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An Ideal Money

By IVAN WRIGHT

Dr. Wright, in analyzing ideal money, finds no other standard better than gold. Cites difficulties of "managed money" based on index numbers, and lays business depressions to abuse of credit rather than fluctuations in value of gold.

What would be an ideal money and would such a money be desirable?

To describe an ideal money that would suit everyone may not be possible. But it does seem possible to describe an ideal money that would be best for the general public welfare. Such a money, it seems to me, would be a money that was uniform in size, content and quality; a money that is divisible into large or small quantities; easily transferable and fool-proof against counterfeiters; a money that could be counted upon at all times to serve the functions of exchange in trade and the measure of price relations. The function of a storehouse of value often ascribed to a good money is open to question. In order that a money serve the purpose of a storehouse of value it should be a money that would keep its purchasing power. Unhappily, no money is uniform in this respect. But is money to

Dr. Ivan Wright

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Oil Cannot Heat All America

By ROBERT E. WILSON*

Chairman of the Board, Standard Oil Company of Indiana

Commenting on the rapid increase in fuel oil consumption, Standard Oil executive reviews efforts of industry to expand production. Lays blame for shortages largely on overselling of oil burners, and predicts, barring unforeseen eventualities, expanded oil output in 1948 may reach 8%, but foresees inadequate fuel oil supplies for at least three years. Says real hope lies in technology and free enterprise, but, because oil situation will be tight for next two or three years, recommends oil burner concerns limit business to replacements. Foresees rapid development of tidelands oil resources.

In prior years the burner industry proceeded on the assumption that fuel oil supplies would continue to be adequate in peacetime as they always had been. In fact, it wasn't even considered necessary to provide the oil industry with quantitative data on oil burner sales by areas, so that adequate provision could be made for sharp increases in fuel requirements.

Dr. Robt. E. Wilson

Also, in past years most of us in the oil industry have aided and encouraged the installation of oil burners in an effort to build a market for what was largely a by-product, to provide an off-peak load for our distribution facilities and to create a steadier year-round operation of both refining and marketing. The market that was thus being encouraged by both of us has suddenly grown to the point that the winter peak far surpasses the summer one, and has created supply, storage and winter distribution problems that have become

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*An address by Mr. Wilson before the Oil-Heat Institute of America, Inc., Chicago, Ill., April 8, 1948.

Competitive Bidding—Barrier to Utilities Financing

By GEORGE D. WOODS*

Chairman, Executive Committee, The First Boston Corporation

After tracing financial growth of utilities, Mr. Woods contends serious problems are in prospect for future, because of enforced competitive bidding and break-up of holding companies. Urges local utilities consult investment bankers regarding financing problems and scores competitive bidding procedure as handicapping sale of equity securities. Upholds role of investment banker as adviser as well as underwriter in utilities financing.

I am going to make the assumption this morning that the statistics relating to the prospective growth and the requirements for new capital of the electric light and power industry are well known to you. Certainly, your industry is extremely well supplied with such statistics through the efforts of the Edison Electric Institute, as well as various publications, including the "Electrical World" and the "Public Utilities Fortnightly." Let it suffice to say that there is every indication, particularly in the Southeast, of an enormous growth in your business over the next few years, and there is every indication that the individual operating companies, while varying in detail, will

George D. Woods

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*An address by Mr. Woods at the 15th Annual Conference of the Southeastern Electric Exchange, Boca Raton, Fla., April 9, 1948.

EDITORIAL

As We See It

Not Just This Year and Next

Rearmament, foreign aid (often a form of bribery), revival of the wartime "draft," universal military training, and all the regulations, restrictions, and controls which go along with such things, or at any rate have gone along with them in the past — these are evidently the order of the day among many of our political and probably all of our military leaders. A gigantic, carefully planned propaganda campaign in support of these measures has been greatly aided and abetted by the behavior of the Kremlin in recent months. The result, or one of them, is that a surge of popular feeling has been aroused which appears to place many of these projects or proposals in that politically sacrosanct list which no politician and few individual citizens care to question.

Many and very serious dangers lurk in this situation, as we have been at pains to point out in these columns in recent weeks. There is, however, one aspect of this state of affairs which we suspect very few of us have fully understood and appreciated amid all the flurry of discussion about the possibility of war in the

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Problems Ahead in Utilities Financing

By EDWARD HOPKINSON, Jr.*
Partner, Drexel & Co., Philadelphia
Members, New York Stock Exchange

Forecasting relatively stable basic long-term money rates for utilities companies with sound capital structures, Mr. Hopkinson stresses need of strengthening market for utilities' shares by encouraging venture capital investment. Points out difficulties in utilities' equity financing because of heavy and inequitable tax burdens and high margin requirements on stock transactions. Reviews importance of maintaining sound capital structure so as to make utilities' obligations legal for savings bank investments.

The outlook and markets for public utility bonds will be affected both by general market and economic conditions and by conditions within the several branches of the industry. I have no doubt, in the discussion of government bonds you will hear later in the day, there will be a more detailed discussion of government fiscal policies than would be appropriate in this discussion of one segment of bonds. Nevertheless, certain general observations have a very definite bearing upon the cost of utility companies of financing that portion of their capital requirements for which cash cannot be generated within the industry by depreciation reserves and retained earnings.


E. Hopkinson, Jr.

A business recession in the coming months seems less likely as a result of recent developments in the adoption of the European Relief Program on a non-partisan basis, the corollary rearmament program and the passage of the tax relief measure over the President's veto by such overwhelming majorities. While the added foods and goods required for these programs should not represent an important percentage of our total production, the adoption of the programs themselves should strengthen confidence. Reconstruction of Western Europe and our own preparedness for war, if need be, is the best way to minimize the likelihood of war.

All this means some increase in inflationary pressures.

One school of thought has more or less consistently advocated monetary and/or price controls to cure inflation. In my opinion there is no magic formula to halt inflation, and I believe the only real answer lies in greater enterprise and in greater production. If this is the right answer, then the measures which should be encouraged by government, and by private enterprise, are those which will create a healthy atmosphere for business and stimulate greater production, so as to more nearly bring into balance the supply of goods with high demand, which is a natural corollary of full employment at high wages.

War Inflation Inevitable

Great monetary inflation during the war was inevitable. Control of the supply of money is now in the hands of our fiscal and monetary authorities, not the commercial banks of the country. The balance between inflation and deflation will depend upon the wisdom with which the authorities exercise these controls. This caution and wisdom was not exercised in 1920, 1929 and 1937, with the result that deflation was precipitated and, once started, was hard to stop, as has been proved in those disastrous episodes in our financial history. I am firmly convinced that the Federal Reserve System should continue to follow its present policy of modest action to restrain a further expansion of bank credit, but for it to take aggressive action to reduce the existing supply of available funds, might well produce a disastrous check upon the expansion of business enterprise so necessary to increase production.

To bring about deflation by general credit restriction, it must be such as to create unemployment and an indiscriminate reduction in consumers' disposable income before it could be effective. The food price situation is one of our most serious problems and continued high or rising prices for food makes much more likely another round of wage increases, and so on. But we cannot expect a reduction in the aggregate demand for food (or other consumer goods) by following a policy of allowing government security prices to seek their own level, or by forcing security prices down by Federal Reserve sales to contract credit, unless the policy were carried to a point that substantially reduced production and employment, and, therefore, consumers' disposable income.

I do not believe this should, or will happen, and therefore I look for relatively stable basic long-term money rates. This means the public utility companies, with sound capital structures, should be able to finance some portion of their new capital requirements by senior securities, over the near-term at least, at around present interest levels. However, one must expect fluctuations in these rates from time to time as the law of supply and demand asserts itself, as is illustrated by the current higher yield required to successfully distribute new issues compared to comparable outstanding issues, often of the same company.

Utilities' Capital Requirements

This leads us to a survey of the capital requirements of the utility industry. A 1947 survey of the needs of the electric companies by the Edison Electric Institute, showed the aggregate construction expenditures necessary over the next five-year period would approximate $5 billion. This figure is probably on the low side due to increased prices and some projected additions. This construction program has not the same flexibility as in the industrial field, because a utility company is compelled to meet legitimate customer demands for service regardless of price levels. In addition to the electric program, you are familiar with the enormous sums of money required by the telephone companies. In 1947 six issues offered by American Telephone & Telegraph Company and its subsidiaries, aggregated over $1 billion, practically all for new money. This included $360 million convertible debentures offered for subscription by stockholders.

Likewise, the gas industry has substantial capital requirements. The demand for natural gas for straight and mixed use in areas where it has heretofore been unavailable, as well as in manufacturing and processing operations where gas has demonstrated its superiority to other fuels, has resulted in extensive plans and applications for further additions to the trunk lines network. More than 320,000 miles of mains were in use at the end of 1946, and substantial increases for main mileage were made during 1947. It is estimated that in 1947 over $700 million will have been spent for new gas facilities, with more than half of the total going into natural gas transmission facilities. This figure compares with about $300 million of construction expenditures in 1946 which, in turn, was an increase of almost 100% over the previous year. The construction figure for 1947 includes the purchase from the government by private interests of the Big Inch and Little Inch lines and their conversion from oil carrying to natural gas transmission. No estimates of construction expenditures for 1948 and subsequent years are available, but, having regard to applications pending before the Federal Power Commission they will be very substantial.

Future Utility Financing

How is this enormous expenditure going to be financed? Obviously the form the prospective new money offerings of particular companies will take, whether sen-

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*An address by Mr. Hopkinson at the Investment Forum of the Savings Banks' Association of Connecticut, New Haven, Conn., April 8, 1948.

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Eccles Again Presents Federal Reserve Views on Credit Curbs

Tells Congressional Joint Committee on Economic Report inflationary pressures persist, and urges grant of authority to impose additional primary reserve of 10% of demand deposits and 4% of time deposits, to be increased further if demeed necessary to prevent banks from expanding credit through sale of bonds to Federal Reserve.

Reappearing before the Congressional Committee on the Economic Report on April 13, Marriner S. Eccles, on behalf of the Federal Reserve Board, of which he is Chairman, but is about to be replaced by Thomas B. McCabe, renewed the request that the Reserve System be granted authority to impose special reserve requirements on the commercial banks as a curb against undue credit expansion. The present request, however, took a milder form than previously, Chairman Eccles proposing that immediate provision be made for a special primary reserve of 10% on demand deposits, with power to expand it to 25%, instead of his previous request that the special reserve be at once made 25% of deposits.

Marriner S. Eccles

Mr. Eccles prepared statement to the Committee follows:

When I testified before this Committee last Nov. 25, I emphasized that I was speaking only for the Board of Governors of the Federal Reserve System. In presenting a further statement today covering the monetary and credit situation as it has developed in the intervening four months, I am again speaking only on behalf of the Board.

We, of course, do not participate in the Government's military or rearmament planning or in the formation of programs for foreign relief. Accordingly, what the Board has authorized me to say with regard to the impact of our economy of military and relief expenditures is said solely from the standpoint of the implications so far as monetary and credit policies are concerned. We feel that in any effort to deal with monetary and credit problems under the situation now existing, we should clearly recognize the alternatives before us and the economic consequences of expanding military outlays superimposed upon the present large budgets for military purposes and for our program of world aid.

Never in our memories has the world been pervaded by greater fears, confusion and discouragement, arising chiefly because of the disappointments of the past and the uncertainties of the future. The great hopes we had during the war for achieving a lasting peace in a prosperous world have been steadily diminished because a few ruthless and despotic men hold a sword of Damocles over the heads of free peoples throughout the world. It is difficult, if not impossible, to plan for a rational economic future either at home or abroad while that sword hangs over us.

We think that the prospect of removing the threat **by peaceful means** will be immeasurably enhanced the sooner we assert our moral and physical power to establish the foundations for peace before we are engulfed by the economic and social problems which grow more menacing the longer the establishment of a firm basis for permanent peace is delayed.

Monetary Situation in November

Last November the country was faced with rapidly mounting inflationary pressures. The issue then was how to curb mounting inflationary forces by striking directly at the basic cause, namely, an effective demand—composed of spending out of past savings, current income and new credit—in excess of the over-all supply of goods and services. As pointed out in the Board's statement to this Committee, correction of inflation at its advanced stage had to be on a broad front; fiscal policy had to be our main reliance; and monetary and credit policy was supplementary to other fundamental actions. The Board felt then, as it feels now, that effective monetary and credit policy would require legislation to provide the Federal Reserve System with new powers that would serve as a partial substitute for those traditional powers which had become largely unusable in view of the huge public debt.

The essential monetary fact in the inflationary situation at that time was the amount of liquid purchasing power in the hands of the public, that is, currency, bank deposits and Government securities, aggregating in all about $254 billion, or more than three times the amount held in 1940. This amount of cash or cash equivalent was in large part inherited from the financing of the enormous Federal deficits incurred in preparation for and prosecution of global war. Not only did we have this huge volume of cash or cash equivalent already available last November, but at that time, despite the anti-inflationary influence of the Government's large budgetary surplus, the amount of liquid funds was being rapidly increased as a result of bank credit expansion to finance businesses and individuals as well as State and local governments.

Because of the necessity for protecting the Government's fiscal and debt management position by maintaining an orderly and stable market for Government securities, the Federal Reserve System was

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President's Advisers Stress Inflationary Trends

In report covering first three months of year, they see greater need for wage-price controls and stand-by rationing. Say $6 billion European aid and defense plans have changed situation.

According to a memorandum issued on April 9 to the President by the Council of Economic Advisers, the three man board, of which Dr. Edwin G. Nourse is Chairman, asserted new developments since the first of the year threaten to intensify inflationary tendencies and require stand-by controls of wages and prices as well as additional fiscal curbs. The text of the memorandum follows:


Edwin G. Nourse

The President's Economic Report of Jan. 14, 1948 stressed continued inflationary tendencies as the prime danger to be combatted in early 1948. It recommended maintenance of the existing level of taxation and the tightening of credit controls as restraints upon the general price level, and extension of rent control and initiation of allocation of materials as specific devices for meeting the inflationary dangers. It recommended stand-by controls of prices and wages, to be invoked if crop conditions during 1948, the actual impact of European Recovery Program as authorized by the Congress, or other economic developments should bring particular inflationary situations to a critical level.

These recommendations were made in contemplation of a foreign aid program approximating the $6 billion program enacted by the Congress for the fiscal year 1949.

After the passage of three months, we should now examine and evaluate certain important new factors that have entered or old factors that have changed since January, and on this basis consider what new or modified policies are now called for.

The Commodity Price Break and Other Anti-Inflationary Factors

One important new factor developed early in the quarter in the form of a sharp break in prices of agricultural products, particularly grains and livestock. The strong inflationary push given to the general price and wage situation during 1947 had, among other things, reflected a condition of poor crop yields in much of the world. In the first half of December, 1947, reports of crop conditions both at home and abroad became more favorable, and the January report of the grain carryover was larger than had been expected. This betterment of the food outlook was reflected in considerable fluctuation in agricultural prices, which culminated in a sharp break in late January. From a low about the middle of February there have been several short periods of recovery, but with these prices in the main making a plateau formation somewhat above the bottom point of the dip.

In many quarters, the agricultural price break was hailed as the end of inflation. Some even thought it was the beginning of a recessionary movement which would spread throughout the economy. As the Council then reported, however, there were clearly discernible factors which would make such a general movement extremely unlikely. Agricultural prices were not being forced down by any surplus of farm products either at home or abroad and they were not falling into a vacuum. They were declining toward the support levels provided by existing agricultural legislation. Cereals and meats were unlikely to test those levels in the face of the fact that at least moderate scarcity of food would exist in the markets of the world during the closing months of this crop year even if conditions for the 1948 crop should develop very favorably.

It was most fortunate for our people that this first open break in the inflationary movement occurred at the one place where it would induce no chain reaction in the shape of reduced production and of loss of employment throughout industry. The decline in agricultural prices did not have any direct effect upon production and employment, and when the grain markets had become fairly well stabilized before the end of February, we could feel confident that the economy as a whole had been distinctly benefited. While the break had not created any specific recessionary developments, it had induced a desirable degree of caution in the business world.

In contrast to the break in agricultural prices, there was no important reduction of industrial prices during the first quarter. The weekly wholesale price index of goods other than farm and food products, which had been rising at a steady rate for full six months, dropped only one-half of 1% in February to a level which it has since maintained without appreciable variation.

During the first quarter, reports of consumer resistance became increasingly prevalent and indications that competitive conditions were returning, or would return over wider areas as the year progressed, carried an intimation that the economy was approaching a "topping out" area in which the forces of inflation would be abating. This was reflected in a growing sentiment in commercial and industrial circles that the "honeymoon is over," the "bloom is off the peach," "it's time to put our house in order," "we've got really to sell the public, not just book orders," and the like. Of course, this trend of thought and action has been most marked in soft goods and light manufacturing. It did not hit automobiles, heavy industry, or basic materials, such as coal, petroleum, and steel. Even these industries, however, showed a sobering sense that their turn would come in a future which was constantly drawing nearer.

The Steel Price Raise and "Third-Round" Spiral

In contrast to the favorable economic factors which characterized the opening months of 1948, the last few weeks have witnessed developments which have given new impetus to the price-wage spiral of inflation and threaten seriously to retard production and to impair the real purchasing power of consumers.

The first of these developments was the mark-up of prices of semi-finished steel on Feb. 13 as the climax of a creeping advance in various steel prices that had been going on during January and early February. This advance in prices of a commodity so basic as steel threatened compensating price advances in a wide range of steel-using industries. This would aggravate the general inflationary tendency or, encountering the consumer resistance which we have already mentioned, might lead to an impasse and curtailment of production. The furore of public criticism of this move, the prompt investigation by the Joint Committee on the Economic Report, and reports on the subject by the Departments of Justice and Commerce and the Council of Economic Advisers served to check the spread of price increases to finished steel. But the steel wage settlement was yet to be made, and the whole situation was thrown into confusion by the stoppage of coal production on March 15.

Up to this time the so-called third round of wage adjustments had progressed without extensive work stoppages and with advances of wage rates mostly limited to a range of 5 to 15 cents an hour. They did not conform to a "pattern" but rather to the peculiar situations of the various companies and in the main were not at once reflected in proportional or larger price advances. There seemed to be some ground for hoping that labor and management would compose their differences without strikes and that wage adjustments would in the main be held within limits that would not require further price increases. Such an outcome would demonstrate our ability to use voluntary bargaining methods toward the containment of inflationary forces.

The high cost of living still exerts an upward pressure on wages. Thus far the consumers' price index has failed to reflect the commodities break which occurred in February. This may represent only the customary time lag. But in view of the recent stabilization of commodity prices, and the additional buoyancy which has been injected by the defense plan, there is certainly no assurance that the consumer price index will go down, and for such important items as meat and rent, there is strong reason why it may go up. In the case of meat, it is estimated that the supply this fall may be 10% below the supply last year. In the case of rent, the housing shortage is still acute and rent control has been loosened by a succession of legislative steps. The high cost of living still persists as an important element in the wage negotiations that are ahead. And significant industrial leaders have expressed in no uncertain terms their prediction or determination that any substantial wage increases would be fol-

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Before the Big Break

By JOHN E. LOSHAR

Stock market observer maintains as unfounded the reasons popularly advanced for a bull movement; contending earnings are vulnerable, defense spending will not last as important securities boom, and inflationary effects of tax cut will soon be reversed. Asserts alleged precedent of war threats blocking of substantial rise will continue.

A tremendous swing to bullish thinking has occurred during recent weeks. Comments about "The New Bull Market" could be found in financial columns almost every day up to the present writing (April 10). Even the most conservative of the services have recommended moderate broadening of commitments.


John E. Loshar

What has caused this sudden change? The three factors most commonly mentioned by the bulls are high earnings, increased government spending, and tax cutting. Since I believe that all three, if valid, could and should have been "discounted" by the market at least a year ago—certainly none of them has taken any intelligent observer by surprise—I am forced to the conclusion that the big change in speculative psychology has been brought about by one thing, and one alone: an actively higher market. In order to substantiate my reasons for this opinion I'll try to show that the bullish arguments, whether or not they were a year ago, are not valid today.

Earnings Vulnerable

First, it is apparent that the currently high level of earnings is extremely vulnerable. Costs, in general, have increased far more, percentage-wise, than profits. This means that even if there were no further cost increases to be considered, it would take only a slight decrease in volume (or prices) to turn a large gross profit into a net loss. In many lines supply is approaching, if not already exceeding, demand. When this happens, fictitious order backlogs disappear, leaving in their wake intensified competition. It is reasonable to assume, then, that volume *will* decrease in certain industries. Even in industries where volume is maintained, profits will depend on the extent to which rising costs can be curtailed, or prices increased. The recent steel furor indicates the improbability of further price increases even in a "non-competitive" industry, and certainly in competitive industries the price trend should be down. Hence any rise in costs must come out of profits. Since the third round wage increases have but started, it appears that costs will continue to rise. With diminishing volume and/or increasing costs probable, therefore, it seems to me that the trend of earnings will turn down before very long.

Profit Curbs on Government Orders

In answer to the second bull argument, government orders are generally filled on a considerably less profitable basis than others. There are several reasons for this. First, government business (above a certain minimum) is subject to statutory renegotiation. Second, bid contracts, especially those for "new items" which are so important a part of war purchasing, usually contain some kind of price redetermination clause, or are written on a cost plus a fixed fee basis. But the third reason is perhaps the most important, because even low profit volume would help, *if* the normal volume of other business could be maintained: "business as usual" becomes just a memory after Uncle Sam steps in. A soap company can't make millions of pounds of GI soap and still satisfy civilian demand. A woolen mill can't weave thousands of yards of OD cloth without reducing its output of blues, grays, and browns. Since government business is not only less profitable *per se*, but also reduces profits in other lines, therefore, the bullish implications of heavy defense spending are mostly illusory.

Excess Profits Taxation Likely

The third and last argument of the bulls, that the tax cut will result in inflationary deficit financing, is perhaps their strongest. But even here, I believe, there are two possible flaws. One is that there hasn't been a tax cut yet which didn't bring in greater revenues in time. The other is that any administration, faced with the problem of increasing the national debt or reimposing some form of excess profits tax, will (I believe) choose the latter alternative. (The administration *will* be faced with this problem, but due to heavy spending rather than the tax cut.) Since any excess profits taxation will be *deflationary*, the *inflationary* effects of the tax cut should be short-lived at best.

The three major reasons for anticipating a bull market, therefore, all seem to have shaky foundations. Earnings are extremely vulnerable, and likely to turn down; defense spending is not the great market boon that it appears to be; and the inflationary effects of the tax cut may soon be reversed.

As against these three quasi-reasons for expecting a bull market, the big *bear* argument—lack of confidence in a peaceful and prosperous near term future—gains strength day by day. As I write these words our own good neighbors are fighting. Throughout this country, talk of war is gaining volume.

The market has never yet had a substantial rise when war was threatened, and I can't see any valid reason for believing that precedent will be broken this year.

The State of Trade and Industry

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

Over-all industrial output continued to show a declining tendency the past week and closely approximated the level of the corresponding week a year ago.

Strikes in some of the basic industries had an adverse effect on over-all industrial production and curtailment of some transportation facilities stemming from the soft coal strike slowed deliveries of some raw materials.

The accumulative effect of four weeks' suspension of coal mining, states the magazine "Steel" in a current release, is beginning to bear heavily on the supply of steel and is producing an industrial paralysis that is creeping over the nation. Unless coal shipments are resumed quickly, the trade paper adds, industrial output will be reduced to a trickle in a matter of a couple of weeks as coal stocks are nearing exhaustion.

For the week ended April 3, 1948, estimated production of bituminous coal and lignite in the United States, according to the Bureau of Mines, amounted to 2,135,000 net tons compared with 2,120,000 net tons in the week of March 27, 1948 and 3,998,000 net tons in the corresponding period of April 5, 1947. Preliminary estimates of soft coal and lignite output for the month of March, 1948 totaled 34,016,000 net tons. This compared with a preliminary estimate for February, 1948, of 48,390,000 net tons and a revised figure of 55,455,000 net tons for the March, 1947, period. The decline in production for March, 1947, reflects the adverse effects of the soft coal strike on total output during that period.

As the impact of the coal tie-up spread, more than 164,000 workers in other affected industries have been dropped from payrolls. The Office of Defense Transportation, in an effort to conserve dwindling supplies, ordered a further cut in the operation of steam locomotives to 50% of normal, beginning on Thursday of the current week. However, with the return of the soft coal miners to the pits starting on Tuesday morning, the Office of Defense Transportation rescinded its curbs on railroad service.

* * *

The continuation of the walkout of workers in many meat-packing plants had a slight effect on total output. Production in the week decreased 8%, to 164,600,000 pounds from 178,400,000 pounds. Strikes in some sugar refineries, however, worked to curtail meltings considerably.

* * *

According to data reported to the Federal Power Commission, scheduled increases in installed capacity of the country's major electric utility systems for the four-year 1948-1951 period will total 14,400,000 kilowatts.

In 1947 a new record peak load was reached and totaled 47,554,537 kilowatts during December. This represented a 10.1% increase over December, 1946, and was far above the wartime maximum of 38,253,000 kilowatts in 1945.

Annual energy requirements for the year 1947 totaled 251,521,919,000 kilowatt-hours. This was an increase of 31.5 billion kilowatt-hours or 14.3% over the 220,068,692,000 kilowatt-hours in 1946. The 1947 total was substantially larger than any preceding year, topping the previous maximum of 225,103,105,000 kilowatt-hours in 1944 by 11.7%.

* * *

The usual post-Easter decline in retail volume occurred during the past week. Total dollar volume of retail trade was slightly below the level of the corresponding week a year ago, the comparison being affected by the fact that last year Easter occurred on April 6. While clearance sales of apparel were less prevalent than a year ago, mild weather and Spring promotions helped to stimulate consumer buying.

Dollar volume of wholesale trade increased moderately during the week and remained close to the level of a year ago. Attendance at the wholesale centers increased considerably and retailers generally, sought merchandise suitable for promotional sales and goods for current stock replacement.

STEEL OUTPUT SCHEDULED AT LOWEST RATE SINCE DEC. 9, 1946 WEEK

Scheduled steel output the current week will touch the lowest operating rate since the week of Dec. 9, 1946, when operations at that period were slowed down by another coal strike.

The cost of the coal strike which was terminated on Monday—if the industry, in the next three weeks or so, gets back to pre-strike operations—will total about 1,400,000 tons of steel. Added to this may be several more hundred thousand tons loss over the next several months due to dislocations and damage to equipment because of the prolonged mine shut-down, according to "The Iron Age," national metalworking weekly, in its current review of the steel industry.

With no steel company holding ample stocks of coal above the ground, the industry is helpless against another mine shut-down if it should occur when present coal contracts run out on June 30.

The coal miners' pension plan means higher steelmaking costs for all steel companies and mineworkers' wage demands, after the present contract runs out will also mean higher coal costs. The chance of the steelworkers getting more than a token raise now that Mr. Lewis has wrung what he wants from coal and steel operators is better this week. In view of this outlook a steel price rise later in the year is no longer a possibility, but a probability, the magazine states.

The steel labor talks were adjourned last week until U. S. Steel management looks over the union presentation given them. When the meetings are resumed the corporation is expected to give its answer—then the bargaining will start. It will get rougher as the time draws close to April 30. If no agreement is reached then, present wage rates will apply for another year and management

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Observations . . . .

By A. WILFRED MAY

Britain's Capital Levy—Collectivism via the Back Door

The budget which Sir Stafford Cripps offered to his fellow-citizens last week truly has the very widest social and economic implications. It perfectly exemplifies how economic planners everywhere, although waving the flag of "middle-of-the-road" Socialism, must slowly but surely move ever nearer to complete Statism. Although such collectivist encroachment may in Great Britain as well as elsewhere be unwitting as well as gradual, it is thereby even more dangerous that the clear and brazen Communist doctrine.

A. Wilfred May

It represents just another example of how state planning prevents intelligent private planning by individuals; of how Socialism confuses equality with freedom; and of how false a god is the apparent Middle-of-the-road-ism between the Right and the Left which American "liberals" are increasingly worshipping.

Apart from the *reasons* for the British Government's new attack on capital, such as the desire to appease Labor further, let us in this article confine ourselves to taking a look at the significance of this major forward step of the planners. Despite Sir Stafford's sugar-coating of his tax proposal by alleging its price-lowering effects and that it is to be non-recurring, there can be no doubt that this form of capital levy constitutes epochal progress (?) along the road of the States' capture of all available capital, and the complete ending of every vestige of economic freedom.

Back-Door Confiscation

In direct contrast to Great Britain's traditional abstention from capital gains taxation, she is now pandering to Labor's whetted appetite for further confiscation-of-the-rich by a back-door and punitive levy on capital. Sir Stafford's proposal is wholly-indefensible economically both as to kind and form. "The Special Contribution," as it is to be called, constitutes a terrific blow at private savings. The combined rate of income taxation on the upper brackets will become 147½% of the income. A levy on *all* capital, assuming that it could be administered, would be bad enough. But the narrowing of the levy against the size of income, rather than against the amount of invested or other capital, is immeasurably worse. It directly penalizes the man who invests his capital productively for the benefit of the community, in lieu of hoarding it. The capitalist who constructively puts his money to work with the greatest risk, instead of being rewarded, is penalized the most in having part of his capital plus all of his income confiscated. The investor in riskless government securities has less of his savings taken away. On the other hand, the individual who hoards his money completely inactive in the bank, is relatively rewarded by being permitted to keep his savings intact, and, wholly apart from the controversial ideological phases such as class warfare, the productive effort so indispensable to the country's survival, is dealt a death-blow.

This new miracle of planning will have the disastrous effect of ending the voluntary private saving which is required to satisfy the nation's crucial capital requirements. For the pool of savings available from the lower income groups must also be progressively drained. After this process has been completed, the government itself will have to supply all capital needs. Thus, it cannot be long before the country's capital requirements will end by being entirely financed by the National Budget—meaning the State.

Sir Stafford's hypocritical defense of the new tax measure only highlights its economic ineffectiveness. The bait of anti-inflation and of implementing America's contribution to European recovery is brandished. But, being coupled with rate reductions for the lower income groups, general inflationary pressure on the price level is actually increased, and there is effected not one iota of the sorely needed increased national production.

Another concomitant characteristic of a government of Socialist planners is that nothing is being done about the cutting of expenditures (made possible, of course, by relying on American ERP bounties). Like the Harry Hopkins' "spend-and-spend and tax-and-tax" philosophy which continues in the United States, the British planners have made no attempt whatever to eliminate the food subsidies or other of their inflationary expense outlets.

The Single-Dose Alibi

One give-away as to the government's sincerity about its defense of the soundness of the new tax is its protestation that it is a "special once-for-all contribution" for one year only and not to be repeated. In fact, of course, either the justification for the levy is valid or invalid. If it really is justifiable on fiscal grounds, then this alibi of non-recurrence is superfluous. This is particularly so since

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N. S. Greene Joins Auerbach, Pollak Co.

Auerbach, Pollak & Richardson, 30 Broad Street, New York City, members of the New York Stock Exchange, announce the association with the firm of Nathaniel S. Greene as manager of the unlisted trading department. Mr. Greene was formerly manager of the unlisted trading department for Simons, Linburn & Co. and prior thereto was a partner in Manney & Greene.

Nathaniel S. Green

Morgan Stanley Offers Greyhound Corp. Stock

Morgan Stanley & Co. and associates are offering today (April 15) 344,400 shares of Greyhound Corp. common stock (par $3) at $11⅝ per share. The stock is being sold on behalf of General Motors Corp. The stock was among the assets of the Yellow Truck & Coach Manufacturing Co., acquired by General Motors in 1943.

With King Merritt & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Fred H. Seaman is with King Merritt & Co., Inc., Chamber of Commerce Building.

The New British Budget

By SIR STAFFORD CRIPPS*
Chancellor of the Exchequer

In explaining his Budget, British Treasury head asserts its keynote is to fight inflation, and encourage deserving producer, housewife, and small fixed-income recipient. Lists reductions in purchase tax on wide variety of goods. Increased receipts to come from drinks, tobacco, betting and a special virtual levy on capital of wealthy.

Most of you will have already heard the main points of this year's budget, and I am wondering what you think about them. You probably think we are spending an awful lot of money. We shall not be spending as much as last year; we are economizing quite a lot—over £400,000,000, as a matter of fact. But then there are new services, like education and the new health service, which will take more money so that our net savings will only be about £200,000,000. But £200,000,000 is a lot to save.

Sir Stafford Cripps

You must remember that this is a very exceptional year. It is a special year because—as I've explained before—we must somehow or other try and stop prices and personal incomes from rising. Indeed, we want to bring prices down wherever we can, because the lower we can get them, the better off we shall all be.

The budget is one of the ways in which the government can help to stop the rise in prices. If we can collect more money in taxes than we need to spend during the year, the surplus, what's left over, can be used to reduce spending power and if there is less spending power then there is not the same pressure to send up prices. Indeed, we might the get a downward move. That's why we must have a big budget surplus this year to try and make things easier for you and me, a very big surplus judged by all ordinary standards.

So that is the first thing we aimed at in the budget. Then, of course, came the question of how we were to get that big surplus. You see, nearly everybody agrees that a big surplus is necessary to reduce what we refer to as the inflationary pressure, the pressure that puts up wages and salaries, and yet prices may rise even faster so that the money we get buys less and less.

Production Must Be Encouraged

But as well as getting this big surplus to fight inflation we must give as much encouragement as possible to the producers. We want them to produce more things for us to buy, either things imported from abroad in exchange for our exports, or made for us at home.

And then too, I thought, and I am sure you'll agree with me, that the government ought to give some help in the price reduction campaign we have launched. That would be a help for the housewife who has so many difficulties over the goods she needs to replace in her home when prices keep on going up. We want to get them down a bit.

Now, if we are going to have the big surplus and encourage people to work harder, and have some reduction in purchase tax, then, of course, somebody must contribute more, or else we shall not be able to do all these necessary things. By way of encouragement we are going to relieve the lower incomes of some of their tax, roughly £100,000,000 a year; to diminish the purchase tax over a wide variety of articles, to the extent of £24,000,000 a year; also to make some remissions on entertainments tax, to allow entertainments like the theatres, sports, and so on, and to take off the entertainments tax altogether in the small centers of population in the rural areas, to encourage our agricultural workers in their vital job of providing us with food. All these remissions of tax will cost about £130,000,000 a year and will, we believe, act as encouragements to the producers in one way or another.

To Redistribute Tax Burden

So we have got to raise enough money by extra taxes to enable us to give these remissions. And we must do it as fairly as we can, part by indirect taxation on articles that are consumed, and part by direct taxation on those who can still afford to pay more. The indirect taxation side is not so easy because we do not want to put up the prices of essential goods. We shall have to raise the tax on alcoholic drinks and tobacco, which are already pretty heavily taxed. Nevertheless, as we must raise the money, I think the fairest thing is to take a little more from these and from betting too. So we increase the tax on beer, spirits and wines. Beer is increased by half a penny a glass, and spirits and wines proportionately. That will mean an extra £45,000,000 a year in revenue. A little more is going on tobacco, just to remind the smokers that we cannot afford to go on importing as much tobacco as they are now using. A packet of 20 cigarettes will go up from three and four pence to three and six pence, and other kinds of tobacco in proportion. That will bring in another £20,000 000 a year. Then we are going to increase the tax on betting on football and other

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*Transcript of radio broadcast by Sir Stafford Cripps over British Broadcasting Corporation, April 6, 1948.

Florida State Comptroller Opposes New Credit Curbs

C. M. Gay tells Florida State Bankers' Association Federal Reserve proposal for special reserve against deposits is unnecessary and credit curb problem can best be solved by individual bank action.

Speaking at the Convention of the Florida State Bankers' Association, St. Petersburg, Fla., on April 7, Clarence M. Gay, Florida State Comptroller, voiced strong opposition to Federal Reserve proposals to enforce upon the banks a special reserve to be held against deposits as a curb against over-expansion of credit. Said Comptroller Gay:—

C. M. Gay

"I cannot agree with these Congressmen who would like to see extended control of the Federal Reserve System. It is my conviction that the less governmental interference the better, and in this particular case it is my opinion that more effective moves can be made if initiated by the individuals within the state, rather than by the federal government.

"At any rate, withdrawing support from the government securities market and letting interest rates rise on government securities would not substantially increase the power of the System to offset increases in bank reserves from gold acquisitions. I cannot think that there would be a certain level of interest rates at which we could dispose of enough government securities to offset gold imports.

"A proposal offered by the Federal Reserve as what the proponents call, 'one—which will not make the government and the taxpayer bear the added cost of the restraint, that will impose very little, if any, hardship on the banks,' seeks to restrain further bank credit expansion. This plan suggests that all commercial banks be required as a temporary measure to hold a certain percentage of their demand and time deposits in a special reserve in the form of Treasury bills, certificates and notes, or cash, interbank balances or balances with Federal Reserve banks. This reserve, of course, is in addition to present reserves.

"The idea of this proposal is to apply a restraint upon all commercial banks equally. This will be effected, insofar as that within the next few months, there is likely to be little need for this special reserve. The large amount of Treasury surplus funds, taken from the market through taxes will be available to retire bank-held public debt. In this way bank credit expansion would be restricted at least temporarily.

"It has been argued by many bankers, and creditably so, that such a proposed requirement is unnecessary. They deem it advisable for the banks to handle the matter individually by exercising prudence in extending credit. When all is said and done, no amount of legislative restriction or administrative regulation can provide an adequate substitute for sound judgment on the part of the individual banker. This is the American tradition—it has worked effectively—and if given a chance—will continue to be effective.

"I should like to expand on this proposal and its alleged benefits. The proposal asserts:

"(1) The plan would have about the same effect in limiting credit expansion as would a characteristic increase in primary reserve requirements. This, you may recall, was proposed as the third alternative in the 1945 Annual Report of the Federal Reserve. The banks would be enabled to hold the same volume of earning assets that they hold at present, whereas an increase of basic reserve requirements would make necessary their reduction of earning assets, with adverse effects upon the earnings position of banks.

"(2) The ratio of potential credit expansion on a given increase in reserves would be narrowed to the extent that the special reserve was required. At the maximum requirement proposed, it would be lowered from 6 to 1 to nearly 2½ to 1.

"(3) An increase in interest rates on private debt would be brought about, and would increase earnings of the banks from this source where rates on loans are comparatively low. It would accomplish this purpose, moreover, without increasing the interest cost on the public debt or permitting unstable prices in the government securities market. The plan, in effect, would divorce the market for private debt from the market for government securities.

"(4) Not only would the plan rely on higher interest rates to restrain private borrowing, but to the extent higher interest rates restrain such borrowing, the proposal would make use of the interest rate mechanism. Hence, the cost of restraining credit would be borne by private borrowers who are incurring additional debt, and not by the government which is reducing its debt.

"It is not unreasonable that we, as bankers, do not welcome restrictions on our activities. Labor certainly doesn't approve of wage controls; agriculture doesn't like price ceilings; therefore, is it strange that bankers don't like such restraining proposals? It is only fair, therefore, that the administration of the Federal Reserve plan be placed in the Federal Open Market Committee, as it is planned. The Committee's members, in addition to the Reserve Board, are five presidents of the Federal Reserve banks."

McMillen Trading Mgr. For R. V. Klein Co.

Daniel J. McMillen has become associated with R. V. Klein Co., 170 Broadway, New York City, as manager of the trading department. Mr. McMillen was formerly trading manager for F. H. Koller & Co.

F. S. Moseley & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Orville R. Thomas has been added to the staff of F. S. Moseley & Co., 135 South La Salle Street.

From Washington Ahead of the News

By CARLISLE BARGERON

Some weeks ago, Senator Milliken of Colorado, was on a radio program in which he was interviewed by some so-called top notch Washington correspondents. Asked his preference for the Republican Presidential nominee by one of them, he replied "Bob Taft."

Carlisle Bargeron

The questioner expressed surprise and asked if he thought a man could get anywhere who had voted to reduce ERP by a billion dollars. The Senator could only gulp that, after all, Taft had finally voted for ERP. But the fact that he had sought to reduce it by a billion dollars was looked upon by the inquiring correspondent as putting one completely beyond the pale of consideration by the American people.

It is an example of the propaganda that has been spread about this proposition. Presumably we can head off Communism in Europe, but not in our own State Department, with an expenditure of approximately $6 billion but not one of approximately $5 billion.

The $6 billion figure is one, we are assured, that was arrived at by the experts of the 16 nations which are to stop Communism. Inasmuch as they have never stopped Communism before, it is difficult to see what slide rule they had to apply. The blunt fact is that, notwithstanding the bunk about how these experts labored long and hard and cut and shaved here and there and arrived at this irreducible figure, it was arrived at in our own State Department. Sending it to Europe by special diplomatic pouch and having it revealed from there, was but part of the pageantry.

Anyway, the figure was arrived at. The Congress, getting it and knowing it was the bunk, but up against the tremendous propaganda behind it and also up against an inarticulate feeling in the country opposed, decided to handle it in a typical political way. This typical political way was to "do something" to the program, maybe cut it down, or at least "do something" to show they didn't like it and were only passing it under pressure.

What was finally hit upon was the device of taking its administration away from the State Department and turning it over to "hard boiled business men." A "hard boiled business men's administration"—that was the thing.

It is pretty serious when the Congress says in this way that it has no confidence in our State Department. No move is made to get rid of that State Department. A lack of confidence is just shown in it.

But after the bill is passed, providing for 25 jobs at $15,000 a year so that "hard-boiled business men" can be attracted, what do we see.

The "hard-boiled business man" who is appointed as the top administrator, Mr. Paul G. Hoffman, is no "hard-boiled business man," at all. I am not referring to Mr. Hoffman's ability as a business man. I know little or nothing about it.

But he is not what the public had in mind when there was so much emphasis in Congress that the ERP was to be taken out of the hands of the do-gooders, the pinks and rose tinted gentlemen of the State Department.

Whatever may be his predilections, Mr. Hoffman has been playing ball with, fraternizing with and apparently enjoying to the rim of the cup, the Washington New Dealers for years. He is one of those few business men who have found them interesting and stimulating; you can't agree with everything they do and say, but you must admit they have had some arresting ideas.

The difference between the attitude of a man like Mr. Hoffman's broad-mindedness and that of a fellow, say like myself, toward those in the aforementioned category is that the only thing arresting about them and their ideas is that they should long have been under arrest.

Mr. Hoffman's public spiritedness and effort to understand the "changing world" and to keep "abreast of the times" as distinguished from those "hard-boiled businessmen" who can't see that the "world is changing," that "labor has come to take its rightful place in our society" and that our nation has "come to assume its rightful place in world affairs"—his disposition caused him to espouse such dubiously directed enterprises as the Committee for Economic Development. Its creation was in recognition of the need for management and labor and government and all the rest of us to get together and put our shoulder to the wheel, and to integrate our purposes and such other nonsense, to prevent a depression.

Mr. Hoffman who windowdresses for this enterprise, can't have looked at its personnel, the bright young men who have drawn up its formulas and plans. Along with the CIO and Henry Wallace, it was most vociferous in predicting 8 million unemployed following the war.

But what is more fascinating about getting ERP administration in the hands of a hard-boiled business man and away from the State Department, is that that very department, upon Mr. Hoffman's confirmation by the Senate, handed him an organizational chart, prescribing every job and designating the man to fill it. All he has got to do to get his organization functioning is to follow directions. He doesn't have to think about filling a single place.

And the men designated for the jobs by the State Department aren't the hard-boiled business man type in the least. They are the same old crowd that has been around Washington for years. Twenty-five of them, unless Congress or Mr. Hoffman balks, get a handsome increase under that salary ceiling of $15,000 a year, written into the law to enable the bringing in of hard-boiled business men.

Schoessling with Sutton Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Paul M. Schoessling has become associated with Sutton & Co., 120 South La Salle Street. He was formerly with H. C. Speer & Sons Co., Doyle, O'Connor & Co. and Otis & Co.

The Employment Situation

By HERMAN B. BYER*

Associate Chief of Employment and Occupational Outlook Branch, U. S. Bureau of Labor Statistics

Government economist, though stating employment trends are still primarily on demand side, points out rising prices may change situation, by choking off this demand. Holds new defense program requires close watch on inflationary developments, but sees no immediate prospect of lowered employment. Looks for higher living standards to absorb increase in future labor productivity.

I should like to begin with an analysis of the employment situation, not only because this subject is the primary concern of this conference but also because employment is the most important single factor in our economy. Developments in other fields can best be appraised in the light of their effect upon jobs.

Herman B. Byer

From this standpoint, 1947 was a very satisfactory year. More people had civilian jobs than ever before in our history, unemployment was close to a practical peacetime minimum, and most persons who wanted a job found one in fairly short order. Let us go behind these facts for a few moments, however, to determine their long-run significance. A comparison of 1947 with 1929 (the earliest year for which we have comparable data) and with 1940 can be extremely enlightening.

In June of 1947, total civilian employment exceeded 60 million for the first time in our history. With seasonal ups and downs, the average for the year as a whole was 58 million, almost 3 million above 1946, and more than 10 million above both 1940 and 1929.

The first fact which comes to the fore in exploring long-run trends is that agricultural employment is definitely dwindling, while output has been rising sharply. About 8.3 million persons were employed, on the average, in agriculture last year, as against 9.5 million in 1940 and 10.4 million in 1929. Despite this steep decline in the number of farm jobs, Department of Agriculture data show that gross farm production rose 6% between 1929 and 1940, and 16% between 1940 and 1947.

The significance of this trend is fairly obvious. We have enough people now on the farms to raise a huge volume of products. In fact, with further mechanization, increased use of fertilizer, and improved methods of cultivation it will be possible to produce the present or even a much larger output with still fewer farm workers than are today required. Farm jobs consequently cannot normally be expected to increase. If they did it would almost certainly reflect poor employment opportunities in industry and would, therefore, constitute a form of unemployment rather than real expansion.

Non-Agricultural Employment

Turning to the field of non-agricultural employment, we see that the ground lost after 1929 was not fully recovered until 1940. Since then, however, the employment level has risen by roughly 12 million jobs, or virtually one-third. All of the major industry groups made gains except mining, but the rates of growth have varied significantly. The most important activities to be familiar with—the ones to watch most closely in the months immediately ahead—are construction and manufacturing.

The Outlook in Construction

The construction industry made considerable progress in the past year. Employment by contractors rose from $1\frac{1}{2}$ million in 1946 to $1\frac{3}{4}$ million in 1947. While this is considerably above the averages of both 1929 and 1940, it is nevertheless well below our two previous peaks, the one achieved during the mid-twenties, and the 1942 high which came as a result of the wartime building program.

According to a joint estimate prepared by the Bureau of Labor Statistics and the Department of Commerce several months ago, the prospects are for a 10% increase in the physical volume of

(Continued on page 30)

*An address by Mr. Byer before the National Economic Conference, American Legion, Chicago, Ill., April 6, 1948.

Business Situation and Outlook

By CHARLES F. ROOS*
President, Econometric Institute, Inc.

Economic analyst predicts rising production for most industries, accompanied by rising levels of personal income. Recommends enlarged advertising to maintain consumer demand, and forecasts continuation of high profits, though rate of profits may decline because of increasing competition.

The American economy has been characterized by dramatic growth of population, standards of living and quality of product. During the past 50 years the population has doubled.

This increase in population has meant more potential consumers and greater demand for all types of products. It has been met by substantial increases in industrial and agricultural production, various services and income, both in total and on a per capita basis. Moreover, labor has been provided income and leisure to enjoy this increased production and income for hourly

Dr. Charles F. Roos

*An address by Dr. Roos before the Association of National Advertisers, Inc., Chicago, Ill., April 12, 1948.

earnings have increased more than six fold and hours of work per week have declined by more than 25%.

These gains have been made possible by increasing investment in, and diversion of labor to, the production of labor-saving machines, or capital goods. For example, the farm population today is 10% smaller than it was 50 years ago, yet the per capita consumption of food is 20% higher. In the last 50 years consumption of the basic raw material cotton nearly tripled while employment in the textile and apparel industries increased only 50%.

The freeing of labor in such basic industries made possible the development of huge new industries. The last 50 years have encompassed all or practically all the development of several other American giants including radio, automobiles, petroleum, cosmetics, pharmaceuticals, and aircraft. All are important to the advertising industry.

Development of the Radio Industry

Take radio, for instance. For the first time on Dec. 6, 1897, radio signals were transmitted from shore to a ship at sea, 18 miles distant. By 1914 when the first World War broke out, wireless telegraphy was a mature industry.

Radio broadcasting, as distinct from wireless communication, may be said to have come into being about 1920. In 1947 sales of radio receivers amounted to 18½ million sets. Thus within the 50-year period covered the entire important industry of radio has emerged and in less than 30 years the entire radio broadcasting industry has developed. And television and radar uses are just beginning.

Radio has been added to a vigorous publishing industry which has been able to maintain its position despite the new competition. Upon these two giants, periodical publishing and radio, has been built the advertising industry, or one might perhaps better say, the advertising industry has helped build them. Better still population growth and American inventive genius have demanded new markets and the three musketeers, advertising, publishing and radio have exploited them.

Chart 1 shows population, disposable personal income, and disposable personal income per capita from 1897 through 1947.

It will be noted that population has shown an almost steady upward trend. In the early 1930's, however, there was a slight bending downward from the trend as the rate of population growth slowed up. Population growth has been accelerated by extremely heavy birth rate in the 1940's plus increasing longevity, and indications are that by 1955 population will have returned to the pre-1930 trend. Population then is expected to be about 155 million.

What Has Happened to Personal Income?

Disposable personal income has risen much more sharply than population. Moreover, the upward trend has been influenced by inflation and deflation. Notice that income increased sharply during both World Wars. The years of interruptions to the rising trend, i.e., 1921, 1929-1932 and 1938, were years of bank credit deflation.

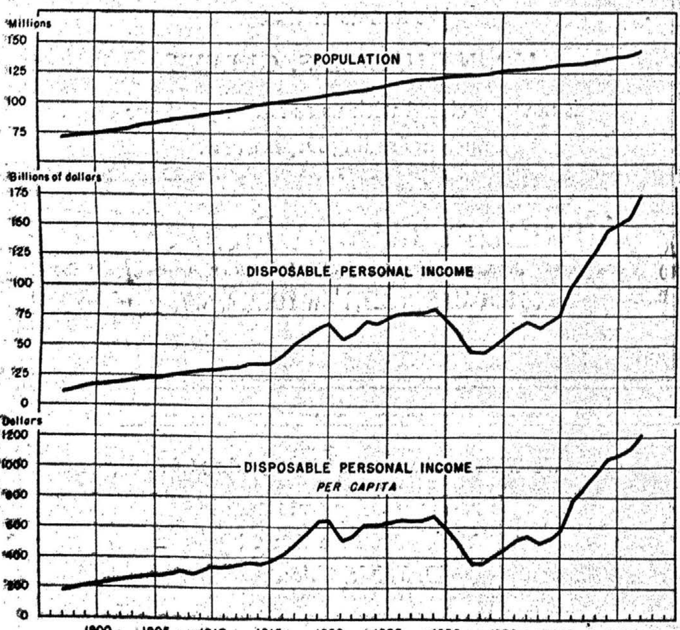
On the other hand, not all the growth in income has been due to inflation and to changes in population. As seen from the lower line of Chart 1, disposable income per capita has also shown an upward trend. Interruptions to this growth have likewise been due to monetary or bank credit mismanagement.

Chart 2 shows why it has been possible for income to rise in relation to population. Installed horsepower in manufacturing, which is the upper line on the chart, has risen in every year since 1897. The trend of growth, however, has been somewhat irregular as a result of the monetary deflations to which reference has already been made. The increase in horsepower has made possible a substantial increase in production per man-hour, which in 1947 was about 3¼ times the level of 1897.

Only part of this increase in production per man-hour has re-

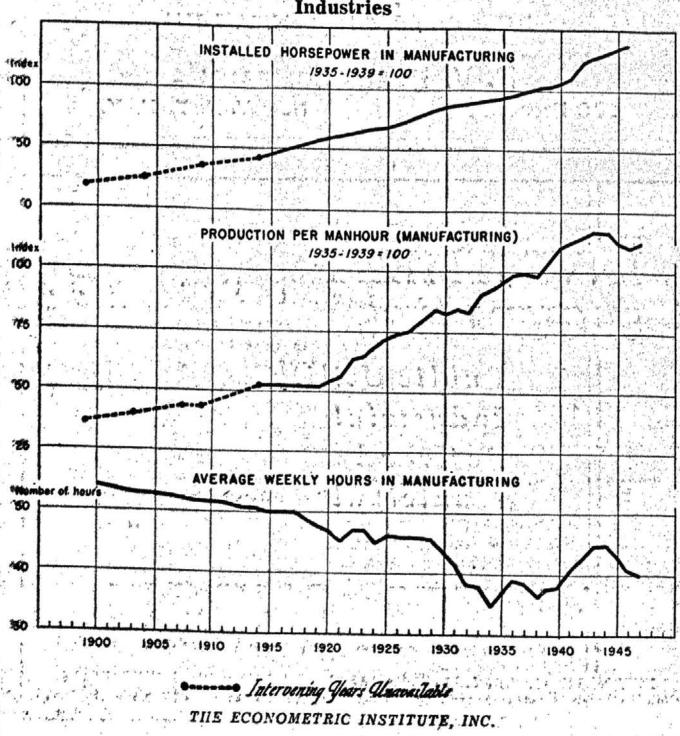
(Continued on page 42)

CHART I
Population and Disposalable Income (1897-1947)



THE ECONOMETRIC INSTITUTE, INC.

CHART II
Installed Horsepower and Labor Productivity in Manufacturing Industries



THE ECONOMETRIC INSTITUTE, INC.

Dealer-Broker Investment Recommendations and Literature

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

Debt Management Policy and Government Bonds — Memorandum—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also available are brief comments on **Western Union Telegraph Co., Delaware & Hudson Co.,** and **Better Grade Railroad Income Bonds.**

Kentucky Municipals — Leaflet —Bankers Bond Co., Inc., Kentucky Home Life Building, Louisville 2, Ky.

Market—Memorandum on situation—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

* * *

Aetna-Standard Engineering Co. —Analysis—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

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

American Radiator and Standard Sanitary Corp. — Circular — Van Alstyne, Noel & Co., 52 Wall Street, New York 5, N. Y.

American Water Works Co.— Brief memorandum on interesting situation—Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

Also available are brief data on **Arkansas Natural Gas Corp.** and **Texas Western Transmission Corp.**

Berkshire Fine Spinning Associates—Basic review—Kalb, Voorhis & Co., 25 Broad Street, New York 4, N. Y.

Commonwealth Gas Corp. —Analysis—C. D. Robbins & Co., 810 Broad Street, Newark 2, N. J.

Harris-Seybold Co.—Memorandum in current issue of **"Railroad and Other Quotations"**—B. W. Pizzini & Co., Inc., 25 Broad Street, New York 4, N. Y.

In the same issue data on **Lackawanna Railroad of New Jersey** and **Joseph Bancroft & Sons Co.**

Hungerford Plastics — Recent bulletin—First Colony Corp., 52 Wall Street, New York 5, N. Y.

Also available is a bulletin on **Metal Forming Corp., Dumont Electric Corp., M. H. Lamston, Inc., York Corrugating Co., Stratford Pen Corp.,** and **Loew Drug Co., Inc.**

Lehigh Valley Railroad—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a leaflet of current **Railroad Developments.**

National Gas & Electric Corp.— Circular—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Also available is a memorandum on portfolio changes of **Lehman Corporation.**

Neglected Credits — Discussion of "underrated" rail issues—Prince & Byrne, 67 Wall Street, New York 5, N. Y.

New York City Bank Stocks— Comparison and analysis of 20 stocks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

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 **Buffalo Bolt, 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.

Red Rock Bottling Co. of Cleveland — Memorandum — Cantor, Fitzgerald & Co., Inc., 61 Broadway, New York 6, N. Y.

Smith, Kline & French Laboratories—Circular—Coffin, Betz & Sullivan, 123 South Broad Street, Philadelphia 9, Pa.

Wisconsin Motor Corp. — New report—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

COMING EVENTS

In Investment Field

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

April 20, 1948 (Chicago, Ill.)
La Salle Street Women Luncheon Meeting at 19 South La Salle Street YMCA.

April 29-May 1, 1948 (Ft. Worth, Tex.)
Texas Group Investment Bankers Association Spring Meeting.

May 6, 1948 (New York City)
Bond Club of New York Dinner Meeting at the Waldorf-Astoria Hotel.

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

May 22 and 23, 1947 (San Francisco, Calif.)
San Francisco Bond Traders Association annual outing at Northwood Lodge, on Russian River.

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 12, 1948 (Chicago, Ill.)
Bond Traders Club of Chicago Annual Golf Party at the Acacia Country Club.

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.

June 22, 1948 (Boston, Mass.)
Boston Security Traders Association 29th Annual Outing at Woodland Golf Club.

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.

Sound Money Is Good Politics

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

Holding it is the average man who is in for a licking if unsound money policies prevail, Mr. Parkinson explains relationship between money supply and government financing. Points out there was no "sound money" plank in Democratic Party platform in 1940 and 1944, and concludes "time has come when it will not be bankers or the wealthy who will demand sound money, but the average man."

Never since 1896 when Free Silver was the issue has the question of money and the soundness of our currency been so important in a Presidential Campaign as it will be this year. And this time it will not be the bankers but the average man who, if he has any regard for his own interests, will be on the side of sound money. It is the average man who is in for the licking if unsound money policies prevail.

T. I. Parkinson

Our "money" consists of the combination of what we call money in circulation and bank deposits which someone—the depositor—has the right to draw and use as money. Presently our money in circulation totals $28 billions, consisting of approximately $1½ billion in coins mostly silver, $2 billion of silver certificates and $24½ billion of other paper money, mostly Federal Reserve notes, which are simply promises to pay and which are convertible only into similar paper; that is, they are no longer convertible into gold.

Total bank deposits, eliminating bank deposits belonging to the United States Treasury, are presently $142 billion. This gives a total money supply in the hands of the people of $170 billion. It was approximately $60 billion before the late war, and it was $152 billion (again eliminating bank deposits belonging to the United States Treasury) at the beginning of 1946, right after the end of the war.

Everyone understands that the great increase in our money supply was due to the expansion of bank deposits created by the banks to pay for the large volume of government bonds acquired by the banks either directly from the Treasury or by purchase on the market during the war. It is significant that though the government has since the end of the war redeemed more than $35 billion of its marketable debt, the people's money supply has gone up, not down—$170 billion now against $152 billion shortly after the end of the war.

Government Debt and Money Supply

The reader may ask reasonably enough, why does the money supply go up when the government debt goes down? We were told that it was government borrowing that put up bank deposits and the money supply and that when

(Continued on page 40)

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

Missouri Brevities

The Empire District Electric Co., of Joplin, in its annual report, reveals that early in 1948, it sold $4,000,000 of first mortgage bonds, 3½% series due 1978, to the Metropolitan Life Insurance Co., The Travelers Insurance Co. and The Connecticut Mutual Life Insurance Co., at a price of 102.345. The proceeds from this sale were deposited with the trustee, and may be withdrawn by the company against certification of bondable property additions.

A revolving credit has also been established with the Harris Trust & Savings Bank, Chicago, Ill., and associated banks, permitting Empire District to borrow until Dec. 31, 1949, from time to time, amounts not to exceed $2,000,000, with the right to convert on Dec. 31, 1949 into a one-year loan maturing on or before Dec. 31, 1950. Interest on all funds so borrowed will be at the rate of 2½% per annum.

* * *

Newhard, Cook & Co. and Reinholdt & Gardner of St. Louis, and Stern Brothers & Co., were among the bankers participating in the public offering on March 25 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 utility firm, the bonds at 102.72 and interest, and the stock at $7.35 per share. They are issuable under a plan of reorganization under the Public Utility Holding Act of 1935.

* * *

Although the operating revenues of $25,638,247 were the largest in the history of Kansas City Power & Light Co., net income for 1947 declined to $3,944,265, which was $220,741 less than the $4,165,006 earned in 1946. The substantial increase in operating revenues was more than offset by higher operating expenses. Total operating revenue in 1947 was $25,638,247, an increase of $1,884,859 over the 1946 revenue of $23,753,388.

The company estimates that its 1948 construction program may cost as much as $15,000,000 and that the heavy construction program will continue in 1949 and 1950. This, Harry B. Munsell, President, says, will require additional financing. "The company has consummated short-term bank loans of $3,860,000 to carry the construction program through the early months of 1948, with long-term financing to follow by mid-year," he said.

* * *

The Missouri Utilities Co., Cape Girardeau, is offering 22,750 shares of its common stock to common stockholders of record April 6. Rights were received by the stockholders yesterday giving them the right to purchase one share for every eight shares held, at $12.50 a share. They will expire on April 23. The proceeds of this financing will go toward additions and betterments. Edward D. Jones & Co., St. Louis is the principal underwriter of the stock offering.

The Missouri Utilities Co. recently sold at private sale $2,500,000 of first mortgage bonds, series C, 3¼%, due June 1, 1971 at 101. In addition, the company has tentatively arranged to sell $400,000 of 3¾% sinking fund debentures due 1963.

* * *

During 1947 net sales billed by Century Electric Co., St. Louis, reached a new high, amounting to $22,180,485, an increase of 57% over the $14,020,320 figure for 1946. Net earnings likewise established a new record. After surplus appropriations of $400,000 for possible inventory price decline, and $300,000 for new plant and equipment costs considered excessive, net earnings came to $2,484,731 or $4.80 per share on the 517,859 common shares outstanding at the close of 1947. This compares with earnings in 1946 of $1,198,453, which was $2.48 per share on 481,880 common shares outstanding at the close of that year.

It is expected that a further stock dividend will be made at the end of the current year providing earnings remain satisfactory. A 2% stock dividend and a 12½ cents per share cash dividend payable in the second quarter have already been declared.

* * *

The net income of Scullin Steel Co., St. Louis, for the year 1947, after providing for all known expenses and taxes, was $507,906 as compared with net income for 1946 of $177,244, or an increase of $330,662. After provision of $74,850 in each of the aforesaid years for dividends on the preferred stock, the per share earnings applicable to the common stock outstanding were $3.10 for 1947 and 73 cents for 1946.

* * *

Among the group of 103 investment firms participating in the public offering on March 25 of $45,000,000 Columbia Gas & Electric Corp. 3¼% debentures due 1973 at 101.25 and interest were Reinholdt & Gardner, Stifel, Nicolaus & Co., Inc. and Stix & Co., all of St. Louis.

* * *

Stern Brothers & Co. also participated in the public offering on March 17 of $10,000,000 Louisiana Power & Light Co.

(Continued on page 47)

Factors Influencing Canadian Credit

By W. T. G. HACKETT*
Economic Adviser, Bank of Montreal

Canadian economist reviews his country's recent domestic financial experiences, which, though resulting in expanded industrial capacity and greater self-sufficiency, has brought about a dollar shortage. Cites Canada's heavy participation in foreign aid program and its liberal export credits as primary cause of difficulty. Defends restoring parity to Canadian dollar, and points out depletion of Canadian gold reserves has already been checked. Sees ERP easing Canada's present dollar difficulties, and concludes Canadian investment situation is similar to that of U. S.

May I say at the outset how honored I feel in being invited to speak to this gathering. I hasten to add, however, that I approach my task with considerable trepidation. The discriminating judgment of New England investing institutions is fully recognized and respected in Canadian financial circles. A visitor from Canada is therefore put on his mettle to present a picture of conditions in his own country that is informative, accurate, and as far as the limits of human frailty will permit, unbiased. Further, when an entire country is one's potential subject matter, the problem of selection arises. One must try to sift out from a mass of information and viewpoints those really significant influences that have a present or prospective bearing on long-run Canadian investment values.

W. T. G. Hackett

As a starting point, I would suggest that whatever our immediate problems in Canada may be—and we have our share — they are certainly not those of an economy operating at a low level of productivity. During the war years Canada experienced a period of dynamic industrial growth, while the speed and smoothness with which the technical processes of reconversion have been accomplished provide, I think, some further encouraging evidence of vigor and adaptability.

I don't intend to say more about Canada's wartime economic development than is necessary to put the present situation into perspective. The picture is one of a nation of 12.5 million people that doubled its level of industrial production, increased its agricultural output by one-third (despite a 20% decline in agricultural employment) and raised an armed force of over 750,000 besides taking on the job of operating the Commonwealth Air Training Plan.

Canada, as you know, was never a recipient of Lend Lease. Like you, we were extending wartime financial aid to the United Kingdom and other allied nations. In the very early stages of the war we financed the United Kingdom's net Canadian dollar requirements by repatriation of securities and other special arrangements of this nature. But these techniques soon gave way to free gifts and "mutual aid" which was another name for the same thing. Without taking you through a mass of detail it will be enough to say that up to the end of the war, Canadian extraordinary measures of financial assistance to allied nations amounted to approximately $4.75 billion. If you were to multiply this by 16 you would have an approximately comparable figure in terms of your own economy—the comparison being made on the basis of the relative gross national products of the two countries over the period involved.

*An address by Mr. Hackett at the Investment Forum of the Savings Banks' Association of Connecticut, New Haven, Conn., April 8, 1948.

The Dollar Shortage Problem

It was obvious that a war production program of the magnitude undertaken would require a very substantial increase in Canada's needs for raw materials, industrial equipment and component parts from the United States. We expected to have something of a U. S. dollar problem, and in the early stages of the war we had just that, our holdings of gold and U. S. dollars declining from about $400 million in September, 1939 to the low point of $172 millions in January, 1942. Later in 1942 we began to receive a considerable measure of assistance from the operation of the Hyde Park Agreement, which had been entered into in 1941. You will recall how this worked. It involved a division of munitions production between the United States and Canada on the basis of comparative technical advantage in output, and the consequent purchase by the United States from Canada of certain munitions, ships and critical materials. This mutually advantageous agreement, achieved with a minimum of formality, is an excellent example of the kind of economic collaboration, in the interests of a common purpose, that is possible between two countries whose economies permit close integration and who in addition, know and trust each other.

As the war progressed, other developments that could not be foreseen began to build up our U. S. dollar position. There were U. S. defense outlays in Canada principally in connection with the Alaska Highway and Canol projects. There was a heavy U. S. demand for Canadian grain, arising out of shortages in your country, such grain exports in 1944 being larger than the total of all merchandise exports to the United States in 1938. Another important factor influencing our U. S. dollar position was the purchase of Canadian securities by United States investors, attracted by the high interest rate differential, and as time went on, by the increasing likelihood of the return of the Canadian dollar to parity. To cut the story short, by the end of 1945 Canada's holdings of gold and U. S. dollars had reached the very comfortable figure of $1,508 millions. I hasten to add, however, that this increase in cash assets from 1939 to 1945 was almost exactly offset by the combined effect of reduction in other assets abroad through sale of U. S. securities, and increases in our external liabilities to the U. S. A. in the form of United States holdings of Canadian bonds and undistributed profits of branches and subsidiaries of U. S. companies in Canada. In other words, in spite of the rise in our liquid reserves, our net balance of indebtedness to the U. S. dollar area was practically the same at the end of 1945 as at the beginning of the war.

Canada's wartime domestic financial experience is all on the record, and that record, I think, is generally regarded as a good one. The government adopted, and the public supported, a financial program that might be summed up in the phrase "pay as you go as far as you can." Although the Dominion Government's annual expenditures rose during the war to six times those of the comparable pre-war period, about half of the total required during the six war years was covered from revenue sources. Borrowing necessary to meet the other half was of course substantial and between the end of 1939 and the end of 1945 the Dominion's direct and guaranteed funded debt ran up from $4.4 billion to $17.8 billion, the proportionate increase being somewhat less than was the case in your country. At the end of the war the Dominion's direct and guaranteed debt was about 1.5 times the gross national product, slightly greater than the relative proportion in the United States (1.3 times) and considerably less than the comparable figure for the United Kingdom (2.5 times). War finance was accomplished against a background of easy money, through techniques with which you are well familiar. The result was that the average rate of interest on the Dominion's debt was reduced from 3½% in 1939 to 2½% in 1945. It is to be noted also that net redemption of debt payable solely or optionally in foreign countries, has just about completely eliminated possible variations in the cost of external debt service resulting from exchange fluctuations. Today only about 3% of the Dominion's direct and guaranteed debt is payable in currencies other than Canadian as compared with 35% in 1939.

To sum up this very sketchy review it may, I think, be said that Canada ended the war with an expanded industrial capacity, with some progress toward greater self-sufficiency in industry, with full employment, with a high national income, and with a price level that was relatively low in comparison with other countries.

Canada's Foreign Aid

Even before the end of the war the Canadian Government was laying plans for a postwar program of foreign aid. The result was the authorization, early in 1946, of a total of $1,845 million of foreign credits. The largest single credit was of course the loan of $1,250 million to the United Kingdom which coincided with the U. S. loan of $3,750 million to that country. The balance represented credits in varying amounts and on somewhat different terms to a number of other allied nations. The whole was a very large program for Canada—equivalent on the basis of relative

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Javits Praises ERP Act

Republican member of House Foreign Affairs Committee says it will ward off depression and will not result in renewal of allocations and business controls. Sees Act reviving world-wide business prosperity.

Addressing the annual meeting of the National Paper Trade Association of the United States at the Waldorf Astoria Hotel in New York City on April 7, Jacob K. Javits, (R.-N.Y.), a member of the House Foreign Affairs Committee and one of the drafters of theHouse European Recovery Program bill said: "American business need not fear allocations and controls as a result of the European Recovery Program, and American business could do more than any other group in the United States to assure the success of the program."

Hon. Jacob K. Javits

"I believe," Mr. Javits added, "that the European Recovery Program gives reasonable assurance that we shall not have a serious depression in the next few years and gives a platform from which, if American business seizes the opportunity, not only our own, but world prosperity may be stabilized.

"There is a negative phase to the European Recovery Program which relates to allocations and controls of scarce materials, the power of export licensing, and other governmental regulations of business. I do not believe that business needs to fear the imposition of such controls as a result of the Foreign Assistance Act of 1948 just passed by Congress to carry out the European Recovery Program, as the items to be supplied are generally within availabilities. In addition, countries participating in the program are given priorities as to scarce materials over non-participating countries where our supplies are insufficient for both.

"The power of export controls remains with the Secretary of Commerce under the Act and the President is to resolve any conflicts on this subject between the Administrator and the Secretary of Commerce.

"One of the great opportunities of all time is put before American business in the ERP Act. By doing a good job, American business can assure itself and the country of prosperity for many years with constantly expanding foreign markets ready to take our surpluses, and with enormous possibilities of new development in the under-developed colonial areas of the European powers.

"At every point in the Act the use of private trade channels is encouraged and facilitated. Aside from an express direction to the Administrator to 'utilize private channels of trade,' the issuance of letters of commitment by the Administrator to the participating nations is provided. These may be hypothecated or assigned and become binding obligations of the United States. Under them, private business can undertake vast supply agreements with the recipient Western European nations. Great quantities of materials are indeed involved. In the first year of ERP there will be shipments of 12,000,000 tons of food and food products costing about $2½ billion; 1,500,000 tons of tobacco and cotton costing close to $1 billion; agricultural machinery, coal mining machinery, trucks, freight cars and equipment costing over $300,000,000; about 2,500,000 tons of iron ore and steel costing over $200,000,000; and $1 billion in coal, petroleum and other raw and semi-finished materials. The total in round figures calls for over $4½ billion worth of American production in the first year and not less than 50% of this is to be shipped in American bottoms.

"Not alone is there this direct call upon American business, but the expansion of normal American business abroad is greatly facilitated through the general aims of the Act, and specifically. Generally, the Administrator will seek to stabilize exchange rates and to remove burdensome trade restrictions, quotas and other barriers to trade.

"Specifically, the Act approves a great new program of guarantees for American investments abroad. The amount is limited in the first year to $300,000,000 and the guarantees apply to projects aiding ERP. Such guarantees may continue for 14 years and insure the convertibility of local currencies realized from the investment of U. S. business in the participating countries into dollars. Similar guarantees are also provided for American newspapers and magazines, radio and television distributed in the participating countries, but these guarantees are limited to $15,000,000 for the first year.

"It is well recognized that Europe faces a production crisis and the greatest experts in production are in the United States. They and our skilled workers have made us the most fabulous producers of goods the world has ever known. Therefore, both as the Administrator and as soldiers of production who will serve in all the participating countries, we need American technicians, schooled in what has made us great. I call for not less than 1,000,000 Americans to devote themselves to the job of the reconstruction and management of the industrial and agricultural production of the 16 participating nations. Such a contribution will aggregate in terms of results, infinitely more even than the money we put in the ERP. Under the Act, the Administrator is forced not only to procure goods, but to procure and furnish technical information and assistance. These technicians will be the greatest soldiers democracy ever had.

"The Soviets say that ERP is designed for economic imperialism. We know that it is not true, but it is up to us to demonstrate that it is not true. They cannot understand how a million American technicians can go in to rehabilitate European production without dominating the participating countries politically. We must show that we understand how to split the two and how to rehabilitate production while we refrain from interference with the political independence and social life of these countries. No greater argument can be made against the Soviet system than our kind of administration which will build and not appropriate—improve and not seize.

"By doing this kind of a job, American business will not only save Europe, but save itself, for we must by now realize that just as we cannot remain the only free nation in the world politically if all the others are dictatorships, so we cannot remain the only nation with a private economy in the world if all the others have state economies. The common people of the world demand a share in the enormous productivity of our age. They refuse to continue to be chronically poor; that is the key to the present ideological struggle. In this struggle we, with our superior knowledge of production techniques, should prove a sure victor. Our most effective troops in the struggle are the forces of American business."

Theodore H. Price, Jr., To Be Sage Co. Partner

Theodore H. Price, Jr., member of the New York Stock Exchange, will become a partner in the Exchange firm of Sage & Co., 1 Wall Street, New York City, on April 16. Mr. Hicks has been a partner in Hicks & Price of Chicago.

Two with Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA.—George A. Horton and Maurice J. Meyer are now with Herrick, Waddell & Co., Inc.

Realistic View of Compulsory Social Security

By E. H. O'CONNOR*

Managing Director, Insurance Economics Society of America

Contending compulsory social insurance is a deadening doctrine which frustrates ambition and achievement, Mr. O'Connor points out advantages of voluntary insurance plans over bureaucratic devices operated by government. Admits existing pressure for expanded social security, and cites its heavy cost, as well as its adverse influence on individual initiative and enterprise, as destructive of American ideals.

I believe and I hope you do that we are living in a time which the historians of the future will evaluate as the high peak of human history or the time of its greatest tragedy. Whether it will be the former depends upon the American people and their inclination to renew and strengthen our democracy, to perpetuate a strong and expanding free economy, and to keep this country of ours moving ahead to the envy of all the nations of the earth. That spirit must not be weakened or allowed to die by the propagation of such measures as governmental protection from "the cradle to the grave," compulsory state sickness compensation or proposals of a like nature, because when our people place their faith in such measures as complete social security, enacted either by the national Congress or by the states, rather than in their own willingness to risk and venture and take care of themselves, the process of decay will have begun and historians will record that America's glorious era has come to an end.

E. H. O'Connor

Compulsory Social Security—A Deadening Doctrine

Compulsory Social Security is a deadening doctrine which frustrates ambition and achievement. The label is appealing but the package actually contains a blend of demogogic pap and promises which are too thin in vitamin content to provide the nourishment needed to keep a strong nation functioning in a free economy.

There can be no doubt that a large proportion of the people of this country want greater economic security. There can be even less doubt but that this desire, not to say need, poses a difficult problem for the leaders of this country — political leaders, business leaders, and social leaders.

A good many years ago, the peoples of European countries insisted upon resting this responsibility in the hands of government. Thus, government compulsory social security came into existence.

As a result, adoption of similar plans in the United States have been strongly favored. The arguments for them made little headway prior to the world-wide depression, beginning in the 1930's, but the depth and length of that depression overcame a great deal of normal resistance. Thus, in 1935, compulsory social security, on a national, but still limited scale was introduced in this country.

Prior to that time, our people, almost to a man, had an Horatio Alger outlook on life. Opportunity was their watchword, and they neither wanted nor would brook any interference from government in their private economic affairs. The depression changed the minds of enough people, however, so that a national compulsory program became a possibility. It was first tried on a restricted scale, but pressure for broad expansion began at once and has become stronger with the passage of time, even though World War II brought a return of prosperity and a wealth of opportunities.

No one can quarrel with the thought that it would be heavenly not to have a single worry, to have all that one wants to eat and wear, to have decent shelter and to work where one wishes with complete assurance that one's old age will be taken care of. This is a description of heaven to which we all subscribe, but the clash comes in planning ways to attain this goal. In planning thus, we must be alert to the "camel" technique—for once the camel gets his head into the tent, he soon has his entire body inside. Social Security expansion is indeed like the camel, it does not stop at part-of-the-way-measures. Like the good old Southern expression, it's simply "whole hawg or nuthin."

Therefore, when we speak of social security we are not questioning whether or not the people should have social security, but we are questioning the form which it should take and how far it should be developed. Should it be compulsory under government administration or should it be voluntary under the auspices of private enterprise? Should the law make participation compulsory for all, but leave the execution to private agencies? If compusory, should it be on a Federal or State basis? Should it cover workers only; or also dependents? Should benefits be on a generous scale or on a subsistence level? In other words, what considerations and what principles should guide the development of the American system of social security.

The Society, which I represent, has endeavored to approach the subject on this broad and general premise, considering all of the interests involved, those of the worker and of the employer, those of the farmer and taxpayer, of the inventor and the white-collar class, of the national economy and of future generations. We want to find out not only what is *good* about compusory social security but what is *bad;* not only what it does *for* the people but also what it may do *to* the people. Not only what it *gives* to some but what it *takes* from others. If the American people want the compulsory form of social security I presume there is no reason why they should not have it. But before they make their decision they should know both sides of the question so that they do not have to believe everything they are told about social security.

No one is more willing than I am to admit that the modern industrial age with all of the benefits it has brought to the average man has also created a host of problems for him. In most cases the individual worker no longer owns his tools of production. He can no longer turn readily from factory to farm, or from farm to factory, as economic conditions change. Frequently he is power-

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*An address by Mr. O'Connor at the Accident and Health Conference of Pittsburgh Insurance Day Program, Pittsburgh, Pa., April 5, 1948.

Michigan Brevities

Kaiser-Frazer Corp. for the year 1947 reported a net profit, after all charges, of $19,015,678, equal to $4 per common share, as against a net loss for 1946 of $19,284,681. Net sales in 1947 totaled $260,132,988, compared with $11,504,443 in the previous year. Working capital at Dec. 31, 1947 was $26,545,420, against $11,817,346 a year before. Because of the loss in 1946, the 1947 profit is not subject to Federal income tax, permitting the full 1947 profit to remain in the business. Another milestone was reached on March 26, 1948 when the Willow Run factory produced the company's 200,000th automobile. The 100,000th car was turned out on Sept. 25, 1947.

* * *

Of the 140,750 shares of common stock offered by Standard Accident Insurance Co., Detroit, for subscription by its stockholders, 136,849 shares were subscribed for upon the exercise of subscription warrants and the remaining 3,901 shares have been sold by the underwriting group headed by The First Boston Corporation of New York, and which included, among others, First of Michigan Corp., M. A. Manley & Co. and Watling, Lerchen & Co., all of Detroit. The purpose of the offering was to provide Standard Accident with additional capital funds.

* * *

The Detroit Stock Exchange reports that trading volume in March, totalled 240,847 shares, having a market value of $2,956,900, compared with 221,398 shares, with a trading volume of $3,062,473 in February.

The 10 most active stocks during March were: Detroit Edison Co., McClanahan Oil Co., Gerity-Michigan Corp., Detroit & Cleveland Navigation Co., Warner Aircraft Corp., Peninsular Metal Products Co., Goebel Brewing Co., Gar Wood Industries, Inc., Kaiser-Frazer Corp. and River Raisin Paper Co.

* * *

Sales of Goebel Brewing Co., Detroit, for the first two months of 1948 show an increase of approximately 11% in barrels sold over the same months in 1947 thereby reflecting a continuing favorable trade acceptance of the company's product, according to Edwin J. Anderson, President, who added that January and February net profits were in excess of $170,000.

The directors point out that their decision at the Feb. 27 meeting in omitting the dividend on the common stock, normally declared at that time, was ultra conservative and should not be considered as a forecast for the remainder of the year. "There is every indication that substantial dividend payments will be resumed in the second quarter of this year," Mr. Anderson said.

* * *

First of Michigan Corp. also participated in the following public offerings:—On March 17, $75,000,000 Pacific Telephone & Telegraph Co. 30-year 3¼% debentures due March 1, 1978 at 102¾ and interest; on April 1, $40,000,000 Ohio Power Co. first mortgage bonds, 3% series due 1978 at 100.99 and interest; and on April 6, $25,000,000 Mountain States Telephone & Telegraph Co. 30-year 3⅛% debentures due April 1, 1978 at 100.875 and interest.

* * *

Sales for the year 1947 were the largest in the history of Allen Industries, Inc., Detroit, and amounted to $23,353,058 as compared with $14,300,195 for the previous year. Net profit for 1947 totaled $1,201,061, equal to $2.15 per share on the 559,200 shares presently outstanding, as compared to a net profit of $742,848 in 1946, equal to $1.33 per share on the present capitalization. Net profit in both years was approximately 5% of net sales.

* * *

Watling, Lerchen & Co., also on April 8 participated in the public offering of $7,000,000 Michigan Consolidated Gas Co. first mortgage bonds, 3⅜% series due 1969, at 102.25 and interest. The net proceeds are to be used to finance, in part, the construction of additional property. It is contemplated that any additional funds required for the completion of the 1948 construction program will be supplied from depreciation accruals, and other financing, the form and amount of which has not yet been determined. The utility company proposes to expend $10,971,000 for such additional property during the current year. Net income for the year 1947, after all charges and taxes, amounted to $3,139,966, compared with $3,462,716 in 1946 and $2,904,986 in 1945.

* * *

Sales of Hoskins Manufacturing Co., Detroit, for January and February were good, according to William D. Little, its President, who added: "However, the gas shortage seriously interfered with production in February. Consequently our earnings for the first quarter may be lower than otherwise." Profit after charges and provision for Federal income taxes totaled $833,240, or $1.73 per share, for the year 1947, the second best year in its history, being surpassed only by 1946 when profit was $971,150, equal to $2.03 per share. Dividends of $1.40 per share were paid during 1947 and a quarterly dividend of 30 cents per share was paid March 25, 1948 to stockholders of record March 10, 1948.

* * *

C. G. McDonald & Co., Detroit are offering at par ($1 per share) 300,000 shares of common stock of Federal Industries, Inc., the net proceeds to be used as follows: $75,000 to be paid to Reconstruction Finance Corporation on account of a loan, and the balance to be added to working capital. Federal, a Michigan corporation, manufactures and sells two types of electronically operated garage door openers. It is also currently manufacturing two other products, namely "Power Take-

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What Conditions for Britain Under ERP

By PAUL EINZIG

Dr Einzig discusses uncertainties and fears of British regarding U. S. conditions to be imposed on aid under European Relief Program. Cites severe conditions of the Anglo-American Loan Agreement as instance of difficulties that may be encountered, and warns imposed requirements may increase Britain's task of meeting trade deficit.

LONDON, ENGLAND—The speedy passage of the ERP Bill by Congress has taken everybody in London by surprise—including the Government. It was not expected until after budget day (April 6) and when the news came through Chancellor Cripps had to redraft part of his Budget speech in order to deal with Marshall aid as a certainty instead of referring to it in vague terms as a possibility. Rejoicing over the ease with which the Marshall Plan was endorsed by Congress is not, however, unmingled with fears about the possible conditions attached to aid under it.

Dr. Paul Einzig

It is feared that the ERP Administrator might drive a hard bargain with Britain in the matter of convertibility and non-discrimination. Britain is already committed in principle under the Loan Agreement of Dec. 6, 1945, but under the pressure of developments during 1947 the United States Administration agreed that, while the principle must be upheld, its application need not be rigidly enforced for the present. This concession was made because amidst existing difficulties Britain was obviously not in a position to carry out her undertaking. It is now feared that the view might be taken in Washington that, since the Marshall aid will improve Britain's balance of payments, she will henceforth be in a better position to apply a higher degree of convertibility and non-discrimination. When it was reported that Mr. Clayton might possibly be appointed Administrator there was a minor panic in official circles in London, for his dogmatic views on those subjects are well known from past experience, but the appointment of Mr. Hoffman has brought some relief.

There were also suggestions that the Administrator might insist on a devaluation of the pound as a condition to granting Marshall aid. This is considered most unlikely in British official circles which are equally unimpressed by the suggestion, contained in a Paris report appearing in the March 19 issue of the "New York Times," that the United States would insist on the breaking up of the Sterling Area. That article provided a wealth of ammunition to British opponents of the Marshall Plan. Their reaction to its concluding sentence that "the British struggle to defend sterling was the greatest menace, outside Communism itself, to the success of the European Recovery Program" was that "the greatest menace to the British Empire, outside Communism itself, is being saved from Communism by American aid." In the interest of counteracting the bitter feeling that is liable to develop in British opinion it would be helpful if official American circles could find a way of dissociating themselves from the views expressed in the article.

There is, on the other hand, one point in the article in the "New York Times" which is widely welcomed over here—its insistence on the importance of dealing realistically with the wartime sterling balances. Those in Britain who have been trying hard to force the British Government to face this issue instead of evading it build all their hope on the possibility of a demand being put forward by the Administrator that the balances must be scaled down and funded before Britain could receive Marshall aid. This would force the British Government to take long-overdue action in presenting counterclaims to the countries holding the sterling balances, and thereby to insist on the reduction of these balance to a manageable amount.

Fears are entertained in many quarters that the Administrator might insist on such conditions as the reduction of British shipbuilding, or a curtailment of British on April 1, as follows: $46,000 ish competition with American exports in Latin America or the Far East; or a limitation of British trade with Soviet Russia and countries behind the Iron Curtain. There is an uneasy feeling over here that American official opinion and public opinion does not realize the full gravity of the British situation, and that the fact that the Marshall Plan covers barely one-half of Britain's trade deficit has not been made clear. The idea that Britain could afford to make any such concessions, or that she could weaken at this stage her defences by agreeing to more convertibility or non-discrimination, simply ignores this fact. Even in the absence of any concessions, Britain will have the utmost difficulty in achieving equilibrium, in spite of the Marshall Plan, which merely postpones the day when Britain will find herself devoid of any dollar reserves.

Without the Marshall Plan that day would be reached by the end of this year, judging by the pace at which Britain is at present losing gold. Thanks to the Marshall Plan, Britain will have spent the last dollar by the end of next year, unless in the meantime she succeeds in improving her trade balance and in stopping the leaks through which her dollars are used by other countries. Any limitations on British exports, or any extension of non-discrimination and convertibility at the present stage would not only prevent such improvement but would inevitably cause a marked deterioration. It would deprive Britain of a very large part of the benefit derived from the Marshall Plan, and would deplete her dollar reserve long before the end of 1949. This would certainly not serve the ends of European Recovery Program in which the consolidation of Britain's balance of payments plays a decisive part.

On the other hand, the difficulties of the American negotiators is fully realized here. British informed opinion is aware that, apart from trying to check the progress of Communism in Europe, the object of ERP is to ensure convertibility and non-discrimination; and that unless some progress is shown in that direction during the first year of the Marshall Plan, the Administration might find it difficult to persuade Congress to approve the second annual payment under that Plan. Possibly an increase of the menace of Communism might make American political opinion realize that first things must come first, and the Administrator will not insist on any condition which would impose on Britain a burden beyond her present capacity.

An Appreciation of J. Herbert Case, L.L.D.

Former Chairman of the Federal Reserve Bank of New York and Director of the City Bank Farmers Trust Co.

Of the many affectionate tributes paid to Mr. & Mrs. J. Herbert Case at a testimonial dinner given in their honor by the Ministers and Missionaries Benefit Board of the Northern Baptist Convention at the Biltmore Hotel in this city, the following appreciation by Alexander Wilson of the "Chronicle," was typical of the felicitations Mr. Case received at the completion of his 25 years of service as the Board's Financial Committee Chairman:

J. Herbert Case

"The Bard of Avon must have had a man like Herbert Case in mind when he wrote the following lines because they are the embodiment of his character:

His words are bonds, his oaths are oracles,
His love sincere, his thoughts immaculate,
His tears pure messengers sent from his heart,
His heart as far from fraud as heaven from earth.

"Shakespeare's words aptly describe a modest, unassuming American boy who started his business career at the bottom of the ladder and came up the hard way equipped with only a public school education and finally became the head of the Federal Reserve Bank of New York—one of the highest *honors* in the banking world.

"Indeed Mr. and Mrs. Case do not have to ask themselves what is the justification for their existence on this earth. In this instance, the question readily answers itself. Any American couple who have given the world two distinguished sons, now Presidents of two of this country's colleges—owe the world nothing for having lived in it. Any man, like Mr. Case, who has served this worthy religious organization for over a quarter of a century with fidelity, ability and vision needs no encomium to express our love and appreciation of his good works. I humbly say that we honor ourselves most today when we honor Mr. and Mrs. Case."

Connecticut Brevities

On March 30, 1948, the stockholders of the Plume & Atwood Company of Thomaston elected five new directors, Clayton R. Burt, Peter M. Fraser, Thomas Hewes, Henry L. Shepherd, and R. H. Valentine. D. A. Williams, Emil Mannweiler, Leroy S. Andrews, and Walter F. Torrance retired from the board.

* * *

In the consolidated income account for the year ended December 31, 1947, Segal Lock & Hardware Co. showed net income of $231,881. This compares with $147,320 the preceding year.

* * *

The U. S. Finishing Co. in their consolidated income account for the year ended Dec. 31, 1947, reported gross revenue from production of $16,026,672 compared with $15,999,080 the preceding year. Net income for 1947 was $1,374,-902 against $2,069,583 for 1946. Earnings per common share for 1947 were $5.60 based on 202,822 shares outstanding, against $10.03 the preceding year when 181,222 shares were outstanding.

* * *

In the consolidated income account for the year ended Dec. 31, 1947, The Hendey Machine Co. showed a deficit before taxes of $91,974 compared with a net before taxes of $127,060 the preceding year. After a carry-back tax credit of $42,086, in 1947, there was a deficit of $49,888. This compares with a tax credit of $32,010 and a net income of $111,390 the preceding year. The $2 class A prior preferred showed a deficit of $5.48 compared with earnings of $12.25 a share in 1946 while the Class B common showed a deficit of 38c in 1947 compared with earnings of 52c a share the preceding year.

* * *

The Russell Manufacturing Co. announced recently that arrangements have been completed for sale to the Travelers Insurance Co. of $1,000,000 serial notes to be redeemed in semi-annual installments over a 10-year period beginning October, 1949. Funds derived from the sale would be used to retire a $500,000 outstanding bank loan and the balance for developing and acquiring equipment and machinery.

* * *

For the year ended Dec. 31, 1947, Palmer Bros. Co. showed a net income of $13,372 or 25c a share after charges and taxes, compared with $149,535 or $2.80 a share for 1946.

At the year-end, working capital was $371,418 against $357,994 the year before. Earned surplus was $422,279 against $332,257.

* * *

Connecticut Railway & Lighting Co. reported net income of $650,-277 or $7.98 a share on the preferred stock for the year ended Dec. 31, 1947. This compares with $990,751 or $12.17 a preferred share in 1946.

* * *

In their income account for the year ended Dec. 31, 1947, the Bridgeport Gas Light Co. showed gross revenue of $3,059,-808 against $2,662,385 the preceding year. Net income was $306,505 or earnings of $1.69 a common share for 1947 against $312,659 and earnings of $1.72 a share in 1946. Fixed charges were covered 5.76 times.

* * *

Connecticut River Power reported $2,261,098 available for fixed charges for 1947 against $2,126,678 the previous year. Fixed charges and preferred dividends were covered 2.38 times and 2.21 times respectively. Net income was $1,383,560 against $1,235,073 in 1946.

In the consolidated income account for the year ended Dec. 31, 1947, Landers, Frary & Clark showed operating income of $2,732,911 against a deficit of $506,963 in 1946. Net income for 1947 was $1,091,723 while the net for 1946 was $25,-655 after a carry-back tax credit of $950,000. Earnings per share are $2.60 against $0.06 for 1946.

* * *

Pitney - Bowes, Inc., recently sold privately an issue of 10,000 shares 4¼% convertible preferred stock at the par value of $50 a share to the Massachusetts Mutual Life Insurance Co.

* * *

Derby Gas & Electric Corp. showed net income of $373,104 or earnings of $1.47 per common share for the year ended Dec. 31, 1947 against net income of $395,355 and earnings of $1.81 in 1946.

* * *

Consolidated net sales of Associated Spring Corporation of Bristol for the year 1947 were $28,226,517.23, or an all-time high except for the war years of 1943 and 1944. This compares with sales of $22,900,157 in 1946. Net income, after taxes, amounted to $1,956,-027.50 or earnings of $2.70 a share, against net after taxes of $2,061,-571.06 or $2.84 per share in 1946.

George V. Jackish Is With Merrill Lynch Co.

MINNEAPOLIS, MINN.—George V. Jackish has become associated

George V. Jackish

with Merrill Lynch, Pierce, Fenner & Beane, Rand Tower. He was formerly with Harris, Upham & Co. as bond and stock trader.

Savings Banks and Liquidity of U. S. Government Bonds

By L. SUMNER PRUYNE*

Vice-President, The First National Bank of Boston

Bank executive calls attention to savings banks' large holdings of non-marketable, long-term government issues, which endanger their liquidity. Contrasts yields on bank-eligible and non-eligible bonds, and sees margin as too small to justify sacrifice of liquidity. Sets up model portfolio of government bond holdings for savings banks.

Thank you very much for inviting me to join in your discussion today as I remember with a great deal of pleasure being with your group in October, 1946. At that time the average government portfolio of your banks included about 35% of bonds callable within 10 years and 65% beyond 10 years. It is interesting that your net return on the average portfolio of October, 1946, has been slightly over 1%, or not much above the certificate rate, during the year and a half since that time. This net return has been arrived at by taking 1½ years of coupon return and subtracting the shrinkage in price since the time of that October meeting.

L. S. Pruyne

Considering the marked decline in some sections of the bond market in the past six months, I could not help wondering what your maturity distribution looked like at the present moment. I have no way of knowing whether your maturity pattern corresponds to the national average of savings banks, nor how that national average may have changed since Dec. 31, 1947. Nevertheless, I was rather startled to check the year-end national average and to find 74% of total holdings on that date in issues callable beyond 10 years and ineligible for commercial bank purchase.

Perhaps there is some significance in tying together the two thoughts just expressed. The primary reason why a material change in interest rates has left you as relatively unscathed as it has undoubtedly is found in the government's insistence on supporting your long-term governments at par. Furthermore, there is a strong suspicion that reliance on that support explains in large measure why savings banks generally have been willing not only to hold a long-term position, but even to increase it.

Question of Treasury "Pegging"

Up to this point we have been dealing with facts based upon actual history, whereas what interests us is the future which necessarily is based upon conjecture. Therefore, as my first major point, I raise the question of the extent to which a savings bank is justified in concentrating 74%, or even 65%, of its government holdings in long-term issues on the theory that a beneficent government will see fit always to protect the bank against loss of principal. In 1946, I outlined to you some of the reasons why I felt it was the part of good banking to work toward a somewhat shorter-term and more liquid position, and time will not permit me to review those points today. Since that time par has been tested, has held, and, today, there is considerable complacency about this whole question. I am not predicting a break below par, but it is a good guess that some of you at least had doubts about the maintenance of par two months ago, and it might be interesting to consider whether those doubts have lost all of their validity. Were there not then, and are there not now, two main factors of doubt to which a bank should give consideration in the future, even though it admits the tremendous power of the Federal authorities to engage in support operations?

In the first place, I never have conceded an obligation on the part of the government to an investor to maintain any particular resale level. For example, if a top-credit corporate borrower sells a 2¾% obligation at par which later sells at 90, you do not cry "breach of faith," but you understand that this is due to a change of interest rates. Fundamentally should the government as a borrower be asked to protect the buyer against a similar change of rate? Look at it from the standpoint of the time when these bonds were issued. In most of the War Loan Drives the government offered a "basket" consisting of one-year ⅞s, 8-10 year 2s and long-term 2½s. In effect it suggested that commercial banks and corporations buy ⅞% obligations to avoid any money rate risk. However, if the government intends to make the long-term bonds in effect demand obligations by always maintaining the market at the issue price, has not the taxpayer a right to question with some vehemence why the government paid a rate even as high as 2½% for such demand obligations? Perhaps the government will find it expedient to continue support at par indefinitely, but I question whether even government spokesmen would admit to you an *obligation* to maintain a particular level.

In the second place, would it not be wise at least to admit the possibility that circumstances could arise which would force the government to choose between the alternative of some reduction in the support level and another alternative which the government itself liked even less? As an illustration, take the case of inflation. Prior to the drop in commodity prices earlier this year there appeared to be the distinct possibility that if inflation continued rampant, the government in effect would have to choose between its desire to fight inflation on one hand and its desire on the other hand to maintain a rigid pattern of bond prices. This sort of dilemma will not necessarily recur, but if it should, I think you should consider the possibility that the government might choose to modify its support policy at some future date if by so doing it accomplished something which it regarded at that time as more important.

In summary, what is the essence of this first major part of our discussion? It is not intended as an argument why savings banks should hold no long-term bonds. It is a suggestion that long bonds be bought only after the bank has assured itself of a sufficient short-term position to provide liquidity against possible deposit withdrawals, possible mortgage loan expansion, and the possible desirability of buying power in the event of a change of interest rates. Furthermore, when the bank comes to buy long-term bonds, the suggestion is that it limit such purchases by making sure of the relative attractiveness of long issues against short and intermediate issues and further limit such purchases to an amount of bonds it is willing to carry through to maturity if necessary. Would it not appeal to you as sounder banking to follow the approach just mentioned than to place 74%, or any appreciable part thereof, in longer-term issues on the general theory that these bonds are the equivalent of cash because of the sacredness of some one-price level under any and all circumstances?

Government Bond Yields

As a second major point of discussion, I suggest that we study the accompanying yield chart. Of particular interest are the bottom and top lines of that chart, indicating the yields of the various taxable issues on Sept. 30 before the real drop started and on Dec. 31 after the lowering of the support prices.

Looking for a moment only at those two outside lines, the most noticeable feature is the marked increase in yield in the intermediate section of the list compared with the relatively minor change at the long end of the list. For example, in that three months' period the Victory 2½s, in spite of being the longest issue and ineligible for commercial bank purchase, dropped in price only 2½ points and increased in yield only 15 basis points, while the 2¼s of 1959/56, much shorter and bank-eligible, dropped in price four points and increased in yield 46 basis points. There were three main reasons for this phenomenon. The intermediate bonds probably were somewhat high in September; the government insisted on no issue breaking par; and the attempt obviously was being made to penalize particularly the issues eligible for commercial banks as a part of the government's program to curb commercial bank lending.

While the intermediate section of the list out to nine years' call date was relatively unattractive for your use before the break, it appeared to us that the artificial curve of the year-end gave considerable attraction to that intermediate section even for savings banks. Furthermore, that artificial curve gave the savings banks the first opportunity in several years to buy into the bank-eligible section of the list with comparatively little penalty. For example, on December 31 a savings bank could sell 2¼s of 1962/59 and buy 2¼s of 1959/56

(Continued on page 24)

*An address by Mr. Pruyne before the Investment Forum of the Savings Banks Association of Connecticut, New Haven, Conn., April 8, 1948.

NSTA Notes

BOSTON SECURITIES TRADERS ASSOCIATION

Arthur Engdahl, of Goldman, Sachs & Co., President of the Boston Securities Traders Association, announces their 29th Annual Outing, at Woodland Golf Club on June 22.

Arthur E. Engdahl

James J. Lynch

The Committee in charge is as follows: James J. Lynch, Chairman, Shea & Co.; John A. McCue, May & Gannon; Fred S. Moore, J. Arthur Warner & Co.; John Ryan, O'Connell & Co.; J. Russell Potter, Arthur Wood & Co.; Jack A. Putnam, W. E. Hutton & Co.

BOND TRADERS CLUB OF CHICAGO

The Bond Traders Club of Chicago will hold their Annual Golf Party on June 12 at the Acacia Country Club.

SECURITY TRADERS ASSOCIATION OF NEW YORK

Over 1300 members and guests of the Security Traders Association of New York, Inc., have made reservations for the Twelfth Annual Dinner to be held on April 19 at the Hotel Waldorf-Astoria,

John J. O'Kane, Jr. Arnold J. Wechsler Leslie Barbier Wellington Hunter

New York City, according to Arnold J. Wechsler, of Ogden, Wechsler & Co., Chairman of arrangements. About a hundred persons prominent in the security business and allied fields have been invited as guests of the Association.

Assisting Mr. Wechsler are Leslie Barbier, of G. A. Saxton & Co., Inc., and Wellington Hunter, of Hunter & Co. A very valuable door prize will be awarded, the nature of which has not been revealed. John J. O'Kane, Jr., of John J. O'Kane & Co., President of the Security Traders Association of New York, Inc., will introduce the honored guests. An outstanding array of talent will present a fast-moving review.

SAN FRANCISCO BOND TRADERS ASSOCIATION

The San Francisco Bond Traders Association will hold its annual outing on May 22 and 23 at the Northwood Lodge on the Russian River in the redwoods about 75 miles northwest of San Francisco.

NATIONAL SECURITIES TRADERS ASSOCIATION

R. Victor Mosley, Stroud & Co., Inc., Philadelphia, President of the National Security Traders Association, has just announced appointment of the following Committee Chairmen for the 1948 year:

Membership Committee—Herbert H. Blizzard, Herbert H. Blizzard & Co., Philadelphia.

Publicity Committee—Irkin R. Harris, Scherck, Richter Co., St. Louis.

Public Relations Committee—Morton A. Cayne, Cunningham & Co., Cleveland.

Special Legislative Committee—Paul I. Moreland, Moreland & Co., Detroit.

Advertising Committee—Harold R. Smith, Collin, Norton & Co., New York.

Municipal Committee—William C. Jackson, First Southwest Co., Dallas.

Constitutional Committee—Stanley Roggenburg, Roggenburg & Co., New York.

Outlook for Prices

By ROGER W. BABSON

Mr. Babson, on basis of his interviews and investigations, concludes there will be neither surplus or shortage of goods and buyers are not justified in waiting for lower prices or stocking up for fear of higher prices.

During the past two weeks I have visited some of the largest U. S. cities, interviewing prominent farmers, manufacturers and merchants. The following are their conclusions:

Foods Prices—The wholesale market for nearly all farm products has declined since I was in the Central West six months ago. Yet, intelligent farmers do not regret this and feel more secure than when prices were abnormally high. Most farm products, with the possible exception of dairy products, will continue to work lower over the long range.

Roger Babson

Therefore, the farmer should follow the practice of getting out of debt and putting his buildings and implements in good condition. Otherwise, he should carry on business as usual continuing to plant acreage and let prices follow naturally. Avoid speculation by either rushing crops to market or holding them back for higher prices.

Building Prices—I see no reason why building costs should be less during the balance of 1948, but one should be able to get better materials. Moreover, as the labor shortage decreases, the painters, bricklayers, and carpenters should give more work for the same amount of money. Certainly, I would not build anything now that I did not need to build. However, I should keep my buildings in good repair.

Veterans are howling for more houses, subsidized more or less by the government. On the other hand, this great increase in building, such as the veterans want, means ever scarcer materials and higher prices. Veterans want continued rent control, although so long as rent control stays very few new houses will be built for renting. It is a bad mess.

Retail Trade Prices—Merchants although holding well as to the total of dollar sales, know that the unit volume has declined. Therefore, wise merchants are resisting price increases and are keeping down inventories. In fact, unit retail prices may now be at a high point for some years to come.

This means that we all should show some control and more resistance in our purchasing. This will help bring prices to a more reasonable level. Income and savings will then quickly gain additional purchasing power which could finally benefit everyone. It is said that in a city such as Philadelphia, a reduction of 10 cents a pound in meat prices would release $30,000,000 a year purchasing power for other goods and services.

Fuel Prices — Readers should now order their winter's supply of coal and fuel oil. With the exception of summer "fill-up" fuel oil discounts there will probably be no reduction in fuel prices and there may again be a scarcity.

Oil companies are spending huge sums developing new wells and bettering their refining methods. However, the consumption is terrific, now running about 5,400,000 barrels a day. Synthetic fuel plants cannot help for years to come. Here, again, the only answer is for drivers of automobiles to show some restraint and not waste gasoline.

War Outlook

In my Annual Forecast for 1948, published in this paper about January 1, I made two very important statements. One was that World War III would not start in 1948. Notwithstanding the calamity howls of the broadcasters and the exciting news in the papers, I continue to be convinced of this whatever may happen after 1948. The longer it can be delayed, the better chances are that it will not occur for many years.

Another definite forecast was that 1948 would be a year of *preparation for war*. I now add that these preparations will increase monthly; in fact, this preparing for war will be one of the things to prevent it.

Conclusions

I still cling to another statement in my Annual Forecast, namely, that 1948 will be about the same as 1947. Thus, farmers, manufacturers, bankers, and especially merchants, should go about business as usual. Figure that there will be no shortage of goods, yet no surplus. Buyers will not be justified in waiting for lower prices. On the other hand, they will not be justified in buying surplus goods for fear of higher prices. Let us all give more time to developing our business and reducing operating expenses and less time to listening to news broadcasts and discussing them with our neighbors.

Railroad Securities

Kansas City Southern common stock has been attracting considerably more speculative interest recently. Late last week it sold at a new high for the year, up more than 30% from the 1947 low and 87.5% above the postwar low established last year. It is still the opinion of most rail analysts that resumption of dividends on the common stock is quite some time away. Nevertheless, on the basis of present and prospective earnings, the growth potentialities of the territory served, and the consistent high degree of operating efficiency, these same analysts still consider the shares as outstandingly attractive for intermediate and longer-term price enhancement potentialities.

Probably the outstanding characteristic of Kansas City Southern is its ability to control costs. Last year, for instance, it had a lower transportation ratio than any other major class I carrier with the exception of Virginian. These were the only two whose transportation costs absorbed less than 30% of gross. Even the other highly efficient Pocahontas carrier (Norfolk & Western) had a ratio slightly above 30%. This factor of operating economy is particularly important under present conditions of constantly rising wages and fuel and material costs. It is further notable that Kansas City Southern was one of the very few roads in the country that was able to start out 1948 with a year-to-year cut in the transportation ratio.

Another measure of efficiency is the proportion of gross the company can carry through to net operating income before Federal income taxes. Last year, with a carry-through of 29.7% of its revenues, Kansas City Southern stood fourth among 45 roads accounting for more than 90% of the industry gross. Its record was topped only by Virginian (37.5%), Norfolk & Western (33.5%), and St. Louis Southwestern (29.8%). More important, is the consistent nature of the road's cost performance. On the average for the years 1937-1941 the company carried 24.1% of gross through and this same ratio was held in 1941 and the first postwar year 1946. It was the only one of the major roads that was able to duplicate its 1941 performance in this respect in 1946. Its 1947 carry-through was the largest in at least the past 15 years, also a unique record in the industry.

In addition to this strong operating background, Kansas City Southern has also done a good debt job. A comprehensive refunding plan adopted in 1945 eliminated the heavy 1950 maturities, replacing them with a single $40,000,000 first mortgage maturing in 1975 and a bank loan of $6,000,000. It is this bank loan which precludes the likelihood of resumption of dividends on the common stock in the near future. Nevertheless, the company is making rapid progress in their reduction, having paid off $1,854,000 last year. This reduced the amount outstanding to $3,546,000 as of Dec. 31, 1947.

At the beginning of the present decade fixed charges amounted to $2,880,000. Last year they were reported at $2,272,414 but actually they are somewhat less than that. The 1947 accruals included 175,529 interest on unsurrendered old first mortgage 3s. Funds for payment of this interest to maturity have already been deposited with the trustee of the mortgage. Real fixed charges, then, were less than $2,100,000. The cut in fixed charges since 1942 has been equivalent to more than $1.50 a share on the common stock, before adjustment for Federal income taxes.

Last year reported earnings on the common stock amounted to $9.75 a share. These were understated to the extent of interest accrued on the old first 3s. Also, the earnings do not reflect the company's equity in the undistributed profits of the controlled Louisiana & Arkansas. The latter paid dividends only on its preferred stocks, which brought in $300,000 to Kansas City Southern. The equity in the $1,699,642 undistributed earnings of Louisiana & Arkansas (Kansas City Southern owns all shares of all classes of stock outstanding) was equivalent to approximately $3.30 a share on the Kansas City Southern common. Prospects are excellent that both of the properties will see even higher earnings this year than in 1947.

Arthur R. Hefren Is Opening Own Office

PITTSBURGH, PA.—Arthur R. Hefren has opened his own investment business in the Union Trust Building. He was formerly Pittsburgh Manager for J. S. Hope & Co.

Arthur R. Hefren

Figge-Vavra & Co. Opens in Cedar Rapids

CEDAR RAPIDS, IOWA—Reginald B. Figge has been elected a member of the Chicago Stock Exchange. With his election, the newly formed firm of Figge-Vavra & Co. will become registered as a member firm of the Exchange. The new partnership will maintain its office in the Merchants National Bank Building, Cedar Rapids, Iowa. Mr. Figge, formerly Vice-President, Cashier and director of the Guaranty Bank & Trust Co., Cedar Rapids, will be associated with John S. Vavra who was formerly connected with Ernest Kosek & Co., also of Cedar Rapids.

Elbert & Yeropoli Opens

Elbert & Yeropoli has been formed with offices at 62 William Street, New York City, to deal in investment securities specializing in over-the-counter soft drink stock. Partners are Laurence Elbert and Natale Yeropoli.

Railroad Bonds as Long-Term Investments and How to Select Them

By GEORGE M. GRINNELL*

Partner, Dick & Merle-Smith; Members, New York Stock Exchange

Stressing need for careful selection of railroad bonds in making investments, Mr. Grinnell points out defects and inadequacies of savings bank laws as guide to distinguishing between good and bad bonds. Says railroads have become a cyclical industry and thus investments must be confined to selected bonds of strong companies. Decries effectiveness of competition of other transportation facilities, and points out railroads continue to carry bulk of nation's traffic. Sees no danger in traffic loss because of higher rates needed to cover higher costs.

I have been asked to speak to you about railroad bonds and how to select them—particularly how to select them. The field is a broad one and difficult to cover within a limited time. I shall be as brief as possible, bearing in mind the remark of a railroad president of a generation ago who said that a good many speakers suffer from the same trouble as some of our railroads, namely, a lack of terminal facilities.

George M. Grinnell

The point I wish to emphasize is that there are good railroad bonds and poor railroad bonds, just as there are good real estate mortgages and poor real estate mortgages. This may seem elementary, but judging from the record of the last 20 years, the fact seems to have escaped many investors. The tendency has been, first, to think that almost all railroad bonds are good, and, next, to think that no railroad bonds are good. Poor railroad bonds have been bought at the top of the market and good ones have been sold at the bottom. Poor railroad bonds were bought at the top in 1929 and good ones were sold at the bottom in 1932 and 1933. Poor ones were again bought at the top in 1936 and 1937 and good ones were sold at the bottom in 1940 and 1941. Poor ones were bought at the top in 1945 and 1946 and good ones were sold in 1947. When I see these swings in the popularity of railroad bonds with investors I am always reminded of a line from Gilbert & Sullivan's Gondoliers: "Now to the other extreme you're tending."

Defects of Savings Bank Laws

Unforunately, the savings bank laws in force in most of the states during the 1930's not only did not furnish the savings banks with a sound method of distinguishing between the good bonds and the poor ones, but actually encouraged the buying of poor bonds in good times and the selling of sound bonds in bad times. This for the reason that many weak bonds qualified as legal investments in good times and many sound bonds were removed from the legal lists in periods of depression.

No wonder the experience of many investors with railroad bonds during the last 20 years has been unfortunate. But why put all of the blame on the railroads? As a matter of fact, an investment in a well selected list of railroad bonds would have given extremely satisfactory results over the last 18 years. I have made a study of an assumed investment in railroad bonds on Jan. 2, 1930, and carried the investment through to the present time. Where issues were refunded I have assumed reinvestment in the new issues. Before telling you how I made my selection I will give you the results. I think they will astonish you. There were no defaults, the average income over the 18-year period was nearly 4½% and there was a moderate appreciation in the market value of the fund. You are probably saying to yourselves that hindsight is better than foresight. But I did not use hindsight in making up the list. The list included obligations of every railroad which would have qualified in 1930 under Section A of the present law governing the investment of railroad bonds by savings banks in the State of New Jersey. I will come back to this law later. At the moment I will merely say that it is based on a flexible yardstick which I devised. The same principle has been embodied in the law regulating the investment in railroad bonds by Iowa insurance companies and an amendment to the Massachusetts savings bank law containing the same principle is now before the Massachusetts legislature. The principle of the law is simple: it is to permit savings banks to purchase bonds of the stronger roads only, but to permit the purchase of such bonds in periods of depression when they are cheap as well as in periods of prosperity when they are high-priced. Whether or not this principle is incorporated in a law, the policy should be followed by all conservative investors.

Future Prospects

So much for the record of the past. Now, as to the future. I shall try briefly to outline why on the one hand all railroad bonds are not necessarily sound investments and on the other why many railroad bonds are not only sound by very conservative investments.

Since that time, nearly 20 years ago, when railroad bonds still were generally regarded as desirable investments, there have been some very important changes in the railroad industry. However, time permits me to mention only one. I must mention it because it has affected the whole industry in a vital way and has a very important bearing on railroad bonds. The change that I have in mind is not recent. In fact, it began just after the first world war and was completed during the 1930 decade. But neither investors in railroad securities nor even railroad managements recognized the new order until quite a while after it had been established. I sometimes think that there are still a number of investors who do not fully understand the implications of this very important change.

Briefly, what has happened is that the railroads have become a cyclical industry. To a much greater extent than formerly, railroads have become carriers of bulky heavy goods. They are, therefore, much more dependent for their revenues on the so-called heavy industries, iron and steel, building construction and so forth, and railroad earnings follow the cycles of prosperity and depression in this division of the industrial field.

This change is a vital consideration in the selection of railroad bonds as long-term investments. The investor must use greater care in selecting securities in a field which is markedly cyclical than in one which shows only minor fluctuations from year to year. Not all railroad bonds can be considered conservative investments.

On the other hand, I am convinced that if an investment in railroad bonds is confined to the stronger roads in the industry the results will be satisfactory. The reason is the interdependence of the various railroads of the country. Railroad traffic for the most part moves over more than one road. A great deal of it, in fact, moves over several roads. Practically every road is in competition with other roads, if not for local traffic then as part of a through route. Accordingly, it is not possible to make any material change in the rate structure on one road, or even on all of the roads in some restricted area, without benefiting other roads. The situation is quite different from that which exists in the utility industry. In the utility industry it would be quite possible to raise utility rates in New Hampshire, for example, without any particular effect on the utility companies in Connecticut. But it is not possible to pick out the weak railroads and raise their rates without at the same time admitting the strong roads to the same advantages. Hence, if for any reason the situation of the railroads becomes so acute that it is necessary to raise the rates of the weaker roads, the rates of the stronger roads must be raised also and their position improved. There are certain roads which, in my opinion, will be able to cover their fixed charges by a comfortable margin under any rate structure which would enable a number of the weaker roads to cover operating expenses. Unless a railroad is to be abandoned, and the difficulty which the roads have in obtaining permission to abandon even small and obviously unprofitable branches clearly indicates that public sentiment is opposed to abandonment, it must operate under a rate schedule which will enable it to earn enough to pay wages and taxes. Bondholders have in the past been forced to go without interest, but railroad labor naturally insists upon being paid. So do town and county tax collectors.

Nation Must Have Railroads

Those who are opposed to investment in railroad bonds may say that this doctrine of interdependence is all right, but that it may be impossible to establish freight rates which would enable the weaker roads even to earn their operating expenses. Other people may say that even if this is economically possible the Interstate Commerce Commission may not permit it. There are several answers to these doubting Thomases. Probably the simplest answer is that the country is thoroughly aware that it has to have the railroads. If they cannot be supported under private ownership they will have to be taken over by the government. If the railroads are taken over by the government it will be impossible for the good railroad bonds not to be fully protected unless the roads should be taken over

(Continued on page 38)

*An address by Mr. Grinnell before the Investment Forum of the Savings Banks Association of Connecticut, New Haven, Conn., April 8, 1948.

Now or Later?

"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 disuse until everything else has failed, but rather as a constant guardian of our economic health no less than our civil liberties?

Leon H. Keyserling

"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?

* * *

"This indeed is the core problem of democracy in the twentieth century."—Leon H. Keyserling.

We reprint these sentences from the address of Mr. Keyserling appearing in our last week's issue in order that we may add our own observation that the gentleman seems to be merely asking whether we should complete our abandonment of democracy at once and be done with it, or wait until some future time when amateurish tinkering with the economic system has brought us to dire "straits."

Federal Reserve Warns Housing Legislation Is Inflationary

Acting Chairman Eccles writes Senator Tobey, pending bills, by making additional credit available, would create demand for more labor and materials and thus raise prices.

On April 5, Acting Chairman Marriner S. Eccles of the Board of Governors of the Federal Reserve System, wrote a letter to Senator Charles W. Tobey (Rep. N. H.), Chairman of the Senate Committee on Banking and Currency, in which he stressed the prospect of further inflation if either of the pending measures on Federal aid to housing (S.2317 and S.866) were enacted.

Marriner S. Eccles

The text of Chairman Eccles' letter follows:

"The Board has been advised that your committee is considering general housing legislation, particularly S.2317, introduced by Senator McCarthy, and amendments to S.866 proposed by Senator Flanders.

"The Board is in sympathy, of course, with the major objectives of such legislation, and is in accord with some of the provisions of these bills. We feel, however, that in view of the broad responsibilities of the Federal Reserve System in the field of credit, we should call attention to several undesirable features of the proposed legislation, some of which we have had occasion to comment on previously. In this connection I am enclosing a copy of our statement of November 25, 1947 on Housing Finance to the Joint Committee on the Economic Report.

"The prospect for inflation is even greater now than it was last November. There is still a shortage of many goods in relation to the level of income, and, because of the imminent reduction in taxes, coupled with our commitments under the European Recovery Program and the recent program calling for a large increase in military expenditures, the Government must anticipate a deficit rather than a surplus. There is thus additional reason for the Government to take all steps possible to reduce inflationary pressures, particularly those generated by an excess of credit.

"For these reasons the Board is opposed to some of the provisions of the bills before your committee which would intensify inflationary pressures by making additional credit available and thus increasing the demand for building labor and materials. In addition, some of their provisions would reduce the capacity of the fiscal and credit agencies of the Government to cope with either further inflation or future deflation.

"The Board is particularly concerned about three proposals contained in these bills: first, creation of a Government-financed secondary market for mortgages already underwritten by the Government; second, continuation of the undesirable mortgage-insurance program under Title VI of the National Housing Act; and third, addition to Title II of the National Housing Act of a permanent program of excessively easy mortgage credit.

"Creation of a Government-financed secondary market would be directly inflationary at this time, because, by making available $500,000,000 for the purchase of mortgages, it would represent added Government spending and increased demand for new housing which is already excessive, considering the available supply of labor and materials. Furthermore, one of the objectives at the time the Government mortgage insurance and guaranty programs were instituted was to eliminate the need for direct mortgage lending by the Government, partly by removing some of the risks to lenders and increasing the negotiability of mortgages. If private lenders are unwilling to hold or buy guaranteed and insured mortgages, perhaps the solution is to improve the quality of the mortgages or increase the return to levels which make mortgages attractive compared with other investments.

"Title VI of the National Housing Act, by making credit available on excessively easy terms, has contributed to the large rise in house prices and building costs, and has encouraged buyers to go too deeply into debt. We believe that both builders and buyers should have larger equities in their properties in an inflationary period like the present, and that it is both feasible and desirable to return to the terms offered under Title II as far as mortgages on houses for owner-occupancy are concerned. The Board has no objection to the continuation of Title VI for rental housing, provided safeguards are maintained against excessive loans in relation to value.

"Several of the proposed changes in Title II of the National Housing Act are subject to the same criticism as the present Title VI program. Mortgages on small houses for 95% of value and running for 30 years are excessive and so also are 40-year mortgages of 90 and 95% of value for rental housing.

"Basically, these three proposals are of a type which would be appropriate for combating a serious deflation, and are the opposite of those appropriate in an inflationary situation such as we face today. Measures such as these should be reserved to cushion deflation should it later develop. Otherwise, the only measures available would be direct Government lending or subsidies, on a large enough scale to protect the real estate and housing market from a serious collapse such as developed in the early thirties."

NYSE Renominates Boylan for Chairman

The following nominations for the positions to be filled at the annual election of the New York Stock Exchange to be held on Monday, May 10, were reported by the Nominating Committee for 1948:

Robert P. Boylan

For Chairman of the Board of Governors—Robert P. Boylan, at E. F. Hutton & Co. Mr. Boylan is now Chairman of the Board.

For Seven Members of the Board of Governors to Serve for Three Years—John A. Coleman, Adler, Coleman & Co.; Harold C. Mayer, Bear, Stearns & Co.; Robert L. Stott, Wagner, Stott & Co.; T. Jerrold Bryce, Clark, Dodge & Co.; Lyon Carter, Estabrook & Co. (Boston); John Clifford Folger, Folger, Nolan & Co., (Washington, D. C.), and Charles S. Garland, Alex. Brown & Sons (Baltimore).

For Two Trustees of the Gratuity Fund—John Rutherford at Joseph Walker & Sons, and John K. Starkweather, Starkweather & Co., both nominated for re-election for three year terms.

For Five Members of the Nominating Committee — Three Members of the Exchange—I. W. Burnham, II, Burnham & Co.; Basil B. Elmer, Eastman, Dillon & Co.; Augustus B. Field, Jr., Joseph Walker & Sons. **Two Allied Members of the Exchange**—F. Dewey Everett, Hornblower & Weeks, & Francis Kernan, White, Weld & Co.

Reginald Ward Heads Dept. of D. H. Ellis Co.

D. H. Ellis & Co., 52 Wall Street, New York City, members of the New York Stock and New York Curb Exchanges, announce the association with the firm of Reginald A. Ward as manager of the municipal bond department.

Mr. Ward was formerly with the New York office of Dean Witter & Co. and prior thereto was head of his own investment firm, R. A. Ward & Co., Inc.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

First-quarter earnings of leading New York City banks this year, in comparison with figures for the first quarter of last year, show mixed results, as indicated by the following table. Wherever possible net operating and net security profits are shown separately. Most figures, however, are "indicated earnings," as measured by the increase in capital, surplus and undivided profits during each period.

TABLE 1

First Quarter Net Earnings per Share

	1947 Net Oper.	1947 Net Sec. Profits	1947 Total or Indicated	1948 Net Opr.	1948 Net Sec. Profits	1948 Total or Indicated	Div. Rate Quarterly
	$	$	$	$	$	$	$
Bank of Manhattan	----	----	0.47	----	----	0.52	0.30
Bank of New York	----	----	5.40	----	----	5.36	3.50
Bankers Trust	----	----	0.64	----	----	0.87	0.45
Central Hanover	----	----	1.50	----	----	1.50	1.00
Chase National	0.44	0.03	0.47	0.63	—0.18	0.45	0.40
Chemical	0.68	0.20	0.88	0.73	0.05	0.78	0.45
Corn Exchange	----	----	1.24	----	----	1.21	0.70
First National	----	----	18.38	----	----	20.52	20.00
Guaranty Trust	3.84	1.76	5.60	4.27	0.62	4.89	3.00
Irving Trust	----	----	0.23	----	----	0.30	0.20
Manufacturers	----	----	1.16	----	----	1.30	0.60
*National City	0.76	0.41	1.17	0.77	0.01	0.78	0.40
New York Trust	----	----	1.55	----	----	1.56	1.00
Public National	----	----	1.06	----	----	1.13	0.50
U. S. Trust	----	----	9.10	----	----	8.96	8.75

*Includes City Bank Farmers Trust.

It will be observed that "net operating earnings," in the four instances where reported, are higher this year than a year ago; net security profits, however, are lower—Chase even reporting a loss. Total or indicated earnings of the other 11 banks are higher in seven instances, lower in three, with no change for Central Hanover. Dividend requirements are covered by all banks, the average ratio of earnings to dividends being 1.63. Manufacturers and Public have the two top ratios of 2.17 and 2.26, respectively, while First National and U. S. Trust show the two lowest, viz.: 1.03 and 1.02, respectively.

The second tabulation gives a comparison of the principal earning assets of each bank for March 31, 1947, and March 31, 1948, as follows:

TABLE 2

	March 31, 1947 (000,000) Deposits	U. S. Gov. Sec.	Loans and Disc.	Total Earng. Assets	March 31, 1948 (000,000) Deposits	U. S. Gov. Sec.	Loans and Disc.	Total Earng Asset
Bank of Manhattan	$980	$321	$404	$770	$1,033	$343	$434	$836
Bank of New York	318	149	74	244	306	119	94	231
Bankers Trust	1,310	601	505	1,118	1,325	450	576	1,090
Central Hanover	1,472	768	400	1,239	1,418	644	418	1,140
Chase National	4,488	2,140	1,252	3,731	4,295	1,726	1,406	3,379
Chemical B. & T.	1,115	471	361	948	1,169	416	433	973
Corn Exchange	768	524	74	621	751	486	74	584
First National	619	463	81	631	520	373	77	561
Guaranty Trust	2,450	1,416	744	2,272	2,333	1,158	811	2,080
Irving Trust	975	505	303	839	995	405	399	835
Manufacturers Trust	2,104	1,183	469	1,734	2,086	1,080	496	1,661
*National City	4,754	2,311	1,094	3,790	4,617	1,973	1,276	3,632
New York Trust	626	270	233	527	623	263	249	521
Public National	504	282	138	434	513	269	136	430
U. S. Trust	119	80	25	123	112	70	26	114
Totals	$22,602	$11,484	$6,157	$19,021	$22,096	$9,775	$6,905	$18,067

*Includes City Bank Farmers Trust.

Examination of this table shows total deposits to be $508,000,000 lower than a year ago, or 2.2%. However, the following banks report higher deposits: Bank of Manhattan, Bankers Trust, Chemical, Irving Trust and Public National.

Holdings of Governments are lower by $1,710,000,000, or 14.9%. Bank of Manhattan, again, shows an increase; but all others report decreased holdings compared with a year ago.

Total loans and discounts are up $748,000,000, or 12.1%. Exceptions to the general trend are Corn Exchange, First National and Public National.

Total earning assets have dropped $952,000,000, or 5%. But Bank of Manhattan and Chemical report an increase.

In 1947, Governments constituted 60.4% of total earning assets and loans and discounts 32.4%. This year the proportions are 54.1% and 38.2%, respectively.

Marketwise, bank stocks have thus far fared better this year than industrials, as the following figures show:

Date—	Am. Banker Index	Dow-Jones Industrials
Dec. 31, 1947	37.9	181.16
Apr. 10, 1948	39.5	179.48
Change	+4.2%	—1.0%

An Age of Managed Money

Paul F. Douglass, President of American University, holds Government is now in position where it must manage its financial affairs so as to induce increasing production and national income, but contends there is no effective means yet for integrated planning.

Dr. Paul F. Douglass, President of the American University in Washington, D. C., in an address before the National Wholesale Druggists Association at Palm Beach, Fla., on April 6, stated that the National Debt has assumed such proportions in our economic structure that the Treasury dominates the money and capital markets and "our new age is the day of managed currency." According to Dr. Douglass:

Paul F. Douglass

"Our public debt, like the temporary buildings in our parks, is an historical accounting of the problems we have faced as a people — 30 years of World War and adjustment, a decade of economic depression. Note these figures.

"*World War I:* (4 years, 1915-1919) — Debt increase — $23,000,000,000.

"*Depression:* (9 years, 1930-1939) —Debt increase—$24,000,000,000.

"*World War II:* (7 years 1940-1947)—Debt increase—$215,000,000,000.

"In 30 years the gross Federal public debt increased 228 times.

"This growth of our indebtedness represents something more than an historical record of the problems we have faced together as an American people; it has produced an effect on the structure of our American economy. Let me summarize some of these effects:

"(1) Debt service today is proportionately between three and four times the levy against National income that it was in the decade after World War I.

"(2) The Treasury Department dominates the money and capital markets and the major financial institutions.

"(3) Three-quarters of the total loans and investments of insured commercial banks are direct or guaranteed government obligations.

"(4) More than half the assets of mutual savings banks are invested in government obligations.

"(5) Two out of every five dollars of admitted assets of life insurance companies are invested in government securities.

"(6) The Federal Government is by far the single major debtor of the financial institutions.

"(7) Federal deficits and Federal debt since 1939 have been the dominant factor in the banking situation.

"(8) The growth of debt, the Treasury's adherence to a cheap-money policy, and the Treasury's reliance on floating debt, have made it impossible for fiscal authorities to employ many of the controls formerly utilized to influence the financial situation.

"In the face of these facts, we have a concern for the maintenance of the unused borrowing capacity in the economy essential for national security in our new emergency. Can we by present laws and organizations check on incipient boom or depression? Will the rigidity of our debt structure withstand a shock upon the economic system?

"Our new age is the day of managed money, with a belief in formulas, regulations, mechanisms, and controls. Its stability depends on the wisdom and courage of men.

"Indeed our government now is in a position where it must manage its financial affairs to induce an increasing volume of production and an expanding real national income; yet we do not have an effective means for integrated planning, control, and direction of the Federal financial system. At the age of 74 Herbert Hoover, as America's foremost private citizen and public servant, is directing from the Normandie Building on K Street, a study of this problem of the organization and control of public finance in the interests of the whole American economy.

"The present situation is a fact —the question is not whether or not we like it when judged in terms of nostalgic idyl and recollection. The fact means that as stewards of democracy *we must have sound policies and competent administration.* 'If we fail,' says Paul G. Hoffman, 'it will not be because of an act of God or because of a convulsion of nature. It will be because of the acts of men—American men, American leaders—you, and other men like you.'

"Looking at Washington from a university office around the corner from the White House, I keep repeating to myself three things:

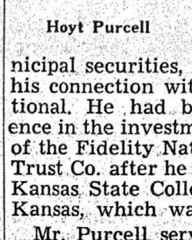
"(1) Stewardship of Democracy

"(2) Sound Policies

"(3) Competent Administration."

Hoyt Purcell With City National Bank

KANSAS CITY, MO. — The Board of Directors of the City National Bank and Trust Co. of Kansas City, Mo., announces the election of Hoyt Purcell as Trust Officer. Mr. Purcell will work in the fields of new trust business and trust investments. Mr. Purcell was a partner in the firm of Martin-Holloway-Purcell, Kansas City investment dealers in corporate and municipal securities, from 1933 until his connection with the City National. He had banking experience in the investment department of the Fidelity National Bank and Trust Co. after he graduated from Kansas State College, Manhattan, Kansas, which was his home.



Hoyt Purcell

Mr. Purcell served three years in the Army Air Corps, two years of which were in the European Theater of Operations. He now holds a commission in the Air Corps Reserve.

City National's other trust officers are Earl Deputy and Richard Pendleton.

Stewart Moore Joins Hess & McFaul Staff

PORTLAND, OREG.—Stewart J. Moore has become associated with Hess & McFaul, American Bank Building. Mr. Moore was formerly Assistant Vice-President of the First National Bank, having recently retired under that institution's retirement plan. He is a veteran of 45 years in banking.

Austria to Be Added to Monetary Fund and Bank

Despite absence of peace treaty with Allies, former German satellite given potential right to draw $50 million from international institution. Fund's operations already total $600 million and World Bank shows loan commitments of $497 million.

It was announced on April 8 by Camille Gutt, Managing Director of the International Monetary Fund, that Austria is to be admitted to membership and will have the privilege of obtaining credits up to an estimated amount of $50 million. It is also expected that Austria will become a member of the International Bank for Reconstruction and Development from which it may obtain long-term loans.

Camille Gutt

Simultaneously with the report that Austria is to be admitted to membership, the International Monetary Fund announced that transactions with its members have totaled over $600 million in the 13 months since the agency began operations.

In the month of March, 1948, transactions amounted to $93.9 million, the highest monthly figure since last fall. Drawings which were all in U. S. dollars, comprised $60 million by the United Kingdom, $28 million by India, $3.4 million by Denmark and $2.5 million by Norway. This represented the first drawing on the Fund by Norway and by India.

INTERNATIONAL MONETARY FUND
SUMMARY OF TRANSACTIONS

Exchange Transactions	—Month of March, 1948— Amount in Currency	U. S. Dollar Equivalent	13 Months Ended Mar. 31, 1948 Amount in Currency	U. S. Dollar Equivalent
Currency Sold:				
U. S. Dollars	93,900,000.00	93,900,000.00	594,100,000.00	594,100,000.00
Pounds Sterling	--------	--------	1,500,000.00	6,045,000.00
		93,900,000.00		600,145,000.00
Currency Bought:				
Belgian Francs	--------	--------	1,446,308,913.00	33,000,000.00
Chilean Pesos	--------	--------	272,800,000.00	8,800,000.00
Danish Kroner	16,316,599.99	3,400,000.00	32,633,199.98	6,800,000.00
French Francs	--------	--------	14,888,375,000.00	*125,000,000.00
Indian Rupees	92,638,544-4-0	28,000,000.00	92,638,544-4-0	28,000,000.00
Mexican Pesos	--------	--------	109,237,500.00	22,500,000.00
Netherland Guilders	--------	--------	181,839,626.94	68,545,000.00
Norwegian Kroner	12,406,950.00	2,500,000.00	12,406,950.00	2,500,000.00
Turkish Liras	--------	--------	14,000,000.00	5,000,000.00
Pounds Sterling	14,888,337-9-5	60,000,000.00	74,441,687-7-1	300,000,000.00
		93,900,000.00		600,145,000.00

*This figure represents the U. S. dollar equivalent calculated at the agreed par value in force at the time the transactions were effected.

EDITOR'S NOTE—No gold transactions were effected by the Fund during March 1948. For the 13 months ended in March, however, the Fund sold U. S. dollars against gold (690.415 ounces) at $35 per fine ounce, the dollar equivalent being $24,164.52.

Status of World Bank Loans

The International Bank for Reconstruction and Development issued on April 8 the following financial report as of March 31, 1948, on the status of the loans it has granted to France, the Netherlands, Denmark and Luxembourg.

FINANCIAL REPORT OF STATUS OF LOANS
As of March 31, 1948
(Expressed in United States Currency)

Borrower—	Loan Commitment	Disbursement	Unused Balance of Commitment
Credit National (France)	$250,000,000	$250,000,000	--------
Kingdom of the Netherlands	195,000,000	138,459,092	$56,540,908
Kingdom of Denmark	40,000,000	7,322,104	32,677,896
Grand-Duchy of Luxembourg	12,000,000	7,032,517	4,967,483
	$497,000,000	$402,813,713	$94,186,287

Loans Sought by Brazil

According to an Associated Press dispatch from Brazil on April 8 it is reported the Brazilian Congress is being asked to underwrite a $90 million World Bank loan for electric power expansion.

The Brazilian Traction, Light & Power Co., Ltd., of Toronto, is to use the $90 million to expand its power plants and improve service to Rio de Janeiro and Sao Paulo, as well as nearby regions including Volta Redonda, largest steel mill in South America.

The World Bank and Latin America

By JOHN J. McCLOY*

President, International Bank of Reconstruction and Development

World Bank executive tells Bogota Inter-American Conference, institution is seeking to promote reconstruction and development in Latin America. Stresses need of establishing sound currency systems and protection for private international investment as foundation for Bank's objective of promoting balanced and integrated economy in Latin American countries, and cites participation of Latin Americans in bank's personnel.

I hardly need to say that this Bogota Conference is of the greatest interest to the International Bank. The nations whose representatives are gathered here include 19 of the Bank's 46 members. The economic problems with which you are grappling are also our problems. Your objectives are to expand the productivity, to raise the living standards, and to increase and stabilize the international trade of your countries. These objectives coincide with ours not only for the American Republics but for all our member nations.

John J. McCloy

The American Republics constitute an area of special interest for the Bank at just this time. The most urgent reconstruction needs of Europe are being met through direct aid from the United States Government and, although the Bank expects to play a substantial part in promoting the reconstruction of Europe, it will, during the period of the European Recovery Program necessarily play an auxiliary rather than a primary role. In the Middle East and the Far East, the Bank expects, over a period of years, to be able to make a real contribution, but most of the projects under consideration for those areas have not yet reached the stage where they are ready for financing. It is in the Latin American countries that, for the immediate future, I regard the Bank as having its greatest opportunity to render constructive assistance in the development field.

Considerably less than a year ago, and I have been with the Bank for just a year, the Bank made its first lending operations. In the course of the same year the Bank also made its first borrowing operation. Not only did we consider the problem of European reconstruction as a matter of urgency but the applications of certain of the European governments were first ready for action. We have made four European loans—France, Holland, Denmark and Luxemburg. We have made thus far one loan to a Latin American country, Chile. We successfully sold $250 million of the Bank's bonds to investors in the United States bond market, and in this manner augmented the amount of funds we had available for our lending operations.

I am not going to dwell on the importance of the reconstruction of the European economy to Latin America. Others have done that before me. It is sufficient to say that we considered, and our international Board of Directors was in unanimous agreement, that what we did in the way of assistance to Europe during our first year of operations was a matter of prime importance to all our members and not the least to our Latin American members.

The rebuilding of the shattered European economy is an essential and inspiring task. But it is even more exciting, more of a challenge to the imagination, to look forward to the basic development of the still young economies of this Hemisphere. The opportunity to take part in opening new economic frontiers is not generally prevalent in modern times, yet that is the clear opportunity which now exists in Latin America. In a sense the countries of this continent provide the first testing ground for the type of international action in the field of economic development which was outlined at Bretton Woods when the International Bank was established.

Bank Studying Latin America

We have been spending much of our time at the Bank studying both the potentialities and the problems of economic development in many of the countries of Latin America.

It is dangerous to generalize about a country and it is almost impossible to generalize about a continent. But with all the diversities which this continent presents there are certain things which we can venture to say about it. It is safe to say that taken as a whole the area contains an enormous wealth of natural resources, only partially developed, and capable of serving as a base for almost unlimited productive effort. The population is capable and most anxious to improve its position. There is plenty of space, space for new people, new industries, new investments, new ideas. There is an unlimited opportunity for individual profit and an equal opportunity for community profit.

On the other hand in many of the Latin American countries the general standard of living remains low. There is need for greater diversification in the economy and stimulation of the industrial development in many if not all of the countries. There is need for promoting the formation of local capital so that it may be applied to productive uses. Inflationary pressures in a number of them must be combated and the general economic and credit position must be stabilized as is the case with many countries in other parts of the world. Although technical, managerial, and administrative skills are present in increasing measure there is great need for their further development for the full realization of the inherent productive potential of the Latin American area.

The favorable factors are strong and provide a firm base for further development. The handicaps are all such as can be overcome with determined effort.

What the Bank Can Do to Help

Now, what I have briefly and boldly attempted to do is to give a resume of conditions in an area which as a whole I have yet to visit. I imagine you are much more interested in what I have to say as the President of the International Bank, about what the Bank can do to help you solve problems the nature of which, to say the least, you are as well aware of as am I.

I am on much firmer ground when I speak of the International Bank for Reconstruction and Development and of its desire and capacity to be of help in the ad-

(Continued on page 37)

*An address by Mr. McCloy before the Economic Commission of the 9th International Conference of American States, Bogota, Colombia, April 5, 1948.

New York Bond Club Will Hear Dulles

John Foster Dulles will be guest of honor and principal speaker at a dinner meeting of the Bond Club of New York on Thursday, May 6, at the Starlight Roof of the Waldorf-Astoria Hotel, T. Jerrold Bryce, Clark, Dodge & Co., President of the club, announced.

Wayne Hummer & Co. to Admit John W. Lawlor

CHICAGO, ILL.—Wayne Hummer & Co., members of the New York and Chicago Stock Exchanges, will admit John W. Lawlor to partnership on April 22. Mr. Lawlor has been with the firm for many years as Manager of the Appleton, Wis., office, 123 South Appleton Street.

John W. Stokes Dies

John W. Stokes, partner in Brooks, Stokes & Co. of Philadelphia, died at his home of a heart attack at the age of 62.

Harper Leavitt Joins Hirsch Municipal Dept.

Hirsch & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, announce that Harper A. Leavitt has become associated with the firm in its bond department. Mr. Leavitt was formerly head of Leavitt & Co.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of Oscar L. Malo to Charles F. Henderson will be considered by the Exchange on April 22. It is understood that Mr. Henderson will act as an individual floor broker.

Newcombe C. Baker retired from partnership in Laird, Bissell & Meeds on April 5.

Kenneth S. Adams, limited partner in Merrill & Co., retired from the firm on April 1.

Dudley M. Cooper died on April 5.

With Bateman, Eichler Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Richard H. Rue has become affiliated with Bateman, Eichler & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange.

Mutual Funds

By HENRY HUNT

"Making Two Bets"

The following conversation between an investor with surplus cash and an experienced investment adviser actually took place early in 1942 but it might well have taken place in 1948.

INVESTOR: "Stocks look cheap today but I think I will be able to buy them cheaper later on. What do you think?"

ADVISOR: "It is quite possible that you will be able to buy stocks cheaper later on—but even if they do go lower, will you buy them at or close to their lows? We believe that over the next few years stock prices will see considerably higher levels and are recommending their purchase at this time. Possibly our timing is a little premature. Frankly, I wouldn't know. But when you say 'you think you will be able to buy them cheaper later on,' you are making two bets: First, that the market will go lower, and second, that when it does you will act at the right time. We have found that very few of our clients can win both those bets."

At the time of the above conversation, the "Dow" stood at 105. Two months later, it hit 93. The investor had won his first bet! But he lost the second. He invested his cash after the "Dow" crossed 145!

Shades of G. B. S.

Youth is such a wonderful thing,
Especially in the months of spring.
"It seems a shame," said Michael Sids,
"To waste it on a bunch of kids!"

The Big Break

Calvin Bullock's March issue of **"Perspective"** discusses the break in commodity prices in part as follows:

"Even before *rigor mortis* had set in for the OPA in 1946 the stock market gave unmistakable evidence of resigning from an economic system dominated by strong inflationary forces. A bewildered public saw stocks tumble even as flames of the inflationary fire licked their way upward across semi-log graph paper.

"The first break in commodity prices of significant proportions began in the Chicago wheat pits a few weeks ago early in February. Starting in corn it spread to wheat and played a dissonant accompaniment to President Truman's press conference concerning the need for intervention to stop inflation. The decline continued. Other commodities tumbled in sympathy. In spite of reassuring words over CBS from the Board of Trade's President the second week in February went down in history as the most memorable for pit traders in seven years.

"The sheer magnitude of the break impelled thoughtful citizens to ask questions—questions without an answer. Is this the end of inflation? More important, is it the beginning of deflation? But no answer can be given with assurance. The reason is that there are still some basic economic ambiguities."

How to Make a Venetian Blind

Stick your finger in his eye.

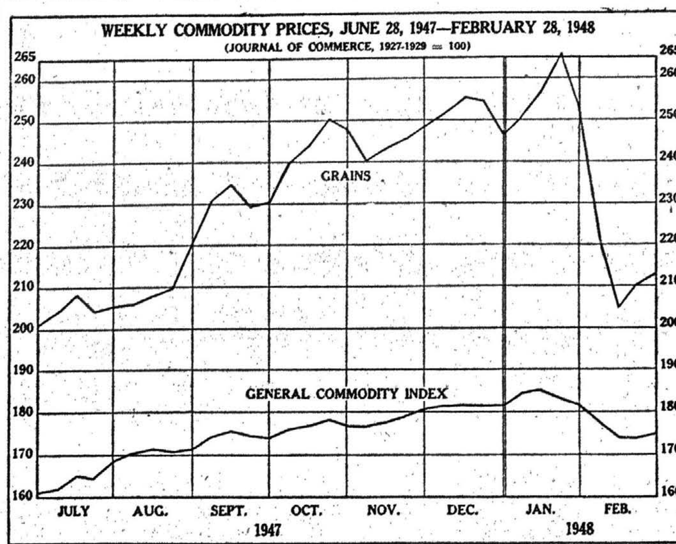
Changed World Position of U. S. Significant

In his remarks at the eleventh Annual Meeting of the Fund, George Putnam, Chairman of the Trustees, called the shift of power and leadership from the Old World to the New World as the most significant fact of our times.

"For over three hundred years the New World has occupied a dependent or colonial relationship towards the Old World. During the last fifty years the centre of economic gravity of the world has been gradually moving across the Atlantic Ocean. Just as it took the Spanish-American war to make people realize that we had become a world power, so it has taken a combination of two World Wars to complete the shift that was going on anyway.

"Today, the United States is beginning to realize that Western Europe has become the dependency. I mean dependency in a permanent sense, not to be confused with the Marshall Plan, which is but a temporary expedient.

"Much of the current confusion and uncertainty so manifest these days is the result of an effort to appraise a world where the fundamentals of power and leadership have shifted from one hemisphere to another."



"Affiliated" Crosses $50,000,000 Mark

During the month of March, **Lord, Abbett's Affiliated Fund** joined the ranks of the select few mutual funds with assets of more than $50,000,000. As of March 31, Affiliated reported total assets of $50,750,000, including bank loans of $11,000,000.

Only five other individual mutual funds have assets today in excess of $50,000,000 as follows: Massachusetts Investors Trust, Investors Mutual, Incorporated Investors, State Street, and Dividend Shares.

1948 Tax Savings

In a recent bulletin, **Wellington Fund** discusses the recent cut in income taxes in part as follows:

"You may not realize the amount of savings you will get from the new Federal income tax law, especially, if you live in a non-community property State. Most middle and upper bracket taxpayers will find the community property provision of the new law, permitting husbands and wives to split their income, will save them much more money than the cut in tax rates. The following schedule shows the present taxes for a married couple with two children in noncommunity property States, the taxes under the new law and the amount of tax savings:

Net *Income	Present Taxes in Non-Community Property States	Taxes Under New Bill	Tax Savings
$5,000	$589	$432	$157
6,000	798	598	200
7,000	1,045	780	265
8,000	1,292	974	318
9,000	1,577	1,167	410
10,000	1,862	1,361	501
12,000	2,508	1,804	704
15,000	3,638	2,512	1,126
20,000	5,890	3,888	2,002
25,000	8,521	5,476	3,045
30,000	11,381	7,306	4,075
35,000	14,354	9,376	4,978
40,000	17,442	11,618	5,824
45,000	20,719	14,019	6,700
50,000	24,111	16,578	7,533
100,000	62,301	45,643	16,658

*After deductions but before exemptions.

First Boston-Smith, Barney Group Underwrites Allegheny Ludlum Preferred Offering

Allegheny Ludlum Steel Corp. is offering to its common stockholders an issue of 107,383 shares of $4.50 cumulative preferred stock, without par value, at a price of $100 per share. The offering is on the basis of one share of preferred stock for each 12 shares of common stock held of record as of April 13, 1948. The First Boston Corp. and Smith, Barney & Co. jointly head a group of investment banking firms which is underwriting the offering. Transferable warrants expire at 3 p.m. (EDT), on April 27, 1948.

Each share of preferred stock is convertible into common at any time prior to April 1, 1958, at a price of $32.50 per share of common.

After repayment of a loan in the amount of $1,000,000 outstanding under a bank credit negotiated in 1946, the company will apply the balance of the proceeds from the current financing to its program of rehabilitation and improvement of plants and facilities. In order to improve and increase the production of flat-rolled stainless and silicon steel, the company plans to install new machinery and modernize existing equipment in its Brackenridge and West Leechburg, Pa., plants. In addition, outlays will be made at Watervliet and at Dunkirk, N. Y., where the corporation recently purchased a plant from the Reconstruction Finance Corporation. A new research laboratory will be constructed and equipped near Brackenridge.

Allegheny Ludlum Steel Corp. has no funded debt. In addition to the preferred stock being offered, capitalization consists of 1,288,607 shares of common stock. Consolidated sales for 1947 totaled $106,606,000, an increase of $11,543,000 over the 1946 volume. Net income for the periods amounted to $6,002,000 and $6,599,000, respectively.

Public Utility Securities

American Power & Light

Two plans were recently filed with the SEC for dissolution of American Power & Light, one by the Company itself and the other by its parent, Electric Bond and Share. These plans supersede the management plan filed Sept. 6, 1946. Hearings were held on the latter plan until February, 1947, and another plan was filed by counsel for a stockholders' group, but the SEC did not announce any decision. Under the 1946 management plan the $6 preferred stock would have been retired at $150 and the $5 preferred at $137, with payment in either common stocks of subsidiaries or in cash. These amounts were $6.43 in excess of par and arrears in the case of the $6 stock, and 69c more on the $5 preferred (call premiums are $15 and $10 respectively). Values of the common stocks in the exchange packages would have been fixed by the bid prices received by the Company in the proposed public sale of 15% of each of the five principal operating company stocks.

The present plan is much simpler, going back to the allocation basis contemplated a few years ago. The reason for this is probably two-fold: (1) the trend of SEC thinking to disregard full satisfaction of preferred claims on a priority basis; and (2) the unfavorable trend of the stock market, which in the case of American makes it is difficult to satisfy preferred claims and have anything left for common.

The present plan merely divides all assets between the preferred stocks (as a group) and the common stock. American's own plan would do this on an 84%-16% basis, while the plan submitted by the Electric Bond and Share uses a 79-21 allocation. A similar procedure of presenting two plans was followed in the case of Electric Power & Light in 1946, but not in the new plan recently presented for that Company. If precedent in the case of the earlier EL plan is allowed, a compromise AP formula somewhere between the two now submitted will be forthcoming.

It is a comparatively simple matter to estimate the break-up values for AP preferred and common. System earnings for the 12 months ended November 30, 1947 approximated $22,000,000. Under present market conditions these earnings could probably be capitalized at about 8-10 times earnings. Only one of the subsidiaries has any stock in the hands of the public—Minnesota Power & Light, which recently offered some new money stock through Kidder, Peabody at $27.50 (net to the Company being $25.60). In 1947 Minnesota earned $2.88 a share after a plant amortization charge of 93c a share. On this basis the offering price to the public was between 9 and 10 times the stated earnings. Minnesota is probably neither the best nor the worst of the system subsidiaries from a market point of view. Texas Utilities and Florida Power & Light would probably be entitled to sell at higher price-earnings ratios than Minnesota, while the northwestern companies might not qualify for even a 9-times ratio.

It would seem reasonable to take an average multiplier of 9 for the entire system. On this basis the portfolio would be worth a round amount of $200,000,000 and the allocations under the two plans would work out as follows in millions of dollars:

	Amer. P. & L.	Elec. B. & S.
Preferred Stocks	$168	$158
Common Stock	32	42
Total	$200	$200

With approximately 3,000,000 shares outstanding, the break-up value of the common stock would thus work out about $11 to $14 compared with the recent market price around 9. The value for the preferred stocks would range between $89 and $95 a share.

The plan does not indicate how the total dollar amount assigned to the preferred stocks would be divided between the two issues. . . . The $5 and $6 preferreds usually sell about 10 points apart, and in the previous plan the cash value assigned to the $5 preferred was about 9% less than that given to the $6. It appears likely that in the present plan when consummated, the $5 preferred would receive about $4-5 less than the average share figure, and the $6 preferred would be higher by the same amount. This would make the break-up value for the $5 issue range between $84-90 and the $6 between $94-100.

San Francisco Exchange Sponsors Tour

Richmond Plant of Rheem Manufacturing Company held open house for some 75 partners and representatives of San Francisco Stock Exchange member firms. Gene Root of the Rheem Company is explaining the lithographing press on the pail line. Left to right: J. Howard Burgess, Hubert Hynes, Ronald E. Kaehler (President of the Exchange), Douglas Atkinson (Chairman of the Board of Governors of the Exchange), Gene Root, Elden Grim, Dan Berg, and William McKenzie (Plant Superintendent).

SAN FRANCISCO—The San Francisco Stock Exchange under the direction of Ronald E. Kaehler, President, sponsored a trip to the Richmond plant of Rheem Manufacturing Co. on March 30. More than 75 persons from brokerage houses and banks were in the group.

Drums, containers and hot water heater tanks are produced at the Richmond plant. Operations due to lack of steel are currently curtailed to approximately 2,300 tons of steel per month which is less than one-half of capacity. A more complete products display was set up in one of the warehouses for the benefit of the group. The newest product added to the line is a water softener for domestic use.

This was one of a series of trips past or planned for the future to keep member firms and the financial fraternity abreast of developments in various industries.

$45,800,000 Philadelphia Bonds Placed on Market

The National City Bank of New York, Halsey, Stuart & Co. Inc., Lehman Brothers, Blyth & Co., Inc., and the Philadelphia National Bank jointly head a group of underwriters to whom the City of Philadelphia on April 13 awarded $45,800,000 of various purpose bonds. The bonds comprise $37,400,000 of 2¾%, 3% and 4% serial bonds due 1949-1998 and $8,400,000 of 2% and 2¾% term bonds, due 1963 and 1968. The winning bid for the bonds was 100 for a combination of coupon rates resulting in a net interest cost of 2.8045%.

The serial bonds are being reoffered publicly at yields ranging from 0.70% to about 2.95%, according to maturity. Prices for the term bonds are 99% and accrued interest for $7,500,000 of 30-year bonds, due May 1, 1978, and callable May 1, 1968, and 96% and accrued interest for $900,000 of 15-year bonds, due May 1, 1963.

The serial bonds consist of $10,000,000 due January 1, 1949-1998, inclusive; $24,000,000 due January 1, 1950-1989, inclusive; and $3,400,000 due July 1, 1949-1978, inclusive.

The bonds, issued for Sewer, Airport, Gas Works and various municipal purposes, are legal investments, in the opinion of the underwriters, for Savings Banks and Trust Funds in Pennsylvania and New York. Interest is exempt from Federal income taxes.

The City has no present intention of making additional bond offerings this year.

Wigley With Kidder, Peabody

VINEYARD HAVEN, MASS.—William R. Wigley is now associated with Kidder, Peabody & Co. He formerly did business as an individual dealer in Vineyard Haven, and prior thereto was with George D. B. Bonbright, J. & W. Seligman & Co. and Moore, Leonard & Lynch.

With G. H. Walker & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Leonard H. Cramblet has joined the staff of G. H. Walker & Co., 503 Locust Street, members of the New York and St. Louis Stock Exchanges.

Export-Import Bank Grants Italian and Norwegian Credits

Arranges for $4,625,000 for establishment of handicraft company in Italy and $250,000 for telephone manufacturing concern in Oslo.

On April 8, the Export-Import Bank of Washington reported arrangements for the establishment of an Italian handicraft company to benefit from credits of $4,625,000 have been approved by the Board of Directors of the Export-Import Bank. The company's activities will affect the livelihood of some one and one-half million artisans and workers engaged in handicrafts throughout Italy. Handicraft exports are an important source of foreign exchange to Italy, both through sales to tourists in Italy and through direct exports. Direct exports have been running at about $25 million a year, with the United States absorbing about $10 to $15 million.

On Dec. 4, 1947 the Export-Import Bank approved a line of credit of $4,625,000 for the purpose of assisting Italian handicraft industries and artisans to increase their production and exports and thereby to make their full contribution to the restoration of the Italian economy and foreign trade. The credit is to be used for the purchase of raw materials and equipment in the United States.

The beneficiary of the credit, Compagnia Nazionale Artigiana, will be incorporated under Italian law. One-half of its capital will be subscribed by representatives of Italian handicraft users and artisans, and by Italian credit and other institutions actively encouraging handicrafts and assisting independent workers. The other one-half of the capital will be subscribed by the Handicraft Development, Inc., an American non-profit organization established in 1945 in the city of New York by American citizens for the purpose of assisting and encouraging Italian handicraft production and exports to the United States. The Compagnia Nazionale Artigiana will be endowed with a grant of $100,000 from the Italian Government for the purpose of supplementing its initial working funds, especially for such purposes as marketing and promotion abroad. The Italian company would also have made available to it without cost the facilities of the House of Italian Handicrafts, set up a year ago in New York by Handicraft Development, Inc. as a focal point for its various activities and exhibits. The Honorable Ivan Matteo Lombardo, who came to the United States in 1947 as head of an Italian economic mission and who has considerable business and foreign trade experience, has agreed to be the President of the new Compagnia Nazionale Artigiana.

The Compagnia Nazionale Artigiana will be a cooperative enterprise and will engage in stimulating the development of additional Italian handicrafts suitable for export and in increasing outlets in the United States and in other hard currency markets. It will take over some of the activities of the House of Italian Handicrafts in New York. Working with and through established trade channels, it will serve both the Italian producers and American buyers.

The Board of Directors of the Export-Import Bank also reported approval of the establishment of a line of credit of $250 000 in favor of Standard Telefon og Kabelfabrik of Oslo, Norway for the purchase of American equipment. The credit is to be available until Dec. 31, 1948 for financing up to 65% of the equipment. The remaining 35% is to be provided by the International Standard Electric Corporation of New York. The credit bears interest at the rate of 3½% per annum, and the principal is to be repaid in approximately eight equal quarterly installments commencing a year from the date of the first advance. The largest commercial bank of Norway, the Christiania Bank of Kreditkasse, has offered its unconditional guarantee to the credit, while the availability of dollars is guaranteed by the Bank of Norway, the Norwegian central bank.

The Norwegian company engages in the manufacture and sale of cable and wire, and in the assembling, sale and installment of telecommunication equipment. Though most of its business is done in Norway, the corporation exports significant amounts, especially to such countries as Sweden. The equipment to be financed under the credit is for expanding the cable plant facilities of the company in Oslo.

Canadian Securities

By WILLIAM J. McKAY

It is becoming increasingly clear that the failure of the Canadian authorities to take forceful action to assist the Dominion gold-mining industry is not unpremeditated. Despite extraordinary lobbying efforts for greater generosity, the distinctly unglamorous Emergency Gold Bonus Bill has just been presented for its first reading in the House of Commons in its highly criticized original form.

When the case presented by the gold-mining interests is subjected to dispassionate analysis many glaring defects and inconsistencies are revealed. In the first place how does gold rank today in the Canadian economy? From the depression years of the early thirties and up to the outbreak of the war, gold certainly constituted one of the Dominion's most valuable assets. During this period the industry flourished and provided a healthy stimulus to Canada's depressed economy.

On the other hand during and since the war when boom conditions have prevailed, gold finds itself naturally relegated to a less prominent position in the national economy. Cold statistics today should be sufficient to cool the ardor of the gold propagandists in their efforts to secure special privileges for this decreasingly important item in the Canadian economy. While gold occupies its present lowly position in the list of Canadian exports the Federal Government would evoke justifiable criticism if at this critical juncture, it wasted valuable time and effort in singling out the gold-mining industry for favored treatment.

On the other hand the adamant refusal of the Canadian Administration to yield to the persistent pressure exerted by the powerful gold-bloc is an indication of overdue healthy realism in the proper quarters. In the past gold has played an invaluable part in the development of the Dominion, just as the Californian gold discoveries marked an important economic epoch in the history of this country. In a similar way at this stage of Canadian development the service rendered by the gold-mining industry must be considered in its proper perspective. The discovery of gold in the Dominion's far-flung territories has blazed the trail to developments of still greater importance. Largely as a result of the quest for gold Canada's enormous wealth of nickel, copper, iron, coal, lead, zinc, silver, platinum, uranium and other valuable minerals was also uncovered. The value of these secondary discoveries has now far outstripped that of the glamorous yellow metal.

The bursting of the over-inflated gold bubble would have highly beneficial results, if as a consequence, Canadian prospecting efforts were primarily directed towards the exploitation of the less glamorous minerals. The diminished importance of gold in the Canadian scheme can also have favorable consequences in other directions. The Dominion's financial prestige has never been enhanced by the high-pressure tactics employed to sell penny-gold stocks in this country. The Canadian public also has had little choice of investment outside an innumerable array of alluring gold-stock opportunities.

Now perhaps we are approaching the time when U. S. and Canadian capital will flow into more constructive channels, as a result of which impetus will be given to the development of Canada's tremendous virgin wealth of iron, coal, oil, base-metals and other utilitarian minerals.

During the week the external section of the bond market remained dull and inactive. The internals on the other hand displayed exceptional strength not entirely related to the firmness of the Canadian dollar in the free market. The stock-arbitrage rate also developed a firm tone and is now at 15% discount in comparison with a recent quotation of 22%.

Canadian stocks were active at higher prices led by Canadian Pacifics, Western oils, and the base-metal issues, but the golds still remained in the doldrums despite encouraging production results of the operative mines, and promising reports of new properties now on the verge of production. It would appear that this section of the market has been unduly deflated as a result of recent disappointments and is now at an attractive investment level.

Frederic A. Pakas Is Opening Own Office

Frederic A. Pakas is opening offices at 2 Broadway, New York City, to act as broker and dealer

F. A. Pakas

in securities and commodities. Mr. Pakas is resuming the business he originally established in 1930. He has recently been with Joseph Klein & Co. as manager of the securities department.

Paul & Co. Official Changes

PHILADELPHIA, PA.—Paul & Co., Inc., 1528 Walnut Street, announce that John Van Ness Barbarin has resigned as Assistant Secretary and Assistant Treasurer, and Ira Jewell Williams, Jr. has retired as director.

Alfred Plumley Joins Harris, Upham & Co.

MINNEAPOLIS, MINN.—Alfred N. Plumley has rejoined Harris,

Alfred N. Plumley

Upham & Co., Northwestern Bank Building as Manager of the trading department. Mr. Plumley has recently been with the Central Republic Company.

Merrill Lynch Firm Opens St. Louis Office

ST. LOUIS, MO. — Merrill Lynch, Pierce, Fenner & Beane has acquired the investment business of Bitting, Jones & Co. in the Ambassador Building. Kenneth H. Bitting will manage the new office which will take over the entire personnel, including Edward G. Hotchkiss, William B. Riley and Otto C. Hoffman. Mr. Bitting has been in the investment business in St. Louis for more than 25 years. He served overseas in World War I and World War II. He became President of Bitting, Jones & Co. in 1929.

Also associated with the new office will be Harold Hanser, formerly President of Hanser & Co., Inc.

Lewis B. Hughes Joins Staff of Homans & Co.

Lewis B. Hughes has become associated with Homans & Co., 65 Broadway, New York City, members of the New York Stock Exchange, in charge of unlisted trading. Mr. Hughes was formerly Manager of the trading department for Dresser & Escher and prior thereto was with Hoit, Rose & Troster.

"Bawl Street Journal" To Appear June 4

The "Bawl Street Journal," which comes to life once a year to burlesque the doings of Wall Street and its people, will be published this year on June 4 as a feature of the Bond Club Field Day.

In a joint announcement, Chairman John W. Valentine of the Bawl Street Journal Committee and Editor John A. Straley said that contributions would be welcome from anyone connected with the financial business in New York or elsewhere. Contributors whose material appears will receive free copies of the paper.

News and cartoons dealing with any humorous phase of the financial business or political scene and advertisements satirizing firms or products should be submitted before May 1. Contributions may be sent to Mr. Valentine at Harris, Hall & Co., 37 Wall Street, or to Mr. Straley at Hugh W. Long & Co., 48 Wall Street.

Dean Witter & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—William E. Rodden has been added to the staff of Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

SEC Reports Savings Lowest Since 1940

Against $8.9 billion saved in 1947, mortgage indebtedness was increased by $3.8 and consumer credit by $2.9 billion.

During the year 1947, individuals saved $8.9 billion in liquid form, according to the quarterly analysis of saving by individuals in the United States made public today by the Securities and Exchange Commission.[1] This amount of liquid saving, which exceeded that of any pre-war year, represents a substantial decrease from the abnormally high war-time rate. While there was, during 1947, an increase in income after payment of taxes, liquid saving was about $5 billion less than that in 1946, reflecting higher consumer expenditures. The proportion of income saved, though considerably lower than during the war, approximated the 1929 level.

As of the end of 1947, individuals' holdings in cash and deposits amounted to about $132 billion and holdings of U. S. Government securities amounted to about $68 billion. Of the total of cash and deposits, $25 billion was in the form of currency, $55 billion was in time and savings deposits, and $52 billion was in checking accounts. Individuals' holdings of U. S. Government securities were mainly U. S. savings bonds, amounting to about $33 billion in Series A-E bonds and $13 billion in Series F and G bonds, with other U. S. Government securities amounting to $22 billion.[2]

During 1947, the composition of savings changed substantially from the preceding year. Currency and bank deposits, which constituted the predominant form of saving in 1946, were approximately equalled in importance by several other components. Individuals added $3.3 billion to their holdings of currency and bank deposits, $3.1 billion to their holdings of U. S. Government securities, $3.2 billion to their equity in private insurance, and $3.4 billion to their equity in government insurance. They also increased their net holdings of securities other than U. S. Government by $1.5 billion, and their investment in savings and loan associations by $1.2 billion. During the same period individuals increased their mortgage indebtedness by $3.8 billion, and other consumer indebtedness by $2.9 billion.

The growth in individuals' cash and deposits during 1947 was considerably less than in the preceding year and the lowest since 1940. Individuals added $2.2 billion to their time and savings deposits and $1.4 billion to their checking accounts as contrasted to increases of $5.4 billion and $6.4 billion, respectively, during 1946. Holdings of currency declined by $400 million compared with an increase of $200 million the previous year.

The increase in individuals' holdings of securities during 1947 was much greater than in 1946. $4.6 billion as compared with $1.0 billion. Holdings of U. S. savings bonds increased $1.8 billion, with net acquisitions of $300 million in Series A-E bonds and $1.5 billion in Series F and G bonds. Individuals' equity in U. S. Government securities other than savings bonds increased by $1.3 billion, reflecting net acquisitions of $400 million and repayments of bank loans of $900 million. About $165 million of these net acquisitions represented issues of Armed Forces Leave bonds in excess of redemptions. Holdings by individuals of state and local government securities increased $300 million. There was a large increase in individuals' holdings of corporate and other securities during 1947, amounting to $1.2 billion. This increase reflected net purchases by individuals of new corporate stock issues amounting to $1.3 billion. On the other hand, there was a small reduction in individuals' holdings of bonds, the substantial net increase in outstanding bond issues being absorbed by institutions.

Individuals' equity in insurance and pension reserves in 1947 increased $6.6 billion as compared with $6.9 billion in 1946. Equity in private insurance increased $3.2 billion; policy loans showed a small increase over the year, the first since 1932. Equity in government insurance increased $3.4 billion, about half in social security funds. Individuals' equity in the National Service Life Insurance Fund increased about $800 million, compared with an increase of $1.7 billion the previous year. Equity in savings and loan associations increased $1.2 billion, about the same as in 1946.

Mortgage debt showed a record increase of $3.8 billion, as compared with an increase of $3.3 billion in 1946. Other consumer debt increased by $2.9 billion, as compared with $3.2 billion in 1946. The increase in mortgage debt in 1947 represented over 75% of net purchases of new homes by individuals.

During the fourth quarter of 1947, individuals' liquid saving amounted to $2.5 billion,[3] a somewhat lower rate than in the third quarter. Individuals added $2.0 billion to their holdings of cash and deposits, $1.7 billion to their equity in insurance and pension reserves, $1.0 billion to their investment in securities, and $300 million to their equity in savings and loan associations. Individuals' indebtedness arising from the purchase of consumer goods increased by $1.5 billion as compared with $400 million for the previous quarter, while mortgage debt rose by about $1.1 billion. The $1.0 billion increase in security investments was accounted for by net purchased of over $700 million of stock issues and $300 million of U. S. savings bonds.

1 In this analysis individuals' saving includes unincorporated business saving of the types specified in the SEC table. Corporate and government saving are not included. The change in individuals' equity in government insurance is, however, considered as part of individuals' saving.

2 Net of loans by banks to individuals (including brokers) for the purchasing or carrying of government securities. There was $600 million of such debt outstanding as of the end of 1947.

3 This does not include the increase in inventories of unincorporated business (net of the change in notes and accounts payable). Although the amount of this increase is not known, it is believed to have been in the neighborhood of $75 million in the fourth quarter of 1947.

Belgium Bonds Drawn For Redemption

J. P. Morgan & Co. Inc. and Guaranty Trust Company of New York, as Sinking Fund Administrators, are notifying holders of Kingdom of Belgium External Loan 30-Year Sinking Fund 7% Gold Bonds due June 1, 1955, that, through the sinking fund, $223,500 principal amount of these bonds have been drawn by lot for redemption on June 1, 1948 at 107½%. Subject to the provisions of Executive Order No. 8389, as amended, the drawn bonds will be paid at the office of J. P. Morgan & Co. Inc., or at the principal office of Guaranty Trust Co. of New York.

William H. Cates Opens Own Offices in Tallahassee

(Special to THE FINANCIAL CHRONICLE)

TALLAHASSEE, FLA.—William H. Cates has opened his own offices to engage in the securities business as an individual dealer. He was formerly Vice-President of Emerson Cook Co.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

Harold C. Strait has been elected Vice-President of **Bankers Trust Company of New York** and will become head of the Rockefeller Center Office succeeding James I. Clarke who becomes Supervisor of the bank's three uptown offices, it was announced on April 7 by S. Sloan Colt, President. Mr. Strait, who has been an Assistant Vice-President at the Rockefeller Center Office since 1946, has been with Bankers Trust Company since 1930.

* * *

The **East River Savings Bank of New York,** born on Cherry Street in 1848, looked out upon land which sloped to the East River less than two blocks away. To commemorate the anniversary the bank has arranged an exhibit at its Main Office at 26 Cortlandt Street, featuring a teller, in costume, who displays banking in the "quill pen" era and frustrates depositors who appear at his window, even as people were told in the early days of savings banking to "Wait your turn." In parallel 1948 exhibit, a young girl with the "new look" presides at a streamlined accounting machine, and in the best 20th Century public relations fashion, handles all transactions with lightning speed. This exhibit at the Main Office is one of the several exhibits which the bank is presenting to depositors and the public to celebrate its anniversary. Being 100 years old is a serious business with the East River Savings Bank, and they celebrate from the date their charter was obtained, April 11, and carry through to the day the bank opened, May 22. (Due to Saturday holidays, the celebration will actually be April 12 to May 21.) The old exhibit has a turntable signature book in the style of 1848, when depositors could see the names of those above and the book was left open for the observation of those who wished to look. Today, all signatures are taken on cards and promptly filed away from public view. The Museum of the City of New York has loaned office equipment of 1948 for the exhibit. Each visitor at the exhibit will be given a souvenir booklet which reproduces a passbook of a century ago as well as the present-day system.

At the Rockefeller Center office mementos of former trustees will remind depositors of the famous men of the past who have served on the Board. These men include Daniel H. and Elisha Brooks (of Brooks Brothers), John Harper (of Harper Brothers), Richard L. Schieffelin (son of Jacob Schieffelin, founder of the drug firm), John Crosby Beekman (once owner of the Beekman Museum) and John Leveridge (Second Corporation Counselor of the City of New York and founder of the bank). 274 trustees have served the bank in 100 years. At each office depositors will sign a signature book imitating the 1848 signature book. The forms will be dated "1948-2048—Your signature today is our history tomorrow."

* * *

Guaranty Trust Company of New York announces the appointment of J. Brougham Wallace, Jr., as a Vice-President. He continues his association with the banking department group that embraces the company's business in States of New York, New Jersey, Delaware, Maryland, and the District of Columbia. Mr. Wallace has been with the Guaranty for 20 years; he was first appointed an officer in 1937, and has been a Second Vice-President since 1943.

At a meeting of the directors of the **First National Bank of New York on April 13** James M. Nicely was elected a Vice-President of the bank. Mr. Nicely was Second Vice-President of the National Bank of Commerce in New York 1927-29, and has been Vice-President of the Guaranty Trust Co. of N. Y. since 1929. He has served the bank in various capacities, including 3 years in France, 1932-35.

* * *

CENTRAL HANOVER BANK AND TRUST COMPANY OF NEW YORK

	Mar. 31, '48 $	Dec. 31, '47 $
Total resources	1,556,494,716	1,630,727,885
Deposits	1,417,743,348	1,492,339,864
Cash and due from banks	410,236,261	407,107,962
U. S. Govt. security hold'gs	643,385,515	718,666,657
Loans and bills discounted	418,155,809	411,395,077
Undiv. profits	27,053,265	26,528,256

* * *

E. Chester Gersten, President of **The Public National Bank and Trust Company of New York** is receiving congratulations on the 40th anniversary of the bank's founding. Established April 14, 1908, the bank has enjoyed a constant growth both in volume of banking activity and resources, which exceed $549,000,000; capital funds are in excess of $30,000,000. There are now 26 offices of the bank located throughout the Greater New York area. In 1941 The Public National moved its main office from 76 William Street to its own building at 37 Broad Street.

* * *

The Empire Trust Company of New York announced on April 13 the election to its board of directors of C. Kenneth Baxter, John L. Loeb and Clendenin J. Ryan. Mr. Baxter for the past 18 years has been in charge of the Donner interests in Philadelphia. He is Vice-President and Treasurer of the Donner Corporation, Chairman of the board of Deep Rock Oil Co. and a director of International Silver Co., ACF-Brill Motors Co. and several other corporations. Mr. Loeb, a partner in the New York Stock Exchange firm of Carl M. Loeb, Rhoades & Co., is also a director of Rome Cable Corp., Rome, N. Y., and National Radiator Co., Johnstown, Pa. Mr. Ryan's business interests include investment banking, real estate development, mining and oil exploration. He is President and owner of Big Horn Cattle Co. of Colorado.

* * *

On April 13 the century-old **Union Square Savings Bank, of New York,** dean of financial institutions on the Square, was host to more than 300 businessmen of the Union Square area at a reception in the bank commemorating its 100th anniversary. A booklet narrating both the history of Union Square and the Bank, prepared by R. H. Brownell, President of the bank, was presented to each guest. According to the story, the bank was founded jointly by the New York Chamber of Commerce and the Mercantile Library Association. Chartered by the New York State Legislature on April 12, 1848, as "The Institution for the Savings of Merchants' Clerks," the bank has been a resident of Union Square since 1868 and has been known by its present title since 1905. Mr. Brownell announced that the anniversary year will be marked by the opening next fall of the bank's first branch office at 245 First Avenue, near 14th Street. This office will serve the 12,000 family Metropolitan Life Insurance Company's housing developments — Stuyvesant Town and Peter Cooper Village—in addition to the surrounding East Side area.

* * *

George W. Ellis, President of the **Home National Bank of Milford, Mass,** for 34 years, died on April 6. Mr. Ellis was 85 years old. For many years, said Milford advices to the Boston "Herald" Mr. Ellis conducted a hardware business in Milford until his retirement 20 years ago. He was a trustee of the Milford Savings Bank for 51 years. He became a director of the Home National Bank in 1901.

* * *

The **Fidelity-Philadelphia Trust Company of Philadelphia** announces that it will pay a dividend of 65 cents May 14 payable to stockholders of record April 30. An initial dividend of 65 cents was paid on Feb. 13, representing the first payment on the new $20 par stock after the five-for-one split-up, which became effective Jan. 29. It was noted in our Jan. 29 issue, page 524, that while the authorized capital stock of the institution remains unchanged at $6,700,000, the stockholders on Jan. 20 approved a five-for-one stock split, whereby the 67,000 shares of $100 par stock were changed to 335,000 shares of $20 par each.

* * *

Stockholders of the **Fidelity Trust Company of Pittsburgh, Pa.,** at a special meeting on April 7, approved an increase in capital stock from $2,000,000 to $2,500,000, and as a result, it was planned to pay a stock dividend of 25% on April 15. Advices to this effect were contained in the Pittsburgh "Post Gazette" of April 8, which added that stockholders also elected J. D. A. Morrow a director. He is President of the Joy Manufacturing Company.

* * *

The death on April 9 of John R. Haven, Vice-President of the **Republic National Bank of Dallas, Tex.,** was reported in the Dallas "Times-Herald" of the 10th inst. from which the following is taken:

"Mr. Haven began his banking career in 1898 with the National Bank in Denison, where he was born. When the First State Bank was organized there, he was elected Vice-President and Cashier, a post he held for 10 years. He then returned to the National Bank as Vice-President. In 1922, Mr. Haven came to Dallas to become Vice-President of Republic. He had been in the banking business continuously for 50 years."

Mr. Haven was 70 years of age.

* * *

The **Anglo California National Bank of San Francisco** observed its 75th anniversary on April 5. One of the old banks of the West, the Anglo officially recognizes its date of origin as April 5, 1873, when the Anglo-Californian Bank, Limited, was established. However, it is announced by the bank, the roots of the institution may be traced back farther in early California history. The bank is an outgrowth of an importing business established in San Francisco in 1850 by J. & W. Seligman & Company, merchants and bankers. The bank early became closely identified with the financing of foreign trade and the development of western business. In 1909 the Anglo-Californian Bank was merged with another old San Francisco institution, the London Paris National Bank, to form the Anglo & London Paris National Bank. In 1932 this bank and its related trust and savings institution, the Anglo-California Trust Company, combined to form the present Anglo California National Bank. The Anglo Bank today has 24 offices. The head office is located in San Francisco, and branches are located in various cities in California. The institution has assets of approximately one-half billion dollars. Allard A. Calkins is President.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Although signs of caution are appearing here and there in the government market, a constructive attitude toward prices is still in evidence especially in the longer end of the list. . . . While some issues may have gone ahead a bit rapidly and profit-taking is to be expected with advancing quotations, the underlying demand is substantial enough to indicate that only minor setbacks are to be anticipated if and when they may develop. . . . Investors are still anxious to employ funds in the most productive Treasury obligations, which are the longer-term issues. . . .

The ineligibles have come to the forefront to give the bank issues competition, but this is not due to any decrease in interest in the higher income eligibles. . . . The lowest premium issues are still the sought after obligations among the restricted bonds, with the eligibles due from 1951 on, getting the bulk of the buying. . . .

RATE CHANGE?

Short-term interest rates continue in the forefront of discussions in the money markets, because of the narrowness of the spread between the return available in Treasury bills and certificates of indebtedness. The small differential in yield between the shortest maturity and the 12 months obligation seems to indicate a change in return on certificates, sometime in the future, to 1¼%. . . . What has the market concerned is when is the higher return likely to be available in the yearly maturity? . . . Accordingly, the bill rate and "Federals" bids on outstanding certificates are being watched very closely for clues to short-term rate changes. . . .

Assuming that the certificate rate goes to 1¼% on June 1 or July 1, is it going to make so much difference to the government bond market as a whole? . . . Maturities through 1951 could be affected slightly. . . . However, by the time a change might be made in the certificate rate it is believed the market for short bonds will be pretty well adjusted to the new conditions. . . . As for the longer maturities any price weakness that might develop would undoubtedly be looked upon as a buying opportunity. . . .

LONG MATURITIES FAVORED

Maintenance of income is still very important to financial institutions and this is responsible for the better tone in the longer maturities of Treasury obligations. . . . Considerable switching goes on in portfolios with these reinvestments still going into the higher income obligations. . . . While it is getting more difficult to forecast the market action of Treasuries, because of the many conditioning factors, the opinion of most well-informed money market followers is that the demand for the longer government obligations should be good for at least the next month and a half. . . .

By the middle of the year, income tax payments will again have a restricting influence upon the money markets, while some of the domestic and international forces, should be being felt from the monetary standpoint. . . . A better gauge of economic conditions should also be possible by that time. . . . Likewise, the policy of the monetary authorities might be more definite by the time June rolls around. . . . Despite the imponderable in the situation it is believed in many quarters of the financial district that the more distant maturities of the Treasuries will continue to show a firm to somewhat higher price trend for the next month or so. . . .

SMALL SUPPLY

The floating supply of government bonds continues light with dealers' positions on the small side, but this should not be taken too seriously from a market trend standpoint because the powers that be have plenty of long-term bonds that can be used to meet enlarged demands. . . . As to when the authorities might let out bonds is anyone's guess, although the feeling seems to be quite prevalent that as long as the market does not get wild on the up side only minor amounts will be sold, just enough to keep the market orderly. . . . A buoyant government market is still considered an important money market factor. . . .

What about the partially-exempt issues? . . . Price advances have been very substantial in certain of these obligations, because of the oversold position and the covering of shorts. . . . While the supply of tax protected issues is limited, some of the recent purchasers of these securities were evidently of the type that would not be averse to taking profits on at least a portion of their holdings. . . . On the other hand, it is indicated long-term holders of the partially-exempts would not be inclined to disturb positions, even with price adjustments. . . .

RESERVE REQUIREMENTS

One of the many question marks in the money markets is what is going to be done about reserve requirements in the Central Reserve cities? . . . Some are looking for a further upping of these requirements in the not too distant future. . . . Others believe that it will be some time before there will be changes in the large city reserve positions. . . . This talk could again be "Open Mouth Operations" with a purpose behind it.

Bond Club of Toledo Elects New Officers

TOLEDO, OHIO — The Bond Club of Toledo has elected E. F. Heydinger of Roose & Company, President for the ensuing year; Guerdon D. Smith, of Collin Norton & Company, as Vice-President; Leonard C. Cooper, of Goshia & Company, as Treasurer; and Ross Harris, of Stranahan, Harris & Co. Inc. as Secretary.

The Board of Governors elected for the current fiscal year are: Edward F. Heydinger, Roose & Co.; Guerdon D. Smith; Leonard C. Cooper; Ross Harris; W. D. Williams, of Ryan, Sutherland & Company; William J. Smith, of Bell & Beckwith Company; P. P. Prudden, Jr., of Foster Brothers, Young & Company.

Chairmen of the various committees are:

Burt T. Ryan, of Ryan, Sutherland & Company, entertainment; Don Craft, of Collin Norton & Company, membership and publicity; Tom E. Cox, of McDonald & Company, legislative; and Calvin M. Yeasting, of Ford R. Weber & Company, finance.

Securities Salesman's Corner

By JOHN DUTTON

New York City Security Dealers placed some very attractive advertising before the investing public last week. Notable was the emphasis upon small single and double column ads that were projected toward bringing in definite and interested leads.

An analysis of the competition that every investment dealer faces in his own territory will usually show that most of his potential customers who are now placing their funds in other forms of investment are doing this because they do not appreciate the opportunities which abound in the securities markets. It is not that the Savings Banks, Building and Loans, or the Life Insurance companies have a more attractive medium of investment to offer. They have done a better job of advertising their products, and of sales promotion over the years, than the investment industry has accomplished. They have stressed the ADVANTAGES OF THEIR PARTICULAR PRODUCT, namely safety of principal and liquidity. But there are soft spots in the Life Insurance, Building and Loan, and Savings Bank type of investment. Not the least of these is the almost negligible income return which they provide.

It is our opinion that securities dealers should NEVER try to compete directly with the savings banks and insurance companies. That type of investment has its place, and the wide usage of such investments by practically everyone today is an acknowledged recommendation of their worth. But there are surplus funds in every nook and corner of this country that should now be going into attractive securities. For yield and appreciation, stocks and bonds today have no competition from any other form of investment.

Following are examples of advertising which appeared in the New York press over the signatures of progressive retail security organizations and illustrate the exceptional use of both income and appreciation, as bids for inquiries from investors who may have an interest in this type of investment.

$3 ELECTRONICS STOCK PAYS 10%
PLUS APPRECIATION OPPORTUNITY

Capacity operations and six months backlog of profitable orders assure continued good earnings for this unlisted equity.

Ask for Special Bulletin E

11% YIELD
(Based on 1947 dividends)

A leader in its field, this company's common stock is presently selling at 2.1 times earnings, with excellent future prospects. Our memorandum on request.

BARGAINS IN BONDS

$1,000 par cost $600. Annual interest will be paid May 1st. Obligation of New England company established 1835; assets $260 million. Increase your income now. Information free on request.

DO YOU WANT INCOME? . . .

A company with 86 years of consecutive dividend payments. Common stock paid $6 in 1947. This is our suggestion to you for a sound investment. Our memo T9 on request.

LIST OF 40 STOCKS

which have paid dividends every year for 50 years. Some of these stocks can be purchased to yield 8% return. List free on request.

The foregoing advertisements were two inch single column, except the first one which used two inch double column space. They illustrate forcefully the exceptional opportunities for investment offered in the securities markets today.

Paul A. Just New With Shearson, Hammill Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Paul A. Just has become associated with Shearson, Hammill & Co., 208 South La Salle Street. He was formerly with Daniel F. Rice & Co. in their Chicago and Florida offices. Prior thereto he was a partner in Carter H. Harrison & Co.

Ormond E. Laird With C. D. Mahoney & Co.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN. — Ormond E. Laird has again become associated with C. D. Mahoney & Co., Roanoke Building, members of the Minneapolis-St. Paul Stock Exchange. Mr. Laird was formerly secretary of Frank & Belden, Inc.

Savings Banks and Liquidity of U. S. Government Bonds

(Continued from page 14)

at a loss of only 16 basis points of income. However, on the exchange it would shorten maturity by three years and would gain immediate bank-eligibility instead of a call on eligibility 4½ years later. As another example on December 31 the Victory 2½s could have been exchanged for bank-eligible 2½s of the same maturity at a cost of only ¾ of a point.

Undoubtedly there will be those among you who question how much, if anything, you would be willing to pay for immediate bank-eligibility, and naturally this is a question for individual judgment. Furthermore, one has to admit the seemingly remote possibility of circumstances arising which could cause the eligible bonds to sell close to price parity with comparable ineligible issues, although such circumstances probably would be the result of price levels artificially fixed by government authorities. However, I can only state my personal feeling that if I were handling a savings bank portfolio, I would prefer the probable better marketability inherent in commercial bank eligibility over a period of years, and I would be willing to pay a reasonable amount for that feature. What constitutes a "reasonable amount" is again a matter of individual judgment, but my personal feeling was, and is now, that the pay-up at the end of the year was definitely within reasonable bounds.

While three months is too short a period for conclusive proof, the history of what has happened since the year-end would seem to give at least tentative evidence that the December 31 curve was artificial and had undoubtedly over-penalized the intermediate-term bonds and particularly the bank-eligible issues. If you will look at the middle line on the yield curve, you will find the yields at the end of March. You will notice that this curve has to some extent taken out the "bend" in the December curve at the 1956 call dates has created a straighter line, and has reflected the considerably better market action of the bank-eligible issues than of the ineligible issues.

A Model Portfolio

As a third and final major point of discussion I suggest that we try to translate our study of the yield curve into a practical application of that curve to a savings bank portfolio. After a change as drastic as that which took place between September and December, I think every banker would be well advised to draw a new yield curve, to take a blank sheet of paper, and to set down on that paper the manner in which he would invest his funds at the new levels if he were starting from scratch. Because I am suggesting that to you, you in turn have a right to ask me the same thing, and that is what has been attempted on the other sheet which has been handed to you.

In order to have some objective in the preparation of such a theoretical portfolio, it is necessary to choose an average earning rate which the banker feels is advisable to seek. For the purpose of this study a rate of approximately 2% has been chosen for two reasons. First, it is the rate which the average portfolio of your banks was earning "at market" at the time of our meeting together in 1946, so it must have represented what your banks as a whole believed adequate at that time. Second, because it is 80% of the highest rate you could earn on a portfolio of all long-term bonds, I feel that it is on the liberal side and that any rate higher than 2% would give you inadequate liq-

MODEL PORTFOLIO OF GOVERNMENT ISSUES

Prices and Yields as of December 31, 1947

			Price	Cost	Yield	Yield x Cost
$2,000,000	(20%)	U. S. 1⅛% Certificates	100.044	$2,000,880	1.08%	$21,610
1,000,000	(10%)	U. S. Treas. 2s of 12-15-54/52	101-6	1,011,875	1.74%	17,608
2,000,000	(20%)	U. S. Treas. 2¼s of 9-15-59/56	101-10	2,026,250	2.08%	42,141
1,000,000	(10%)	U.S. Series G and A Bonds	100	1,000,000	2.50%	25,000
1,000,000	(10%)	U. S. Treas. 2½s of 6-15-67/62	101-10	1,013,125	2.40%	24,312
1,000,000	(10%)	U. S. Treas. 2½s of 6-15-69/64	100-26	1,008,125	2.44%	24,595
2,000,000	(20%)	U. S. Treas. 2½s of 9-15-72/67	101-2	2,021,250	2.43%	49,110
$10,000,000				$10,081,505		$204,376

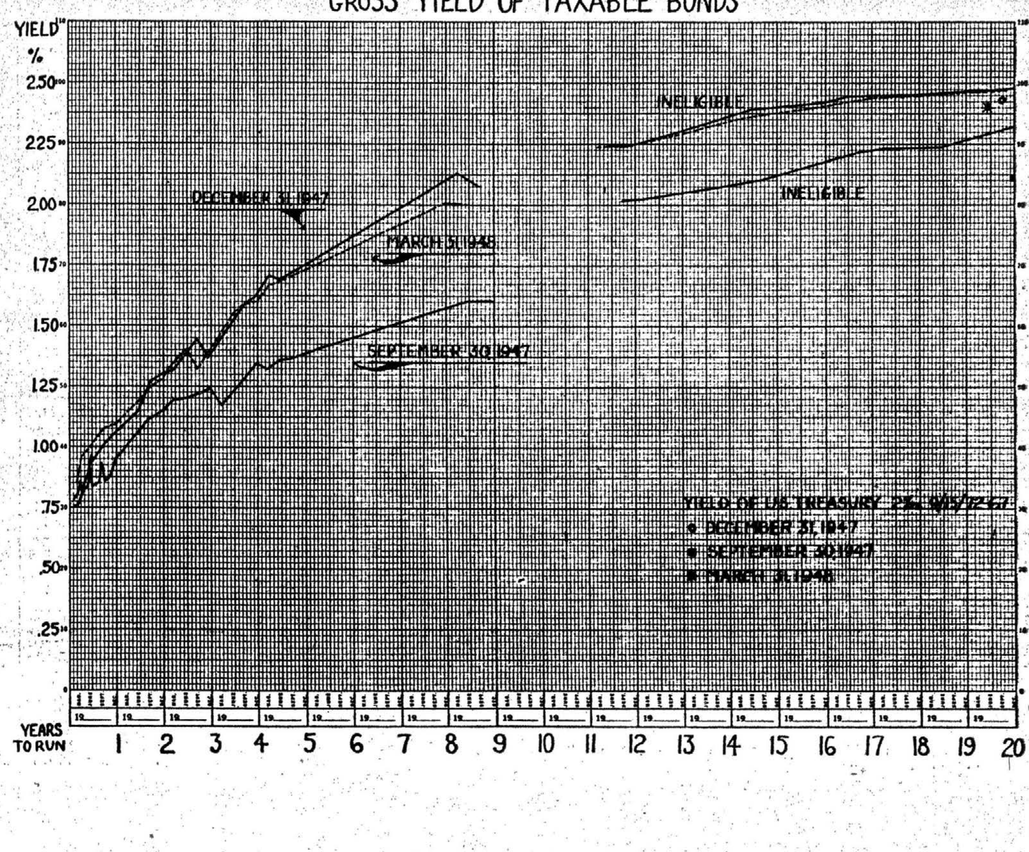
Average Yield 2.03%
Average Maturity 13 years
Average to Call Date 10 years 2 months 9 days

Prices and Yields as of March 31, 1948

			Price	Cost	Yield	Yield x Cost
$2,000,000	(20%)	U. S. 1⅛% Certificates	100.034	$2,000,680	1.09%	$21,807
1,000,000	(10%)	U. S. Treas. 2s of 12-15-54/52	101-10	1,013,125	1.71%	17,324
2,000,000	(20%)	U. S. Treas. 2¼s of 9-15-59/56	101-30	2,038,750	2.00%	40,775
1,000,000	(10%)	U.S. Series G and A Bonds	100	1,000,000	2.50%	25,000
1,000,000	(10%)	U. S. Treas. 2½s of 6-15-67/62	101-22	1,016,875	2.36%	23,998
1,000,000	(10%)	U. S. Treas. 2½s of 6-15-69/64	100-30	1,009,375	2.42%	24,427
2,000,000	(20%)	U. S. Treas. 2½s of 9-15-72/67	101-15	2,029,375	2.40%	48,705
$10,000,000				$10,108,180		$202,036

Average Yield 2.00%
Average Maturity 12 years 9 months 19 days
Average to Call Date 10 years

GROSS YIELD OF TAXABLE BONDS



uidity and inadequate protection against any possible upward change in money rates.

To my mind the significant point is that, on the yield curve at the end of the year which we have just been studying, a savings bank could have made a major shift from the long-term position which seems to be typical of the savings banks in the country as a whole, without decreasing its yield below an average of 2%. This is brought out at the top of the sheet where a theoretical portfolio of a $10 million bank has been offered for your consideration at prices and yields of December 31. The following points are of particular interest.

20% of the portfolio is in certificates and 10% in fairly short-term bonds, which seems desirable because on this end of the list might well fall the triple responsibility of offsetting deposit withdrawals, of providing funds for increased mortgage demand, and of providing purchasing power in the event of lower bond prices. 20% of the portfolio has been assigned to the 2¼s of 1959/56 because of what we found to be their greatly increased attractiveness on the yield curve at the end of the year. In a $10 million bank it was assumed that 10% might already be invested in series "G" and "A" bonds, although naturally this percentage would be lower in the larger banks. Following out the thought previously expressed of buying commercial bank eligibility when comparatively little premium has to be paid for that feature, 20% has been placed in the bank-eligible 2½s of 1972/67 and the remaining 20% has been placed in the short-term ineligible issues which become eligible in 1952 and 1953. Let us grant immediately that no portfolio can be suggested which will fit the needs of each and every bank and that this particular portfolio is distinctly unorthodox as measured against the average portfolio held by savings banks generally.

Frankly, no apology is offered for the fact that it is unorthodox because it is presented to you primarily as a provocative and as a challenging maturity distribution which you may care to compare with you own position. Its advantages may be summed up as follows: It produces a yield at market of 2%; between 55% and 60% of it is callable within ten years depending upon the maturity of your series "G" bonds; 70% of the issues are eligible for commercial bank purchase immediately; and of the remaining 30%, 10% represents series "G" and "A" bonds.

Because our study of the yield curves stressed particularly the change which took place between September and December, this portfolio has been shown first on the basis of year-end yields. Our study of the curves has indicated that the bank-eligible bonds have had some rise in price since that time, so it may be that you will not feel justified in following up that bank-eligible market to the extent of the percentages indicated in this theoretical portfolio. That is a matter of market guess work which must be left to the individual buyer, but I would now call your attention to the figures at the bottom of the sheet which show the same portfolio with prices and yields of March 31. To me the significant fact is that the average yield on the whole portfolio has decreased only 3 basis points in spite of the concentration in bank-eligible issues and in spite of the price increase in those issues.

The average savings bank today evidently feels justified in putting 74% of its account in long-term ineligible bonds and on such a portfolio probably receives an average return in the neighborhood of 2¼%. As my contribution to your discussion today I can only suggest a personal preference for a much shorter-term portfolio, more heavily weighted with bank-eligible securities, but still yielding an average of 2%.

Observations

(Continued from page 5)

the resulting substantial budgetary surplus eliminates the revenue-need excuse.

Actually, as with all "reform," this tax must be regarded as an additional wedge in the long confiscation process. The British Labor party has been advocating a capital levy ever since World War I, but has been content to hold off pending the demolition of incomes through the progressive raising of the tax to a maximum of 97½%. No one on either side of the Atlantic can doubt that not only will the new tax be recurrent, but that it will be levied in ever more punitive degrees. **"It is seldom that liberty of any kind is lost all at once," wrote David Hume two centuries ago.**

* * *

The Fantasy of "The Centre"

We should above all realize that this British tax is not just a minor incident, but another manifestation of a continuing trend! This process has been most clearly depicted by a distinguished visitor now in this country, Professor F. A. Hayek, who has literally seen "it happen" in other parts of the world. As this noted Austrian economist now living in England wrote some years ago, in pointing out the fatal danger of unwittingly entering into full collectivism through the back-door of bastardized socialism*: "If we are, nevertheless, rapidly moving toward such a state [authoritarian], this is largely because most people still believe that it must be possible to find some middle way between 'atomistic' competition and central direction. Nothing, indeed, seems at first more plausible, or is more likely to appeal to reasonable people, than the idea that our goal must be neither the extreme decentralization of free competition nor the complete centralization of a single plan, but some judicious mixture of the two methods. Yet, mere common sense proves a treacherous guide in this field. Although competition can bear some admixture of regulation, it cannot be combined with planning to any extent we like without ceasing to act as an effective guide to production. Nor is 'planning' a medicine which, taken in small doses, can produce the effects for which one might hope from its thoroughgoing application. Both competition and central direction become poor and inefficient tools if they are incomplete; they are alternative principles used to solve the same problem, and a mixture of the two means that neither will really work and that the result will be worse than if either system had been consistently relied upon. Or, to express it differently, planning and competition can be combined only by planning for competition but not by planning against competition."

*"*The Road to Serfdom,*" *by Friedrich A. Hayek, University of Chicago Press,* 1944, p. 42.

Exchange Strike Continues

Operations on both N.Y.S.E. and Curb go on without difficulties and Schram points out strike conditions have increased efficiency and reduced operating costs. Exchanges report arbitration and conciliation efforts fail. N.Y.S.E. reports loss in first quarter.

The strike of employees of the New York Stock Exchange and the New York Curb has continued during the week, but with little excitement or disturbance, and operations of both organizations were reported near normal. Slight additions to employees reporting for work have been reported from day to today. According to a statement issued by Emil Schram, President of the New York Stock Exchange, on April 7, the public's security transactions are being executed with normal speed and efficiency. This is made possible, of course, he added, by the splendid cooperation of members, governors, floor officials, allied members and the personnel of member firms and of the Stock Exchange, all working as a well-coordinated unit. The four member firms that are being picketed out of a total of 608, are handling the orders of their customers expeditiously. These four houses are gradually replacing the employees who went on strike, and report that their operations today are virtually back to normal.

Emil Schram

In connection with the effect of the strike on the Exchange's efficiency Mr. Schram stated:

"I am glad to say that, in many instances, the application of emergency procedures, for example, floor comparisons, have been so satisfactory that some of the innovations introduced will become permanent, resulting in increased efficiency and in reduced operating costs. This is a matter which will be discussed by our Board of Governors at its weekly meeting tomorrow, Thursday. In this connection the Board will welcome suggestions from the membership. All of us have gained experience that will be useful in continuing the smooth operation of all departments of our organization.

"The service of the Quotation Department to members and member firms continues to improve. This department has expanded its list of active stocks that are continuously quoted, from 225 to 300. Supplementing this, bids and offers are printed throughout the day on the stock ticker. This addition to the Quotation Department's service has been commended widely, as has the extraordinary efficiency with which the Ticker Department has operated.

"It will be interesting to the membership to learn that the Stock Clearing Corporation, under modified procedure, is now operating on a 100% basis with a small part of its regular staff.

"At the time preparations were being made to meet the threatened strike, it was believed the Stock Clearing Corporation would provide only a limited amount of service to its clearing members. Daily since the outset of the strike, the Corporation has been increasing the scope of its services. On the first day, instead of only handling deliveries of securities, the procedures were enlarged to provide a daily clearance of contracts made by members on the floor. On Monday of this week, the procedures were further enlarged to provide clearing members with a daily money settlement. In addition, other incidental services which have been restored include conducting commission bill settlements, collection of Federal and State transfer taxes, and the daily accumulation of statistical information. It was found expedient to modify some of the normal operating procedures and, in doing so, many new ideas have been developed which unquestionably will result in a considerable change in the method of conducting the Corporation's operations."

Similarly, the Curb Exchange announced approach to normal operations and on April 10 its quotation department effected a partial resumption of its telephone quotation service to member firms. The department had not been in operation during the current strike.

Codes 4, 5, 6 and 8 of the Curb quotation department's service were reopened, making available to member firms and their customers by telephone bid and asked prices on 367 stock issues traded at seven trading posts on the floor of the exchange.

Stock quotations on the remaining Curb Exchange issues, it is said, will continue to be published as fully as possible on the Curb ticker tape.

No progress is reported either by the "Big Board" or the Curb Exchange in the conciliation efforts made by the Federal agents. According to Mr. Schram, "very little progress has been made since the outset of the talks, which began in December. The union is adamant in its demands for a union shop and for an arrangement under which members of the union would refuse to handle public customers' orders of member firms with which the union may claim to have a dispute. The Exchange cannot, as I have told the union time and again, meet such demands. I repeat that, as a matter of fixed policy, the Exchange has never discharged any employee for joining a union or for refusing to join a union. As these discussions continue, with no apparent progress, it seems evident that the union's continued insistence on the union shop and the right to refuse to handle 'struck work' indicates a strategy on the part of the union to attempt to involve the Exchange in the relations of member firms with their personnel, not only in New York City but throughout the country as well."

On April 13 the Central Trades and Labor Council, main body of the American Federation of Labor in New York City, asked Theodore W. Kheel, director of the City's Division of Labor Relations, to intervene in the strike and attempt a settlement.

N.Y.S.E. Reports Deficit

Without reference to the employees' strike, which did not materialize until the end of the month, the New York Stock Exchange and affiliated companies on April 13 reported a net loss of $107,058 for the three months ended on March 31, against a net profit of $32,336 for the previous three months and a net loss of $85,797 in the first quarter of 1947.

NEW YORK STOCK EXCHANGE AND AFFILIATED COMPANIES

Condensed Comparative Statement of Income and Expenses

	Three Months Ended		
	Mar. 31, 1948	Dec. 31, 1947	Mar. 31, 1947
INCOME:			
Membership dues	$257,812.50	$257,812.50	$257,812.50
Other direct charges to members and member firms	903,228.71	929,984.35	959,564.63
Listing fees	237,060.00	444,265.00	238,411.26
All other income	281,844.80	256,537.46	246,982.12
	$1,679,946.01	$1,888,599.31	$1,702,770.51
EXPENSES:			
Salaries and wages	995,994.04	1,094,757.82	1,000,161.12
Advertising	131,977.01	65,948.90	134,615.33
Taxes (excluding Federal Income Tax)	154,217.75	139,374.44	180,003.32
All other expense (other than depreciation and Federal Income Tax)	369,035.85	417,886.82	338,854.54
	$1,651,224.65	$1,717,967.98	$1,653,634.31
Excess of Income over Expenses, before depreciation and Federal Income Tax	28,721.36	170,631.33	49,136.20
Depreciation	—135,779.67	—138,295.46	—134,933.35
Provision for Federal Income Tax	(See Note)	--------	(See Note)
NET LOSS OR PROFIT	*$107,058.31	$32,335.87	*$85,797.15

*Denotes loss.

NOTE—The losses shown for 1947 and 1948 periods do not reflect the applicable portions of the estimated recovery of Federal Income Tax through the "Loss Carry-Back" provisions.

Shareholders Trust Stock Placed on Market

An offering of 500,000 shares of $1 par value of the Shareholders Trust of Boston was made April 13 through an underwriting group headed by Harriman Ripley & Co. The initial offering will be limited to 30 days.

The offering price to the public will be as follows: On each unit sale under $50,000, $20.83 a share; on each unit sale of $50,000 or more but under $100,000, $20.62 a share; on each unit sale of $100,000 or more, $20.41 a share. These prices are equal to net proceeds to the Trust from the financing of $20 a share plus underwriting discounts and commissions equal respectively to 4%, 3% and 2% of the public offering price.

Expenses in connection with organization of the Trust will be paid by John P. Chase, Inc., of Boston, and all expenses of registration, issue and sale will be paid by the underwriters.

Associates in the offering include Hayden, Stone & Co.; Piper Jaffray & Hopwood; Estabrook & Co.; Tucker, Anthony & Co.; the Pacific Company of California; the Columbia Investment Co.; Bosworth, Sullivan & Co.; Hayden, Miller & Co.

Solay American Stock Placed on Market

An underwriting group headed by Lazard Freres & Co. and Harriman Ripley & Co. on April 13 offered 200,000 shares of Solvay American Corp. 4% cumulative preferred stock, $100 par value, priced at $100 a share and accrued dividends.

The stock is convertible up to March 31, 1968, into Allied Chemical & Dye Corp. common stock at the rate of 46-100ths of share of Allied Chemical for each share of Solvay preferred.

Solvay American Corp., formed recently to take over the major part of the United States investments of its parent, North American Solvay, Inc., which is itself beneficially owned by Solvay & Cie, of Brussels, will apply net proceeds from the sale of its preferred stock primarily to the purchase, at $42.80 per share, of 297,897 shares of Wyandotte Chemicals Corp. class A stock. Solvay American has contracted to make additional investments, between $4,000,000 and $5,750,000, in Wyandotte A stock or common stock not later than three years after the date of the initial investment.

Competitive Bidding—Barrier to Utilities Financing

(Continued from first page)

all require substantial amounts of new capital. Naturally, our primary concern is with the future, but in order to appraise the future intelligently, it might be enlightening to review briefly a little past history.

Starting something over 25 years ago, in the period which may be roughly bracketed by the years 1920 to 1932, a number of large utility holding companies reached the peak of their influence. During this period perhaps hundreds of small operating units were merged into or purchased by larger operating units. Distribution systems were extended to communities and areas which had not previously enjoyed central station electric service. At the same time these expanding operating units became parts of the various holding company groups.

During the early part of this period; that is, in the early 1920's, capital requirements for the very rapidly expanding industry were provided, generally speaking, through the sale of first mortgage bonds, preferred stock, and through the reinvestment of surplus cash from profitable operations. The mortgage bonds rarely carried an interest rate of lower than 5% and there are many examples of 7% and even 8% coupons. Generally speaking, these bonds were sold to security dealers who, in turn, distributed them to investors—for the large part, private investors—over a period of months. The customary underwriting commission was 4%. The preferred stocks in most instances were sold locally in and adjacent to the territories served to customers and employees. They usually carried a dividend of 6% or 7%. To relate these interest and dividend rates to a basic fact, it should be observed that in 1921 the longest-term U. S. Government bonds paid the investor a yield of about 5%, in 1924 of about 4% and in 1927 of about 3¼%.

Era of Public Utility Growth

This era was one of great growth. In the last half of the era we are discussing—that is, from approximately 1923 to 1932—the raising of the vast amounts of capital required was largely carried on through the medium of the holding companies. There was some first mortgage bond financing by operating companies, but the customer-ownership campaigns for the sale of preferred stock of the operating companies fell off. The holding companies created and marketed to the public, through security dealers, various forms of debt and preferred stock, as well as common stock. Proceeds from the holding company securities were used in part to finance the operating companies and in part to make acquisitions of additional operating companies. By the end of this era of increasing influence by holding companies, practically all matters relating to financing had come to be the responsibility of the holding company officials—principally in New York and Chicago. The senior officers of the operating companies in the holding company groups were fully occupied with questions relating to operating problems, such as public relations, rates, franchises, operating personnel, and construction programs. No doubt the senior executives of the operating companies were entirely happy to have the money-raising function handled for them by father or grandfather or great grandfather.

During the period bracketed by the years 1932 and 1945 there was a relatively small amount of new capital raised for the electric light and power industry. Of course, the industry did an enormous amount of financing, but it was predominantly for refunding purposes. During this period practically every operating company bond and preferred stock which had been created and sold during the preceding era was refunded, and in many cases re-refunded. The rent paid in the form of interest and preferred stock dividends for the capital invested in the industry was very sharply reduced.

Many of the refunding operations provided a relatively small amount of new capital as a by-product, but, as I have observed, the aggregate amount of new capital raised for the industry during this period was small. There are several reasons for this. Perhaps the most important reasons are: first, during the depression period requirements for capital expenditures of operating utility companies were such that depreciation, amortization and other non-cash charges were in many instances sufficient to provide the necessary funds.

A second reason can be traced to the enormous additions to the central station capacity in certain sections of the country which were financed and constructed by the Federal Government or by political subdivisions. The outstanding and widely known additions are of course those of the Tennessee Valley Authority and the Bonneville Power Administration, as well as the Hoover Dam, but as you gentlemen know, there are many others which are smaller and less widely publicized spotted throughout the nation. These additions to the nation's generating capacity unquestionably played an important part in reducing the requirements of the electric light and power industry for new capital.

Thirdly, the last four years of the 1932 to 1945 era were war years and the industry of necessity made a minimum of capital expenditures during this period.

Financing by Holding Companies

Generally speaking, during the 1932 to 1945 era the operating utilities continued to rely on holding company officers in matters pertaining to financing. When the refundings and re-refundings were at their peak a few exceptionally well regarded utility first mortgage bonds were bought by investors at an interest cost of approximately 2½%. An enormous principal amount of mortgage bonds were marketed in the area of 2.70% to 2.80% interest cost. Preferred stocks were refunded in the general area of a 3½% dividend rate for a very select few, 3¾% for a very large number, and in a few instances 4%. Again, for purposes of relativity, I should state that at the peak of this refunding phase the U. S. Government bonds were at prices which gave the investor as little as 2¼%, and during the greater part of the period ranged between this figure and 2½%.

Since 1945, the necessary expansion of generating capacity, as well as transmission and distribution systems, has been rapidly accelerating. Coincidentally, the era of deficit financing by the government has been left behind us—at least temporarily. The combination of these two factors has resulted, in 1947 and during the current year, in increasing costs of new capital, regardless of whether it is raised through the medium of senior securities or equity securities.

The law regulating holding companies' activities and providing for their ultimate elimination from the economy of the nation was passed in 1935. By 1945, the Securities and Exchange Commission, charged with the administration of the law, had completed its studies and reached its conclusions with respect to practically all of the holding company groups. The broad pattern is of course well known to all members of this conference. To a small degree prior to 1945, and at increasing tempo in the past two years, holding company securities, bonds, preferred stocks and common stocks, are being replaced, so to speak, through the distribution of the operating companies' common stocks comprising the assets of the holding companies. The substitution, in the safe deposit boxes of tens of thousands of investors, of common stocks of operating utilities for securities of holding companies which these investors now possess will continue, in all probability, for another five years. Of course, here and there through the nation there will be exceptions. The Securities and Exchange Commission will permit continuation of the holding company structure under certain conditions and will retain stringent regulatory authority in such instances. An example is available within the purview of this conference. Alabama Power Company, Georgia Power Company, Gulf Power Company and Mississippi Power Company will, under present planning, be wholly owned subsidiaries of a holding company known as The Southern Company. The savings to the public through the coordinated operation of these companies was so clearly demonstrated that it would have been unwise to fail to permit the holding company structure. However, the fact remains that the entire common stock of many operating utilities has been distributed to the public and that this procedure will continue at an accelerated rate. This distribution is, as I have stated, in essence a substitution of one security with investors for another security. It does not represent new capital. It is a procedure entirely separate and distinct from the sale of original issues of operating company securities for the purpose of providing additional capital to take care of plant extension.

A Perspective for Future

So much for the high spots of the past. They are helpful in enabling a perspective for the future.

It is inescapable that those of you who are principal executives of operating electric utilities, the common stocks of which have already been distributed to the public, or will in the foreseeable future be so distributed, must do one of two things with respect to the questions and problems relating to your financing. You no longer have, or you no longer will have father, grandfather or great grandfather to handle this important phase of your company's affairs for you. You must handle it within your own organization, which means that you must spend an appreciable amount of time on the subject of financing. Unless you are prepared to become as intimately familiar with matters relating to financing as you are with the various operating phases of your company, the alternative is to institute an arrangement with competent people to advise you with respect to your financing. There are three categories of such competent people which occur to me: First, such organizations as Ebasco Services, Middle West Service Corp., Stone & Webster Service Corp., and others; second, investment banking firms; and, finally, commercial banks several of which have well trained personnel in their utility loan divisions.

In my judgment, you should arrive at a decision on this question promptly and you should then organize to keep your adviser fully posted with respect to your plans for capital expenditures. He will be best equipped to give you sound advice if there is a continuity in the flow of information relating to your operations and problems related to financing.

In the light of the historical background, it seems to me that if I were in the electric utility business today on the operating company level, or, for that matter, on the level of an integrated holding company, I would embrace several fundamental policies and beliefs which I would keep constantly before my organization, as well as before the general public and the regulatory bodies, at all times. These thoughts are intended to provoke some thinking and reasoning on your part and will be briefly stated. If the democratic system of government is to work—as opposed to the various socialistic systems—the right of free speech and expression of individual viewpoints must be availed of. Sometimes, I think we continue to accept regulatory practices and other governmental activities which have been proven unsound or ineffective for too long a period before we exercise our democratic prerogative and aggressively advocate an opposing point of view.

Problems of Dividend Policy

Approaching the question of common stock dividends on the assumption that the common stocks will be owned by the investing public rather than by holding companies, the advisability of a reasonably conservative policy which would tend to assure continuity of dividends at the established rate is apparent. You must look forward to the probability that from time to time you will want to provide some new capital from the sale of original issues of common stock. This can best be done where there is a constant history of past dividend payments. In this connection the possible inadequacy of current reserves for depreciation should be considered. To the extent that surplus earnings are retained in the business and flow to the earned surplus account, a cushion against inadequate charges for depreciation reserves is created. Each company's board of directors has a different set of facts to weigh, and a hard and fast rule would be impractical. Each situation must be considered separately. However, it can be observed that in time investors will learn to have a higher regard for managements which distribute smaller percentages, say 60% to 70% of the currently available earnings in the form of dividends on common stock, as opposed to those distributing larger percentages. There is, of course, the ever present temptation, in connection with the distribution of operating company common stocks from holding company portfolios, to pitch the dividend rate on rather the high side in order to obtain a possibly higher initial price for the stock. You gentlemen who are the chief executives of the operating companies should resist this temptation. Looking to the future, it is of vital importance that the dividend records of all operating electric utility common stocks show an unbroken continuity.

I have touched on the question of the adequacy of current appropriations for depreciation reserves under conditions existing today, and which may be reasonably expected to exist in the foreseeable future. All companies should appropriate the maximum amounts permitted as Federal income tax deductions. It seems clear that a greater measure of flexibility should be permitted by the Federal Government in determining reserves for depreciation under Federal income tax regulation and administration. Generally accepted practice in the business world is to determine depreciation reserves on the basis of cost. It is well known that physical property could not be replaced today at anything like cost, and that replacements are in fact being made at as much as twice times cost. If special reserves were created to reflect this fact, net income of all corporations would be appreciably smaller. I urge that you study this phase of your business and, with a knowledge of the facts, take every opportunity of presenting your point of view to your Congressmen, your Senators, and your regulatory bodies.

Waiting For Better Market

As a general policy I would do permanent financing promptly. I would not spend very much time waiting for a better market. By this I do not mean that you should have a whole series of very small issues, but I do mean that when you have planned your program of capital expenditures for the ensuing 12 to 24 months, you should coincidentally arrive at a plan for providing the capital, and that you should raise that capital, generally speaking, within the same 12-months' period as the expenditures are made. I would arrange a revolving credit with a good commercial bank or a group of them, against which I could draw pending the completion of the work necessary to obtain regulatory body approvals and the consummation of arrangements with investment bankers. As a general principle, I would plan to raise my capital in permanent form this month rather than next month; this spring rather than next fall; or this year rather than next year, as the case may be. I would pay the going rate of interest or dividends, and the going rate of selling or underwriting commissions cheerfully, relating them in my mind to the costs for capital paid by managements in the last era of great growth in your industry; rather than to the rates and costs which prevailed during the refunding era when new capital requirements were at a minimum. In addition as a general policy, I would strive at all times to add to my equity base. In other words, I would try to sell maximum amounts of equity securities and retain larger sums of surplus earnings in my business. The time will come—it always has—when to finance your capital requirements you will have no alternative but to sell mortgage bonds. Always keep that reservoir available, and always keep enlarging it. Whether you like it or not, you are in a business where you must provide the public with service. Indeed, it is vital to the industrial and economic welfare of the nation that you continue to do so. Therefore you must retain your ability to finance under any conditions.

Customer Ownership

In reviewing the past, I referred to the fact that 25 years ago many excellent operating utilities were engaged in what were then called customer-ownership campaigns. It seems to me entirely possible that some variation of this method of providing equity capital may again be availed of. I can readily conceive that any one of several nationally known investment banking firms, including my own, might undertake the organization and education of a large group of local security dealers for the purpose of raising new equity money for good operating utility companies on a so-called "no commitment basis." The need for a firm commitment to accept delivery and pay for the new securities on a specific date, which is present in the case of a refunding operation, does not necessarily exist with respect to funds being raised for capital expenditures. This is particularly true if the procedure of obtaining a revolving credit from commercial banks is followed. I believe that offerings of equity securities sponsored by a nationally known firm, and actively engaged in by a large group of well educated security dealers under its guidance may develop as an important segment of the answer to the general question "Where is the equity money coming from?" One reason for the unsatisfactory after-market which has existed for a few of the original issues of preferred and common stocks which have come to the market in the past year and half, has been that the issue was never fully distributed, and security dealers have disposed of the tag end in the open market, where it has churned around at constantly reducing prices until it is slowly assimilated by bona fide investors at bargain prices. This result has caused many investors habitually to refrain from investing at the time of the original issue, on the theory that they may be able to do better later. If security dealers were only to take delivery from and make payment to the issuing company as the stock was sold, this hurdle would be removed. Another by-product of a no-commitment procedure might be the sale of preferred and common stock on an instalment basis. During the past six years many hundreds of thousands of private investors have formed the habit of buying government bonds on the basis of weekly payments, and they are not strangers to the procedure. This is a method of raising equity capital that will unquestionably receive increasing consideration in the future.

Competitive Bidding Procedure

The competitive bidding procedure, particularly with respect to non-institutional type equity securities, is so obviously a deterrent to the orderly and efficient marketing of these types of securities, that if I were in the utility business I would shout that fact from the rooftops. I would inform my Congressman and Senators of the facts. I would try to bring about an understanding on the part of my friends in state regulatory bodies, in the Federal Power Commission, and in the Securities and Exchange Commission regarding the difficulties.

To refresh your recollections, the Securities and Exchange Commission adopted its Rule U-50 in May 1941. Prior to that time public hearings were held, at which the "public" was composed principally of investment bankers and security dealers. Issuers had infinitesimal representation, and investors similarly were absent. It was contended that the Securities and Exchange Commission, with an obligation under the Public Utility Holding Company Act to find that securities, in the case of transactions with "affiliates," were being sold at a fair price, had no set of standards against which to make such findings. The submission of sealed bids was to provide the Commission with the necessary evidence. There was, of course, the subsidiary allegation that certain investment banking firms were more prominent than others in the field of electric utility financing, and that this situation was improper.

It is my sincere belief that a reconsideration of the competitive bidding procedure and a revision of the rules and the practices under the rules are essential if the very substantial amount of new money which is required in the form of equity capital is to be provided through existing machinery. In making this statement I have in mind, not only the rules and practices of the Securities and Exchange Commission, but also those of the Federal Power Commission and of certain state commissions. It is my belief that the competitive bidding procedure, after a 7-year tryout, will not work under existing conditions.

In so far as the senior securities of public utilities companies go, it is not possible to successfully argue that the competitive bidding procedure will not bring results in the sense that securities are sold. Senior securities are bid for, and in many cases, particularly in the smaller issues, there are anywhere from 6 to 8 bids. No one has ever found out what it costs an issuer in extra manpower, administrative assistance, and wear and tear on executives to call for such bids. I question whether the enormous economic waste in making these bids when the difference between the various bids is such a small amount, is either wise or necessary. It would seem that there would be some less arbitrary and expensive way in which the Commission could determine the fairness of price without going to all the waste of time, both on the part of investment dealers and the issuing companies. Far more serious than the waste of effort, is the fact that competitive bidding has resulted in groups bidding for bonds with the sole purpose of selling them to a few insurance companies. If the insurance companies do not buy the issue immediately declines in price. The result has been a complete breakdown of the investment distributing machinery for selling bonds to other than a relatively few large institutions.

In the field of equity securities the competitive bidding procedure has broken down and is ineffective. An increasing number of responsible investment security dealers are unwilling to expend the time and take the risk involved in operating under the competitive bidding system with respect to non-institutional preferred stocks, and with respect to common stocks. The reason is simple. These types of securities must, in large part, be sold to private investors. This type of selling requires, first, a campaign for the education of a number of smaller distributors of securities, that is, local dealers. It then requires a real selling effort on their part to educate the individual investor on the relative merits and the attractiveness of the particular security being distributed. This process of education is time consuming and expensive. It is not susceptible of the procedure which can be followed with respect to senior securities and high grade institutional type preferred stocks. In those cases the buyer is sophisticated and well informed and does not have to be sold or educated on the security. The controlling factor is price, plus availability of investment funds. Recognizing this difference, and apparently agreeing that some non-institutional types of preferred stocks and common stocks should be exempted from the competitive bidding procedure, the staff of the Securities and Exchange Commission has brought into being a modified competitive procedure which has come to be known as "maintenance of competitive conditions" or "shopping around." Under this concept the chief executive of the operating utility company is expected to talk to 2 or 3 or more investment bankers informally about an issue of stock which cannot possibly come to market for from 30 to 90 days, and as a result of those conversations he is expected to designate one of the investment banker firms as the underwriter with whom he proposes to negotiate. He and his banker then start the process of dealer and investor education. In due course they come to the point where an agreement on price must be reached. The terms finally agreed upon may or may not have a relationship to those mentioned at the initial informal discussions. The utility executive is thus in the position of having two negotiations rather than one. The investment banker finds himself in the position, at the time of shopping around, of either naming the most favorable terms and conditions he can conceive of in order to assure his being selected, and finally getting down to realities immediately before the offering, or being completely frank and naming reasonable terms and conditions at the initial discussion, and as a consequence being eliminated from consideration. The shopping around device manages to encompass nearly all of the bad features of both the competitive bidding procedure and the negotiated procedure, and miraculously includes a few additional bad features peculiar to it alone.

State Regulation of Operating Companies

While, as I have previously observed, many operating utilities will cease to be subsidiaries of registered holding companies, and therefore will no longer be subject to Securities and Exchange Commission regulation under the Public Utility Holding Company Act in the foreseeable future, it is unfortunately true that many State Commissions, without the staff or facilities for independent investigation, follow the lead of the Securities and Exchange Commission in this area of regulation. Thus, even though an operating utility may be exempt from Holding Company Act and Securities and Exchange Commission procedures, it may find itself encountering the same regulatory requirements in an increasing number of States. Furthermore, some companies operating interstate and not subject to State Commission security regulation or the Securities and Exchange Commission fall under Federal Power Commission jurisdiction. I believe a review and revision of the regulations in this regard is of just as great importance to the managements of the operating utilities of this country as it is to the investment bankers, security dealers and investors. It may be of even greater importance.

As an investment banker and security dealer, I take this opportunity of publicly requesting that the Securities and Exchange Commission review the efficacy of its competitive bidding rule. After seven years' experience with its actual operation, I am inclined to believe that electric utility executives, as well as investors, would have viewpoints to express. I am sure that many representatives of investment banking firms would similarly welcome an opportunity to comment publicly on the procedure at a properly constituted inquiry. It is my belief that this conference would request a reappraisal of SEC Rule U-50 and the practices which have grown up as a result of its promulgation.

Modification of Competitive Bidding

It is my considered judgment that the flow of capital into equity securities of the electric light and power industry can be very materially accelerated, and that time and energy-consuming, economically wasteful practices can be minimized if an intelligent modification of the competitive bidding rule and procedures is arrived at. I believe equally firmly that such a modification can be reached if the regulatory body and the operating utilities and the investment bankers agree that the objective is desirable and worthwhile, and proceed aggressively to attack the problem.

Intelligent modification of the competitive bidding procedure would markedly improve the mechanics of the distribution of equity securities, and would certainly result in the flow of a larger proportion of the money available for equity investments into the electric utility field. However, even more basic is the absolute necessity of increasing the pool of available money for equity investments for which the electric utility industry competes with other industries. One way to increase this pool promptly and dramatically would be to eliminate the double tax which is now imposed on equity earnings. The corporation pays a tax of 38% to the Federal Government on the balance of its earnings available for preferred and common stock dividends after interest charges. The stockholder pays a Federal income tax on that portion of those remaining earnings which he receives in the form of preferred stock dividends or common stock dividends. Experts are practically unanimous in saying that this is unsound. Ordinary people are entirely unanimous in saying that it is unfair. The elimination or modification of taxes payable with respect to preferred and common stock dividends received by investors would have the effect of leaving greater sums of money in the hands of individuals who are equity investors for additional equity investment. Psychologically and practically it would bring about a demand on the part of private investors for dividend-paying preferred and common stocks, the income from which was either exempt from taxation or subject to only a modest tax. Every executive of every corporation in this country who is faced with the necessity of raising equity capital should take every opportunity to insist on affirmative action by his representatives in Congress with respect to such a revision of the tax law. It is vital to the financial well-being of the nation's industry.

Function of Investment Banker and Dealer

In conclusion, I suggest that you give a little thought to the functions of your investment banker and security dealer. In the final analysis he does something more than merely buy your stocks and bonds. He is trading daily on the market and is in constant touch with investors. He knows the price at which comparable securities are selling and the kind and type of securities in which investors are interested. He can tell you in advance the kind and type of provisions your securities must contain. He backs up this daily experience with the market and his constant experience with investors by agreeing to buy from you a security at a definite price. To too many executives of public utility companies this final price to the company is the be-all and end-all without regard to where or how or to whom these securities are placed.

By too sharp bargaining you can, of course, force your banker to pay you more than your securities are actually worth, taking into consideration the real value of the services of a distributor. If the banker pays you too much for your securities he loses some money immediately. You may argue that this does not adversely affect your future financing because you have obtained your money for a lower and immediate net cost. You are overlooking the whole question of public relations with your investors and the fact that it is the public investor who holds your security at a price somewhat less than he paid for it. If you will recognize that you are dealing in something more than the mere sale of a commodity when you sell securities, you will find that you have a great asset in your relationships with security dealers, and in the long run you will do a better job for your common stockholders. In the long run, if the security dealer does not prosper you will not be able to obtain the equity money you so sorely need.

NYSE Summer Schedule

The New York Stock Exchange will resume the five-day-week summer schedule, closing Saturdays from May 29 through September 25. It is expected that the New York Curb Exchange will take similar action.

Texas Group of IBA To Hold Spring Meeting

FT. WORTH, TEXAS—Some 150 securities men from all parts of the United States, including nationally known figures in the investment and banking fields, are expected to attend the spring meeting of the Texas Group, Investment Bankers Association of America, in Ft. Worth, April 29-May 1.

An outstanding speaking program and full entertainment schedule will draw a total attendance of 350, largest in the 13-year history of the Texas Group, officials predict. One feature will be a visit to the Ft. Worth plant of Consolidated-Vultee Aircraft Corp., where the B-36, world's largest land-based bomber, is being made.

Speakers will include Eugene R. Black of Washington, U. S. executive director of the International Bank for Reconstruction and Development, who will discuss the bank; Julien H. Collins, Julien Collins & Co., Chicago, President of the Investment Bankers Association, and Lt.-Col. S. L. Austin, former member of the Texas Group. Colonel Austin, now on duty in the office, Chief, Army Field Forces, Fort Monroe, Va., will give an illustrated lecture on "The Occupation of Germany—How Are We Doing After Three Years."

Prominent guests will include L. R. Billett of Chicago, Chairman of the National Association of Securities Dealers, Inc.; Wallace H. Fulton of Washington, executive director; Murray Hanson of Washington, general counsel of the IBA, and Alden H. Little of Chicago, Secretary Emeritus.

Bolfing to Represent Walker in Illinois

ST. LOUIS, MO.—A. T. Bolfing has been appointed to represent G. H. Walker & Co., Broadway and Locust, members of the New York and St. Louis Stock Exchanges, in Central Illinois, as of April 1. Mr. Bolfing, a native St. Louisan, was graduated in 1936 from St. Louis University School of Commerce and Finance, where he majored in Economics and Finance, and after about a year's experience with an investment counsel firm, joined G. H. Walker & Co. as Statistician.

Mr. Bolfing has been with the Walker firm in the capacity of Statistician and Investment Analyst for the past 10 years, with the exception of three years in the Army, during which he was assigned to the Finance Department and served in the Philippines campaign. Since returning from the service, Mr. Bolfing has specialized in security analysis, assisted in underwriting work, conducted field investigations of corporations and analyzed individual investment portfolios. He has also been a contributor of articles on economic and financial subjects to various financial publications.

Luncheon Meeting of La Salle Street Women

CHICAGO, ILL. — La Salle Street women, at a luncheon meeting to be held at the 19 South LaSalle Street Y. M. C. A. on April 20, will have as their speaker Mrs. Esther O. Kegan, a member of the law firm of Kegan and Kegan. Mrs. Kegan's talk will be entitled "Trademarks, Your Commercial Signature." Mrs. Kegan is a registered patent attorney. She has been admitted to the Illinois Supreme Court and the United States Supreme Court bars.

As We See It

(Continued from first page)

relatively near future. That is the still greater likelihood (as we see it, at any rate) that the situation much as it is today will continue for many years to come—with the result that on the basis of the responsibilities we are now assuming and of the reasoning which now is all but universal, we shall have to have as a permanent feature of our economic and social life a military burden of approximately the proportions now being sponsored by the military and most of the political figures of influence and power in our national life.

The True Light

At least it is in this light that the intelligent man will, we believe, consider the situation as it presents itself at this time, and it is in this light that reiterated demands for regulations, restrictions, controls, rationing and all the rest must be viewed. "Stock piling," once adequate levels of surplus supplies have been accumulated, would, one supposes, tend to make smaller demands upon the economy, but otherwise it may be doubted whether these preparedness plans now being suggested would cost us very much less ten years from now than is now envisaged as the peak of rearming — that is, quite without regard to possibly higher prices and costs. Wear and tear upon equipment and obsolescence; constant and vigorous research of an expensive sort; the manufacture and testing of wholly new weapons; and much more of the same general sort would constitute a continuing burden of large dimensions. In addition, if we must train a large army now, we should be obliged to keep it in condition and to be constantly training personnel both to take the place of those who drop out for various reasons, and to make certain that no one group is required to carry more than its due part of the load of preserving the constant state of preparedness which would be required.

We say "if we must train a large army now" advisedly. We, for our part, are not ready to concede the necessity of such training on the scale often mentioned and almost certainly desired by military leaders. What we are saying here is that whatever of this sort is really required now will be equally necessary years in the future — assuming that we continue to feel under obligations to shoulder burdens we now are said to have to carry in our own defense. Such, in general, has been the history of world politics. When any one powerful nation insists upon enormous armaments — never mind whether allegedly for defense or for some other purpose—other nations which feel their interests or obligations likely to come into conflict with such a power must keep pace in the matter of their own preparedness for war.

Continuous "Necessity"

The American people have apparently been convinced that we must check the Russians. In this they may be right or they may be wrong. We ourselves, as is undoubtedly apparent to the reader, entertain doubts at several points. What we are saying now is that if the situation now existing throughout the world and the present attitude and policies of the Kremlin lead to the necessity of our undertaking the rearmament and foreign aid programs now being proposed, then there is no good reason to suppose that in the years to come (assuming, of course, as we must that a third world war has not meanwhile destroyed or greatly weakened Russia without corresponding damage to ourselves) we shall not be under the same "necessity."

Does this change the outlook? Does such an assumption place much that is currently being said in a different light? We think so. For one thing, it tosses in the ash can all this easy talk of the economic planners that we discarded controls and regulations too soon, and that they must be restored until —. This argument has been vigorously resuscitated in recent weeks on the basis of renewed demands for rearmament and foreign aid. But if this rearmament is to be a permanent feature of our economic life, then it must, other things remaining unchanged, "require" these controls and these restrictions years from now even as they are said to do at present.

Less True Than Ever

There is less basis than ever for the statement heretofore so often heard that controls must remain until the economy has "caught up" with itself, that is until "supply of consumer goods has caught up with demand accumulated during the war." The various armament and foreign aid programs now proposed would inevitably add to the demands placed upon the economy. Improperly managed, as it would almost certainly be, it would moreover add to accumulated "purchasing power" at the same time that it placed the objects sought by the holders of that purchasing power steadily in short supply. In short, once we concede that what is now being planned necessitates the sort of restrictions and controls being suggested, we come dangerously near conceding that permanent controls and restrictions of the same sort will henceforth be a necessary part of our existence.

But in our humble judgment there is no real reason to make such concessions in either case. It is, of course, conceivable that certain scarce materials will have to be "stock piled" for a time in such a way that civilian consumption of them may have to be curtailed, but it is a far cry from this to the sort of general management of the economy many of the New Dealers and fellow travelers now insist upon.

What is clear is the fact that such programs as are now being proposed can be given effect — restrictions or no restrictions — without considerable sacrifice on the part of American consumers only if the great rank and file develop a willingness to work harder and longer. This is the crux of the matter and it takes on added importance from the relatively permanent nature of proposed undertakings.

Oil Cannot Heat All America

(Continued from first page)

almost unsuperable during a period of steel shortage. The burner industry has succeeded too well! I feel sure that it achieved sales levels in 1947 far beyond its expectations. At any rate, oil burner sales were at a rate nearly five times the average for the 10 years prewar or the 15 years before 1946. Sales of space heaters expanded even more rapidly.

On the petroleum industry side, the market for distillates grew to a point where distillate fuels were no longer a by-product, but a main product costing more and more to make as we had to cut into our yield of gasolines and other products. The magnitude of this shift, coupled with severe winter conditions and a shortage of transportation facilities, resulted in the recent tight supply situation.

However, the magnitude and severity of last winter's problems were certainly exaggerated by unwarranted hysteria in some areas and by political propaganda in many. There have been many unjustified criticisms of both our industries and even recriminations between representatives of the two industries, which latter I consider particularly regrettable. Certainly the time is appropriate for the two industries to sit down and counsel together on where they are going. It is only by doing this that we may avoid the unfair and prejudiced accusations recently directed toward the two industries.

Oil Industry Performance

So far as the oil industry performance is concerned, we need apologize for nothing. We furnished far more fuel oil in the season just closed than ever before. We did it in spite of the handicap of not being able to get needed construction materials. Certainly an industry which supplies over 20% more distillate fuels and kerosene than in 1946 cannot be fairly criticized for falling 1 or 2% short of an almost unbelievable demand. Let us see what happened.

TABLE I

Estimated Growth of Petroleum Consuming Units

Consumption Units in Use:	1941	1946	1947	1947 % Incr. Over 1946	1947 % Incr. Over 1941
Passenger cars (thousands)	26,713	26,901	28,416	5.6	6.4
Trucks and buses (thousands)	4,682	5,680	6,000	5.6	28.2
Tractors (thousands)	1,783	2,672	2,844	6.4	59.5
Space heaters (thousands)	2,000	3,035	4,250	40.0	112.5
Oil burners (thousands)	2,269	2,673	3,200	19.7	41.0
Diesel locomotives (units)	1,032	4,196	5,281	25.9	411.7

The first three types of consumption units represent the major portion of the gasoline market. There the increases were quite moderate. The second three types of consumption units show what really hit us in the "middle distillate" market. I believe it is readily apparent, now that we have the figures, why we couldn't supply quite all the heating oils wanted last winter. The actual quantities we **did** supply of the principal petroleum products are shown in the following table:

TABLE II

U. S. Consumption 1941-1946-1947

Product—	—Thousands of Bbls./Day— 1941	1946	1947	1947 % Incr. Over 1946	1947 % Incr. Over 1941
Gasoline	1,829	2,015	2,178	8.1	19.1
Kerosene	190	244	281	15.2	47.9
Distillate	473	665	817	22.9	72.7
Residual fuel	1,050	1,315	1,420	8.0	35.2
Crude runs to stills	3,861	4,740	5,075	7.1	31.4

To show what has been taking place in the fuel field over a longer period, consider the shift in the sources of our energy requirements in the United States since 1918. At that time the coal supplied over 80% of our total energy requirements. Of the amazing growth in our nation's energy consumption since then 95% has been supplied by increases in oil and natural gas output! Water power has supplied 5% of the increase. Over this 29-year period coal production has shown no gain, whereas oil production has increased fivefold and natural gas even more! Criticism might justly be leveled against industries that have held back on expansion, or that have fallen far short of demand, but the oil industry does not fall in either category.

However, some of those who recognize the job that has been done in meeting this growth in demand are still inclined to blame either:

(1) The **oil companies** for not warning the public of prospective shortage, or

(2) The **burner companies** for overselling in disregard of prospective oil shortages.

Some governmental authorities even urged our industry last fall to announce that no one who installed an oil burner after a given date would get oil. Quite apart from the question of our legal right to announce or enforce any such plan, I cannot agree that it would have been either good economics or good public relations in a free country.

Now to what extent are either of the above-mentioned criticisms justified? It must be admitted that last spring the oil companies did not speak with a united voice as to the outlook for oil supplies during the past heating season. This was due partly to the fact that the industry did not anticipate the Texas City disaster and the prolonged strikes, which reduced refinery output substantially, and partly because it had no reason to expect that demand would greatly exceed the early estimates of both government and industry statisticians. However, as Vice-President for Refining of the American Petroleum Institute I gave a talk before its midyear meeting on June 2, 1947, entitled "Threatened Oil Shortages During the Coming Months," from which I quote in part as follows:

". . . I feel that it is my duty to say to the public that, in spite of almost superhuman efforts on the part of the oil industry, there is a real danger of some shortage of petroleum products, particularly in the Middle-West, during the next ten months. This shortage appears probable in spite of the fact that the general level of the country's crude production, refinery runs, and imports are all making new high records. The causes are primarily and unprecedented growth in demand, coupled with a shortage of transportation facilities. The latter stems back to wartime and postwar limitations on construction, together with shortages of construction materials, and particularly delays in the delivery of steel pipe for many important projects which would largely have alleviated the situation."

This statement was given wide publicity in trade publications and newspapers and was concurred in by numerous industry leaders, though others were inclined to minimize the prospects of a shortage. My statements were reiterated in a radio talk on June 18, and our company published several advertisements indicating that a shortage of petroleum products was imminent, particularly in the Midwest with which our company is primarily concerned. Throughout the remainder of the year spokesmen for our company and an increasing number of other companies repeatedly emphasized the fact that we faced supply difficulties which, with the unfortunate delay in getting the government-owned tankers into service, soon spread to the East Coast.

While the industry was rather slow in expressing general agreement regarding the prospects of shortage, I am sure that each individual was expressing his honest opinion as to the outlook, because it was a close question. Indeed, there would have been no shortage had the first Bureau of Mines estimates of only a 4.3% gain in demand been anywhere near correct. It was primarily the unprecedented and unanticipated sales of oil burners and space heaters which your industry made during the summer and fall which changed the situation from being merely tight to one where the industry was short of meeting total demand.

Longer-Range Warnings

As to the longer-range warnings, I pointed out in a talk before your group in New York several years ago that, with modern cracking processes, the oil industry could in effect convert most of its fuel oil into gasoline. I concluded that as a result fuel oils would not much longer have to be sold on a price basis determined by competitive fuel prices, though they would continue to be available for uses which could justify prices as high as the distillates were worth for use in cracking to make gasoline. The continuation by the OPA of the depressed price ceilings which prevailed during the war delayed fuel oil from reaching these higher price levels. However, as many industry spokesmen have pointed out over recent years, fuel oils were bound to increase in price more rapidly than gasoline as soon as they ceased to be mere by-products and took rank among the principal products of our industry. There is a great difference between the cost of making a relatively small amount of by-product fuel oil and the cost of making maximum yields at the sacrifice of gasoline by changing the operations of our refineries. This is particularly true of heater oils which are approaching the ultimate limit of yield which can be produced in many refineries.

In any case, I am sure that no thoughtful member of the oil burner industry could fairly claim to have been taken by surprise by the price increases and supply difficulties which have developed, though the matter came to a head somewhat sooner than most of us anticipated.

Overselling of Oil Burners

Now, how about the criticism of the oil burner industry for overselling in disregard of prospective oil shortages? It must be recognized at the outset that the burner industry is in business to make and sell oil burners and that last year in most cases it was less a question of selling than of meeting widespread public demand. In recent years, with the gas industry unable to take on new customers in many areas, oil burners have been practically a "must" in new houses.

On the other hand, the existence of a great demand does not excuse representatives of the burner industry for misinforming its customers as to the facts regarding oil supplies. Many of your industry, especially individual salesmen, denied any possibility of oil shortage in spite of repeated warnings from leaders of our industry. Even worse was the practice of some dealers in guaranteeing oil to purchasers of new burners when the only way they could supply it was to take it away from their regular customers. It was such practices that led even some of the ardent free-enterprisers in our industry to advocate severe restrictions on future oil burner sales. However, no true believer in free enterprise could consistently advocate the elimination of freedom of choice for the home-owner in selecting his fuel, even though the exercise of such freedom got us all into difficulty last winter and a continuation of last year's trend will create worse trouble next winter. What is the answer to this dilemma?

To my mind the answer, to any real believer in a free economy, is fundamentally a simple one. It is merely to make sure that every prospective buyer of a new oil burner understands the facts of the oil supply outlook. Those facts, too, are relatively simple. The oil industry is not running out of oil, but until pipe lines and other facilities are completed to make it possible for the Middle-East to supply most of Europe's needs, our industry will not be able to take care of further increases in heating oil demand of anything like the magnitude of the increases we have met the past two winters. Natural gas and especially coal, with reserves enormously greater than those of oil, will have to take up the bulk of any further increase in the home heating load. It is true that, barring strikes or catastrophes, our industry can be reasonably sure of its ability to produce, transport, and refine 7 or 8% more petroleum for domestic use in 1948 than it did in 1947. That may not sound to you like much of an increase, but it means spending about $3 billion to expand every branch of our industry to handle nearly 400,000 barrels a day more crude and products. This represents a major accomplishment in a time of shortage of many construction materials. But it does **not** mean that we will be able to take care of a further increase in 7 or 8% of new oil burners in 1948, for several reasons which I shall point out.

In the first place, at least 2% of that increase in oil supply is necessary to fill up our tanks to offset the fact that stocks of heating oils and other products are at extremely low levels. If we are to avoid the local shortages that plagued us last winter, we must build up inventories and fill up the new pipe lines and terminals that are being built to help avoid future shortages.

In the second place, the remaining 5% will be necessary to take care of the new oil burners which were installed in the latter half of the last year and did not use their full annual requirements in 1947 but will do so in 1948.

You may ask whether the percentage increase in the amount of oil available for home heating may not be greater than the estimated 7 or 8% increase in crude runs, as it was during recent years. That is a possibility, but the further increase cannot be large because industry yields of heating oils during the past year were very close to the practical maximum. Furthermore, military and other demands for other products, particularly gasoline, jet fuel, and diesel fuels, bid fair to show another substantial increase this year, and the users of these products will in effect be bidding against the home-owner for the available supplies of petroleum products.

Now if the oil industry were operated on the basis on which some of its detractors profess to believe it is, we would encourage our oil burning and all other customers to build up their demand and bid against one another for the products, to our financial advantage. Instead of that we have urged, and are urging, conservation by **all** users of **all** products in order to hold the expansion of our markets within the limits of probable supply. Furthermore, practically all of the larger companies and most of the smaller ones have continued to sell their products at prices well below the real free or "gray" market prices widely quoted in many areas. It may be open to question whether these companies have been entirely wise in not allowing price to play its full, traditional part as a regulator of both demand and supply in a free market; however, I am glad that the industry has in the main charged much less than the traffic would bear, and thereby helped to avoid price control, which would undoubtedly have led to rationing, black markets, and much worse shortages.

Allocation Problem

I very much hope that the oil industry will never be put in a position of having to choose arbitrarily between its customers. Why should we favor the owner of a new automobile or diesel engine as against the man who has bought a new oil burner, or favor new oil burner purchasers over all our other customers, as one of the journals of your industry has recently demanded, threatening us with a "government edict" if we did not do so. I certainly hope your industry does not share the delusion that government control will solve either your problems or ours—I am sure it would decrease rather than increase overall oil supplies, and from what I have heard in government circles, one of the first steps would be to stop all oil burner sales except replacements. I certainly hope that we can avoid either government control or the sharp bidding up of prices by competitive users. In my opinion, the only way we can avoid these undesirable alternatives is to see that all demands are moderated to keep within the limits of what the oil industry can physically produce, which limits cannot be expanded rapidly during the next two or three years.

To the oil burner manufacturer who does not favor any attempt to discourage demand, I would point out that in the long run, if demand outruns supply, the user who can most readily find a substitute for his requirements of petroleum products will be the one who, either by the action of free prices or by government edict, will eventually have to forego such products. Of course, in the middle of winter oil is almost indispensable to one who has only oil-burning equipment, but over the long pull stoker-fired coal is closer to being a satisfactory substitute for oil for most home owners than anything in sight as a substitute for gasoline or diesel fuel in the field of transportation. Straight competitive bidding for oil products in a time of short supply will not work to the advantage of the burner industry. Also, before the nation seriously considers the large scale conversion of coal into oil by highly expensive synthetic processes, which have to sacrifice two-third of its heating value, economics would dictate that the coal be used for heating homes and the oil thus saved be converted into gasoline or diesel fuel, which can be done with little loss.

Another possibility which might force a reduction in heating oil consumption arises from the fact that in a future war, or in an enlarged training and stockpiling program in preparation for a possible war, aviation fuel would come mainly out of kerosene and distillate fuel oil rather than out of gasoline as it did during the last war. This is, of course, due to the fact that, for military purposes, jet engines are largely replacing high compression internal combustion engines using 100 octane gasoline. Furthermore jet engines use far more fuel than conventional engines, and many naval vessels are diesel-powered. Accordingly the oil-burner user may wake up some day to find an almost insatiable competitor—the military — demanding — and getting—a very substantial part of the country's distillate fuel oil production.

Constructive Steps

Perhaps these points will appear unduly discouraging to you. I hope they do not. Rather, I view them as constituting sound reasons for moderation on the part of the burner industry. Barring government interference, I am sure the oil industry will continue to exert its maximum efforts to expand. I do not know any oil men who want the oil-burner industry to commit hara-kiri. Rather, it would be our preference to see you follow a course that will keep you on a sound basis for the years to come. If you oversell your market this year, it may well have disastrous results for both our industries. Many of you have recognized the situation and are already taking constructive steps such as:

(1) Directing your engineering and research efforts to produce units that will deliver more heat and reduce fuel consumption. Such efforts on an industry-wide basis will in the long run save a large quantity of oil and make it possible to supply more new burners.

(2) Directing most of your advertising and sales efforts to the replacement market. Savings of fuel from this source can be substantial. I sincerely hope that the engineering standards of installation of replacement burners may be on a new level of efficiency as compared with that of many of the old units.

(3) Utilizing your burner repairmen during the coming summer to inspect your former installations and insure the efficient performance for which your units were designed. You men are far better posted in this field than I am, but reconditioning of fireboxes, draft controls, and burner adjustments have offered substantial economies in fuel consumption in studies which have reached my attention.

(4) Continuing your united efforts to get consumers to provide adequate storage facilities. This is a vital need. Our company has already taken steps to help in this connection, as it has made available to its customers, on the basis of cost plus a 10% handling charge, thousands of additional storage tanks.

(5) Making sure that prospective purchasers of oil burners are given the facts about the oil supply situation. Your responsibility does not end with your advertisements or official statements, but extends to representations made by all your employees or agents who contract the public. Oilburner salesmen on a commission basis are understandably prone to minimize the oil supply problem and this can probably be overcome only by making sure that everyone who orders a burner reads an accurate statement regarding the fuel supply situation. I am sorry to say, however, that your latest booklet entitled "OHI Answers Your Questions About Burning Oils" gives a falsely optimistic impression of the oil supply situation. While you may be able to substantiate the individual statements in the booklet, the over-all impression conveyed to the lay reader is that he need not be concerned about the adequacy of fuel oil supplies, and that is unfortunately not true.

(6) One of the greatest problems the oil industry has faced has been the fact that state or regional data on oil burner installations have not been available until they were about two years old. In the earlier years it wasn't necessary for the burner industry to advise the oil industry where the market was growing, how fast it was growing, and the number of installations being made. The oil industry did not have any accurate means of evaluating a state market until your organization started publishing estimated sales and estimated total number of installations in the fall of 1947. It is my understanding that you contemplate making this information available on a quarterly basis hereafter.

Summary

To summarize, I can do no better than to quote my subject—"Oil Cannot Heat All America." I do not think that it will be called upon to do so. This cannot be news to you gentlemen, but that does not make it welcome. However, you will still have a substantial replacement business. To the extent that such replacements or readjustments save oil, or some present oil users switch to coal or natural gas, we should be able to handle a moderate number of new installations even this year. The oil industry will not for a minute relax its efforts to continue its expansion, but in spite of such efforts the outlook is for a tight supply for at least two or three years. Our industries must both attempt to keep each other and the public fully informed as to all facts bearing on the supply situation as we see them. If and when the Middle East can complete the expansion of its facilities to take over the greater part of the European market, we may again be able to tell your industry that adequate supplies of fuel appear available for a substantial expansion. I am afraid, however, that that time is at least three years away. The only other good prospect for a substantial expansion in the next few years would be the rapid development of tidelands oil sources which constitute the best prospect for major new domestic sources of crude oil.

In the long run, of course, the real hope for both our industries rests in technology and free enterprise which have overcome and will overcome the obstacles in the path of continued progress for us, and better standards of living for all.

Patterson Director

Robert P. Patterson, Secretary of War from 1945 to 1947 and now

Robert P. Patterson

head of the law firm of Patterson, Belknap & Webb, has been elected a director of J. Henry Schroder Banking Corporation.

Frederic J. Del Pino Joins Staff of Henry F. Swift Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Frederic J. Del Pino has become associated with Henry F. Swift & Co., 490 California Street, members of the San Francisco Stock Exchange. Mr. Del Pino was formerly San Francisco manager for Barbour, Smith & Co.

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, MO.—Clifford B. Nelson is now connected with Herrick, Waddell & Co., Inc. of New York. He was formerly with John G. Kinnard & Co. and prior thereto was Springfield Manager for White & Co. of St. Louis.

With Conrad, Bruce & Co.

PORTLAND, ORE. — Jennings O. Stendal, Jr. has become associated with Conrad, Bruce & Co., 813 Southwest Alder Street. Mr. Stendal was previously with Field & Co., Inc.

Joins Davis, Skaggs & Co

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.— Pierre M. Kimball, Jr., has joined the staff of Davis, Skaggs & Co., 111 Sutter Street, members of the San Francisco Stock Exchange.

Business Man's Bookshelf

Liquidation of the Monetary Purge in the Netherlands, The—Synopsis of the regulations—Amsterdamsche Bank N. V., Amsterdam—paper.

Opportunities in Latin America—Ralph Hancock—Duett, Sloan & Pearce, New York City.

Wage Drives and the Outlook For Tomorrow—Chamber of Commerce of the United States of America, Washington, D. C.—paper—10c (lower rate on quantity orders).

The Employment Situation

(Continued from page 7)

new construction in 1948, with about a quarter of a million more workers employed at the peak of activity this coming fall than a year ago. Skilled workers are expected to account for about half of this year's employment rise. Roughly, 35,000 additional carpenters will be needed, along with about 10,000 more bricklayers, and 5,000 each of painters, plumbers, and plasterers.

As we have long recognized, housing is a very special concern of veterans because so many ex-servicemen have had to live under overcrowded conditions, or in unsatisfactory dwellings. Nearly a million permanent nonfarm housing units are likely to be started in 1948 as against 860,000 last year and 670,000 in 1946. If the 1948 estimate is achieved it will exceed by a small margin the previous record set 23 years ago.

Despite the expected increase, adequate housing will continue to be one of this country's greatest problems for many years to come. With the huge backlog of needs built up during the war, and with the recent record-breaking marriage and birth rates, we will need to produce homes at the rate of a million or more each year for at least another 10 years.

It appears that the major obstacles to expansion of housing activity at present are neither materials nor labor but high costs, together with emphasis on the more costly type of single family houses rather than on smaller rental units. Surveys show that most veterans who plan to build or buy a home feel that $7,000 is their limit, yet the selling price of new one-family homes probably averages nearer $10,000. About half of the veterans who seek housing want rental units, but only about 15% of the units started last autumn were structures which could house two or more families. By way of contrast, rental units in the twenties constituted about 40% of all housing erected.

If the present price barriers can be overcome and the construction of rental units stimulated, there is no doubt that the building and allied industries can be a strong support of the present or even higher levels of total employment for some years to come. However, if costs get too far out of hand, residential construction can well be among the first industries to suffer.

The Outlook in Manufacturing

Manufacturing has shown even greater strength than construction, during the past year as well as over the past two decades. Almost half of the total gain in nonfarm employment since 1929 has occurred in this field. In 1947, 37% of all nonagricultural wage and salary workers had jobs in manufacturing establishments as against 34% in both 1929 and 1940.

Of the two major sectors of manufacturing, the hard goods group has been considerably more dynamic. In 1940, there were 5 million employees in the durable goods industries, as against almost 6 million in the nondurable segment. Today, although both groups have gained sharply, their positions are reversed, with nearly 8 million at work in the durable and somewhat fewer in the nondurable group.

In many cases, the same influences have served to increase employment in each of these industry groupings. Among the more important factors still at work are the great amount of domestic purchasing power resulting from wartime savings and full employment, the huge backlog of consumer needs built up during the war years, and the world-wide demand for American goods.

In addition, each segment has responded to its own special influences. Affecting the hard goods industries has been the need for new plant facilities not only for expansion purposes but also to replace old, worn-out equipment. The most recent current indications are that replacement and improvement demand continues at peak levels. Also, the demand for consumer durable goods—not only automobiles, but also refrigerators and similar household equipment (particularly items used in new houses)—still appears to be ahead of supply.

The influences operating uniquely in the soft goods field—particularly in textiles and clothing—seem to be less substantial. But in February, these industries were operating at peak strength. One important consideration in analyzing the trends in this field is the seasonal nature of its operations. The prewar cycle of high activity at certain seasons of the year and layoffs at other periods, which characterized these industries before the war, was quite noticeable in 1947. Barring a sudden influx of orders as a result of the new defense program, the same phenomenon can be expected to recur this year. In any event, operations may very easily slow down more than seasonally in a few lines without upsetting the economy.

The Current Demand Situation

In 1948, as in 1947, the underlying economic pressures affecting employment trends are primarily on the side of demand, although there are some factors of weakness in the situation. Purchasing power continues strong, and the dominating factor eclipsing in good measure the doubtful elements is that a healthy, effective demand still continues for almost anything we can produce. Rising prices can choke off much of that demand, but there is no reason why prices should really get out of hand. Fundamentally, our economy today is in much the same condition it was in last August, when I called your attention, on the one hand, to the strong pressures of demand then existing, and on the other hand, to the dangers of high and rising prices cutting into buying power.

Now, superimposed upon the already strong demand picture, comes the new defense program. Its effect cannot be appraised until more is known of the requirements in terms of supplies and manpower. But this much is certain — goods already scarce will certainly not become more abundant. More than ever it will be necessary to keep close watch for inflationary developments.

The Supply of Labor

So much for the demand for labor. The supply of labor proved flexible enough in 1947 to keep in remarkably close balance with industry's needs for workers. There was no real labor surplus, nor were there any particularly serious manpower bottlenecks. The scattered labor shortages which still occur are either in specialized lines or else are in areas with inadequate housing.

Even with the armed forces at their presently authorized strength, there is no reason to expect a change in this generally balanced situation. Currently, there are about 1½ million more people in the labor force than would be expected on the basis of prewar trends. Actually this excess of 1½ million is a net, resulting from a much larger excess of older persons and teen-agers, partially offset by a deficit in the younger adults group. The extremely high postwar marriage and birth rates have taken more than 1¼ million women in the ages 20 to 34 off the job market. In addition, the number of younger men is also somewhat below normal largely because many ex-servicemen are still in school. In the normal course of events, large numbers of veterans will be completing their schooling in the next few years and will be seeking jobs commensurate in skill and commanding earnings in line with their education and training. Should conditions call forth more workers in the near future, there would be available not only the new entrants into the labor force but also many of the young men and women now out of the job market.

Increasing the work force is not, of course, the only way to expand output, assuming that the materials and facilities are at hand. Another method is to extend the work week although our surveys indicate that the five-day week and the eight-hour day tend to yield the rest results in terms of efficiency, absenteeism, and work injuries.

In fact, in order to achieve the current peacetime production records, the work week has actually been exceeding 40 hours in many establishments during the past year. This was particularly noteworthy in manufacturing, which is generally subject to the overtime pay requirements of the Fair Labor Standards Act. All the major groups except apparel and leather have been consistently at or above the 40-hour average in recent months. Since the average is always reduced by normal absences and turnover, it is clear that the scheduled work week was considerably higher than 40 hours a week.

In nonagricultural industries as a whole, fully two out of every five nonagricultural workers have been working more than 40 hours a week. About an equal number are working 40 hours a week, and fewer than one in five put in less time. Included in this latter group are a substantial number of part-time workers such as students and housewives, and also many who are out because of illness, bad weather, and materials shortages.

Another factor affecting output is productivity. In 1947, there appears to have been a modest but definite improvement over 1946. It is encouraging to note that surveys of management opinion have reported a steady improvement in the efficiency of workers during 1946 and 1947. With favorable labor-management relations, further improvements will come with additional experience on peacetime jobs.

The Unemployed

In spite of the essentially full employment which we have been enjoying, it is important to take note of the unemployed in our midst. There are not very many of them—about 1.6 million at the seasonal low of last fall, and about 2.6 million at the seasonal high this February when the severe weather and shortages of industrial fuel caused many industries to curtail operations. Virtually all of the improvement in unemployment in the past two years has been among veterans. Currently the rate of unemployment among ex-servicemen continues higher than among other men workers, but the difference has been narrowing steadily for some time.

Unemployment appears to be, as it has been during the past year, of two distinct types. Most of the unemployed were laid off for such reasons as climatic conditions, inventory taking, and materials shortages, and they remained out of work for only a relatively short time. The other group, however, consist of workers who have been experiencing considerable difficulty in finding new jobs. Reports indicate that these are, in the main, older persons, nonwhites, women, and inexperienced youths. According to Census estimates, there are about a quarter of a million persons who have been unsuccessfully seeking work for more than 15 weeks.

The Price Situation

As I have previously indicated, price developments could seriously affect the outlook for employment and the economy in general. A sustained decline in prices could lead to large-scale lay-offs and business failures. On the other hand, decreases in the cost of food alone could have the effect of bolstering purchasing power for other commodities and thus tending to increase total employment.

February's price developments can best be explained on the basis of specific market situations. The drop in grain prices, for instance, was primarily due to improved crop prospects. It was not particularly sharp, as the bottom did not fall below the price for last summer, and it did not spread to industrial prices. Many of the latter, in fact, actually continued to rise. A detailed analysis of February's break in farm prices and of subsequent developments shows that the basic situation is quite different from 1920, when prices collapsed.

During the first World War and its aftermath the prices of agricultural and industrial products rose in about the same degree, and reached a peak about the same time. When the break came it spread widely and most prices fell swiftly. This time, the prices of farm products paced the upswing, so that at peak they were almost three times as great as in 1939 whereas the prices of industrial products are less than twice their prewar level.

Another factor in the current price situation which tends to make for greater stability now than in 1920 is purchasing power. With employment at peak levels, with wages not lagging hopelessly behind prices, and with savings and credit reserves still high, buying power today is much greater than back in 1920.

The Veterans

So far I have touched on the veterans only as they fit into the general picture. I have done this because veterans do not live in a vaccum. They have jobs only when jobs are available; industry pays them the going rate, and their economic status is healthy only when the economy as a whole is healthy. I have also done this to highlight the fact today, at least, we are not confronted with the crucial question of how to reabsorb the veteran into civilian life. He has been reabsorbed —quickly and efficiently. More than 12 million veterans now have jobs, about half a million are out of work, and a million and a half are either in school full time or are out of the labor force for various other reasons.

This highly satisfactory showing reflects, of course, the overall employment situation, but it was aided immeasurably by two specific programs of the Federal Government. One was the servicemen's readjustment program which gave the new veteran a chance to get himself readjusted to civilian life without the necessity of taking makeshift employment. Altogether, out of nearly 15 million veterans of World War II more than 7 million received at least one benefit payment for unemployment, and another 600,000 drew at least one self-employment allowance. About three-quarter of a million were on the rolls long enough to exhaust all their rights. A total of $2 billion has been paid out under the unemployment program, with another half billion being disbursed under the self-employment phase.

The other activity of the Federal Government which has been of inestimable value both to the veteran and to the economy as a whole is the education and training program—the largest activity of its kind ever undertaken in the United States. More than 2¾ million veterans are now in school or taking training—nearly one out of every five eligible veterans.

It cannot be said too often that these men who are now students and trainees constitute not only a great challenge to our economy, but also a great hope. With their ambition and their newly acquired skills, they will need only a favorable economic climate to push production — and the American standard of living—up to new heights in the years to come.

In this connection, the Bureau of Labor Statistics will shortly issue a manual of occupational outlook information purposely designed for use of the veteran in making his decisions as to the kind of training or education to pursue. It will contain an appraisal of job prospects in 200 major occupations of the United States and should be of invaluable aid in the vocational guidance of our veterans.

A Look Ahead

During the coming months both prices and jobs are likely to be affected by numerous factors—psychological, political, and international, as well as the purely economic. It would be very easy for the fates to conjure up a combination of forces which can play havoc with out prosperity. But a comparison of conditions today with those which existed after the first World War is generally reassuring. In addition to the strong demand which we have already discussed, there are many other salutory factors tending to minimize economic difficulties today. Among them are the social security system, the GI Bill of Rights, and stock and commodity exchange controls.

Perhaps as important as any is the fact that today all of us—businessmen, workingmen, and consumers—have ready access to a vast fund of basic economic data. Back in 1920, much of this information, if available at all, was so late and so piecemeal as to be almost useless.

Looking even further ahead, it is clear that in another few years, barring wars or other catastrophies, completely different considerations will affect the economic picture. In the first place, the labor force will no doubt continue to grow; in the second place, productivity is bound to increase over the years. With these two factors at work we can have either great unemployment or an outpouring of goods and services never before experienced. If we are alert and imaginative, if we think cooperatively and if we apply in peacetime the devotion to American principles which the war called forth, there is no reason why we cannot achieve a standard of living higher than the world has yet known.

With J. M. Dain & Co.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Catherine E. Stukel has joined the staff of J. M. Dain & Co., Rand Tower, members of the Minneapolis-St. Paul and Chicago Stock Exchanges. She was formerly with Piper, Jaffray & Hopwood.

With Bache & Co. in Miami

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Francis M. Collins has become connected with Bache & Co., 96 North East Second Avenue. In the past he was with Thomson & McKinnon.

Levin With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, FLA.—Harry Levin has become affiliated with Bache & Co., 2809 Collins Avenue. He was formerly with Carl M. Loeb, Rhoades & Co.

Problems Ahead in Utilities Financing

(Continued from page 2)
ior or equity financing, will depend on the situation within the particular company. My comments, however, will necessarily have to deal with the industry as a whole, fully recognizing that their application to specific companies will develop variations from the general pattern. Fortunately the utility industry as a whole shows an overall well-balanced capital structure with sound debt ratios.

Securities and Exchange Commissioner McEntire, in an address before the National Association of Railroad and Utility Commissioners in the summer of 1947, developed some interesting statistics based upon a SEC study "for a group of 70 companies, which constitutes nearly all the electric utilities whose common stocks are traded in sufficient quantity to provide a reliable market." He reported:

"At the end of 1946 these companies averaged about 50% debt, 17% preferred stock, and 33% common stock and surplus. Only nine of these companies carried as much as 60% debt; five of these nine had no preferred stock outstanding, so that common equity accounted for the remainder of the capitalization. Only two of these 70 companies had an equity of less than 20% at the end of last year and only nine others fell under 25% in this respect. At the close of 1935 the books of nearly a third of these 70 companies showed less than 25% equity. This ratio was per books, and, as we know, reflected much 'water' now eliminated by regulatory action.

"In addition, the ratios, per the books of 1935, were also overstated because of inadequate depreciation reserves. In 1935 an 8.75% depreciation reserve was about average and a reserve of as much as 15% was rather exceptional. Today the average company in our 70-company sample has depreciation reserves amounting to 22.5% and the reserves of only seven companies fall below even a 15% level."

The Securities and Exchange Commission's objective with regard to new financing of companies subject to the Holding Company Act, has been, wherever possible, to limit funded debt to 50% of net fixed assets and to limit additional bonds to 60% of net additions to fixed property. Generally speaking, their objective has been to limit debt and preferred stock to not exceeding 75% of total capitalization, and to have a common stock capital and surplus of at least 25%. Dividend restrictions have been imposed where the latter ratio represented less than 25% of capitalization.

These are sound objectives. The management of any particular company is well advised to endeavor to maintain or attain them.

In the same address Commissioner McEntire satisfactorily demonstrates that the common stocks (and I am sure the same thing would be true of the preferred stocks) of companies having the weaker capital ratios, sell at a lower price earnings ratio than the stocks of companies more conservatively capitalized. Of course the price earnings ratios of individual companies may be distorted by an unusually high or unusually low percentage of earnings paid out in dividends, as the yield factor is probably of more importance with relation to current market prices than the times earning factor.

Commissioner McEntire divided the 70 companies referred to, into three groups. The companies in Group A constituted the upper third and had a median debt ratio of 37.5%, very little preferred stock, and common equity including surplus of 58.7%. At June 30, 1947, the common stocks of these companies sold at an average of 16.4 times earnings and 20.5 times dividends. Group B showed only slightly higher debt ratios, the median being 40.8% but, due to greater use of preferred stock, the average common equity was 40.1%. Earnings of this group were valued at an average of 13.1 times earnings at June 30, 1947, and sold at 17.5 times dividends. Group C had a larger debt burden, the median being 54.2%. Preferred stock was less prominent than in Group B, and common equity amounted, on the average, to 34.2%, of the capitalization. The average Group C equity was priced at June 30, 1947 at nine times earnings and 15.4 times dividends.

The names of the 70 companies used by Commissioner McEntire have not been disclosed, but their market prices probably correspond pretty closely to those of the Dow-Jones Public Utility Common Stock Averages which, at June 30, 1947, were 34.73. At the end of March 1948, they were slightly lower at 33.27.

Commissioner McEntire further demonstrated that all companies in the sample having Triple A bonds, fell in Group A; Group B companies, to the extent rated, were of Double A credits, while A and Baa credits uniformly fell in Group C. At June 30, 1947, Moody's Triple A sold on a 2.53% average yield basis; Double A on a 2.60% basis; A on a 2.72% basis and Baa at 3.05%. At the year-end these were 2.88, 2.98, 3.08 and 3.29, respectively. The recent modest improvement in the bond market has lowered these yields as of April 1, to 2.77, 2.89, 2.99 and 3.28, respectively.

Importance of Equity Capital

While your savings bank investments are limited to bonds meeting certain qualifications set forth in your law, you are very definitely interested in the ability of the public utility companies to raise the equity capital necessary to preserve sound capital structures and maintain or establish eligibility of their bonds within the terms of your law. I have already referred to the near-term capital requirements of the electric utilities, in a sum reaching, if not exceeding, five billion dollars over a five year period. It is estimated that something more than half of this sum may be realized without new financing through depreciation reserve accruals, debt discount and other reserves and surplus earnings available for construction; in other words, not paid out as dividends. This latter item may approximate half a billion dollars. If we assume the new capital requirements at the five billion minimum, it leaves something less than half of that amount to be raised by new financing. If this be divided into, say, 50% debt, 25% preferred and 25% common or surplus, then one might contemplate there being raised by new bonds approximately one billion and a half, by new preferred stock 750 million, and by new common stock approximately 150 million after taking credit as part of equity contribution for the approximately 500 million additions to surplus through retained earnings.

At the peak of the preferred stock market in the summer of 1946 this form of financing was very attractive, and Moody's Average High-Grade Public Utility Preferred Stocks, for a number of weeks, were at a 3.40% basis. There was a marked change in this situation, however, during the later months of 1946 and 1947 and, in February, 1948, this same average was 4.07. There has been a slight improvement in the preferred stock market in recent weeks, and the latest average is reported as 3.99. These averages, however, do not reflect the recent new issue market and new issues of preferred stocks to be successfully distributed have had to be offered at yields substantially higher than those represented by the averages of outstanding shares and, in many cases, substantially higher than the yields of preferred outstanding issues of the same company. The preferred stock market has been so thin and so unsatisfactory that many new issues have been failures and the Securities and Exchange Commission have granted numerous exemptions to permit a distribution through private negotiation.

Encouraging Venture Capital

While in dollar amount the equity capital requirements of the electric utilities do not sound too serious, however, it must be remembered that these electric utility equity securities must compete in the general market with the needs of all other types of business for equity capital. It is therefore vital that everything possible be done to encourage venture capital.

The March 31, 1948 issue of "The Guaranty Survey" has its lead article entitled "The Shortage of Venture Capital." The article well points out the existence of a large shortage of venture capital. This is evidenced by the rapid rise in commercial bank loans in 1946-1947, while individual holdings of corporate securities were showing no increase whatever, indicating that business concerns were forced to resort to commercial banks to meet some capital requirements that should have been financed by the sale of securities to investors. The New York Stock Exchange has calculated that in no year since 1935 has as much as 12% of total corporate expenditures for new plant and equipment been financed by stock issues, and that the proportion for the period 1936-1947 inclusive is less than 6.2%. "The Survey" points out that during the depression years of the 1930's, there was little demand for private capital of any kind and that during the war the need for capital was met largely through the issue of Government securities. It then goes on to say:

"It is generally agreed that the country now faces a period of large and sustained demand for new capital to supply the needs of a growing population, replace worn-out and obsolete plant and equipment, and give effect to technological improvements. These needs must be filled at a time when prices and costs will, in all probability, be considerably higher than they were before the war. The inactive capital demand that has long served to conceal the limitations on the supply of venture capital seems to be giving way to a radically altered situation, in which the problem of venture capital must be frankly faced and constructively dealt with if our economy is to expand and thrive . . . But there can be little doubt that, unless a broad reversal of some of the trends of recent years takes place, the supply of venture capital in the form of demand for common stock and of funds for investment in unincorporated business is likely to be grossly inadequate.

"This aspect of the situation is forcefully presented in a study of conditions in the capital market published last October by the New York Stock Exchange and in the recent testimony of Emil Schram, president of the exchange, at the hearings on the tax-reduction bill. Mr. Schram cited figures of the Securities and Exchange Commission showing that, of the $4.5 billion of new money raised through the capital markets last year only $1.5 billion was represented by stocks and only $784 million by common stocks. Toward the closing months of the year, he said, common stock offerings were confined chiefly to the larger companies in the public utility and oil industries; and the market was 'virtually nonexistent' for other stock offerings. 'Time and again,' he added, 'the report of anticipated common stock financing was sufficient to depress severely the stocks of even the strongest and most successful corporations.' The Stock Exchange study points out that the volume of stock transactions in relation to national income and to the number of shares listed has sunk to abnormally low levels, indicating that 'the breadth of the market, which is an important element in providing liquidity for the revolving fund of risk capital, is being severely restricted.'"

It would be beyond the scope of my remarks to do more than merely mention some of the remediable causes to which this situation appears to be attributable, such as:

The heavy tax burden on individual incomes in the higher brackets, which normally supply the great bulk of venture capital;

Estate taxes which weaken the incentive to risk-taking investment and depress the market for equity securities by forcing liquidation and by breaking up large estates into smaller units for which such securities represent a less suitable form of investment;

Double taxation of dividends;

Capital Gains Taxes at a rate high enough to discourage risk-taking investment and tending to freeze existing investments;

High margin requirements which reduce the volume of market activity and liquidity of stock investments; and

High corporate income tax rates which minimize the amount of earnings that can be retained for business expansion and still pay reasonable dividends to stockholders.

I have recently reviewed the names of the electric and gas utility companies whose bonds are eligible for investment under your law, and find a substantial number of good names, including many Double A ratings which do not qualify, such as Metropolitan Edison Co., Ohio Power Co., Columbus and Southern Ohio Electric Co., Buffalo Niagara Electric Co., Houston Light and Power Co., Consumers Power Co., Texas Electric Service Co., Texas Power and Light Co. and Virginia Electric and Power Co. Several good names have recently been removed from your legal list, such as Atlantic City Electric Co., Consolidated Gas of Baltimore, Potomac Electric Power, Public Service of Oklahoma and San Diego Gas & Electric. There is also one Triple A company, Kansas City Power and Light Co., which just misses out on the provision that "the funded debt of the corporation shall not exceed the sum of its capital stock and surplus," which is more restrictive than that of the legal requirement in any other important savings bank State, with which I am familiar.

Indeed, it is this provision which is the bar in most cases, as the other provisions of your law should be readily met for the kind of securities you would be interested in buying for a savings bank. In my own State of Pennsylvania the requirement is that the outstanding capital stock shall at the time of investment be equal to at least two-thirds of the total debt. A similar provision exists in the laws of Minnesota, New York and Washington. In Massachusetts the requirement is that the capital stock and surplus shall be equal to at least 60% of the total funded debt. The provision in your law for the addition of surplus to capital stock does not, in most instances, help the situation to any great extent, because so many companies have had to write off substantial amounts against surplus to comply with accounting requirements of Federal and States agencies. Therefore, I see the danger that even excellently balanced capital structures may, to some extent, in the coming years, have great pressure to permit their funded debt from time to time to exceed the sum of their capital stock and surplus. To keep a broad market for their securities I can well see how a utility company would think long before it made its bonds ineligible for savings banks in Massachusetts, New York and Pennsylvania, but the Connecticut savings banks may well find themselves unable to purchase or retain bonds which would qualify in the other important States I have mentioned.

May I make one more comment about another section of your savings bank law, which says that the combined surplus and reserves for depreciation and contingencies shall be not less than 10% "of the value of the fixed property of the corporation"? The word "value" is not defined in the section. As you are all aware, there have been many controversies over what constitutes "value" for different purposes and the considerations entering into "value" at any particular time. At some future time if your statute is being amended, it might be well to clarify this point for the benefit of the corporation which must file the "sworn statements" from which the eligibility of any bond under this section should be determined. However, as pointed out by Commissioner McEntire, the present reserves have been so built up over those of an earlier period that the 10% limitation is not too important whatever concept of "value" may be intended.

Illinois Secs. Dealers Elect Sills Pres.

CHICAGO, ILL.—The Annual Meeting of the Illinois Securities Dealers Association was held on Tuesday, April 13, in the Chicago Room at the La Salle Hotel. The following slate of Officers and Directors were elected: William H. Sills, Chairman of the Board of Sills, Minton & Co., was elected President.


William H. Sills

James M. Dick, Sales Manager of William H. Flentye & Co., of Aurora, Illinois, Vice-President.

The following were elected Directors to serve two years: O. G. Corns of H. M. Byllesby & Co., Chicago; Joseph E. Dempsey of Dempsey & Co., Chicago; Edward M. Harkness of Mason & Moran, Chicago; Paul Yarrow of Clement, Curtis & Co., Chicago; David L. Heath of Heath & Co., Elgin, Illinois. Ralph W. Davis of Paul H. Davis & Co. was elected a Director to serve one year.

Quincy Cass Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Quincy Cass Associates, 523 West Sixth Street, members of the Los Angeles Stock Exchange, have added Walter J. Maguire, Jr. to their staff.

With Chace, Whiteside Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Philip D. Carter is with Chace, Whiteside, Warren & Sears, Inc., 24 Federal Street.

With Paine, Webber Firm

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB. — Wilbur M. Fullaway is with Paine, Webber, Jackson & Curtis of Boston.

President's Advisers Stress Inflationary Trends

(Continued from page 4)
lowed immediately by further price increases.

Stoppage of work in the bituminous coal mines on March 15 did not grow out of a demand for higher wages, but it had the effect of immediately aggravating shortage of material at a point basic to our whole industrial system. Even if settled at an early date, it will result in the loss of many thousands of tons of steel and postpone the time when the supply of automobiles and other items fabricated from steel will catch up with demand.

The Defense Plan

Against this reminder of the continuing narrow margin of supply at the very basis of our industrial system, the President on March 17 addressed the Congress on the seriousness of the international situation and launched a defense plan. On April 2, the Congress completed passage of the European Recovery Plan and on the same day removed approximately $5 billion from government revenues through its tax reduction act and added this amount to civilian spending power.

These developments must be evaluated against the background of an economy of relatively little slack in employment or productive capacity, of high prices still strongly colored by inflationary forces, and of a precarious balance between prospective Federal revenues and projected scale of expenditures. In such circumstances the inflationary threat might easily be aggravated, and substantial increases in the demand for certain goods might quickly initiate new price advances.

In our analysis of this inflationary problem we shall assume that the coal strike will be settled within a relatively short time. The loss of coal production in a strike of even a month would entail the serious disruption of railroad transportation, steel production, and other industrial output. Therefore the restoration of fuel production constitutes our foremost domestic problem since indefinite continuation of the coal strike would bring industrial paralysis.

On this assumption of an early settlement of the coal strike, it is our belief that the European Recovery Plan and the defense plan as now proposed should not generate inflationary pressures which at this time require resort to overall controls of the war economy type. We believe that the safeguarding measures included in the President's 10-point program in November and reiterated in January should be promptly enacted and somewhat extended but that this will leave free competitive enterprise to operate through most of the business world.

We are aware of course that the international situation with which the President must deal is most uncertain and that the defense plan now proposed may soon prove to be inadequate. We feel, however, that our analysis and recommendations should be limited strictly to the program as announced and as evaluated by the business community. This involves something of a psychological factor but, as already stated, does not as yet, as we read the signs, involve general speculative anticipation of future expansion of the program. Everywhere in the business world there are heard words of caution, but we recognize that that condition might change suddenly.

The European Recovery Plan and the defense plan need to be considered together because they entail similar economic consequences. Both will entail withdrawal of goods from American consumers without a corresponding curtailment of purchasing power in their hands.

Appraisal of the combined impact of these two plans may be undertaken by an examination, first, of their general impact upon the economy, and, second, of their impact upon specific situations of shortage. Viewing first the general impact, we concluded in our October foreign aid report that the export surplus in 1948 under an aid program of the size then contemplated would not inject a new inflationary influence because it would not exceed the export surplus already felt in 1947. As finally adopted, the European Recovery Plan will involve an export surplus in 1948 at least $2 billion below the level that the October report contemplated and found to be safe. This leaves room for the safe absorption of a defense program of considerable magnitude. The defense program, as now formulated, implies a $3 to $4 billion commitment for the fiscal year 1949. In the President's letter of April 1, transmitting an additional budget request, there was outlined a program involving additional expenditures for the armed services of only $1.7 billion in fiscal 1949. Of this amount not more than half will represent actual payments to the public in 1948, and only a part of this will represent a demand for additional goods. Thus, in terms of its general impact upon the economy, the defense plan would seem to be something the country could readily take in its stride.

With increasing appreciation of these facts, the tendency for business to react to the defense program in terms of an incipient new boom has abated, and there has been an increasing disposition to assess the plan as an offset to softening tendencies which might be developing during 1948 rather than as a further stimulus to an already strongly inflationary situation.

But while a $3 to $4 billion program may not seem disturbing to a $240 billion economy when viewed generally, the conclusion is different when we turn to its specific impact upon particular production and market situations. Just as in the case of the European Recovery Program, to which it is now added, the real issues as to whether additional economic controls are needed grows out of the concentration of both programs on certain classes of goods and areas of production where shortages have been most severe and persistent. These areas include products of farm origin, particularly livestock products and textiles, steel and other metals, and the sources of power and heat, including coal, petroleum, gas and electricity.

While we do not yet have specific information as to the size and timing of these particular demands, we have already, in evaluating the impact of ERP, urged the adoption of allocation policies which, if carried out, will help to hold the prices of these goods from unduly rising and prevent demoralization of productive operations. The same prudent measures will help to offset the inflationary effect of the expedited stockpiling program for which the President has requested $375 million.

One factor which has entered the picture since the time of our foreign aid report is the addition of about $5 billion to the purchasing power of consumers through the reduction in taxes. This adds to inflationary pressures an important force and virtually eliminates the one important weapon controlled by the government with which to combat inflation—a substantial government surplus. Yet we believe that this untoward development can also be neutralized if the other features of the President's anti-inflation policy are adopted.

Recommendations

Of the policies and programs of the government which we believe will fairly well restrain inflation if labor peace is maintained and the defense program is not greatly expanded, the first three will operate through influencing the entire economy, the others are directed at points of specific pressure.

Fiscal Controls—The imprudent reduction in taxes increases the need and by no means ends the opportunity for helpful fiscal policies. New taxes should be demanded in proportion to (or even in anticipation of) all subsequent increases of defense expenditures which are not clearly offset by practicable reductions of government expenditures in other directions. Reduction of public expenditures should be made wherever possible.

Credit Controls—So long as inflationary danger continues, the central banking system should use its powers to restrain the creation of buying power through bank loans. The imperative need to protect the government bond market prevents the use of the traditional method of limiting the expansion of bank credit by raising discount rates, but something can be accomplished by increasing reserve requirements, and authority should be granted to take this action. If we avoid a government deficit and prevent the expansion of bank credit, we can still avoid a destructive general or monetary inflation, even though there might be a considerable rise in particular prices.

Consumer credit, also, should be restricted. The President's warning that there would be imprudent, competitive easing of credit terms when control was dropped has been fully vindicated.

Savings Bond Campaign—The completion of the extensive preparations for the nation-wide campaign to sell savings bonds fortunately comes at the most appropriate time to give maximum effect to the anti-inflationary value of consumers' savings. Saving by consumers is the only anti-inflationary measure which is pleasant. It is also one of the most effective of such measures. No effort should be spared in pressing to the fullest advantage the fine enthusiasm which has been built up in the great army assembled for this campaign.

Materials Controls—Since we start the defense effort not from a position of industrial and commercial slack, as in 1939, but from one of activity so high that significant material shortages already exist, we believe that ordinary prudence requires that increased attention be given to perfecting a system of allocations, priorities and export and domestic use limitations which would build up adequate stockpiles and safeguard production under the defense plan against bottlenecks and breakdowns. Present and prospective shortages in food, textile, metal and fuel or power items already referred to make it necessary that allocation and related control measures be promptly enacted and selectively applied.

Some controls have already been found necessary during the formative stages of the European Recovery Program. These should be articulated with or merged into the defense control system. We believe also that voluntary effort in the formulation of the materials control plan and in its enforcement should be utilized to the fullest extent possible. The authority to impose controls should not be limited to establishing priority of use. That simply makes the competition all the warmer for the balance of the supply. There must be power to make it unlawful to use controlled materials in unnecessary projects, or to use controlled materials beyond the permitted quantity in authorized but limited projects.

Price-Wage Control and Rationing—There has not yet appeared need to impose either price control or rationing, other than in the case of a few materials, as discussed above. The prospects for an adequate meat supply are so poor, however, and there is so much uncertainty about the general food situation, that the President should have authority to make ready a price and rationing system and to put it into effect selectively as conditions require. Where price controls are imposed there should be a prohibition of such wage increases as would break through the price ceiling, except for certain necessary equitable adjustments and except for such wage increases as might be necessary to recruit people for the defense program in the absence of manpower controls.

Distribution of Labor—The number of men involved in the contemplated increase in the armed forces and in the expanded industrial operations incident thereto will not exceed the expected increase in the labor force in 1948. The labor market is tight, however, and the frictional difficulties in the way of any accurate distribution of labor will lead to many local shortages. These can be minimized by making better use of the United States Employment Service.

To this end, we believe that the national office of the United States Employment Service would have to be enlarged and strengthened. The Employment Service should undertake to develop a smoothly functioning program of (a) priority referral in local offices, and (b) comprehensive inter-area recruitment. We should make sure that the Selective Service Act and regulations are so drafted and administered as to give suitable deferment to individuals and groups who are especially needed in the defense program. Procurement agencies likewise should exercise care to see that contracts are placed in looser labor market areas and, so far as possible, withheld from tight labor markets. Efforts should also be made to prevent labor piracy or unrestrained intro-industry hiring.

In general, our position is that manpower control should be of an indirect rather than direct sort.

In Conclusion

At this early stage of the defense plan, two points should be clearly recognized and made plain to the public:

(1) We are in a peace economy, not a war economy. The maintenance of an armed force is as much a part of the peacetime system as is the maintenance of a police force by States, counties, and cities, or the employment of railroad detectives and factory guards. The last two years have given us a fuller measure of the productivity of our resources when aggressively used. We were not staggering under the load of $11 billion for our protective forces and the rise in this item to $14 or $15 billion will not swamp our economy nor require us to pass from free enterprise to regimentation. Some rather systematic and vigorous discipline, however, must be exercised to redirect our economic effort so as to meet the new goal in an orderly and economical manner.

(2) Every citizen must recognize that further diversions of productive effort to military uses inevitably involves some sacrifice of civilian types of consumption. It is our particular application of the old alternative of "guns or butter."

Our people had—and we believe quite properly—looked forward to a postwar period in which larger numbers of people would achieve higher standards of living than had ever been realized before. Those hopes are not nullified by the defense program. But they must be in some measure postponed or for the present revised downward. During this period if any group insists that its income shall be advanced in propoprtion to every advance in prices or that it shall be in a position to pay up to whatever level is needed to bid its accustomed amount of goods away from other users, it is in effect demanding that it be exempted from sharing in the common burden of protecting our country. These economic facts of life should be proclaimed along with every step in working out the practical details of the defense program.

Michigan Brevities

(Continued from page 12)
Offs" and "Pulley Drive Assemblies" both for Willys-Overland Motors, Inc.

* * *

Net sales of Rudy Manufacturing Co., Dowagiac, for February totaled $253,420, compared with $175,333 in the preceding month and $152,624 in December, 1947. Net profit after taxes for February amounted to $9,182, as against a loss of $1,606 in January and a loss of $7,628 in December. Current assets at Feb. 28 were $592,124, while current liabilities were $277,198.

This company was formerly known as Rudy Furnace Co., the name of which was changed by vote of stockholders on March 1.

* * *

Briggs Manufacturing Co., Detroit, reported 1947 net sales of $204,831,337 in automobile bodies, parts and components and Beautyware plumbing fixtures. This yielded a profit of $7,512,156 after taxes, equal to $3.86 per share on the outstanding common stock. This compares with net sales of $125,598,031 in 1946 and a net profit of $4,380,115 in that year, after income tax refund and other adjustments, equal to $2.25 per share.

The $79,000,000 increase in 1947 net sales over 1946 reflects the increase in material and labor costs, the company reported. This has boosted the average cost of an automobile body by 60% between 1941 and 1947.

* * *

Net sales for the year 1947 amounted to $35,129,642, the largest in the Holland Furnace Co.'s 41 years of continuous business existence, and represented a 40% increase over the year 1946. Net for the year 1947 amounted to $3,696,320, compared to $1,986,600 in 1946. Earnings per share of common stock were $4.10 as compared with $2.21 for the year previous. Current assets at Dec. 31, 1947 totaled $21,026,823, as against current liabilities of $7,627,819.

* * *

The Midland Steel Products Co. of Cleveland and Detroit reports that its 1947 net income was at an all-time high of $3,503,426, or $11.21 per common share. This compares with a net of $1,552,889, or $2.90 per common share, in 1946. A 15-year financial record of the company is included in the annual report. This record shows that during the 15-year period sales increased seven-fold, working capital doubled and in no year did the company sustain a loss.

* * *

Sales and earnings of Detroit-Michigan Stove Co. for 1947 have established another all-time high. Net sales were $20,693,376, as against $14,955,408 in 1946, while net profit from operations, after provision for Federal income taxes was $2,445,858, equal after preferred dividends to $2.52 per share as compared with $1,975,-

187, or $2.03 per common share in 1946.

Shipments for January and February, 1948 were $3,736,000 compared with $3,324,000 for the same period of 1947. During February of the current year the Detroit plant was shut down for 10 days due to the shortage of gas.

* * *

The annual report of the American Seating Co., Grand Rapids, reveals that on Feb. 25, 1948 a modified agreement was entered into with the Prudential Insurance Co. in connection with the company's long-term loan under which the loan was increased to $1,000,000 as compared with $760,000 outstanding at Dec. 31, 1947. The interest rate was reduced 3¾% to 3½% The increased loan is payable $125,000 annually, beginning with July 15, 1951. The additional funds received were used to increase working capital.

Current assets at Dec. 31, 1947 amounted to $7,241,491, and current liabilities to $2,014,515. Net income per share in 1947 was $2.52 as against 55 cents in 1946.

* * *

Clark Equipment Co., Buchanan, reports total sales of $61,172,000 for the year 1947, compared to $38,243,000 for the preceeding year and $54,878,000 for the year 1945. It should be noted that the decline in sales in 1946 was due to strikes in the company's plants as well as those of its customers and suppliers. Final net earnings for 1947 were $3,990,000, or 6½ cents per dollar of sales. It was also equal to $8.21 per common share after providing for preferred dividends.

* * *

Hudson Motor Car Co. reports consolidated net income for the year 1947 of $5,763,352, after all charges, including interest, depreciation and Federal State and foreign taxes. This is equivalent to $3.17 per share on 1,815,783 shares outstanding at the end of the year. For the year 1946, net income amounted to $2,748,107, or $1.51 per share, excluding a nonrecurring loss on sale of vacant land.

A small plant, containing approximately 200,000 square feet of floor space and located on Harper Avenue has been acquired adjacent to the company's body and sheet-metal plant.

Friday Night Bond Club Elects New Officers

The Friday Night Bond Club, membership of which comprises representatives of more than a hundred New York brokerage houses, investment firms, and banks, has announced the election of the following officers to serve for one year: Robert A. Eberle, Eastman, Dillon & Co.; Vice-President, Thomas F. Guliana, Bear, Stearns & Co.; Treasurer, Ralph A. Berkowitz, Stern & Co.; Assistant Treasurer, William A. Hegewald, Vilas & Hickey; Secretary, Daniel W. Dunne, Stern, Lauer & Co.; Assistant Secretary, Carlisle Herdt, Stern, Lauer & Co. Elected members of the executive committee are William R. Lee, Amott, Baker & Co.; Arthur Rauch, New York Stock Exchange; John F. Rooney, Foster & Adams; Herbert J. Cullinan, Asiel & Co.; and Raymond Rodriguez, Guaranty Trust Company of New York.

Mr. Eberle succeeds Fred Reiter of Dominick & Dominick as President.

The State of Trade and Industry

(Continued from page 5)

will have to gage the long-term effects of a definite "no" to a wage increase, this trade authority points out.

Taking the most optimistic viewpoint possible, there is no chance that the steel shortage will be eliminated this year.

In a month or two it will be worse than it has been for two years. In the next 30 to 60 days the full effects of the coal strike will show up in finished steel shipments. Cuts are already being made in shipments because of the dissipation of semi-finished steel stocks which were on hand at steel company plants before the strike.

The present steel supply picture looks bad for the regular domestic steel user. So bad, "The Iron Age" observes, that it won't be long before the trek to Washington for priorities will begin in a big way.

Government officials have convinced themselves there is a need for controls, but steel makers, after looking over the whole picture, are scared that at least a big part of the distribution of steel will pass out of their hands before the year is out.

The coal strike, ERP and the defense talk have combined to breathe new life into the gray market and, states "The Iron Age," the resurrection has been so rapid in the past week that sales are picking up and prices are once again at $300 or more a ton for hard-to-get flatrolled steel.

To steel customers who had been on the point of turning back some of their steel, the tight supply situation means that they will either need it themselves, or they will know they can find a home for it, at a good price, "The Iron Age" concludes.

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 71.3% of capacity for the week beginning April 12, 1948, a decrease of 13.1 points, or 15.1%. This compares with 84.4% last week. A month ago the indicated rate was 97.5%.

This week's operating rate is equivalent to 1,285,000 tons of steel ingots and castings as against 1,521,300 tons last week, 1,757,400 tons a month ago, 1,653,700 tons, or 94.5% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

FREIGHT LOADINGS CONTINUE DECLINE DUE TO LABOR TROUBLES

Loadings for the week ended April 3, 1948, totaled 661,807 cars, according to the Association of American Railroads. This was a decrease of 2,568 cars, or 0.4% below the preceding week. Carloadings not only in the corresponding weeks of 1946 and 1947 but also in the week of April 3 and the preceding week this year were all reduced because of labor difficulties in the mine fields. It represented a decrease of 53,352 cars, or 7.5% below the corresponding week in 1947 but an increase of 18,163 cars, or 2.8% above the same week in 1946.

ELECTRIC PRODUCTION SLIGHTLY BELOW PRECEDING WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended April 10, 1948 was 5,032,879,000 kwh, according to the Edison Electric Institute. This figure was only 3,909,000 kwh. below the turnout in the preceding week, but exceeded the output for the corresponding week of last year by 413,179,000 kwh., or 8.9%. It was also the lowest figure since the week ended Jan. 3, 1948, a holiday week, when production amounted to 4,868,011,000. The corresponding week last year also showed a decline from the previous week, but two years ago an increase was reported for the same period.

AUTO OUTPUT TURNS LOWER FOR THIRD CONSECUTIVE WEEK

Production of cars and trucks in the United States and Canada last week declined slightly to an estimated 103,520 units from last week's 105,132 total, according to "Ward's Automotive Reports." This compares with 97,893 units in the like week of 1947 and 99,260 in 1941. "Ward's" said most of this week's decline was in the General Motors truck division.

Output for the year to date is reported at 1,504,805 vehicles for the United States and Canada, or about 10% above the corresponding period of 1947.

Next month's automotive schedules and very likely those later on must be cut back because of the coal-steel situation, "Ward's" states.

BUSINESS FAILURES HOLD TO DOWNWARD TREND

Continuing to decline for the third consecutive week, commercial and industrial failures in the week ending April 8 dipped to the lowest level in two and one-half months, Dun & Bradstreet, Inc. reports. Concerns failing numbered 79, down from 91 in the preceding week. Although considerably higher than the 59 occurring in the corresponding week a year ago and over three times the 24 failing in 1946, casualties were only one-fourth as numerous as in the same week of prewar 1939 when a total of 313 businesses succumbed.

Nearly all of the week's decline occurred among failures involving liabilities of $5,000 or more. Despite a downturn from 79 a week ago to 68, failures of this size group continued to predominate and remained above last year's 49.

Of the 68 larger failures, 7 concerns incurred liabilities of more than $100,000 each. Small concerns failing with losses under $5,000 fluctuated very little, numbering 11 against 12 in the previous week and 10 last year.

Casualties were most numerous in retailing where 34 businesses went out with probable loss to creditors. This trade also had the sharpest rise in failures from a year ago; only 13 retail stores failed in the same week of 1947. The second largest number occurred in manufacturing where failures at 22 were off slightly from both the 23 last week and the 29 reported in the previous year. Very few concerns, 5 and 4 respectively, failed in wholesale trade and construction.

The largest number of failures continued to be concentrated in the Pacific States.

FOOD PRICE INDEX REVERSES UPWARD TREND

Interrupting a three-week rise, the wholesale food price index, compiled by Dun & Bradstreet, Inc., fell 3 cents this week to stand at $6.72 on April 6. Up 4.8% over the $6.41 recorded a year ago, the current figure represents a rise of 1.7% over a month ago when the year's low point of $6.61 was reached.

COMMODITY PRICE INDEX SLIGHTLY LOWER FOR WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., went slightly lower last week, closing at 283.67 on April 6. This compared with 283.52 a week earlier, and with 262.43 on the corresponding date of last year.

Grain markets were nervous with prices fluctuating irregularly in a narrow range which left final quotations little changed from a week ago.

Increased trading on the Chicago Board of Trade was largely professional in character, as high margin requirements tended to discourage outside business. Wheat developed strength at times, bolstered by government buying of both wheat and flour but the improvement in prices was not sustained. Demand for wheat from cash interests and mills tended to lag. Farmers in the Southwest were said to be offering stored wheat in increased volume due to the more favorable outlook for the new crop. Cash corn prices showed some improvement, influenced by a further sharp reduction in the visible supply, and a pick-up in shipping demand from the East. Lard prices continued to rise, aided by active commission house buying induced by strength in cottonseed oil and prospects for large purchases of cash lard for shipment to Europe.

Hog supplies continued to exceed demand and values again moved down sharply. Closing prices represented the lowest level since early in January, 1947.

Cotton price movements in leading domestic markets were irregular during the week but the trend was generally higher. The New York spot quotation advanced 88 points to close at 37.08 cents per pound, following a rise of about 100 points the week before.

The continued uptrend was largely influenced by price-fixing against sales of the staple to China, it being reported that that country was making negotiations for more than 300,000 bales.

The improvement also reflected a renewal of mill buying and mill price-fixing against textile sales, short covering and a better feeling resulting from final passage of the European Recovery Program legislation. A further influence was the increased activity that featured the carded cotton gray goods market in the closing days of the week, accompanied by an improvement in the price tone. Sales were mostly for third and fourth quarter delivery and totaled upwards of 20,000,000 yards. Print cloths furnished the bulk of the activity with some sheetings and various drills and twills included.

Trading in domestic wools in the Boston market was spotty during the past week, and contracting for the new clip wool in western States was said to be at a practical standstill.

Prices in all foreign primary markets were reported on a firm basis. Imports of apparel wools received at Boston, New York and Philadelphia in the week ending March 26 represented 6,167,200 clean pounds, as compared with 6,769,400 in the previous week.

RETAIL TRADE AFFECTED BY POST-EASTER LULL—WHOLESALE DOLLAR VOLUME MODERATELY HIGHER

The post-Easter lull in consumer buying during the period ended on Wednesday of last week reduced retail volume to a level slightly below that of the previous week. While total dollar volume was slightly below that of the corresponding week a year ago, the change from a year ago reflects in part the occurrence of Easter last year on April 6, states Dun & Bradstreet, Inc., in its current review of trade. Mild weather in many areas and the usual seasonal promotional and clearance sales helped to stimulate interest in some merchandise.

Compared to the post-Easter week of a year ago there were relatively few clearance sales of apparel.

The demand for women's wear declined moderately with considerable slackening of interest in millinery, jewelry and furs. Promotions of handbags, blouses and gloves attracted favorable attention and cotton dresses and lingerie also sold well. There was a moderate response to promotions of shoes with summer footwear emphasized. Men's summer weight suits were in large demand and some clearances of haberdashery stimulated buying.

The dollar volume of food purchased by consumers was sustained at a high level with a moderate decrease in the buying of fancy foods and confectionery.

While the demand for fresh meats remained large, there were slight declines in meat prices. Dairy products and meat substitutes continued to be sought, and fish and poultry sold well.

Summer furniture attracted favorable attention with considerable interest in slipcovers and curtains. Seedlings and plant bulbs were requested along with garden implements and supplies. Paints and housecleaning items were in large demand with increased interest in building materials and hardware.

The number of buyers attending wholesale centers rose sharply last week and many retailers sought merchandise suitable for special promotional sales. There was a moderate increase in the total dollar volume of wholesale trade during the period ended on Wednesday of the past week. Dollar volume remained near the high level of a year ago. Buyers continued to insist on good quality merchandise at moderate prices and deliveries, it was noted, were generally prompt.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended April 3, 1948, decreased by 12% from the like period of last year. This compared with an increase of 17% in the preceeding week. For the four weeks ended April 3, 1948, sales increased by 4% and for the year to date increased by 5%.

Retail trade in New York the past week recovered from the post-Easter doldrums with brisk customer response to sales offerings. Gains in department store sales approximated 12% or more over the 1947 week, which was the period immediately after Easter.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to April 3, 1948, decreased 10% below the same period last year. This compared with an increase of 15% (revised) in the preceding week. For the four weeks ended April 3, 1948, sales increased by 2% and for the year to date by 4%.

Factors Influencing Canadian Credit

(Continued from page 10)

gross national product to something like $32 billion for the United States.

Public support of the program reflected, I think it is fair to say, a mingling of altruism and self-interest. There was on the part of most Canadians a sympathetic understanding of the postwar plight of England and our European wartime allies. From the standpoint of self-interest, the loans had an immediate as well as a longer-range appeal. In a country that is traditionally highly dependent on foreign trade where even in normal times exports are equivalent on the average to about 25% of the national income, it is but natural that measures to sustain exports should figure prominently in postwar plans designed to cushion the expected shock of reconversion. Looking further ahead, the loans were evidence of Canada's realization of her own interest in the restoration of Europe and of a world trading system in which multilateral trade would once more be possible—and specifically, in which sterling would once more become convertible into U. S. dollars!

Hindsight now reveals a number of miscalculations—which incidentally, apart from their direct significance, are perhaps an interesting commentary on the limitations of "planning." For one thing, European recovery has not proceeded as anticipated and in consequence Canada's loans have been drawn down much more quickly than originally expected. By the end of 1947 only $437 million of the original $1,845 million was left unused. Secondly, I doubt if any of the people responsible, at the policy level, for framing the export credit program envisaged the strength of purely Canadian demand for goods and services in the postwar period. (For that matter I doubt if many people in private industry either, foresaw the extent of the postwar boom that has developed both in the United States and in Canada.) The third element in what might be called Canada's trinity of the unforeseen was of course the rapid depletion of our U. S. dollar reserves. Undoubtedly it was anticipated that there would be some reduction in our "stockpile" of gold and U. S. dollars in the early postwar period. But with business activity, incomes and employment running at record levels, the consequent demand for materials and supplies from the United States, despite rising prices, has certainly outrun all previous expectations. Predominant in the picture has been the Canadian demand for your industrial raw materials—coal, petroleum, cotton, steel and for machinery and component parts. Back of this has been a program of expansion by Canadian private industry which in 1947 reached unprecedented levels and which, on the basis of recorded investment expectations may be even greater in 1948. At the same time our export credit program has tended to aggravate our U. S. dollar deficiency. By stimulating domestic incomes the program has increased the overall demand for U. S. dollars, while decreasing our potential supply of such dollars by diverting to export credit markets goods that otherwise could have been shipped to the U.S.A.

To pull this all together, our present exchange problem may be illustrated very simply by reference to recorded results for the year 1947. In that year, our total imports of goods and services slightly more than balanced our total imports of goods and services. In this sense therefore, Canada has not been living beyond her means. But at the same time our sales *to you*, of merchandise and services, at about $1.7 billion, were just about $1.1 billion short of paying for the $2.8 billion of goods and services that we bought *from* you. Since, as I have pointed out, our overall position was in balance, it follows that *vis a vis* the rest of the world we had a trading surplus approximately equivalent to our deficit with the U.S.A. But far too much—$563 million to be exact—of this surplus was on paper only, in that it represented trade financed by export credit loans. Nevertheless, be it noted, trade with the sterling area and other countries did produce for Canada no less than $652 million of U. S. funds which went to narrow our own U. S. dollar gap. After giving effect to various capital transactions the net result of our year's trading was a decline of $743 million in our official reserves of gold and U. S. funds.

Restrictions of Imports

As you know, the Canadian approach to this emergency situation has involved a combination of measures including the restriction of Canadian spending on U. S. goods and services through import prohibitions and quotas, domestic taxation on goods having a high U. S. dollar content, curbs on tourist travel in the U. S. dollar area, plans for the expansion of exports to that area, and a bonus on additional gold production. I would ask you to observe that in the case of the prohibitions and restrictions, Canada has followed a policy of non-discrimination. The prohibitions, applicable to imports in the case of a list of consumer goods which are clearly of a non-essential nature or are already produced in Canada to substantial degree, apply with equal force whether the goods formerly came from the United States or from anywhere else. With respect to goods admitted on a restricted basis, import quotas have been set at twice the value of average annual imports for the three years 1937-39. Broadly speaking the effect of these quotas will be to reduce imports of the affected commodities from certain specified hard currency countries to about 50% of immediately pre-existing levels. In the case of other countries, whose economies have been disrupted by war and which latterly have been unable to supply the Canadian market in anything like prewar volume, the same quotas established will quite properly give scope for an expansion of sales to Canada, from existing abnormally low levels. The program also includes a system of licensing of imports of capital goods with the administrative details in this connection not having yet reached completion. As you know, these restrictions which I have outlined briefly have been supplemented by the arrangement of a $300 million credit in U. S. funds from the Export-Import Bank of which, up to the present, about $50 million has already been drawn.

Question of Devaluation

The one conspicuous omission in this list of extraordinary measures to deal with an extraordinary situation, is of course the devaluation of the Canadian dollar from its present official parity rate, to which it had been restored on July 5, 1946. I know that you will expect me to say something about this. Let me start therefore by pointing out that in restoring the Canadian dollar to official parity the Government made it clear, at the time that such action was taken primarily as a measure of defense against rising commodity prices in the United States. It was felt that in terms of purchasing power, the Canadian dollar was every bit as good a dollar as its counterpart in the U.S.A.—a proposition that I think no one could reasonably deny. Incidentally, that proposition still holds good since in terms of a 1935-39 base, our index of wholesale prices now stands at about 191 as against 205 for yours, similarly calculated.

Whether the restoration to parity was ill-timed, and whether, in the light of subsequent balance of payment developments a reversal of the policy is now called for, are questions on which Canadian opinion is by no means unanimous. Since the rate change was brought about, not by the automatic play of market forces but by governmental decision, exchange policy naturally tends to get into politics, with the government of the day from time to time having to defend its position. The Government's case rests on two main points. On the import side, it is argued that no depreciation of the Canadian dollar within any conceivable limits would have acted as a curb on importations from the United States within the past 20 months. A 47% increase in U. S. prices within this period did not seem to curb the Canadian appetite for U. S. goods so why, it is argued, should one assume that a mere 10% or 15% premium on the U. S. dollar would have had any greater effect? On the export side, it is maintained that devaluation would have been of no significant advantage since the export industries are in general operating at capacity and already enjoy a favorable competitive position on the basis of prices and costs.

The counter-arguments are first that no one can tell what a premium on U. S. dollars would do by way of checking imports until it is tried. Secondly, and more important, it is argued that the official parity rate retards the attainment of balance by acting as an undue and unnecessary deterrent to external capital investment in Canada. Such are the main lines along which opinion divides. Presumably any significant change in the relative level of Canadian export prices that would result in difficulty being encountered by Canadian exporters on price grounds would substantially weaken the case for maintenance of parity. At the moment such a contingency does not appear very likely. It should be mentioned also that any change in the value of sterling *vis a vis* the U. S. dollar would of course present the Canadian authorities with a new situation that might possibly — but not necessarily — call for an adjustment in the Canadian-U. S. rate. Fortunately for me, the analysis of the likelihood, or otherwise, of devaluation of the pound does not come within my contract here today.

Depletion of Gold Reserve Checked

Meanwhile it is encouraging that, at latest report, the depletion of Canada's reserves of gold and U. S. dollars has already been checked and reversed. The Dominion's gold and U. S. dollar holdings which, as I have already indicated, were $1,508 million at the end of 1945, and which had fallen to a postwar low of $461 million by Dec. 17, 1947, had risen to $527 million by the end of February, 1948. While under existing conditions a reserve of this size could hardly be considered satisfactory, it is at least worth noting that it is larger than the $404 million of similar foreign assets that we had at the end of 1939.

Before leaving this aspect of the subject I think it may fairly be said that to the great majority of Canadians there is something unnatural and even repugnant in the thought of a Chinese Wall of restriction and embargo along the Canadian-U. S. border. I can conceive of no danger of the present emergency measures being continued a moment longer than necessary. Their relaxation and final removal will be greeted with a profound sigh of relief from the Canadian public generally. I may perhaps point out also that our government is taking special pains to ensure that the existence of these restrictions does not permit industrial expansion that can be justified only on the grounds of the temporary protection offered by the emergency measures.

Meanwhile the restrictions remain, presumably until such time as our exchange reserves get back to a satisfactory level. But whether we can reach that level by the negative route of import quotas and prohibitions alone is, I think, open to serious question. On the positive side, efforts are being made to enlarge U. S. markets for products of Canadian industry, and particularly for products of Canadian branch plants of American concerns. But this is essentially a long-run program. In my opinion a more speedy solution of our U. S. dollar difficulties would require rather more imaginative measures dependent on a high degree of international cooperation. Like many other Canadians I find my thinking these days going back once more to the principles of Hyde Park. It seems to me that in this critical period our two nations have a common objective in the economic recovery and political stability of Europe no less urgent than the wartime objective of military victory. We have other areas of common interest. We are each the other's best customer. And we are two of the rather few countries left in the world that place a high value on the principles of free enterprise. We have much to preserve and much to defend. At the moment, with the practical implementation of E.R.P. presumably imminent, there is a hope in Canada that "off-shore purchases" by the United States will play at least some part in easing our present dollar difficulties. Taking a longer view there is also the hope that ways may be found, on a basis of mutual goodwill and mutual advantage, to provide for Canada a broader access to the United States market, to the end that trade between us may flow more freely and more evenly.

Internal Influences on Canadian Investment Trends

I have dwelt at some length on Canada's external position because I have felt that this is probably the aspect of the Canadian situation uppermost in your minds at present. Turning now to internal influences affecting Canadian investment trends, I think the patterns revealed are broadly speaking not greatly unlike those now present in your own securities market.

To be more specific—problems of management of the public debt seem to be giving rise, in Canada, to rather the same considerations as have been so much the centre of discussion in this country. Like you, we had an easy money policy effective well before the war and running into the post-war period. And, as in the United States, postwar inflationary pressures and a decline in the rate of saving, have combined to draw attention to the fact that an easy money policy may have its costs in terms of unnecessary and undesirable additions to the money supply. The record of the past year suggests, however, that in so far as it is possible, under existing conditions, to reconcile easy money and an anti-inflationary policy, the reconciliation has been accomplished in Canada primarily by the application of a governmental cash surplus to the retirement of bank-held debt. Thus despite rising bank loans, the year 1947 saw an end to the long upward trend in the supply of money — a trend that had persisted since 1934, and for the past 12 months the money supply has been held virtually level. As a result of a surplus of cash receipts over cash disbursements, the Dominion Government's outstanding direct and guaranteed debt declined from $17,349 million at the end of 1946 to $16,734 million at the end of 1947. Further, over the year, the central bank's holdings of Dominion and provincial issues decreased by $26 million while the chartered banks' holdings decreased by some $500 million. At the end of 1947 the banking system's (central and chartered banks') holdings of Dominion and provincial direct and guaranteed debt amounted to 26.7% of the total outstanding in these categories, as against 28.9% at the end of 1946. In all these respects therefore the monetary trends of the past year have been running in the right direction.

When we look at interest rates we also see marked similarities in the Canadian and American pictures. Our central bank seems to be cautiously allowing a more flexible and higher interest rate pattern to emerge, to the accompaniment of reassurances that nothing in the way of drastically higher rates is necessary or desirable. The first overt indication of a change in Bank of Canada interest rate policy came on Jan. 5 when the central institution discontinued the practice of quoting daily prices on Dominion issues. The Bank of Canada subsequently again became a buyer after long-term Dominion 3's had dropped from around 104 to 102. Then on February 27 the central bank once more reduced its support. The result has been a further decline in Dominion issues to a point where the longer maturities are trading just fractionally above par. This represents a condition of somewhat less easy money. One can certainly not call it a condition of tight money. What has occurred is that the adjustment has served to erase the premiums over the issue prices formerly enjoyed by the various wartime issues.

As a background to these developments I can hardly do better than take a minute or two to quote you verbatim the press statement issued by the Bank of Canada at the time of its reduction of market support on February 27, viz:

"Changes in market prices for Canadian Government bonds during the last few months have brought the yield on the longest-dated issues to slightly less than 3% per annum, the rate of interest at which Canadian Government bonds were issued during the war years. Interest rates on other high-grade securities have also risen and to a somewhat greater degree. This has occurred during a period of very large capital investment and a correspondingly large demand for money which has been borrowed in this connection. The degree of the change in interest rates does not appear inappropriate in the circumstances. On the other hand, the Bank of Canada does not regard the increase in rates of interest which has taken place as one of the most important factors in combating a general rise in price levels. The Bank is not in favor of a drastic increase in interest rates which would be likely to create a situation that might hamper, and might even prevent essential forms of capital investment which Canada needs and which it is desirable should be proceeded with."

The finances of the Canadian provinces have undergone some interesting changes in recent years. In 1942 agreements were signed between the Dominion and each of the provinces whereunder, for a five-year period, the Dominion rented from the provinces the exclusive right to the personal and corporation income tax fields in exchange for a fixed payment according to a formula based on provincial revenues in 1940-41. As the result, the provinces during the wartime expansion of the economy probably received a rather smaller share of tax revenues than would otherwise have been the case. However, the opportunity for capital expenditures was restricted and total provincial debt declined by more than $200 million during the war years. In 1947 renewal agreements of a somewhat similar pattern, but much more favorable to the provinces were concluded with all but the two most heavily industrialized provinces of Ontario and Quebec. These two, however, have so far refrained from re-entering the personal income tax field although they have imposed a 7% tax on corporation income. Under conditions of rising prices and a high level of business activity, the burden of fixed charges of all kinds has become relatively much lighter, and provincial revenues recently have been by and large more than sufficient to take care of ordinary outlays plus such capital expenditures as were made under wartime and post-war conditions. Looking to the immediate future, however, it must be borne in mind that most provincial governments now have a considerable backlog of capital projects and it seems reasonable to expect in most cases some reversal of the trend of steady debt reduction that was in evidence in the years 1941 through 1946.

In the case of municipal finance, the trend of steady reduction of outstanding debt that goes back as far as 1933 continued without interruption to the end of 1945. In 1946 and 1947 there were small increases in the aggregate of municipal debt outstanding, but here again the present situation is characterized by a considerable accumulation of capital projects particularly in those areas where population has increased noticeably as a result of greater industrialization.

During the period of very low interests rates yields on Dominion, provincial and municipal issues tended to crowd in together at a low level. With the trend toward somewhat higher rates, we are beginning to see, as a natural development, some fanning out of yield spreads with basic factors of credit-worthiness beginning to play a more effective part in determination of market levels.

Canadian Corporation Issues

It is difficult to generalize about the market for Canadian corporation issues. For 10 years to the end of 1946 these were in gradually diminishing supply, as retirements more than offset new offerings made. Last year there was a relatively substantial increase in the net total of corporate and public utility funded indebtedness outstanding, with prevailing market conditions permit, a fair security very similar to your own. Unless there is any marked change in existing new capital investment intentions this year, one would expect to see, should market condtions permit, a fair amount of additional corporate financing in the next 12 months and with interest rates thereon reflecting greater demand for money of this kind.

So much for a very sketchy survey of what I think are the immediate influences of major significance that have a bearing on our investment picture. And now before I close I should like to invite your attention to some longer-term, and admittedly less tangible but none the less important considerations. And here the point I am trying to make is that any reasonably long-term view of the Canadian situation must give due weight to the country's rather unique position in relation to discernible politico-economic trends. It seems to me that well before World War II it was pretty clearly apparent that European economies, which in the 19th century attained predominant positions on the basis of cheap coal, iron and manpower, drawing on the rest of the world for raw materials in return for an outward flow of manufactured goods, were already subject to what economists call a process of secular decline. The basis for this simple specialization which seemed to work in the nineteenth century has to an increasing degree been absent in the 20th. The amazing economic development of the United States after World War I is of course the outstanding example of the shift of industrial leadership and techniques from the old world to the new. I suggest to you that we now have a combination of circumstances — both political and economic — which tend greatly to accelerate this shift in industrial, commercial and political centers of gravity. And it is not mere idle rhetoric to say there is in your nearest neighbor to the north these days something akin to a sense of destiny — a feeling that we are inevitably being drawn to a greater and more important part in economic and political affairs. And it is worthy of note that a great many hard-headed Canadian businessmen are doing much more than paying lip service to confidence in Canada's industrial future. They are betting their own money on bigger things.

Canada's "vast natural resources" have been highly spoken of in thousands of after-dinner speeches and the phrase has adorned many brochures, tourist folders and government publications, not to mention prospectuses. But under conditions as they exist today the possession of a vast storehouse of developed and undeveloped resources of forests, minerals and water power in addition to rich agricultural and thriving industrial areas takes on a somewhat more vital present and future significance. Inexorably, the tendency of industrial development in the latter part of the twentieth century will, I think, be to go where the resources are. Now there are of course other countries in the world with resources; there are still others with land areas capable of supporting a larger population than now inhabit them. But in Canada we have these advantages coupled with an already impressive degree of progress towards a more highly industrialized and more diversified economy. We have also, I think it may be said, a reasonably intelligent and adaptable population, with origins predominantly Anglo-Saxon and Norman French—both races which are not by nature given to political excesses, and in whom democratic traditions are deeply ingrained. We have another asset in a great and friendly neighbor to the south of us. Our association with that neighbor is so close that we at times have difficulty paying him for all we would like to buy from him. It is also so close that periods of boom and recession in the U.S.A. exercise a powerful and inevitable influence on the fluctuations of business in Canada. To speak frankly, in these two respects, propinquity has at times had its disadvantages. But over the years these have been far more than outweighed by the benefits. And given wise and imaginative statesmanship on both sides of the border, the advantages of association and cooperation may yet be increased in years to come.

All of these considerations add up, I think, to the fact that Canada today looks like a place where the chances of a free and satisfying life are at least as good as anywhere else on this troubled globe and better than in very many countries. And it is the influences that compel this conclusion that may well prove to be the determining factors in shaping the course of the Dominion's future development.

An Ideal Money

(Continued from first page)

blame for its fluctuating purchasing power and can a money be devised to serve a dynamic industrial society with a constant purchasing power? Is the fluctuation in the purchasing power of a money the fault of the money?

Monetary Experiments

There is no lack of variety in monetary experiments. To list the products and schemes that have been tried as money would consume a great deal of space. It is highly interesting, however, that with all of these schemes varying from the issue of currency against land to the use of cotton and tobacco, cattle and index numbers, the processes of elimination and choosing of the product that served best as money has been reduced down to a choice of gold. The fact that the gold standard, as we know it, has only been used for a little over a hundred years does not mean that gold was not used for money until about a hundred years ago. The first chapter of the Old Testament tells us that the gold and silver shekels were the monies of those days. Ancient history records the use of gold and silver as money as far back as we have records of monetary transactions. Without a lot of detail it seems clear that the process of experimentation and elimination led to the choice of gold for that fundamental and scientific reason that it serves as a money standard better than any other commodity or combination of commodities yet discovered.

But the purchasing power of money based upon gold is not stable. With the gold standard money. prices rise and fall, depressions and business cycles come and go just the same as with other standards of money. The standard of money is no protection against rising and falling prices. Should we have a money that will keep the same purchasing power for generations? Can such a money be devised or money managed to keep a c o n s t a n t purchasing power? Certainly up to the present there is no such money and no one has offered a plan that would attract much confidence.

Money and Price Fluctuations

Why do prices rise and fall? It is well known that prices rise and fall with supply and demand. Money, as a factor in supply and demand, may influence the rise and fall of prices. But money is only one factor and prices rise and fall according to people's demands irrespective of the money. Rising prices make it easier to borrow and pay debts and enrich the debtor at the expense of the creditor. Falling prices make it difficult to borrow and pay debts and impoverish the debtor at the expense of the creditor. Would prices rise and fall just the same if we abolished debts? There can be little doubt that the law of supply and demand with respect to prices would work just the same if all business could be done on a cash basis. On the other hand, the rising and falling of prices would not drive borrowers into bankruptcy if there were no borrowers. But the producers of goods who own capital and inventory would be affected just the same in their values with rising and falling prices if debts did not exist. It is undoubtedly true that the use of credit is abused and is probably the most provocative cause of extreme fluctuations in rising and falling prices. Certainly the abuse of credit is the cause of bankruptcies. These lead to poverty and unemployment. Can a money be devised to protect society against these abuses of credit? This would seem to be a function of the bankers and also of business management. But regardless of whose responsibility it is to regulate the use of credit in order that it may serve society best, the records show that every depression brings on a vast series of failures, swallowing up the savings of millions of people because well-intentioned borrowers cannot pay their debts. But these misfortunes certainly cannot be blamed upon the money, the gold standard or any other money in use. If individuals or corporations borrow more than they can pay, the borrower and the creditor are to blame and not the money.

Credit a Useful but Dangerous Tool

Credit is certainly a useful tool. It is also a dangerous tool. If misused, debt is the most powerful force for bringing on business collapse. It can impoverish countries, businesses and individuals. If excessive debt leads to depression or an inflation of the currency, the savings of all of the people of the whole country in the form of money and credit instruments can be destroyed quickly. In these days of industrial civilization where two-thirds of the people depend upon the weekly paycheck of their savings to meet their bills, anything that reduces the purchasing power of this money must reduce the ability of the mass of consumers to buy, and when that ability to buy with their money is destroyed or substantially reduced, the market for mass production has been likewise destroyed or subdued.

Inconvertible Paper Money

Of all the forms of money used by society in the records of history the one that seems to be the most dangerous and certain to bring on poverty and destruction is that of inconvertible paper. In no important instance has inconvertible paper money served very long without losing a large part of its purchasing power. A country whose currency has become inconvertible paper money is not worthy of credit. Business cannot be carried on successfully with such a country because commitments for future payment cannot be made with confidence. Such currencies destroy trade between countries and bring to a standstill production and distribution in the international markets. Perhaps no other device can so quickly reduce the standard of living of a people as that of a depreciating paper money. Notorious examples at the present time are the worthless or almost worthless, monies of China, Greece, Austria, Italy and even France and Germany.

Money with a Constant Purchasing Power Based Upon an Index of Purchasing Power

Could a money such as the gold standard be so managed as to maintain a constant purchasing power? It has been suggested that some form of an index for the payments of debts in a purchasing power the equivalent of the purchasing power of the money at the time the debts were made would serve this purpose. For example, prices are now, let us say, 100% higher than in 1939 on the average. If prices should fall 50%, debts contracted now should be payable after this fall of prices at just half the amount of the present debt. If prices should rise 100% above the present price level, the debtor should pay twice as much as the present amount of the debt. Then the creditor would receive the same purchasing power when debts were paid that he parted with when he loaned money or sold goods on credit. This scheme sounds ideal, but when examined carefully, it seems wholly unworkable. It would be very difficult, if not impossible, to make an index number that would rightly measure the fluctuating purchasing power of money. Then people do not buy index numbers of averages of several hundred commodities. People buy individual commodities. Some buy retail, some wholesale. Some buy finished goods, some partially finished goods. The price and value of goods depend upon the location. The purchasing power of money in one community may be one-half or twice as much as in another. Such an index would create a perfect instrument for speculation in the value of credits.

Is there any way to stabilize the value of money or would it be desirable? There can be no question about the losses caused by the fluctuation of prices, but prices would fluctuate even if business were on a cash basis without the use of credit. Credit alone is not to blame for the fluctuation in prices. It is one factor when abused that may cause great losses to either borrowers or lenders and many innocent bystanders. It is hard to conceive of any greater deterrent to the excessive rise of credit than the possibility of sustaining such losses. Prices fluctuate because of the law of demand and supply and variations of demand and supply and by so many factors wholly removed from either money or credit. These causes may be inventions, the development of scarcity or oversupply from natural causes, wars, monopolies and a whole myriad of events which are uncontrolled. But if it is desirable to limit the fluctuations in prices, the research should be directed into the causes of price fluctuations. The abuse of the monetary device may cause price fluctuations. But the maintenance of a sound money such as a money convertible into gold can hardly be blamed for any important disturbances such as the extreme rise and fall in prices or depressions.

The Gold Standard

The gold standard is not a stable money. At times the supply of it may be too large or too small. It may be hoarded by speculators. The use of it may be abused by nationalistic and protectionistic policies and trade regulations. But up to the present it is the best instrument that has been found to serve the purpose of a dependable money acceptable everywhere. It is more fool-proof than any other money and always measures the price relationships between other commodities whether that price be high or low.

Realistic View of Compulsory Social Security

(Continued from page 12)

less to find immediate means of support when technological advances throw him out of work. But as I see it, the mistake that we have made is that in seeking ways and means to compensate for such conditions, we have slavishly copied procedures that were not developed for our kind of government. When we did go in for old-age pensions on a national scale 11 years ago, we adopted well-nigh lock, stock and barrel the centralized procedures originally recommended by Bismarck two generations ago.

The Legitimate Object of Government

Bismarck's "social" insurance laws were socialized as the "high-water mark of German State Socialism" 60 years ago, but they were laws embracing political and economic devices rather than genuine social measures. The point has been well made that social insurance is neither social nor insurance.

Lincoln is quoted as saying: "The legitimate object of government is to do for a community of people whatever they need to have done but cannot do at all or cannot do so well for themselves in their separate and individual capacities. In all that the people can individually do as well for themselves the government ought not to interfere." Let us see what the people of this country have done in protecting themselves against the important hazards of life.

Private enterprise has flowered over a period of nearly 300 years. In those three centuries it contributed more to the advancement of civilization, to ever-increasing standards of living and to the general comfort of mankind, than had been attained in thousands of years of struggle.

Voluntary enterprise, big business, call it what you will, not government bureaucrats or politicians, deserve credit for the fact that most of the families in the United States own a motorcar and a radio. The increase in per capita consumption in America as compared with conditions 25 years ago is not an achievement of laws and executive orders. It is an accomplishment of businessmen who enlarged the size of their factories or built new ones.

Through private enterprise, and particularly through the insurance industry, an amazing web of economic protection has been voluntarily built up by the people of the United States.

According to a recent study, life insurance protection in force in private companies now exceeds $191 billion, covering more than 75,000,000 policyholders with total assets of over $51 billion. According to the Health & Accident Underwriters Conference more than 45,000,000 persons were covered under some form of accident and sickness insurance at the end of 1947 with a total annual premium of about $800,000,000. To this may be added many more millions for hospitalization coverage through Blue Cross and protection by prepayment medical plans.

Roughly, if we start with the basis of protection built up over a period of more than 100 years by private insurance companies and organizations and add to this the savings established through savings banks, savings and loan associations, real estate, investments and by the purchase of war bonds we can total up resources committed to the protection of our people, amounting to over $300 billion which, I submit to you, is an amazing figure. Of greater significance is the unhampered opportunities which made it possible to accumulate so large a reserve. Any tampering with these opportunities may have fateful consequences. It would probably be difficult to retain thrift, ambition and industry under a comprehensive system of compulsion such as social security. Therefore, it is difficult to see how it can be argued that present facilities and opportunities are so inadequate as to call for an entirely new system having economic and political implications which can destroy America as a land of freedom and opportunity.

Pressure for Expansion

Nevertheless, the pressure for expansion in this country of our social security program has been going on since 1937. In the Federal Congress we have had four compulsory sickness or socialized medicine bills. The new Wagner-Murray-Dingall bill is much like its immediate predecessor introduced in November, 1945, in that it concentrates on the medical phases of social security. Insured persons would be entitled to medical, dental, home nursing, hospital and auxiliary services.

The proponents of the Wagner Bill (1947 variety) argue that the statistical sample examined by draft boards was representative of the country's young adult male population. That is not quite true. In the first two years of the war, the draft boards examined about 10 million men and rejected 36% of them. But during that same period over 2½ million men enlisted voluntarily. If these men had gone through Selective Service the over-all rejection rate would have dropped automatically from 36 to 28%.

Then there's another group that draft rejection figures do not cover. Of the manpower that remained after voluntary enlistments, more than one-third received deferments because of essential occupation or dependency. In other words, Selective Service examinations were limited to these young adult males who did not volunteer and who did not rate deferments. That's scarcely a true cross-section.

In breaking down the "why" of draft rejection, we find that 22% of the conditions were beyond the province of the medical profession —illiteracy and mental deficiencies, etc.; 47% of the conditions were not preventable or remediable — heart ailments, defective vision, amputations; 3% were possibly preventable, such as T.B.; 11% were not preventable but correctable — tonsils, kidney stones, varicose veins, hernia; 5% of the conditions were preventable and correctable — otitia media, teeth, hearing, etc. From this breakdown it is apparent only about 19% of draft rejections could have been influenced by medical care, and then we must assume that the individual would have sought medical attention, that he would have accepted the doctor's recommendations, and that the treatment would have been 100% effective in every instance. Any statement that one-half to two-thirds of such defects are preventable or remediable is utterly false and further selective services statistics have no place whatsoever in any honest discussion of deficiencies in our medical services or the need for compulsory government sickness compensation.

State Legislations

Last year 47 State Legislatures have met in session and approximately 50 compulsory health, hospital or medical care bills were introduced. It is evident that the drive for compulsory health insurance in the recent sessions of Congress has created pressure in more States for compulsory health, medical or hospital care. It has been stated that a great deal of this pressure for compulsory sickness compensation in the various States has been created and propagated by employees in the Federal service and on the public payroll.

What justification can be found for the propaganda which has flooded the country, especially during the past decade, in support of compulsory sickness insurance. First of all, we are asked to exchange our freedom for the despotism of bureaucracy. Secondly, we are asked to adopt an old-world system of government medicine which is not known to have succeeded anywhere, but it nevertheless is loudly acclaimed by those who would gain power were such a system established in this country. Thirdly, justification for this proposed idea is found in the purposely misleading research documents which are disseminated by governmental and non-governmental lobbies with a view to shaping the opinions of Congress and of the public in favor of a compulsory sickness system controlled and financed by the Federal government.

How has such a situation come about? Is the politician to blame? A politician could not if he would write rules and regulations for administration of a comprehensive national health program. It was not politicians who initiated the lobby for compulsory sickness compensation. It was not politicians who drafted the Wagner-Murray-Dingell bills. Instead there was a small group of Federal officials who made the plans, wrote the legislation, supervised the lobbies, issued the publicity, and made elaborate studies of the rules and regulations in foreign countries preparatory to drafting similar administrative regulations for the United States. Let us not forget that compulsory legislation has been enacted in foreign countries not because of popular demand or even with the consent of the people, but as a result of the activities of small, well organized groups all of which are following the same international blueprint.

Here in these United States we have certain vocal advocates of the so-called "middle way"—that mythical type of government that could allegedly take over the planning of our economic affairs and still preserve our political, intellectual and spiritual freedom; a program of continued freedom and liberty provided you do the "right" things, that is, the things the advocates want done. They show not only a total ignorance of the economic problems involved, but they lack the faculty of logical thinking.

This question of security is not a political issue on which men divide along partisan lines. It is an issue that transcends political parties and comes down to the fundamental proposition of whether we are going to have a free America such as has given us the richest, most powerful, and happiest nation on God's footstool, or whether we are going to have a totalitarian system such as those which have brought poverty, wreck, ruin and chaos to every people who ever stupidly or cravenly sold their freedom for an unredeemed promise of security.

We should hesitate to adopt any more European theories of social security, because in the final analysis the only lesson that Americans can learn from Europe is to know and not to follow the European way of thought and action that lends to economic chaos.

History of Social Security

Now let us review a few pages of history: (Think back over the last 15 years in this country).

Bismarck, the Iron Chancellor, introduced compulsory social security in Germany, not as a social measure, but as a means by which he sought to stem the rising power of the labor party and to retain power in conservative hands. Meantime, industrialization of Germany had begun, and its progress marked by considerable social unrest. German labor, as represented by the Social-Democratic Party, gained steadily increasing power, and was able to bring about many social reforms.

By 1907 the German economic system was working smoothly, the German people were full of hope, and social demands soon dropped sharply. It was not until after the close of World War I that the demand for greater amounts of social security recurred in strength.

Again these demands were, it would seem, the result of serious unemployment problems. They resulted in the adoption, in 1927, of a compulsory system of unemployment compensation.

Then, suddenly, a new element entered the picture. Hitler, whether or not he saw clearly the weaknesses of the compulsory social security system, overcame increased demands by restoring employment to normal through his war preparations, and then, in the words of the editor of a prominent West Coast weekly, "he used the implement to put the German people in a strait-jacket and he used the receipts to rearm Germany." This was economic management with a vengeance—socialism at its peak.

Hoffman Wickerson in his latest book, "The New Slavery," makes the observation that the Soviet slave masters are only the advance guard of a servile tendency present in most industrial districts of the modern world, and he says "our almost universal drift toward serfdom started in Germany with Bismarck, who took 'the wrong turning' when he came out for social insurance."

In England the pressure for social security began with the rise of labor influence in political affairs coincident with the prolonged depression beginning around 1876 and lasting through 1887. Then followed a quiter period of prosperity—during the late 1880's and most of the first decade of the twentieth century. But trouble appeared again and, on its heels renewed political activity for social reforms. These culminated with the adoption of a compulsory health insurance measure in 1911.

In Germany, we find the financial cost of social insurance increased more than one-hundred times over a period of less than fifty years.

In Great Britain more than seventy times in less than forty years.

In Canada more than twelve times in a little over twenty-five years.

In New Zealand it doubled over a short period of ten years.

In our own country we find that the ultimate cost of comprehensive system of social security by compulsion would be so great that it might require each gainfully employed person to work ten weeks at forty hours each—a total of four-hundred hours a year, or more than 25% of an annual work year—just to pay for social security. The ultimate cost of the British system has been estimated at 24% of gross wages. This will give you an idea of the importance of the financial cost of social security. Without exaggeration it may be stated that no system of social security in any country has ever remained as small or as isolated as contemplated originally. Invariably, it has become a snowball making for greater cost, higher rates, wider coverage.

I will not attempt to draw any final conclusions from the cost figures presented. My purpose is only to draw your attention to the fact that cost is an important consideration. It is important because the general taxpayer already burdened with meeting the costs of the Federal and state governments, as well as the interest on the public debt—either as an individual or corporation—is the source of funds on which business draws for development and expansion, therefore, to put it bluntly, the crux of the economic problem of expanded social security is "can business expand, become more productive if the funds of the general taxpayer are further reduced by taxes to meet an increasingly heavy social security burden on top of his other commitments."

Is It Beneficial?

There is no reason to doubt but that many labor leaders sincerely believe that a more comprehensive compulsory social insurance program would be of great benefit to the rank and file of working people. They seem to believe that in no other way can the future security of these people be assured. That, of course, I do not believe to be true, and I hope that, in the not too distant future, other than complsory governmental means will be developed through which needed protection can be put within the reach of all.

Meantime, labor's interests in social problems makes social security a large issue. Labor's strategy in seeking government help to force its social program through the legislature makes social security a dangerous issue. In Germany, labor thought it could control its social program and ended up by being controlled by ruthless dictatorship.

In Russia, labor thought it could control its own destiny and eded up in a monopolistic economy. In New Zealand, the predominence of labor resulted in a socialistic form of government and economy. In Great Britain, labor which is chiefly responsible for the social security program, may feel again that it will be able to retain political control. And again, if history repeats itself, as it so often does, labor may see its ends defeated by the trend toward a monopolistic form of government. Such evidence, historically fact, should be given serious consideration by the people of this country as well as by the distinguished leaders of labor.

The enactment of too much social legislation sapped the vitality of France to such a degree that this once proud nation lacked both the moral fiber and the patriotism to cope with Hitler's ruthless legions.

Adverse Influence on Individual Enterprise

This country of ours, envied by all of the nations of the earth, moved ahead as it did while other lands either stood still or declined in influence because our forefathers were willing to take risks and seek new frontiers.

That spirit must not be allowed to die in America. If and when it does, you will begin to see our decline as the most powerful and prosperous of nations.

Despite what has been said, one need not be discouraged about economic security for the American people. We can have and maintain a sound and expanding economy if we, individually, place more reliance upon the rewards that come for a day's work well done and less upon the deadening philosophy of security. Security should be the reward for labors well performed, not as the right of an individual to insist that his government owes him a living. I believe that the progress of our nation rests upon the ability of more and more men and women becoming able to shoulder full responsibility for the personal well-being of themselves and their dependents. If that be the case, then the pathway to economic security for all lies in finding the means to assure everyone full opportunity to gain a regular and sufficient livelihood. We shall never find them in a program which halts our progress, narrows our opportunities and restricts our freedom, but, rather in one which encourages both individual initiative and private enterprise, and which neither discourages the development of opportunities nor destroys their sources.

Success of Private Life Insurance

It has been customary to think of insurance as the mainstay of economic security, and the suggestion that there is a lack of such security is often taken as indication that private insurance organizations have not succeeded in meeting the needs of the people. This is seems to me, is a grossly unfair conclusion, first because it has taken the work of untold thousands of insurance agents over a period of a century to convince the people of this country, that personal insurance is an advantageous device. Secondly, it is only within a few years that there has been any evidence of a demand for coverage which was not then available, and it is surprising how rapidly private organizations have responded to those demands.

There is in force today approximately $35 billion in face value of life insurance under group policies an average of $2,000 per worker and over $235 million in annual premium income under group accident and sickness policies. This means that the insurance business of this country had the astounding energy to go out and sell employers all over the land to become parties to a plan whereby they would handle the premiums, and often contribute largely to them, in order to help their employees win greater economic security. These sales have all been made within a quarter century, most of them in the last decade. Sales today have acquired such a momentum and the coverage is becoming so popular, that the number of workers covered is increasing by leaps and bounds.

I sincerely believe that there are no more promising plans than those backed by the dynamic energy of private enterprise. When we look back at the amazing achievements of American businessmen and women and when we consider the tremendous advancements made in living standards in this country within the space of a few years—have we not every reason to believe that as American free enterprise sets its mind toward the goal of greater economic security for all, it will be able to accomplish what it has set out to do? That is the American way of doing things, a method not associated with any racial strain, but based wholly on a tradition of self-reliance inherited from pioneer ancestors.

The World Bank and Latin America

(Continued from page 19)

vancement of Latin American economies.

First of all let me emphasize that the Bank is not in the business of dictating how or at what pace any of its member countries shall proceed with their development. If the Bank is requested to assist in any development plan it is interested to see that such plan is generally sound and within reasonable reach of the available resources of the country involved. There is no single formula which can be followed in evaluating such a plan but it should have balance and be in keeping with the practical possibilities.

All of us, I suppose, carry somewhere in our minds a personal conception of what the ideal economic development should be. For North Americans, thinking in terms with which they are familiar, that picture is likely to be a synthesis of the most striking and glamorous aspects of the automobile assembly lines in Detroit, the blast furnaces and rolling mills of Pittsburgh and the Tennessee Valley development. It is all to easy to forget that these giant organisms are only a small part of the United States economy, that they are integrally woven into a very complex economic fabric. They would be valueless apart from the myriad small factories, farms and distribution units, the mines and forests, and the close network of transportation and power lines which make up that fabric.

There is no reason to believe that developmnt in Latin America will or should necessarily follow a pattern precisely similar to that of the United States. The shape of the United States economy was formed by a combination of climate, resources, population and technical capacity different from that existing anywhere else in the world. Similarly, development in each Latin American country must be adapted to its own peculiar combination of these factors, but whatever its pattern if it is to succeed it should be balanced and integrated. At this stage, if the applying member so wishes, the Bank is prepared to review any general development plans which are in contemplation, or is prepared to consult with any member country on any phase of such plan. Certain limited technical assistance the Bank itself can afford and it can always assist those concerned to obtain competent and independent experts who could be of further help.

Requirements of the Bank

So much for any general plans. Before financing any particular project the Bank will require specifications which support the proposal. The survey should include more than the conclusion that a certain plant should be erected, for example, to produce a given product. It is necessary that it cover the question of the supply of adequate raw materials, labor, power, transportation, markets, costs, what quantities of local and foreign exchange will be needed, how they are to be financed, and so forth.

If either the general plan or the specific one is to be successful it must be carried out in conjunction with the country's own measures to establish and maintain a sound monetary system and to induce financial stability. I do not need to stress to this audience the importance of this aspect of development. Without it all the benefits of an otherwise healthy program are seriously impaired if not wholly frustrated.

All these factors lead up to the fundamental principle that the Bank must take into consideration all the main factors which determine the soundness of a loan. There may be and most likely will be other considerations which have to be taken into account in particular loans but all points to the same objective—to make sound loans and to apply the resources of the Bank to the most productive benefit of its members as a whole.

There are many aspects of the Bank I would very much like to take up with you but time runs and I see among those before me many faces whose owners know all about the Bank.

There are only a few further thoughts I want to leave with you. My emphasis on the necessity of making sound loans is not something which the management of the Bank has developed as a thing apart from the concept of those who created the Bank. This is your Bank—it is not something detached or remote from interest. If it had not been for the American Republics no such Bank could ever have been created at Bretton Woods.

The 19 American Republics had as great or greater influence in determining the charter powers of the International Bank as all the rest of the nations put together. In very large part it was you who wrote in the provisions which were designed to insure the soundness and continuity of its operation. You furnished the management of the Bank with the chart it was to follow. You created a bank, not a general drawing account or a political or relief instrument. It was provided that loans should be productive as judged by an independent, objective international staff on which you were to be represented; it was determined that there should be careful supervision of the application of the proceeds of the loans so that the old abuses of wasteful or improper diversions could be avoided. The Bank was directed to make an equitable distribution of its funds as between reconstruction and development loans but in each case it was also directed to assure a reasonable certainty of repayment so that the frustrations and ill-will which invariably attend over-lending or unwise lending could be avoided; and above all, you, with the other members made yourselves the guarantors of the Bank's own obligations so that while many of you are interested in how funds may be borrowed from the Bank, every one of you as members, is very much interested in seeing that the moneys lent are soundly and properly applied so that you rarely, if ever, will be called upon to meet a guarantee. As President of the Bank I act with the Directors as the manager of your enterprise, as the trustee of your interests, and my only concern is the achievement of your objectives as they have been outlined to me in your mandate. With your support I am perfectly confident of the results.

Role of Private International Investment

There is another aspect of the Bank I should like to stress. Our ultimate mission, again as you specified at Bretton Woods, is to blaze the trail for private international investment. I personally would stress the necessity of stimulating private equity investment, and thus open up development possibilities far greater than could be financed by any governmental lending agency. To accomplish this mission we, I am convinced, must apply our resources where they can most effectively contribute to the economic stability of the borrowing country.

The Bank's charter provides that at best no more than 20% of the capital subscription of the members can ever be used for lending purposes. This involves our raising money in the capital markets of the world and we have the guaranties of the member nations to assist us in the sale of our securities. We cannot lend unless we can borrow and we cannot borrow unless our loans over the long run appeal to those whose confidence we seek as being productive, sound and realistic. It is in this connection with the sources of private capital that the Bank derives much of its strength and potential influence. We are apt to think that the amounts which are being appropriated for the Economic Recovery Program of Europe by the United States Congress are very large but if the Bank can exert influence by which the flow of private capital for development purposes can be maintained and stimulated the available resources will in the long run be much larger and more effective than will ever be possible under any program which is dependent upon political appropriations and the legislative conditions of the moment. The Bank's connection with the private market is, in short, one of the great strengths of the Bank's structure.

The staff of the Bank is constantly studying ways and means to increase the scope of the Bank's activities. I think it is not generally realized that the Bank does not confine its loans to governments or to government agencies. It encourages loans to private enterprises. Its charter, however, requires in every case a government guarantee or its equivalent before any loan or guaranties can be made. Thus far the Bank has made only direct loans to borrowers. Its Articles, however, permit it to guarantee loans made by private investors and to participate in such loans. The Bank is now giving careful consideration to the possibility of extending its operations into these fields. The Bank is young, but well equipped and flexible. I firmly believe it can render important aid in the achievement of any sound development program which can be brought forward.

Organization and Personnel of Bank

May I give you who are not familiar with the Bank a brief description of its organization and some of its personnel. We have a Loan Department which is now headed by Mr. William Iliff, formerly an official of the British Treasury. He has with him among many others, Mr. Victor Urquidi, of Mexico, an accomplished economist who was formerly attached to the National Bank of Mexico.

We also have a competent Research Department headed by Mr. Leonard Rist, of France, which assists the Loan Department by assembling and analyzing economic data relating to loan applications under consideration by the Bank. The Research Department also assembles and analyzes general economic data relating to conditions prevailing in the territories of its members. The office of the Treasurer, Mr. Crena de Iongh, formerly the President of the Netherlands Trading Society and an officer of the Netherlands Ministry of Finance, supervises the application of the proceeds of the Bank's loans and gathers the reports of the effect of its loans.

The staff of the Bank is cosmopolitan and objective. It combines an unusual degree of experience and talent in the field of development, banking and economics. The Board of Directors is particularly impressive by reason of the variety and character of its experience and training. The more I am exposed to this business of international financing the more impressed I am with the need for greater knowledge concerning it. It is not a simple thing to lend money effectively but in the staff and directors of the International Bank I feel we have a singularly able and experienced body of men and women who can be of the greatest assistance in finding and applying the necessary skills and methods to the solution of our development and reconstruction problems.

Mr. Louis Machado, who is with me on this trip, is on the Board of Directors. He represents, as you know, Cuba, the Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Peru, and Uruguay. Mr. Victor Moller of Chile, who represents Bolivia, Brazil, Chile, Costa Rica, Guatemala, Panama, Paraguay, and the Philippine Republic, is to join us in Santiago and go the rest of the way with us. Mr. Joaquin Meyer of Cuba, alternate Director to Mr. Machado, is to be here during at least a part of this Conference and Mr. Lopez-Herrarte of Guatemala, from the staff, is with me on our trip as well. Mr. Fernando Illanes, the alternate to Mr. Moller, is staying in Washington if only to see that Latin American interests are not overlooked there while most of the rest of the Latin American personnel tour the world.

Missions have been sent by the Bank at the request of the member countries involved to Bolivia, Brazil, Chile, Mexico and Peru. We are making arrangements to send a mission to Ecuador shortly, and there are others in prospect.

Now I have talked of Latin America and the Bank in relation to Latin America, but both Latin America and the Bank are a part of a world community. There was a time when the old world looked to the new for the means to enrich itself. The quickest and the easiest method of drawing wealth from the Western Hemisphere was the only consideration. There have been many developments since then; settlement, the introduction of new capital goods and methods, until today the Western Hemisphere has become instead of a mere adjunct of an older economy, the very means by which hope in the older economy may be revived. It is at this stage of history that the Latin American countries are coming into their economic maturity. The world has need of the best their genius and capacity can produce.

If there is any disposition left anywhere to reduce this continent to a condition of so-called colonial servitude I have not located it. It would be an incongruity in the light of the needs of the rest of the world if for no other reason. The Latin American countries have become an integral part of the world economy and they are an integral part of the International Bank.

May I add just one more thought and then I am really finished:

The world is in need not only of the developed economy of the Pan American area. It has need, and great need, at this very moment of the example of tolerance, goodwill and intelligent consideration of joint problems which marks the conduct of these meetings, as it has marked similar meetings of the American Republics in the past.

Halsey, Stuart Offers Texas Pwr. & Lt. Bonds

Halsey, Stuart & Co. Inc. on April 14 publicly offered $2,000,000 Texas Power & Light Co. first mortgage bonds, 3% series due April 1, 1978, at 101.75% and accrued interest. The firm was awarded the bonds on a bid of 101.2699.

Net proceeds, together with those from the sale of $7,000,000 in new sinking fund debentures and with necessary cash from the company's general funds, will be applied toward financing its construction program.

The bonds will be redeemable at general prices ranging from 104.75% to 100%, and at special prices scaled from 101.76% to 100%.

Prior to, or concurrently with, the issue and delivery of new bonds and new debentures, the company will sell 100,000 shares of its common stock to one of its parents, Texas Utilities Co., for a consideration of $1,000,000, with the proceeds to be applied to the payment of serial notes.

The company is a public utility company operating wholly within the State of Texas and is engaged in the generation, purchase, transmission and distribution of electricity. It sells electricity to residential, commercial, farm, industrial and government and municipal customers and buys from, and sells electric power and energy to, other public utility companies and governmental agencies.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Presence of down and up signals in market may tend to cancel each other resulting in dullness.

The situation at this writing remains *status quo,* which means that if you have something better to do, this is the time to do it. The rest of this article will be given over to a lot of pot-pourri, which I doubt will make any sense or add to your knowledge.

* * *

More erudite writers than I (or is it me) have pointed out that markets seldom speak all the time. They (the markets—not the writers) often spend weeks wallowing in troughs and anybody who tries to make anything out of that has his job cut out for him.

* * *

For the past two weeks certain signs appeared, indicating at the same time a reaction and a resumption of a rally. At this date these signs should have been translated into action. One or the other should have occurred. Up to this writing (Monday p.m.) neither has been seen, which leaves me holding a large bag with nothing but theories in it.

* * *

Here's one theory: When a market gives two signals, both indicating different performances, the chances are one will cancel the other. This has worked in the past and will probably work in the future. But I don't bank on it too heavily. At best it's a theory to be kicked around in a conversation.

* * *

Assuming this theory does hold the outlook is for dullness punctured by news here and there.

* * *

I make this reference to news in a kind of aside. Everybody who has been in the market for a long time and has given some thought to its technical action is aware that news as we know it seldom has any real or lasting effect on the price structure. The anticipation of the news is what usually matters the most. The few exceptions to that is how the public, which reads headlines and swallows commentators' interpretations, will take the news. That is something for a psychologist to ponder on. The public laboring under its cumulative hopes and fears sets its own standards and anybody who fights it has reason to regret it.

* * *

If a piece of news is interpreted by the public as bullish; say for oils, the oils will go up despite all the warnings issued by the more cautious. This means that any single stock is worth what it is selling for, no more, no less. If the public wants it badly enough it will bid it up. If it doesn't want it, it will sell and the price will decline. The question of value is completely ignored. Its hopes and fears that are dominant, and these are fed by news.

* * *

Now having hopelessly confused you I'll go into the list of stocks we still hold. Action of each stock is still good, though nothing to brag about. So long as this continues, advice is to keep holding.

* * *

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.*]

Halsey, Stuart Offers Central of Pa. Equips.

Halsey, Stuart & Co. Inc. was awarded on April 13 an issue of $1,395,000 Central RR. Co. of Pennsylvania Equipment Trust of 1948, series A, 2⅝% serial equipment trust certificates, maturing $93,000 annually April 15, 1949 to 1963, inclusive. The certificates, issued under the Philadelphia plan, were immediately re-offered, subject to Interstate Commerce Commission authorization, at prices to yield from 1.50% to 2.90%, according to maturity.

Central Railroad Co. of Pa. is a wholly-owned subsidiary of The Central RR. Co. of New Jersey, debtor. Since Aug. 5, 1946, the company has operated under lease from the trustee of The Central RR. Co. of New Jersey about 230 miles of railroad extending from the State line at Easton to Scranton by way of Wilkes-Barre. This mileage is all, or substantially all, of the lines formerly operated by The Central Railroad Co. of New Jersey in Pennsylvania.

Railroad Bonds as Long-Term Investments and How to Select Them

(Continued from page 16)

on the basis of confiscation, which is contrary to the law of the land. As an example, the new First Mortgage bonds of the Chicago, Rock Island & Pacific are outstanding at less than 10% of the investment in the property. As a matter of fact, they are outstanding in an amount less than the money which has been spent on the property in the last few years. If the Rock Island is not worth the amount of this mortgage the Road should certainly be thrown away and no more money spent on maintaining it. If the government should take over the railroads on a confiscatory basis, then institutions would have a lot to worry about in addition to their investment in railroad bonds.

But I see absolutely no basis for believing that the railroads cannot charge rates sufficient to support themselves under private ownership, if they are permitted to do so. Economically, there are two things which would put a ceiling on freight rates. One is a rate which would stop traffic moving and the other is a rate which would drive the traffic to other forms of transportation. I cannot give into every product which the railroads transport, but I think it is fair to say that generally speaking, the rate which would stop traffic from moving is so far above present rates that this is not a serious ceiling. As for driving traffic to other forms of transportation, this threat has, I believe, been very much overemphasized in the past. Truck competition has been a bugaboo for the last 15 or 20 years. The competition was never as serious as some people would have had us believe, and is now a lot less serious than it was in the middle 1930's. In the middle 1930's trucks were unregulated and truck drivers were unorganized and paid relatively low wages. Now intercity trucks are under the regulation of the Interstate Commerce Commission and truck employees are receiving much higher pay. It may interest you to know that of the total traffic moved by railroads and intercity trucks, the railroads move about 90% and trucks about 10%, and yet the trucks employ more men than the railroads. Trucks have taken from the railroads a certain amount of short-haul LCL traffic, but I think that many of the railroads are now glad to be rid of that traffic and would not mind getting rid of some more of it. The eastern railroads have asked for increases in rates on LCL traffic and have stated that on a substantial part of this traffic they are losing money. They wish either to get a rate which would make the traffic compensatory, or else drive it to the trucks.

Another form of competition which one formerly heard a great deal about is coastwise shipping. As in the case of the trucks, the shoe is now on the other foot and the coastwise shipping companies want the railroads to charge higher rates so that they will be able to remain in business. One of the oldest companies, the Merchants & Miners, decided not to resume operations after the war because they did not feel that they could compete with the railroads. During the war the labor costs of the shipping companies increased very much more than the labor costs of the railroads.

Another form of competition about which there was a great deal ballyhoo during the war was airplane competition for freight. To hear some people talk, one would have thought that in the postwar period everything would be moved by plane and that the railroads might as well be torn up. Some of the statements were so extreme that Mr. Patterson President of United Air Lines made a speech in which he said that the loose talk was not doing the air transportation industry any good, and in which he pointed out a few fundamental truths as to the relative costs of moving freight by train and by plane. I will not elaborate on this question now, as it is not worth spending time over. In the future a certain amount of freight may be flown by plane, but the amount thus transported in the foreseeable future will be too small to merit serious consideration as far as the railroads as a whole are concerned. If any of you have any doubts on this point I will be glad to let you borrow my copy of Mr. Patterson's speech.

You will notice that I have said nothing about the problem of competition for passenger traffic. Passenger traffic is a relatively unimportant item in the case of most railroads under normal conditions. I can see the competitive position of the railroads with respect to freight traffic much more clearly than with respect to passenger traffic. However, I am hopeful that they will be able to make some money out of the passenger business, at least on an out-of-pocket basis, and as far as the roads as a whole are concerned, I do not think it is sufficiently important to discuss it fully.

Question of Freight Rates

The other question regarding freight rates, besides the economic ceiling, is the ceiling which may be imposed by the Interstate Commerce Commission. In the past six months I have been very much encouraged by the attitude of the Commission. The interim increase of 10% granted in October, and the second interim increase of 10% granted in December, clearly indicate to my mind that the Interstate Commerce Commission realized that higher costs must be offset by higher rates, and that the lag between the increases in costs and the increases in rates cannot be permitted to be as lengthy as it has been at times in the past. The interim increases so far granted were within a month or six weeks of the increases in wage costs which they were designed to offset. As you know, the final decision has not yet been handed down, and I find it extremely encouraging that the Commission granted the interim increases rather than keep the roads waiting while they made a final decision.

There are several reasons for this apparent change in the attitude of the Interstate Commerce Commission. The war brought home to the Commission, as it did to everybody else, the important part the railroads have in the defense of the country. This short extract from the October decision brings out the point:

"It is clear to us . . . that the public vitally needs an efficient transportation service, and imperatively demands a transportation system that is adequate for the national defense in any emergency."

Then there is the change in the competitive position of the railroads and other means of transportation which I have already discussed. It is significant that the Interstate Commerce Commission's decisions of the 1930's were full of discussions as to truck and other competition, and that the recent decisions have hardly mentioned competition.

And then there is still another consideration. It is no longer possible for anyone to believe that inadequate rates can be offset by putting railroads "through the wringer." Railroads operating approximately one-third of the total mileage in the United States have been put through the wringer within the last 15 years, and there is nothing left to wring. The Commission has approved the capitalization of a large number of roads and it is only logical to assume that the Commission must feel some responsibility with respect to these capitalizations. No longer can the Commission, nor anyone else say that the trouble with the railroads is their heavy fixed charges. As a matter of fact, I do not believe that this ever was the real trouble with the railroads, with a few exceptions, but at any rate it is certainly not the case now. The Rock Island's fixed charges have been scaled down to 1% of gross revenues, the Northwestern to 1.2%, the St. Paul's to 1.6% and the Seaboard's to 1.7%, to cite only a few examples. As they say about Kansas City in the musical comedy "Oklahoma!", "They've gone about as fur as they c'n go."

I have tried briefly to point out why some railroad bonds cannot be considered sound investments but why many can. I would like now to say a few words about how to separate the sheep from the goats.

The essential thing in selecting long-term railroad bonds as investments is to avoid the marginal roads. Of course that has been the object of the various statutes and regulations governing the investments of savings banks and trustees which have existed for many years in nearly all the states. Unfortunately, the test which is still in use in many of the states is a fixed yardstick. The usual requirement is that a road has earned its fixed charges one and one-half times, or twice, or some fixed amount, during the year proceding investment and for a period of years prior to that time. Now, unfortunately, experience shows that this type of yardstick does not separate the good bonds from the poor ones. It does not do this either in periods of prosperity or in periods of depression. After a few years of prosperity the bonds of many essentially weak roads qualify under this fixed yardstick. On the other hand, after a few years of depression the bonds of many sound roads do not qualify. The result is that the investor who is compelled to depend on a fixed or rigid yardstick of this kind is free to buy almost any railroad bond in good times, when bond prices are high, and is not permitted to buy many sound railroad bonds in times of depression when bond prices are low and the return exceedingly attractive. Obviously, what is needed is some sort of standard which will exclude the bonds of the weak or marginal roads in good times, when even these roads seem to be prosperous, and will admit bonds of the strong roads in times of depression.

I believe that this can be accomplished by the use of a flexible standard or yardstick. Fortunately a very simple one is available, namely the average performance of all the Class I roads. If we restrict purchases of railroad bonds to obligations of roads which have equalled or bettered the average of all the Class I roads as to coverage for fixed charges and as to the percentage of gross remaining after paying fixed charges, we obviously are confining ourselves to the stronger units in the history. We will be automatically excluding the weaker roads, even in times of prosperity. In such times their coverage for fixed charges and percentage of gross remaining after payment of fixed charges may look quite impressive, but the showing of the stronger roads will be even more impressive, and the weak sisters will still be below the average, and consequently excluded from our investments.

Because of the substantial number of defaults which took place in railroad bonds in the 1930's, certain investors are following the line of least resistance by avoiding all investments in the railroad field. I had lunch the other day with one of my savings bank friends in New York and he told me that his investment committee was unalterably opposed to the purchase of any railroad bonds whatever. On the other hand, he admitted that they were placing substantial amounts in real estate mortgages. Now, I do not claim to be an expert on real estate mortgages but I do seem to recollect that during the 1930 decade a number of savings banks and other investors had some very unfortunate experiences with real estate mortgages. It seems to me thoroughly illogical to refuse to buy any railroad bonds whatever because certain railroad bonds proved to unsatisfactory investments, and yet to continue to put money into real estate mortgages.

While in some cases a policy of avoiding railroad bonds may be justified for special reasons, generally speaking I have no sympathy with it. Sound railroad bonds can be purchased now to give a considerably better rate of return than can be obtained in other types of corporate bonds of comparable quality. I am sure that you will agree that it is just as much the duty of a savings bank to obtain the maximum income on its investments consistent with safety and sound investment practice, as it is to avoid losses on its investments. The loss of income resulting from the avoidance, because of unreasoned prejudice, of a field offering sound investment possibilities, is just as real a loss as a loss of income due to a default. I wish to make it clear that I am not advocating that a bank take undue risks for the sake of obtaining a higher rate of return. What I am advocating is an open-minded consideration of every field open to investment—including the railroad field.

Eccles Again Presents Federal Reserve Views on Credit Curbs

(Continued from page 3)

then and still is unable to restrain effectively further monetary expansion. The commercial banking system held nearly $70 billion of Government securities, which were being converted into additional bank reserves through sales to the Federal Reserve. In addition, the System was providing reserves to banks by purchasing Government securities sold by non-bank investors. Finally, bank reserves were being substantially augmented by a heavy inflow of gold.

In brief, the banks at that time were in a position to supply unlimited amounts of additional credit, and in the face of strong demands for additional credit from all sources further rapid monetary expansion was occurring, intensifying existing inflationary pressures. This situation was potentially explosive because production and employment were close to the maximum then possible.

Changes Since November

Last November we expected some abatement of inflationary pressures in the first quarter of this year. Such a situation developed. It was recognized that there would be a large volume of funds drawn from the banks by business and individuals in order to pay taxes which would result in a large cash surplus available to reduce the public debt. It was also recognized that the existing and contemplated program of monetary and credit policy would have some restrictive effect. The program, which was carried out, included the statement by the bank supervisory agencies, urging the banks to be more restrictive, the lowering of Federal Reserve support levels for Government securities late in December, a slight rise in rediscount rates early in January, and some increase in reserve requirements for banks in New York and Chicago in February. The banking fraternity, recognizing the dangers in rapidly expanding bank credit and the need for restraint, undertook a nationwide educational program to bring about restriction by voluntary means. Finally, there was a widespread belief that the supply of goods in many fields was gradually catching up with deferred demands and that favorable crop developments would combine to lessen inflationary pressures by the spring of this year.

Monetary developments since November have accorded generally with expectations held at that time. Fiscal and monetary operations together effectively offset factors increasing bank reserves during the period, such as the inflow of gold, return of currency from circulation and purchase by the Federal Reserve of Government securities from non-bank investors. During the four-month period, December through March, the Federal Reserve purchased $8.6 billion of Government securities, largely bonds, and sold in the market $6.3 billion of securities, chiefly bills and certificates. The Government retired $3.9 billion dollars of its securities held by the Reserve System. The net result of these operations was to reduce Federal Reserve holdings by $1.6 billion and thus to keep the bank reserve positions under pressure during this period.

The combined effect on the money supply of Treasury and Federal Reserve operations, which were only made possible by the large budgetary surplus, was strongly anti-inflationary. The money supply was contracted by nearly $4 billion. Commercial bank loan expansion was sharply curtailed, partly reflecting fiscal and monetary developments, partly reflecting the effectiveness of warnings by banking supervisors and the success of the bankers' own program of voluntary restraint, and partly reflecting the usual seasonal slack in business loan demand during the first quarter.

Concurrently with these developments, the world crop outlook has become more promising and prices of farm products and foods have declined. In addition, productive activity generally has held close to maximum levels. These developments have exerted an anti-inflationary influence.

Prospective Monetary and Credit Situation

Notwithstanding these salutary developments, it cannot be said that inflationary dangers have been removed. Farm prices, though lower than they were, still continue firm, even though at present levels they are much higher relatively than prices of most other commodities. Current and backlog demands for many goods continue to be very strong. Prices of industrial products, wages, rents, transportation and some other services are still advancing. The money supply, though contracted by an estimated $4 billion, remains excessive in relation to total product. Public holdings of cash or cash equivalent available for spending are nearly as large as last fall—$250 billion compared with $254 billions — and continue to be broadly distributed among holders. Commercial banks, though obliged to sell some securities to offset shrinking deposits, still hold $66 billion of Government securities, which are readily convertible at the banks' discretion into reserves. Upon these reserves a six-to-one expansion of bank credit and deposits can be built. To the extent that the monetary gold stock is increased and Government securities are sold to the Federal Reserve by non-bank investors, still more reserves would be created. These additional reserves could also support an inflationary six-to-one expansion of bank credit.

On the basis of the monetary situation alone, there would still be a dangerous inflationary potential, even if no further impetus were given to inflationary pressures by other forces. However, upward pressures are now in prospect as a result of several important new factors. One of these is the tax reduction bill. This bill will add about $5 billion to the purchasing power of the public and take away a like amount from Federal revenues in the next fiscal year. The international financial obligations which we have now accepted are another factor likely to add many billions to Government expenditures in the future. The expanding program of military preparedness will further increase the budget burden for next year and future years by still more billions. Stemming from these developments, on top of existing inflationary conditions, is a rapidly changing public psychology with respect to the inflationary outlook.

Businesses and consumers will be more disposed to use existing liquid resources and to expand their borrowings to finance current expenditures. The prospect is that the demand for new financing, aside from Government requirements, will exceed the supply of available savings. This would mean that many in need of financing will turn to the banks for credit. A growth in the total volume of bank credit and money, under such a situation, can only add to the inflationary pressures. Moreover, these pressures would be aggravated if the demands of the defense and foreign aid programs for goods which are already in short supply further reduces the quantities available to the public.

The Government's fiscal operations for the balance of the calendar year 1948 are likely to show a budgetary deficit which would eliminate the only remaining important anti-inflationary influence. During the last three quarters of the year, it is estimated that the budgetary deficit may exceed $3 billion. (In view of large tax receipts in the first quarter of 1949, however, there may be a small budgetary surplus for the 12-month period beginning with April 1 of this year.) It is also estimated that continued sales of savings bonds and other public debt receipts will approximately cover voluntary redemptions of public debt by holders of maturing issues. The current deficit will need to be financed by drawing on Treasury deposits which have been built up by tax receipts during recent weeks, or by borrowing in the market. Under these circumstances, there can be no net retirement of government securities held by the Federal Reserve System. To the extent that the Treasury may need to borrow new money, it probably will have to be obtained largely from the banking system.

During the next few months Treasury use of accumulated balances with Federal Reserve Banks will add to bank reserves, which will also continue to be augmented by the inflow of gold and possibly by further Federal Reserve purchases of government securities from holders wanting funds for other uses. These last two factors may operate for a long time in the future. If the international outlook does not improve, government deficits may continue and even increase substantially, and banks may be called upon to purchase additional government securities. Under these conditions the Federal Reserve would find it difficult, and perhaps impossible to sell government securities in order to absorb bank reserves without seriously upsetting the market for such securities.

Prospects are, therefore, that in the future gold inflow and Federal Reserve purchases of securities in maintaining an orderly market for long-term Treasury bonds will further increase bank reserves. Banks would thus be in a position to expand loans and investments for private purposes and this would mean still more inflationary expansion of the money supply. To restrain such potential expansion, the Federal Reserve would have to take action to absorb any excessive volume of reserves. Two types of measures should be adopted: (1) Interest rates on short-term Treasury securities and discount rates should be permitted to rise to the extent possible without raising rates on long-term bonds; and (2) To the extent that this action is not adequately restrictive, the Federal Reserve should have the power to increase reserve requirements substantially to cover at least any growth in the total supply of reserves.

The first of these measures which could be adopted by the Federal Reserve and the Treasury without any new legislation, would be designed to induce banks to purchase short-term government securities and to discourage extension of credit to private borrowers. Policies during the past year have moved in that direction about as fast as is feasible without unduly upsetting the market. There are limits, however, to such a course. Short-term rates probably cannot be raised much more without unsettling the $2\frac{1}{2}\%$ rate for long-term Treasury bonds. Moreover, it is doubtful how much any rate that is feasible will deter banks from making loans to private borrowers or purchasing higher rate securities.

Need for Additional Powers

Accordingly, the Board believes that the System should be given authority to increase the reserve requirements of all commercial banks. For the present this authority should make it possible for the System to require all commercial banks to maintain primary reserves with the Reserve System amounting to 10% of aggregate demand deposits and 4% of time deposits **in addition to present requirements.** This would give to the Reserve System power to increase bank reserves in the aggregate by a maximum of about $12 billion. An authority of this amount would enable the System to absorb the reserves that are likely to arise from gold acquisitions or from necessary System purchases of government securities sold by non-bank investors over the next few years.

In case banks should persistently follow the practice of selling government securities to the Federal Reserve in order to expand private credits, notwithstanding higher short-term interest rates and increased primary reserve requirements, then the System should be granted supplementary authority to impose a special reserve requirement along the lines proposed by the Board last November. This type of authority may be described as an optional reserve requirement because it could be held, at the option of the individual bank, in specified cash assets or in short-term government securities.

The maximum requirement under this plan could properly be limited to 25% of aggregate demand deposits and 10% of time deposits. To be effective and equitable, it should apply to all commercial banks. A detailed description and analysis of the Board's special or optional reserve proposal was submitted to the House Committee on Banking and Currency and has been published in the Federal Reserve "Bulletin."

To the extent that it may become necessary to rely upon the banks for any new government financing operations, the optional reserve requirement would be an especially valuable instrument. And in the case of large-scale deficit financing, it would be essential. In such financing, it would be advisable to make available to banks only short-term securities. Application of the optional reserve requirement would have the effect of immobilizing these securities so that they could not be used to obtain reserves to pyramid new bank assets upon them on a six-to-one ratio. In other words, securities issued in new Treasury financing through banks would be tied to the deposits created by their purchase. A ready market for short-term governments would be assured and the Treasury would be helped in successfully carrying out both its refunding operations and its deficit financing. At the same time, the Federal Reserve would be enabled to exercise some restraint upon the money market for private credit.

The dominance of public debt in the present credit situation has rendered the System's traditional powers generally unusable for purposes of restraining further inflationary credit expansion. The Reserve Board is not now seeking additional power beyond what it formerly possessed; it is merely pointing out that the System has little or no authority to deal with the credit situation as it currently exists and seems likely to develop. If the Congress wants the Federal Reserve System to perform the functions for which it was established, the System must have a substitute or at least a partial substitute for those powers that have become unusable. The Board feels that it would be remiss if it failed to bring this matter to the attention of Congress.

There is no simple way of holding in check bank credit expansion in excess of essential public and private need. The problem should be met in a combination of ways—by general credit controls and in particular areas by selective controls, such, for example, as reimposition of consumer instalment credit regulation, and the continuation of existing margin requirements on stock market credit.

Other Anti-Inflationary Actions

The Congress is currently considering continuance of easy mortgage credit for housing. Easy mortgage credit is one of the most inflationary factors in the domestic credit picture. At the very most government mortgage credit programs at this time should be limited to relatively low cost housing, particularly for rental housing, and should be accompanied by some restrictions on other less essential types of housing. The housing shortage cannot be overcome by increasing the competitive pressures on scarce supplies of materials and manpower. They are the limiting factors on the volume of construction. It is one thing to provide easy credit facilities to encourage special types of residential construction activity under a system of allocations and permits. It is quite another thing to provide such encouragement in a free market already characterized by heavy accumulated demands and

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Eccles Again Presents Federal Reserve Views on Credit Curbs

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by strategic shortages in supply that are likely to be intensified by the defense and world aid programs.

In restraining inflationary pressures under present and prospective conditions, monetary and credit policies must be combined with fiscal and other governmental policies. The public should be given every possible assurance that the government will protect the purchasing power of the dollar so that the public would be more willing to defer the satisfaction of wants, particularly for houses and durable goods.

Wherever possible, government expenditures that will add to pressures on the labor and capital goods markets should be deferred, and State and local governments should be requested likewise to defer non-essential expenditures of this type. There should be early action to close loopholes in our tax laws and to strengthen the tax collection machinery. If the stage is reached at which government expenditures again threaten to create large budgetary deficits, then a reimpositon of wartime levels of taxation and direct economic controls along the lines proposed by Mr. Baruch, for example, should be undertaken. If young men are to be drafted into the military forces, then a way should be found to keep men at work in essential industries, and thus prevent the serious inflationary effects brought about by strikes.

Situation Now and in 1940

The Board believes that any realistic appraisal of the economic outlook from the standpoint of monetary and credit policy must take account of the underlying facts of the international situation. During the war there was no doubt about the ultimate victory. The country looked forward confidently to an era of stability and peace following the hostilities. Nearly three years after the end of the fighting, however, we seem to be farther away from these goals than ever. Our national debt still exceeds $250 billions, or more than five times the prewar total. Federal budgets have never fallen under $37 billions a year and we are confronted now with the prospect of an expanding debt and budgets. During the war we expected the peace to bring an end to these enormous drains on our resources.

Today, there is no end point in sight. Threatening as the inflationary potential was at the end of the war, it is worse today. When we embarked upon the defense program in 1940 we had a tremendous slack in the labor force, with nearly 12 million fewer employed then than now. We had surpluses of most raw materials, of unused industrial capacity, of housing, of foodstuffs, and of countless other things. The impact of our heavy armament expenditures was not inflationary so long as the total demand on our resources did not exceed capacity. It rapidly became inflationary as civilian purchasing power created by the expenditures began to exceed the available supplies of goods and services.

We held the excess purchasing power fairly well in check while the war was on. We have now seen the consequences of premature removal of the harness of wartime controls. Even the one remaining anti-inflationary force, that is, a large budgetary surplus used to reduce our money supply, is no longer in prospect.

Over-All Policy Alternatives

On the basis of present trends, we believe that the country, sooner or later, has to choose between three broad alternatives.

First, we can continue on the present course of providing essential foreign aid and of carrying out a military program on a scale of, as yet, undetermined size and cost, while at the same time we have no effective checks on the free play of economic forces. This is the certain road, if followed long enough, to a ruinous inflation. Surely no one would seriously contend that we can go on adding more and more pressure in the boiler of inflation without an ultimate explosion. Those who view us with a hostile eye no doubt hope that we will wreck our economy on the shoals of inflation. It would be a cheap way to defeat us.

Secondly, the country could be subjected to a full harness of direct economic controls—for example, allocations, construction permits, rationing, price and wage controls, as well as taxation at wartime levels. Without such a harness, amounting to a regimentation of the economy in peacetime, there is no sure protection against inflationary dangers that may lie ahead. They cannot be successfully combated by any single means or on any single front. There is no power that the Board now possesses or that the Congress could give us in the monetary and credit field that would be adequately effective by itself.

Beyond that, we must ask ourselves whether the public would be willing in peacetime to submit to the sacrifices and rigid restraints of a wartime economy. If our preparedness program calls for a military draft upon our young men, should it not call also for control of the profits arising from that program?

We may well ask for how many years must we maintain enormous and probably expanding military expenditures. The question is how long, to what end, and at what consequences to our economy? We do not have the inexhaustible supplies of manpower and resources to support indefinitely, with no end point in sight, programs of the magnitude which we now are shouldering or contemplating. We cannot go on year after year bearing these crushing costs without jeopardizing what we seek to save. If we were confident of the early establishment of peace, we could tolerate a tightly controlled economy. We believe that the time element is the very essence of this grave problem.

Our nation sought neither territory nor reparations in either World War. We seek neither now. We ask only for the earliest possible establishment of the foundations for enduring peace. To that end, our best course may be to choose a combination of alternatives; that is to say, acceptance of such controls as may become necessary to prevent inflation at home while abroad we lay at the earliest possible moment the foundations for peace. Surely an informed public would be ready to accept burdensome controls and taxation if convinced they are essential to safeguard our economy against a ruinous inflation, and that there is an early end point in sight which will enable us to maintain our system and our institutions in a peaceful world.

To sum up the situation as the Board sees it, we are faced with the possibility that still further upward pressures will be added to the tremendous inflationary potential generated by war financing and intensified by subsequent developments. We should do everything possible within the existing authority of the government to moderate and counteract these forces. Federal, state and local governments should practice the strictest economy and defer all public works and similar expenditures that can be postponed until there is a surplus of manpower and materials instead of the shortages that now exist. Every effort should be made not only to preach but to practice economy and savings at this time. The need still is urgent to spend less and save more—to invest in Government Savings Bonds. Every assurance should be given that the purchasing power of these savings will be protected.

So far as the monetary and credit field is concerned, we have tried to make clear that action on these fronts alone cannot guarantee stability. Nevertheless, we believe that the Reserve System should be armed with requisite powers, first, to increase basic reserve requirements of all commercial banks and, later on, if the situation requires it, to provide that all such banks hold an additional special reserve. Both of these would be protective measures. The first could be used to offset gold acquisitions and purchases of Government securities by the Federal Reserve, and thereby restrict continued expansion of our already excessive money supply. The second would be essential in case banks embark upon an infaltionary credit expansion through the sale of Government securities to the Federal Reserve or to assist the Government in case of large-scale deficit financing.

We believe it is the part of prudence to recognize clearly that the underlying cause of the continuing inflationary dangers arises from the disappointment of our great hopes for the early establishment of world peace. Surely we must summon all our human and material resources needed to assure that peace. If necessary to protect our economy at home so that we shall not lose by inflation what we seek most of all to save, we should be willing and prepared to reimpose to whatever extent the situation demands a harness of controls, including higher levels of taxation. Nobody wants such regimentation but in the hard choices before us it is infinitely preferable to economic chaos and possible collapse of our system, to which all free men look for deliverance from the evils of war and misery that feed on economic distress.

We are aware that the questions of policy designed to achieve the cardinal purpose of assuring an enduring world peace are outside the domain of those charged with responsibilities in the monetary and credit field, but we feel that such responsibilities have to be exercised in the light of the burdens which the economy must bear. The earliest attainable settlement of the issues that now stand in the way of lasting peace offers the best hope for the preservation of our institutions and our freedoms. Meanwhile, they must not be jeopardized either by uncontrolled inflation or long continued regimentation at home.

Sound Money Is Good Politics

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the government paid off its bonds the bank deposits and money supply would come down.

The reason this has not happened is, first, because of gold purchases by the Treasury, which increase bank deposits and the excess reserves of the banks, allowing a mushrooming of bank credit; and second, because of bank loans and purchases by banks of government and other bonds on the market, purchases made in most instances out of reserves obtained from the Federal Reserve Banks by the sale to the Federal Reserve of government bonds previously held by the banks. This latter process is maintained by a rule of the Federal Reserve Board made during the war and still continued which requires the local Federal Reserve Banks to buy from member banks any government bond offered by the banks, without question as to the use to be made of the proceeds of such sales. This can and should be remedied by the Federal Reserve Board.

It is not easy to determine what is "enough" money or when we have an "excessive" money supply. The individual, of course, always would like "more" for his own purposes. There have been times, notably just prior to the 1896 Campaign, when a shortage in the money supply in this country was the foundation for political demands voiced principally by the Populists for free coinage of silver or other means of putting additional money into circulation. The sudden increase in production of gold around 1900 added to the money supply, and justified the sound money advocates. A little later we had the money panic in 1907 which was due not so much to a lack of money as to an alleged cornering of the then existing supply.

Purpose of Federal Reserve Act

The Federal Reserve Act of 1913 was intended to make our money supply flexible so that it would respond to the needs of the people as indicated by their borrowing from the banks. Our money supply expands under an increase in business activity manifested by borrowing, and it contracts with decreased activity and the repayment of bank loans. However, nobody ever contemplated the huge borrowings of the Federal Government during the late war and bank holdings of over $100 billion of Government debt.

In the late 20's we saw what was then considered a great increase in our money supply due to the expansion of bank deposits created to make loans to individuals and corporations borrowing principally for speculative purposes. In 1929, our bank deposits and money in circulation totalled nearly $55 billion. When the Stock Market broke, bank loans were called, foreclosed or otherwise liquidated, wiping out the bank deposits which they had created and decreasing the money supply. This rapid decrease of money, especially of bank deposits, propelled and augmented the deflation which was the beginning of the depression of the 30's.

The cry then was for more money. The New Deal made the brilliant discovery that it could add to the money supply without printing greenbacks. Now, when the time has defnitely come for a halt, the money supply continues to be increased by the same methods developed by the New Deal to cope with times of depression and war.

It is interesting to note that even in 1932 the Democratic Platform declared, "We advocate a sound currency to be preserved at all hazards"; and the Republicans paralled that statement to the effect that they would "continue to uphold the gold standard and will oppose any measure which will undermine the government's credit or impair the integrity of our national currency." There were fine generalities. They were followed quickly with devaluation of the dollar, confiscation of all gold and abandonment of conversion of paper money into gold. At that time the President declared that our paper currency would be managed so that its stability for a generation would be assured. Perhaps it is significant that there was no money plank in the Democratic Platform of 1940 or of 1944.

The time has come when it will not be the bankers or wealthy interests who will be demanding sound money, but the average man. Even the most extreme Liberal or Leftist Administration could not satisfy the people of this country in the years to come unless it provided a sound currency. It is up to someone to devise and put into execution ways and means of accomplishing that result.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Apr. 18	71.3	84.4	97.5	94.5
Equivalent to— Steel ingots and castings produced (net tons)	Apr. 18	1,285,200	1,521,300	1,757,400	1,653,700
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Apr. 3	5,388,700	5,377,250	5,352,900	4,891,600
Crude runs to stills—daily average (bbls.)	Apr. 3	5,475,000	5,324,000	5,311,000	4,732,000
Gasoline output (bbls.)	Apr. 3	15,850,000	15,783,000	15,451,000	14,342,000
Kerosine output (bbls.)	Apr. 3	2,484,000	2,647,000	2,821,000	2,138,000
Gas oil and distillate fuel oil output (bbls.)	Apr. 3	7,586,000	7,682,000	7,354,000	5,558,000
Residual fuel oil output (bbls.)	Apr. 3	9,084,000	8,854,000	8,700,000	8,149,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Apr. 3	113,530,000	112,991,000	111,474,000	105,330,000
Kerosine (bbls.) at	Apr. 3	10,930,000	10,459,000	9,843,000	9,556,000
Gas oil and distillate fuel oil (bbls.) at	Apr. 3	32,180,000	30,717,000	32,749,000	31,098,000
Residual fuel oil (bbls.) at	Apr. 3	47,959,000	48,334,000	48,114,000	43,446,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Apr. 3	661,807	664,375	792,571	715,159
Revenue freight rec'd from connections (number of cars)	Apr. 3	593,504	612,014	722,851	693,619
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS-RECORD:					
Total U. S. construction	Apr. 8	$93,800,000	$218,784,000	$95,996,000	$125,198,000
Private construction	Apr. 8	24,951,000	136,726,000	46,660,000	42,973,000
Public construction	Apr. 8	68,849,000	82,058,000	49,336,000	82,225,000
State and municipal	Apr. 8	54,965,000	50,792,000	30,254,000	60,139,000
Federal	Apr. 8	13,884,000	31,266,000	19,082,000	22,086,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Apr. 3	2,135,000	2,120,000	13,035,000	3,998,000
Pennsylvania anthracite (tons)	Apr. 3	856,000	892,000	1,176,000	804,000
Beehive coke (tons)	Apr. 3	9,600	*13,400	126,300	47,300
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Apr. 3	282	331	266	319
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Apr. 10	5,032,879	5,036,788	5,284,641	4,619,700
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Apr. 8	79	91	102	59
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Apr. 6	3.23940c	3.23940c	3.23940c	2.86354c
Pig iron (per gross ton)	Apr. 6	$40.11	$40.29	$40.37	$33.15
Scrap steel (per gross ton)	Apr. 6	$40.25	$40.25	$39.75	$35.42
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Apr. 7	21.200c	21.200c	21.200c	21.225c
Export refinery at	Apr. 7	21.425c	21.575c	21.425c	22.750c
Straits tin (New York) at	Apr. 7	94.000c	94.000c	94.000c	80.000c
Lead (New York) at	Apr. 7	17.500c	15.000c	15.000c	15.000c
Lead (St. Louis) at	Apr. 7	17.300c	14.800c	14.800c	14.800c
Zinc (East St. Louis) at	Apr. 7	12.000c	12.000c	12.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Apr. 13	100.87	100.79	100.72	104.66
Average corporate	Apr. 13	112.19	112.00	111.25	117.40
Aaa	Apr. 13	117.40	117.20	116.41	122.50
Aa	Apr. 13	115.63	115.63	115.04	120.43
A	Apr. 13	111.62	111.25	110.70	110.80
Baa	Apr. 13	104.66	104.31	103.64	110.34
Railroad Group	Apr. 13	106.92	106.74	105.69	112.37
Public Utilities Group	Apr. 13	113.70	113.50	113.12	118.80
Industrials Group	Apr. 13	116.02	115.82	115.24	121.25
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Apr. 13	2.44	2.44	2.45	2.19
Average corporate	Apr. 13	3.05	3.06	3.10	2.78
Aaa	Apr. 13	2.78	2.79	2.83	2.53
Aa	Apr. 13	2.87	2.87	2.90	2.63
A	Apr. 13	3.08	3.10	3.13	2.81
Baa	Apr. 13	3.47	3.49	3.53	3.15
Railroad Group	Apr. 13	3.34	3.35	3.41	3.04
Public Utilities Group	Apr. 13	2.97	2.98	3.00	2.71
Industrials Group	Apr. 13	2.85	2.86	2.89	2.59
MOODY'S COMMODITY INDEX	Apr. 13	419.7	414.9	405.7	415.3
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Apr. 10	231.5	229.2	226.2	222.6
Fats and oils	Apr. 10	269.8	228.1	242.1	317.8
Farm products	Apr. 10	254.5	250.3	251.2	247.6
Cotton	Apr. 10	348.9	337.9	319.7	327.8
Grains	Apr. 10	271.8	268.4	264.6	258.3
Livestock	Apr. 10	238.5	235.1	241.6	235.6
Fuels	Apr. 10	220.8	220.8	220.8	170.3
Miscellaneous commodities	Apr. 13	173.8	175.0	172.8	158.6
Textiles	Apr. 10	212.6	212.0	211.3	216.5
Metals	Apr. 10	163.5	163.5	163.5	148.3
Building materials	Apr. 10	230.4	230.4	232.8	203.4
Chemicals and drugs	Apr. 10	156.7	156.8	157.0	158.4
Fertilizer materials	Apr. 10	137.2	137.7	137.6	127.6
Fertilizers	Apr. 10	143.7	143.7	143.0	133.7
Farm machinery	Apr. 10	138.8	138.8	138.1	126.3
All groups combined	Apr. 10	216.7	215.4	214.8	199.5
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Apr. 3	233,919	176,395	255,552	228,306
Production (tons)	Apr. 3	186,484	193,650	193,205	181,064
Percentage of activity	Apr. 3	98	104	104	102
Unfilled orders (tons) at	Apr. 3	464,683	419,845	480,791	597,373
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Apr. 9	146.2	*146.1	146.4	154.0
WHOLSALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Apr. 3	160.1	161.1	160.4	148.8
Farm products	Apr. 3	183.9	186.2	187.1	181.2
Foods	Apr. 3	172.4	174.8	172.2	164.4
Hides and leather products	Apr. 3	186.0	186.2	187.9	174.3
Textile products	Apr. 3	145.1	145.2	145.9	139.3
Fuel and lighting materials	Apr. 3	131.7	131.7	131.7	103.9
Metal and metal products	Apr. 3	156.6	156.0	155.7	140.3
Building materials	Apr. 3	193.2	192.5	192.1	177.8
Chemicals and allied products	Apr. 3	135.5	135.1	136.6	134.5
Housefurnishings goods	Apr. 3	144.3	144.3	143.6	126.7
Miscellaneous commodities	Apr. 3	121.0	120.8	119.4	115.7
Special groups—					
Raw materials	Apr. 3	174.8	175.9	176.5	164.0
Semi-manufactured articles	Apr. 3	152.9	152.9	154.1	145.6
Manufactured products	Apr. 3	154.9	155.9	154.3	142.8
All commodities other than farm products	Apr. 3	154.8	155.5	154.4	141.7
All commodities other than farm products and foods	Apr. 3	147.7	147.4	147.3	132.3

*Revised figure.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES)			
Production of primary aluminum in the U. S. (in short tons)—Month of January	48,767	47,589	50,045
Stocks of aluminum—short tons (end of Jan.)	10,484	15,549	Not avail.
AMERICAN GAS ASSOCIATION — For Month of February:			
Total gas sales (M therms)	3,342,284	3,204,636	2,951,150
Natural gas sales (M therms)	2,896,284	2,769,608	2,538,400
Manufactured gas sales (M therms)	268,647	266,000	227,751
Mixed gas sales (M therms)	177,353	169,028	184,090
AMERICAN TRUCKING ASSOCIATION—Month of February:			
Number of motor carriers reporting	270	*270	270
Volume of freight transported (tons)	2,282,134	*2,332,971	2,080,303
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Month of March (in thousands)	$107,621,000	$90,266,000	$93,308,000
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. —U. S. DEPT. OF LABOR — Month of January:			
All building construction	$425,000,000	*$480,000,000	$269,000,000
New residential	208,000,000	*233,000,000	132,000,000
New non-residential	152,000,000	*177,000,000	87,000,000
Additions, alterations, etc.	64,000,000	68,000,000	48,000,000
Non-Federal—all building construction	410,000,000	*453,000,000	250,000,000
New residential	201,000,000	*230,000,000	125,000,000
New non-residential	145,000,000	155,000,000	77,000,000
Additions, alterations, etc.	64,000,000	68,000,000	48,000,000
Federal—all building construction	15,000,000	*27,000,000	19,000,000
New residential	7,000,000	3,000,000	7,000,000
New non-residential	7,000,000	22,000,000	10,000,000
Additions, alterations, etc.	1,000,000	2,000,000	2,000,000
COAL EXPORTS (BUREAU OF MINES)—Month of February:			
U. S. exports of Pennsylvania anthracite (net tons)	509,965	395,984	395,877
To North and Central America (net tons)	345,617	301,105	291,277
To South America (net tons)	50	54	53
To Europe (net tons)	154,038	94,825	97,826
To Asia, (net tons)	10,260	------	6,721
To Africa, (net tons)	------	------	------
COAL OUTPUT (BUREAU OF MINES)—Month of March:			
Bituminous coal and lignite (net tons)	34,016,000	48,390,000	55,455,000
Pennsylvania anthracite (net tons)	4,928,000	*4,675,000	4,967,000
Beehive coke (net tons)	294,000	*538,900	595,200
COKE (BUREAU OF MINES)—Month of Feb.:			
Production (net tons)	6,051,701	*6,471,087	5,657,810
Oven coke (net tons)	5,512,838	5,864,906	5,128,300
Beehive coke (net tons)	538,863	*606,181	528,510
Oven coke stocks at end of month (net tons)	807,478	911,859	716,031
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM — 1935-39 Average=100) —Month of March:			
Adjusted for seasonal variation	285	283	273
Without seasonal adjustment	285	*236	266
MONEY IN CIRCULATION — TREASURY DEPT.—As of Feb. 29 (000's omitted)	$28,018,806	$28,110,578	$28,303,507
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOCIATION) — Month of February:			
Total number of vehicles	383,011	*405,651	373,360
Number of passenger cars	274,847	*305,081	267,018
Number of motor trucks	107,054	*99,200	105,042
Number of motor coaches	1,110	*1,370	1,303
NEW BUSINESS INCORPORATIONS—DUN & BRADSTREET, INC.—Month of Feb.	7,873	11,000	9,111
NEW CAPITAL ISSUES IN GREAT BRITAIN—Midland Bank, Ltd.—Month of March	£11,200,000	£4,390,000	£14,486,000
PORTLAND CEMENT (BUREAU OF MINES)—Month of January:			
Production (bbls.)	14,541,000	*16,123,000	13,406,000
Shipments from mills (bbls.)	9,205,000	*12,379,000	8,395,000
Stocks (at end of month) (bbls.)	15,311,000	*9,975,000	15,931,000
Capacity used	71%	79%	66%
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission) —Month of January:			
Net raiyway operating income	$41,297,149	$80,021,828	$58,498,360
Other income	19,089,249	34,076,437	16,336,981
Total income	60,386,398	114,098,265	74,835,841
Miscellaneous deductions from income	3,845,208	5,964,991	3,274,537
Income available for fixed charges	56,541,190	108,133,274	71,561,304
Income after fixed charges	22,292,126	71,006,443	34,700,030
Other deductions	3,584,665	10,794,216	2,937,100
Net income	18,707,461	60,212,227	31,762,930
Depreciation (way & structures & equip.)	30,111,771	29,650,647	28,886,238
Amortization of defense projects	1,368,598	1,420,543	1,366,007
Federal income taxes	23,863,324	24,032,357	23,944,532
Dividend appropriations:			
On common stock	3,158,609	20,496,866	2,902,627
On preferred stock	2,325,748	9,105,346	2,582,260
Ratio of income to fixed charges	1.65	2.91	1.94
U. S. GOVT. STATUTORY DEBT LIMITATION—As of March 31 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	252,989,915	254,604,511	259,123,934
Guaranteed obligations not owned by the Treasury	78,154	78,841	182,384
Total gross public debt and guaranteed obligations	$253,068,069	$254,683,352	$259,306,319
Deduct—Other outstanding public debt obligations not subject to debt limitation	837,250	843,292	903,280
Grand total outstanding	$252,230,819	$253,840,059	$258,403,039
Balance face amount of obligations issuable under above authority	$22,769,180	$21,159,940	$16,596,960
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—As of March 31 (000's omitted)	$253,068,069	$254,683,352	$259,306,319
General fund balance	5,352,930	4,318,356	6,909,413
Net debt	$247,715,139	$250,364,996	$252,396,907
Computed annual interest rate	2.168%	2.170%	2.078%
WINTER WHEAT PRODUCTION CROP REPORTING BOARD—U. S. DEPT. OF AGRICULTURE—As of April 1 (bushels)	860,521,000	------	1,067,970,000

*Revised figure.

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(Continued from page 8)

sulted in increased total output. As the lower line shows, average weekly hours in manufacturing have shown a substantial decline since 1897. Prior to 1916 this decline was gradual but steady, but since that time it has been influenced in substantial measure by monetary and credit factors, to which reference has already been made. Interestingly enough, the 40-hour week which was in vogue in 1947 was only very slightly above the long-term downward trend.

Chart 3 shows wholesale prices, the consumers' price index or cost of living, and unit labor cost in manufacturing. It is no accident that the trends of all three are similar. In the periods of great inflation, unit labor cost rose sharply, as did also wholesale prices and consumers' prices; in periods of deflation, all three declined because they were influenced by the same factors. The period 1921 to 1929 of stable prices is particularly interesting. This was also a period of stable to slightly declining unit labor cost. This last trend was brought about by a substantial increase in installed horsepower and a decline in hours of work, which led to greater efficiency. The past eight years have been characterized by sharply rising unit labor cost and hence rising prices.

Chart 4 shows several measures of the unit output of the national economy on a per capita basis. The upper index is the Federal Reserve Index of Industrial Production per capita. It will be observed that the long-term trend has been sharply upward. Although the present level of production is below the wartime peak, it is rising gradually as capacity to produce peacetime goods is expanded, and it is only slightly above the long-term trend.

The second or middle line, real disposable income, is the disposable income in dollar figures of Chart 1 divided by the consumers' price index. It is thus a measure not only of industrial output, but also of agricultural production, distribution and services, and, therefore a broader measure than the Federal Reserve Index of Industrial Production just cited. The 1947 level which was very close to the all-time peak was about on the long-term trend.

The Hours of Work

Another measure of the standard of living is the leisure time of the worker, shown in the bottom index. This leisure time is the basis of increased consumption of a variety of products. If it were no greater than in 1897, such industries as radio, magazine and newspaper publishing, automobiles, petroleum, and motion pictures would be very much smaller than today. Even the clothing industry would be on a much smaller scale if, for example, the men had no time to look at the women's clothes.

Chart 5. Both because of an increase in population and a growth in standards of living of the population, total manufacturing, distribution and services show substantial growth during the last 50 years. The upper line on Chart 5 shows that in 1947 production was only slightly above the long-term trend. The two lower lines show that the main reason why total production was above the long-term trend was the substantial rise in production of non-durable goods. A major part of this last increase, of course, represents new export markets and admittedly, it would be precarious to assume that these export markets will continue indefinitely. At the same time, the data which we have already seen indicate that both population and production relative to this population will increase in line with the long-term trend and a short calculation shows that the present production level of non-durable goods corresponds to the 1951 trend value.

Production of non-durable goods has been stimulated by the war. In the early days the military stockpiled camps and then depots throughout the world. Then followed a period of destruction and waste as combat activity increased. Tremendous requirements for waging war depleted civilian stocks at all levels from the consumer to the manufacturer. This led to greater-than-normal production as measured by the per-capita trend.

In 1947 when stocks in trade and in consumers' channels were approaching normal levels, export demand increased substantially. American textile manufacturers fell heir to the prewar Latin-American markets of the Japanese, and also had to supply deficiencies created by lagging British textile production. Moreover, Europe needed all kinds of foods, tobacco, and drugs. Consequently, the likely maintenance of the export markets for the next three years, i.e., the period of European relief, would be sufficient cause for not expecting a downward adjustment to the trend.

Industrial Activity

Chart 6 shows the volume of industrial activity in the United States, as measured by the Federal Reserve Index of Industrial Production, but classified by the Index Number Institute, Inc., into economically homogeneous groups. In this particular form the highly variable segments of industrial activity are pointed up, and it is thus shown wherein lies the core of the forecasting problem. Even a casual glance at the chart shows that these variable components are capital goods, construction materials, and consumers' durable goods.

The lowest band on Chart 6 represents the production of consumers' perishable goods (the main portion of it consisting of manufactured foods). This group changes only slowly from year to year, reflecting mainly population increase and gradual increases in per capita purchasing power. In addition to it, there exist minor fluctuations which are related to the ups and downs in total production.

To the consumers' perishable goods are added consumers' semi-durable goods (textiles, clothing leather products, paper). This group shows a long-term behavior similar to the preceding group but reflects somewhat clearer the cyclical fluctuations.

Consumers' durable goods (automobiles, furniture, radios, refrigerators, books) show an outspoken cyclical behavior which overshadow any long-term trends. The durability and the high price per unit of most of these goods make it possible and necessary for consumers to postpone purchases of these products in time of low business activity and low consumers' income.

The cyclical pattern of automobile demand which is more or less typical of the demand for other consumers' durable goods is explained in "Dynamics of Automobile Demand," a study made by the Institute's staff.

Construction material comprises a comparatively small group in the total index. It is interesting to note that the cyclical behavior deviates somewhat from that of general business. Production of construction material reflects the relatively high level of activity enjoyed by building during the later twenties while total production per capita did not differ materially from the level of 1935-1939. The year-to-year changes, however, bear out a clear similarity with the short-term fluctuation of general business.

The next band designates a major segment of our index, comprising *capital goods* (goods used in production, as for instance electrical equipment, agricultural implements, machine tools, other machinery, trucks, railroad equipment, etc.). Capital goods show absolutely and relatively the greatest cyclical amplitudes of any of these categories. Their role in the ups and downs of the trade cycle is crucial. Although, with regard to temporal sequence, they tend to follow the changes in the production of consumers' goods, it is this group which is mainly responsible for the occasional manic-depressive behavior of our economy. In spite of the violent fluctuations in the production of capital goods, however, their behavior has followed a rather consistent pattern.

The output of war material forms a negligible fraction of capital goods during peace time, but is directly and indirectly responsible for the tremendous expansion of the capital goods segment and of total industrial production itself during the war.

Fuels show some response to the business cycle, although it is clearly evident that they are less sensitive than total production as a whole.

Chart 7 shows production of consumers' perishable goods (food, tobacco, beverages, gasoline, etc.), consumers' semi-durable goods (textiles, leather goods, clothing, etc.) and consumers' durable goods (automobiles, furniture and appliances) on per capita bases.

Production of consumers' perishable goods per capita has shown a very substantial upward trend over the years. The trend, however, was interrupted in 1920, 1930-32 and 1938, the years of bank credit deflation. The upward trend in per capita production of these goods has been due to (1) an increased stature or physical size of the individuals comprising the population, (2) a tendency to have more and more food and beverage items produced out of the home and in the factory, and (3) a more active population, i.e., one that enjoys leisure.

Per capita production of semi-durable goods has shown an upward trend very similar to that of per capita production of perishable goods. However, per capita production of semi-durable goods has been characterized by more irregularity, which seems to be due to the changing inventory policies of retailers. The stability around trend shown by per capita production of consumers' perishable and semi-durable goods means that production of consumers' perishable goods and consumers' semi-durable goods can be forecast even by a novice with relatively good accuracy from population data and growth in consumption relative to this population.

The forecasting of production of the durable goods components of Chart 6 is by no means easy. Yet, if one is to make a useful forecast of total production and of national income, he must forecast them.

The per capita production of consumers' durable goods has been principally cyclical. Volume suffered substantially in the 1930-32 depression and, of course, again during the war period when production was largely discontinued. Two long-term trends nonetheless seem to be in evidence. There was, for example, an upward trend in 1919-1929, which roughly paralleled the upward trend from 1932-1941. Production in 1947 was very much

CHART III
Prices and Unit Labor Costs

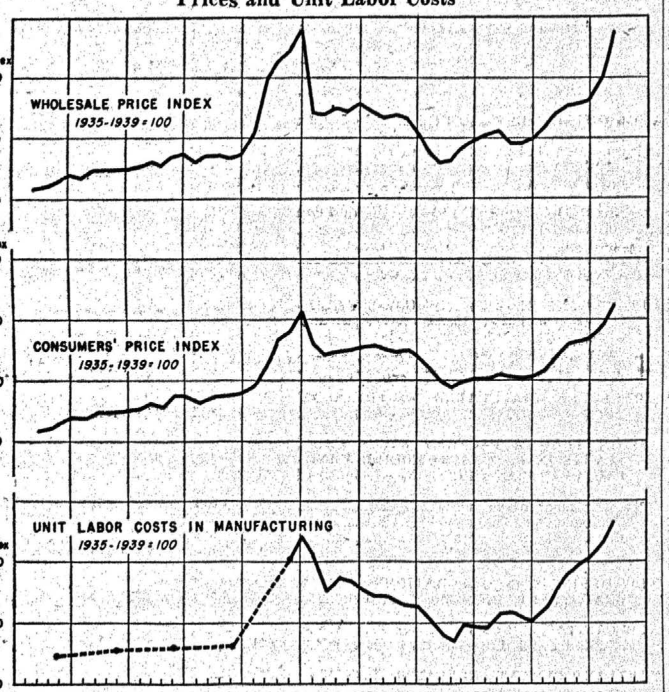

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CHART IV
Production and Real Income per Capita and Growth of Workers' Free Time

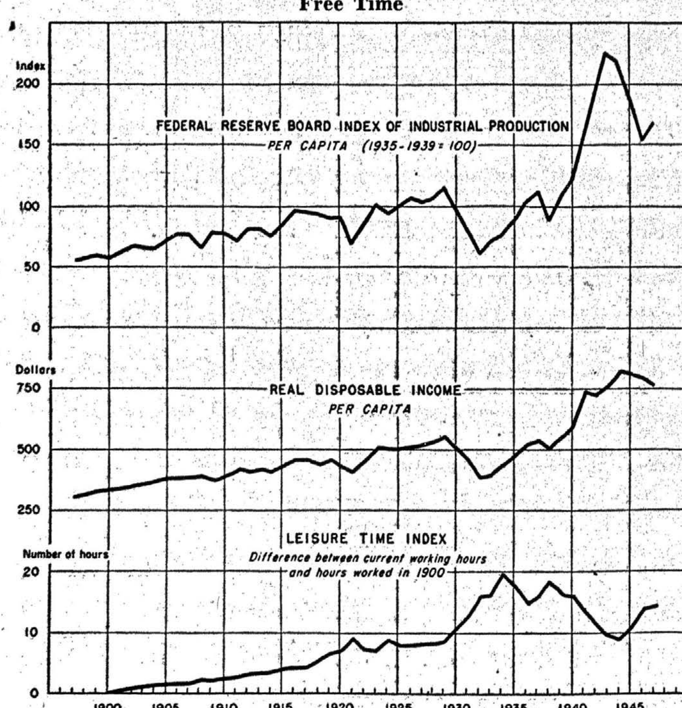

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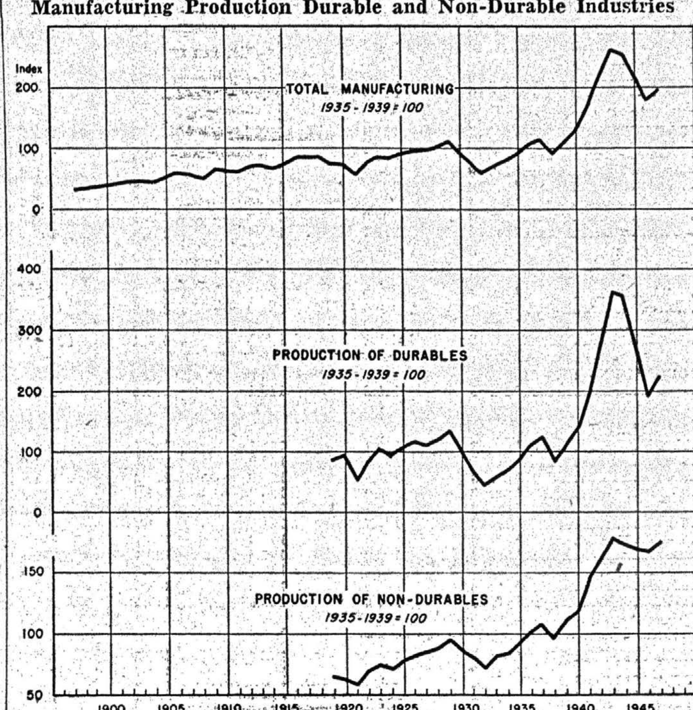
CHART V
Manufacturing Production Durable and Non-Durable Industries



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below the last trend and was also below the average trend from 1919 through 1941.

Demand for Durable Goods

Demand for consumers' durable goods depends upon disposable income (personal income after taxes), the relation of the prices of these goods to this income and to the cost of living, and the age or condition of consumers' stocks.

Disposable income today is at a new high and as a result of the tax cut just enacted the trend is still upward. Moreover, for many consumers' durable goods, consumers' stocks are still depleted or are in poor condition.

In the case of automobiles, demand still exceeds production by a considerable margin. Consumers' stocks are in poor condition as a result of wartime stoppage of production, and prices are low relative to disposable income and the cost of living. Conditions are such that a sellers' market might continue for several years if income and prices should remain in their present relationship. On the other hand, if income should continue at present levels and prices should advance by 20%, this industry would become highly competitive. Once more salesmen and extensive advertising would be needed. Such a change is not likely and consequently the only reasonable forecast is one of capacity operations. This capacity, of course, may be limited by the supply of materials and labor.

For some electrical appliances supply already exceeds demand. Even quality merchandise of manufacturers whose names are unknown to the buying public is not moving freely. A public still suffering from indigestion as a result of wartime shoddy merchandise has no appetite for unknown dishes. On the other hand, this same public has not satisfied its demand for well-known brands of good quality; fairly priced merchandise. In total, however, supply and demand are about in balance at current price and disposable income levels. The tax cut will, of course, lead to greater disposable income and so greater demand for appliances in the summer and fall of this year. Another tax cut in 1949 would support a further upward movement in that year. Demand will increase still further when the housing supply becomes more adequate and families once more begin to move around, for a different home or apartment frequently means a new appliance.

The supply and demand for new furniture in total are today about in balance. High production costs caused by the same shortages of manpower and materials that have produced high building costs have resulted in prices too high for the consumers' income. Moreover, the demand for furniture is not quite as high as the number of families and income and prices suggest. One million families have been forced to double up and others have not been able to move into the permanent quarters which they would be able and willing to furnish. Nonetheless, the furniture industry will generally be fully occupied during 1948. In subsequent years it will be filling some war-time, deferred demand and, in addition, taking care of ordinary wear and tear and the requirements of at least 700,000 new families per year.

Thus, for the consumers' durable goods component of production the outlook is, on the whole, quite good. In brief, production of automobiles and heavy appliances will rise. Production of light appliances will decline slightly but only until income freed by the tax cut finds its way into markets. Production of furniture will remain steady to rising and will be favorably affected by increasing housing supply.

How About Housing?

The outlook for residential building, the principal component of the construction materials segment, can be forecast from the difference between the number of families and the number of existing housing units, present average rents on existing rent properties, interest rates, construction costs, and disposable income (income after personal taxes). Despite the fact that the number of families exceeds the number of nonseasonable habitable family units by three or four hundred thousand units, the prospects for residential building are not good under the present lowered but still confiscatory personal tax rates, rising interest rates, and the low return on competitive existing rental property.

One saving factor for residential building is the absence of rent control in certain areas. Building is going ahead in these areas. As matters stand today, areas with tight rent control will experience little residential building activity and hence little growth in population. The uncontrolled or decontrolled areas will enjoy the growth inasmuch as new factories, warehouses, etc., will gravitate to them because of present adequate housing supply and this growth in jobs will lead to additional housing. The new rent control law, which permits leases at higher rentals and also provides for more rapid decontrol of rental areas on recommendation of local boards, will help some of the controlled areas. When all is said and done, the cost of tight rent controls will be found to have been borne locally.

Industrial construction, which comprises a large segment of the construction materials component of the Federal Reserve Index of Industrial Production, can be forecast by a formula involving corporate profits, the yield on AAA bonds, prices of non-farm products, the cost of construction, and the ratio of industrial production to plant capacity under 30 years of age. These factors, as presently constituted, indicate new highs for industrial construction during 1948. Corporate profits are at record high levels, bond yields are not far from their record lows, prices of non-farm products have advanced less than the cost of construction but not enough less to offset the favorable effects of high profits and low interest costs, and the ratio of production to plant capacity is more favorable than at any time during the past 30 years.

In terms of 1935-1939 costs the value of industrial plant excluding equipment was $51.9 billion in 1919 or which $50.9 billion was less than 30 years of age and $20.6 billion less than 10 years of age. A building boom developed which lasted until 1931. In this last year the value of all plant using 50 year depreciation was $67.5 billion, of plant less than 30 years of age $64.9 billion and of plant less than 10 years of age $33.6 billion.

Our Economy Is Not Static

The year 1933 marked the bottom of an unprecedented depression, with 12 to 15 million unemployed. By the end of 1935 there were still 10 million unemployed. In the period 1936-1940 unemployment was never less than 6.4 million. This unemployment was accompanied by a national psychology which expressed itself in such ideas as a mature economy incapable of further expansion, one in which it was believed additional capital was not needed because the plant of the country was adequate, an economy in which the existing low level of work had to be divided among the employed and unemployed by decreasing the number of working hours, and an economy in which economic security played a very large part in the thinking of the rank and file of the people. They were reluctant to buy anything but the bare essentials of living. It was in short an economy of stagnation. In consequence by 1940 the value of plant less than 10 years old was only $15.9 billion or about one-half the level of 1931. However the depreciated value of all plants was still $65.9 billion or almost at the 1931 peak.

Then followed a period of wartime building. Yet at the end of 1945 the value of all plant excluding wartime additions to shipyards, airplane factories, and munition plants was only $57.8 billion in terms of 1935-1939 costs. Thus, during the war a huge deferred demand for industrial plant construction developed. A very large demand for public works has been created by an increase in population, geographical shifts in this population and lack of public construction during the war. Highways, streets, sewers, schools, hospitals and necessary public buildings are budgeted at $60 billion dollars during the next 10 years or an average of about $6 billion per year. The budget rises to about $10 billion per year, if projects like the St. Lawrence Waterway, another Panama Canal, the Missouri Valley Authority etc., are added.

In summary, the needs for residential, industrial and public construction are sufficiently great to insure that the highly variable construction materials segment of the production index will remain at or above current levels for a good many years.

The private domestic portion of the capital goods component, which is the most variable segment of the production index, may be forecast directly from the level of production of consumers' goods and construction materials, the ratio of this expected production to capacity to produce, and the yield on long term AAA bonds. To this one would add production of combat materiel and production of capital goods for export.

A better forecast can be obtained by forecasting the dollar figures representing domestic producers' durable equipment expenditures, converting these dollar figures to unit volume by dividing by an index of prices of machinery and machinery products and then adding production of combat materiel and for export. Chart 8 shows the close relationship that exists between these expenditures for durable equipment so deflated and a composite of several variables six months previous. The agreement between the domestic expenditures and the forecasting variable is as close as one finds in the physical sciences, except in the war years when we know that the War Production Board purposefully held down equipment activity by licensing. The calculated level or forecasting line involves present values of (1) corporate profits, (2) interest rates, and (3) the ratio of the Bureau of Labor statistics index of prices of commodities other than farm products to the same Bureau's index of prices of metals and metal products.

The tremendous gap between the actual and calculated expenditures for durable equipment during the war period suggests that equipment shortages still exist and hence that profits will remain high in relation to prewar levels for some years to come. Consequently the pressure for buying new equipment will remain high.

Suggestions for the Future

Profits could be turned down

(Continued on page 44)

CHART VII

Per Capita Production of Consumers' Goods (1919-1947)

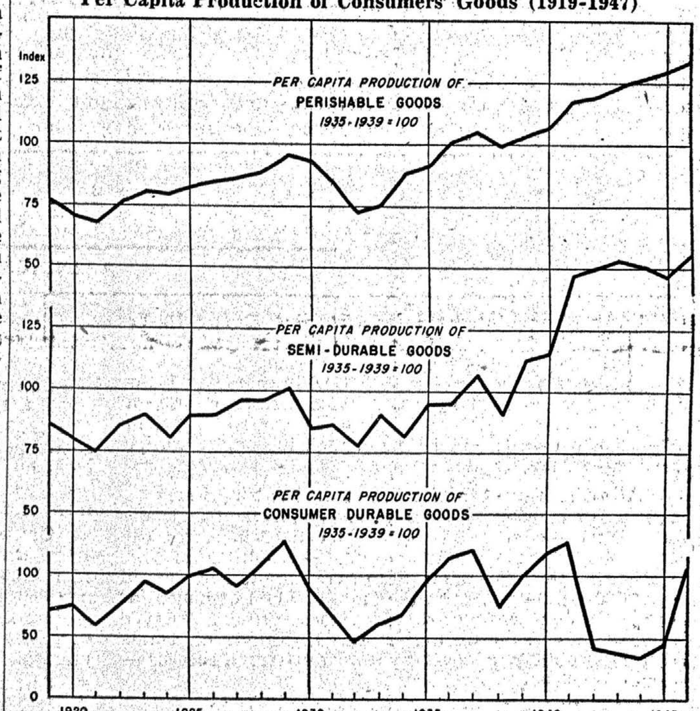

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CHART VIII

Production of Producers' Durable Equipment and New Private Construction

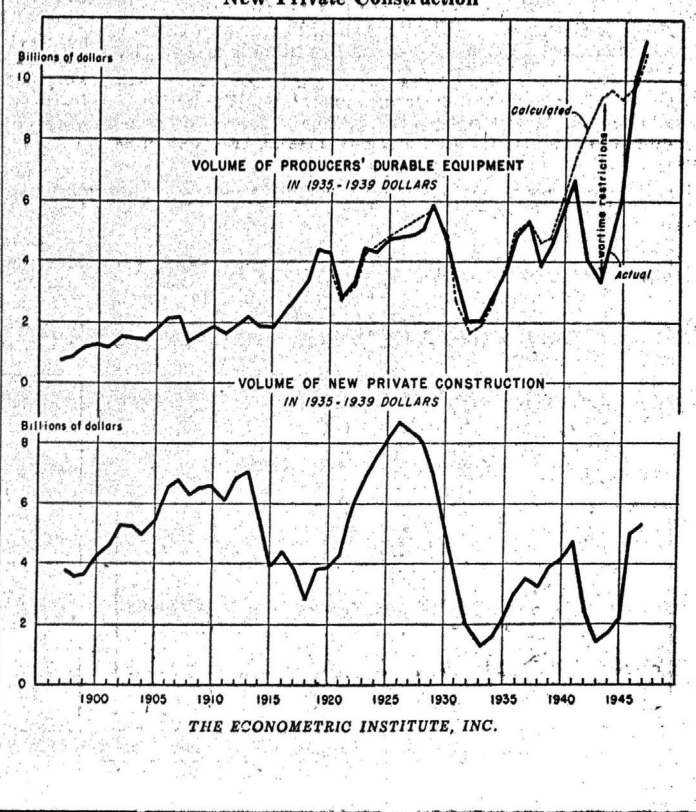

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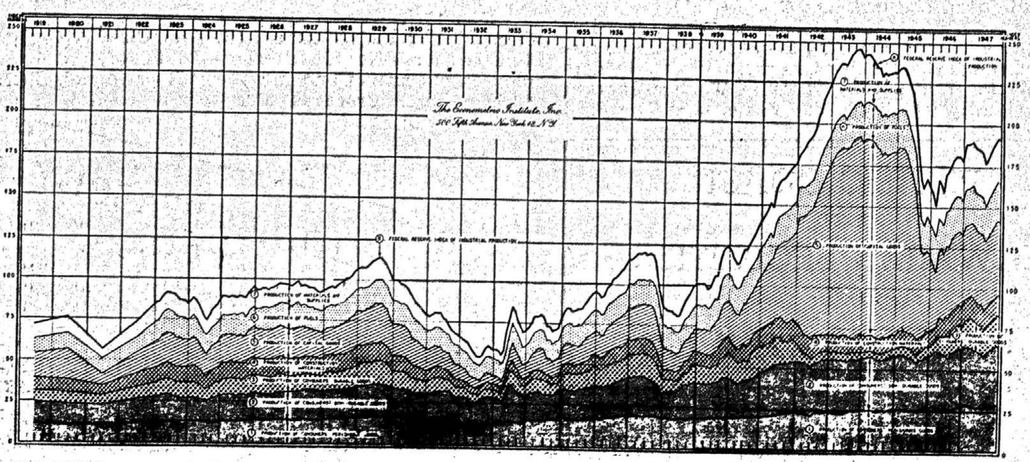
CHART VI

Federal Reserve Index of Industrial Production: Economic Groups



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substantially only by (1) too heavy taxes which would yield Treasury surpluses so large that excessive debt retirement would leave purchasing power inadequate; (2) a Federal Reserve Board policy of tight money which would force inventory liquidations; and (3) substantially increased imports of finished goods. The tax reduction act just passed by Congress and the proposed Federal Budget indicate that fears with respect to (1) above can be laid aside at least for the next 12 months. In the meantime opportunity will arise to force still another tax cut. The recent collapse in agricultural commodity prices following the Federal Reserve Board action last winter has tempered its zeal to tighten money conditions. Substantial imports are unlikely for years to come. Consequently, profits must be forecast at high levels. Nonetheless, competition will increase and the level of profits will not remain as high as currently. A reasonable estimate is that profits, money rates and the other factors will be such as to yield a unit volume of domestic private producers' durable equipment at a level about two-thirds of the present. Such a level will be augmented by exports well above pre-war levels and by production of combat materiel. Consequently, production of capital goods which includes all three is expected to hold near its present high level.

Production of fuels, chemicals and supplies will show the same cyclical fluctuations as the production components already discussed. They will, however, show some relative growth. Consequently, it is reasonable to expect that during the next 10 years the Federal Reserve Index of Industrial Production will fluctuate in a range of only 10 to 15% around its current level of 185% of the 1935-1939 average.

Such a production level implies a correspondingly high level of personal incomes. However, the income level will rise more than production if organized labor continues to demand annual wage increases. Even without wage increases business sales may be forecast at current levels or higher. Consequently advertising budgets should generally be increased.

Our Reporter's Report

This week proved a comparatively quiet period in the marketing of new corporate securities, giving underwriters and their distributing affiliates an opportunity to apply themselves to the task of moving out bits and pieces left over from some recent offerings.

Aside from Philadelphia's big municipal undertaking and two big secondary sales, one of 344,400 shares of Greyhound Corp. common stock for the account of General Motors Corp., and the other 300,000 shares of St. Regis Paper Co., the investment banking world had only the two small issues, debentures and bonds of Texas Power & Light Co., to occupy their time.

Next week, however, promises a marked revival in the new issue field what with three good-sized undertakings coming up for sale through competitive bidding on Tuesday.

Largest, by far, of the three prospects is the $30,000,000 offering of 20-year debentures projected by the Consolidated Natural Gas Co. to provide funds for the purchase of additional stock of subsidiaries. It now looks as though five groups will be after this one.

Gulf States Utilities Co. is slated to open bids for $12,000,000 of 25-year first mortgage bonds for new money and here too it looks as though competition will be keen with five bids indicated.

The same day American Light & Traction Co. will look over bids for 450,000 shares of capital stock of Detroit Edison Co. being sold under divestment order. Two bids now are indicated as in the making here.

So. California Edison

This big Coast utility has started one of the largest new stock financing projects in many months on its way through the Securities and Exchange Commission mill.

It has asked exemption from competitive bidding for a projected offering of 800,000 shares of a new cumulative convertible series of preferred stock. Naturally to protect junior holders against involuntary dilution of their positions they probably will be accorded pre-emptive subscription "rights."

In its plea the company notes that offerings such as this one are not feasible for competitive bidding since things like price, dividend rate, and conversion basis must be determined at the time of issues and on the basis of market conditions then prevailing.

Solvay American Corp.

Demand for the 4% cumulative preferred of the newly formed Solvay American Corp. sent that issue quickly to a premium upon its offering on Tuesday. The shares carry certain provisions providing for exchange for Allied Chemical & Dye Corp. common which probably proved an added attraction.

A closed-end investment management company, the shares were marketed at a price of $100 to provide funds for the purchase of Class A stock of Wyandotte Chemicals Corp.

Dealers reported bids of 101⅞ on the day of the offering with the market later settling back to 100⅜-100¾.

Looking Far Ahead

With business running out a little thin it is not surprising to find bankers looking a bit farther ahead than usual in their preparations for new issues.

Latest to come in for discussion is the reported plan of Union Electric Co. of Missouri looking toward the raising of around $25,000,000 of new money for construction purposes.

The company is said to be contemplating the sale of around $25,000,000 of new debentures, probably about June 1.

Already four of the largest houses in the underwriting business are reported engaged in the task of setting up groups to seek the issue.

Virginia Electric & Power

Virginia Electric & Power Co., which recently marketed $21,753,800 of bonds and debentures to pay off bank loans and finance construction, is reported making preparations for a new foray into the money market.

The company has an expansion program calling for an outlay of $56,000,000 in the next three years and it is now indicated that it may be seeking as much as $47,000,000 in new money to carry through its plans.

Several months hence it may seek temporary bank financing pending the opportunity to place such necessary financing on a permanent basis.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Ampal-American Palestine Trading Corp., N. Y.
April 7 filed $10,000,000 10-year 3% sinking fund debentures. **Underwriter**—Name to be filed by amendment, if any is used. **Proceeds** — $5,000,000 in mortgage loans for construction of housing in Palestine, $2,500,000 in loans to transportation and industrial cooperatives, and $2,200,00 in loan to Solel Boneh, Ltd., for public works. **Business**—Palestine development.

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**—Bonds are offered to stockholders of record April 14 at par in the ratio of $1.50 of bonds for each common share held. The stock will be reserved against conversion of the bonds. Unsubscribed bonds will be publicly offered by underwriter. **Proceeds**—General 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.

• Boulder Belle Mining Co., Inc., Helena, Mont.
April 9 (letter of notification) 150,000 shares (5¢ par) common stock. **Price**—10¢ each. For tunnels and shafts. No underwriting.

• Cal-Creek Placers, Inc., Enumclaw, Wash.
April 5 (letter of notification) 200,000 shares of nonassessable common stock. **Price**—25 cents. For exploration, development and equipment.

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 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 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.

• Chesapeake Skipper, Inc., Baltimore, Md.
April 7 (letter of notification) 300 shares of 6% preferred stock ($50 par). **Price**—Par. To improve the magazine, add photographic section. No underwriters.

Clinton (Iowa) Industries, Inc. (4/21)
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.

• Collinwood Postal Building Corp., Clayton, Mo.
April 5 (letter of notification) $37,000 4½% first mortgage bonds to be deposited with the St. Louis County National Bank, Clayton, to modify a mortgage deed of trust. No sale is contemplated.

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.

• Continental Gauge Corp., Baltimore, Md.
April 12 (letter of notification) 5,700 shares of 5% cumulative preferred stock ($5 par) and 5,700 shares ($1 par) common stock. **Price** of both, par. For machinery and equipment.

Crampton Manufacturing Co.
Feb. 5 filed $600,000 first mortgage 5½% sinking fund bonds, due 1966, with warrants to purchase 60,000 shares ($1 par) common stock. **Underwriter**—P. W. Brooks & Co., Inc., New York. **Proceeds**—To retire secured indebtedness, finance inventories and supplement working capital.

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. (4/21)
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. **Bids**—American Light & Traction Co. will receive bids for the sale of the stock up to 11 a.m. (EST) April 21 at Room 1730, 165 Broadway, New York.

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.

NEW ISSUE CALENDAR

April 19, 1948

Georgia-Pacific Plywood & Lumber Co. — **Pref. and Common**

April 20, 1948

Consolidated Natural Gas Co. 11:30 a.m. (EST) — **Debentures**
Gulf States Utilities Co., 11 a.m. (EST) — **Bonds**
Moore-Handley Hardware Co. — **Common**

April 21, 1948

Clinton Industries, Inc. — **Debentures**
Detroit Edison Co., 11 a.m. (EST) — **Stock**
Pennsylvania RR., noon (EST) — **Equip. Trust Ctfs.**

April 22, 1948

Florida Power Corp. — **Common**
M & M Wood Working Co. — **Capital Stock**

April 26, 1948

Illinois Central RR., noon (CDST) — **Eqp. Trust Ctfs.**

April 27, 1948

Baltimore & Ohio RR., noon — **Equip. Trust Ctfs.**

April 28, 1948

Swift & Co. — **Debentures**

April 30, 1948

Peninsular Telephone Co. — **Common**

May 3, 1948

Pacific Lighting Corp. — **Common**
Sandy Hill Iron & Brass Works — **Preferred**
Sierra Pacific Power Co. — **Bonds**
Wisconsin Michigan Power Co. — **Bonds**

May 4, 1948

Southern California Gas Co. — **Bonds**

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.

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.

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.

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 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
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. Temporarily postponed.

● **Gem States Consolidated Mines, Inc., Boise, Idaho**
April 8 (letter of notification) 650,000 shares (5¢ par) common stock. **Price**—12½¢ each. To develop mining claims. No underwriting.

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. (4/19-20)
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.
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 Fílor, 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; 85½ shares are being offered at net asset value at $110.61 per share.

● **Graybar Electric Co., New York**
April 9 filed voting trust certificates for 13,750 shares ($20 par) common stock, offered by A. H. Nicoll, G. F. Hessler, G. T. Marchmont, H. L. Harper and G. J. Cossmann, as trustees under a voting trust agreement of Jan. 15, 1948.

Gulf States Utilities Co. (4/20)
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. **Bids**—Bids for purchase of the bonds will be received up to 11 a.m (EST) April 20 at office of Central Hanover Bank & Trust Co., 70 Broadway, New York.

● **Jay Goodwin Industries, Inc., Denver, Colo.**
April 9 (letter of notification) 200 shares (no par) common stock. **Price**—$100 each. To build inventories and advertise. 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.

● **Lientz (E. C.) & Co., Inc., Fillmore, Calif.**
April 9 (letter of notification) 30,000 shares of capital stock. **Price**—50¢. To provide funds for medical research. No underwriting.

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.

● **Long Island Airlines, Inc., Southampton, L. I.**
April 8 (letter of notification) $150,000 4% convertible notes, dated May 1, 1948, due May 8, 1958. **Price**—Par. **Underwriting**—None. Offered for subscription by stockholders on or before May 1. Liquidate indebtedness, working capital, etc.

M and M Wood Working Co. (4/22)
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.

● **Maguire Industries Inc., New York**
April 1 (letter of notification) 8,000 shares of common stock (par $1) to be offered on behalf of Eugene Daniel Powers. **Price**—Market (⅞ to $1.50). **Underwriter**—Auchincloss, Parker & Redpath.

● **Metalube Corp., Newark, N. J.**
April 12 (letter of notification) 448,051 shares of capital stock (par 25¢). **Price**—50¢ per share. **Underwriting**—None up to present time, but it is expected that an underwriter or dealers will be employed. Working capital and enlargement of facilities.

● **Midland Co., South Milwaukee, Wis.**
April 12 (letter of notification) 20,000 shares of 6% cumulative preferred stock ($10 par). Rights to the purchase of 30,000 shares ($2.50 par) common stock. To be issued pro rata to common stockholders in units of one preferred share and 1½ common stock rights for $10. **Underwriter**—For unsubscribed units, Gardner F. Dalton & Co., Milwaukee. To buy production machinery.

● **Missouri Utilities Co., Cape Girardeau, Mo.**
April 7 (letter of notification) 22,750 shares ($1 par) common stock. **Price**—$12.50 each. **Underwriter**—Edward D. Jones & Co., St. Louis. For construction and improvements.

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.

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.

● **Music Center, Inc., Boise, Idaho**
April 5 (letter oif notification) 150 shares of common stock, to be sold to employees only at $100 each. To purchase additional stock. No underwriting.

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. Expected early in May.

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.; 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. [April 8 New York PS Commission reduced bond issue to $5,500,000 and approved an issue of 35,000 shares of preferred stock.]

● **Norwood (Ohio) Broadcasting Co.**
April 5 (letter of notification) 400 shares ($100 par) common stock and 600 shares 6% preferred stock ($100 par). **Price**—Par. To build and operate station WNOR. No underwriting.

Pacific Lighting Corp., San Francisco (5/3)
March 26 filed 321,726 shares (no par) common stock. **Underwriter**—Blyth & Co., Inc., New York. **Price**—$40. **Offering**—Holders of common stock of record April 15 are given the right to subscribe on or before April 30 at the 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.

● **Palmer Stendel Oil Corp., Santa Barbara, Calif.**
April 5 (letter of notification) 176,320 shares ($1 par) non-assessable stock. To be offered present holders at rate of one new share for each 10 held, at 20 cents each. **Underwriter**—Burnham & Co., New York. For general corporate purposes.

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. (4/30)
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 offered for subscription by holders of record April 15 at the rate of one for five. Rights expire April 29. **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.

Playboy Motor Car Corp., Tonawanda, N. Y.
Feb. 13 filed 20,000,000 shares common (1c par). **Price**—$1 per share. Not more than 100,000 shares will be offered to employees and officers at 87½ cents per share. **Underwriter**—Tellier & Co., New York. **Proceeds**—For capital equipment and working funds.

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.

● **Red Rock Cola Bottling Co. of Conn., Hartford**
April 8 (letter of notification) 372,077 shares (10¢ par) common stock. To be offered at par to stockholders. For working capital. No underwriting.

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.

● **Ross Riveters, Inc., Reno, Nev.**
April 5 (letter of notification) 30,000 shares ($10 par) preferred stock and 30,000 shares ($10 par) common

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stock. **Price**—$10 per unit. Common is to be issued as a bonus at the rate of one common share for each preferred share purchased. To build a manufacturing plant to make Ross Expand-O-Matic riveters. No underwriting.

● **Sandy Hill Iron & Brass Works, Hudson Falls, New York (5/3)**
April 12 (letter of notification) 59,000 shares class A participating preferred stock (par $4). **Price**—$5 per share. **Underwriter**—John L. Nolan, Inc., Glens Falls, N. Y. Working capital.

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.

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.

Sierra Pacific Power Co. (5/3)
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. Expected about May 3.

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.

● **State Exploration Co., Fresno, Calif.**
April 6 (letter of notification) 215,000 shares ($1 par) non-assessable common stock. Price, par. To be privately offered. For working capital and cash reserve. No underwriting.

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.

● **Sunray Oil Corp.**
April 14 filed 600,000 shares of cumulative convertible preferred stock, series B (par $25). **Underwriter**—Eastman, Dillon & Co., New York. **Proceeds**—Will be added to general funds.

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.

● **Telohio, Inc., Toledo, Ohio**
April 5 (letter of notification) 2,000 shares (no par) class A common stock and 3,000 shares (no par) class B common stock. **Price**—$50 each. To pursue an application before the Federal Communications Commission. No underwriting.

● **Tonn (Arthur E.), Laporte, Ind.**
April 9 (letter of notification) 1,500 shares ($100 par) stock. **Price**—Par. For oil and gas property and leases. No underwriting.

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 3,000,000 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.

● **Venezuela Syndicate, Inc., New York**
April 9 (letter of notification) 35,000 shares of common stock (total not to exceed $100,000). **Price**—Market (approximately $3¼ per share). To be sold on New York Curb Exchange by Moore, Leonard & Lynch. Proceeds to selling stockholder.

● **Walter Ranch, Inc., Garrison, N. Y.**
April 7 (letter of notification) 1,000 shares of preferred stock (par $10) and 5,000 shares of common stock (par $10). **Price**—$10 per share. **Underwriting**—None. Working capital, purchase of equipment, etc.

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

● **American Casualty Co.**
March 22 stockholders approved proposal to issue and sell 150,000 common shares (par $5) at such price as directors may fix from time to time but at not less than $12.50 per share.

● **Baltimore & Ohio RR. (4/27)**
Bids for purchase of $4,500,000 equipment trust certificates, series Y, will be received up to noon April 27, at company's office, 2 Wall Street, New York. Certificates will mature $450,000 annually May 1, 1945-1958. Probable bidders: Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co., Inc.; Halsey, Stuart & Co. Inc.; The First Boston Corp.

● **Consumers Power Co.**
The company has asked SEC permission to issue and sell through competitive bidding 200,000 shares of preferred stock of a series to bear dividends at a rate not to exceed $5 per annum. Probable bidders: Harriman Ripley & Co. and The First Boston Corp. (jointly); Morgan Stanley & Co.; White, Weld & Co. and Shields & Co. (jointly).

● **Gulf Oil Corp.**
April 13 reported company arranging with Metropolitan Life Insurance Co. for a long-term loan of $85,000,000 to pay off outstanding bank loans of like amount.

● **Houston Lighting & Power Co.**
April 7 reported company, in connection with its expansion program, plans the sale of $15,000,000 bonds later this year.

● **Illinois Central RR. (4/26)**
Company is inviting bids for the purchase of 14,000,000 equipment trust certificates, seris Z, to mature in 20 equal semi-annual instalments and to be secured by equipment costing $20,399,847, the depreciated book value of which as of April 1, 1948, was $18,884,469. All bids must be received at Room 401, 135 East 11th Place, Chicago 5, on or before noon (CDST) April 26. Probable bidders include: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); L. F. Rothschild & Co. and Gregory & Son, Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Kuhn, Loeb & Co. and Blyth & Co., Inc. (jointly); The First Boston Corp.; Salomon Bros. & Hutzler.

● **Indiana & Michigan Electric Co.**
April 9 reported company has under consideration plans for sale of $40,000,000 new bonds. Expectations are, that offering will be ready for sale at competitive bidding by late summer or early fall. It will be designed to provide the company with funds for new construction and other purposes. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.

● **Lonsdale Co.**
April 13 Textron Inc. proposes to issue to its common stockholders, warrents evidencing rights to purchase one share of common stock of Lonsdale Co. (organized April 14, 1948) for each share of Textron common held on effective date of registration statement to be filed in near future. Blair & Co., Inc. will underwrite unsubscribed shares.

● **New York Dock Co.**
April 27 stockholders will vote on approving the execution at any time on or before Aug. 1, 1951 (when company's $10,985,000 first mortgage 4% bonds mature) a new first mortgage, the initial series to be limited to $12,000,000 at an interest rate not to exceed 4%. Probable underwriters: Hayden, Stone & Co.; Halsey, Stuart & Co. Inc.

● **New York State Electric & Gas Corp.**
April 8 New York PS Commission authorized company to ask for public bids on $5,500,000 30-year first mortgage bonds and $3,500,000 of preferred stock. Bids for bonds are to be sought not later than May 18 and the stock June 1. Proceeds would be used to finance construction. Probable bidders include: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp.; Harriman, Ripley & Co.; Hemphill, Noyes & Co. and Drexel & Co. (jointly); Blyth & Co., Inc. and Smith, Barney & Co. (jointly).

● **Pennsylvania Power Co.**
The company has requested SEC permission to sell to institutional investors $1,000,000 first mortgage bonds, 3% series due 1978, at 99½ and interest.

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.

● **Reading Co.**
April 5 reported road will be in the market, probably before the end of April, with an offering for between $7,000,000 and $8,000,000 of equip. trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Kuhn, Loeb & Co. and Blyth & Co., Inc. (jointly); Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Slick Airways, Inc.**
The company will require between $6,000,000 and $7,000,000 of new financing if the company is certified by the CAB as an air freight carrier, according to W. F. Rogers, Vice-President. Company has been recommended for certification by a CAB examiner. The nature of the new financing has not been decided upon, but there is a probability company will offer stock to the public at some time in the future.

● **Southern California Edison Co.**
April 13 company filed with California P. U. Commission application for exemption from competitive bidding on a proposed issue of 800,000 shares of a new series of cumulative convertible preference stock. Probable underwriters: The First Boston Corp. and Harris, Hall & Co. (Inc.).

● **Southern Natural Gas Co.**
April 12 construction program of company for 1948, estimated at $9,200,000, will be financed through the issuance of long-term bonds. A part of outstanding notes will be refunded.

● **Union Electric Co. of Missouri**
May 7 stockholders will vote on increasing bonded indebtedness. The company, it is said, plans to sell $25,000,000 debentures to finance expansion. Probable bidders: White, Weld & Co. and Shields & Co. (jointly); The First Boston Corp.; Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; Lehman Brothers; Kuhn, Loeb & Co.

● **United Air Lines, Inc.**
April 13 stockholders voted to increase authorized cumulative preferred stock from 94,968 to 300,000 shares, and increase from 2,500,000 to 5,000,000 shares the authorized common stock. W. A. Patterson expressed the belief the company should be in a position to raise additional capital in 1948 if market and other conditions permit. Traditional underwriter, Harriman Ripley & Co., Inc.

● **Virginia Electric & Power Co.**
April 14 reported company contemplates new financing in the aggregate of $47,000,000 to complete its expansion program. Probable bidders include: Union Securities Corp. and Kuhn, Loeb & Co. (jointly); Stone & Webster Securities Corp.; Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Merrill Lynch, Pierce, Fenner & Beane and Hallgarten & Co. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); White, Weld & Co.

● **Western Maryland Railway**
April 10 annual report stated company is giving consideration to the maturity on Oct. 1, 1952, of its 4% non-callable first mortgage bonds and is accumulating cash for the reduction of the debt. About $2,000,000 set aside for the debt reduction has been invested in government securities and $2,032,000 of the bonds have been purchased in the open market, reducing the amount outstanding in the hands of the public to $44,601,000. It is possible that prior to maturity the bondholders may be given the privilege of exchanging a portion of the outstanding bonds for new general first mortgage bonds. Kuhn, Loeb & Co. and Halsey, Stuart & Co. Inc. are possible bidders for the new issue.

The New British Budget

(Continued from page 6)

pools from 10% to 20%, and we shall tax bookmakers at the dog races, according to a scale of so much a night, varying from £6 to £48, according to the enclosure in which the particular bookmaker carries on his business. That will bring another £11,000,000 a year from betting.

Increase From Drinks, Tobacco And Betting

All of it, drinks, tobacco and betting, the whole lot, will give us only about £76,000 000 by way of increase of revenue, which is not enough for the very special circumstances of this year. So we propose a special once-for-all direct tax contribution from those who can best afford to pay it, that is those with large sums of invested capital. It is really a special levy to help to fight the inflationary pressure and will in many cases, perhaps in most cases, be paid out of capital. It won't affect any one with an income of less than £2,000 a year or those with an income of over £2,000 a year whose income from investments is less than £250 a year. Above those limits there will be a graduated contribution up from two shillings on the pound on investment income between £250 and £500 up to ten shillings in the pound on investment incomes over £5,000 a year. In other words, no special contribution is taken from people unless their total income is over £2,000 a year and they have more than £250 a year from investments.

Altogether, we hope to raise £105,000 000 from this special once-for-all contribution; not all of it will actually come in this year. I hope that every one who has to contribute will appreciate how much they are helping to counter the inflationary pressure and all its evil consequences.

Reduction of Purchase Tax

The rest of the taxes will remain practically the same as last year, except for the relief which I'll now tell you about. Let us deal with the purchase tax first. We rearranged that so as to make it much easier to understand, and we simplified it by having only three rates of tax in future, 33⅓%, 66⅔%, and 100%. The exempt classes of goods remain practically as they were, with one or two special exceptions. The reductions come about by bringing down the present 50% tax to 33⅓% on a very wide range of goods such as hats, haberdashery, carpets, floor coverings, carpet sweepers and ironing boards, tooth brushes, toilet soap, stationery, toys, games and sports, and a number of others. The rest of the present 50% class goes up to 66⅔%. These are the less essential goods like non-utility furniture and furnishings, photographic goods, musical instruments, wireless sets, trunks and bags, clocks and watches, and so on. The reductions in the purchase tax amount in all to £50,000 000 a year, and this should be reflected quickly in the price, and I hope you will watch to see that they are.

The increase on the less necessary goods I have mentioned amounts to £26,000,000, which gives us a net decrease of £24,000,000. The way this should work for an article, let's say a pair of knitted gloves, is like this: the tax is being reduced from 50% to 33⅓%. If the wholesale price is six shillings, and the present purchase tax three shillings, it is now being sold retail at 12 shillings. With the reduction in purchase tax, the new retail price will be 11 shillings, which represents a saving of a shilling to the purchaser, or at the rate of one and eight pence in the pound. That, I hope, will be a real help to the housewife in her shopping, especially if the manufacturers and retailers carry out their promise to help this price reduction too, that would mean a big saving.

Big Income Tax Reliefs to Worker

Now I come to the big income tax reliefs. Our object is to reduce the top rate of tax the worker will normally have to pay. The first thing we have done to bring about this reduction is to increase the earned income allowance. At present we are allowed free of tax one sixth of everything we earn. This means that for every pound you earn the most you can be asked to pay in tax is nine shillings less a sixth, that's seven and six pence. We are now going to increase that tax free allowance to one-fifth, the same as it was before the war. And this reduces the top rate of tax from seven and six pence to seven and two. We are also increasing the maximum tax free allowance from £250 on an annual earned income of £1,500 to £400 on an earned income of £2,000.

This increase in the limit is particularly to help technicians, professional men and managerial staffs. We feel they need some encouragement in the hard job that they are doing today. You know that at present, after you've had the benefit of the tax-free personal allowances and reliefs, whatever they may come to, the next 50 pounds is taxed at three shillings, and then 75 pounds is taxed at six shillings, and the rest at nine shillings in the pound. Now we propose to keep the first step of 50 pounds at three shillings, but to make the next step at six shillings 200 pounds instead of 75. If you take into account the tax-free earned income allowance I have already mentioned, you actually only pay for the first step two and five pence and for the second four and ten pence.

Let me give you a few examples of what this will mean. If you are a single person, then you won't reach the maximum rate of tax — which will be seven and two pence and not seven and six pence as now — until you earn eight pounds, 17 shillings a week. If you are a married man without children, you won't reach the seven and two pence rate until you earn ten guineas. And if you are married and have two children, then not till your earnings reach 12 pounds eight shillings a week.

Working Wives Helped

Then we particularly want to help married couples where the wife goes out to work. At present, although husband and wife get a very formidable special allowance, the married woman does not get the full benefit of the three shillings and six shillings steps of income tax because if the husband has already had the benefit of these steps at the lower rate, the wife after all her tax-free allowances goes straight on to the maximum rate for the rest of her earnings. In future, she will get the benefit of her lower rated steps on her earnings, just as if she were a single woman. That means that the husband and wife can each get 50 pounds at three shillings and 200 pounds at six shillings, and the benefit of the new earned income allowance of one-fifth. That will be a very great relief to their joint incomes.

There is another class of people with whom, I know, we have all great sympathy, the pensioner and the old people with modest incomes to live on. These reliefs will be of great help to them because pensions are counted as earned income; so do the investment incomes up to £500 of persons over 65. They will therefore get the extra earned income relief, and they will also get the full benefit of the lower tax rate, including the six shillings for 200 pounds of their income as against only 75 now. In addition, I propose to increase the exemption limit below which all incomes are completely free of tax.

All this will pass over £100,000,000 a year, and when you add that to the £480,000,000 of income tax relief already given by my predecessor, and the £400,000,000 a year in subsidies on food which we are going to continue, you'll see that a lot's been done to encourage and help the workers in these difficult times.

Though we are going to do all we can to economize in government expenditures also, we are not going to tamper with the social services in any way. We regard them as money well spent for the future of our country. This year they cost £408,000,000 —for pensions, insurance, and allowances, and so on, including the new health service. That's a figure which will no doubt grow in the future as the social services expand.

So the keynotes of our budget are to fight inflation and give encouragement to the producer and to the housewife and the person living on a small fixed income, all of whom really deserve it. The extra cost of this will fall on those who drink liquor, the smokers, those who bet and, to some extent, by way of purchase tax on less necessary goods. Not because anybody wants to penalize them, but because those things are not so essential for the family as food, clothing and household utensils of all kinds. The rest of the burden will fall on those who have considerable invested capital. They will be asked for this year of special difficulty to make this once-for-all contribution to solving our problems.

I want to ask you all — producers, workers and housewives alike — to help in this fight against inflation. Save, and don't spend except when it's absolutely essential. And I hope you will support the government policy for keeping down personal incomes and encouraging price reductions. If you'll do that and we can settle down to a high standard of efficiency in our production, we'll work our way out of our present difficulties, cooperating with our friends in the Dominions and Colonies and with the democratic countries of western Europe.

The magnificent promise of help which is now being made by the people of the United States of America is an encouragement and a challenge to every one of us. We must drive forward to improve the standards of our people and to strengthen the way of life of our free democracies.

This budget is part of our response to this challenge. But the final answer will be given by what all of us do in the homes, the factories, the fields, the mines and the offices of this our beloved country.

Missouri Brevities

(Continued from page 10)

first mortgage 3⅛% bonds, due March 1, 1978 at 100.485 and interest.

* * *

Stix, Baer and Fuller Co., St. Louis, announces that under arrangements made in conjunction with Goldman, Sachs & Co. it has borrowed an additional $750,000 from Metropolitan Life Insurance Co. on a 3¼% sinking fund loan due June 1, 1965. The proceeds are to be used for capital expenditures.

* * *

George K. Baum & Co. and Stern Brothers & Co., both of Kansas City, and Stifel, Nicolaus & Co., Inc. of St. Louis on April 1 participated in the public offering of an issue of $40,000,000 Ohio Power Co. first mortgage bonds, 3% series due 1978, at 100.99 and interest.

* * *

An issue of 100,000 shares of Parkview Drugs, Inc. (of Kansas City) preferential cumulative participating stock, par $4.50, carrying an annual dividend of 35 cents per share, was offered publicly on March 16 at $5.25 per share by Straus & Blosser of Chicago, Ill., and associates. The net proceeds are to be used to retire bank loans and increase working capital.

* * *

Dempsey-Tegeler & Co., St. Louis, recently offered to residents of Missouri only $250,000 5% sinking fund debentures due Dec. 1, 1962 of Wm. A. Straub, Inc. (Mo.) at 100 and interest. The net proceeds are to be used to pay for expansion and to provide additional working capital. The company now operates three retail stores, and a fourth is soon expected to be opened. Net sales for the year ended Aug. 31, 1947 amounted to $1,859,295 and for the three months ended Nov. 30, 1947 to $491,173, while net profits after income taxes totaled $20,094 for the fiscal year and $5,608 for the quarter ended Nov. 30.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

President Truman and Senator Taft appear to have been the not-so-incidental targets of the maneuvers of John L. Lewis in first closing down the bituminous coal mines and then reopening them or making a pass at reopening them.

Until the beginning of the week, this town was speculating wildly as to what Lewis was "shooting at" in closing down the mines, other than to hit at the operators and the country. There is no doubt that the latter two were targets. Industrial production received a severe set-back. With coal stocks reduced to a minimum, Mr. Lewis is from his viewpoint now in a beautiful position to argue with the operators again whenever his whim urges him to do so, say any time in the next month or so.

* * *

As everybody saw it, Mr. Lewis was on top of the world. He could prove the Taft-Hartley Act was a dud as an instrument for protecting the country against the shut-off of one of its most fundamental raw materials. At the same time he would stand out in front as the labor boss first challenging broadly what he called "the iniquitous Taft-Hartley law." Nobody dared put him in jail for two reasons. First, if he was jailed, the prospect of getting coal would become even more remote than it was up until Monday. Second, although hating Lewis, rival labor leaders would have been forced to go to his aid.

Against such considerations the risk of a fine and the censure of a Federal court were mere trifles.

* * *

Republicans in control of Congress would not have dared in this election year to have passed punitive legislation subjecting all labor to the rule of law—unless the coal shortage progressed so far as to endanger the lives of thousands. Had the strike continued much longer, Congress would have been forced, in order to resolve the immediate crisis, to have passed a law authorizing the Administration again to take over the coal mines. This would have permitted Lewis to wring from the Truman Administration the concessions he wanted.

* * *

As it worked out, Mr. Lewis seemed to make monkeys of just about everybody. He made the Truman Administration and the White House look silly, by keeping the coal strike going despite their frantic efforts to stop it. He made the Republican majority look futile by defying their Taft-Hartley labor law.

Mr. Lewis, however, by appropriate selection, removed the monkey curse from the Republican Congressional organization. He allowed Speaker Martin to make the decisive intervention which made possible the later reopening of the mines. Martin picked Senator Bridges, another leading Republican, to make the settlement. Only Senator Taft retains the curse, for he was passed over for Bridges.

* * *

One of the really hottest battles of the present Congress is now approaching a preliminary climax. On the one side are ranged the new dealers, including the big guns of the Truman Administration, "liberal" Republicans, and Senator Taft.

On the other side are ranged the economy-minded and conservative Congressmen, led by Chairman Jesse P. Wolcott of the House Banking Committee.

The issue is whether the Congress will vote hundreds of millions for public housing, and otherwise wet-nurse the housing industry with subsidiaries, inflationary credit devices, and the like. These include special accelerated amortization for rental units, a more glorious secondary market for home mortgage loans, appropriations for slum clearance, and "yield insurance" for rental properties.

* * *

This is an issue which is splitting wide open the GOP leadership in Congress, with Taft throwing his influence into the fray behind public housing, and the House leaders generally backing the opposition leadership of Wolcott. The latter has been one of the most influential members in the move to end government controls, and has been the greatest single Congressional influence for the wiping out of specific controls over the building industry.

* * *

On the one hand the House has avoided giving public housing any aid and comfort, even to denying such a proposition the forum of committee hearings. On the other hand the Senate has worked so hard for public housing that last year it reported out the Taft-Ellender-Wagner bill after only a couple of days of perfunctory hearings. This year the Senate Banking Committee reported out the Flanders bill, largely written by Truman's Housing and Home Finance Agency, with only two days of hearings, devoted to testimony from proponents of the bill.

* * *

In procuring the political materiel for this impending offensive, HHFA's activities are credited with being almost decisive. Taft generally has opposed inflationary mortgage features. Others favored such features but opposed public housing. HHFA was amiable to all. It not only "assisted" with writing the Flanders amendments to the T-E-W bill, it helped everybody else to write his amendments to anything housing-like. All Senate proponents have been neatly gathered into one tent for the omnibus bill. If State Secretary Marshall studied this politicking, he might want to hire some boys from HHFA, as able diplomats. Of course there were other powerful lobbies also working for the omnibus bill.

(Note: Under the law the HHFA can do all sorts of lobbying without running afoul of the lobby registration act. But if one runs a trade association, part of whose activities are devoted to fighting controls and public housing, he can be sure of getting a nice fresh indictment from the Department of Justice under any handy law.)

* * *

It is widely suspected that there are GOP Presidential politics in this developing scrap. The omnibus public housing bill is Taft's principal bid for support from the Left. Some say they doubt that Mr. Taft actually wanted to push this bill, but only to make a record for it. Yet there is nothing from the Senator to indicate any lukewarmness toward public housing. Even if the Senator did have any unconscious lukewarmness, the housing boys have maneuvered him into a position where he must work for his program.

And, because the T-E-W bill as modified by Senator Flanders with the liberal "assistance" of HHFA, is a vehicle intended to aid Senator Taft, just for that reason will the bill run into stiff opposition in certain House quarters.

* * *

The immediate climax is whether the big housing bill will pass the Senate. This issue may be settled today or tomorrow. Then the next question is what the opposition will do about it. Senator Taft will have the touchiest decision to make of all, assuming Senate passage of his bill. That will be whether to attach the big housing bill to the bill already passed by the House, extending the life of FHA's Title VI for one year.

Saving much explanation of technical parliamentary procedure, the effect of such a move would be to force a House vote on public housing and all the other fancy provisions of the Senate bill. Such a vote could be forced despite the wishes of the House leaders to "pigeon hole" the whole business. Also it could force a House vote despite the fact that public housing had not been reported by committee; that is, unless the House leaders can figure some smarter way to duck it.

* * *

As if to add to the diversion, Marriner S. Eccles, Vice Chairman of the Federal Reserve Board, took a shot at the omnibus housing bill negotiated after so much pains by that part of the Administration which doesn't have to issue periodic statements saying the government should fight inflation. Referring to proposed provisions of the omnibus bill setting up a secondary market for guaranteed mortgages, offering new guarantees under FHA's Title VI, and changes in Title II, Eccles wrote:

"These three proposals are of a type which would be appropriate for combating a serious deflation, and are the opposite of those appropriate in an inflationary situation such as we face today."

* * *

Incidentally, the fact that Mr Eccles went to the Joint Economic Committee to talk the need for legislation authorizing a stand-by power to increase required legal reserves of banks, shows that Mr. Eccles is taking seriously the promise he got from Mr. Truman when the President demoted him to Vice Chairman. That promise was that Eccles should handle legislative matters relating to control of inflation for the present session of Congress. Thomas B. McCabe, the new Chairman, apparently is going to be kept on ice this year so far as Congress is concerned. However, Senator Taft does not propose to leave the new Chairman on ice, but will ask him to state his views to the Joint Economic Committee.

If you read carefully the last quarterly report of the President's Council of Economic Advisers in conjunction with the accepted interpretation of affairs of all government economists, you will get an idea of a new role that the nation's banking system is supposed to play.

Outside of CEA it is universally believed that banks have successfully restricted the expansion of credit through the voluntary anti-inflation program in which the American Bankers Association took the leadership. While the CEA does not explicitly acknowledge this, it does intimate that inflation was in a fair way to be whipped but for the coal strike, the tax cut, and the new preparedness program.

Then CEA, like Eccles, renewed the demand for legislation authorizing a restriction of bank credit.

Thus it appears that banks are not only responsible for checking any operations of their own which would contribute toward inflation; they must also be made the means of offsetting every contingent economic development over which they have no control like, for instance, such little matters as a coal strike or preparation for war.

BUSINESS BUZZ

"Acme Employment Agency? I said 'send me a clerk'—not jerk!"