new capital issues; these ratios, however, are shown in table 4.
1 Data include issues for the purchase of existing assets.
2 Exclude investment and holding companies subsequent to 1924.
3 Include communications.

Source of data: Commercial and Financial Chronicle.

Chart 2.—Corporate Bond and Common Stock Yields, and Earnings/Price Ratios



1 Based upon data for common stocks listed on the New York Stock Exchange; total reported earnings for the year expressed as a percentage of the total market value (number of shares times average prices) of these stocks.
2 Data are averages of daily figures.
3 Based upon data for common stocks listed on the New York Stock Exchange; total dividends for the year expressed as a percentage of the total market value (number of shares times average prices) of these stocks.

Sources of data: Bond yield, Moody's Investors Service; earnings/price ratio and dividend yield through 1938, *Common Stock Indexes*, Cowles Commission Monograph No. 3, and for subsequent years, preliminary estimates of the U. S. Department of Commerce, Office of Business Economics.

Explains Trade With Russia

Commerce Department indicates volume is around 1% of our total trade and increases of exports to Russia since war are due largely to higher prices, rather than increased volume.

The total U. S. exports to Russia in 1947 represented 1% of all U. S. exports, in comparison with 1.3% in 1936-38, and imports from Russia showed a rise to 1.3% of total receipts from abroad, as contrasted with 1% prewar, the Department of Commerce announced March 25 through its Office of International Trade.

In dollar value, our 1947 commerical exports to Russia aggregated $98,938,000, including reexports, and consisted largely of various types of industrial machinery. This contrasted with commercial shipments totaling $69,691,000 in 1938; however, price rises over the intervening period more than accounted for the increase in value of U. S. exports to the U.S.S.R. Imports from Russia in 1947 totaled $77,102,000, chiefly undressed furs, chrome and manganese ores, tobacco for blending, and cotton linters. This contrasts with imports from Russia in 1938 valued at $23,500,000.

U. S. total exports to Russia in 1947 were $149,504,000. This is a decline of $208,288,000 from the $357,792,000 total in 1946 (when UNRRA and "pipeline" Lend-Lease shipments made up about 82% of the value). The shipment of goods under the UNRRA program, including private relief, dropped from $152,400,000 in 1946 to around $34,300,000 in 1947, and "pipeline" Lend-Lease exports declined from $152,081,000 to $16,-300,000. More than 95% of the UNRRA and Lend-Lease shipments in 1947 were sent between January and June. Commercial (cash) purchases by the U.S.S.R. in 1947 increased by $45,700,000 over 1946. These commercial shipments constituted 66% of our total exports to Russia for 1947 as a whole and 98% for the last quarter of the year.

Our imports from the U.S.S.R. in 1947, totaling $77,102,000, declined by 23% from the value of imports in 1946; the net decline of $23,470,000 was due almost entirely to the drop in the value of the year's imports of undressed furs. The value of metallic ores imported from Russia increased by some $3,500,000 in 1947.

City Nat'l Bank & Trust Adds Ray Evans

KANSAS CITY, MO.—Ray Evans, All-American football selection for 1947 joined the staff of City National Bank & Trust Company of Kansas City, April 1. Mr. Evans, who was graduated from the Business School of the University of Kansas this year, has decided to make banking his career. His home is in Kansas City, Kansas.

Mr. Evans now is taking a "basic training course" and will work in all inside capacities in the bank. He now is on the night shift in the transit department.

Mr. Evans was in the Air Corps for three years, enlisting as a private and being discharged a First Lieutenant.

Municipal Bond Club Of Chicago Hears

CHICAGO, ILL.—The Municipal Bond Club of Chicago held a luncheon April 7, 1948. The guest speaker was State Senator, Walter Butler, of the 13th Senatorial District of Illinois, who is sponsor of the several Butler Bills, bearing on assessed valuation of municipalities in the State of Illinois and other municipal matters.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

What is said to be one of the fastest and most efficient private wire telegraph systems in the world was placed in operation on April 1 between the **Chemical Bank & Trust Company in New York** and it correspondent banks in five other cities. The new system, developed and provided by Western Union, modernizes the Chemical Bank's wire system which has been in operation for the past 25 years. It is engineered to permit its planned extension to banks in a total of 26 cities. The other banks initially connected by the system are the National Bank of Detroit, Detroit; Commerce Trust Company, Kansas City; First Wisconsin National Bank, Milwaukee; First National Bank, Minneapolis, and First National Bank in St. Louis, St. Louis. In addition, the Chemical Bank at New York is connected by direct telegraph circuit with Wells Fargo Bank and Union Trust Company at San Francisco. Through a push-button switching center in the Chemical Bank representative's office in Chicago, messages speed between all banks in the system. Each message is typed only once, on the typewriter-like keyboard of a teleprinter at the bank which originates it. The new system, which culminates years of development by Western Union and described as the latest product of the new era of streamlined telegraphy, enables the banks to communicate swiftly and directly with each other. It also provides for the communication needs of the Chemical Bank representative's office in Chicago. The Chemical Bank's own staff of trained personnel mans the switching center at Chicago and the wire room at New York City. Upon the arrival of messages at the Chemical Bank's wire room in New York, they are passed over direct wires to the various important departments of the bank to permit quick replies and fast service on quotations, completion of purchases and other matters.

* * *

Irving Trust Company of New York announces the promotion of Kenneth M. McGhee, Leonard J. Meyer and Louis L. Seaman from Assistant Secretaries to Assistant Vice-Presidents and the election of Charles D. J. Dever as Assistant Secretary. Mr. McGhee has spent his entire business career with the Irving and has been stationed at the branch at Rockefeller Plaza for the past 10 years. Mr. Meyer entered the Irving's Credit Department in 1922 and for some years past has assisted in the general supervision of the company's loans as well as formulation of loan policies. Mr. Seaman had had extensive credit experience in the company and is one of the officers handling customer relations in the main office. Mr. Dever is a member of the staff of the Irving's branch office at Fifth Avenue and 21st Street. He also has had many years' experience in the company.

* * *

Julius Heynen, former Assistant Secretary of the **East River Savings Bank** of New York died at Lenox Hill Hospital April 5. Born in Rheydt, Germany in 1868, Mr. Heynen came to this country in 1891. He became a bookkeeper in America, having trained in bookkeeping and was head of the bookkeeping department of the Forward Shipping House in Antwerp. Mr. Heynen was admitted to the Bar in 1905. Appointed Manager of the Harlem Office of the Legal Aid Society, he remained there until 1908, when he became Secretary, Treasurer and Manager of the **Maiden Lane Savings Bank** and the **Maiden Lane Safe Deposit Company.** In 1902 he was elected a trustee of the Maiden Lane Savings Bank which merged with the **East River Savings Bank** in 1932 and as Assistant Secretary he was located at the Main Office, 26 Cortlandt Street. Mr. Heynen retired April 1, 1943.

* * *

THE PUBLIC NATIONAL BANK AND TRUST COMPANY OF NEW YORK

	Mar. 31,'48	Dec. 31,'47
Total resources	$549,381,107	$581,799,399
Deposits	512,590,115	544,924,963
Cash and due from banks	116,996,457	127,685,625
U. S. govt. security holdings	268,882,604	310,972,476
Loans & bills discounted	135,597,267	124,180,874
Undivided profits	8,187,973	7,838,800

* * *

NATIONAL CITY BANK OF NEW YORK

	Mar. 31, '48	Dec. 31, '47
Tot. resources	$4,850,380,620	$5,203,284,028
Deposits	4,507,009,250	4,874,418,234
Cash and due from banks	1,289,461,435	1,443,283,803
U. S. Govt. security hldgs.	1,846,080,036	2,131,035,234
Loans and bills discounted	1,275,144,519	1,215,060,245
Undiv. profits	32,010,807	30,115,614

* * *

CITY BANK FARMERS TRUST CO.

	Mar. 31, '48	Dec. 31, '47
Tot. resources	$142,413,048	$150,847,466
Deposits	109,656,253	118,155,374
Cash and due from banks	23,344,322	26,526,044
U. S. Govt. security hldgs.	102,842,577	109,003,851
Loans and bills discounted	1,165,976	1,209,888
Undiv. profits	8,856,407	8,615,927

* * *

CHASE NATIONAL BANK OF THE CITY OF NEW YORK

	Mar. 31, '48	Dec. 31, '47
Tot. resources	$4,675,876,956	$4,856,452,421
Deposits	4,295,185,056	4,477,562,450
Cash and due from banks	1,267,487,348	1,225,791,684
U. S. Govt. security hldgs.	1,725,308,801	1,997,223,842
Loans and bills discounted	1,405,956,869	1,324,264,034
Undiv. profits	57,399,075	57,024,776

* * *

GUARANTY TRUST COMPANY OF NEW YORK

	Mar. 31, '48	Dec. 31, '47
Tot. resources	$2,760,369,125	$2,848,543,557
Deposits	2,332,835,818	2,451,659,287
Cash and due from banks	660,500,757	611,948,578
U. S. Govt. security hldgs.	1,158,058,374	1,255,329,289
Loans and bills discounted	810,899,655	851,404,579
Undiv. profits	62,552,224	60,663,666

* * *

MANUFACTURERS TRUST COMPANY OF NEW YORK

	Mar. 31, '48	Dec. 31, '47
Tot. resources	$2,231,881,921	$2,468,436,353
Deposits	2,085,683,267	2,320,056,667
Cash and due from banks	558,277,393	716,527,698
U. S. Govt. security hldgs.	1,080,513,835	1,173,607,277
Loans and bills discounted	496,448,941	484,035,604
Undiv. profits	24,005,172	22,565,101

* * *

CHEMICAL BANK & TRUST COMPANY OF NEW YORK

	Mar. 31, '43	Dec. 31, '47
Tot. resources	$1,317,248,763	$1,413,980,108
Deposits	1,168,935,543	1,284,087,036
Cash and due from banks	329,201,051	394,152,052
U. S. Govt. security hldgs.	415,757,180	420,748,658
Loans and bills discounted	432,570,769	449,400,552
Undiv. profits	8,855,503	8,149,917

* * *

BANK OF THE MANHATTAN COMPANY OF NEW YORK

	Mar. 31, '48	Dec. 31, '47
Tot. resources	$1,138,737,965	$1,216,579,777
Deposits	1,059,763,744	1,140,003,114
Cash and due from banks	292,265,877	365,643,523
U. S. Govt. security hldgs.	342,789,239	360,915,918
Loans and bills discounted	434,481,540	426,782,104
Undiv. profits	14,937,213	14,487,235

* * *

IRVING TRUST COMPANY OF NEW YORK

	Mar. 31, '48	Dec. 31, '47
Tot. resources	$1,130,105,158	$1,208,350,157
Deposits	995,260,551	1,072,859,755
Cash and due from banks	286,139,613	320,749,465
U. S. Govt. security hldgs.	404,946,384	475,482,936
Loans and bills discounted	398,797,546	377,810,121
Surp. & undiv. profits	64,936,472	64,481,000

CORN EXCHANGE BANK TRUST CO. NEW YORK

	Mar. 31, '48	Dec. 31, '47
Total resources	$797,073,101	$828,082,587
Deposits	750,630,988	782,204,170
Cash and due from banks	210,430,774	214,445,596
U. S. Govt. security holdings	486,340,985	508,552,309
Loans & bills discounted	73,765,375	79,963,291
Undivided profits	3,974,711	3,592,843

* * *

J. P. MORGAN & CO. INCORPORATED, NEW YORK

	Mar. 31, '48	Dec. 31, '47
Total resources	$635,159,753	$665,619,430
Deposits	564,159,814	591,244,511
Cash and due from banks	143,930,630	173,553,561
U. S. Govt. security holdings	315,055,076	325,136,334
Loans & bills discounted	130,786,454	121,739,920
Undivided profits	18,382,864	18,881,529

* * *

BROWN BROTHERS HARRIMAN & CO. OF NEW YORK

	Mar. 31, '48	Dec. 31, '47
Total resources	$234,396,113	$252,601,393
Deposits	198,452,741	222,668,177
Cash and due from banks	47,919,350	55,645,258
U. S. Govt. security holdings	59,302,764	66,417,238
Loans & bills discounted	57,957,941	58,423,412
Capital & surplus	13,865,284	13,845,284

* * *

COMMERCIAL NATIONAL BANK AND TRUST COMPANY OF NEW YORK

	Mar. 31, '48	Dec. 31, '47
Total resources	$214,274,323	$239,988,260
Deposits	188,093,289	213,755,621
Cash and due from banks	50,567,851	73,655,172
U. S. Govt. security holdings	103,035,794	109,110,619
Loans & bills discounted	52,643,856	52,361,694
Undivided profits	13,710,002	13,584,995

* * *

UNITED STATES TRUST COMPANY OF NEW YORK

	Mar. 31, '43	Dec. 31, '47
Total resources	$142,608,437	$157,809,988
Deposits	111,511,340	126,635,618
Cash and due from banks	27,883,839	29,645,812
U. S. Govt. security holdings	69,894,524	77,146,629
Loans & discounts	25,599,807	32,143,694
Undivided profits	1,281,450	1,272,879

* * *

CONTINENTAL BANK & TRUST CO. OF NEW YORK

	Mar. 31, '48	Dec. 31, '47
Total resources	$186,238,509	$202,055,841
Deposits	172,442,943	188,437,291
Cash and due from banks	51,572,839	52,211,100
U. S. Govt. security holdings	56,197,631	75,961,437
Loans & bills discounted	58,368,124	54,636,380
Undivided profits	2,364,992	2,282,251

* * *

THE BROOKLYN TRUST CO., OF BROOKLYN, NEW YORK

	Mar. 31, '48	Dec. 31, '47
Total resources	$229,830,132	$245,257,317
Deposits	212,545,915	227,800,030
Cash and due from banks	57,277,948	62,282,868
U. S. Govt. security holdings	128,206,836	135,187,151
Loans & bills discounted	31,455,454	36,149,329
Undivided profits	1,854,052	1,678,940

* * *

The **Peoples Savings Bank of Yonkers, N. Y.,** after extensive improvements, will open its enlarged building for public inspection on Saturday, May 15, from 10 a.m. to 4 p.m. The facilities are necessary it is indicated for the proper handling of the bank's expanding business and increased services. Pres. Albert B. Losel has appointed Trustees Edward Q. Cole, Edward Fleagle and Oliver J. Troster as a committee on arrangements for the opening.

* * *

Herbert N. Faulkner of Melrose, Mass., has been elected President of the **Federal Home Loan Bank of Boston.** In noting this on April 2 the Boston "Herald" stated that Mr. Faulkner had been Vice-President of the Bank since 1932.

* * *

PHILADELPHIA NATIONAL BANK OF PHILADELPHIA, PA.

	Mar. 31, '48	Dec. 31, '47
Total resources	$709,026,202	$766,335,111
Deposits	641,156,370	698,794,474
Cash and due from banks	246,264,191	265,441,018
U. S. Govt. security holdings	251,995,942	288,373,195
Loans & bills discounted	157,858,969	155,155,579
Undivided profits	8,791,615	8,485,825

(Continued on page 51)

Economic Balance Improves; Buying Power Increasing

MINNEAPOLIS—Purchasing power of the average American family continues to be higher than a year ago, and indications are that it will remain high. This is revealed in the monthly Investors Syndicate survey of "real income," which is the relationship between revenue and living costs.

The next break in the price structure is more likely to come in clothing than in food, the survey reports. Clothing prices already are "soft," showing the lowest increase over last year of any major factor in the cost structure.

While the average family's bills come to $1.11 for every dollar they cost a year ago, its income is up to $1.14 for every dollar, making the "real income" index $1.03.

Another wholesome sign, the Investors Syndicate report shows, is the balancing of various types of income. Salaries are going up a bit faster than wages and farm income, finally enabling the white-collar workers to hold their own in the price spiral. Investment income also is increasing slightly faster than the average of all income, after months of being behind wages and farm income.

"The predictions of pessimists a few months ago, that a recession was inevitable, are being proved unsound," said E. E. Crabb, Chairman and President of Investors Syndicate, a leading distributor of investment certificates. "There is constant evidence that the economic factors are being brought into better balance. This is a sign of progress toward true economic stability."

Thomas E. Felker With H. M. Byllesby & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Thomas E. Felker has become associated with H. M. Byllesby & Co., Inc., 135 South La Salle Street. He was formerly trading manager for the Chicago office of Stifel, Nicolaus & Co., Inc.

Charles Drew Opens Branch

BRIDGEPORT, CONN.—Chas. H. Drew & Co. has opened a branch office at 83 Fairfield Avenue. Sheldon S. Wells, who recently became a partner in the firm, will be in charge.

Canadian Securities

By WILLIAM J. McKAY

Why is it necessary for Canada and this country to deal with one another at arm's length in financial and economic matters? Must U. S.-Canadian economic relations continue indefinitely to be shaped in accordance with the outcome of complex global planning as exemplified by the Bretton Woods schemes and the Havana World Trade Charter?

It would appear that Mr. William L. Batt, President of the SKF Industries Inc., in his address to the Canadian Exporters Association at Toronto last week reduced this question to its bare essentials. He stated in essence that this was not the time to quibble over details and urged "more intimate neighborliness between our two countries, and the utmost in economic cooperation."

The enormity of the task undertaken by this country for the salvation of the democratic world and the distressing lack of effective assistance elsewhere gives added emphasis to this statement of plain facts. It is only necessary to review the record of the war years to know to what heights of accomplishment Canada can rise when her economic machinery is closely geared to that of her great southern neighbor. As the foregoing remarks pertinently state, now is certainly not the time to quibble over details. The geographical proximity of Canada, the abundance of her virgin resources, and the character of her people, constitute indeed an almost miraculous combination at this critical juncture.

In the interminable maze of doubt and controversy created by abortive efforts to achieve basic understanding and practical results on the global scale, both countries should welcome the opportunity to provide a classic example of practical international cooperation. It is no longer sufficient to point with pride to the 4,000 miles of unfortified border and the ideals that both peoples share in common. Now is the time to consider coldly and realistically the fact that these outworn platitudes fail completely to obscure the uneconomic gross imbalance of trade between the two countries.

When the imports of a country of 12 million people are the double of a country with 12 times the population, especially when the level of prices in the smaller country remain consistently lower, the economic disequilibrium thereby produced is certainly not conducive to perfect harmony and cooperation. Thus it is clear that in order to permit a happy working partnership whereby Canada will be enabled to play her proper role in satisfying the urgent needs not only of Europe but also of this country, immediate steps should be taken to rectify the chronic imbalance of U. S.-Canadian trade.

The answer does not lie in the unilateral action taken by Canada in instituting an austerity program with its accompanying measures of enforced restrictions on U. S. imports. Such action is neither constructive nor beneficial to the interests of either country. The basic solution is only too obvious. Instead of Canada reducing the volume of U. S.-Canadian trade, this country should increase by every possible means its imports from Canada. It would be well also if the Dominion on its side would devote less attention to the gold-mining problem and the controversial subject of the parity of its currency and concentrate its efforts on the production of base metals and other basic industrial requirements of this country. With the removal of Canada's greatest problem constituted by the ever-pressing need to conserve and earn U. S. dollars at all cost, the ability of the Dominion to resume its constructive plans for the future would prove of incalculable benefit to this country and the world at large.

During the week the market for external bonds remained dull and inactive, but there was a renewed demand for internal Dominions following the recent firmer tendency for free funds. Stocks were generally steady with industrial specialties and base metals well to the fore. Canadian Pacifics despite heavy profit-taking also displayed continued strength. The golds on the other hand were neglected awaiting the presentation to Parliament of the gold-subsidy bill.

Our Natural Resources: Are We as Rich as We Think?

By KIRTLEY F. MATHER*

Professor of Geology, Harvard University

Prominent geologist, holding mineral fuels and metallic ores are nature's stored capital, points out our supplies and needs. Sees petroleum reserve life expectancy of from 20 to 30 years, and estimates long period will be required for availability of substitutes. Says iron ore reserves are not more than 40 times annual production, but concludes U. S. is not faced by imminent exhaustion of vital minerals.

It is the non-renewable resources of mineral fuels and metallic ores concerning which we might have cause to worry because of extraordinary inroads made upon America's resources during the war and in view of the commitments we are making in support of the Marshall Plan. The renewable resources of plant and animal products—agricultural resources, in the broadest sense of the term—are quite adequate to meet our present needs and at the same time to make the proposed contributions in aid of the needy folk in Europe. Using those resources at this time will not in the least endanger our future, provided we use modern scientific techniques of soil conservation, animal husbandry, plant breeding and agronomy. These are renewable resources and may be considered as our annual income.

Prof. K. F. Mather

The mineral fuels and metallic ores, on the other hand, must be considered as Nature's stored capital. As we use them, we exhaust the stores. Moreover, they are unevenly distributed and locally concentrated throughout the earth. Although the United States has at least its fair share of mineral wealth among the nations of the earth, there are certain minerals entirely lacking in our country and others for which the domestic sources are quite inadequate to meet our needs. We have no nickel or tin, for example, and not enough manganese, platinum or mercury to maintain our industrial economy. These and certain other minerals must be imported from abroad. Mineral interdependence is inescapable for the nations of the world in an age of science and technology. Most impressive at the moment is the fact that the United States is the poorest of all the leading nations so far as uranium ores are concerned.

The three most important nonrenewable resources for an industrial economy are petroleum, iron ore and aluminum ore. The proved reserves of petroleum in the United States are about twelve times our current annual production. Probable, but as yet undiscovered, reserves are between ten and twenty times our annual production. Thus, the "life expectancy" for petroleum in the United State would appear to be only twenty or thirty years. In addition, there are known reserves of oil shale and coal from which, thanks to modern science, it is possible to derive petroleum products adequate to meet expected demands for at least a thousand years. It will, however, be impossible to make these substitute products available in time to fill the gap which now appears likely to develop in the next five years between our increasing demands and the supply of crude oil from wells. We are now close to the peak of possible production of crude oil and can expect a decline in that production in the near future. Conditions in the ground, beyond human control, limit the rate at which oil can flow from the reservoir sands into the wells, and some of the oil already discovered will not be brought to the surface until several decades hence. Within five or ten years from now, at the most, the United States will have to depend upon foreign oil fields for a significant part of its petroleum supplies. Fortunately, American interests now control about 57% of the world's total reserves of discovered oil.

Iron ores of the types now being mined are known to be present in the United States in an amount equal to more than 40 times the

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*Summary by Prof. Mather of his address at the University of Cincinnati, Cincinnati, O., April 2, 1948.

Schram Reviews N. Y. S. E. Strike

Tells members there has been no visible effect on operations and says demand of union shop and right of union to refuse to handle orders of member firms with which it has dispute are intolerable. Defends relationship with employees and notes increasing number returning to work. Four exchange firms picketed.

Emil Schram, President of the New York Stock Exchange, on April 4 issued the following statement pertaining to the strike against the Exchange: To members, member firms and branch offices:

"The strike against the New York Stock Exchange has been under way for a week, without any visible effect upon our operations or upon the business of our members or member firms. I wish to take this opportunity to make a brief report to our members and member firms and their offices on the status of the dispute and upon conditions which exist.

Emil Schram

"First, I would like to restate the basic issues involved in the strike. The union, which represents some 800 of our 1,300 employees, has made demands which the Exchange cannot meet. One of these demands is for a union shop. This would be an enlargement of the previous arrangement under which 'maintenance of membership' was observed. Reduced to its simplest terms, union shop means that an employee who is unwilling to join the union must be dismissed. The Exchange's position in this matter has been made plain not only to the union, but to the Federal mediation agency and to the public. The Exchange will never consent to a union shop. As a matter of rigid policy the Exchange has never discharged any employee for joining a union or for refusing to join a union.

"A collateral demand by the union, which really is of more importance than the union shop issue because of its effect upon the public, is that the Exchange consent to an arrangement under which the union could compel its members on the floor of the New York Stock Exchange to refuse to handle the business of the public customers of member firms with which the union might claim to have a dispute.

"Obviously, such a condition would be intolerable. It would affect some 600 firms with offices located in all parts of the United States.

"We have witnessed, in this past week, shameful incidents. There has been a deliberate exhibition of un-Americanism unparalleled in all the record of industrial disputes in this country.

"Communistic techniques were employed in the picket lines, where members of unions which had not the remotest relation to the Stock Exchange employee problems insulted employees and members of the Exchange. The vilest epithets were addressed to persons not involved in the present controversy. These techniques extended, of course, to the field of propaganda and we understand that the photographs which were taken at the time of the disgraceful lying down of the pickets in front of the Exchange building at 11 Wall Street, have been forwarded, and are being used for the purposes of Communistic propaganda in Italy and elsewhere abroad.

"We shall, from time to time, attempt to keep you abreast of developments here at the Exchange. We realize that the union, in its desperation, is attempting to extend its picketing to member firms and that every effort will be made to intimidate, annoy and antagonize our members, partners and their employees.

"The important fact at this moment is that the Stock Exchange continues to operate, and with a greater volume of business than we have enjoyed in a long time. Except for the annoyance of a boisterous and alien picket line, the Exchange is operating smoothly. That you know. Our members and member firms will not, I am sure, be demoralized by the un-American methods which are being employed. The situation is well in hand and we have more manpower than is really needed. It has been demonstrated that the Exchange can operate with the proficiency which the investing public is accustomed to expect from the New York Stock Exchange.

"Let me say one word here, in conclusion, and that is that we must not be confused or disturbed. We have a long record of harmonious relations with our employees, and I believe that this is true with respect to the relations of our member firms with their personnel. Our wages compare favorably with those in other industries, and I say this without taking into account the fact that floor employees work not more than 32 hours a week.

"It will be of interest, I think, that employees are returning to their jobs, as illustrated by these figures. Employees at work on Monday numbered 480; Tuesday, 463; Wednesday, 480; Thursday, 490; Friday, 497, and Saturday, 499.

"At the end of the first week of the strike against the Stock Exchange, it is gratifying to report that the week's volume, ended Saturday, April 3, was 6,650,890 shares with an estimated dollar value of $182 million. These figures are greater than the weekly average for all of last year. This is encouraging evidence that the public services of the Exchange have not been impaired. We will not allow these facilities to be impaired.

"I commend, whole-heartedly, the membership of the Exchange, the floor governors and floor officials, the 499 employees of the Exchange who are not on strike and, particularly, those allied members and their associates from the offices of our member firms who have performed, so efficiently, the work ordinarily done by the personnel now on strike. From all sides, there has been unreserved applause for a job conscientiously performed, with a precision, in some case, superior to that normally experienced."

Extend Picketing to Member Firms

Following the picketing of Shields & Co. on March 31, pickets were thrown around the buildings occupied by three other brokerage firms. These comprise Bache & Co. at 36 Wall Street, E. F. Hutton & Co., 61 Broadway, and A. M. Kidder & Co., 1 Wall Street. It is reported that at noontime on April 5, about 30 clerical employees of the A. M. Kidder firm quit work, but this and the other picketed firms reported no interruption to business. As the strike entered its ninth day, picketing was orderly and the trading volume on both the Stock and the Curb Exchanges was conducted under normal conditions. The officials of the New York Stock Exchange reported an increasing number of striking employees returning to work.

Holds Loss of Investor Confidence Underlies Downward Trend in Security Markets

Federal Reserve Bank of Chicago, taking note of recent stock price declines, says revival in security markets cannot be expected until investors feel awaited postwar recession has been experienced. Says new equity financing has become increasingly imperative.

According to an article in the current issue of "Business Conditions," a monthly review published by the Federal Reserve Bank of Chicago, the recent trend in the corporate securities markets is ascribed to lack of investor confidence, and until the long-awaited postwar recession has been experienced a market revival cannot be expected.

Text of Article

The full text of the article follows:

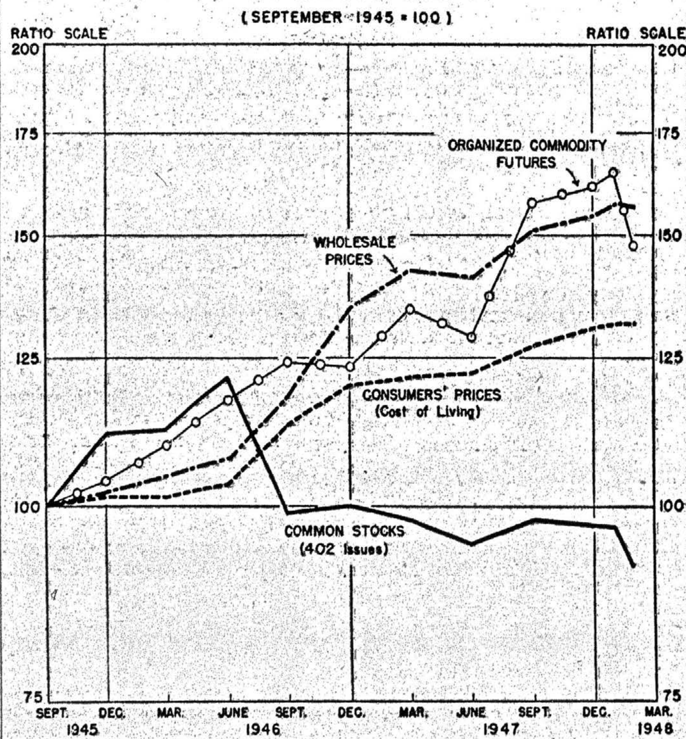
The sharp break in commodity prices during the past month with its depressing effect upon common stock prices is being interpreted widely as confirmation "at last" of the bearishness which had characterized security market price movements since the autumn of 1946. Common stock prices in particular have moved independently of inflationary general business trends. As a result the "stock market" has lost a good deal of its standing as a fairly specific means of forecasting broad changes in business activity, at least in terms of timing.

Few business analysts have questioned the eventual downturn implications of the persisting pessimism in the security markets, but there has been considerable difference of opinion as to the immediate prospects for the long-heralded "postwar recession" suggested in common stock price trends. It is still not clear whether recent price declines actually indicate that the tide of the inflationary battle finally has turned, but such sharp price breaks as recently experienced are a definite warning that many types of business adjustments are in the offing.

Continuation of price declines in commodity and security prices under present conditions, however, does not necessarily mean that such other business measures as employment, income and expenditures face similar drops In many sections of the Seventh District the recent price breaks are noted as "healthy," "long overdue," and "hope for consumers." To the extent that price and other adjustments are expected and provided for in business plans, they need not touch off a deep downward business spiral, particularly among the many Midwest industries which still appear to have strong demand prospects. The possibility that continued declines in commodity and security prices will have a cumulative unfavorable effect upon business expectations generally and induce unwarranted fears and liquidations nevertheless cannot be minimized.

Lack of investor confidence persists on all sides. Despite all-time records in—and at least up to now excellent short-run prospects for—most wholesale and retail sales, earnings, and dividends, security prices in general have remained within fairly narrow limits with frequent downward adjustments." Investors deem the risk of capital losses consequent upon possible declines in earnings as too great to offset short-run increases in income from higher dividends, particularly under existing high personal income tax rates. In spite of the still relatively large volume of funds accumulated in the past available for investment, it has become more difficult to raise money in the security markets during the past year and one-half. Nevertheless, a very large volume of successful security flotations occurred during the past year, primarily because of the exceptionally high financial standing of firms seeking new funds. In addition, firms requiring financial assistance, generally speaking, were able to meet their requirements from banks and other lending institutions when deterred from the security markets.

CHART I
COMMON STOCK AND COMMODITY PRICE TRENDS DIVERGE
V-J DAY TO DATE
(SEPTEMBER 1945 = 100)



Note: Index data are plotted quarterly through 1947, monthly thereafter; January and mid-February 1948 wholesale prices and consumer prices and mid-February 1948 common stocks are estimated.

SOURCES: U. S. Bureau of Labor Statistics, Dow-Jones & Co., and Standard and Poor's Corporation.

A "revival" in the security markets cannot be expected until investors collectively feel that the long-awaited postwar recession has been experienced. Prospects are clouded at present by weakness in commodity and security prices, the abundant supply of securities on the markets, the limited funds from current incomes available for security investment, and also the expectation that even continuing full employment conditions cannot bring higher earnings but rather only rising labor costs and declining profits.

Postwar Stock Price Trends

Common stock prices are generally regarded as being very sensitive to the numerous economic maladjustments which build up during periods of prosperity (inflation). As already noted, it is extremely difficult, however, to use this sensitivity as a barometer in forecasting the exact time at which prosperity (inflation) will give way to recession (deflation). For example, in 1929 and 1937, there was little or no difference in the timing of the downward movements of common stock prices and prices in general. After World War I, on the contrary, common stock prices fell sharply in the fall of 1919 followed some nine months later by wholesale and retail prices.

The current postwar patterns of common stock and other prices have exhibited unusual variance (see Chart 1). The months immediately following V-J Day witnessed an acceleration in the up-

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Our Natural Resources: Are We as Rich as We Think?

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average annual production of recent years. We have already receded from the peak production of 105 million tons during 1942 and the average annual production for the next several years will probably be in the neighborhood of 80 million tons. In addition there are potential iron ores that can presumably be made available by the application of new methods resulting from research now going on. These total many hundreds of times our annual needs.

Much of the same is true for aluminum. Exploration for bauxite, the best ore mineral for aluminum, has more than doubled our known reserves since 1941. We now know that the United States possesses such ores in an amount equal to nearly 40 times our current annual extraction of them. Again, there are vast quantities of potential ore which can be confidently expected to become available when needed, as a result of scientific research and its technological application.

Apparently, therefore, the United States is not faced by imminent exhaustion of any of its vital mineral resources. If a dynamic program of research and exploration is vigorously pursued, the materials necessary to supply our needs for future centuries will be forthcoming.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government securities markets are under the influence of professionalism and selective buying by investors, which has moved prices in a narrow range, with bursts of activity in individual issues being in evidence from time to time. . . . Quotations have receded on dullness, largely because dealers have quoted prices down. . . . On the other hand, as investors come into the market with declining prices, both volume and quotations immediately pick up. . . . Investors are interested in acquiring specific securities and are doing just that at prices they consider attractive. . . . A constructive attitude is very much in evidence in the government market. . . .

Despite some hesitation among investors and traders because of the absence of clear-cut ideas on short-term rates there continues to be a fairly important movement into the distant maturities, with the bank-eligibles now getting somewhat more of a play than the ineligibles. . . . The partially-exempts are among the favored issues, with the 2½s due Sept. 15, 1967/72 leading the eligible bonds. . . .

RESERVES

Adjustment in reserve positions of banks goes on because of the transfer of funds to the Federal Reserve Banks, but the member institutions are using short-term Treasuries to meet these demands. . . . For the week ended March 31 the Central Banks showed no increase in their holdings of government bonds, due in more than five years, which is the first time this has taken place since Nov. 19, 1947, which was shortly after stabilization of prices of long Treasuries was undertaken by the monetary authorities. . . .

Although the member institutions are getting rid of bills, certificates and notes to meet the squeeze from tax payments, near-term maturities of bonds are also being used in the operation. . . . It is indicated that rather sizable amounts of the 2s due 1949/51 and 1950/52 have been tossed into Federal to meet reserve requirements because these securities are running off premiums quite rapidly. . . . Of course, the larger return available in the longer maturities has something to do with the retention of these obligations in portfolios. . . .

CORPORATES

Sizable orders for long-term high-grade corporate bonds are in the market with inquiries coming from all sections of the country although the southwest and far west seem to be the more aggressive inquirers. . . . It is reported that banks and non-deposit institutions are acquiring these securities. . . . Some liquidation of governments is indicated in the building up of positions in corporate obligations. . . .

MARKET OPERATIONS

Out-of-town banks continue to add to their holdings of the intermediate and long eligibles, with their large city correspondents apparently handling the bulk of this business for them. . . . The shorter bonds are being switched by the out-of-town institutions as the more distant maturities, with the smallest premium, are being acquired in place of the near-term issues. . . . These reinvestments and new money purchases are being made, according to advices, as part of a program to replace some of the issues that had been sold for protective purposes. . . .

Some commercial bank buying of intermediate maturities of high-grade municipals is going on with these institutions evidently going into state issues instead of partially-exempt Treasuries. . . . Trust companies and insurance companies are also reported to be moving into the more distant maturities of municipals. . . . This buying explains in some measure the recent strength in tax-free issues, which has spread from governments to municipals or vice versa depending upon how one wants to argue the situation. . . .

CERTIFICATE RATE

Considerable discussion goes on over the certificate rate, whether it will be held at 1⅛% or be allowed to move up to 1¼%. . . . Opinion seems to be rather evenly divided as to what is likely to happen, with the supporters of no change in rates pointing out that until the effects of domestic and international developments are clearer, the status quo will prevail. . . .

There are many that apparently would not be too much concerned even if the rate on certificates should be upped to 1¼% since they believe that issues due from 1951 on, have pretty fully discounted any change in short-term rates. . . . If weakness should result they believe it would be temporary and would be a good buying opportunity. . . .

FAVORITES

Interest in the partially-exempts continues sizable with the 2¾% due 1960/65 being taken on by many banks because of the favorable tax-free yield. . . . Purchases of the longest exempt Treasury are being made by deposit institutions that prefer it to the 2½% due Sept. 15, 1967/72 because the maturity is shorter and the tax-free yield larger. The latter features more than compensate for the higher premium involved. . . .

Savings banks continue to nibble away at the ineligibles with the 2¼s due 1959/62 still the most-favored issue. . . . The 2s due 1952/54 are being acquired in a quiet way by certain savings institutions as well as some of the large commercial banks. . . . Completion of a good-sized switch from the 2½s due 1956/58 into the 2¼s due 1956/59 and the 2½s due Sept. 15, 1967/72 is reported, with the 1956/58s apparently going largely to middle-west banks. . . .

Some Economic Aspects of The International Situation

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of East and West which may prevail over political pressures.

There is danger that Americans, in their natural concern about the "cold war," may act to cut off the exchange of goods between the Western nations and Eastern Europe, including the Soviet Union. Certainly, it makes sense to prevent exports which are required for ERP or other necessary purposes, or which would increase the military strength of the Soviet bloc relative to that of the West; but such restrictions should be applied with care, for Western Europe, and the United States, too, obtain valuable materials from Russia and her satellites. It is worth remembering that even during the war, contacts between the Allies and Germany were not entirely cut off. Prisoners were exchanged, and the Allies even got a few strategic materials from behind the enemy lines—such as jewel bearings for airplane instruments from isolated Switzerland, and special silk bolting cloth from Northern Italy. The neutral countries in Europe were allowed to import food and raw materials, which doubtless contributed in some ways to those countries' exports to enemy nations—but the reciprocal benefits were well worth the risk. I believe similar criteria must be used now to weigh the relative advantages and disadvantages for Western Europe of each transaction.

Retarding Germany's Economic Revival

The third problem retarding European recovery has been the slowness of Germany's economic revival. Germany, and the Ruhr in particular, has long been the heart of the European economy. The continued low level of German production has made it impossible for the neighboring countries to obtain adequate supplies of coal, steel, chemicals and machinery, or to sell food, raw materials and manufactured products in the German market. Even apart from the physical destruction caused by the war, German recovery was hampered by the widening split between East and West and the growing confusion, indecision and insecurity of Four Power administration. The recent unification of the western zones and their integration into the ERP increases the hope that this area may once again become a functioning part of Europe's economy. These developments represent a great concession on the part of the European countries, a major victory over their natural fears, for the memory of Nazi aggression is still fresh in their minds.

The fourth blow to the progress of European recovery came with the failure of sterling convertibility last July. The weakness of the British pound and the acute shortage of dollars elsewhere made it impossible for Britain to keep on giving dollars to holders of pounds for more than a few days; the old restrictions had to be reimposed. Thus, one of the chief objectives of the British loan of 1946 had to be abandoned and the dollar shortage in other European countries became even more acute.

The effect of these developments was to set back production and prevent a revival of the normal flow of commerce, upon which Western Europe, more than any other area of comparable size, is dependent. It has proved to be a much simpler task to repair physical damage than to restore the delicate nervous system of trade, within Europe and with overseas areas, which took so many years to develop. One of the chief aims of ERP must be not only to restore Western Europe's capacity to produce, but also to bring about a real revival of its commerce—which requires vigorous action by the European countries themselves to lower customs barriers, remove other trade restrictions and stabilize currency values. None of hese steps is impossible, but they all require time, and they are intimately tied up with the restoration of production and internal stability in the various European countries.

Economies Closely Related

The economies of all these nations are closely related. Recovery may proceed at a different pace in different countries, but basically the recovery of each depends on the recovery of all; that is why Western Europe must be reorganized as a whole. Individually they cannot achieve a stable economic balance; collectively their assets are enormous and their prospects hopeful. Indeed the main reason for giving them aid lies not in their weakness but in their inherent strength.

In saying this I do not mean to suggest that success of the ERP is assured. Approval by Congress is only the first step. The hardest part is still to come. Far-reaching measures of economic unification and reform will have to be taken in the participating countries—measures to stabilize their currencies and financial affairs, to stem inflation, to get rid of inefficient business and labor practices that have grown up over many years, to lower trade barriers and eventually to achieve an economic union. Many vital aspects of the Program will be unpopular; some will injure strong and articulate vested interests; and all of them will be misrepresented by its opponents. The first fresh enthusiasm for the Program is sure to wane, even among its strongest supporters, as unforeseen problems arise and optimistic hopes are not always fulfilled. It will not be easy to keep alive, through four years of hard work and austerity, the high purpose and sense of urgency which have brought about such encouraging action during the past few months. It will be hard to keep the administration of the Program keen and vigorous, free of entangling red tape and unimaginative routine. It will often be hard also to prevent the necessary international negotiations from bogging down in petty haggling.

European Unity Essential

Public support in Europe, and also in the United States, must therefore be focussed upon a single common aim which is emerging with growing clarity—to provide a firm economic base for real European unity. The Recovery Program must be so planned and administered as to serve as a constant incentive and means of persuasion toward this end. That is its great hope and its great promise.

The ideal of European unity has inspired philosophers and statesmen since the Middle Ages. The present crisis, if it provides the pressure needed to make this ideal attainable, may yet be judged a blessing in disguise.

It is in Europe that the basic issues we face today are posed in clearest and most urgent form, but Europe's problems cannot be solved apart from the rest of the world. The ERP countries cannot be self-supporting unless they can sell their products abroad, and buy the food and raw materials they need from Eastern Europe, and from Latin America and Asia, as well as from the United States and Canada. So long as the ability of these areas to produce and to buy is crippled by economic or political disintegration, the foundations of Europe's economy — and the American economy as well—will remain insecure.

European Recovery of Worldwide Benefit

But the fact is that Europe and the rest of the world are so interdependent that the European Recovery Program is also a Latin American Recovery Program—and to a lesser extent also a Recovery Program for the Far East, the Middle East, and Africa—for only through recovery in Europe can international economic stability be restored. Revival of European production and buying power will benefit these other areas at once by increasing supplies of the manufactured goods, especially capital equipment, which they need, and by restoring a principal market for their exports.

The benefit in some cases is even more direct: the ERP as presented to Congress envisages very large "off-shore" purchases—that is, purchases from other countries than the United States. Of the $5.3 billion approved by Congress for the first year of ERP, it is estimated that some $2 billion will be spent outside the United States, mainly in Latin America. These funds will be used to buy grain from Canada and Argentina, sugar from Cuba, fats and oils from Brazil, oil from Venezuela and the Middle East, nitrates from Chile, and the other products needed for a modern economy. Not only will this relieve the pressure on American supplies, but it will provide the other supplying countries with the dollars which have now become the principal medium of world trade. The dollars spent abroad will all flow back to the United States eventually, but in the course of their wanderings they will irrigate the parched economies of many areas.

The urgent and critical nature of this problem of reconstruction is reflected not only in the ERP, but also in the fact that all but one of the loans so far made by the International Bank have been to European countries. In the long run, however, the other aspect of the Bank's responsibility—that of promoting economic development —is even more significant. The world can achieve and maintain a stable economic balance only if the volume of production and trade is considerably higher in the years to come than it was before the war; and that will be possible only if the productive capacity of less advanced countries—in Latin America, in the Middle and Far East and in the colonial areas of Africa—are much more fully developed.

What World Bank Is Doing

For the past few months the International Bank has been exploring rather extensively the needs and possibilities of international economic development. The needs are shown in the low living standards, the inefficient methods of producing and distributing goods, the waste of manpower and resources which characterize economic life in most of the world. We know from experience that these conditions could often be much improved by realistic use of capital, modern technical knowledge and management techniques, and proper training for workers. Possibilities for development exist in almost every country; arable land can be extended through irrigation; crops can be greatly increased by fertilizers and better tools—even by such a simple improvement as substituting steel plows for primitive pointed sticks; the output of consumer goods can be expanded by developing simple industries; more coal and other minerals can be produced by mechanizing some of the mining processes. All these improvements will contribute directly to higher living standards in economically backward countries, and to larger and more stable world trade.

Communist propagandists have built up a vociferous following in many underdeveloped countries by painting a Utopian prospect of potential advances under a Communist regime and by assailing the actions and motives of private capital, and foreign capital in particular. But sound economic development cannot be achieved merely by wishing for it, nor by adopting some attractive ideology. It requires hard work, realistic thinking, and the establishment of local conditions which make for economic stability and provide an incentive for productive investment. Sound development in Latin America, Asia or Africa today depends basically on the efforts of the people of those areas —just as the development of the United States was mostly the work of Americans. But imported capital and technical experience can help to make the process easier and faster, as it did for the United States a century ago.

Development of economically backward areas is not a matter of concern to those areas alone; it is no less important to the long run well-being of the United States. This country as the greatest economic power in the world has a vital interest in developing more abundant sources of supply for the materials it needs and wider markets for the goods it has to sell. Moreover, sound and productive investments should pay dividends directly if the world can be established and maintained on a fairly even keel.

An Historical Parallel

I have been struck by the parallel between the position of the United States today and that of Great Britain in the years after the Napoleonic Wars. British industry was then much farther advanced than that of any other country. The Royal Navy's domination of the seas made it possible for production and trade to develop abroad in relative safety. Britain's political interests were best served in general by support of freedom-seeking elements abroad. And perhaps most important of all, her exports of capital started the development of agriculture, railways, mines and factories on the European continent and in America, Asia and Africa, and sparked local initiative to continue the process. British management and technical "know-how" were exported to every corner of the world, and stimulated the growth of local inventiveness and organizing capacity.

The political and social consequences of the extraordinary economic growth were equally important. The conditions under which it took place encouraged individual initiative and permitted increasing personal freedom. The phenomenal growth of production and trade inspired confidence in the soundness of liberal ideas and institutions, and faith in the certainty of social progress. International conflicts were localized and peace settlements were moderate, since it was in the interest of all to get back to business as quickly as possible. There developed an increasing complex fabric of collaboration among individuals of all nationalities, across national frontiers. A growing community of interest seemed to be in formation, until it was disrupted by the parallel growth of political nationalism.

If peace can be preserved it may not be too much to anticipate a new spurt of development comparable in magnitude to that of the last century, with similarly impressive political and psychological benefits.

The conditions of international development, of course, are not the same today as they were then. It is now a more difficult undertaking in many ways; it involves heavier investments and greater risk of loss; it is hampered by the self-conscious nationalism of most underdeveloped countries and by much wider government intervention. But the sums available for development now are much greater than they were in the early 19th century, and our economic and technical knowledge has advanced enormously.

What Will Be the Role of the Bank

We who are connected with the International Bank hope to play an important and constructive role in this process. All of you, no doubt, have read and heard a good deal about the Bank, and I shan't go into much detail about its work. But there are one or two aspects of its set-up and operations that seem to me to be of particular interest.

In the first place, the Bank is an international institution owned by the 46 member governments. Unlike some other international bodies, however, it has the power to take action and not merely to make recommendations. It has funds of its own to lend, and the authority to borrow more. Its staff is international, with members from 23 different countries, but in their work they owe no responsibility to their respective governments—only to the Bank itself. A Board of 14 Executive Directors, each representing one or more of the member governments, sets the policies and passes on major decisions, but the initiative in all operations is taken by the Bank's international staff. Decisions of the Board are made by majority vote, each director having a different number of votes depending on the amount subscribed to the Bank's capital by the nation or nations he represents. So far, however, we have had no dissents; the Bank's staff has received wonderful support from the directors of all nationalities.

Another important aspect of the Bank is its method of financing. It will draw on private investment funds for most of its loanable resources by selling Bank bonds, with all member governments guaranteeing these bonds to minimize the risk to private investors. To be more precise, the system works this way: All the member governments have subscribed to the Bank's capital in varying amounts according to their means. The total of these subscriptions is something over $8 billion, of which the United States share is little more than $3 billion. But only 20% of each country's subscription had to be paid in, of which one-tenth, or 2% of the total, was payable in gold or dollars and the rest in the respective local currencies. In effect the capital funds immediately available for lending are confined to the 2% paid by all members in gold or dollars plus the 18% paid in dollars by the United States, a total of about $730 million. The other 80% of the capital subscription provides the guarantee fund for private buyers of Bank bonds.

By this kind of arrangement it is possible to channel private capital into international investment on a broad scale and a sound, well-informed basis. The government guarantee makes our bonds good investments, even for relatively small or cautious investors. And the necessity for our going into the market for the major part of the Bank's funds helps to ensure that we won't stray very far from economic realities.

The third point that I'd like to stress about the Bank is the advantage it derives from its international character. It is not an arm of any government, but is responsible ultimately to all 46. Its loans are made, therefore, on an objective, non-political basis, taking into account not only the profitability of the particular project it is asked to finance but the effect of the loan on the borrowing country's economy as a whole and relevant international factors as well.

At the same time the Bank has greater prestige and authority than any private institution could have; since its interests are identical with those of its members the latter have confidence in its objectivity. The Bank is therefore in a strong position to insist on conditions necessary not only to safeguard its loans, but also to make them effective—conditions which might be resisted as an invasion of sovereignty if they were imposed by another government or by private investors.

The Bank cannot and does not expect to carry the main burden of financing development. The principal contribution must come, of course, from capital resources right within the country concerned; and one of our main aims is to have underdeveloped countries make effective use of local funds and increase the rate of savings for productive uses. Even for international financing the Bank is no substitute for private capital. On the contrary, our purpose is to blaze the trail for private financing. By reducing some of the risks which now inhibit international lending and investment, we hope to start private capital flowing in amounts far greater than we could hope to provide.

Position of U. S.

I should like, in conclusion, to stress one point which I believe has been implicit in all I have said tonight. The United States occupies a position of unparalleled wealth and power in the world today, and has become for millions of people the only hope of escape from growing misery and ultimate chaos or enslavement. This preeminent position imposes a tremendous responsibility upon Americans, a responsibility which we cannot properly discharge unless we face today's crucial issues calmly and realistically. The isolationist's complacency and the sentimentalism of the world-wide welfare worker are equally immature and dangerous. To get through this troubled period into a new era of peaceful growth and prosperity will require American leadership of unusual quality, backed by an alert and intelligent public opinion. There are some who believe that democracy is too decadent, too divided, too indecisive to compete effectively with the newer totalitarian religions. I, for one, do not believe it. We need to reaffirm the ideals and purposes that we have sometimes taken too much for granted for it is in its democratic faith, even more than its physical power, that the strength of America lies.

Two With Goodbody & Co.

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Miles F. Gray and Edward G. Mathews have become associated with Goodbody & Co., 137 Brevard Court. Mr. Mathews was previously with Merrill Lynch, Pierce, Fenner & Beane and J. S. Bache & Co.

With Interstate Securities

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—James E. Henley has become affiliated with Interstate Securities Corporation, Commercial Bank Building.

The State of Trade and Industry

(Continued from page 5)

last week rather than the scheduled rate of 89.4%. A month ago the indicated rate was 96.6%.

This week's operating rate is equivalent to 1,521,300 tons of steel ingots and castings as against 1,591,600 tons last week, 1,741,200 tons a month ago, 1,661,200 tons, or 95.1% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

FREIGHT LOADINGS FALL 5.2% FOR WEEK DUE TO COAL STRIKE

Loadings for the week ended March 27, 1948, totaled 664,375 cars, according to the Association of American Railroads. This was a decrease of 36,107 cars, or 5.2% below the preceding week, due to labor difficulties in the soft coal fields. It represented a decrease of 165,017 cars, or 19.9% below the corresponding week in 1947, and a decrease of 144,767 cars, or 17.9% below the same week in 1946.

ELECTRIC PRODUCTION AFFECTED BY INCREASED DAYLIGHT

The amount of electrical energy distributed by the electric light and power industry for the week ended April 3, 1948 was 5,036,788,000 kwh., according to the Edison Electric Institute. This was 27,767,000 kwh. below the output for 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, 343,733,000 kwh., or 7.3%, in excess of output for the week ended April 5, 1947, which latter week was 35,830,000 kwh. lower than the figure for the week ended March 29, 1947. Two years ago, the corresponding week showed a decline of 4,610,000 kwh. from the previous week. The peak was reached in the week ended Jan. 24, 1948 when 5,436,000 kwh. were produced.

AUTO OUTPUT DIPS FOR SECOND WEEK DUE TO CUTBACKS AND MODEL CHANGEOVERS

Production of cars and trucks in the United States and Canada declined last week to an estimated output of 104,046 units, "Ward's Automotive Reports" states. This compares with a revised total of 107,284 units in the preceding week and 97,385 units a year ago.

The breakdown in last week's output was as follows: 69,591 cars and 29,586 trucks from U. S. plants and 2,580 cars and 2,289 trucks produced in Canada.

The slump in auto production was again attributed by "Ward's" to a cutback in schedules by Ford to permit a changeover to 1949 models.

The coal strike imperils the April outlook for the auto industry, and if the mine stoppage continues through next week serious consequences will follow, "Ward's" warned.

It also added there is no verification of rumors that the automotive industry is receiving sizable war orders, asserting there is no evidence of even small-scale activity along this line.

BUSINESS FAILURES OFF FOR SECOND CONSECUTIVE WEEK

For the second consecutive week, commercial and industrial failures fell off in the week ending April 1, dropping below 100 for the first time in five weeks, states Dun & Bradstreet, Inc. A total of 91 concerns failed as compared with 101 in the preceding week, 71 in the corresponding week of last year, and 19 in the same week of 1946. In the comparable week of prewar 1939, 295 concerns failed with probable loss to creditors.

Failures involving liabilities of $5,000 or more continued to predominate and accounted for 79 of the week's total of 91. Although declining from 87 a week ago, these casualties exceeded the 53 occurring in the same week of 1947. Small failures with losses under $5,000, on the other hand, were even less numerous than last year, totaling 12 against 14 in the previous week and 18 a year ago.

Retail trade had the most failures during the week, increasing from 36 to 38, almost twice the 21 reported in the corresponding week of 1947. Most of the week's decline was concentrated in manufacturing, off from 35 last week to 23, but fewer than a year ago when 29 failed. In other industry and trade groups the mortality rate remained low.

The Pacific States continued to have the largest number of failures, although declining sharply from 34 last week to 24. A slight increase occurred in both the Middle Atlantic States and the New England States.

FOOD PRICE INDEX CONTINUES MODERATE RISE

Although individual price movements were mixed, the Dun & Bradstreet wholesale food price index rose three cents for the third successive weekly gain to stand at $6.75 on March 30. This represents an advance of 2.1% over the March 9 low of $6.61, and a rise of 4.7% above the comparative 1947 figure of $6.45.

Commodities rising during the week were flour, wheat, corn, lard, butter, sugar, cottonseed oil and steers, while declines were shown for rye, oats, barley, beef, hams, bellies, cocoa, eggs, potatoes, hogs and lambs.

COMMODITY PRICE INDEX RISES FURTHER IN LATEST WEEK

The Dun & Bradstreet daily wholesale commodity price index moved steadily higher last week, continuing the upturn noted in the closing days of the previous week. The index figure advanced to 283.52 on March 30, from 278.47 on March 23. On the corresponding date a year ago it stood at 265.81.

Grain price movements were irregular with wheat scoring impressive gains and corn rising moderately over closing quotations of a week ago.

Strength in the bread grain stemmed from reports that the PMA was in the market for large quantities of flour for export, announcement of further sizable purchases of cash wheat by the CCC and continued light country offerings of all grains. According to a Department of Agriculture report, the government purchased 7,315,683 bushels of wheat last week, in addition to 40,390,000 pounds of flour—the equivalent of about 900,000 bushels of wheat.

Weather conditions in the Southwest were reported favorable for Winter wheat but the expected expansion in country offerings failed to materialize despite large quantities of wheat said to be still held on farms.

In the cocoa market, buyers were cautious and the trend in prices was lower, reflecting disappointing pre-Easter sales and uncertainty over prospective domestic consumption. Livestock values were easier as the result of continued liberal market receipts. Demand for lard was comparatively slow and prices finished slightly higher following a mid-week decline.

Strength in spot and nearby contracts featured the raw cotton market the past week. The New York spot quotation showed a net advance of about one cent a pound in the week. Trading was moderately active and total sales in the ten spot markets amounted to 81,900 bales, compared with 80,600 the previous week and 104,800 in the same week a year ago.

Inquiries for spot cotton were somewhat less numerous and mill buying was slower.

Medium and better qualities of cotton were in fairly good demand but lower qualities moved in limited volume with some shading of prices noted. Crop preparations were said to be making poor progress in central and eastern sections of the belt. Ginnings from the 1947-1948 cotton crop were placed at 11,548,929 bales, according to the Bureau of the Census. This represented a rise of 35% over the previous year and is the largest for any year since 1944. Although sales volume remained at a comparatively low level, there were signs of a better feeling in the carded gray cotton cloth market at the week-end. Inquiries for nearby and forward print cloths were more numerous and prices showed a steadier tone.

Demand for domestic wool continued active in the Boston market last week but trading remained spotty and turnover was limited due to lack of supplies of good length fine worsted and woolen types. Contracting in the western range States was reported at a virtual standstill. In foreign primary wool markets, new purchases were at a minimum due to the unstable price situation.

RETAIL AND WHOLESALE TRADE REFLECTS HIGHER VOLUME FOR WEEK AND YEAR

The dollar volume of retail trade was at a very high level during the first three days of the period ended last Wednesday. Aided by excellent shopping weather in most sections of the country total dollar volume was well above that of the previous week and moderately to well above that of the corresponding week a year ago, Dun & Bradstreet, Inc., reports in its current survey of trade.

Consumers purchased large quantities of special holiday items.

Volume declined noticeably in the three days after Easter, though clearance sales met with fair response.

Millinery departments were crowded and gloves, handbags and lingerie were in heavy demand. Interest in shoes was much greater than in many previous weeks. Women's Spring dresses and topcoats sold well and milder weather resulted in an increased demand for lightweight clothing. Blouses, handkerchiefs and scarfs were popular items. Requests for children's clothing and accessories were also numerous.

Retail food volume was very high just before the holiday. The demand for meat, especially hams and poultry was heavy.

Fresh fruits and vegetables were bought in large quantities. Milk, butter and other dairy products sold well. There was the usual heavy seasonal demand for confections and bakery products. The supply of most types of foods was abundant.

The warm weather stimulated consumer interest in garden tools, paint and house-cleaning supplies. Interest in used automobiles rose noticeably.

Consumer demand for new automobiles and branded major appliances remained at the high level of previous weeks with some improvement in the supply of these items noted.

Retail volume for the country in the period ended last Wednesday was estimated to be from 11 to 15% above that of a year ago. Comparisons are affected by the fact that Easter was on April 6 last year. Regional estimates exceeded those of a year ago by the following percentages: New England and Northwest 9 to 13, East 14 to 18, South 12 to 16, Middle West and Southwest 10 to 14, and Pacific Coast 8 to 12.

A slight drop in wholesale activity in the few days immediately preceding Easter was counteracted by a noticeable rise in wholesale volume during the three days following the holiday.

Total dollar volume in the period ended last Wednesday was slightly above that of the previous week and close to the high level of the corresponding week a year ago. The number of buyers registered at wholesale centers increased considerably as retailers sought to replenish stocks depleted during the pre-Easter selling week.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended March 27, 1948, increased by 17% from the like period of last year. This compared with an increase of 9% in the preceding week. For the four weeks ended March 27, 1948, sales increased by 9% and for the year to date increased by 7%.

Here in New York the past week retail trade showed signs of a downward reaction in volume following a brisk Easter shopping period. Compared with the final period of Easter trade last year, department store volume for the week was estimated at 10 to 15% below one year ago.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to March 27, 1948, increased 17% above the same period last year. This compared with an increase of 9% in the preceding week. For the four weeks ended March 27, 1948, sales increased by 9% and for the year to date by 7%.

Van S. Trefethen Now With Shuman, Agnew

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Van S. Trefethen is now associated with Shuman, Agnew & Co., 155 Sansome Street, members of the New York and San Francisco Stock Exchanges. He was previously with Bacon & Co. and Mitchum, Tully & Co.

With Clifford J. Murphy

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ME.—Joseph P. Rand has been added to the staff of Clifford J. Murphy Co., 443 Congress Street.

With Keenan & Clarey, Inc.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Karl F. Hermann has become affiliated with Keenan & Clarey, Inc., National Building.

As We See It

(Continued from first page)

manded by the politicians and the military men must be granted at whatever sacrifice may be necessary.

In short, the country, if it has not become definitely war minded, has at least become very positively defense minded. It is a serious, even a dangerous situation. Last week in these columns we undertook to review briefly some of the international factors in light of cold realism, and to ask certain questions which we believed that the public should ponder with much greater care and independence of mind than it was (or is) apparently doing. There are a number of corresponding matters here at home which appear to us to be getting too little and too uninformed attention. To begin with perhaps one of the less important aspects of these matters, it often appears to us that we are being unnecessarily frightened, or are unnecessarily frightening ourselves, about our alleged defenseless position at the present time. For one thing, there is too great a disposition, we believe, to compare our existing military strength with that armada of men and materials we were able to put into the field at the peak of our wartime strength.

Weakness a Relative Term

Of course, the number of guns, tanks, planes, ships, men and all the rest we can now put in the field is almost infinitesimal compared to those which made us the mightiest nation on the globe when all other nations were likewise at their maximum fighting strength. But of what real significance is such a fact? In the final analysis, we are weak or strong internationally depending not only upon our own strength but upon the strength of other nations with which we must compete or which we may conceivably have to fight. Once this fact is fully realized, the silliness of describing any of our services as third, fourth or fifth rate is obvious. There can be no question that on any reasonable basis of comparison we are, with Russia left out of the picture, by far the mightiest nation on the globe whether immediately mobilizable or potential strength is taken as the criterion.

Russia unquestionably has many more men under arms at this moment than do we. These forces without doubt have much more material immediately available to them than do ours. What is more, they have their forces deployed where they could strike with (for Russia) strategic effectiveness. To be specific, the Kremlin, so far as our opposition is concerned, could overrun much, if not all of Western Europe, the Near and Middle East and a good deal of the Far East without a great deal of difficulty. But we should do well to remember that all this is for the most part inherent in the geographical position of Russia, or at least within her grasp almost regardless of what we do. We should likewise be well advised to bear in mind the fact, which we may be certain Russia has not forgotten, that such steps on the part of that country would not end the war, but would merely start it, and that the final conclusion would turn on other factors, the extended position of the Soviets being, doubtless, "somewhere between a hindrance and a help."

More Important Aspects

There are, of course, other and even more important aspects of this situation. The implications which seem to be embodied in some of the alarmist tales that Russia with her large, mobilized strength could, if we are not mindful of our dangers, march across this fair land, or fly across it, leaving our industrial and other centers in much the condition in which Stalingrad, Berlin, Bremen, and the rest found themselves before the end of the last war, are at this writing at any rate simply ridiculous. Apart from an unknown number of submarines, largely of German origin, the Russians have no navy of any consequence. The nearest part of the United States is thousands of miles away from any important military point in Russia with vast expanses of ocean between. The Russian air force, whatever its numerical strength, is almost certainly obsolete even by our 1945 standards and, except for what they may have accomplished since the war, which can not be very great, was designed for purposes quite foreign to attack upon an enemy thousands of miles away.

The "early reverses" which our military men are now saying would be inevitable in the event of a war with Russia in the early future, are almost inevitable at any time, now or in the future, so far as our stopping them alone is concerned. What we must see to is that we are prepared to win such a war—if, indeed, we really must fight it. Such a war would be won by the nation with the most advanced implements and with the greatest potential for making them, upon the assumption of course that such a nation has the men with the required technical skill to operate as well as to make such weapons.

What Have We Accomplished?

Now, what we have been doing since VJ-Day as regards keeping our lead on Russia—or any of the others she now has to draw on—is naturally not for the world to know. There are all varieties of current gossip and rumor on the subject—all the way from grotesquely unimaginable devices capable of doing what no mechanism ever did before to stories that we have really accomplished little apart possibly from drawing board miracles. We can only say that if we are as badly off as many of these reports would have us believe, then, in view of the staggering funds that the people have handed over to the services in the interim, a number of impeachments or courts martial are in order.

One may well doubt whether we have been as neglectful as thus indicated, of course; but in any event the remedy for such a default is not more money, not more controls, not more "draft," but a course of action quite different.

New and Imponderable Questions In Credit and Fiscal Policy

(Continued from page 2)

to be moved up another notch? Or, if deficit financing seems a possibility, will the Treasury become uninterested in keeping bond prices down and in increasing short-term interest rates? These are some of the things that came to my mind as I tried to crystallize the subject matter of my talk before you today. I would like to be able to say that I have the answers but I do not. Moreover, some of the possibilities and questions which are before us are of sufficient profundity that a change in conclusion with respect to even one, or possibly two, could cause an answer previously given to take several diverse directions or even to be reversed.

Importance of Public Debt in Our Economy

I believe, however, that the importance of the Public Debt to our economy, the degree of priority which is given to debt reduction over tax reduction, and the impact of Public Debt transactions on the budgetary position of the Treasury make it appropriate for me to use this occasion to relate certain aspects of the Public Debt to these matters. The relationship is of fundamental character. The points which I shall discuss are technical but I hope to keep them from being unduly so. I believe we must reduce the Public Debt, but in determining the amount of debt reductions, either in correlation with tax reductions or for purposes of affecting business conditions, we have to understand the composition of the Public Debt and we should make distinctions with regard to it which have not been customary.

Because of the character of some of the debt, and the effect which it has on the Treasury's cash receipts and expenditures, we must carefully distinguish between the two budgets of the Government — the administrative budget, the one which receives the publicity, and the cash budget which reflects the net cash transactions of the Treasury. As a corollary to debt reduction, I shall comment on the interest burden. If we hope to reduce this cost we are due for disappointment.

Finally, I wish to question the desirability of offerings, by the Treasury to professional investors, of non-marketable, redeemable Treasury securities. I am not referring to Savings Bonds, although these involve serious questions of public policy. My question concerns offerings to professional investors. The precedent for a future policy of offering non-marketable bonds in preference to offering marketable issues was set in September, 1947. The seed of this precedent could become a major threat to the free enterprise character of American finance and industry.

In discussing the total of the Public Debt it is customary to use the total as it appears in the Treasury Daily Statements. I believe we should keep in mind that this figure includes a substantial amount of Treasury obligations which are held by the various Government corporations, trust fund and agency accounts. E.g. as of November 20 last, the Total Public Debt appeared in Treasury Daily Statements as $258 billions. $34 billions represented the investments of Government accounts.

As you know, such sizable holdings of Treasury securities within the Government is a relatively new development. Moreover, their total seems destined for substantial increases as time goes on. It, therefore, becomes more and more necessary for us to make distinction between the part of the Debt which is held within the Government, and the part which is held by others. Particularly, as we reduce the total.

I wish to make this distinction clear by definition and by term. The total Public Debt is the sum of the Government's direct obligations. It includes $34 billions held by Government accounts. The remainder of the debt I shall refer to as the Publicly-Held Debt. This includes both the marketable and non-marketable obligations held by all other than the Government corporations, trust funds, and agency accounts.

The bulk of the holdings of the Government corporations are in Special Issues. These are non-marketable obligations which flow back and forth, and in so doing affect either the Total Debt or the amount of the Publicly-Held Debt.

The economic impact of reductions in, or increases in the Total Debt is caused primarily by changes in the Publicly-Held Debt. Differences, between the changes in the Total Debt and that Publicly-Held, usually may be accounted for by the surplus or deficiency in the current accounts of Government trust funds, agencies and corporations.

If one assumes that the Total Debt does not change, then any increase in the Treasury security investments of the Government funds, etc. will be reflected into a decrease in the Publicly-Held Debt, or vice versa.

An increase in the Total Debt may not mean an increase in the amount of the Publicly-Held Debt.

A decrease in the Total Debt may well cause a greater decrease in the Publicly-Held Debt.

Changes in the composition of the Debt, either as to ownership or by character of issues (which sometimes restricts ownership) may be of equal or greater importance than changes in the Total Debt.

It may be helpful to examine the composition of the Total Debt as of November 30 last. Of the $34 billion held by Government accounts, about $4 billion represented issues which had been offered to the public, and $30 billion represented Special Issues. For our purposes, we can assume that the entire $34 billions were of the Special Issue variety because, if these obligations were sold for reasons other than a need for funds, Special Issues would be given in exchange.

$220 odd billion of the Total Debt was Publicly-Held. About one-fourth of this amount was in the form of non-marketable issues, preponderantly Savings Bonds. The election as to the redemption of these securities rests with the holder. Unless such bonds mature, or the holder elects to redeem them, this portion of the Debt remains outstanding and cannot be reduced. Contrary to the Wartime expectations of a number of persons, receipts from the continued sale of Savings Bonds have consistently and materially exceeded their redemptions.

In the fiscal year 1946, receipts from sales exceeded redemptions by $3¼ billions. In 1947, the figure was $2.1 billions. So far in the fiscal year 1948, net receipts are in excess of $1 billion and the Treasury has taken various steps to increase net sales, and to reverse the declining trend.

Another segment of the Debt is represented by marketable securities in amount of $162 billions. This, of course, is the larger portion of the $220 odd billions of that which is Publicly-Held. This includes the issues which are fully eligible for purchase by commercial banks, and those which are eligible for purchase (for the most part) only by non-bank investors. The important characteristics of the marketable debt are the large percentage of short-term issues outstanding, and their distribution by classes of holders.

Methods of Debt Reduction

A reduction in debt may be effected several ways:

One: The Treasury may purchase securities in the market for the account of trust funds, and redeem Special Issues held by them. The restrictions on such market purchases would be mainly that the funds should not obtain less income from the marketable securities acquired than might be obtained from Special Issues which the Treasury would have to give them as an alternative.

Two: The Treasury may acquire securities in the market in conformance with the Sinking Fund Provisions of the Second Liberty Loan Act as amended. In this instance it is restricted from paying an average of more than 100. Past purchases have averaged slightly below this and the Treasury currently has some slight leeway above 100 for future purchases.

Three: The Treasury may make a cash redemption of maturing or callable issues.

Whether securities are acquired by market purchases or via redemption of maturing obligations depends upon the condition of the Treasury security markets and the supply of bonds in the market. The practice of maintaining minimum market prices of 100 or higher is a limiting factor on market purchases. Consequently, future debt reduction is likely to be accomplished largely through the redemption of maturing or callable issues. The type of holder: i.e., whether Federal Reserve Bank, commercial bank, or non-bank, determines the impact of the debt retirement on the volume of money or credit outstanding.

Of the $162 billion of marketable Publicly-Held Debt outstanding as of last November about 1/3 was due within one year. This portion of the Publicly-Held Debt was lodged largely with the Federal Reserve and the commercial banks, and in smaller degree with business corporations. Consequently, the reduction of debt must be largely via securities held by the commercial or Federal Reserve Banks. When we isolate debt reduction from the mechanics of objectives of other policies, such as the credit policy or support of Treasury security prices, we know that:

One: The reduction of debt held by non-financial corporations is in general theory neither deflationary or inflationary.

Two: That reduction of debt held by commercial banks is, in general theory, deflationary, and

Three: That when it takes place **via** holdings of the Federal Reserve Banks it is drastically so.

I have already referred to the fact that under existing legislation the investments of Government accounts tend to increase at a fairly substantial rate, and that during these years of boom, Savings Bonds outstanding have been increasing. Under these conditions, even if we fail to bring about a reduction in the Total Public Debt, the Publicly-Held marketable Debt must decrease. Further, this decrease is almost bound to take place via the holdings of the commercial or Federal Reserve Banks. Hence, a reduction in the Publicly-Held Debt can take place under boom conditions without a reduction in the Total Debt. To argue for a priority of debt reduction over tax reduction in these circumstances is to argue for an increase in the deflationary impact inherent in debt reduction, not for the creation of it.

Now let us look at the amount of debt reduction effected over the last two years, and the degree by which changes in the composition of the Total Debt have increased the retirement of Publicly-Held Debt.

The peak of Total Debt was reached at the end of February, 1946 when it stood at $280 billions. Between that time and the early part of January, 1948 the debt reduction totaled 23¼ billions. In the same interval the Treasury's balances, swollen by the massive sales achieved in the Victory Loan had also been reduced by 23¼ billions. It seems reasonable to say that up to that point the debt reduction program had constituted simply a reversal program—namely, one of wiping out a potential increase in the money supply of the general public which would have taken place had these Treasury balances been used for any other purpose.

By February 2, 1948 the amount of debt reduction had increased to $26 billions and we had started to retire debt from excess Treasury receipts. During the 23 month interval from February 28, 1946 to February 2, 1948 the following changes took place in the three major segments of Total Debt:

Special Issues, the securities which are issued to Government accounts increased by $8¼ billion.

Non-marketable Debt held outside of the Treasury, largely by non-bank investors, increased by $2¾ billions.

Marketable Debt decreased by $37 billion. and the bulk of the reduction in the latter took place in the holdings of the commercial banks.

There were various unusual operations which entered into the increase in the non-marketable debt held outside of the Government, and in the decrease in the marketable debt so held. For our purposes here, we may ignore any resulting implication of deflationary impacts from these smaller offsetting changes in the Publicly-Held Debt.

But Special Issues, those issued on Government accounts increased by more than $8 billions. This caused the Publicly-Held Debt to decline by substantially the same amount, **over and above** the reduction in the marketable debt accomplished by reducing Treasury balances. It seems proper to say that, over the period involved, the change in the composition of the Total Debt, and the corresponding changes in the Publicly-Held Debt were of equal, if not greater, value in their deflationary contribution than the actual reduction in Total Debt.

In any event, I believe that this will be the order of things for the future. The flow of funds back and forth between the Treasury and the Government accounts, plus the handling of Interest on the Public Debt, plus net transactions in Savings Bonds are items in the cash transactions of the Treasury which create a surplus of cash receipts materially larger than might be gleaned from a Treasury administrative budget. If we eliminate from our analysis the effect of Savings Bond transactions on cash receipts, we still obtain a sizable increase in the Treasury surplus of the cash budget over that of the administrative budget.

Importance of Treasury's Cash Surplus

At the beginning of this year the estimated administrative budget surplus for the fiscal year 1949 was set at $4.8 billions. But, on a cash basis, and even after allowing for the redemption of Treasury securities by the World Bank and Monetary Fund in amount of $500 millions, the Treasury had a surplus of $7.0 billions. I include this reference to the World Bank and Monetary Fund as an illustration of the wide area from which the Treasury's cash position may be effected. It is this surplus in the Treasury's cash budget which is the more important to the business economy. Yet, public discussion often seems preoccupied with the administrative budget which follows the Treasury's bookkeeping records.

There are grounds for believing that even a $7.5 billion cash surplus is too low. The Government seems to have been consistently underestimating its tax receipts. With increased armament expenditures ahead an upward revision would seem to be easily justified. One might set a figure for estimated cash surplus at 10-11-12 billions. From this we have to deduct the additional cost of armament, and of tax reductions, now in effect. We may find, moreover, as we did in the 20's, that reductions in taxes cause less losses in tax receipts than are justified in measured estimates.

This brings me to an important phase of Government finance, or bookkeeping, about which more was heard prior to World War II than since—the trust funds such as those obtained under Social Security legislation. Under this legislation, and in common with Treasury practices in some of the other funds, the net cash receipts are not treated, in the first instance, as Treasury receipts. They must be invested. The end result is that the Treasury either purchases securities in the market or it gives a Special Issue to the fund. In the latter instance, the net cash receipts represent the same kind of money as would the proceeds from the sale of public securities. If the Treasury, under these circumstances, endeavors to maintain a balance in the administrative budget, it creates a surplus in the cash budget. In other words, as a consequence of this practice the Treasury withdraws money from the general public and the effect is the same as though it had collected additional taxes for the purpose of retiring Publicly-Held Debt.

If, because of our general economic condition, it was believed undesirable to exercise the deflationary influence of retiring such debt, the Treasury would be forced to create a deficit in the administrative budget in order to end up with a balance in its cash transactions. It is impractical and unreasonable to expect Congress and the general public to understand or to be constantly aware of these technical distinctions. It would be helpful, and in the general interest, if trust fund legislation were reviewed in the light of these circumstances, and if the cash budget could be recognized as the one which should be dominant in economic considerations, whether these bear on debt or taxes.

Interest Rates on Government Trust Funds

This brings us to the matter of interest-payments on Treasury securities held for investment by Government accounts. The basic philosophy seems to have been that the net receipts of a trust fund are entitled to earn interest the same as would be true if the payments had been made to a private corporation. The difference is that the Treasury is required to pay, in a number of instances, a higer rate of interest than it is paying on open market securities. The result is that taxpayers are penalized to the gain of the beneficiaries of the particular trusts. An outstanding example of this is to be found in the Civil Service Retirement Fund which receives interest at the annual rate of 4%.

The actual costs of interest on the Public Debt are the cause of additional confusion. For example, in 1946 Congress appropriated $4.7 billion for interest on the Public Debt; yet it paid out to the general public only $3.7 billions, or $1 billion less than was appropriated. In 1949 it is estimated that the interest costs will total $5¼ billion, and yet the Treasury is expected to pay out to the general public only $3.9 billions or $1.4 billions less. The difference between the amount appropriated for interest and that paid is largely attributable to the trust fund operation and the method of calculating interest on some series of Savings Bonds.

For example, in the fiscal year 1946, $567 billion were required as interest payments to trust funds. This amount, however, was later covered into the Treasury's general balance by the issuance of a like amount of investments to the funds. In other words the interest payments to most funds are compounded. Because of this, and because of the growth in the total investments, $900 million will be required for the fiscal year 1949, an increase of $333 million. To save an equivalent amount of interest on Publicly-Held Debt would require the retirement of $30 billions of 1⅛% securities. If we retire Publicly Held debt in the same amount as we issue new investments to the trust funds, the interest costs to taxpayers will advance. This is because the average rates of interest paid to the funds, are higher than the average rates of interest on debt that is likely to be redeemed.

In the case of Savings Bonds issued on a discount basis, such as the E and F. series, the interest cost to the Treasury is calculated on the basis of the increase in each year's redemption price. When such a bond is paid, the accrued interest for the entire period of holding is paid for by the increase in the redemption price. During the fiscal year 1946, $573 million were appropriated for such interest, $138 million were paid out via redemptions, and $435 millions were not paid.

An interesting part of this element of the Treasury's cost is this. The outstanding discount bonds have been held, on a weighted average basis, for about four years. The appropriation for interest on this block of bonds for the next two years will be just about what it is today—but the interest for the third year thereafter is double the present amount. If we estimate the current year's appropriation at $600 million, then 3 years from now it becomes $1.2 billion.

Summary

I would like to summarize my comments on the Public Debt. The Total Public Debt is the sum total of the Government's direct obligations. It seems more proper, however, to view some of the obligations enumerated therein as contingent liabilities of the Treasury until such a time as they actually become Publicly-Held Debt. It is the Publicly-Held Debt which is significant in its impact on our economy. Our discussions of debt reductions versus tax reductions, relative to their economic consequences, should address themselves only to this portion of our Government Debt. Changes in the composition of the Debt, either Total Debt or that Publicly-Held, are apt to hold greater future significance than the amount of overall debt reductions. Because of the interflow of debt transactions, including interest payments, between the various Government accounts and the Treasury, the cash budget is of greater importance to the business economy than the administrative budget. The estimated surplus in the cash budget will run higher, under existing conditions, and current legislation, than the surplus in the administrative budget. This, therefore, is also a factor in considering debt reduction and tax reduction programs. A proper consideration of the complications of debt reduction, or of tax reductions, or of the impact of Public Debt on our economy requires that we make these distinctions, including the comparable ones with respect to the Interest on the Public Debt, and a review of trust fund legislation.

As my final comment, I wish to question the desirability of the issuance by the Treasury of non-marketable, redeemable, and ostensibly non-risk obligations to professional investors—such as insurance companies, savings and commercial banks, and the like. If market, debt, and credit conditions indicate that intermediate or long-term Treasury bonds should be offered to the public then it is in the general interest that these obligations be marketable securities.

The Treasury and the Federal Reserve have been forced to deal with the enigmas that arise from supporting the prices of marketable Treasury securities, while at the same time, engaging in the policy of credit restriction as an implement in the curbing of inflationary forces. Support of Treasury bond prices eventually would become a minor problem if future Treasury obligations of longer than one year term were issued to insurance companies, savings banks, etc., only in non-marketable form. Therein lies the temptation, and the presumable justification for this type of Treasury bond.

On the other hand, large scale support operations have become necessary only because, in the relatively free market for credit which must exist under the free enterprise economy, the bona fide demand for capital and credit could be accommodated only as sales of Treasury securities could be made. As endeavors to sell Treasury securities for this purpose forced their prices downward, the Government virtually was forced to support the market, and thereby to enable banks and other institutions to extend credit on a basis which was limted only by their desire to sell or the amount of such securities they held.

While I dislike strong-arm Federal Reserve support for Treasury security prices, I believe this to be a necessity arising from the character of the financing of World War II. I think we all recognize that it is impossible to insulate Treasury security markets, and the cost of interest on the Public Debt, from the effects of world and domestic conditions, without paying a price for the attempt. If, however, we try to interfere in the exchange of assets, such as Treasury securities for other credit instruments, by the repeated issuance of non-marketable obligations to our financial institutions, we will be adopting an insidious and dangerous method for the future control, by political appointees in the Treasury, of the extension of private credit from such institutions.

There is one outstanding advantage inherent in the issuance of marketable Treasury securities, with the accompanying necessity of Federal Reserve and Treasury support, compared with the use of non-marketable obligations designed to make such support unnecessary. This is that the attention of the public and of Congress is focused on the market conditions which make support necessary, their causes, and eventually, on the underlying credit and debt management problems.

Let's not run our boiler without a safety valve. The banking and credit situation can be expressed, in part by the interest rate which the Treasury must pay on its securities, and in part by the pressures which are thrown against the market "pegs." The restrictions which have been applied to limit the area of flutuations in Treasury interest rates, have caused the safety valve on the boiler to leak steam. We will not reduce the pressure within the boiler by removing the valve, and plugging up the hole.

FHLB Notes on Market

An offering of $84,500,000 Federal Home Loan Banks consolidated non-callable notes 1⅝% series B, 1949, was made April 6 by the Federal Home Loan Banks through Everett Smith, fiscal agent. A nationwide selling group of securities dealers participated in the offering. The notes, to be dated April 15, 1948, and to mature April 15, 1949, were priced at 100% and accrued interest.

The entire proceeds from the sale of the notes will be used to refund $84,500,000 of the $140,000,000 series A, 1948, 1¼% consolidated bonds due April 15, 1948. The balance of that issue, amounting to $55,500,000, will be redeemed out of cash resources of the banks. The transaction, therefore, will reduce the outstanding debt of the banks by $55,500,000 to a total of $266,500,000.

The new 1⅝% series B notes are the joint and several obligations of the 11 Federal Home Loan Banks.

Cassaday Co., Inc.

SHREVEPORT, LA.—Cassaday Co., Inc., 2433 Southern Avenue, is engaging in a securities business. Officers are E. S. Cassaday, President; M. D. Harwell, Vice-President and Secretary; and Dr. Albin P. Dansereau, Treasurer.

With State Bond & Mtg.

(Special to THE FINANCIAL CHRONICLE)

NEW ULM, MINN.—Robert F. Johnson has become connected with State Bond & Mortgage Co., 26½ North Minnesota Street.

Stern, Frank & Meyer Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Stern, Frank & Meyer, 325 West Eighth Street, members of the New York and Los Angeles Stock Exchanges, have added Arthur M. Hill to their staff.

Facing Gravest Crisis in Our History

(Continued from page 22)

with complete confidence that with courageous, informed leadership and competent government, our nation need not fear war and we can preserve the institution of human freedom.

Now, having cleared the dust from our eyes and the confusion out of our brains, let's go to work as free Americans, to make sure we will continue to be free. It is a tough job. It is a long job. But it can be done. It can be done if we start waging peace by all the means at our command.

A Wobbling Foreign Policy

First of all, it is time to call a halt to the petty politics, the wobbling uncertainty and paralysis that has plagued our foreign policy since the end of the war. The time has come to wage peace with all the vigor, the imagination, the skill and energy which the most highly developed political system in the world can produce. The Administration should start enlisting first-rate men who understand the true nature of the problems we face. Never before in our history did we have a President who constantly complained publicly that he could not get good men to serve their country. I have not had that difficulty in a State Government. There is no excuse for it in the National Government. And let me add that even though the Democratic Party is so bankrupt, there are plenty of able men in the Republican Party.

Fight Propaganda With Truth

I propose that we start effectively countering the evil propaganda of Communism with the truth. Here we are, the greatest nation of salesmen in the world, with the greatest product in the world to sell—the free American way of life— and we are actually being licked day after day by the propagandists of a nation that has nothing to sell but slogans. We have given $20 billion of foreign aid since the end of the war and the Communists have actually been taking credit for it. The Voice of America was actually used by our State Department to beam broadcasts to Europe telling how Henry Wallace was a great man at the very time he was travelling around Europe mouthing Soviet propaganda against his own country. Let's wake up! Let us see that good Americans are put in charge of telling our magnificent story of freedom and that we get the ablest public relations brains in the country, which means in the world, to tell that story. Next, let's start using the money we have been spending around the world like hard-headed Americans instead of soft-headed playboys. We must use it not only for necessary relief. But what we really want is to use it to create new resources and new economic health in sick nations and not merely to prolong their convalescence.

Bring Unity of Freedom-Loving Nations

There is a still greater goal. We should start right now, using our full power and resources to bring about real unity among the freedom-loving nations. Divided into 16 weak nations, Europe is a continuing invitation for any aggressor to topple them over one after the other. If we just restore those nations to the condition they were in before the last war, the world will be no better off than it was in 1939. But a federation of Western Europe's 270 million people into one strong economic and political union would be the greatest triumph of statesmanship in history.

Two months ago I called for such a program in Boston. Since then the fall of Czechoslovakia has driven the nations of Europe with accelerated speed toward unity. This bulwark of peace has come closer to realization than ever before. We should speed it up with all the strength and skill at our command and with success we will have the greatest force for peace the world has ever seen. We will bring to an end this constantly repeating need for America having to rescue Western Europe. Europe will be strong enough herself to remain free and at peace.

Advocates UMT and Selective Service

Of course, we must also be strong enough ourselves to keep peace. I have long advocated that we maintain adequate strength by universal military training and limited selective service or whatever means are necessary in order to protect America. Most of all, we must be strong by means our government has not suggested, by creating an air force which is the most powerful single air force in the world. If we are strong enough we will be leading from now on from strength, not from weakness. We will be leading for peace, not war. If we are strong enough to be respected and have other free nations in the world, we can live at peace with Soviet Russia and every other nation on earth. I assert with all the force at my command that if we are strong enough, your boys and my boys need not be sent into another war.

In the Far East we know that we have almost lost Korea. Now, certainly we must make sure that China does not also fall. So far the Administration has only proposed—and belatedly—that we spend some money. There is still no program of effective aid. If the National Administration cannot present a Far Eastern program that will work, it is high time it made way for an Administration that can.

Create Competent World-Wide Intelligence Service

We should create immediately a competent, world-wide intelligence service. During the last war, for the first time in our history, we had many brave men planted in dangerous places all over the world.

We really knew at the end of the war what was going on in the world. But the President by a stroke of his pen on Jan. 22, 1946, created a new, untried and inexperienced group. Our established services were later abolished. He cut off the five services J. Edgar Hoover and the FBI had established. He closed down on Army Intelligence and Navy Intelligence. This incredible administration of ours has put out our eyes and cut off our ears. Real intelligence services, under competent direction, that will alert free government to its dangers and its opportunities should be reestablished and reestablished immediately.

At the same time, we should start using our American resources and our political brains to see that the Communists do not steal elections by bribery and intimidation in free nations which are necessary to the security of America. When all this is done we shall not even yet be well started. We shall not yet have gone to work. We should immediately mobilize for these tasks an organization to go to work for the cause of freedom wherever it is in danger. It should include the good people who have fled to France, Great Britain, America, and other nations in the face of the Soviet steamroller. They really know the kind of corrupt infiltration and terror the Communist Party is carrying on. There are tens of thousands of these men and women who, if we would only give them the opportunity and the resources, could help us effectively and powerfully to tell the story of freedom in every area now threatened. For one example, the labor unions are the first point of Communist attack. The leaders of the American Federation of Labor have long recognized the danger and have bitterly fought against putting American labor under the Communist dominated World Federation of Trade Unions. There are now in this country and abroad, thousands of labor leaders who know that a Communist government means the end of freedom for labor. If given the opportunity and the resources they could work with immense effectiveness on behalf of free government in every danger spot. It is time we started trusting the freedom-loving people more than we have ever done. It is time we gave them a real part in stopping Communism without war.

In recent years we have failed in our mission. Instead of guiding the course of events, America appears before the world as being driven from one position to another. The Soviet Communist Party has meanwhile seized and twisted into its own debased slogans the great ideas of human welfare expressed in our Declaration of Independence, our Bill of Rights, our Emancipation Proclamation, and in the Constitution of the United States. With a false halo in one hand and a blackjack in the other, their leaders have lured and terrorized misguided and frightened people. Today all these people and all those in the remaining free nations wait breathlessly for American leadership. They pray that we will give moral leadership and evidence of faith in high ideals backed up by deeds and American common sense.

Launch a Moral Offensive

So most important of all is the need of our government to launch a moral offensive which will rally the peoples of the world to the cause for which we stand. Ours is the cause of justice, of religion, of the dignity of the individual, of common decency.

For generations the peoples of the world knew and admired our institutions of freedom. The great American dream of freedom and equality caught the imagination of the world.

I have outlined the course that I earnestly believe we must follow. I have unlimited faith that by this course we can achieve peace with freedom and with security. America will again be safe in the world—it will again assure its own peace and its own freedom when we start showing by our faith and by our works that we are willing once again to lead mankind up the path to individual freedom and human liberty.

With W. J. Kelsey & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Edward H. Schultz is now connected with W. J. Kelsey & Co., 25 Taylor Street. He was formerly with the Capital Securities Co. of Oakland.

Schwabacher & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

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

Kable With Clement Evans

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—John R. Kable has become associated with Clement A. Evans & Co., Inc., First National Bank Building. He was previously with the Trust Company of Georgia and Courts & Co.

Can Democracy Act Without a Crisis?

(Continued from page 9)

conserve our institutions without standing still and we must preserve our liberties without becoming aimless.

The Real Test of Democracy

In short, our real test is not what we would do in the event of depression, but rather what uses we shall now make of prosperity; just as our real test is not what we would do in case of war, but rather what uses we shall now make of peace.

This need in our democracy for purpose and unity at all times is clearly illustrated in the area of economic policy. We cannot afford to drift into another depression, the scope of which would be unpredictable and the impact of which might let lose forces of political adventuresomeness and social tension beyond description. We should realize that an affirmative policy for economic advance is safer than a defensive policy against economic decline. The best way to keep a car from rolling backward down hill is not to shut off the motor and put on the brakes. The best way is to keep climbing under full power.

Too many liberals, their thoughts rooted deeply in the experience of the 1930's, adjust their present thinking to a mere defense against depression concept. This crisis psychology is unworkable because a majority of the people—rightly or wrongly—will not be stimulated by Cassandras when they are doing well. They need something more than that to galvanize them into action—and they are entitled to something more than that. Those whose sole call for action is that we are approaching a crisis make it fairly certain that we shall not act until the crisis is so near at hand that avoidance of it will be at best problematic.

In any event, this crisis psychology reduces us to levels of achievement far below our capacity. It makes our economy as paradoxical as a man who exerts himself only when he is sick and takes it easy when he is well.

An Economic Program

What we need now is not an economic program for democracy in crisis, but an economic program for democracy. Such a program can be reconciled and blended with the strengthening of our forces to resist aggression.

Now, what are the essential elements in a purposeful and unifying economic program in our democracy?

Such a program must be three-dimensional.

It must have length. Looking ahead only two or three months is an incongruity for a great nation and can produce only random improvisation but never a clear purpose. The program must encompass at least a few years, because most important things take time to get done. For example, a program to provide all of the American people with decent housing would take at least 10 years to accomplish even if pursued swiftly.

The program must also have depth. It must penetrate to the minds and hearts of the people as a whole by dealing with a subject matter that they can comprehend because it affects their daily lives and well-being. The basic elements in such a program are housing, adequate diets, medical care, job opportunity, social security, education and opportunities for the leisure which leads to self-development.

And the program must have breadth. It must comprehend means as well as ends. It must deal with those goals for business investment, resource development, price-wage-profit relationships, and government fiscal policy which will add up to a well-balanced economy functioning continuously at full production and full employment.

This three-dimensional program can best be projected through the device of what might be called a national prosperity budget. This budget would symbolize, in practicable and understandable terms, the common purposes of the nation just as the family budget symbolizes the common purposes of the family.

The formulation of such a national prosperity budget, involving nation-wide perspectives, would require affirmative leadership on the part of government. Nonetheless, the various groups within the economy—industry, labor, agriculture and consumers—should share through consultation in the formulation of this budget and in its acceptance by common consent.

The next task would be to popularize this national prosperity budget through every medium of intelligent and voluntary dissemination, at Federal and State levels and, above all, at the community level. This budget, unlike the budget of the government, would have no force of law. It would constantly be subject to debate, discussion and modification. But, gradually it would crystallize into a firm body of public opinion and thus gradually assume the character of a national objective.

This would give us an increasing clarity of purpose—an increasing sense of where we want to go—an increasing appreciation of what we can do.

And, finally, there would be the task of achieving the objectives set forth in the national prosperity budget. This would involve both private and public action, and both voluntary action and legislative action, in whatever proportions reflected the majority viewpoint of the people on the basis of their felt needs. This pragmatic accommodation of methods has not been difficult of accomplishment during depression or war because our objectives were then so clear. With equal clarity of objectives in a peaceful and prosperous economy, workable agreements in the utilization of methods would rapidly begin to take shape.

What I have outlined is neither novel nor unattainable. In fact, the Employment Act of 1946 has set up the machinery for this kind of undertaking and the objectives which the Act sets forth are not in essence different from those I have been discussing. Further, President Truman's Economic Report to the Congress and to the country in January of this year sketched the broad phases of a 10-year program for an aspiring and expanding economy.

But there is still the unresolved issue of whether this whole great enterprise will be lost in the welter of current problems or receive ever-increasing attention from the American people.

If that ever-increasing attention is forthcoming, our resources and manpower, our techniques and know-how, are sufficient to provide within a decade a genuinely gratifying standard of living for every family in the country, without encroaching upon the principle of exceptional reward for exceptional initiative or ability, and allowing ample resources for the fulfillment of our obligations to the rest of the world.

No opportunity so great ever confronted any people. The spirit in which we face this opportunity will set the pattern for the future of free people in this century.

Gov't Bond Dealer Hits Federal Reserve Open Market Methods

(Continued from page 22)

ment Securities for the System Open Market Account.'

"Before presenting and analyzing this very interesting document we should first consider the 'Federal Open Market Committee' with regards to its history, functions and responsibilities thus achieving a better understanding of its present activities. Before 1922 each individual Reserve Bank purchased and sold bills and government securities according to the desire of its own board and through whatever channels it chose. In 1922 someone got the idea this decentralized purchasing *might* complicate the Treasury's financing plans so a central board was established by the Banks to handle all transactions not purely local in character. *Here* without any additional authorization from the Congress the Federal Reserve System centralized its activities contrary to the original intent of Congress. Later in the same year the duties of the committee were extended into the field of Policy so now there existed not only a centralized operating procedure but also a centralized Policy making committee also without Congressional approval.

"In 1923, the year following this action on the part of the banks, the Board of Governors took over and decided to appoint the members of this committee itself but it was not until 1933 when under the weight of the depression the Congress authorized and legalized this procedure. For ten years the Federal Reserve System had been able to act contrary to the original intent of its founders and yet, it, the most powerful monetary institution in the country had been unable to prevent or control a great inflationary boom and as big a 'bust' and depression. Suppose, as should have been done, the original problem of conflict between Treasury policy and Reserve policy had been presented to Congress for determination, might not the 1926-1932 debacle been prevented? Certainly the Federal Reserve System must bear some of the blame for having acted in an extra curricular manner.

"The Banking Act of 1935 further centralized this set up. The 'Rubber Stamp' Congress authorized an open market committee of the seven members of the Board of Governors and five representatives of the banks thus giving the Board of Governors the majority voting power where previously it had been with the Banks and furthermore the individual Reserve Banks had no choice but to follow the rules and regulations of the Open Market Committee with regards to open market operations in government securities. Under this system a 'Manager of the Open Market Account' was appointed who operates in New York thus centralizing all operations in that locality.

"In the early 1940s, under pressure from the Federal Reserve System, some dealers engaged in trading in United States Government securities formed a voluntary association apparently to regulate practices in the business but, as not all dealers were invited to join this group, a somewhat undesirable situation was created. Therefore, in 1944 a series of regulations were promulgated by the Open Market Committee for those dealers qualifying to do business with the Reserve System. In these regulations the System's authorities are the sole judge, jury, executor and appeal board. Furthermore there being no specific requirements stated for qualification these authorities may specify any arbitrary qualifications they desire pertaining to the amount of capital and size of organization which could well be beyond the capacity of the small and intermediate sized dealers to meet. When it is realized that the System has an actual monopoly in buying government securities in a pegged market and a virtual monopoly whenever it is operating in a major manner, the importance of this arbitrary assumption of power can well be realized."

Text of the regulations referred to earlier by the writer follows:

"2. *Terms upon which Federal Reserve Bank of New York Will Transact Business with Brokers and Dealers in Government Securities for the System Open Market Account.*

"Upon motion duly made and seconded, unanimous approval was given to a statement of the terms upon which the Federal Reserve Bank of New York will transact business with brokers and dealers in United States Government securities for the System Open Market Account, it being understood (1) that the procedure set forth in the statement would be put into effect at such time as in the judgment of the executive committee such action appeared to be desirable after having informed the Treasury of the proposed arrangement, and (2) that the executive committee was authorized to issue such instructions to the Federal Reserve Bank of New York as agent for the System account in connection with the proposed procedure as appeared to the executive committee to be desirable, including the manner in which advice of the arrangement was to be sent to dealers who might qualify thereunder. In accordance with this action, the following instructions were issued to the Federal Reserve Bank of New York by the executive committee on May 6, 1944, and the other Federal Reserve Banks were requested to furnish a copy of the statement of procedure to any broker or dealer in their respective districts which evidenced an interest in qualifying thereunder and in the opinion of the Reserve Bank would have a reasonable chance of qualifying:

"(1) The Federal Reserve Bank of New York shall furnish copies of the statement of terms to each broker or dealer in Government securities with whom the Bank has been transacting business on behalf of the System open market account, and to such other brokers and dealers as evidence to the Bank an interest in qualifying and in the opinion of the Bank would have a reasonable chance of qualifying. On and after May 15, 1944, the New York Bank will transact business on behalf of the System open market account only with the brokers and dealers who meet the qualifications, have executed the agreement, and comply with the terms set forth in the statement.

"(2) When the statement has been presented to the brokers and dealers with whom transactions are now conducted for the System open market account, the Bank shall give copies to representatives of the press informally as a formalization of existing procedure.

"(3) The Bank shall keep the executive committee of the Federal Open Market Committee informed of each broker and dealer with whom it ordinarily transacts business and of each addition to, or removal from, the list of qualified brokers and dealers.

"(4) The Bank shall encourage the observance of high standards of commercial honor and just and equitable principles of trade by the brokers and dealers in Government securities, through the medium of the Bank's contracts with the brokers and dealers and the Government Security Dealer Group or any other similar organization that may exist or develop.

"(5) When any broker or dealer has been removed from the list of qualified brokers and dealers for failure to meet the qualifications set forth in the statement of terms or for willful violation of or failure to perform any of the terms and conditions set forth in the agreement, and the Bank is satisfied that he has taken appropriate steps to correct any default and to prevent the occurrence of similar defaults in the future, the Bank may restore him to the list of qualified brokers and dealers and resume the transaction of business with him, after obtaining the consent of the executive committee of the Federal Open Market Committee.

"The approved statement of terms was as follows:

"*Terms on Which Federal Reserve Bank of New York Will Transact Business with Brokers and Dealers in United States Government Securities for the System Open Market Account.*

"The Federal Open Market Committee has directed the Federal Reserve Bank of New York (hereinafter referred to as the Bank) to transact business in United States Government securities for the System open market account with reputable brokers and dealers in such securities who meet the qualifications and agree in writing to comply with the terms and conditions set forth below.

"(1) In determining whether a person (individual, partnership or corporation, including a bank) is a qualified broker or dealer with whom the Bank will transact business, and the extent to which business will be transacted with such person, the following factors will be taken into consideration:

"(a) Integrity, knowledge, and capacity and experience of management;

"(b) Observance of high standards of commercial honor and just and equitable principles of trade;

"(c) Willingness (in the case of a dealer) to make markets under all ordinary conditions;

"(d) The volume and scope of business and the contacts such business provides;

"(e) Financial condition and capital at risk of business; and

"(f) The reliance that can be placed on such person to cooperate with the Bank and the Federal Open Market Committee in maintaining an orderly market for Government securities; to refrain from making any recommendations or statements or engaging in any activity which would encourage or stimulate undue activity in the market for Government securities; and to refrain from disclosing any confidential information which he obtains from the Bank or through his transactions with the Bank.

"(2) The Bank will obtain from such person an agreement in writing to comply with the following terms and conditions:

"(a) He will furnish the Bank with a statement for the confidential information of the Bank and the Open Market Committee showing as of the close of business each business day:

"(1) The total amount of money borrowed (directly and indirectly);

"(2) The par value of all Government securities borrowed;

"(3) His position, both long and short, in Government securities, classified by classes of securities and maturity groups (or by issues, if so requested by the Bank);

"(4) The volume of transactions during the day in Government securities, classified by classes of securities and maturity groups (or by issues, if so requested by the Bank); and

"(5) Such other statistical data as in the opinion of the Bank will aid in the execution of transactions for the System open market account.

"(b) At or before the completion of each transaction with the Bank, he will furnish the Bank with a written notification disclosing whether he is acting as a broker for the Bank, as a dealer for his own account, as a broker for some other person, or as a broker for both the bank and some other person. In the absence of a special agreement to the contrary with the Bank with respect to a particular transaction, he will not act as broker for any other person in connection with any transaction with the Bank, and he will receive no compensation or profit of any kind in connection with the transaction other than the specified commission paid him by the Bank.

"(c) In the absence of special arrangements with the Bank, delivery of securities will be made at the office of the Bank before 2:15 p.m. on the next full business day following the day of the contract and all payments by the broker or dealer will be in immediately available funds.

"(d) He will furnish the Bank not less frequently than once during each calendar year with a report of his financial condition as of a date not more than 45 days prior to the delivery of the report to the Bank in form acceptable to the Bank and prepared or certified by a public accountant acceptable to the Bank; and, upon the request of the Bank, he will furnish it with a statement of condition as shown by his books as of a date specified by the Bank.

"(e) Unless the Bank shall have informed him of its desire to purchase or sell a particular issue of Government securities, he will not solicit from any other person offerings of or bids for any issue of Government securities for the purpose of placing himself in a position to offer to sell to or to buy from the Bank securities of such issue.

"The Federal Open Market Committee has further directed that the Bank decline to transact any further business with a broker or dealer in any case in which the Bank has concluded that the broker or dealer no longer meets the qualifications set forth above or has willfully violated or failed to perform any of the terms and conditions set forth in the agreement.

"*To the Federal Reserve Bank of New York:*

"The undersigned hereby agrees to meet the qualifications and to comply with the terms and conditions set forth above.

"Dated____________________ ____________________

"(Signature)

"The above action of the Federal Open Market Committee followed a thorough study of the relationships with the dealers and brokers through which transactions for the System open market account were executed. The Committee felt that, although the informal arrangement that had existed previously was satisfactory for a period when the volume and amount of transactions for the System open market account were relatively small, the increase in the activity of the account, and the likelihood that operations in very large amounts would continue during the remainder of the war and into the postwar period, made it desirable to place the existing relationships on a formal basis. The terms of agreement represent in substance the informal agreements that had been in effect between the Federal Reserve Bank of New York, as agent, and the dealers and brokers with whom the Reserve Bank previously had transacted business for the System open market account.

"Meeting On March 1, 1944: Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice-Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Draper, Mr. Evans, Mr. Leach, Mr. Young, Mr. Davis, Mr. Peyton."

New York Stock Exchange Weekly Firm Changes

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

R. Edward Garn retired from partnership in Wayne Hummer & Co., Chicago, on March 31.

Evans Spalding, general partner in John J. O'Brien & Co., Chicago, became a limited partner, effective April 1.

Archibald Blanchard, partner in Paine, Webber, Jackson & Curtis, Boston, died on March 30.

Transfer of the Stock Exchange membership of Charles Martin Clark, Jr., to Daniel T. Lehane will be considered on April 15. Mr. Lehane will continue as a partner in McDonnell & Co.

Transfer of the Exchange membership of Richard P. Comb to Lawrence Sheldon Brodie will be considered by the Exchange on April 15.

Ball, Burge & Kraus Branch

LORAIN, O.—Ball, Burge & Kraus, members of the New York and Cleveland Stock Exchanges, have opened a branch office in Lorain, O., at 522 Broadway, under the management of James E. Shreffler. Mr. Shreffler has been doing business as an individual dealer.

Elected Directors

At the annual meeting of stockholders of Ralston Steel Car Co. held yesterday Samuel E. Magid and John A. Dillon, both of New York, were elected directors of the company. Mr. Magid is Vice-President of Hill, Thompson & Co., Inc. Investment Bankers, Director of Empire Steel Co., Tungsten Alloy Mfg. Co., Inc., and other corporations; Mr. Dillon was formerly Vice-President of Pittsburgh Screw & Bolt Co. and more recently with the office of Defense Transportation and American Car & Foundry Co.

All other directors were re-elected.

Now Grubbs, Scott & Co.

PITTSBURGH, PA.—Grubbs, Scott & Co., formerly a partnership, is now doing business as Grubbs, Scott & Co., Inc., a corporation. Offices are in the Union Trust Building.

Harris, Upham Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—George Diehl has been added to the staff of Harris, Upham & Co., Johnston Building.

Edward Fielder Dies

Edward C. Fiedler, member of the New York Stock Exchange, and senior partner in Carlisle & Jacquelin, 120 Broadway, New York City, died at his home at the age of 69.

Our World Trade Outlook

(Continued from page 13)

doubt recover in time, but at a terrible price in human terms. But, in the process of slow recovery, Europe might well be forced into a new orientation of its trade relations. The failure to provide aid might set in motion the breaking up of the world into regional blocks each pitted against each other—each with lower living standards than could be achieved through the free interchange of goods. This would provide the kind of climate which fosters conflict and aggression.

These are a few of the factors which underscore the contention that our trade course, both immediate and long-range, will in large measure rest on the nature of the foreign aid decision.

While the recommended $6.8 million in American aid would provide basic materials without which European reconstruction cannot advance on the necessary scale, Europe itself must make the major contribution to a solution of its problems. An immense self-help task on Europe's part is under way for the full utilization of its own resources. The recovery program is based not only on our assistance through exports but also on:

(1) The development of economic cooperation among the participating countries,

(2) A strong production effort, especially in agriculture, fuel and power, transportation, and the modernization of equipment.

(3) The creation and maintenance of internal financial stability as an essential condition for securing the full use of Europe's productive and financial resources.

Financial Stability

Until internal financial stability is assured, not only in Europe but also in the Far East and in this hemisphere as well, there can be little hope for the exchange stability in which the foreign trader is particularly interested.

It is becoming increasingly apparent that it will take some time before a lasting pattern of exchange relationships can be developed. While the International Monetary Fund has been established to promote exchange stability, to assist in the maintenance of orderly exchange arrangements and in the avoidance of competitive exchange depreciation, it was recognized, when the Fund was established, that its full effect would not be felt during the immediate postwar years. Rather, it must be viewed as a part of the permanent machinery of international monetary relations.

As was stated in the annual report of the Fund issued last Fall, "the Fund's objectives can be fully realized only in a world in which the war-damaged and war-devastated countries have restored their productive efficiency to the point where they can achieve balance in their international payments with a level of trade conducive to their own and the general well-being. Now, more than a year after the establishment of the Fund, the world is confronted with seriously unbalanced trade, with an urgent problem of financing international payments, and with severe shortages of goods for reconstruction and even for maintaining minimum consumption standards in many countries. The Fund cannot solve these problems, but the role which the Fund will be able to play in the future must inevitably be determined in large measure by the way in which these problems are solved. Stability of exchange rates and the maintenance of orderly exchange arrangements are not ends in themselves. It would be unfortunate if they were achieved through restrictions and discriminations which are inimical to the general welfare rather than through an expansion of trade from which all countries can benefit."

Elimination of Trade Barriers

It is clear that the international flow of funds will be established on a stronger basis only as reconstruction progresses, but this progress alone will not solve the problem. If the war-torn areas of the world, after rebuilding their economies, find themselves unable to sell their products in the world market because of excessive tariff barriers and other trade restrictions, it will be impossible to fulfill the broad objectives of reconstruction. There will be little hope for the establishment of a firm pattern of international exchange rates, for a high and sustained volume of world trade, or for the achievement of adequate living standards. The history of the nineteen twenties bears witness to the truth of this statement.

After World War I this country responded generously to need abroad. Exports in 1920 rose to a level nearly four times the average value of exports in the three prewar years, a height to which gifts and credits then, as now, played a part. Exports after the first world war actually represented a substantially higher percentage of total production than they did last year when, in value terms, our foreign shipments reached their all-time high. Then, as now, American food helped to stave off hunger; machinery and equipment helped to hasten reconstruction. Subsequent trade history in the twenties is only too familiar. No sooner had reconstruction gotten under way, with its resultant flow of products into world markets, than the cry was raised to build trade barriers to block their path. America was not alone when it succumbed to the fallacious notion that we could export without importing. There can be little doubt that the trade barrier policies of the twenties contribtued, in no small measure, to the world depression which began in 1929.

Today, I believe that we can and will profit from the bitter lesson. In American trade circles one is struck by the awareness of the two-way character of international trade, an awareness that our exports play an important role in the American economy but that these exports can move only as a large volume of imports are absorbed.

This appreciation that trade is an exchange, if it continues to be the basis of national policy, will go far in assuring a healthy outlook for our trade. It was the basis of the agreement reached in Geneva last October when representatives of the United States and 22 other nations, meeting as the "Preparatory Commission of the United Nations Conference on Trade and Employment," drafted the charter of the International Trade Organization and concluded a series of multilateral trade agreements aimed at the reduction of tariff barriers. These agreements, which affect the trade of nations doing about three-fourths of the world's commerce, mark the first successful multilateral effort to reduce tariffs. They stand as evidence of a new understanding of the trade process and, as they are further implemented through the renewal of our reciprocal trade policy and through the effective operation of the International Trade Organization, they can be a vital factor in the trade perspective.

ITO

As of this writing, representatives of 58 nations meeting in Havana have given final form to the International Trade Organization Charter. The Geneva draft under consideration sets forth five basic objectives:

(1) To confine trade restrictions to import and export duties and to negotiate with other members for their reduction.

(2) To abandon all forms of trade discrimination against other members.

(3) To coöperate in the economic development of undeveloped areas in the interest of general world prosperity.

(4) In general, to consult before taking any unilateral action that might injure the prosperity of another member.

(5) To take whatever action is available to maintain full employment at home, but to avoid shifting the unemployment burden to other members.

Had a charter of this type been the basis for international action in the twenties, the history of the succeeding years might have been very different.

Factor of Prosperous U. S.

The last point summarized above, and relating to the maintenance of high levels of economic activity, more than any other factor is the key to the trade outlook. A prosperous United States with high levels of employment, purchasing power, and production is in a position to ship our products which the rest of the world needs and more important, is able to absorb a volume of imports sufficient to play their role in sustaining exports at high levels.

This statement with respect to imports is so much at the heart of the problem that it merits further emphasis.

Before the war our imports averaged $2.5 billion in the years 1936-38. Last year, they totaled $5.7 billion, but most of the increase over the prewar years was due to price rises. When the price factor is removed, we find that imports were, in fact, less than 10% higher than prewar, in **volume** terms. This was far below the level which might have been expected had imports continued to maintain the same relation to industrial production in the United States that had been shown between the two World Wars. Imports and industrial production between 1929 and 1938 had been closely correlated. Thus, with industrial production in 1947 85% above the 1935-39 average, imports might have been expected to be higher by a similar magnitude or to have reached a total of about $10 billion, at current prices, without necessitating any important economic adjustments.

Given current labor shortages and the shortages of goods, imports at this level would have been very welcome. They would have helped alleviate the inflationary forces at work and would have sustained exports without the need for such large governmental loan programs.

What stood in the way of higher imports into the United States was not the inability to absorb more goods from abroad but the low production in the areas stricken by the war.

The suggestion that the United States can import $10 or $12 billion worth of merchandise a year may intensify the fears of those who have long regarded imports as unwelcome competitors of American products. What these people really fear is not high levels of imports at times such as the present when goods and manpower are short but imports when unsold surpluses of home produced commodities accumulate. This, then, is essentially a fear that we cannot sustain our present industrial productivity and market output both here and abroad.

Greatest Challenge of Our Times

This is the greatest challenge of our time. If, in fact, we do not meet it, and move again into a depression period, then we must face the fact that we cannot achieve our postwar goals.

Under such circumstances it would be unlikely that we would continue to assist Europe substantially in helping to achieve self-sustaining production levels. Trade barriers would probably rise everywhere to new and higher levels, as each nation sought to protect itself from the competitive onslaught of goods which others might try to dump abroad. The tragedy of the twenties would be magnified for a new depression would be more devastating than that which began in 1929.

There can be little question that, second only to the fear of the misuse of atomic power, nothing strikes greater fear into the hearts of people everyhere than the fear of an American economic depression of large proportions.

The determination of the United States to avert the recurrence of mass unemployment and depression was expressed in the Employment Act of 1946. In this statute Congress declared "it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy * * * to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining * * * conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production and purchasing power."

But the intent of Congress can be carried out only if our people conduct the nation's business so as to achieve the objectives of the Act.

Above all, the Employment Act recognizes that the future of our domestic economy lies in our own keeping. This is no less true of the other forces I have briefly reviewed which, taken together, will largely determine the character of our foreign trade in the months and years ahead. Given the resolution to meet our domestic problems with the vigor and the courage the times demand, and given the willingness to work with other countries, both directly and through the agencies of the United Nations, we need have no fear for the future of our foreign trade.

Plain Talk on Freedom

(Continued from page 10)

has done a favor to the farmer, miller or merchant, willing sellers, when he has relieved them of that risk. This is the common process in all commerce. If I buy $100 worth of stock in a new or old company I buy a risk. I am a risk bearer. Too many of the public who have received a liberal education of the wrong kind from political leaders, have the idea that speculators always win—always make money. This is, of course, nonsense and quite contrary to the truth.

All that I have said about speculators or speculation is well known to intelligent people. They also know that all of this is beside the point. The fundamental economic fact is that speculators can't "make a market" on the up side or the down side. It is the law of supply and demand that does that. As we all know, the keen speculator merely studies supply and demand conditions and buys or sells accordingly. Meanwhile, I should observe that it is outrageous that our government permits the publication of the private business affairs of many of the people of the United States as was so shamefully done recently. If anyone doubts our trend towards socialism and the police state let him study the activities of the government in recent months when the press was given the records of the trading in grains, not only of speculators but of many fine substantial and serious business houses. Did we learn these tactics from the fascist states?

No real American, no thinking American, wants any part of socialism or communism. People generally must eventually decide whether they want all of the benefits that go with a free society—and the risks—or whether they want the purely theoretical security that comes with the socialistic state. Unfortunately too few Americans are students of the science of economics. Plain horse sense should tell them that the American type of market place is essential in a free democracy. Little has been done by our leaders—business, farm, labor or political—to point out the simple truths. Too often these leaders heed only their own immediate personal interests and profit and our people are misled or confused as to the facts.

It seems to me that we may properly classify anyone who purveys the sugar-coated pills of state or semi-state controls over our commerce, either as (a) the tool of the socialistic group bent on destroying our democracy, (b) an idealist, but one who is ignorant of economics, (c) one who puts selfishness and his personal welfare above the nation's best interests, or (d) one who just doesn't think. Whatever the cause of their motives they are all, wittingly or unwittingly, taking to the path of Benedict Arnold.

Road to Socialistic Hell Begun

Summing up, then, I would say that the paving of the road to a socialistic hell has already begun in this country. It is being built through the masterful inspiration and guidance of the leftists, ably aided and abetted by unprincipled, political demagogues and by smug, apathetic, ignorant or self-seeking business, labor or farm leaders. Most businessmen have not raised their sights above the problems of their everyday existence. Too many farmers and labor leaders have been thinking in terms not of the long pull, but of the short pull. They have felt too often that their pre-eminence is dependent on the "deal" they can get for today without thought of tomorrow and tomorrow's morrow. All of it is pitiful when real, virile, forceful leadership is so urgently needed!

Watch, then, our markets. Watch the activities of this and subsequent administrations and congresses. That will give you the key to whether we are slipping further into socialism. Listen closely to the political soothsayer who promotes by one means or another the gradual curtailment or control of the market-place. Whatever you are—farmer, processor, laborer or consumer—examine carefully the sugar-coated pill handed you by the planned economy crackpot. And remember that the sweet coating of ease and security will give you pleasure only for the moment. Then ask yourself if we are supposed to be interested in "just the moment." Rather, are we not dutybound to act as trustees of our democracy for those who will follow us—and this—relatively soon?

Today the issue—freedom or slavery—is clearly drawn. No longer can we be smug when the subject of freedom, as applied to any phase of our life, is discussed. Now, as never before, must we be on the alert against any and all threats to our freedom. Now, as never before, should we examine all of the utterances and activities of those who would destroy from within, as well as from without, our free society. And we should especially fear, and guard against the termites who would destroy our economic foundation.

"For what avail the plow or sail, or land or life, if freedom fail?"

Current Credit Problems

(Continued from page 11)

with the private banking system. They would tend rather to enlarge the scope of the private bank's operations. They would provide a stand-by arrangement to fall back on when the need for such credit arises at times in the future. At the moment the provisions for guaranteed loans would not have much if any occasion to be utilized, for our present problem is not at all one of inadequate credit. When present conditions have passed, however, means should be ready to check recession by a ready extension of bank credit to qualified borrowers.

Regulation of Consumer Credit

Another measure in the central banking field is the regulation of consumer credit, which was established as a war measure by executive order and should have been continued, in the Board's opinion, as a means of restraining postwar inflation. Actually, Congress did not approve the Board's recommendation but instead terminated the regulation last fall. Inflation, however, was not terminated. The prices of goods are still high, and the purchasing power of the dollar continues to shrink. In the judgment of the Board, it is to the interest of consumers to be discouraged from borrowing in order to pay high prices. In order to avoid alternating booms and busts, it is also in the general interest that the consuming capacity or buying power of the public be maintained as evenly as possible. Otherwise it tends to exhaust itself in competitive buying as prices rise and to be suffocated beneath a mass of debt and unemployment when they fall.

Since the end of the war three years ago, the Board has been preoccupied with the dangerous surplus of money that the war left on our hands in the form of greatly expanded bank deposits. This is an inevitable result of war because in wartime resources are diverted from supplying consumers' and producers' goods to supplying military materials, and people are paid large amounts for producing goods and providing services which they can not purchase with their incomes. In consequence, the supply of money is everywhere excessive in comparison with the supply of things to buy with it. This condition might be corrected from either side or, better still, from both. On the one hand, we need to produce more goods but on the other we also need to restrain further expansion of the money supply.

Little Prospect for Expanded Production

On the side of production, however, there is little prospect of immediate relief. We are producing at close to maximum volume. Industrial production and employment remain far above all prior peacetime levels, and employment is currently above the wartime peaks. But offsetting this is a level of demand greatly in excess of prewar years. Our people need new cars, new houses, new equipment. And on top of that there is the need of Europe for the materials to restore her economic life. This is not Europe's need alone. It is to our own direct self-interest that the economies of Europe be restored to the point where they can be useful and self-dependent members of the world community, buying our products and contributing their share to world production. Her disorganization and lack of productive power, which we are endeavoring to help her correct, is a prime cause of the pressure we are under. But help to that end can not be given without sacrifice for the time being on our part; if we furnish Europe the things she can not yet supply herself, we must to that extent forego having them ourselves.

Moreover, it is now apparent that we must also renew and expand our military strength. This too will divert money, manpower, materials, and equipment which might have been used for the production of consumer and producer goods. If we turned our backs on the international situation and produced exclusively for our domestic requirements, we should for a short time lighten the pressure of inflation and enjoy the comforts of increased consumption. But our interval of ease would be short and the termination of it painful. No such course can be considered, and we have already turned definitely from it.

In the face of these needs — economic and military — there is little prospect, as I have just said, that production can expand enough to meet the demands for domestic consumption and for export. The problem is largely a physical one — a problem of enough machines, enough material, enough men to produce what the world now needs.

Aggravating this deficiency on the side of production, we have an inflationary excess on the side of purchasing power. Unless this excess is reduced or at least not permitted to increase, it will result in higher prices and increased living costs. The one most effective way to reduce this excess purchasing power is by reducing the Federal Reserve Banks' holdings of government debt.

Liquidation of Public Debt as Inflation Curb

Liquidation of the public debt held by the Federal Reserve Banks is an effective curb on inflation because it involves not only a reduction of bank deposits but also of bank reserves. For when the taxpayers' money is used to pay a government obligation held by a Federal Reserve Bank, the payment reduces commercial bank deposits and also bank reserves. Thus it extinguishes existing purchasing power in the form of bank deposits and at the same time reduces the possibilities of renewed expansion of those deposits. But though it is important accordingly that Federal Reserve Bank holdings of government debt be reduced, the difficulty is that so long as the Reserve Banks stand by to purchase government obligations in support of their market value, it is hard if not impossible for reduction of their holdings to be accomplished.

But as taxes are reduced instead of public debt the problem is made more difficult. For in the first place, to stop retiring the public debt means abandoning the most effective means we have today of restraining inflation. Reduction of taxes means still more: it means that we stimulate inflation, because if the Government takes less money in taxes, then we all have so much more money to spend, and the volume of purchasing power forcing prices upward will be so much the greater. Every dollar not paid to the Government will be available to bid for scarce goods. To each of us individually the reduction of taxes is welcome, of course; but when we think of the response of prices to the increased demand, it is evident that we stand too good a chance of being worse off with the money than without it. For a dollar with prices at present levels may well be worth more than a larger sum with prices at still higher levels.

The tax reduction passed by Congress is $5 billions. In addition to that we are now facing enlarged expenditures not only for European recovery but for military purposes. It is said that approximately $4 billion will be needed for such items as universal military training, a greater air force, and an increase in the authorized strength of the standing army. So if we reduce taxes by $5 billion and increase expenditures by $4 billion, we shall have about $9 billion less with which to reduce the public debt or combat inflation through fiscal policy. The chances are rather that the $9 billion will feed inflation still further.

If fiscal policy can not be relied on, the need of credit controls seems to me all the greater. And if inflated purchasing power can not otherwise be reduced to a reasonable par with the supply of goods, it may at least be pinned down temporarily by a measure which the Board has already recommended to Congress. This is that banks be allowed to count Treasury short-term obligations (bills, certificates, and notes), and cash, cash items, inter-bank balances, and excess reserve balances with the Federal Reserve Banks as special reserves required to be held in addition to legal reserves. This is in substance an increased requirement, the additional reserves to be held at the bank's option, however, either in the form of balances with the Reserve Bank or in Treasury obligations, cash, etc. Its effect would be to reduce the basis of credit expansion.

The Special Reserve Proposal

These special reserves might reach a maximum of 25% of demand deposits and 10% of time deposits; the requirements would be imposed gradually at the discretion of the Board; and they would apply to all commercial banks, whether members of the Federal Reserve System or not. The arrangement would not oblige banks to reduce the volume of their earnings assets, but it would restrain the further expansion of bank credit. It would also give a fresh effectiveness to the traditional instruments of credit control, namely discount rates and open market operations. The banks would still be able to meet the credit needs of borrowers, and yet the responsible authorities would be in a position to act for protection of the economy from the inflationary evils of further credit expansion.

This is viewed as a temporary measure limited to a period of three years. It would be helpful in stemming the tide and giving us time to study the new conditions that have sprung up around us. Our present difficulties are not only real but essentially unfamiliar. I think we can not assume that they will quiet down of their own accord. Indeed, wherever one looks conditions that tend to continue to intensify inflationary threats are evident; nowhere can one see any automatic tendency to mitigation or any material forces operating to bring it about. Nor can we assume that the instruments and procedures we have been accustomed to in the past will meet the needs of the future. But neither can we postpone action till we have everything figured out. Something needs to be done now. We have a basic problem which at best must be the subject of long range planning; and we have in addition a mounting emergency. Present proposals may not be perfect but they do go far to meet the immediate need.

Our present reserve requirements have come to be what they are by a process of legislative changes that have never caught up with the facts. For a long time this condition made little difference, but we are now getting to the point where an arrangement originating in Civil War times is altogether too far out of line for present day needs. The arrangement I mean is that which determines the required reserves of banks on the basis of their location. As a matter of fact a bank's location is under modern conditions a pretty poor criterion for determining the reserves it should maintain. The important thing is the kind of deposits, no matter where the bank is, and I think that exploration for a more sensible basis for reserve requirements should be in that direction without regard to location. The further objective should be a requirement administratively feasible, equitable and adapted to the American system of banking.

So far in considering this problem it has been argued, at one extreme, that deposits should not be classified at all or that requirements should be uniform against all classes of deposits. This was the situation under the National Bank Act and is still the situation under the banking laws of half of the States. At the other extreme, it has been argued that a detailed classification should be made based on such characteristics as turnover, volatility, size, and economic activity of depositor —whether an individual or a business, whether local or national. Some classification is necessary, I believe, but it should not be too elaborate. Furthermore, the requirements should be subject to administrative change, as at present, and they should take account of vault cash and interbank balances.

But this search for a new basic system of requirements is a long range affair which the immediate emergency can not wait for; and I think it would be wrong for me to leave you with the thought that we are concentrating on the future and comfortably leaving the present to take care of itself. On the contrary, we feel the need of covering both fronts at once. We feel the need of giving greater effectiveness to the permanent instruments of credit control, but we also feel the need of powers to correct the maladjustments that the war we thought we had won is still vexing us with and that the cold war we now have on our hands is aggravating.

I am glad to have had this opportunity to discuss with you these measures which the Board believes its responsibilities call upon it to recommend. The public has a right to hear from the Board on the problems that engage its attention and the Board feels very keenly the responsibility resting upon it to keep the public informed, not only in the annual reports which it submits to Congress but in special reports from time to time. The measures I have been describing need to be weighed in the light of present difficulties, economic and political, domestic and international. Though they involve technicalities and factors that seem remote from the day-to-day problems of business, they have in reality a close bearing on the future demand for your goods and services as business and professional men, on the supply of goods and services you require, and on the future value of your dollar. I hope that my account of them has been helpful in clarifying their relationship to your individual interests.

This much we all know, we are living in most unusual and uncertain times. We therefore must be informed and prepared to meet any eventuality.

The Strength of Dynamic Capitalism

(Continued from page 24)

under current world developments.

It is a fact that in 1947 the United States shipped more machine tools and industrial machinery and equipment to Russia than we shipped to France, Belgium and Italy combined.

In addition to that in 1947 the United States shipped more electrical equipment and electronic devices to Russia than we shipped to England and France combined.

To me this does not add up. I hold that unless and until there is a definite change in Russian policy for the better, the United States should not ship one single machine or item of equipment to Russia which could become a part of a Communist war machine.

More than that, we should endeavor to have other liberty-loving countries follow the same policy. In other words, with the clash of views that have been so evident in Russian policy, we should affirmatively move forward in an economic contest, extending a helping hand to countries that are moving toward freedom, but refusing to add to the economic and military potential of those that are seeking to destroy liberty.

Likewise on the ideological front, we should ingeniously disseminate facts and information around the world and aid those who speak out for freedom in other countries. We should note that the Communist organization under the recent experiences in Czechoslovakia, in Poland, and in the Canadian spy case, is a definite subversive arm of the Kremlin's foreign policy and seeks to wipe out the liberties of others. Consequently the Communist Party should be promptly outlawed in America and in all freedom loving countries.

We Must Remain Strong

It is obviously also necessary that we remain strong and alert in a military sense in this critical world period. Above all I urge that we keep our American domestic economy strong and sound, and that we do not take a passive, defensive attitude. It should not be the American objective to prepare passively to defend freedom against Communism. It should not be the American objective to simply stop the spread of Communism. It must be the American objective to defeat Communism on the economic and ideological fronts and at the same time to extend an invitation to the people of Russia to move toward freedom and peace rather than slide down the grim road of slavery toward the holocaust of a third World War.

Nothing less than this is worthy of America. Nothing less than this holds a ray of hope for the future progress of peace and freedom.

Curb Realty Associates Elect Officers, Directors

At the annual meeting of New York Curb Exchange Realty Associates, Inc., realty affiliate of the New York Curb Exchange, James R. Dyer and David U. Page were elected directors to serve a three-year term. Mr. Dyer, a partner in the firm of Dates & Dyer, is also a member of the Curb Exchange board of governors.

Mr. Page was reelected President of the Curb Realty Associates at the organization meeting. William B. Stenhardt was Vice-President and Christopher Hengeveld, Jr., Secretary-Treasurer. Frederick J. Roth was reappointed Assistant Treasurer.

Mr. Roth and Mr. Steinhardt were elected Inspectors of Election for the annual meeting in April, 1949.

Mortgage Investors Corp.

Mortgage Investors Corp. is engaging in a securities business from offices at 25 Broad Street, New York City.

New Capital Formation in the Petroleum Industry

(Continued from page 13)

the estimated deficiency increased to $300 million, and in 1948 a continuing though smaller deficit is indicated on the basis of current prices. These results, compared with the annual average for 1934-1945, are presented in the following table:

CASH INCOME AVAILABLE FROM EARNINGS AND ITS RELATION TO CAPITAL EXPENDITURES OF 30 OIL COMPANIES

Years 1946-1948 and the Average for 1934-1945

	1934-1945 Average	1946 Actual	1947 Estimate	1948 Estimate
	———	——— Million	Dollars ———	———
Net income	$423	$763	$1,218	$1,600
Add: capital extinguishments and other non-cash charges	634	789	878	975
Cash income from earnings	1,057	1,552	2,096	2,575
Deduct: dividends paid to company and minority interest stockholders	245	351	446	575
Available for capital expenditures and other purposes	812	1,201	1,650	2,000
Deduct capital expenditures	773	1,379	1,950	2,100
Balance available for other purposes	+ 39	— 178	— 300	— 100
Price range of 36 gravity mid-continent crude oil	—$1.00 $1.22	—$1.17 $1.62	—$1.62 $2.57	*$2.57

*Price on March 15, 1948.

This tabulation reveals the relationship between price and capital requirements, and points to the need for the rising prices in 1946 and 1947 to provide for the larger capital expenditures indicated. Price advances in fact were initiated in 1946 and the trend continued upward through 1947, levelling off in the first quarter of 1948. These price advances have brought internal capital formation back into a more normal balance with capital requirements.

The past fourteen years were also marked by an increasing percentage of net income retained for reinvestment in the business. The trend is shown in the following table:

PERCENTAGE OF NET INCOME OF 30 OIL COMPANIES RETAINED FOR INVESTMENT IN THE BUSINESS YEARS 1934-1947

Year—	Net Income	Preferred and Common Dividends	Dividends in Per Cent of Net Income	Net Income Retained in Business
	——— Million	Dollars ———	——— Per	Cent ———
1934-1938	$1,695	$968	57.1	42.9
1939-1943	2,141	1,111	51.9	48.1
1944-1946	2,004	910	45.4	54.6
1934-1946	5,340	*2,939	51.2	48.8
1947 (estimated)	1,218	425	34.9	65.1

*Excludes stock dividends amounting to $201,000,000.

Thus, in the first five years of the period, the proportion of retention was 42.9%; in the second five years, 48.1%; and in the next three years, 54.6%. And in 1947, the estimated figure is 65.1%. Accordingly, the oil company stockholders have been making a growing contribution to the process of capital formation.

Capital Funds From External Sources

While the cash generated by the 30 Oil Companies almost exactly balanced the capital expenditures and dividend requirements for the thirteen-year period, 1934-1946, it was not sufficient to meet the entire fiscal needs of the group. The total requirements were $18.5 billion, or $4.3 billion in excess of the self-generated funds. The group, accordingly, called upon the capital markets to the extent of $4.1 billion, leaving $0.2 billion which was obtained through sale of assets and other transactions.

Of the amount raised from outside financing, however, $3.7 billion, or 90%, went into the refunding and retirement of long-term debt and preferred stock, leaving $0.4 billion of net new funds for use in the business. Working capital during the period increased $0.9 billion, which may be accounted for as follows: cash earnings in excess of capital expenditures and dividends, $0.3 billion dollars; proceeds from sale of assets and other transactions, $0.2 billion; and net funds from financing, $0.4 billion dollars.

As to outside financing of the 30 Oil Companies, for the thirteen-year period, 1934-1946, the total gross borrowings were $3.7 billion dollars, and the issuance of common and preferred stocks amounted to $0.4 billion. Of the borrowings, 39% was obtained from the public, 33% from banks, 18% from insurance companies, 6% from U. S. Government Agencies, and 4% from other sources. It is apparent, therefore, that equity financing has played a minor role in the petroleum industry during this period. On the whole, the petroleum industry has been singularly self-contained in its processes of capital formation, and thus ranks as an exceptionally self-reliant enterprise, making minimum call upon outside savings for its growth.

A review of the trend of these financial transactions indicates marked variability from year to year and particularly from cycle to cycle. The most conspicuous pattern is for the total amounts of outside capital obtained to rise with rising prices and to fall with falling prices. This correlation supports the thesis that capital requirements constitute an important price determinant, because in periods of expanding or high-level business the industry must increase both its volume of internally-generated capital and the amount of capital sought from the capital markets. Thus in the post-war period of rapidly expanding oil demand, not only have oil prices advanced but the capital markets have been drawn upon in greater degree, a necessary combination in enabling supply to overtake demand.

The borrowings of the 30 Oil Companies declined in 1947 from 1946, but the use of bank and insurance company facilities increased while no recourse was made to public funds. On the other hand, equity financings showed a marked increase from an insignificant level in 1946, slightly exceeding the amount reached in 1937 but falling far behind relative to the magnitude of the capital requirements. Presumably this source of funds would have been called upon more heavily in 1947 if the receptiveness of the capital markets had been greater.

In 1946 and 1947, several of the 30 Oil Companies made arrangements with banks to borrow funds aggregating $392 million. The borrowings against these commitments totalled $195 million during this period, leaving a balance of $197 million available for 1948.

Borrowed and Invested Capital Employed by 30 Oil Companies

At the close of 1946, the 30 Oil Companies were employing $9.2 billion of capital. Of this amount about 13% represented borrowed capital and 87% invested capital. Accordingly, only about one-eighth of the total capital employed by the petroleum industry is in the form of long-term debt, a low ratio conducive to economic stability.

Of the total borrowing outstanding at the close of 1946, 45% was from the public, 30% from banks, 18% from insurance companies, and 7% from other sources. The trend in each of these categories has been compiled for the years 1933-1946 together with the items of invested capital. It is shown that while the total borrowed and invested capital has increased $2.3 since 1933, borrowed funds have expanded only $0.3 billion, thereby maintaining almost the same ratio to the total capital employed. The debt held by the public, however, declined about $0.2 billion while the bank debt increased nearly $0.4 billion dollars and the obligations owed insurance companies increased $0.2 billion.

The Consumer Versus the Stockholder

It is apparent from the figures adduced in this study that industrial growth must be provided for by the consumer, the stockholder, and other investors in suitable proportions. These proportions can scarcely be planned in advance because they depend upon many variables, the chief of which are supply and demand and the degree of direct and indirect control exercised over the capital markets. Artificially low interest rates have encouraged borrowings and the importance of banks and insurance companies as a source of capital funds for the petroleum industry has increased as compared with borrowings from the public.

At the same time, the drying up of risk capital resulting from regulation of the stock exchanges, limitations on the use of credit in the purchase of securities, and the high taxes on personal incomes have made equity financing difficult and costly. The petroleum industry, as an example, has not been enabled to use this source of funds to full extent. As a result, it would appear that one of the principal reservoirs of funds is not fully available and greater dependence must therefore be placed on the same price level and borrowings to generate the capital needed for expansion. If this example is typical, it should follow that an effective means of offsetting high prices in general would be a relaxation of existing rigid controls on stock trading and a reduction in the income taxes levied against savers.

Conclusions

(1) The petroleum industry generates the bulk of its capital requirements out of retained cash earnings; that is, corporate savings.

(2) The remainder of its capital requirements is obtained through borrowings and equity financing, representing an admixture of current savings by others and future savings.

(3) Borrowings have greatly exceeded equity financing, presumably because of artificially low interest rates, on the one hand, and the unreceptiveness of the equity markets, on the other.

(4) In 1946, internally generated capital began to fall sharply below capital requirements and called for the higher oil prices which eventuated.

(5) At present, a more normal relationship has reappeared between the capital internally generated and that sought from the capital markets, but the entry of new equity capital into the business is still retarded by the nature of the equity markets.

6. Any steps taken to revitalize the equity markets by relaxing governmental controls and by increasing the supply of equity capital through tax reduction, would augment the capital funds available for the expansion of productive facilities, and therefore would constitute a price-mitigating factor.

Will Tax Reduction Mean More Inflation?

(Continued from page 9)

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."

All this is essentially good economic argument. But Prof. Hauhart neglects a further circumstance in the present situation, which I have referred to above, namely, that a large part of the individual income taxes have already been shifted to employers and producers and have become imbedded in higher price levels. Ever since Adam Smith laid down the principle that taxes on wages could be shifted, and that even levies on skilled employments and professions could be passed to others whom they serve, because their compensation "necessarily keeps a certain proportion to the emoluments of inferior trades," it has been a widely accepted doctrine that taxes on wages or fees are not generally borne by the workers, but by employers, whose profits are proportionately reduced thereby.

This is the so-called "classical theory," but it amounts to a generalization that is not always borne out by the facts. As stated by the late Prof. Edwin R. A. Seligman (who, probably more than any other economist, living or dead, delved into the perplexities of the incidence and shifting of taxation), "whether or not a tax on wages will be shifted on profits, even in the long run, depends entirely on the relative strength of the labor organizations and on other conditions which may compel the employer to an increase of wages equivalent to the amount of the tax." If Prof. Seligman were living today he undoubtedly, would have to acknowledge that because of the existing strength of labor organizations and the present phase of the business cycle (i.e. full employment under artificially expanded consumer demand), income taxes already have been largely shifted by wage earners and other employees together with professional groups to employers, who, in turn, because of large and expanded consumer buying, are enabled to add the cost thereof to prices of their products. Thus much of the burden of our high taxes has spread over the whole economy in the form of higher prices. *If this is the case (and, I believe it can be proven statistically or otherwise), a moderate reduction in individual income taxes at the present time will not be inflationary.* In fact, it may be moderately deflationary, and an approach to a healthier economic status. Certainly, with prices no longer rising as result of high taxes, and with "take home" pay increased by tax reduction, the workers would have no sound basis for demanding a third round of wage increases, and thus higher wage costs will not force up prices to a higher level.

The Spending Neurosis

A factor of considerable importance relating to inflationary effects of tax reduction is the prevailing attitude of the public toward saving and spending. The late Prof. Keynes has studied this psychological phenomena and has made it a part of his General Theory of Employment. "Unless something occurs to change the propensity to consume," says Keynes, "employment can only increase *pari passu* with investment." Now, the question is: Will a reduction in taxation increase the propensity to consume, or will it, as Keynes indicated might happen, result in greater saving accompanied by greater investment?

It has already been noted above, that a reduction of taxes on the highest income brackets is not likely to lead to higher consumer demands by these groups, provided their living standards have not been impaired. It is this class which, because of tax reduction, can furnish a larger amount for capital investment.

Moreover, tax reduction on incomes and profits, is, in itself an incentive to greater investment.

As to the lower income brackets, the propensity to consume will be maintained to a considerable extent, as long as prosperity persists, but a point of resistance and a diminishing return on consumer spending can be ushered in at the first stroke of declining employment, or fear of an oncoming depression. There is already some evidence of a portending change to this condition. There is more buyer resistance not only to higher prices, but to purchases of certain classes of consumers goods—particularly those goods of the luxury or semi-luxury types, such as radios, electrical equipment and the like. One has only to recall what happened in 1920, when the complacency and optimism of both wage earners and businessmen was rudely shocked by what was then called "a buyers' strike." I do not infer that the same situation will necessarily develop in 1948, but it is quite apparent from present commodity market events that the upward inflation spiral is flattening out. Under the circumstances, the propensity that prevails in prosperity periods to expand consumer spending is waning, and, because of its depressing psychological effect on the public, *moderate tax reductions at the present time would have more of a deflationary than an inflationary effect.*

This conclusion, of course, is arrived at on the basis of present government outlays, without reference to the European Aid Program. Should government expenditures, because of the program, again create an excessive demand for goods, and thereby affect prices and wages, a new inflationary impulse will be inaugurated, whether taxes are reduced or increased.

Jacques Scholle With Buckley On Pac. Coast

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CALIF.—Jacques Scholle has become associated with Buckley Brothers, 625 Broadway, Mr. Scholle was formerly in the institutional service department of Gearhart & Co., Inc., in New York City, and prior thereto with J. Arthur Warner & Co.

Holds Gold Standard Key to Liberty

(Continued from first page)

through the Senate without bringing forth the criticism of any of this group of prominent men, all of them reared in the tradition of American liberty and democracy. It seems to me more true than ever that vigilance is the price of liberty.

"You asked me the other day to expatiate on the relationship between the gold standard and human liberty. Section 15(b)4 might serve as a point of departure for my demonstration as to this relationship.

"I have asserted a few times that the right to leave a country is the basis of all other human rights. This proposition seems to me evident. It is enough to think of the situation of a German during the Nazi regime, or the situation of a Russian citizen. If he is ashamed to be part of the community in which he happens to be born, or if he simply chooses to go and live in a community more congenial to his sense of human dignity, he simply cannot do it. You may perhaps know that the American delegate to the Economic and Social Council has been instructed to have in the International Bill of Human Rights a provision recognizing the right of an individual to leave a country, be it the country of which he happens to be a citizen.

"It seems to me indisputable that the right to leave a country is the basis of all other human rights. If the right to leave a country is denied to us, all other human rights become insecure.

"Now, if a country does not deny to an individual the right to leave it, but prevents him from taking with him whatever wealth he might have accumulated, it makes it practically impossible for the individual or his family to leave that country. This is in fact the effect of the inconvertibility of currencies and exchange controls. Therefore exchange controls are an instrument against human liberty. For a currency not to be an instrument against human liberty it must be convertible into other currencies. The only international currency so far know acceptable to all people all over the world is gold. That is why the gold standard, with implied free convertibility, is essential to human liberty.

"If we go one step further it can be proved that the gold coin standard is an essential condition of human liberty. Quite recently some European governments have requisitioned from their citizens any foreign currency or foreign deposits they may have held. An individual under such circumstances was helpless. If, for instance, the real cause of the weak financial situation of the country was Socialism or demagoguery, and the individual decided that he is going to live in a country where a man can still be free to enterprise, he was incapable of doing it. If there had been gold coins in circulation a government might have tried to requisition his gold, but the individual could have buried it under earth until he could make sure that he is in a position to leave the country. In point of fact, this is what many peasants in France are doing, not because they want to leave the country, but simply to protect their little wealth against the squandering of money by weak or demagogic government. I realize that all this sounds like a declaration of independence by an individual vis-a-vis his government. A citation from the 'Declaration of Independence' of the Americans would be very appropriate at this point. I share the view with many others that the boundary between democracy and totalitarianism is at the point where we recognize or refuse to recognize that a government is all-powerful over the individual. The Bill of Rights in the American Constitution is nothing else than the affirmation of certain inalienable rights which the individual has and which the all-powerful state cannot take away from him. It is part of the 'social contract' between the individual and the community in which he chooses to live.

"Second, the gold standard is also an instrument of defense of human liberty for the simple reason that it makes it impossible for the government to squander money. Lenin knew very well that the squandering of money was one of the most efficient ways of destroying economic liberalism, democracy, and human liberty. Here again there is no doubt that a gold coin standard is more efficient in the fight against demagogic or would-be-totalitarian governments than a convential type of gold standard of the type which I have described at the round-table discussion on the gold standard at the National Conference Board. The conventional type of gold standard leaves an individual the right to convert his money into foreign currencies and thereby exercise a brake on domestic monetary expansion and government follies. The trouble with the conventional type of gold standard is of course that the government can institute an exchange control and thereby make conversion into foreign currency impossible. Moreover, at certain times like the present one, an American citizen who gets frightened, for instance, because of policies of the government, albeit made with the consent of the people, would be at a loss to know in what foreign currency he could find a safe refuge. If there were gold coins it would be enough for him to hoard coins and thereby make it inaccessible to any government, dictatorial as it may be. I am told that to this very day in Russia there is a good deal of bartering being done with jewels which were kept in hiding since the Russian revolution.

"Yours very sincerely,

"PHILIP CORTNEY

"New York City

"March 23, 1948."

With Hicks & Price

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Joseph P. Velek is now with Hicks & Price, 231 South La Salle Street, members of the New York and Chicago Stock Exchanges.

Stewart J. Lee & Co.

Partners in the firm of Stewart J. Lee & Co., 60 Wall Street, New York City, are now Stewart J. Lee and Edythe V. Lee, Lewis P. Stillman having retired from the firm.

J. H. Lewis & Co. Inc. in New York

J. H. Lewis & Co., Inc., is engaging in a securities business from offices at 109 Broad Street, New York City.

Emil Weiss Opens

Emil Weiss is engaging in a securities business from offices at 212 West 72nd Street, New York City.

The Behavior of Wages

(Continued from page 21)

period from September, 1945, to February, 1947:

(a) 3.7 million workers in 43 industries received average increases of 17.5 cents to 20 cents an hour;

(b) 5.9 million workers in 61 industries received increases ranging from 5.8 cents to 17.4 cents an hour;

(c) 6.1 million workers in 49 industries received average increases of more than 20 cents an hour. To some extent, these larger increases reflected so-called second-round wage increases.

An analysis of changes in weekly earnings reveals similar results. For this same group of industries, the following changes took place from September, 1945, to February, 1947:

(a) 4.0 million workers in 18 industries received increases of \$7 to \$8 a week, the so-called national pattern.

(b) 2.6 million workers in 32 industries received \$6 to \$7 more per week.

(c) 6.1 million workers in 70 industries received weekly increases of less than \$6.

(d) 2.0 million workers in 19 industries received average increases of \$8 to \$10 weekly.

(e) 1.0 million workers in 14 industries had average increases in excess of \$10 weekly.

How a Free Economy Functions

The diverse changes in hourly, weekly and annual wages have their origins in the nature of a dynamic economy. Uniform wage adjustments are incompatible with the functioning of a free economy. Such an economy is and must be fluid. Industries rise and fall in the public favor. New inventions, shifts in demand, changes in population, differing rates of gain in productivity, changes in national income, shifting price levels—these and a host of other forces fall with uneven impact upon different companies and industries.

The following conclusions emerge from a study of the relationship between changes in hourly earnings and the designated economic variables.

Changes in Employment: An examination of the relationships prevailing in three periods—1923 to 1940, 1940 to 1944, and January, 1945, to January, 1947—reveals that, while there are some exceptions, industries with expanding employment tended to have larger increases in average hourly earnings than did those with declines in employment. This relative improvement in the level of wages of such expanding industries probably helped to attract the labor supply they needed.

Labor Content: Wages to Value of Product: Although hourly earnings tended to be somewhat lower in those industries in which wage costs were a relatively higher proportion of the total value of the product, there were so many exceptions to this statement that it must be made with great care. No significant relationship prevailed between changes in hourly earnings and the labor content measured in terms of value of product.

Labor Content: Wages to Value Added by Manufacture: There was a general tendency for industries with relatively higher wage costs to value added by manufacture to show smaller increases in hourly earnings from 1923 to 1939 and to have lower levels of hourly earnings in 1939. Here, too, there were many exceptions. On balance, however, the relationship appeared to be more significant than those based upon value of product.

Productivity: There have been fairly close relationships between changes in real hourly earnings and changes in productivity over *long* periods of time in all manufacturing industries. However, the analysis of the relationships in 17 manufacturing industries gives little support to the claim that changes in wages in a particular industry should, or will, parallel changes in productivity in that industry. Productivity changes vary so widely among industries that any attempt to relate wage adjustments to those changes would soon destroy the wage structure which has been built up over the years in the give-and-take of the market place.

Unit Labor Costs: Unit labor costs reflect the combined impact of changes in wages and changes in productivity. Sharper gains in productivity characterized the interwar period 1923-1939, and hence unit labor costs declined in each of the 17 industries for which wage data were obtainable. As a general rule, the decline in unit labor costs was greatest for industries with the smallest increases in average hourly earnings. Since 1939, the available evidence indicates that increases in hourly earnings have exceeded increases in productivity by a wide margin and hence unit labor costs have risen considerably.

Wholesale Prices: A fairly close relationship tended to prevail between changes in average hourly earnings and wholesale prices from 1923 to 1939. The smallest declines in prices generally occurred in industries with the largest gains in average hourly earnings. These relationships indicate long-run rather than short-term tendencies. (However, the number of cases was too few for definite conclusions.)

In addition to the above factors which were subject to quantitative measurement, there are other significant forces which operate to determine wage relationships. These include labor immobility, geographic factors, relative stability of employment and job security, and the social prestige attending certain types of jobs. Finally, underlying all these relationships is the level of economic activity which operates to determine the general direction of wage changes.

Other Economic Pressures

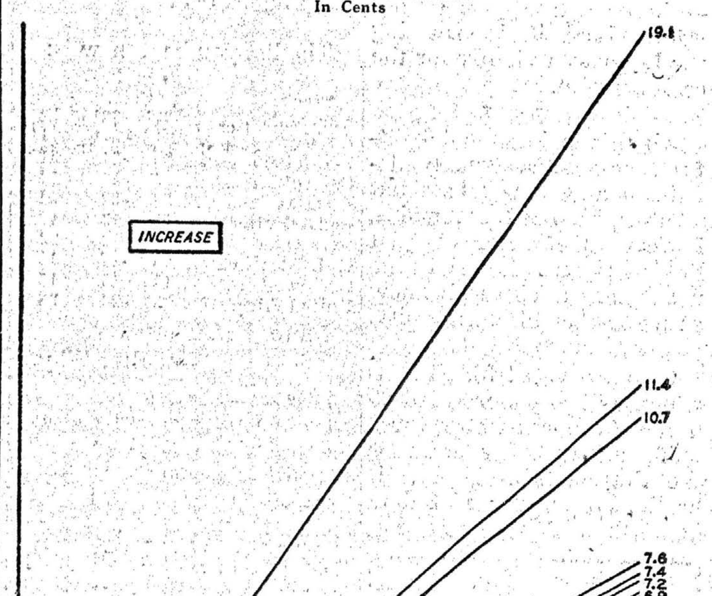
Any analysis of past changes in wages, regardless of which concept of wage is used, shows that the idea of wage patterns is alien to our type of economy and to the effective functioning of a dynamic economy. The explanation for wage changes is not mysterious. Collective bargaining and arbitration hearings do affect particular rates. But wage rates basically are affected by all forms of economic pressures. The relative importance of wages, the need to attract employees, the impact upon price, changes in productivity—all these factors and others have had an influence in determining the wage structure which has evolved. Singly and jointly, they help to explain why our wage structure has had changes which have been diverse rather than uniform.

There is no support in these findings for the adoption of uniform national wage patterns when broad wage movements take place. Such uniform patterns of change assume that a continuation of prevailing wage relationships is desirable. But change is the major characteristic of a dynamic economy. Under these conditions, diversity rather than uniformity in wage changes is the essential prerequisite for the effective functioning of our economy.

Actual Change in Average Hourly Earnings, 25 Manufacturing Industries, 1923 to 1929

Source: *The Conference Board*

In Cents



Broken line represent 25 manufacturing industries

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Indications of immediate trend still uncertain. Slow nibbling at overhead offerings, however, point to higher prices.

* * *

I had hoped last week that there would be enough shown in the subsequent week to call for specific rather than general advice. But whatever it was I had hoped to see, didn't materialize, or if it did, I had on the wrong kind of glasses because I missed it completely.

* * *

Two weeks ago I said here that stocks would run into offerings at certain levels. They did. Last week I saw a kind of double-edged sword being dangled over the market a la Damocles. To me this meant a sharp break followed by an equally sharp rally was ahead. At this writing it is still ahead.

* * *

The major financial news of the week — maybe of the year — is the tax cut passed over President Truman's veto. There's been a lot of cheering about this. The daily papers have headlined this development on their front pages, first when Truman vetoed it — interpreting this action as traitorous to the common man — and secondly when Congress passed it, interpreting the latter as a victory for the common man.

* * *

All this makes for delightful reading and equally delightful arguments about who's right. The fact remains, however, that even though I like my tax cuts as well as the next man, a cut right now seems the height of assininity.

* * *

Congress voted for ERP — which will cost more than $6 billion (You remember those indignant screams of milk for the Hottentots?). To this it has added another $5 billion (that's the tax cut just passed). That means we have to find $11 billion somewhere to make up the amount. It's elementary that a tax cut is inflationary, because more money in circulation will mean more bidding for goods.

* * *

I can't help wondering how cutting income by $11 billion will aid in balancing the budget or cut the debt. If any Board of Directors ran their company the way Congress is running the country — well, make your own forecast. Of course I assume that once the elections are over, taxes will go up again; either that or more deficit financing.

* * *

You're probably wondering what all this has to do with the stock market. The answer is it has a lot to do with it, but I'm not naive enough to let my feelings stand in the way of profits. So long as Congress does nothing about checking inflation, in fact encouraging it, the market will go higher. There may be pauses, what the boys with the slide rules call technical reactions, but by and large the outlook is "hold your hats boys, here we go again!"

* * *

Summing it up this means that the stocks you hold will probably go higher. How much is a guess. Yours is as good as mine. Maybe better.

* * *

Don't be foolish, however, and think from here on it will all be a one-way street. You have stops. Use them. They won't protect you from injury but they'll keep you from bleeding to death.

* * *

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	25 -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.]

R. A. Cunningham With E. W. Clucas & Co.

Richard A. Cunningham has become associated with E. W. Clucas & Co., 70 Pine Street, New York City, members of the New York Stock Exchange, as manager of the municipal bond department. He was formerly with J. G. White & Co. He has been active in Wall Street since 1924 and during World War II served four years with the U. S. Army.

Registration Revoked

The broker-dealer registration of Arleen W. Hughes, proprietor of E. W. Hughes & Co., Colorado Springs, Colo., has been revoked by the Securities and Exchange Commission it has been announced.

United Front in Securities Industry

(Continued from page 8)

freedom and greater prosperity than any alternative which is being suggested or tried, our people are becoming unified behind our Constitution and our economic institutions.

Although there are soft spots here and there in our economy—spots which have not been adjusted or readjusted to postwar conditions—fundamentally, business is sound—strong—and of substantial proportions. In the absence of external war, and if certain tax laws and other restrictive practices can be changed, I can see no need to fear any serious depression in our overall business picture.

Furthermore, there is no group more responsive to public opinion than the Congress, and recent events indicate that the Congress is taking the bit in its teeth to make our country function as it should. There is no question that our Congressmen wish to be patriotic in the extreme but it is common knowledge that, at times, they do encounter difficulties in overcoming partisanship and pressure from certain groups which are not primarily concerned with the best interests of the country. Thus it is most encouraging to see them striving for these best interests without regard to the factors mentioned—even in the face of a Presidential election year. The realization that it is good politics as well as good citizenship to work solely for what will benefit the country as a whole may have something to do with this. I might add that even the Chief Executive seems to be veering around to this point of view.

Revision of Tax Structure

I am confident that the majority of the Congressmen are fully cognizant of the dangerous trends which have been created by the Federal tax structure, in particular. And I further am of the opinion that every effort is being and will continue to be made to reverse the trends of the past 15 years so that equity capital may be accumulated and put to work in American industry and commerce in direct proportion to its needs.

The Securities industry plays a major role in providing the machinery through which venture capital—in all degrees of risk—has flowed to industry and commerce. But that machinery has been slowed down to an alarming tempo largely because of a burdensome and inequitable tax structure. If the Securities industry is to function in the interest of the national economy — that condition must be changed.

That of course is our Number One problem. And I fully expect that the relief this year will be followed with a continued study of the problems so that we may expect next year a tax structure which will provide necessary revenues to the government and at the same time permit sufficient risk capital to be available for all types of progressive demands.

Another encouraging sign on the horizon is the recent action of the Federal Reserve Board in finally recognizing the inequities and the discriminatory aspects of the non-substitution rule. Now even though your customers have insufficient margin they may exercise judgment. This will contribute materially to more liquid securities markets.

Removal of Margin Restrictions

There are indications too that the Federal Reserve Board sees the signs of the times, and I wouldn't be at all surprised one of these days to see an announcement that they had accomplished their purported mission of "preventing a runaway securities market by restraining sufficiently the use of credit in the securities markets" and that they were now reducing margins to 50%. You and I know that there never was any logical reason for 100% or 75% margins. I have every confidence that the Federal Reserve Board is nearly out from under some of the influence of Mr. Eccles. The other members desire a progressive economy and I believe that they will do everything within their power to bring it about.

We can take courage and hope in the realistic approach of the Securities and Exchange Commission to its duties. The members of that Commission are patriotically concerned now with making our economy tick, not with making it over. We have seen gratifying evidence that the Commission wishes to act in a reasonable and constructive manner and that its members today are public spirited men as interested in the progress and expansion of American industry and commerce as you and I.

Yes, indeed, there are signs of encouragement from these sources. Of equal importance, however, is the encouragement we can take from what is happening within our industry.

We are making definite progress in the direction of presenting a united front, and the public standing of our industry is better than it ever has been. The New York Stock Exchange and its members—the Chicago Stock Exchange and its members — have demonstrated their high sense of public responsibility. And through the New York Stock Exchange's advertising campaign reaching 37 million people, and the motion picture, "Money at Work," which we hope will be shown by the end of this year to more than two million people in all walks of life, the public has a greater appreciation of our contribution to this country's progress. This program has helped us all.

Demagogic Attacks

In the field of finance we shall always be subjected to demagogic and misinformed attacks. We must actively counteract them. Too often these attacks are from individuals who should know better. To illustrate what I mean, let me tell you an experience I had the other morning coming into New York from my home in New Jersey. A friend of mine and I were discussing the floor of the New York Stock Exchange. He was in the securities business, but not in a member firm. He said all you need on the floor of the Stock Exchange are some good messengers to handle your orders. "Why do you have floor members?" he continued, "I'll admit the specialists perform some valuable services, but why pay floor brokers?"

Now this fellow is an able man —an intelligent one—but he was obviously uninformed, or worse, misinformed as to the floor activities of the New York Stock Exchange, or the Chicago Stock Exchange. I could have followed the path of least resistance—agreed with him and gone on reading my newspaper. But I resented his implications with respect to an important part of our industry. And I undertook to explain to him some of the details of floor executions in an auction market where trading is concentrated—the responsibilities floor brokers undertake when they accept customers' orders for execution— and I invited him to visit the floor to see first-hand whether or not he would want the job himself.

As I say, he is intelligent, and he admitted that his knowledge of floor activities was extremely limited and that he shouldn't make such statements about things of which he knows so little. I doubt that he will make loose statements like this again — at least on the subject of floor brokers. I think I convinced him.

This incident illustrates how we can be guilty ourselves of unwittingly contributing to public misunderstanding or of failing to make the effort to clear up misunderstanding when it is discovered. My experience is that the securities business is much more the victim of ignorance than it is of ill will. Or at least when ill will exists, it is usually based on ignorance.

Higher Ethical Standards

I know of no business or industry that requires any higher standards of ethics or ability than does ours. Not only that; these standards are made higher and broader as the years go by. Occasionally an individual will "fall from grace," violate the ethics that he has sworn to uphold and bring disgrace and unfavorable publicity upon all of us. Fortunately these lapses and weaknesses of human beings are rare indeed, and compare most favorably with the record of other professions. They are so rare that you can be sure of a Page One Story, and it hurts. Unfortunately, we have not been able to get across to the public that in the overwhelming majority of these incidents the discovery of the offender and the offense is through machinery created by ourselves, in our constant endeavor to maintain the standards in which we believe.

It has always been my firm conviction, that the greatest enemies of human progress are prejudice and ignorance. I believe that these twin forces account for most of the world's ills and difficulties. They are certainly exploited on the public rostrum by the critics of our industry, and yes, let me say again, those who do not believe in the free way of life. The entire record of this Association offers cumulative proof that we can overcome ignorance and misunderstanding. We must charge ourselves individually and collectively with the task of doing the best public relations and educational job of which we are capable. We represent a great business for which we need make no apologies.

Industry needs equity capital now to meet its demand for expansion. It is the job of the securities industry to provide it. It is our job in the stock exchange business to point the way. Many listed companies need funds—equity funds. They must have them on reasonable terms. Prices and values must be in equilibrium. The stage is set. It is up to us.

The most important issue in the world today, is not only the preservation but the expansion of human freedom. In this major battle our industry is an essential part because in the countries where the fire of liberty is snuffed out, also terminated are free capital markets. In the countries that are free, expanding capital markets help make that freedom more real and more secure. We have a job to do.

James E. Reed Co. Opens

SALT LAKE CITY, UTAH— —James E. Reed has formed James E. Reed Co. with offices at 19 East First South Street, to engage in the securities business.

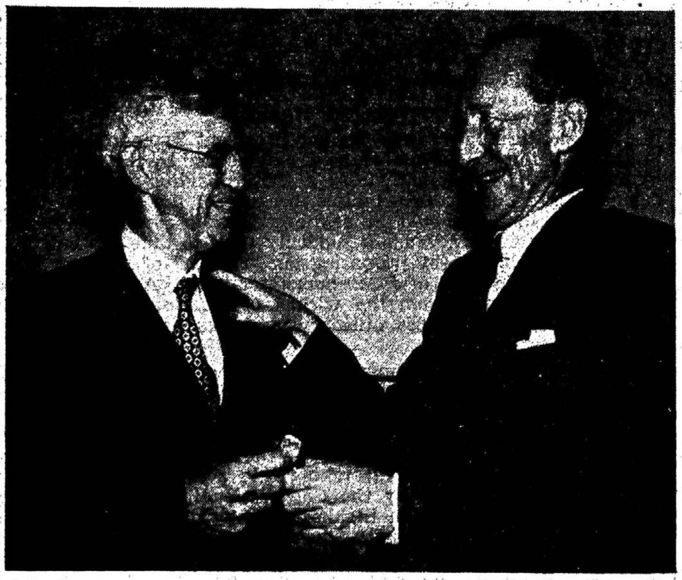
Henry L. Allen Dead

Henry L. Allen, formerly head of the New York municipal firm of H. L. Allen & Co., is dead.

News About Banks and Bankers

(Continued from page 37)

Officers and employees of **Land Title Bank and Trust Company of Philadelphia** paid tribute on April 1 to William S. Johnson, Vice-President, on his 50th anniversary with the bank. Presentations were made by Percy C. Madeira, Jr., President, on behalf of the bank, and by Frederick S. Habicht, President of the Pioneer Club for the employees. The ceremonies took place almost in the exact spot on which Mr. Johnson began his career with the bank, for his office today occupies the place where he started in as an assistant to the



Mr. Madeira extends congratulations to Mr. Johnson

receiving teller at $25 a month. Although Mr. Johnson is eligible to retire on a pension, he is remaining in active service at the request of the bank's board of directors. Mr. Johnson has seen many changes in his half-century in the banking industry. He has witnessed banking's development into a broader and more personalized service to the community, serving all of the people in all walks of life from the days when "it was generally an exclusive class of people who carried accounts." From assistant to the receiving teller he was promoted successively to bookkeeper, auditor, general ledger bookkeeper, Assistant Treasurer, Treasurer, and then Vice-President. Mr. Johnson is a Director of Land Title, Keystone Automobile Club, Keystone Casualty Insurance Co., Keystone Fire Insurance Co., Jacob Reed's Sons and Middle Pennsylvania Coal Co.

* * *

A new branch of **The Bank of Virginia at Richmond** is scheduled to open at 1618-20 Hull Street, Richmond, about June 1, according to an announcement on April 5 by Thomas C. Boushall, President. The new office will be known as the South Richmond Branch and will be under the management of Hartwell F. Taylor, Assistant Vice-President in the Richmond office, who has served in various departments of the bank during the past 15 years, according to Mr. Boushall.

* * *

It is announced by Joseph M. Dodge, President of the **Detroit Bank of Detroit, Mich.**, that Harold Carr has been named as Assistant to Glenn C. Mellinger, Assistant Vice-President. Mr. Carr has previously been an Assistant Cashier, says the Detroit "Free Press," from which we quote.

* * *

Ross Harrison of Kansas City, former Finance Commissioner of Missouri, has been elected a Vice-President of **United Bank & Trust Company of St. Louis**, according to the "Globe Democrat" of that city. More recently it is stated he was Vice-President of a bank at Kansas City.

* * *

With regret the board of directors of the **South Texas Commercial National Bank, of Houston, Texas,** announces the retirement of Sam R. Lawder as President, due to ill health. Harris McAshan was elected President. Paul L. Rounsaville was elected Vice-President in the correspondent bank division.

* * *

The United States National Bank of Portland, Oregon, formally opened to the public on March 29 over 17,000 square feet of newly designed facilities and executive offices said to represent one of the most modern interior developments in the nation. According to the bank's announcement, the large centralized executive quarters and the ultramodern note department are both completely paneled with Oregon myrtlewood; other beautiful woods, including walnut, lace wood and oak flexwood are used in five adjoining conference rooms. According to E. C. Sammons, President, the growth of the bank's facilities and activity during the past few years in conjunction with the industrial and commercial development in Oregon made necessary this third floor expansion. This remodeling program at the head office of the bank, it is said, is only one step in a development plan for the bank's State-wide system. The recent opening of the institution's 34th branch at Yoncalla and the new Metropolitan branch, now nearing completion in downtown Portland, are two other steps in the same plan.

* * *

Election of Mitchell Tillotson, Manager of the Klamath Falls branch of the **First National Bank of Portland, Ore.,** and Harry L. Claterbos, Manager of the Astoria branch of the bank to Vice-Presidencies was announced recently by Frank N. Gelgrano, Jr., President of the bank. This was made known in the Portland "Oregonian" of March 6, which likewise stated, that at the same time Mr. Belgrano reported that the bank was making a large number of other personnel promotions, many of them resulting from the two Vice-Presidential appointments.

* * *

Advancements in the **National Bank of Commerce of Seattle, Wash.** were announced on Feb. 26 by Andrew Price, and Maxwell Carlson, the bank's Chairman and President, respectively, it was stated in the Seattle "Times" which in noting the changes said in part:

"Ronald A. Macdonald, formerly Cashier of the National Bank of Washington at Tacoma, will become Vice-President of the Commerce Bank. In this position Mr. Macdonald will assume much of the responsibility shouldered by Mr. Carlson prior to his advancement to the Presidency at the Seattle bank's recent annual meeting, at which time former President Price became Chairman."

* * *

The Chartered Bank of India, Australia & China announced on Feb. 24 that Cecil Robbins Cherry of Boustead & Co. Ltd. has joined their Board.

* * *

The Bank of Australia, after making a transfer to the credit of contingencies account, out of which account provision for all bad and doubtful debts has been made, showed profits in the account for the year to Oct. 15 last, including £259,560. 1. 8d brought forward from the previous account, enable the Directors to declare a final dividend of 5/6d. per share (5½% actual) less income tax at 9s/- in the £., payable on April 2 to proprietors registered in the books of the bank at close of business on March 8. The advices, dated Feb. 26 also stated that the dividend now announced, together with that paid on Oct. 3 last, represents a distribution for the year at the rate of 9% per annum less tax. The reserve fund remains at £2,500,000 and the currency reserve at £2,000,000. £280,398.9.4 will be carried carried forward to the next account. Net profit for the year £243,-588.7.8 (last year £223,014. 9. 1d.)

* * *

The directors of the **National Bank of India Ltd.** recommend a final dividend of 8%, making 16% for the year 1947, less income tax. £60,000 has been added to the staff pensions funds, £20,000 transferred to premises account, and £75,000 placed to reserve fund, leaving £277,206 to be carried forward to the next accounts.

Notice was also issued by the bank on March 9 that the ordinary general meeting of the shareholders will be held at the bank's premises in London on March 30 to receive the accounts to Dec. 31, last, with the relative report by the directors, to declare a dividend, to elect directors, to appoint auditors, and for general purposes. An extraordinary general meeting will be held immediately following the ordinary general meeting in connection with a special resolution for the alteration of the bank's memorandum of association.

Kuhn, Loeb Offers Pittsburgh Steel Bonds

An underwriting group headed by Kuhn, Loeb & Co.; A. G. Becker & Co. Inc., and Hemphill, Noyes & Co. is offering today (April 8) to the public a new issue of $6,500,000 Pittsburgh Steel Co. first mortgage 4¼% bonds, due April 1, 1958. The bonds are priced at 99% and accrued interest.

Proceeds from the sale of the bonds will be used by the company to redeem all of its first mortgage bonds which are presently outstanding in the amount of $6,986,000.

In addition to the new issue of first mortgage 4¼s the company will have outstanding $1,700,800 as a liability under agreement for the purchase of a blast furnace from the War Assets Administration; 61,171 shares of 5½% cumulative prior preferred stock; 97,-462 shares of class A 5% cumulative preferred; 5,749 shares of class B 7% cumulative preferred, and 508,917 shares of common stock.

The company reported for the year 1947 net profit of $4,019,637 compared with net of $46,635 in 1946.

Pittsburgh Steel is engaged primarily in the manufacture and sale of tubular products, wire products and semi-finished steel products.

The Stock Market Outlook

(Continued from page 11)

tion the company was engaged in the public service business of supplying gas to a number of communities in Ohio. As part of this operation it became necessary to obtain a supply of natural gas. This was successful, but very substantial oil properties were developed incidentally. The value of these oil properties eventually overshadowed the public utility interests and the latter were disposed of in 1924.

Total stated assets of the company amount to approximately $245 million and practically all of its properties are located in the United States. The company's only important foreign holding is a 75% interest in a subsidiary with undeveloped concessions in Venezuela. Capitalization of the company is represented by approximately $32.6 million in long-term debt, $44.2 million in 5% preferred stock, and 3,982,000 shares of common.

The annual report published a short while ago stated crude oil reserves amounted to 500 million barrels. These reserves valued at 75 cents per barrel of oil would be worth $375 million. Deducting debt and preferred stock in the amount of $76.8 million and adding $48.7 million in net working capital leaves $347 million or approximately $87 per share of common stock. This does not take into consideration other extensive assets. The distribution system of the company, for instance, is spread out over twenty-six states. It would be impossible to form any accurate judgment in the opinion of the management "as to actual replacement value of these properties at this time, but it would be many times the original cost as the value of real estate and the cost of construction have greatly increased over the thirty-four years during which they were acquired."

Last year the company was handicapped by strikes at several of its refineries. Net income in 1947 was $21.2 million compared with $17.1 million in 1946, an increase of 24%. Expressed in terms of earnings per share, results were $4.77 and $3.74, an increase of nearly 28%. The explanation for the larger percentage increase in common share earnings than in net income is due to the leverage provided by the preferred stock. Taking into consideration higher prices now prevailing for crude, the potential increase from this source alone would be approximately $2.50 per share thus placing this year's net in excess of $7. Dividends last year amounted to $1.50 which at present prices offers a return of nearly 5%.

With respect to its crude oil operations, the annual report stated: "The intensified exploration program has resulted in a very substantial increase in reserves, much more than offsetting the oil produced during the year. The company will continue to treat the finding and developing of new reserves as a policy which cannot be too aggressively pursued. During the year, the Company's development work proved up and expanded in a number of important producing areas. In the Dollarhide pool in West Texas, it has discovered an important reserve which will be recovered from three different sands: the Devonian, Silurian and Ellenburger. In the Worland field in Wyoming, the year's operation has met favorable expectations. The Company has large holdings in leases on the Continental Shelf in the Gulf of Mexico, an area which is attracting a great deal of attention in the industry."

Pure Oil selling around 32 is, in our judgment, a grossly undervalued equity and particularly suitable as a substitution for many less desirable issues as well as for at least a portion of available cash funds.

Allen & Co. Offers P. S. of New Mex. Stock

Allen & Co. are offering today (Thursday) 339,639 shares of $7 par value common stock of Public Service Co. of New Mexico. The stock is priced to the public at $13.25 a share.

The stock being offered is outstanding and is owned by Cities Service Co. All proceeds of the offering will accrue to Cities Service and not to Public Service Co. Cities Service has advised the company that its purpose in making the sale is to comply with the requirements of Section 11 (b) (1) of the Public Utility Holding Company Act of 1935 and an order of the SEC directing the disposition by Cities of its interests in various companies. Upon completion of this sale the company and its subsidiary will no longer be subsidiaries or affiliates of Cities Service Co.

Public Service Co. of New Mexico is a public utility operating company engaged principally in the generation, purchase, distribution and sale of electricity and the purchase, sale and distribution of natural gas, and in rendering water service. The territory served by the company includes a large area in North Central New Mexico embracing the cities of Albuquerque, Santa Fe and Las Vegas, and Deming in Southwestern New Mexico.

Outstanding capitalization of the company on Dec. 31, 1947 consisted of $6,800,000 first mortgage bonds 2⅞% series due 1977 and 524,903 shares of $7 par common stock. The capitalization will not be changed by this financing.

Net income for 1947 was $775,-010 and total operating revenues were $5,123,990.

Harriman Ripley Offers Okla. Gas & Elec. Pfd.

Harriman Ripley & Co., Inc., heads a group that is offering publicly today (April 8) 65,000 shares of Oklahoma Gas and Electric Co. cumulative preferred stock, 5¼% series (par $100) at $104 per share and accrued dividends.

Net proceeds will be used to finance in part the company's estimated construction expenditures for 1948, including payment of a $1,000,000 bank loan made to temporarily finance part of these expenditures.

The preferred stock will be redeemable on or before Dec. 31, 1953 at $109 per share; thereafter to and including Dec. 31, 1958 at $108 per share; and thereafter at $107 per share; in each case plus accrued dividends.

The company is an operating electric public utility company and is now engaged in the production, transmission, distribution and sale of electricity in Oklahoma and Arkansas. It furnishes retail electric service in 225 communities and contiguous rural and suburban territory in Oklahoma and western Arkansas and electric energy at wholesale for resale in 15 communities and to 14 rural electric cooperatives in those states.

Branch of E. A. Clark & Co.

SHORT HILLS, N. J.—E. A. Clark & Co., New York investment firm, has opened a branch office at 33 Jefferson Avenue, under the direction of Edgar A. Clark, partner in the firm.

The SEC and Perversity

(Continued from page 3)

evidence of the market price, the Commission would not produce them. This doctrine of "reasonable relationship to the market price" fell through in that case.

As we see the Commission's idea of what serves the public interest is not infrequently completely wrong.

Returning to the subject of financial statements, it is to be hoped that the SEC will in a measure retrieve itself by removing one of the injustices which have been a product of its existence, through the decreeing of confidential treatment to the financial statements filed by brokers and dealers.

IT'S ABOUT TIME THE SEC KEPT FAITH WITH THE SMALL DEALER.

This is the least that it can do.

We believe that the securities industry will not rest until this amend is made.

The Congress has been alerted as well as the securities industry, and both are on the watch.

Where Are We in the Business Cycle?

(Continued from first page)

tionary boom, which will end in collapse and depression.

The third special condition is war. A prolonged and desperate war creates a cycle of its own. There is first the unnatural economic activity of the war period, with its abnormal demand for commodities, labor and credit; its vast accumulation of savings and profits, and its outpouring of government bonds and expansion of bank deposits. This is the first stage in war economics. The second stage is the reconversion period, after peace comes.

The third stage is the first postwar prosperity. The pent-up consumer demand pours into the market. The savings of the war period create an extraordinary demand for consumer goods. The inflationary forces built up by the war seize hold. Prices rise rapidly. A sellers' market develops in raw materials. There is a great demand for producers goods and equipment. Labor strikes for higher wages and gets them. A swollen prosperity develops.

It never lasts. It always collapses into the fourth stage—the first postwar depression. This is usually a short, but violent, destructive collapse of the boom. It is usually marked by a drastic fall in prices, the wiping out of overvalued inventories, a large volume of insolvencies, and much unemployment. The flimsy and fly-by-night enterprises which have been riding the prosperity wave are wiped out.

The first postwar depression is followed by the fifth stage, the second postwar prosperity. On the new and lower level of prices and production, a steady prosperity is built. It is a long prosperity. It may last many years. It is followed by the second postwar depression, which is long in coming and tragic in its consequences. It is a prolonged and painful period of industrial stagnation, with menacing economic, social and political consequences.

Most Feverish Boom in All History

This country has followed this pattern after every war. There is nothing to indicate that we shall not follow this pattern after the greatest of all wars. If we are following it, where are we now? Nobody can answer this question with certainty. For two years we have been in the third stage, the first postwar boom. It has been the most bloated and feverish boom in all history, with the most stupendous retail sales, volume of production, national income and volume of employment in the history of the nation. It has been marked by the most rapid rise of prices and the highest wage scales in history.

That it could not continue should have been obvious to any informed person; it was self-evident that this swollen economic balloon would burst some time. But all parties responsible for it went blindly on. The chief culprits were the buying public, business enterprise, labor unions and the government. The public, instead of saving, has been spending its wartime savings and its huge wage receipts like a drunken sailor, even going into debt for high-priced consumer goods. Business enterprise has been engaged in a reckless competition for materials and equipment, forcing commodity prices to absurd levels and making long-time commitments. Labor unions, by every means, extorted higher wages and shorter hours from weak-kneed and short-sighted employers, adding still further to the price rise developed by inflationary forces. And our government has adopted policies directly opposite to those it should have adopted. It continued to spend money on an astronomical scale. It continued to levy wartime tax rates. It even for a time attempted to maintain price-control laws.

Keeping Prices Down by Law Inflationary

There is no policy so inflationary in a boom period as keeping prices down by law. It merely means abnormal consumption and exhaustion of all supplies, followed by collapse of price control. The Administration's concern over inflation has been chiefly political, in response to the howls of a public which has no concern over inflation but wants inflation wages and inflation profits with prewar consumers prices. The Administration has been catering to labor groups which demand $3 an hour but insist on 40-cent butter and 50-cent steaks and $2 shirts. What the government should have done was to cut government expenditures to the very bone, our taxes to the same pattern, and leave prices and rationing to the economic system. High prices are the economic system's automatic effort to stop high prices.

Along with the Administration, many of our authorities are saying that the one cure for inflation is more production. This is bad economics. The basic cause of the bloated condition of our economy is reckless spending. This means a seller's market, with excessive competition for labor and more materials, excessive outlays for equipment and excessive costs of production. Under these conditions, increased production means increased costs and still higher prices. It is no cure for an overheated boiler to put in more coal. The cures for inflation are less consumer spending, less government spending, lower taxes and more imports of foreign goods.

In late 1947, one widely-known economist said he could see no reduction in prosperity in 1948. The economist for one of the great New York banks said that the boom would continue through 1948. The financial editor of a great New York paper said that national production would reach $250 billion in 1948. Past history indicates that when the experts begin to say that this time the business cycle course will not develop, the collapse is only a little way ahead. At the very moment the President was appealing urgently to Congress to do something about inflation, the bottom dropped out of farm prices, which an outraged economic system would no longer stand.

Nobody knows whether this drop in commodity prices is the beginning of recession. But it can be said that this break does not in itself mean depression; it was chiefly in one group of commodities alone — farm prices. The stock market broke, but there was no panic. What has happened so far is not enough to bring on depression—not enough to wipe out unnatural prices and production conditions now obtaining.

Reduced Government Expenses And Taxes Will Ease Depression

In one way or another, the present swollen conditions will be removed. One way is by a severe depression. The other is by a gradual and less violent coming down to normal. It will help if government will reduce expense and cut taxes. It will help if big business will put profits into surplus rather than into extra dividends, bonuses and plant expansion, and if it will reduce its scramble for raw materials. It will help if organized labor will come to its senses. Organized labor has already made it impossible for the ordinary worker to buy an automobile or build a home. It is slowly strangling a number of national industries, by excessive wages, reduced hours and reduced output. Nothing could do more injury to the mass of American workers than another round of wage increases in the minority group of high-wage workers in the base industries. It would insure a severe depression and condemn millions of workers to unemployment and destitution.

Heads Division of N. Y. Catholic Appeal

Peter J. Murphy, of F. S. Smithers & Co., has been appointed Chairman of the Investment Bankers Division of the Cardinal's Committee of the Laity for the 1948 fund appeal of New York Catholic Charities for which a goal of $2,500,000 has been set. Edward F. Hayes, of Glore, Forgan & Co., will serve as Vice-Chairman.

Announcement of the appointment was made by John A. Coleman, of Adler, Coleman & Co., Executive Chairman of the Cardinal's Committee, of which John S. Burke, of B. Altman & Co., is Chairman.

The Special Gifts Committee comprising business and professional leaders of New York City solicits substantial contributions from charitable businessmen on the basis of the wide community service rendered by the 184 welfare institutions affiliated with Catholic Charities. Last year these agencies served 416,000 persons. The canvass this year will end April 28.

Observations

(Continued from page 5)

the $1,000 man; the $25,000 man 99 times as much as the $1,000 man, and the $100,000 income-recipient actually pays 669 times as much as does the $1,000 man. On higher comparative levels the $25,000 individual pays 10 times as much as the $5,000-er, the $50,000 man 27 times more than the $5,000-er, and the $100,000 income-receiver pays 69 times as much as does the $5,000 man.

Is this merely taxing-according-to-ability-to-pay, or is it a full step toward Capital-Levy? This week's Budget Message of Sir Stafford Cripps stimulates our uncertainty.

In any event, and apart from the resultant material inability of the speculator or investor to supply corporate capital, the consequent imposition of overweighted odds against fair compensation for risk-assumption must not be forgotten.

Political Arguing

The political motivation behind President Truman's opposition to tax reduction is indisputable, as was evidenced by the self-reversal in his State of the Union Message. After having repeatedly condemned tax reduction in principle, because of the inflation threat, and stating that it should in any event await overall revision of the tax structure, Mr. Truman suddenly tried to take the ball away from the Republicans by proposing tax "reform" of his own in the almost burlesque form of a $40-bonus-per-voter. And the required funds were to come from the wicked corporations, whose capital outlays to the tune of $50 billion were urged by the President in the same message.

Much other of Mr. Truman's reasoning gives the unmistakable impression that he has been arguing toward his "can't afford" argument in support of a preconceived fight against tax-reduction by the present Congress. For example he blandly predicted in his latest veto message that the $4.8 billion surplus in the January budget estimates would be wiped out, without taking into account at all the $10.1 billion surplus estimated by the Congressional Joint Committee of the Budget in February on the basis of the old tax law. Also in the same vein were his glossing over of the need for economy, and his voicing of the Democratic Administration's newly-professed concern over the size of the nation's public debt.

Strategy of Delay

A common and frequent argument against tax reduction is along the "now-is-not-the-time" line. But surely the time to reduce the excessive tax burdens (as demonstrated above) actually is in periods like the present when the government is enjoying large surpluses. If tax rates are maintained at a level to produce sizeable surpluses, when will the nation ever become imbued with the incentive to trim its expenditures? Some of our leading editorial comment notwithstanding, concentration on the expenditure side of the budget instead of on available income, is in government, just as it is within the family, to put the cart before the horse. Not to realize this, like so much else in the never-ending controversy over tax policy, is to engage in the most objectively biased special pleading. With the overwhelming number of such special pleaders considering themselves under-privileged, the unlikelihood of realistic reasoning toward sound policies can be easily imagined.

ABA Reports Shift to Buyers' Market

Survey by its Credit Policy Commission shows greater consumer resistance and retail sales falling off.

Bankers in all sections of the United States report business as a whole is good, with excellent prospects for the immediate future, according to the Credit Policy Commission of the American Bankers Association, which on April 8 completed another of its spot surveys of banker opinion.

This sampling of banks, which covers institutions of all sizes in every section of the country, shows that five out of six believe that business for the next quarter, barring unforeseen adverse events, will be good. They report some local unfavorable factors such as bad weather retarding agriculture, and pending labor strikes.

Due recognition is given by the bankers to present inflationary conditions, and they report business as making necessary adjustments and themselves as being more selective in the extension of credit.

It is pointed out in a number of instances that the take-home pay of employees in some businesses has decreased due to the elimination of overtime work. Other salaried groups are finding it hard to make ends meet because their wages have not increased to a point commensurate with the rise in commodity prices. This condition is contributing to an increasing trend of slowness in the payment of debts. Income tax payments also are reported as affecting collections during March. The situation, however, is not regarded as dangerous; but it does call for closer attention to the extension of credit and to collection methods.

With the exception of only a few of the reporting banks, the survey shows that consumer resistance is noticeably increasing. One out of nine bankers says that the resistance is quite substantial and a definite shift is taking place from a sellers' to a buyers' market. Buyers appear to be more cautious and price conscious and more selective as to the quality and brand name of merchandise. The lack of spendable funds has affected this development of consumer resistance.

Retail sales are reported as falling off by seven out of ten replies. Most bankers report the same dollar volume of sales but fewer units. Frequent references are made by the bankers to the fact that inventories of electrical appliances, radios, and shoes are not turning over as fast as formerly. Apparently the supply of these items is beginning to approximate effective demand. The bankers expect greater sales effort in the future and are watching inventories closely to eliminate overstocking and to establish a better balance.

George Kemp Dead

George Stevenson Kemp, long prominent in financial circles in Richmond, Va., died April 5 at the age of 70. He began his career with Scott & Stringfellow, and formed Bryan, Kemp & Co. in 1920. Later he was associated with Livingston & Co. He retired from active business associations 10 years ago, but retained his membership in the New York Stock Exchange until late in 1947.

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):

	Date	Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Apr. 11	84.4	*88.3	96.6	95.1
Equivalent to—					
Steel ingots and castings produced (net tons)	Apr. 11	1,521,300	*1,591,600	1,741,200	1,664,200
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Mar. 27	5,377,250	5,240,250	5,387,125	4,865,100
Crude runs to stills—daily average (bbls.)	Mar. 27	5,324,000	5,344,000	5,463,000	4,790,000
Gasoline output (bbls.)	Mar. 27	15,783,000	15,600,000	15,796,000	14,255,000
Kerosine output (bbls.)	Mar. 27	2,647,000	2,631,000	2,780,000	2,033,000
Gas oil and distillate fuel oil output (bbls.)	Mar. 27	7,682,000	7,472,000	7,963,000	5,885,000
Residual fuel oil output (bbls.)	Mar. 27	8,854,000	9,006,000	8,324,000	8,600,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Mar. 27	112,991,000	113,247,000	111,040,000	105,731,000
Kerosine (bbls.) at	Mar. 27	10,459,000	9,948,000	9,594,000	9,917,000
Gas oil and distillate fuel oil (bbls.) at	Mar. 27	30,717,000	30,723,000	33,836,000	31,610,000
Residual fuel oil (bbls.) at	Mar. 27	48,334,000	47,603,000	49,206,000	43,235,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Mar. 27	664,375	700,482	791,089	829,392
Revenue freight rec'd from connections (number of cars)	Mar. 27	612,014	689,062	735,952	721,846
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS-RECORD:					
Total U. S. construction	Apr. 1	$218,784,000	$137,910,000	$187,872,000	$130,762,000
Private construction	Apr. 1	136,726,000	69,598,000	71,728,000	59,427,000
Public construction	Apr. 1	82,058,000	68,312,000	112,144,000	71,341,000
State and municipal	Apr. 1	50,792,000	63,630,000	55,527,000	50,464,000
Federal	Apr. 1	31,266,000	4,682,000	56,617,000	20,877,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Mar. 27	2,120,000	4,360,000	12,925,000	12,182,000
Pennsylvania anthracite (tons)	Mar. 27	892,000	1,182,000	1,238,000	1,190,000
Beehive coke (tons)	Mar. 27	7,200	*51,700	132,400	135,300
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Mar. 27	331	312	248	282
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Apr. 3	5,036,788	5,064,555	5,292,595	4,693,055
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Apr. 1	91	101	113	71
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Mar. 30	3.23940c	3.23940c	3.23940c	2.86354c
Pig iron (per gross ton)	Mar. 30	$40.29	$40.29	$40.37	$33.15
Scrap steel (per gross ton)	Mar. 30	$40.25	$40.25	$40.00	$37.33
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Mar. 31	21.200c	21.200c	21.200c	21.225c
Export refinery at	Mar. 31	21.575c	21.425c	21.500c	22.525c
Straits tin (New York) at	Mar. 31	94.000c	94.000c	94.000c	70.000c
Lead (New York) at	Mar. 31	15.000c	15.000c	15.000c	15.000c
Lead (St. Louis) at	Mar. 31	14.800c	14.800c	14.800c	14.800c
Zinc (East St. Louis) at	Mar. 31	12.000c	12.000c	12.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Apr. 6	100.79	100.92	100.75	104.76
Average corporate	Apr. 6	111.81	111.44	111.25	117.40
Aaa	Apr. 6	117.20	116.80	116.41	122.50
Aa	Apr. 6	115.63	115.24	115.04	120.43
A	Apr. 6	111.07	110.88	110.52	116.80
Baa	Apr. 6	104.31	103.80	103.80	110.15
Railroad Group	Apr. 6	106.56	106.21	105.69	112.56
Public Utilities Group	Apr. 6	113.50	113.12	113.12	118.60
Industrials Group	Apr. 6	115.82	115.43	115.24	121.04
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Apr. 6	2.44	2.44	2.45	2.18
Average corporate	Apr. 6	3.07	3.09	3.10	2.78
Aaa	Apr. 6	2.79	2.81	2.83	2.53
Aa	Apr. 6	2.87	2.89	2.90	2.63
A	Apr. 6	3.11	3.12	3.14	2.81
Baa	Apr. 6	3.49	3.52	3.52	3.16
Railroad Group	Apr. 6	3.36	3.38	3.41	3.03
Public Utilities Group	Apr. 6	2.98	3.00	3.00	2.72
Industrials Group	Apr. 6	2.86	2.88	2.89	2.60
MOODY'S COMMODITY INDEX	Apr. 6	414.9	412.2	413.7	420.0
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Apr. 3	229.2	232.7	228.7	221.9
Fats and oils	Apr. 3	228.0	248.8	244.0	320.7
Farm products	Apr. 3	250.3	251.1	258.0	250.8
Cotton	Apr. 3	337.9	329.7	324.3	335.1
Grains	Apr. 3	288.4	275.7	277.4	246.2
Livestock	Apr. 3	235.1	236.1	247.9	242.9
Fuels	Apr. 3	220.8	220.8	220.8	170.2
Miscellaneous commodities	Apr. 3	175.0	175.0	174.1	162.4
Textiles	Apr. 3	212.0	211.7	212.7	217.2
Metals	Apr. 3	163.5	163.5	163.5	147.7
Building materials	Apr. 3	230.4	233.3	232.8	203.4
Chemicals and drugs	Apr. 3	156.8	156.8	157.0	154.5
Fertilizer materials	Apr. 3	137.7	137.6	137.7	128.0
Fertilizers	Apr. 3	143.7	143.7	143.0	133.7
Farm machinery	Apr. 3	138.8	138.8	138.1	126.3
All groups combined	Apr. 3	215.4	216.8	217.0	200.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Mar. 27	176,395	157,299	169,597	160,450
Production (tons)	Mar. 27	193,650	192,531	180,943	180,729
Percentage of activity	Mar. 27	104	104	101	102
Unfilled orders (tons) at	Mar. 27	419,845	439,166	423,510	549,774
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Apr. 2	146.0	145.4	147.2	154.9
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Mar. 27	161.1	161.5	159.2	149.4
Farm products	Mar. 27	186.2	187.6	182.8	183.8
Foods	Mar. 27	174.8	176.4	170.5	166.5
Hides and leather products	Mar. 27	186.2	185.9	188.5	174.2
Textile products	Mar. 27	145.2	145.6	146.2	138.7
Fuel and lighting materials	Mar. 27	131.7	131.7	131.7	103.5
Metal and metal products	Mar. 27	156.0	156.0	155.6	140.3
Building materials	Mar. 27	192.5	192.6	192.1	177.0
Chemicals and allied products	Mar. 27	135.1	135.8	135.3	132.3
Housefurnishings goods	Mar. 27	144.3	144.3	143.7	126.6
Miscellaneous commodities	Mar. 27	120.8	119.9	119.0	114.9
Special groups—					
Raw materials	Mar. 27	175.9	176.5	173.9	165.5
Semi-manufactured articles	Mar. 27	152.9	153.3	154.8	145.1
Manufactured products	Mar. 27	155.9	156.3	153.5	143.3
All commodities other than farm products	Mar. 27	155.5	155.7	153.9	141.9
All commodities other than farm products and foods	Mar. 27	147.4	147.3	147.3	131.9

*Revised figure.

	Latest Month	Previous Month	Year Ago
AMERICAN PETROLEUM INSTITUTE—Month of December:			
Total domestic production (bbls. of 42 gallons each)	177,800,000	*170,687,000	157,122,000
Domestic crude oil output (bbls.)	165,443,000	158,736,000	146,471,000
Natural gasoline output (bbls.)	12,307,000	*11,901,000	10,501,000
Benzol output (bbls.)	50,000	50,000	150,000
Crude oil imports (bbls.)	8,812,000	7,688,000	7,061,000
Refined products imports (bbls.)	6,126,000	5,631,000	5,264,000
Indicated consumption—domestic and export (bbls.)	206,764,000	*182,168,000	185,395,000
Decrease—all stocks (bbls.)	14,026,000	†1,838,000	15,948,000
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS RECORD — Month of March:			
Total U. S. construction	$508,096,000	$474,643,000	$400,415,000
Private construction	220,715,000	227,010,000	286,049,000
Public construction	287,381,000	247,633,000	114,366,000
State and Municipal	188,288,000	113,385,000	98,819,000
Federal	99,093,000	134,248,000	15,547,000
COMMERCIAL STEEL FORGINGS (DEPT. OF COMMERCE)—Month of January:			
Shipments (short tons)	118,534	116,798	116,074
Unfilled orders at end of month (short tons)	618,155	593,660	723,158
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of February	283.9	282.9	261.7
COTTON GINNING (DEPT. OF COMMERCE)—Preliminary Report Per Crop Year Issued March 22:			
Running bales (exclusive of linters)	11,548,929	------	8,517,291
COTTON SPINNING (DEPT. OF COMMERCE)			
Spinning spindles in place on Feb. 29	23,720,000	23,786,000	23,854,572
Spinning spindles active on Feb. 29	21,489,000	21,450,000	21,954,340
Active spindle hours (000s omitted), Feb.	9,819,000	10,802,000	9,590,491
Average spindle hours per spindle in place, February (000's omitted)	440	454	403
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. 1935-39 AVERAGE =100—Month of February:			
Sales (average monthly), unadjusted	182	196	179
Sales (average daily), unadjusted	202	192	188
Sales (average daily), seasonally adjusted	241	240	224
Stocks, unadjusted as of Feb. 29	232	*205	*232
Stocks seasonally adjusted as of Feb. 29	250	*233	249
GRAY IRON CASTINGS (DEPT. OF COMMERCE)—Month of January:			
Shipments (short tons)	1,064,335	1,066,211	1,077,820
For sale (short tons)	584,238	587,933	632,789
For producers' own use (short tons)	480,097	478,278	445,031
Unfilled orders for sale at end of month (short tons)	2,802,685	2,782,236	3,021,141
LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of January:			
Death benefits	$121,007,000	$122,777,000	$116,105,000
Matured endowments	38,987,000	31,168,000	39,995,000
Disability payments	8,723,000	8,118,000	8,747,000
Annuity payments	24,275,000	16,216,000	22,581,000
Surrender values	32,694,000	36,017,000	28,201,000
Policy dividends	52,452,000	69,114,000	50,818,000
Total	$278,138,000	$283,410,000	$266,447,000
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE—Month of January (000's omitted)—			
Ordinary	$1,115,032	$1,478,120	$1,186,746
Industrial	194,804	287,203	181,554
Group	303,403	435,592	350,029
Total	$1,613,239	$2,200,915	$1,718,329
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE)—Month of January:			
Shipments (short tons)	77,744	77,757	75,898
For sale (short tons)	45,808	44,042	42,414
For producers' own use (short tons)	31,936	33,715	33,484
Orders booked, less cancellation for sale (short tons)	49,159	39,940	34,517
Unfilled orders, end of month, for sale (short tons)	205,759	202,408	259,764
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of March:			
Industrials (125)	5.5	5.9	4.7
Railroads (25)	6.7	6.9	6.3
Utilities (25)	5.5	5.5	4.5
Banks (15)	4.6	4.8	4.4
Insurance (10)	3.3	3.5	3.4
Average yield (200)	5.5	5.8	4.3
NON-FERROUS CASTINGS (DEPT. OF COMMERCE)—Shipments, Month of January:			
Aluminum (thousands of pounds)	38,312	37,489	40,696
Copper (thousands of pounds)	85,432	87,215	101,776
Magnesium (thousands of pounds)	659	669	864
Zinc (thousands of pounds)	36,149	37,218	43,589
Lead die (thousands of pounds)	1,303	1,308	1,195
PROSPECTIVE PLANTINGS PER 1948—U. S. CROP REPORTING BOARD—ACREAGES IN THOUSANDS—As of March 1:			
Corn, all	86,131	------	86,163
All spring wheat	19,789	------	19,879
Durum	3,092	------	2,952
Other spring wheat	16,697	------	16,927
Oats	45,709	------	42,501
Barley	12,660	------	12,050
Flaxseed	4,401	------	4,157
Rice	1,666	------	1,687
Sorghums for all purposes	12,983	------	11,705
Potatoes	2,162	------	2,147
Sweet potatoes	560	------	618
Tobacco	1,528	------	1,875
Beans, dry edible	1,811	------	1,839
Peas, dry field	470	------	551
Soybeans	11,659	------	12,884
Cowpeas	1,039	------	1,143
Peanuts	3,988	------	4,156
Hay	74,215	------	75,291
Sugar beets	902	------	966
SHOES AND SLIPPERS (DEPT. OF COMMERCE)—Month of December:			
Production (number of pairs)	39,824,000	*37,982,000	39,068,000
Shipments (number of pairs)	38,602,000	*38,999,000	38,000,000
Shipments (value of)	$149,462,000	*$141,931,000	$144,000,000
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of February:			
Net sales	------	$200,000	0
Net purchases	$177,355,550	------	0

*Revised figure. †Increase all stocks (bbls.).

Holds Loss of Investor Confidence Underlies Downward Trend in Security Markets

(Continued from page 39)

ward movement of common stock prices which began early in 1942. Wholesale and retail prices in the same period moved up only slightly, the Office of Price Administration permitting moderate increases in price ceilings in a number of industries to compensate companies for the added costs of first round wage increases. After breaking precipitately in September 1946, common stock prices have since moved sluggishly within a relatively narrow range approximately 15% below their May-September 1946 plateau. With the end of price control in July-October 1946, wholesale and retail prices began their second postwar sharp uphill climb.

In the months immediately following the initial postwar stock market break there was considerable difference of opinion among market analysts as to market prospects, some claiming that a reaction in a bull movement was in progress, others that a bear movement was being initiated. Subsequent events have swung sentiment increasingly in favor of the latter point of view.

As deflationary forces ultimately become paramount, common stock prices should fall relatively less than other prices. Partially offsetting the dampening effect of eventually falling earnings on common stock prices will be a tendency for the price-earnings ratio to rise. During 1947 this ratio averaged 8.4 compared with 16.7 in 1936-39. It should be noted that the drop of 11% in the Dow-Jones organized commodity futures index during the first two weeks in February was accompanied by a much milder reaction—a little over 4%—in the Dow-Jones index of common stock prices.

The period from V-J Day to the late summer of 1946 was characterized by rising common stock prices and falling corporate earnings. The subsequent period to date has reversed this pattern, common stock prices falling and corporate earnings generally rising.

Preliminary estimates covering all private corporations indicate fourth quarter 1947 profits in excess of the same quarter in 1946, the previous postwar high.[1] Published reports from a number of individual large corporations in steel, automobiles, and other industries lend support to such a record level.

In the months immediately following V-J Day aggregate corporate profits declined mainly because reconversion and work stoppages caused partial or complete shutdowns in many plants, particularly in the heavy producers and consumers durable goods industries. The automobile industry was particularly hard hit, the profits of 15 *large* companies, as computed by the Board of Governors, Federal Reserve System, dropping from 77 million dollars in the second quarter of 1945 to a negative 34 million dollars in the first quarter of 1946. Profits in those industries which had no reconversion problems and/or in which work stoppages were of brief duration—chemicals and food, for example—moved counter to the trend.

Relaxation of wage and other wartime controls in the closing months of 1945 encouraged a widespread belief that price controls would soon be weakened or abandoned. This expected sequence played a major role underlying higher profit expectations and consequent rising common stock prices in late 1945-early 1946. By the summer of 1946, however, deflation talk was increasing. Markets for some products, textiles are an illustration, seemed to be approaching a more "normal" demand-supply relationship. Other products remained in short supply but were expected to flood the markets once price control was abandoned, and (temporarily) higher prices again became the major spur to production on the part of businessmen. In other words, the general run of expectations in the summer of 1946 was for a quick run-up of prices after price decontrol followed by a probably mild deflation. Earnings would have fallen if this succession of events had materialized.

Seemingly in corroboration of the recession anticipations were the following characteristics of the autumn and winter of 1946-47; stock market break and resultant leveling in capital flotations, increased concern of businessmen over trends toward more selective buying on the part of consumers as prices (temporarily) rose, acceleration of inventory accumulation, failure of construction to fulfill expectations, and, during the latter part of the winter, general price leveling with actual declines in some textile and food lines.

The unexpected renewed strength of prices since mid-1947, touched off by crop reduction and realization of the need for further large-scale foreign aid, upset previous general expectations and halted, at least temporarily, further talk of deflation. In retrospect, probably the fundamental errors in business forecasts of deflation during 1946 and 1947 were (1) an underestimation of the strength of wartime accumulated inflationary forces both here and abroad, especially effective purchasing power, and (2) an overestimation of the magnitude of post-war domestic productive capacity and efficiency. In addition it was extremely difficult to foresee accurately the working out of inflationary forces in an economy in which wage (cost) and price controls were relaxed piecemeal *and* at different times. There is no reason for expecting greater prescience on this score from the stock market than from any other economic market or measure.

The renewed upward movement in prices after the middle of 1947 improved short-run expectations of corporate earnings which were already running at a high rate. The stock market, however, failed to respond. With the economy generally free of wartime controls and with prices and wages moving up fast, the investment community—like business analysts generally—appears to have become more and more convinced over time that the inflationary spiral will end in a sharp deflation similar to that of 1920-21. The longer-run outlook for earnings appears less favorable than the short-run outlook and apparently provides little basis for a sustained upturn in the market. Even a quick market upturn of substantial proportions and volume appears to be handicapped by uncertainties of the extent and timing of the "recession" as well as by the continued relative scarcity of speculative funds consequent on margin control.[2]

The importance of the decontrol timetable on the postwar relationship of earnings and common stock price trends is illustrated in Chart 2. The variance in quarterly percentage changes of industrial earnings and common stock prices was particularly great during the period in which controls were being relaxed.

Utilities and railroads have long been subject to price (rate) control. As a result, principally industrial companies were affected directly by the postwar price decontrol program of the Federal Government. Federal wage decontrol, however, cut across all types of business. The resulting rise in costs generally has had a particularly adverse effect on utility and rail earnings. This has in part been responsible for the somewhat wider postwar departures of actual and anticipated earnings and somewhat more marked postwar variations in earnings and common stock price trends in the industrial than in the utility and railroad fields.

Dividend Patterns

Dividend payments of all private corporations reached an estimated 6.6 billion dollars in 1947. This exceeds the previous 1929 high of 5.8 billion dollars and is a billion dollars above the level of the preceding year and two billion dollars in excess of the wartime average. The rise in dividends, however, has failed to keep pace with the postwar increase in earnings (see Chart 3). As a consequence, dividend payments of *all* private corporations have fallen from a wartime level of approximately 45% of earnings to 39% in 1947. A similar trend has characterized *large* corporations but at higher average. The estimated 1947 figures for the *large* companies in the Federal Reserve Board sample are: railroads, 47%; industrials, 52%; electric light and power, 73%; and telephone, 111%.

The greater stability of dividends than earnings results largely from the conscious effort of many companies to maintain a regular minimum level of dividend payments. This practice, although of importance in governing common stock values over an extended period of time, decreases the influence of dividend trends on shorter-term movements in common stock prices. Substantial extra dividend payments in the last quarter of 1947 had very little buoyant influence in the stock market. They were overshadowed by already described general expectation of downward earnings trends.

The outlook for dividend payments is somewhat better than that for earnings. Any earnings decline will probably be accompanied by a less than proportionate fall in dividends. This follows not only from the greater stability of dividends but also from the fact that under more normal conditions the income tax law provides some pressure for dividend payments up to 70% of earnings.

Capital Flotations

Net proceeds, i.e., gross proceeds less cost of flotation, from new corporate security issues, after rising from an end-of-war level of three billion dollars to over 6.7 billion dollars in 1946, fell in 1947 to a level slightly in excess of six billion dollars (see Chart 4). These net proceeds include new money, and funds to retire securities and repay other debt. The stock market break of September 1946 resulted in the cancellation of previously announced proposed issues on the part of a number of corporations and undoubtedly discouraged still other companies from considering similar projects. The over-all volume of new corporate security issues, however, continued strong for new money during 1947, although dropping sharply for refunding issues.

In general, only corporations with above-average credit ratings have ventured into the capital markets for new money in the last year. One indication of this is provided by the fact that private placements accounted for 34% of the total in 1947 compared with 20 and 25%, respectively, in 1945 and 1946.[3] Institutional investors, the recipients of most of the private placements, tend to place a much higher premium on risk than investors generally.

Of particularly great significance have been postwar trends in total new money flotations and that part represented by equity issues. It is here that the postwar financial needs of corporate business have become increasingly urgent.

Since V-J Day corporate business has been expanding its inventories, receivables, and plant and equipment at an average annual rate of approximately 25 billion dollars, about five times the corresponding rate for the years 1944 and 1945. The expansion in 1948 will probably be at a somewhat lower, although still substantial, rate. Present indications still point to plant and equipment expenditures roughly equal to the level of 1947. Receivables should continue to rise as companies increasingly revert toward their prewar reliance on trade credit facilities. Inventory accumulation, however, seems likely to be much lower in 1948; pipelines are becoming increasingly filled, and recent breaks in the commodity markets together with the further possibility of price declines there and elsewhere discourage further accumulation. This outlook for 1948 probably will not be affected materially by a downturn in business unless such decline strongly affects most major industries relatively early in the year.

The rapid expansion in fixed assets, inventories, and receivables created the need for about 50 billion dollars in funds by corporate business in 1946 and 1947. Perhaps as much as two-thirds of this

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1 *The Economic Report of the President, 1948.*

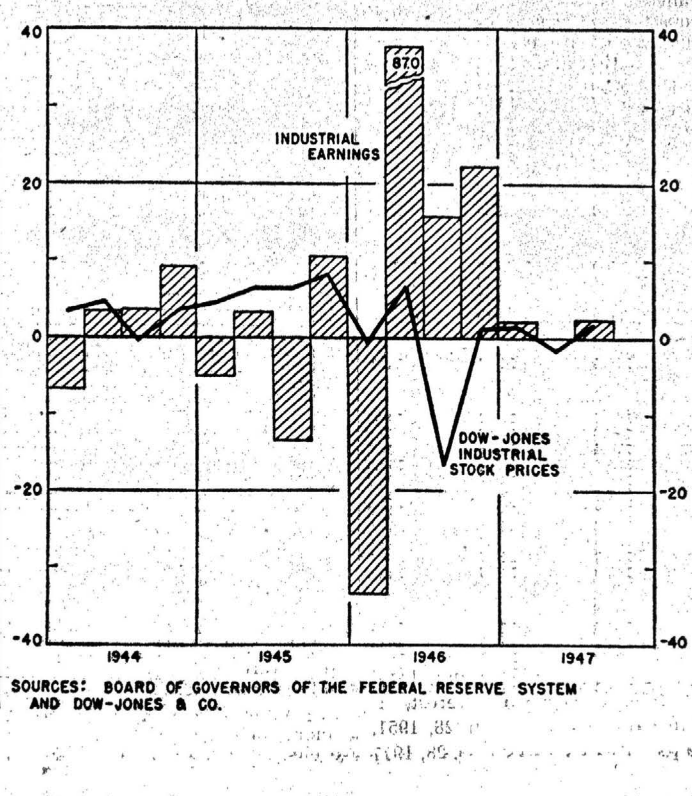
2 The greater speculative activity on the organized commodity markets in recent months is in part, at least, the result of less stringent margin requirements.

3 Private placements represent securities which are sold directly by the issuer to one or a few buyers. Since the general public is not involved, such transactions are exempt from the registration requirements of the Securities and Exchange Commission.

CHART II

COMMON STOCK PRICES FAIL TO MOVE CONSISTENTLY WITH INDUSTRIAL EARNINGS

(QUARTERLY PERCENTAGE CHANGES)

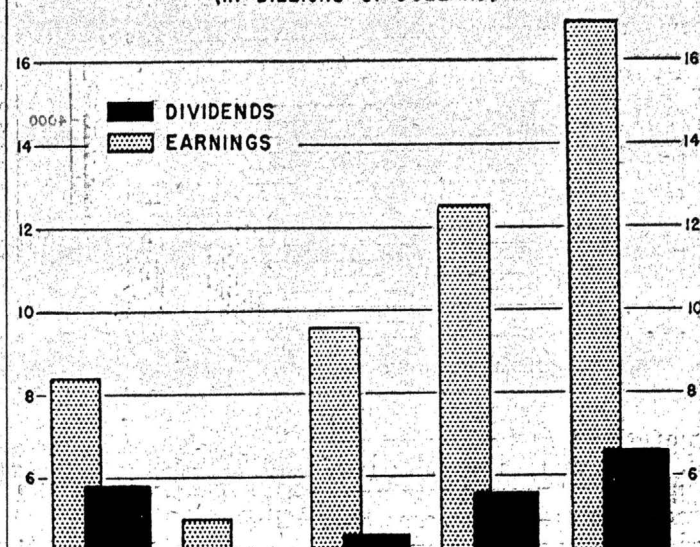


SOURCES: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM AND DOW-JONES & CO.

CHART III

POSTWAR DIVIDENDS RISE BUT LAG BEHIND EARNINGS GAINS

(IN BILLIONS OF DOLLARS)



FIGURES IN BARS REPRESENT PERCENTAGES OF DIVIDENDS TO EARNINGS.
SOURCES: U.S. DEPARTMENT OF COMMERCE AND ECONOMIC REPORT OF THE PRESIDENT, 1948

need has been provided from internal sources, i.e., undistributed profits, depreciation allowances, and the drawing down of cash and marketable securities accumulated during the war.[4] These rough measures indicate a dependence on external funds considerably in excess of the 7.5 billion dollars of new money securities which were floated in 1946 and 1947. Sources other than the capital markets thus have supplied a large part of the postwar external funds required by corporate business.

During the last two years corporations have spent approximately 25 billion dollars on new plant and equipment. The capital markets have supplied about five billion dollars for this purpose, roughly one-fifth of the total. This explains, in part at least, the growing demand of business firms for long-term funds from banks, insurance companies, and other lending institutions.

Net Worth-Debt Trends

Wartime production and expansion required billions of dollars, most of which were supplied directly or indirectly by the Federal Government through payments, loans, and delayed tax collections. As a consequence of this type of financing, the ratio of net worth to debt fell among corporations in all size groups. Since corporations in general expanded their assets during the war and since excess profits taxes prevented a proportionate growth in net worth, new equity financing has become increasingly imperative as a means of restoring more balanced net worth-debt relationships. However, of the some 7.5 billion dollars in corporate new money securities floated during 1946 and 1947 only a little more than three billion dollars were stock issues, the remainder being bonds. Since funds from other external sources represent debt, the above average postwar earnings have been the major factor in restoring the net worth-debt ratio to approximately its prewar level.

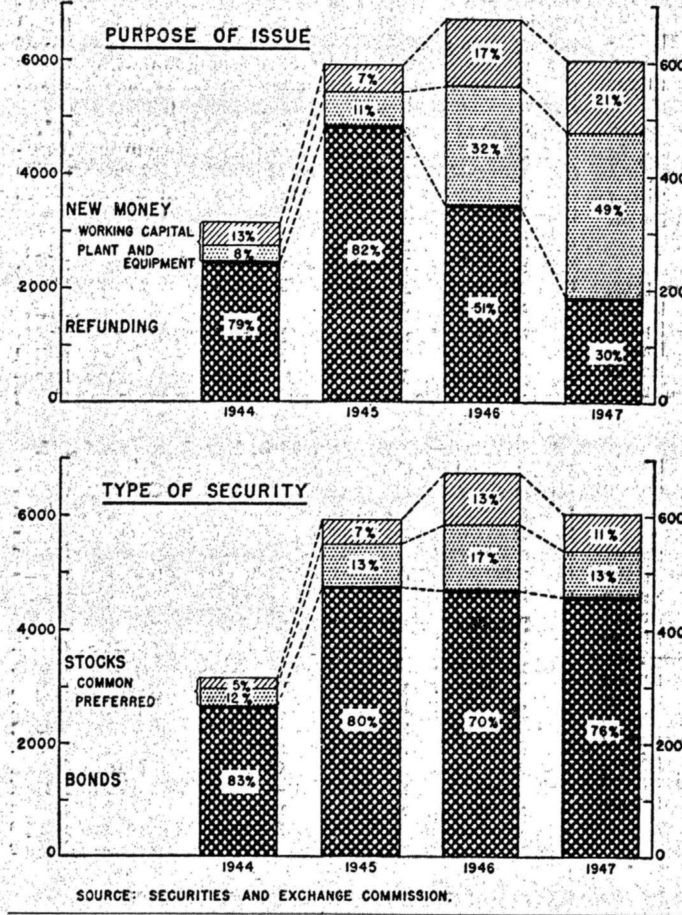
The continued uncertain outlook for common stock prices is particularly discouraging to new equity financing. Even rate reductions in the higher brackets of the personal income tax structure probably would not materially increase the flow of funds into equity securities until the price outlook on existing issues clears. Some refunding will, however, take place because of the maturing already existing securities.

4 Since inventory appreciation is a factor in both current fund "needs" and profits, the estimated residual fund requirements from outside sources is not overstated to the extent of such inventory appreciation.

CHART IV

NEW MONEY CORPORATE FLOTATIONS REACH POSTWAR HIGH IN 1947 AS REFUNDING ISSUES CONTINUE TO DECLINE

(IN MILLIONS OF DOLLARS)



SOURCE: SECURITIES AND EXCHANGE COMMISSION.

Boston Municipal Club Changes Outing Date

BOSTON, MASS. — The Municipal Bond Club of Boston has changed the date of its annual outing to Friday, June 18, because of conflicting dates of bond club outings. The day was originally scheduled for June 11. The affair will be held at the Country Club, Concord, Mass., and will be preceded with parties at the Hotel Statler on the evenings of June 16 and 17th from 9:30 p.m. to midnight.

Since there are a number of sales conventions and college reunions planned for Boston in June, all planning to attend are urged to take care of hotel reservations immediately. Reservations may be made direct or through Natalie Berg or B. Shapleigh Symonds of F. S. Mosely & Co.

Members of the Committee are: Mr. Symonds, chairman; George T. Curley, Townsend, Dabney & Tyson; Elmus M. Kalloch, First Boston Corporation; W. L. Marshall, Jr., Bankers Trust Co.; Draper Hill, John Nuveen & Co.; Frank Kennedy, F. Brittain Kennedy & Co.; David A. Haley, Paine, Webber, Jackson & Curtis; Bert Jacobs, Halsey, Stuart & Co. Inc.; Kevin T. Lyons, Lyons & Shafto, Inc.; William H. Davies, Harriman Ripley & Co., Inc.; Robert S. Weeks, Jr., Coffin & Burr, Inc.; Albert J. T. Woll, E. M. Newton & Co., and Chester R. Durgin, Lee Higginson Corp.

Sees Military Outlays Increasing Inflation

(Continued from page 7)

Reserve authorities and the Treasury. We have seen the unpegging of the Treasury bill rate, the increase of the certificate of indebtedness rate, higher reserve requirements for member banks in New York and Chicago and the use of the Treasury surplus to retire maturing government obligations held by the Federal Reserve and commercial banks.

"Thanks to these moves, expansion of bank loans has been halted this year to date; but so long as inflation threatens, it may be anticipated that additional measures of this kind will be undertaken which will have the effect of firming interest rate funds, especially short-term rates, and discouraging lending by commercial banks.

"The loophole in the credit control program of the Federal Reserve banks and the Treasury has been the policy of supporting long-term governments above par through purchases by the Federal Reserve banks. Through this program, additional loanable funds have been made available to investors selling the governments, which tends to neutralize the restrictive credit policy to some extent. But, since some $6 billion of government bonds maturing in more than five years have been purchased over the last five months, reducing the amount of longer-term marketable Treasury obligations outstanding by some 10%, this factor should become less important in the period ahead."

Blyth & Co. Offers So. Counties Gas Bonds

Blyth & Co., Inc., heads a group of underwriters which is offering to the public today (April 8) an issue of $7,000,000 of Southern Counties Gas Co. of California 3¼% first mortgage bonds due 1978. The securities, which were awarded to the group at competitive bidding April 6, are priced at 100.959 and accrued interest, to yield 3.20% to maturity.

Proceeds from the financing will be used in part to reimburse the company's treasury for capital expenditures for new facilities and equipment, and, in part, to reduce the company's indebtedness to Pacific Lighting Corporation, the parent. This indebtedness aggregated about $1,200,000 on March 1 and represents advances made in connection with construction costs. Some of the funds will be used for further construction and expansion.

The company supplies natural gas in Los Angeles, San Bernardino, Riverside, Ventura, Orange, Santa Barbara and San Luis Obispo counties in Southern California. The company also sells gas at wholesale to San Diego Gas and Electric Company, to Southern California Gas Co., an affiliate, and to Pacific Gas and Electric Co.

Total operating revenues for 1947 were $16,797,817 and net income was $1,596,064. Upon completion of the financing the company will have a total funded debt of $24,713,000 excluding the $1,200,000 of advances from the parent. There are outstanding 140,000 shares of common stock, $100 par value.

The new bonds will have the benefit of a maintenance and sinking fund. The bonds are redeemable other than for the sinking fund at prices ranging from 106% and accrued interest, if called on or before Feb. 28, 1951, to par if called after Feb. 28, 1977.

Public Utility Securities

Utility Earnings Increased in 1947

Until figures for the month of December became available, it was difficult to determine whether the electric utility companies would end 1947 with a gain or loss in net income as compared with the previous year. But in the month of December the industry made unexpectedly good showing, with net income for that month nearly 12% over the same month of 1946. Accordingly, they were able to show a gain of 2.2% in net for the entire year 1947 as compared with 1946.

For the calendar year sales of electric energy gained 13.6%. The increase in revenues was slightly lower (12.1%) because of the continued decline in electric rates; however, for the month of December revenues increased 14% vs. 13% for KWH sales, indicating that in that month average rates were somewhat higher than in December, 1946. This change doubtless reflected the operation of fuel adjustment clauses in about 70% of industrial rate schedules (plus a smaller proportion in commercial and residential rates).

Turning to the question of higher costs, the calendar year statement indicates an average rise of all operating expenses and taxes of 15.7%. Fuel expenses were the worst burden, with a gain of 40.70%; salaries and wages were up 16.4% and miscellaneous expenses showed exactly the same increase. However, electric utility companies found it necessary to increase depreciation accruals by only 5.5% (property write-offs result in some reductions in accruals). Taxes of all kinds were up only 2.8%. Hence the total of these deductions showed a more moderate increase than might have been feared, judging from inflationary tendencies in commodity costs and wages.

Moreover, the big jump in fuel costs was due in some degree to the shortage of water in hydroelectric dams which meant that obsolete steam facilities had to be operated on a full time basis in many cases. With improvement in drought conditions (which now appears to be indicated) fuel costs would probably make a better showing. And the installation of new generating equipment (which program is now getting into high gear) will also be helpful in cutting coal consumption. On the other hand, Mr. Lewis may make further demands this summer for higher wages, vacation pay, etc. —the present "rest period" of the miners appears to be only a "warming up" for the later showdown.

Also the electric companies are again facing union demands for a third round of wage increases in common with industry generally. So long as revenues continue to gain at the rate of 10-15%, they will doubtless be able to absorb these higher costs; but any long-continued decline in industrial activity might handicap the companies in taking care of this extra overhead.

The utilities were able to match increased revenues against higher expenses and taxes last year, net from electric operations being almost identical with that in 1946. Earnings from other departments (gas, transit, telephone, water, etc.) were off 13.2% but miscellaneous income from investment gained 8.4%. Interest charges were down 0.5% despite issuance of "new money" securities (the refunding program during the first half of the year helped these savings), and miscellaneous income deductions (amortization, etc.) were substantially lower. Hence on balance the companies were able to show a gain of 2.2% in net income.

The natural gas companies made a more favorable showing than the electric, according to the figures for a large number of companies compiled by the Federal Power Commission. Gross revenues increased 16.1%. These companies are exempt from increased coal costs. With expenses up 16.5% they were able to show a gain of 14.7% in net operating revenues. While interest on long-term debt increased 7%, other income account items were generally favorable and net income for the year showed a gain of 15.2%. It seems generally assumed that these companies can continue to make a favorable showing in 1948, particularly those which benefit by the acquisition or construction of new pipe lines which will permit increased sales.

U. S. Labor Bureau Makes Salary Survey In New York

About 900 firms in the New York metropolitan area are participating in a Bureau of Labor Statistics Survey of Office Workers' salaries, now nearing completion in the field, it was announced by Robert R. Behlow, Regional Director of the Bureau of Labor Statistics, U. S. Department of Labor. The New York State Department of Labor, Division of Placement and Unemployment Insurance is cooperating in the study.

The survey will yield wage and salary information for 23 important clerical jobs. The following major industry groups are included: wholesale trade, finance, insurance, and real estate; transportation (except railroads), communication, and other public utilities; retail trade; and selected branches of the service industry group. Information on standard work week, vacation and sick leave provisions will also be summarized.

The data are being collected by personal visits to cooperating firms. Emphasis is placed on careful analysis of actual job functions to insure the representativeness of the occupational data.

A preliminary report summarizing the area-wide averages will be released in April. A tentative report has already been released covering the Buffalo area. A final report in booklet form with detailed information for each industry group will be issued a short time later.

Similar reports will be available in nine other areas: Buffalo, Boston, Atlanta, Chicago, Milwaukee, Denver, Dallas, Seattle and San Francisco.

Copies of any of these reports may be obtained without charge from the Bureau's Regional Office—Room 1000, 341 Ninth Ave., New York 1, New York.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• **Air-Flo Compressor Co., Akron**
April 1 (letter of notification) 2,017 shares ($1 par) class B common stock (sold in one year); 10 shares ($100 par) preferred stock; 191,459 shares ($1 par) class A common stock (sold within one year), and 106,424 shares ($1 par) class A common (to be offered), all at par. For general corporate purposes. No underwriting.

All American Industries, Inc., New York
Oct. 30 filed 100,000 shares ($1 par) common (name to be changed to American Steel & Pump Corp.) **Underwriter**—Herrick, Waddell & Co., New York. Price by amendment. **Proceeds**—To pay off indebtedness incurred in the acquisition of the capital stock of A. D. Cook, Inc., Lawrenceburg, Ind. Indefinite.

Allegheny Ludlum Steel Corp. (4/13)
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 of record April 13 in ratio of one pfd. share for each 12 common shares held. Subscription period will extend two weeks. **Proceeds**—$1,000,000 for retirement of bank loans and the balance for plant improvements.

American Broadcasting Co., Inc., New York
Feb. 13, filed 250,000 shares common ($1 par) at proposed maximum offering price of $12.50 per share. **Underwriters**—None. **Proceeds**—For corporate purposes. Company now has plans to spend about $5,325,000 for television facilities in New York, Los Angeles, Chicago San Francisco and Detroit. Shares will be sold to "the persons with which the company had network affiliation agreements at Jan. 31, 1948, and to such other persons as may be selected from time to time by the company."

Angus Mines, Ltd., Montreal, Canada
Feb. 12 filed 600,000 shares of common capital stock ($1 par). **Underwriter**—James A. Robb, 70 Pine St., New York. **Proceeds**—To develop gold prospects.

• **Afro-American Broadcasting System, Inc., Chicago**
March 30 (letter of notification) 6,800 shares of class A stock ($10 par). **Price**—Par. To acquire a site and build a radio station. No underwriting.

• **Ashland (Ky.) Oil & Refining Co.**
April 1 (letter of notification) 12,000 shares of common stock. **Price**—$14.50 each. For working capital.

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, Space & Co., Inc., Augusta. To purchase assets from stockholders of a predecessor corporation.

• **Axminster Supply Co. of America, Inc., Phila.**
April 2 (letter of notification) 2,000 shares non-convertible 5% cumulative preferred stock (par $100). **Price**—par. **Underwriting**—None. Corporate purposes.

• **Blue Ridge Insurance Co., Shelby, N. C.**
March 31 (letter of notification) 17,600 shares ($10 par) capital stock. **Price**—$16 to stockholders with subscription rights and $16.75 to others. For working capital and general corporate purposes. No underwriting.

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.

• **Buller Bros. Lumber Co., Inc., Rockport, Wash.**
April 1 (letter of notification) 1,000 shares of common non-assessable capital stock ($100 par). **Price**—Par. For working capital and a woodworking establishment. No underwriting.

• **Carolina Casualty Insurance Co., Burlington, North Carolina**
March 30 (letter of notification) 100,000 shares of class B common stock, to be offered by the company at $2; also, 40,000 shares of class B stock, to be sold at $2 by Baylor's Insurance Service, Inc., and 4,000 by R. S. Dickson Co. The latter firm will also sell 500 shares of Carolina Casualty class A stock. Proceeds from the sale of stock by the company itself will be used to supplement working capital. **Underwriter**—To be named in an amendment.

Central Maine Power Co.
Nov. 10 filed 160,000 shares ($10 par) common. **Underwriting**—Company called for competitive bids Dec. 8, 1947 and only one bid, that of Blyth & Co., Inc. and Kidder, Peabody & Co. was submitted and was rejected by the company. They bid $13.75, less $1.75 underwriting commission. Now expected on negotiated basis through Blyth & Co., Inc. **Offering**—To be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share and one-tenth share of new common for each common share held. Price by amendment. **Proceeds**—For construction and repayment of bank loans.

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. (4/15)
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Lehman Brothers and Glore Forgan & 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 360,000 shares (no par) common stock. **Underwriters**—Names to be furnished by amendment (probably Kidder, Peabody & Co.). **Proceeds**—For a construction program and repair of flood damages.

Century Steel Corp., Hollydale, Calif.
Nov. 10 filed 4,000 shares ($100 par) common. **Underwriting**—None. Shares will be sold at par by directors. **Proceeds**—To purchase rolling mill, equipment and for working capital.

Challenger Airlines Co., Salt Lake City, Utah
March 1 filed 600,000 shares ($1 par) common stock, of which 400,000 are being sold for the company and 200,000 for the account of Claude Neon, Inc. **Underwriting**—None. **Price**—$2 a share. **Proceeds**—For equipment purchase and general funds.

Clinton (Iowa) Industries, Inc. (4/15)
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.

• **Color Gravure, Inc., Ring, La.**
April 5 (letter of notification) 400 shares of corporate stock (common). **Price**—$100 each. For equipment and working capital. No underwriting.

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. **Bids**—Bids for purchase of debentures will be received up to 11:30 a.m. (EST) April 20 at Room 300, 30 Rockefeller Plaza, New York.

Consumers Cooperative Assoc., Kansas City, Missouri
Oct. 16 filed $1,000,000 4% non-cumulative common stock ($25 par); $4,000,000 of 3½% certificates of indebtedness cumulative; and $1,000,000 of 1½% loan certificates cumulative. No underwriting. **Offering**—To the public. Common may be bought only by patrons and members. **Price**—At face amount. **Proceeds**—For acquisition of additional office and plant facilities.

• **Cooperative Motors Association, Kansas City, Kansas**
April 2 (letter of notification) 5,000 shares ($10 par) preferred stock and 2,000 shares ($25 par) common stock. **Price**—Par. For initial capitalization.

Crampton Manufacturing Co. (4/20-23)
Feb. 5 filed $600,000 first mortgage 5½% sinking fund bonds, due 1966, with warrants to purchase 60,000 shares ($1 par) common stock. **Underwriter**—P. W. Brooks & Co., Inc., New York. **Proceeds**—To retire secured indebtedness, finance inventories and supplement working capital.

Dallas (Texas) Power & Light Co.
Feb. 26 filed 68,250 shares of common (no par). **Offering**—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.

Detroit Edison Co., Detroit, Mich. (4/20)
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. Expected about April 20.

Domestic Credit Corp., Chicago
Dec. 29 filed 150,000 shares ($1 par) Class A Common. **Underwriters**—None. **Offering**—To be offered to employees, executives and management personnel. **Price**—$3.49 a share. **Proceeds**—For working capital.

Empire Chemical Corp., Seattle, Wash.
March 24 (letter of notification) 60,000 shares of common voting capital stock. **Price**—$5 each. Business costs. No underwriter named, but may be Smith-Polian, Inc., Omaha, Neb.

Equipment Finance Corp., Chicago, Ill.
Feb. 26 filed 15,000 shares ($100 par) preferred stock. **Offering**—To be sold to employees and officers of the company and its parent, Curtiss Candy Co. **Price**—$100 per share. **Proceeds**—To be used for trucks in connection with the Curtiss' franchise method of distribution.

Esterbrook Pen Co., Camden, N. J.
March 17 (letter of notification) 1,500 shares of common stock (par $100). **Price**—Par. **Underwriting**—None. **Offering**—Stockholders of record April 7 will be given the right to subscribe for one new share for each four shares held. Rights expire May 7 and subscriptions are payable at First Camden National Bank & Trust Co. For working capital.

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.

• **Fidelity Fund, Inc.**
March 29 filed 175,000 shares of capital stock (par $5). **Underwriters**—Paul H. Davis & Co. and Crosby Corp. **Proceeds**—For investment.

• **Finch Telecommunications, Inc., New York**
March 31 (letter of notification) 1,000 shares of capital stock (par $1). **Price**—$4.50 per share. **Underwriter**—Littlefield & Co. will act as agent. Proceeds to selling stockholder.

Fitzsimmons Stores, Ltd., Los Angeles, Calif.
Feb. 2 filed 10,000 shares of 6% cumulative first preferred stock ($100 par). **Underwriting**—Officers, directors and employees of the company will offer the stock to friends and associates. **Price**—$100 per share. **Proceeds**—To retire 7% preferred stock. Business: "Super Markets" in Los Angeles, Riverside, Colton and San Bernardino County.

Florida Power Corp. (4/22)
March 2 filed 110,000 shares ($7.50 par) common stock. **Underwriters**—Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane; Bear, Stearns & Co.; Goldman, Sachs & Co.; A. M. Kidder & Co.; W. C. Langley & Co.; Wertheim & Co.; White, Weld & Co.; Hallgarten & Co.; Hornblower & Weeks; Laurence M. Marks & Co.; L. F. Rothschild & Co.; Shields & Co.; Milhous, Martin & Co., and Reed & Co. **Offering**—Common stockholders of record April 6 are given the right to subscribe for the new common stock in ratio of one new share for each 10 shares held. Rights expire April 21. **Price**—$13 per share. **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

NEW ISSUE CALENDAR

April 9, 1948

New York Magazine, Inc. .... Common

April 12, 1948

Bangor & Aroostook RR.
4:00 p.m. (EST) .... Equip. Trust Ctfs.
Georgia-Pacific Plywood &
Lumber Co. .... Pref. and Common
Texas Power & Light Co. .... Bonds and Debs.

April 13, 1948

Alleghany Ludlum Steel Corp. .... Preferred
Central RR. of Pa. .... Equip. Trust Ctfs.
Latin American Airways, Inc. .... Common
Solvay American Corp. .... Preferred

April 14, 1948

Public Service Co. of N. H. .... Common

April 15, 1948

Central Power & Light Co. .... Preferred
Clinton Industries, Inc. .... Debentures
Glen-Gery Shale Brick Corp. .... Bonds
M & M Wood Working Co. .... Capital Stock
Peninsula Telephone Co. .... Common

April 19, 1948

Gulf States Utilities Co. .... Bonds

April 20, 1948

Consolidated Natural Gas Co.
11:30 a.m. (EST) .... Debentures
Crampton Mfg. Co. .... Bonds
Detroit Edison Co. .... Capital Stock
Gamble-Skogmo, Inc. .... Preferred
Moore-Handley Hardware Co. .... Common

April 21, 1948

Pennsylvania RR., noon (EST) .... Equip. Trust Ctfs.

April 22, 1948

Florida Power Corp. .... Common

April 28, 1948

Swift & Co. .... Debentures

May 3, 1948

Wisconsin Michigan Power Co. .... Bonds

May 4, 1948

Southern California Gas Co. .... Bonds

common shares and company 125,000 preferred shares common stock. **Price**—$1 each. For working capital. No underwriting.

Fraser Products Co., Detroit, Mich.
Oct. 21 filed 100,000 shares ($1 par) common. **Underwriters** — Campbell, McCarty & Co., and Keane & Co., both Detroit. **Price**—$5.25 per share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds. Registration statement effective Jan. 16.

Gamble-Skogmo, Inc., Minneapolis (4/20)
March 30 filed 120,000 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.

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.

Georgia-Pacific Plywood & 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.). Stockholders on March 30 changed name from Georgia Hardwood Lumber Co.

• **Glen-Gery Shale Brick Corp., Wyomissing, Pa. (4/15)**
March 31 (letter of notification) $300,000 general mortgage, series A, 6% income bonds, due Dec. 1, 1957. **Price**—Par. **Underwriter**—Warren W. York & Co., Inc., Allentown, Pa. **Proceeds**—To reimburse treasury for portion of expenditures for permanent improvements.

• **Gold Ridge, Inc., New York**
March 16 (letter of notification) 5,000 shares of capital stock (par $1). **Underwriters**—Stein Bros. & Boyce, Baltimore, and Filor, Bullard & Smyth, New York. **Price**—$3 per share. Working capital—development of gold mines.

Graham-Newman Corp., New York, N. Y.
March 11 filed 11,657 shares stock ($50 minimum stated value). **Underwriting**—None. **Offering**—11,571⅔ shares are being offered pro rata to stockholders on basis of one share for each three held, at $100 per share; 85⅓ shares are being offered at net asset value at $110.61 per share.

Gulf States Utilities Co. (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.

• **Harkness Wholesale Co., Inc., New York**
April 2 (letter of notification) 3,000 shares of capital stock (par $100). **Offering**—To be offered in units of five shares at $500 per unit. **Underwriting**—None. Working 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.

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.

• **Investors Syndicate of America, Inc.**
March 29 filed $40,000,000 series "20" instalment payment certificates. **Underwriter** — Investors Syndicate. **Proceeds**—For investment.

• **Investors Syndicate of America, Inc.**
March 29 filed $94,000,000 series 6A, 10A, 15A and 20A instalment payment certificates. **Underwriter**—Investors Syndicate. **Proceeds**—For investment.

• **Jeny Corp., Camden, N. J.**
April 5 (letter of notification) 555 shares (no par). **Price**—$100 per share. **Underwriting**—None. Development, distribution, etc. of a miniature batteryless flashlight and allied self-generating devices.

Johnson Bronze Co., New Castle, Pa.
Nov. 10 filed 150,000 shares common stock (par 50¢). **Underwriter**—Lee Higginson Corp. **Proceeds** — Stock being sold for account J. P. Flaherty, a stockholder.

Kansas Soya Products Co., Inc., Emporia, Kans.
Dec. 3 (letter of notification) 3,157 shares ($95 par) preferred. **Price**—$95 a share. **Undewriter**—Kenneth Van Sickle, Inc., Emporia. For additional working capital.

• **King Lodes, Inc., Boise, Idaho**
March 29 (letter of notification) 100,000 shares ($1 par) common non-assessable stock. **Price**—Par. To develop mine. No underwriting.

Kingston Products Corp., Kokomo, Ind.
March 5 (letter of notification) 14,618 shares common ($1 par). **Underwriter**—Alison & Co., Detroit. Proceeds to selling stockholders.

Kold-Hold Manufacturing Co., Lansing, Mich.
March 15 (letter of notification) 50,000 shares ($1 par) common stock. **Price**—$2 each. To be sold by H. Barkley Johnson and James J. McQuaid, both of Los Angeles. **Underwriter**—Buckley Brothers, Los Angeles.

Kool-Aid Bottling Co., Inc. of Calif., Sheboygan, Wisconsin
March 22 filed 1,500,000 shares ($1 par) common stock. **Underwriter**—Heronymus & Co., Sheboygan, Wis. **Proceeds**—To open and equip bottling plants in California cities. **Price**—$1 per share.

Lake Superior District Power Co., Ashland, Wis.
March 30 filed 52,800 shares of 5% convertible second preferred stock, cumulative ($20 par). **Underwriter**—The Wisconsin Co., Milwaukee. **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.

Legend Gold Mines, Ltd., Toronto, Canada
June 27 filed 300,000 shares ($1 par) common treasury stock. **Underwriting** — To be supplied by amendment. **Price**—50 cents a share. **Proceeds**—To develop mining properties.

• **Lincoln Loan Corp., Indianapolis, Ind.**
March 29 (letter of notification) 2,250 shares of $5.50 cumulative preferred stock (no par). **Price**—$100 each. **Underwriters**—Cities Securities Corp. and Kiser, Cohn & Shumaker, Inc., Indianapolis. To make small instalment loans.

M and M Wood Working Co. (4/15-16)
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.

• **McDougall-Butler Co., Inc., Buffalo, N. Y.**
April 2 (letter of notification) 700 shares of common stock (par $100). **Price**—Par. **Underwriting**—None. Corporate purposes.

• **Maduff Electric Corp., Los Angeles**
March 31 (letter of notification) 5,000 shares ($10 par) common stock and 1,500 shares ($100 par) preferred stock. **Price**—Par for each class. To equip a plant in Atlantic, Iowa, to make electric sockets. No underwriting.

• **Manila Mine Development Corp., Chicago**
March 29 (letter of notification) 20,000 shares ($1 par) capital stock. **Price**—Par. To develop and expand business. No underwriting.

Moore-Handley Hardware Co. (4/20-26)
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.

• **Morgan Foods Corp., New York**
April 5 (letter of notification) $50,000 5% 20-year debentures and 500 shares of common stock (no par). **Price**—$100 per unit, consisting of one $100 debenture and one share of stock. **Underwriting**—None. Working capital.

Mountain States Telephone & Telegraph Co.
March 5 filed 191,881 shares of capital stock ($100 par). Stock 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.

Nalley's Inc., Tacoma, Wash.
Jan. 15 filed 119,152 shares of common stock (par $1.25). **Underwriters**—Walston, Hoffman & Goodwin and Hartley, Rogers & Co. **Offering**—63,785 shares are to be publicly offered (25,000 on behalf of company and 38,785 for account to Marcus Nalley, Chairman); 20,000 shares will be offered to employees, executives and directors and 35,367 shares are to be issued in acquisition of all publicly held stock or partnership interests in certain subsidiary and affiliated companies. Indefinite.

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). **Proceeds**—To reduce short-term loans and continue a construction program.

• **New York Magazine, Inc., New York (4/9)**
April 2 (letter of notification) 5,000 shares of common stock (par $1). **Price**—$14 per share. **Underwriter**—Carl M. Loeb, Rhoades & Co. and Silberger & Co. Proceeds to selling stockholder.

• **New York State Electric & Gas Corp.**
April 7 filed $10,500,000 first mortgage bonds due 1978. **Underwriters**—Names to be determined under competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp.; Harriman, Ripley & Co.; Hemphill, Noyes & Co. and Drexel & Co. (jointly); Blyth & Co., Inc. and Smith, Barney & Co. (jointly). **Proceeds** will be used toward construction.

North Canadian Oils Limited, Calgary, Alberta
March 11 filed 903,572 shares (no par) common stock. **Price**—70 cents each. **Underwriter**—F. H. Winter & Co., New York. **Proceeds**—875,000 shares being sold by company and 28,572 by stockholders. Proceeds for purchase of property and drilling.

North Inca Gold Mines, Ltd.
March 10 filed 666,667 shares of common stock (par $1). **Underwriter**—Transamerica Mining Co., Ltd., Toronto. Proceeds for exploration and development.

Ocean Downs Racing Association, Inc., Berlin, Md.
Nov. 28 filed 34,900 shares ($10 par) common. No underwriting. **Price** — $10 a share. **Proceeds**—To build trotting and pacing race track near Ocean City, Md.

Old North State Insurance Co., Greenville, N. C.
March 15 filed 100,000 shares of capital stock ($5 par). **Price**—$15 each. **Underwriter**—First Securities Corp., Durham, N. C. **Proceeds**—General business purposes.

Pacific Gas and Electric, San Francisco
Jan. 29 filed 686,953 shares ($25 par) common stock. **Underwriting** — None. **Offering** — 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 of record about April 15 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 California.

• **Pay Rock Oil, Inc., Tulsa, Okla.**
March 29 (letter of notification) 500,000 shares (10 cent par) common stock **Price**—30 cents each. **Underwriter**—Security Royalties, Inc., Tulsa. To drill oil wells and develop leases.

Peninsular Telephone Co. (4/15)
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 of record (about April 15) at the rate of one for five. Rights expire April 29. Price by amendment. **Proceeds**—General corporate purposes.

• **Pennsylvania Southern Gas Co., Westfield, N. J.**
March 29 (letter of notification) $76,000 first lien and collateral trust bonds, series C, and 1,900 shares of cumulative preferred stock (par $100). **Price**—Par for each issue. **Underwriter**—Bioren & Co., Philadelphia. **Proceeds**—Payment of corporate obligations and general corporate purposes.

• **Pioneer Finance Co., Detroit**
March 29 (letter of notification) 14,076 shares ($1 par) common stock. **Price**—$2 each. For working capital. No underwriting.

Playboy Motor Car Corp., Tonawanda, N. Y.
Feb. 13 filed 20,000,000 shares common (1c par). **Price**—$1 per share. Not more than 100,000 shares will be offered to employees and officers at 87½ cents per share.
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(Continued from page 57)

Underwriter—Tellier & Co., New York. **Proceeds**—For capital equipment and working funds.

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 Service Co. of New Hampshire (4/14)
Feb. 6 filed 139,939 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 5 shares held. New England Public Service Co. will waive its rights to subscribe to 98,771 shares which will be purchased by the underwriters. Price by amendment. **Proceeds**—Construction program and retire short-term loans.

Raleigh Red Lake Mines, Ltd., Toronto, Can.
Jan. 7 filed 460,000 shares of common stock. **Underwriter**—Mark Daniels & Co., Toronto, Canada. **Price**—25 cents a share in Canadian funds. **Proceeds**—For exploration and development of mining property.

Reiter-Foster Oil Corp., New York
Jan. 16 (letter of notification) 180,000 shares (50c par) common stock. **Price**—80 cents. **Underwriter**—Frank W. Bennett & Co. For working capital.

Robinson Airlines Corp., Ithaca, N. Y.
March 9 (letter of notification) 85,384 shares of common stock (par $1). Of the total 75,384 shares will be offered for subscription by stockholders on a share for share basis at $3 per share. The additional 10,000 shares plus any unsubscribed for by stockholders will be offered the public at $4 per share. **Underwriting**—Company may engage an underwriter to make the general public offering. Proceeds will be used for working capital, etc.

Sanitary Products Corp., Taneytown, Md.
Feb. 26 (letter of notification) 11,250 shares of common stock (no par). **Price**—$20 per share. **Underwriter**—Jackson & Co., Boston. For equipment and working capital.

● **Scudder, Stevens & Clark Fund, Inc.**
March 25 filed 75,000 shares of capital stock. **Underwriter**—Scudder Fund Distributors, Inc. **Proceeds**—For investment.

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.

Seminole Oil & Gas Corp., Dallas, Texas
March 4 (letter of notification) 11,400 shares of common stock. **Underwriter**—Buckley Bros. Proceeds to selling stockholders.

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.; Stone & Webster Securities Corp. **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)
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.

● **South Carolina Insurance Co., Columbia, S. C.**
April 1 (letter of notification) 10,000 shares of common stock. **Price**—$17.50 each. Of the proceeds, $100,000 will be used for capital and the remainder for surplus. No underwriters.

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 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.

● **Southwestern Bell Telephone Co., St. Louis, Mo.**
April 2 filed $100,000,000 35-year unsecured debentures, due 1983. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Proceeds**—$95,000,000 will be used to repay advances from American Telephone & Telegraph Co. (parent), and balance will be used for construction.

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.

● **Stearns (F. C.) Hardware, Inc., Hot Springs, Arkansas**
March 26 (letter of notification) 2,000 shares of 6% cumulative preferred stock ($100 par). **Price**—Par. **Underwriter**—Southern Securities Corp., Little Rock, Ark. To retire $65,000 of loans and for general working purposes.

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.

● **Swift & Co., Chicago (4/28)**
April 5 filed $35,000,000 of debentures ($10,000,000 of one to 10-year serials, and $25,000,000 due 1973). **Selling Agents**—Salomon Bros. & Hutzler, New York. Interest rates by amendment. **Proceeds**—For necessary plant rehabilitation. **Business**—Meat packing.

● **Tabor Lake Gold Mines, Ltd., Toronto, Canada**
April 2 filed 300,000 shares (par $1) preferred stock. **Underwriter**—Mark Daniels & Co., Toronto, Canada. **Price**—60 cents a share. **Proceeds**—For mine developments. **Business**—Gold mining.

● **Technical Fund, Inc.**
March 26 filed 200,000 shares of capital stock (par $1). **Underwriter**—Calvin Mendenhall Co. **Proceeds**—For investment.

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 purpposes. **Bids**—Bids will be received by the company at 2 Rector St., New York, up to 11:30 a.m. (EST) April 12 for the purchase of the securities.

● **Transcontinental Mercantile Corp., New York**
April 2 (letter of notification) 800 shares of capital stock (no par). **Price**—$100 per share. No underwriting. Increase working capital.

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.

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.

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.

● **Universal Business Machines Corp., Middletown, Conn.**
April 2 (letter of notification) 6,600 shares ($10 par) class A common stock. **Price**—Par. To purchase additional machinery and equipment. No underwriting.

● **Transcontinental Oil Co., Inc., Santa Fe, N. Mex.**
April 2 (letter of notification) 990,000 shares (10¢ par) common stock. **Price**—30 cents each. To purchase lease, drill, and for general corporate purposes. 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.; W. C. Langley & Co.; Kidder, Peabody & Co.; Stone & Webster Securities Corp.; Merrill Lynch, Pierce, Fenner and Beane; Kuhn, Loeb & Co. and Lehman Brothers. **Proceeds**—For a construction program.

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 3¾% of first mortgage bonds at 102¼% and to repay the Central Hanover Bank & Trust Co. and Marshall & Ilsley Bank $200,000 in bank loans. Expected about May 3.

Prospective Offerings

● **Bangor & Aroostook RR. (4/12)**
Bids will be received up to 4 p.m. (EST) 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. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros & Hutzler; Harriman Ripley & Co., and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.).

● **Buckeye Pipe Line Co.**
April 5 company filed with Ohio P. U. Commission an application for authority to issue $6,000,000 of 15-year 3⅛% debentures. Money will be used to construct a 22-inch pipe line between Lima and Toledo, Ohio, and a 12-inch line between Cleveland and Cygnet, Ohio.

● **Central Maine Power Co.**
March 31 W. F. Wyman, President, stated: A substantial construction program is being carried on to provide additional facilities necessary for company's increasing volume of business. It is expected that the financing in connection with this program will be in the form of additional bonds and common stock. No final plans have been completed as yet, and in the meantime cash requirements are being provided by temporary borrowings. The amount of such debt at the end of March was $5,300,000.

● **Central RR. Co. of Pennsylvania (4/13)**
Company will receive bids up to April 13 for the sale of $1,250,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.).

● **Equitable Gas Co.**
April 2 reported company may be in market with $12,000,000 bond issue. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman, Ripley & Co.; Kuhn, Loeb & Co. and Smith Barney & Co. (jointly).

● **Harrisburg Gas Co.**
April 1 applied to SEC for permission to sell 13,811 additional common shares (no par) at $90 per share. Shares would be offered for subscription by stockholders in ratio of one share for each two shares held. Unsubscribed shares would be purchased by United Gas Improvement Co. (parent).

● **Idaho Power Co.**
March 30 company applied to FPC for authority to issue up to $10,000,000 first mortgage bonds due 1978, to be placed privately, and 150,000 common shares (par $20) and short-term bank borrowing up to $2,500,000. Common would be underwritten by Blyth & Co., Inc.; Lazard Freres & Co., New York and Wagener & Daly, Inc., Boise, Idaho.

● **Pennsylvania RR. (4/21)**
Company will receive bids up to noon (EST) April 21 at office of Geo. H. Pabst, Jr., Vice-President, Room 1811, Broad Street Station, Philadelphia, for the sale of $9,600,000 equipment trust certificates, series T, dated May 1, 1948 and due $640,000 annually May 1, 1949-1963. Probable bidders: Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler; Kuhn, Loeb & Co. and Blyth & Co., Inc. (jointly); Harriman Ripley & Co., Inc. and Lehman Bros. (jointly); The First Boston Corp.

● **Sharon Steel Corp.**
March 30 stockholders voted to increase indebtedness from $7,500,000 to $15,000,000 at any time outstanding.

● **Southern Advance Bag & Paper Co.**
April 20 stockholders will vote on increasing authorized common (par $1) from 500,000 to 1,000,000 shares. Purpose of increase is to provide additional stock which may be used for future requirements.

Federal Reserve February Business Index

The Board of Governors of the Federal Reserve System issued on March 24 its monthly indexes of industrial production, factory employment and payrolls, etc. The Board's customary summary of business conditions was made public at the same time. The indexes for February together with a month and a year ago, follow:

BUSINESS INDEXES

1939 average = 100 for factory employment and payrolls;
1923-25 average = 100 for construction contracts;
1935-39 average = 100 for all other series.

	Adjusted for Seasonal Variation			Without Seasonal Adjustment		
	1948 Feb.	1947 Jan.	1947 Feb.	1948 Feb.	1947 Jan.	1947 Feb.
Industrial production—						
Total	†193	193	189	†189	189	185
Manufactures—						
Total	†200	200	197	†196	196	193
Durable	†226	228	222	†224	226	220
Nondurable	†179	177	176	†174	173	171
Minerals	†155	155	148	†150	150	141
Construction contracts, value—						
Total	*	191	151	*	156	131
Residential	*	152	152	*	126	135
All other	*	223	149	*	181	127
Factory employment—						
Total	†156.2	157.5	154.4	†155.5	156.9	153.7
Durable goods	†181.1	184.0	180.8	†180.3	183.4	180.1
Nondurable goods	†136.6	136.7	133.6	†136.0	136.0	133.0
Factory payrolls—						
Total	---	---	---	*	350.2	310.6
Durable goods	---	---	---	*	392.6	344.6
Nondurable goods	---	---	---	*	308.7	277.4
Freight carloadings	139	145	142	129	133	133
Department store sales, value	†283	285	266	†237	224	222
Department store stocks, value	*	287	275	*	251	252

† Preliminary. * Data not yet available.

NOTE—Production, carloadings, and department store sales indexes based on daily averages. To convert durable manufactures, nondurable manufactures, and minerals indexes to points in total index, shown in Federal Reserve Chart Book, multiply durable by .379, nondurable by .469, and minerals by .152.

Construction contract indexes based on 3-month moving averages, centered at second month, of F. W. Dodge data for 37 Eastern States. To convert indexes to value figures, shown in Federal Reserve Chart Book, multiply total by $410,269,000, residential by $184,137,000 and all other by $226,132,000.

Employment index, without seasonal adjustment, and payrolls index compiled by Bureau of Labor Statistics.

INDUSTRIAL PRODUCTION
(1935-39 average = 100)

	Adjusted for Seasonal Variation			Without Seasonal Adjustment		
	1948 Feb.	1947 Jan.	1947 Feb.	1948 Feb.	1947 Jan.	1947 Feb.
MANUFACTURES						
Iron and steel	†202	203	191	†202	203	191
Pig iron	*	197	191	*	197	191
Steel	225	224	207	225	224	207
Open hearth	180	182	174	180	182	174
Electric	550	526	446	550	526	446
Machinery	†283	286	277	†283	286	277
Transportation equipment	†236	244	233	†236	244	233
Automobiles (incl. parts)	†198	206	190	†198	206	190
Nonferrous metals and products	*	194	208	*	194	208
Smelting and refining	†191	187	190	†191	187	190
Lumber and products	†154	156	147	†141	138	135
Lumber	†141	143	137	†121	117	118
Furniture	†179	180	167	†179	180	167
Stone, clay and glass products	†203	199	219	†189	187	205
Plate glass	166	149	154	166	149	154
Cement	*	199	203	*	161	154
Clay products	†169	181	164	†162	167	156
Gypsum and plaster products	†254	247	232	†242	237	221
Abrasive and asbestos products	†223	192	260	†223	192	260
Textiles and products	†177	177	173	†177	177	173
Cotton consumption	153	153	161	153	153	161
Rayon deliveries	293	299	262	293	299	262
Wool textiles	*	178	178	*	178	178
Leather products	*	120	120	*	120	123
Tanning	*	115	118	*	116	127
Cattle hide leathers	*	131	134	*	134	145
Calf and kip leathers	*	85	99	*	83	104
Goat and kid leathers	*	95	81	*	95	84
Sheep and lamb leathers	*	100	108	*	93	119
Shoes	*	123	121	*	123	121
Manufactured food products	†158	158	156	†143	146	140
Wheat flour	†140	140	158	†141	140	160
Meatpacking	†145	150	159	†139	175	152
Other manufactured foods	†166	165	158	†151	152	143
Processed fruits and veg.	†143	139	137	†90	91	86
Paper and products	*	163	157	*	163	157
Paperboard	179	187	181	179	187	181
Newsprint production	83	82	89	83	82	89
Printing and publishing	†153	148	140	†151	144	138
Newsprint consumption	144	134	125	141	125	122
Petroleum and coal products	†211	†214	†185	†211	†214	†185
Gasoline	†152	†160	143	†152	†160	143
Fuel oil	†205	†205	170	†205	†205	170
Coke	*	178	172	*	178	172
By-products	*	171	165	*	171	165
Beehive	†429	440	416	†429	440	416
Chemicals	†256	255	251	†256	254	252
Rayon	†300	298	276	†300	298	276
Industrial chemicals	†443	438	429	†443	438	429
Rubber products						
MINERALS	†215	223	246	†215	223	246
Fuels	†161	162	150	†161	152	150
Bituminous coal	†155	161	162	†155	161	162
Anthracite	†118	112	107	†118	112	107
Crude petroleum	†168	†167	150	†168	†167	150
Metals	*	118	122	*	81	84
Iron ore	---	---	---	*	70	73

† Preliminary. * Data not yet available.

FREIGHT CARLOADINGS
(1935-39 average = 100)

Coal	150	155	149	150	155	149
Coke	178	183	171	188	192	182
Grain	103	132	147	101	132	144
Livestock	76	84	111	61	81	88
Forest products	140	153	166	135	137	159
Ore	195	180	172	49	45	43
Miscellaneous	146	152	145	137	139	136
Merchandise, l.c.l.	71	68	76	69	65	74

NOTE—To convert coal and miscellaneous indexes to points in total index, shown in Federal Reserve Chart Book, multiply coal by .213 and miscellaneous by .548.

Sees Current Profits Enormously Exaggerated

(Continued from page 7)

denounced for having earned record profits of $17 billion in 1947. Constant union-leader propaganda has educated the public, whenever increases in wages are mentioned, to make allowance for increased cost of living, and to measure the worker's wage only in terms of its relative purchasing power over goods. But hardly anyone makes allowance for the similar increase in the stockholder's cost of living.

"Before we get to this point, however, the altered value of the bookkeeping dollar has already falsified the net income figure itself. A great part of the bookkeeping profits of 1946 and 1947 were the result of the rise in the market value of inventories. This inventory profit is a non-recurring profit. Once prices stabilize at the new high level, there is no further inventory profit. But if a corporation is today doing the same volume as before, it must now lay out as a cost twice as much as before to buy the same volume of inventories.

"The falsification of accounts by a fall in the purchasing power of the monetary unit is even more strikingly brought out in the case of depreciation charges. A corporation cannot charge off for depreciation a total amount higher than the orginal cost of the machinery or plant or other asset that it is depreciating. But when it comes to replace this property, it finds that equivalent machinery and plant will cost twice as much.

"The total effect of these falsified results, brought about by a depreciating money unit, has been enormously to exaggerate, not only in the public mind, but in the minds of most business men themselves, the extent of the profits they are making. They are dollar profits, but not profits in terms of command over goods. During the inflation in Germany, many a firm found itself bankrupt while its books were showing record profits in terms of marks.

"Under normal conditions, and left to itself, the free market system, the price and profit-and-loss system, is a marvelous mechanism. It brings about a balance of production among thousands of different commodities and services. It is a fluid balance, constantly changing with the changing demands of consumers. When the demand increases for a given commodity, its price is forced up compared with the prices of other commodities. This means that the profit in producing that commodity is greater than average profit margins elsewhere. This draws increased capital and labor into production of that commodity. On the other hand, if the demand for a commodity falls, the price falls. The profit margin in making it falls, and the industry shrinks by losing labor and capital to other industries.

"If government planners condescended to study this process they would realize what was wrong with their particular plans—and, for that matter, with the whole idea of collectivist planning. Government planning can never bring about this fluid balance in the production of thousands of different goods in accordance with the ever-changing needs and wishes of consumers. Either government planning must give consumers not what they want, but what it thinks is good for them, or it must take as its standard some preceding pattern or balance of production that was brought about by a free market."

Our Reporter's Report

The new issue market is by no means a oneway street these days as even people in the underwriting business are learning.

True the market has a good undertone, but there is a clearly defined resistance when yields get below levels satisfactory to the institutional buyer.

The quest naturally continues to stress quality, but potential buyers are likewise looking for a return on their funds and do not hesitate to back away from an issue if this is not forthcoming.

Consequently the "slow" sign is up on a number of recent emissions, particularly some of the $10,000,000 deals where competition has been keenest and where the tendency has been to find the winning bid fine for the issuer, but a little on the "rich" side when it comes to fixing the reoffering price.

In fact the situation has developed to a point, according to trade talk, where one or two of the larger firms have become averse to going after these smaller undertakings.

Feeling is said to be that in view of the tendency to overbid for these issues such deals are proving uneconomic when the costs involved in setting up the necessary data is considered.

Yet it developed that flotation of several smaller offerings this week brought out all the competition that could be asked for. But pricewise bidders ideas appeared to be just a little more on the sober side than recently.

The Kind Everybody Likes

Mountain States Telephone & Telegraph Co.'s sale of $25,000,000 of new 30-year debentures proved the kind of an undertaking that everybody would like to have on the books.

True, the issue was just large enough to keep out the small-fry, if you will. But it drew three bids, with only about 23 cents per $100 separating the top bid of 100.44 from the lowest of 100.2078.

Receiving quick clearance by the Securities and Exchange Commission, the reoffering at 100% to yield 3.08%, was snapped up quickly. This company has only one other issue outstanding so that it fitted well into most portfolios.

One Way of Doing It

Oklahoma Gas & Electric Co. is now reported in the process of working out a negotiated deal for the sale of the block of 65,000 shares of new preferred stock which it has been seeking to sell via the competitive bidding route.

Two attempts were made to get bids for the issue, once early last week, and again at the start of the current week. But bankers evinced little interest in the issue.

Just now a New York banking firm is reported interested in the situation on a negotiated basis, with indications that an early announcement is likely.

Pulling the Plug

Underwriters are no inclined to "lug" along unsold portions of a given issue these days. The disposition currently is to terminate a syndicate agreement without too much delay and let the offering find its own level.

It happened again this week when the group which floated the Columbia Gas & Electric Co.'s $45,000,000 of new 3¼% debentures decided to windup.

The issue, brought out at 101¼ backed down about ⅞ of a point on the bid side, but later recovered about a ¼ point. It is understood that this undertaking was something better than two-thirds sold.

Pub. Serv. of New Mexico

Cities Service Co. had no trouble in selling its holdings of 339,639 shares of common stock of the Public Service Co. of New Mexico which went up for competitive bids on Tuesday.

Five banking firms sought the stock making bids ranging from the low of $11.60 a share to the high of $12.31 a share at which the issue was awarded.

Repriced at 13¼ for reoffering, dealers reported that preliminary inquiries indicated the shares would move out satisfactorily to investors.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

In the large majorities by which foreign aid finally passed both Houses of Congress there is a sign. It is a sign that despite much grumbling and private talk to the contrary, the boys are beginning to give in on their opposition to the stop Russia program and all that it may eventually mean. Opposition to the draft is beginning to crumble. Maybe before long even universal military service will have a chance.

Two months ago some of the important members of Congress seriously intended to shave a billion off foreign aid. Prior to the disappearance of Czechoslovakian independence, the pass at Finland, and the President's St. Patrick's Day message to Congress, there was still an intention to lop off at least a few hundred millions from ERP. Yet the ERP program sailed through without a serious nick.

* * *

Probably the favorite subject of Washington conversation, next to the question of whether the country shall be able to escape war this year, is whether the nation is or is not headed into a "peace time" military economy.

On the one hand it is pointed out that the immediate preparedness program is even more limited than realized, when the President disclosed to the Congress that of the $3 billion-odd program, only $1.9 billion actually would be expended during fiscal 1949. Not by any stretch of imagination, say some, can the present preparedness program conjure the possibility of important material shortages, bottlenecks, priorities, allocations, and the whole kit and caboodle of a war economy.

On the other hand there are others who insist that the U. S. is moving inevitably toward everything which goes with preparation for war, or military preparation designed if possible to prevent war, with shortages, allocations, higher taxes, and all. They say that a military lend-lease program is now under preparation, even if this cannot be confirmed.

Only subsequent events will tell who is right. However, here is something to bear in mind: There is every sign that the Administration is woefully unprepared with plans on virtually every front. Industrial mobilization planning is only getting a start. Most recent revelations have disclosed that even the Munitions' Board "industrial mobilization plan," gone with the bureaucratic wind in favor of the planning by the new National Security Resources Board, was actually only a blue-print of how to plan industrial mobilization. Lack of staff planning is a fundamental characteristic of the Truman Administration. Now the officials are hurriedly slapping together plans for this, that, and the other thing.

So new plans and new programs are being formulated.

The question now is whether President Truman will offer them to Congress as fast as they are formulated or wait for new Russian aggressions to provide the atmosphere more friendly to such proposals.

* * *

Incidentally, you may expect to hear the Administration and the military sound and resound repeatedly its central argument for UMT: UMT is the only method by which the U. S. can build up a large stand-by military machine over a period of years short of an actual war, UNLESS the U. S. wants instead to use the draft and build up and maintain a large standing military establishment.

* * *

You can also discount the inspired reports that the Treasury will go into deficit financing. These stories are put out by the Administration, partly in propaganda against the tax cut, and partly in sincerity. When and if the defense program is expanded further by Congress than at present is proposed by the White House, and when and if there is approved a military aid program for Western Europe, then a deficit will become likely. And when there is the prospect of a deficit, you can expect the present Congressional leaders to give first attention to a general manufacturers' excise tax.

Taking even these additional military appropriations into account along with the tax cut, there still is a good prospect of a small Treasury surplus for the year beginning next July 1. This is so even if you figure as pessimistically as the Treasury and not as as optimistically as the Congress. Judging by preliminary reports, the prospective military lend-lease program will be most modest compared to the programs of World War II. Then there are trust funds, which permit the retiring of marketable debt. The savings bond sales campaign may make possible some net retirement of the market issues.

So it is still a long way off before one can anticipate a net increase in Treasury obligations outstanding.

* * *

There is now some new thinking among Congressional leaders about what should be done with the reciprocal trade act. Until recently the decision was to let the Act die a "natural death." It expires unless Congress renews it. The idea was to just "forget" about it and do nothing, in which case the program would fall. Now the leaders are thinking that maybe this wouldn't be so smart. To a lot of people the reciprocal trade program looks like a good thing. So the leaders have about decided to bring out a bill extending further the life of the program—but with such restrictive amendments as will guarantee that the program will be heavily curbed. These restrictions have not yet been outlined. One proposal is to require Congressional consent in one form or another. Another is to write an escape clause into agreements for duty reductions, which would make possible their ready abrogation when conditions changed.

This strategy, if carried through, will be taken up late in the session and for the time being it is being said publicly, still, that reciprocal trade extension is dead.

* * *

When the group of "liberal" Republicans on the Senate Agriculture Committee actually got down to writing a new long-range revision of government farm control laws, they came up with a relatively conservative bill. Their earlier report on the objectives of such a program was so broad as to embrace the objective of utopia. The actual draft, however, embodies the fundamentally more conservative principle that government farm price supports should decrease as farm crops increase in surplus, and vice versa. The Senate group is determined to get their bill through committee and passed by the Senate, if possible this month.

Notwithstanding this intention, final action on new farm legislation is still not anticipated for 1948. Farm groups are not sanguine about revision this year. With the country moving into a war economy, there appears less need for a law designed to deal with depression surpluses. The outlook is still for a 1-year extension of the Steagall price supports, possibly with a low level of supports for perishable farm commodities.

* * *

A good bill to give some study to, if you want to be ahead of the parade, is Rep. Clifford Hope's HR 6054, to provide for a national land and water conservation policy and a national program for soil conservation. Mr. Hope's bill will not pass this year, of course. However, this Congressman is not only the Chairman of the House Committee on Agriculture, but the most influential individual in Congress on farm legislation. He also is the logical candidate to be Secretary of Agriculture in case the Republicans win the election—although that depends upon what individual becomes President.

Mr. Hope has not quite said it, but one may suspect that he is more concerned with halting the erosion of soil than he is with having the Treasury underwrite farm prosperity with commodity loans. This bill is likely to be an active project next year. Cannot guess what its annual or ultimate cost might run to. However, Hope is not one who believes in the open door policy between the Treasury and farmers.

* * *

IF and when a big armaments program comes along and AFTER Congress has appropriated for it bear this in mind: There is a normal lag of from 12 to 18 months between appropriations and volume output. This lag is necessary for retooling, the assembly of materials, the training of artisans, and the like. It is a sort of inescapable "gestation period" for industry.

* * *

It is easy to over-estimate the seriousness of the prospective gasoline "shortage" from the official warnings to motorists to conserve on gas. Officials have understandable motives for issuing these warnings. They are then on the right side if an actual shortage should develop. And if it does not, to the extent that motorists are induced to save on gas consumption, the petroleum industry that much sooner and in that much larger volume can begin this summer to adjust its output to heating oil—less gas, more heating oil. If war or heavy war preparation develops, all bets are off, because there is nothing in preparing for war, hardly, but what calls for expanded petroleum consumption. And consumption is already at peak capacity. Nevertheless, as of the present, the industry sees no outlook for any serious or sustained gasoline shortages this summer. Occasionally you will find a filling station or a town temporarily without gas, say industry spokesmen, but it will not be serious or widespread.

* * *

In spite of the expanded defense program and the passage of the individual income tax reduction over the President's veto, the House Ways and Means Committee is pressing ahead with considerable earnestness to bring out an "overall revision" of the tax laws applicable to business. For the most part these revisions involve non-controversial administrative changes approved by the Treasury. However, it is planned to wipe out transportation and communications taxes, which would cost the Treasury a substantial volume of revenues when a budgetary deficit is a possibility.

Overall revision costing any substantial sum of money is most likely to be killed this year. Even non-controversial amendments may not find time for consideration, unless Congress stays beyond the political conventions.

* * *

Two projects which look like dead ducks for this year are the proposed Department of Transportation, and a bill authorizing the carrying by air mail of domestic parcel post at special rates.

Opposition to the Department of Transportation stems from the objection to giving any semblance of political control through a Cabinet official to such quasi-judicial functions as those of the Interstate Commerce Committee.

Gael Sullivan, now executive director of the Democratic National Committee, was the spark-splugger of the idea of domestic air mail parcel post, when he was formerly in the Post Office Department hierarchy. His successors don't want air mail parcel post, think it would cost too much to be practicable.

Respectful Co. Opens

The Respectful Co., Inc., has been formed with offices at 159 Bleecker Street, New York City, to engage in a securities business.

NSTA Notes

PITTSBURGH SECURITIES TRADERS ASSOCIATION

The Pittsburgh Securities Traders Association will hold its second annual outing on May 28 at the Shannopin Country Club. Golf, cocktails, dinner, etc. will be features. Wilbur E Johnson, Johnson & Johnson, Pittsburgh, is Chairman of the outing, and Frank M. Ponicall, Jr., Singer, Deane & Scribner, is in charge of hotel reservations.