ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 167 Number 4692 New York, N. Y., Thursday, April 22, 1948 Price 30 Cents a Copy

Inflation Endangers Economy: Truman

President contends threatened inflation is grave menace to our economy, and pleads for enactment of his 10-point program presented to Congress. Cites tax reductions and proposed ERP along with greater defense costs, as intensifying inflation.

In a formal address on April 17 at the Annual Dinner of the Society of Newspaper Editors in Washington, President Harry S. Truman reiterated his demand, already made to Congress, for stand-by authority to control prices and wages, pointing out to his audience that recent developments show that voluntary restraints are ineffective and, because of ERP and the defense program, as well as tax reductions, inflationary tendencies have become stronger.

President Truman

The text of the President's address follows:

I am glad to be here tonight to speak to the American Society of Newspaper Editors. You editors make a distinct and important contribution to the operation of government in the United States. Your frank expression of views on current affairs has great value to our people in helping them to form their judgments.

It is because of the influence

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Why I am Opposed to UMT!

By PROFESSOR ALONZO F. MYERS*

Chairman of Education Department, New York University
President, Board of Higher Education, NEA

Educator opposes military training proposal because it would not solve army's manpower problems, would not provide adequate defense, might give nation false sense of security, and develop warlike spirit. Contends UMT would impose heavy tax burden on American people and remove a million young men annually from productive effort, thereby impeding production essential to provide aid to Europe and combat inflation in United States.

I oppose Universal Military Training because its adoption at this time could make no possible contribution toward solution of present military manpower problems. If we are short on trained military personnel at this time, we should not divert approximately 180,000 officers and enlisted men from military duty in order that they may train Umties. The campaign for adoption of UMT represents an effort on the part of the President and the War Department to stampede the Congress into adopting UMT now, not because it is needed, but because it has been judged by proponents of UMT that the present period of war hysteria is a favorable time at which to get anything that may be demanded in the name of national defense, regardless of whether it makes sense or not. If we are on the verge of war with Russia, as the propaganda would lead us to believe, this certainly is no time to adopt UMT.

I oppose UMT because it can provide no adequate basis for the

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*Abstracted from an address by Professor Myers before the Associate Members of the New School for Social Research, New York, April 19, 1948.

Estate Planning in Practice

By EDWARD M. HEFFERNAN

Trust Officer, Ann Arbor Trust Company

Mr. Heffernan, continuing his discussion of estate planning, as published in previous issue of "The Chronicle," outlines procedure and equipment required in planning estates under various situations. Gives consideration to Federal and other tax liabilities and to method of handling insurance proceeds. Notes progress in educating public and better co-operation with legal profession, regarding estate planning.

In a general discussion of Estate Planning in an article in the "Chronicle" of June 5, 1947, the Estate Planner was compared with an architect who is required to draft a general plan and work out the details. Nevertheless, I realize that there probably are some questions still in the minds of many individuals as to the exact nature of the plans required for the proper and expeditious handling of their estates. It is the purpose of this article to show exactly what can be done for a customer by the writer. I shall explain step by step (see previous article for the 11 suggested consecutive steps) the various and complex phases of one particular case.

Ed. M. Heffernan

Perhaps it should be pointed out at the start just what "tools" are needed and used by the Estate Planner. He should have a basic knowledge of taxes, together with a set of the latest tax tables, as well as a wide background of trust arrangements and estate administration. He should also have

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EDITORIAL

As We See It

Wisdom vs. Panic in Defense?

For a good while past the thoughtful citizen has had good cause to wonder whether the authorities were proceeding in wisdom or in panic in matters that have to do with defense. At times it has been difficult to suppress suspicion that they were really not proceeding at all, but taking it all out in controversy and words. It must be said that the developments of the past few weeks have done nothing to allay these fears and doubts. Certain events of the past week or two must be regarded as having rather positively further stimulated them.

The particular point which has given such a bad impression of what is going on in Washington is, of course, the controversy about the air arm. Some little time ago someone dreamed up a sort of slogan known as a "seventy-group" Air Force. It may have a definite meaning to at least some military men, but few outside of a strictly limited circle could say precisely what such a program means in terms of an over-all total of planes, types of planes, and all the rest. Neither is it at all clear what many of the advocates of this program have in mind as to the period of time in which we should reach this level of armament.

But this "seventy-group" label has taken hold of the popular mind, or so it would appear from the be-

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Soft Spots in the Price Structure

By RAYMOND RODGERS*
Professor of Banking, New York University

Pointing out prices have dropped after all previous wars, Dr. Rodgers contends it is likely to happen again. Attacks theory price level will be maintained because of money supply, and bases future price trend on end of spending psychology. Denies in competitive economy, under modern marketing conditions, costs determine market prices, and decries reliance of business on ERP as basis for forecasting still higher prices. Contends wage increases in buyers' market are deflationary rather than inflationary.

History repeats itself, they say, but with a difference. Our problem on prices is how much difference: What does history have to say about the effects of our wars on our price structure? Subject to the limitations of all index numbers, let us make some quick comparisons on the basis of the 1926 wholesale price level as 100.


Raymond Rodgers

In the War of 1812 prices rose from 104.9 in 1811 to 154.6 in 1814, an increase of 47%. But by 1816 prices had dropped back to 103.5, which was even lower than the prewar level!

In the Civil War, using the same basis (1926=100), wholesale prices zoomed from 60.9 in 1861 to 132 in 1865, an increase of 116%. By 1868 prices had declined to 97.7 and they continued to decline until they averaged from 82 to 84 in the early seventies, which was 33% higher than the level prevailing just before the war.

In the same way, World War I wholesale prices rose from 68.1 in 1914 to 167.2 in May, 1920, an increase of 145.5%. From the World War I peak in May, 1920, prices dropped very sharply to a level about one-half as high in 19 months. Prices then tended to stabilize at about 40% above the prewar level until the depressed '30s arrived on the economic scene.

On a comparable basis, World War II wholesale prices rose from 77.1 in 1939 to 165.6 in January, 1948, an increase of 115%.

Prices have thus risen in all of our wars. They have also dropped sharply after all of our previous wars. Is it reasonable to expect that World War II will be an exception to this traditional pattern?

Well, World War II price behavior is already an exception so far as the duration of the peak levels is concerned. It is now nearly 33 months since V-J Day and prices are still at peaks in many lines. This is in sharp contrast to the declines, which started in soon after the end of the War of 1812 and, also, soon after the Civil War. As for World War I, the price break came 16 months after the end of hostilities. In fact, the World War I price decline was practically finished in 33 months whereas the World War II price decline has hardly begun, **assuming that it has begun!**

Clearly, if the history of our previous wartime inflations teaches us anything, it is that a sharp break in the present general level of prices is inevitable, and, moreover, that it is 15 months overdue!

Many students of business, however, especially businessmen, feel that the basic economic factors underlying our present price structure are so different from those in our previous postwar price structures that only a minor price readjustment is to be expected. Their arguments will now be examined and considered, one by one.

*An address by Professor Rodgers before Supervising Examiners Conference, Federal Deposit Insurance Corp., Wash., D. C., April 14, 1948.

Effect of Money Supply

The most widely and most insistently advanced argument is that the enormous increase in the quantity of pocket money and bank deposits make a "high" price level inevitable. They point out that during the war period "folding money" in the hands of our people increased from $6,401,000,000 in December, 1939, to $26,600,000,000 in December, 1947. By way of comparison, $3,639,000,000 did the "money work" in 1929 and that was the end year of a roaring boom. Total bank deposits (demand and time, adjusted) increased from a December, 1939, figure of $57,698,000,000 to a December, 1947, total of $144,600,000,000. Or taking demand deposits (adjusted), which function as money even better than the "folding money" mentioned before, we find an increase from $29,793,000,000 to $86,900,000,000 for the same period.

Pocket money is thus more than four times its prewar volume and demand deposits are three times the prewar level. While these increases are enormous, it should be clearly understood that they are passive; that is, other than psychological influence, they affect business activity only to the extent that they are used. To the extent they have been used, they have been the primary means of inflation, but they were not the real cause. By the same token, huge deposits and pocket money will not prevent deflation, or even cushion the recession, unless they are used by the public. In human affairs, inclination is the criterion—demand is the controlling factor. A lot of businessmen are "kidding" themselves on this score.

To show you the importance of inclination, please note that despite our enormous volume of money and demand deposits, bank loans in 1947 increased $7,452,000,000 to a total of $43,100,000,000 at the end of the year. Although most people would say this was caused by high prices, actually, inclination caused the creation of this new purchasing power.

The quantity of money argument relies too heavily on behavioristic psychology. If the American people were unthinking automatons, if they were electric tabulating machines in which the answer is absolutely predetermined by the material placed in them, then price would be simply a function of quantity and there could be no question about the future of the price level. But the American is a living, breathing compound of hopes and fears. Contrary to economic law, which presumes that *homo economicus* is rational, the American is, all too often, irrational and at times, even irresponsible. He spends when he should save; he saves when he should spend! In short, he is a law unto himself. He is an American, and any attempt to reduce him to a common denominator is foredoomed to failure.

Standard of Living Factor

In countries where the standard of wealth is low and the standard of living is little above the subsistence level, money placed in the hands of the people is immediately spent for necessities; but, in America, our standard of living is so high that our people have the choice of spending or saving. Likewise, our resources and opportunities to get ahead are so great that those who do not have the money to pay for the things they want to buy, have no difficulty in securing an enormous additional volume of goods by securing the necessary purchasing power from consumer credit channels.

This is not to deny the importance of the quantity of money and credit, it is merely to once more state an obvious, inescapable fact: **The mood, or "psychology," if you please, of the American people determines whether they spend or wait, and don't let anybody tell you differently.** As I said before, the quantity of "money" derives its chief importance from its effects on the "psychology" of the people.

Support of Agricultural Prices

There are others who maintain that government support of farm product prices will keep all prices up. They reason that government support prices on agricultural commodities will prevent the price of food from dropping very far and that since food is basic and fundamental in the economy, other prices will necessarily remain at high levels. This is indeed a weak and transitory support for the price structure because of the unprecedented price distortions arising from the extremely high level of agricultural prices. According to the Department of Agriculture, on Jan. 15, 1948, the index of prices received by farmers was 223% above the 1939 level, whereas the prices of non-agricultural commodities had risen only 80%. Even the farmers don't expect such a great maladjustment to continue very long!

The high-cost-of-food price-level-prop argument is cut out of the same cloth and has the same weaknesses as the high-cost-of-wages argument advanced by many observers. They insist that high wages necessarily mean high prices. Before the widespread unionization of the thirties this would have been too silly to discuss. Even with the wage increases and additional economic strength won by the unions in recent years, the fact remains that any such thinking puts the cart

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Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, April 22, 1948

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 3, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

Other Publications

Bank and Quotation Record—Monthly, $25.00 per year. (Foreign postage extra.) Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

The Fear That Follows Uncertainty

SEC and NASD a dual OPA. Their price control efforts contrary to our system of free enterprise. Commission will not define doctrine of reasonable relation to market price which it created. Dealers in quandry. Acting at their peril gives rise to fear. Investment field continuously provoked. Budget allowance a waste. Emergency over. Commission should be abolished.

Of all the many activities of the Securities and Exchange Commission which have plagued underwriters, dealers, and brokers, the emergence of the Commission and the National Association of Securities Dealers as a dual OPA in the securities field, is the most pressing and unnerving.

The attempt of these organizations to control prices, to dictate reasonable "mark-ups" without an eye to profit, has disturbed the equilibrium of the entire industry.

Accustomed to operate a free and open market in an economy based upon the principle of free enterprise where the fluctuations of supply and demand were controlling, dealer-brokers, through the devious activities of the SEC and the NASD, find superimposed upon them the "5% yardstick" and the principle of "reasonable relationship to market price" of the first Hughes case.

Why those dealing in and selling securities should be chosen as the whipping boys is hard to fathom, since the public is more investment conscious now than it ever was and its knowledge of the factors which go into the appraisal of securities has considerably increased.

The old cry of the deluded widows and orphans has long been exploded because, quite generally, those who invest and are unknowing seek the advice of investment counsel.

Of course, there still arise isolated instances of malpractice and there always will be. Perfection is an ideal which we approach but never completely achieve.

The sad commentary is that our regulatory bodies in the securities field treat dealers and brokers as if they were a pack of thieves and cite some of those isolated instances as justification for such treatment.

These bodies ignore the high plane and standards that prevail generally in the securities field today.

In creating so-called price standards and regulations, the SEC and the NASD no doubt consult with each other and when these standards are finally enunciated by the respective bodies each quotes the rules and regulations of the other as authority as if the results of their respective efforts were independently arrived at. That impresses us pretty much as if the Devil were quoting Scripture.

Naturally, dealers and brokers, who are subjected to these edicts, try to determine what they mean, what is expected of them. Can they do so? Let us see.

What does "reasonable relationship to the market price" mean? How much of a mark-up may a dealer accept without being subject to criticism? What is the maximum mark-up that he may take?

Since the SEC as doctrinaire has established the principle of reasonable relationship to the market price in the first Hughes case, you would naturally expect to get the answer from the Commission.

What does the SEC say?

Listen to the Chief Counsel of its Trading and Exchange Division, Mr. Louis Loss: "Another question which in the nature of things was left unanswered in the first Hughes case—and which the Commission, I would guess, is not likely to attempt to answer — is precisely what spread is reasonable in relation to the current market in all cases."

If the author of the product won't tell, who will?

Will the Commission at least formulate a set of rules and standards by which reasonable relationship to the market price can be determined? What elements are to be considered? Is there to be any profit? Is the period during

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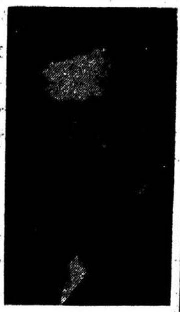
The Outlook for the Stock Market

By HEINZ H. BIEL*
Economist, Laird, Bissell & Meeds
Members, N. Y. S. E.

Pointing out business conditions though generally good, are shady in spots, Mr. Biel contends investors are beginning to fear not only deflationary effects of fiscal and credit policies, but also adverse results of threatened reduced earnings because of high break-even points of business concerns.

I have accepted with mixed feelings your invitation to discuss the outlook for the stock market. It is an honor to talk to you, gentlemen, who form the vitally important link between the broker and the investing public. But I must confess to apprehension. It seems that I have been chosen to state the case for the "bears," and a bear among customers' men is about as welcome as a bull in the china shop.



Heinz H. Biel

But a bear is no more your "enemy" than the weather forecaster who predicts rain. It is a mistake to listen only to the sweet music coming from the "bull" side. We can not afford to indulge in wishful thinking. We must face the fact that we have chosen a profession where errors in judgment show up fast. When a physician makes a wrong diagnosis, the patient may never find it out. When a lawyer gives bad advice, he can blame it on the ambiguity of the law. But when we are wrong, the customer loses money—and that is where the argument ends.

The customers' broker can be bearish and still do business. If he keeps his clients' accounts liquid, they will have the buying power to take advantage of major rallies. Besides, better switch opportunities and greater value discrepancies are usually found in a bear market.

So much for the apparent, but

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*An address by Mr. Biel before the Association of Customers' Brokers, New York City, April 15, 1948.

By SIDNEY B. LURIE*
Statistical Dept., Paine, Webber, Jackson & Curtis
Members, N. Y. S. E.

Mr. Lurie contends, because of inflation, stocks will remain above prewar levels, but a downward readjustment may be completed before postwar business stabilizes. Predicts, however, a 190 industrial stock price average before Labor Day.

When Eddie Tabell invited me to discuss the stock market outlook with your group, I was a little hesitant about accepting even though it meant an audience for my views. This timidity stemmed from more than the fact that I make no claim to being the sole possessor of the answer to the $64 question; we're in a business which requires positive opinions and, right or wrong, I have mine and you have yours. Rather, my hesitancy reflected the fact that I don't want to be "Lucky Pierre"—and right now we are in the middle of a market phase bounded by an already established trading top and the Italian elections. Further, it is impossible for me to discuss the long-term outlook when I don't think there has been any such animal as long-term investment policy since the spring of 1946.

Sidney B. Lurie

For these reasons I am not going to hew strictly to the announced subject matter of today's forum. As a case in point, let's first consider the money making opportunities the market offers the realist. And by realist I mean the customers' broker who recognizes the New Look to the market—a look which requires a fresh approach, avoidance of the popular cliches so dear to all of us. This point can't be overemphasized, for once we understand

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*A talk by Mr. Lurie at meeting of the Association of Customers' Brokers, New York City, April 15, 1948.

By ARTHUR J. MESSING*
With Herzfeld & Stern
Members of the New York Stock Exchange

Mr. Messing looks for continuation of present bull market, led by the Rails, with minor reactions taking place from time to time. Says recent stock market rise has powerful base which was built up during February and March.

Technically speaking, a new chapter in Stock Market history has been written by the action of the market from the early part of February up to the present time. Market technicians of the future will write chapters and books on what will become known as "The Great Island Reversal of 1948." I shall endeavor later to explain in some detail what in time will, I think, become regarded as the most classic of stock market formations; together with the implications which I think that we can draw for the future from this most powerful of formations.

Arthur J. Messing

Before setting forth my conclusions, I think it best first to describe the very powerful formation which the market has outlined during the past two months. In order to follow the description, the Times chart should be before you. On Feb. 10th, a downside gap was left open between just under 111 and just above 110. This was what is known as an exhaustion gap, indicating final exhaustion of selling pressure. Thereafter, for almost six weeks, the market traded in a very narrow range with four distinct ascending bottom. The long trend line through the prior tops was decisively penetrated on the upside on Thursday, March 18th. On Friday, March 19th, the top of the trading area was again reached, accompanied by heavy volume. On the next day, a gap opening occurred, also between 110 and 111 at the same place as the previous exhaustion gap. This obviously was a breakaway gap, and left all of the period from February 10th to March 19th as an "Island"; the most powerful and dynamic formation possible. And so rare, that I believe that it will become a classic formation for future writings.

The dramatic advance which the Stock Market has experienced during the past four weeks indicates in no uncertain terms the powerful base which was being built up during the latter part of February and the early part of March, and the dynamic effect of what I call the "Great Island Reversal of 1948."

We are probably completing at this level only the first of a series of upward legs in a new phase of the advance. Without in any way modifying the bullish implications of the recent formation, and the expectation of considerably higher stock market prices over the months ahead, I feel that I would be remiss in my duties if I were not to call attention to the possibilities of a minor reaction developing from around these levels. This should prove a welcome opportunity for those who are not as yet fully invested to become

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*Substance of an address by Mr. Messing before the Association of Customers' Brokers, New York City, April 15, 1948.

By NICHOLAS MOLODOVSKY*
Of White, Weld & Co.
Members, N. Y. S. E.

Maintaining outlook whether for war or for peace is not bullish, and stock market situation is unstable, Mr. Molodovsky predicts slowing down in demand for stocks and a narrow range of stock prices in current year.

Before I take you by your collective hand and guide you through the winding paths of wisdom, to the sure and certain knowledge of what the market will do tomorrow, the day after, and for years and years to come, I would like to make a confession and to give a warning.

Nicholas Molodovsky

Prior to this last rise, I thought that the intermediate decline from the highs of last July would establish new lows before the next intermediate uptrend could develop. But the rise began from a higher level than I had foreseen. This shows the limitations of my prophetic powers.

I should also caution you against a possible personal bias. I have been a bear for a long time and this might have created a deformation in my thinking. Nobody likes a bear. In his famous book, "Three Men in a Boat," Jerome K. Jerome gave a good illustration of the normal reaction against pessimistic forecasts. It is a long time since I read this book and I did not remember the passage in question. I have borrowed it from a book that I have been privileged to see in manuscript, due to appear in the near future. It is Joseph Mindell's excellent work on the stock market I recommend it to all of you as required reading. Here is the passage:

". . . who wants to be foretold the weather? It is bad enough when it comes, without our having the misery of knowing about it beforehand. The prophet we like is the old man, who, on . . . a gloomy looking morning . . . looks around the horizon . . . and says:

"'Oh no, sir, I think it will clear up all right. It will break all right enough, sir.'

"'Ah, he knows,' we say, as we wish him good morning, and start off; 'wonderful how these old fellows can tell!'

"And we feel an affection for that man which is not at all lessened by the circumstances of its *not* clearing up, but continuing to rain steadily all day.

"For the man that prophesies us bad weather, on the contrary, we entertain only bitter and revengeful thoughts.

"'Stupid old fool!,' we mutter, 'What's *he* know about it?' And, if his portent proves correct we come back feeling still more angry against him, and with a vague notion that, somehow or other, he has had something to do with it."

For a long time I have prophesied bad weather. So please be forewarned of my basic pessimistic slant.

Let us assume for a moment that the American rearmament program, once it gets going in earnest, will scare the daylights out of the leaders of the Soviet

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*An address by Mr. Molodovsky before the Association of Customers' Brokers, New York City, April 15, 1948.

Upholds Competitive Bidding in Effecting Utility Financing

Cyrus S. Eaton of Otis & Co. issues statement attacking speech of George Woods of First Boston Corporation, appearing in last week's "Chronicle."

In a statement released April 20, Cyrus S. Eaton of Otis & Co., investment bankers in Cleveland, Ohio, placed himself in opposition to George Woods, Executive Vice-President of The First Boston Corporation, who on April 9, in an address at the 15th Annual Conference of Southeastern Electric Exchange, in Boca Raton, Fla., called for an end to competitive bidding in public utility financing on the ground that it was handicapping the sale of securities. (See "The Chronicle," April 15, 1948, page 1.)

Cyrus S. Eaton

The text of Mr. Eaton's statement follows:

"The proponents of competition in public utility finance are not going to stand idly by while the Wall Street monopolists urge a return to the thoroughly discredited old racket of banker domination of the public utility industry.

"We recognize the Boca Raton speech of George Woods, Executive Vice-President of First Boston Corporation, as the opening gun in a campaign to destroy the great advances of the last 10 years toward true democracy in finance. We are going to fire back with both barrels.

"Mr. Woods' address is a restatement of the same lame arguments that previously failed to persuade Federal and State authorities to let the public interest continue to be sacrificed to Wall Street money ring's desire for easy profits.

"First Boston has consistently declared itself the arch enemy of competition, and it has obviously been smarting under the necessity of having to compete for business that once was its 'sacred' prerogative. Since consolidating with Mellon Securities Corporation last Summer, First Boston has, of course, had a double incentive to get back the public utility banking that both First Boston and the Mellon interests controlled in the days before competitive bidding."

John H. Patton Joins Paine, Webber Firm

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—John H. Patton has become associated with Paine, Webber, Jackson & Curtis, members of the New York Stock Exchange. Mr. Patton was formerly an officer of Burns, Potter & Co.

Houston Bonds Sold by Phelps, Fenn Group

A syndicate headed by Phelps, Fenn & Co., of New York, recently marketed $6,860,000 Houston, Texas, 2½%, 2¾% and 3% various purposes bonds at prices to yield the investor from 1.10% to 2.80%, according to maturity. The bonds are dated June 1, 1948, and mature serially on June 1 from 1949 to 1968, inclusive. The offering attracted strong demand from various investment sources.

The State of Trade and Industry

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

If the steel industry is to escape this year the imposition of strict government controls it must present convincing arguments against such controls. Before the coal strike most steel delivery promises were being met on time, but that good position no longer holds. Because of the loss of steel due to the coal strike, the Marshall Plan and the certainty of defense requirements, steel supply is now tighter than at any time in the past two years, according to "The Iron Age," national metalworking weekly.

The loss of steel because of the mine shutdown is far more serious than generally supposed and when the full figures are in, it will total more than 1,500,000 tons of steel, or an increase of 100,000 over the estimate made last week by this trade paper.

The apparent need for allocations will loom large soon, since the gray market barometer already points toward heavy activity. Such being the case, the steel industry will have to put up a tough fight to prevent steel distribution regimentation and it must also again defend itself on the capacity question which is sure to arise soon, the magazine points out.

A few of the arguments it can advance, according to "The Iron Age," are: (1) Steel loss since the end of the war because of strikes has been more than 20,000,000 tons, sufficient steel to have placed the industry on a normal balanced supply and demand pattern. (2) The industry has not had the money to expand under present reconstruction costs. (3) Many steel customers are taking more steel than they need and, because of the vast number of customers, policing of the end-use of steel is almost impossible. After 2½ years no one has been able to pin the responsibility of the gray market on the industry. (4) The steel industry is in business to make money and if wage rates are advanced it means prices will have to go up.

Despite all the industry's arguments at its command and with Congress in no mood for controls, the whole steel picture is entirely dependent on events abroad and the speed with which this country rearms, states the magazine.

The freight rate advance this week (averaging approximately 4.5%) is another hurdle for steel firms in their rising steelmaking costs. It is also further proof that the present steel price level is in for overhauling, after new labor costs are figured later this year.

Administration leaders who favor a straitjacket for steel are finding the current supply picture playing into their hands in their argument for controls, "The Iron Age" adds. The huge demands from the oil industry plus defense plans when added to the coal mine setback are enough to produce a temporary situation which looks as if it needs controls. Only the general negative tenor of Congress towards controls keeps them from being imposed in the near future. If the steel industry can get over this hurdle and get back to high output and stay there, the magazine concludes, it may escape a priority system which would produce untold confusion.

* * *

The coal strike which seriously imperilled the production of steel entered upon another phase of the dispute when Judge T. Alan Goldsborough of the U. S. District Court of the District of Columbia on Tuesday of this week fined John L. Lewis, United Mine head $20,000 and the United Mine Workers Union $1,400,000 for criminal contempt of court. The government, in addition to this penalty, is considering a jail sentence for Lewis should the miners fail to return to work. Approximately more than a fourth of the soft coal miners are idle in protest over their leader's contempt of court conviction. On Friday, Judge Goldsborough will act on a finding that Lewis and the United Mine Workers are guilty also of civil contempt for their frustration of the court's stop-strike order.

* * *

Over-all industrial production continued to decline slightly during the past week. Output in most lines was somewhat above the level of the corresponding week of 1947. While there was a slight rise in claims for unemployment insurance, total employment was sustained at a very high level. Labor disputes continued to hamper production in some lines and deliveries of raw materials were less prompt than in previous weeks.

The return to the pits of about half of the coal miners resulted in a slight rise in the output of bituminous coal, though output remained considerably below pre-strike levels. The drop in the supply of coal forced many steel makers to reduce their production schedules. However, for the current week scheduled steel operations show improvement.

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 80.0% of capacity for the week beginning April 19, 1948, an increase of 8.7 points, or 11.2%. This compares with 71.3% last week. A month ago the indicated rate was 95.7%.

This week's operating rate is equivalent to 1,442,000 tons of steel ingots and castings as against 1,285,200 tons last week, 1,725,000 tons a month ago, 1,662,400 tons, or 95.0% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

* * *

Mild weather in many parts of the country stimulated the demand for Spring merchandise and the response to special sales was favorable. Dollar volume of retail trade during the period ended on Wednesday of last week was moderately above the level of both the previous week and the corresponding week a year ago. Many shoppers continued to be selective and budget and basement departments well attended.

Wholesale dollar volume increased moderately for the period and continued to compare favorably with that of the like week of 1947. Retailers generally continued to avoid long-term commitments

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Observations . . . .

By A. WILFRED MAY

On the Road to "Planned" Confusion

A. Wilfred May

Successive publication of a new memorandum by the Council of Economic Advisers (*cf.* "Chronicle," April 15, p. 4) of the Congressional testimony of outgoing Reserve Board Chairman Mar-Economic Advisers (*cf.* "Chronicle," April 15, p. 4) of the Con-Truman's address before the American Society of Newspaper Editors (*cf.* cover of this issue) affords to us Americans invaluable insight into the characteristic complexities besetting the promotion of economic planning.

It gives additional evidence that our difficulties here, notwithstanding the visiting Professor Laski's demagogic exhortations to follow his British road to Utopia, are merely the counterparts of Europe's initial doses of the authoritarian poison.

There are many lessons available to us from the experience abroad. It is not realized that actually there is no planning *with a real plan* in any European country excepting the USSR. There has instead been merely an unwitting drift into collectivism. In country after country paralysis has set in from an *ideological belief* in planning, in lieu of instituting measures according to unified policies laid out in advance. Almost the entire emphasis has been fastened on removing the automatic controls, on changing for the sake of change.

Thus in England we see that the yearning for planning has resulted in a hybrid conglomeration of pseudo-management overweighted with destructive acts. The Laborites have only succeeded negatively in removing the test of the market place which matches up money units with the true value of available goods, in juggling the rate of interest without providing planning for the proper place and use of capital; which must end in the full conscription of labor as well as capital. Already, in spite of the cumulative piling-on of additional distasteful controls to "protect the socialist equity," Great Britain is faced with a complete misdirection of the nation's production.

Nationalization per se has not been the important issue. Its importance is confined to the fact that neither production nor distribution can move without central direction of all kinds, including licensing, which causes paralysis of individual effort.

It is monetary policy and related full employment ideas which have created and are still creating the very inflation about which the Socialist planners are professing to be so concerned.

Similiarly, Germany, although potentially very productive, after a long period of super-planning now finds itself with a completely paralayzed economy which is absolutely dependent on additional doses of control.

Washington's Flirtation With the European Pattern

Looking beyond the rhetorical inundations pouring out from Washington the two clear facts about our government's economic doings are that it is doggedly continuing to drive for the peacetime restoration of wartime economic controls; and that a good part of its confusion stems from the basic disagreement between Presidential advisers as to how far the planning and controlling should go. In lieu of blaming any individuals, we should remember that of course such dissensions and uncertainties together with motivations of politics, are an unavoidable component of planning operations.

Close perusal of the Economic Advisers' report with its inclusion of so many frankly-stated imponderables, gives this writer the distinct impression that actually the Council itself is uncertain whether we are headed for inflation or for deflation. Even the positive arguments for the likelihood of inflation, to which the demand for controls is tied, is hedged with so many if's, but's, and may's, as to render them completely worthless. Failure of the consumers' price index to fall may or may not be due to a time lag; important items like meat and rent may go up or they may go down: says the planning agency (honestly, but abortively for its purpose). Whether the Council actually expects that the impact of the European Recovery Program will function as the economy's elevator to a new plateau of inflation, or merely as the needed temporary stopgap against an impending depression and deflation, is still completely unclear—even after studying its report. The Council itself in one place states that the $3 to $4 billion program "would seem to be something the country could readily take in its stride," but with the reservation that at least dangerous effects will be felt in certain areas of the economy.

Controls Call For Non-Existent Forecastability

No one can berate the Council for its forecasting difficulties nor for the glaring errors in its past predictions. The Council's trouble rather lies in the fact that its own voluntary demand for controls is based on the premise of unachievable forecastability.

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Sees Oil Demand and Output in Balance

Although petroleum supplies of record proportions will be available to the nation during the coming year, according to an official estimate released, "the race to meet the enormous increase in consumption will be close, William R. Boyd, Jr. President of the American Petroleum Institute, said in making public a report of the Institute's National Oil Policy Unit.

William R. Boyd, Jr.

The Committee estimates the total supply of petroleum available to meet domestic consumption for the 12 months' period starting April 1, 1948 will average 6,025,000 barrels a day, or approximately 8% above the demand in the similar period starting April 1, 1947. "But, even with this increase, supply and demand promise to be in delicate balance," Mr. Boyd stated.

This estimate is based in part upon the forecast of the U. S Bureau of Mines that, for this period, imports of oil will average 102,000 barrels per day more than exports.

"If conditions outside of its control do not retard the continued expansion of the oil industry," Mr. Boyd declared, "all former records will be surpassed by quantities of gasoline and fuel oil produced during the coming 12-month period, and, if the public will practice reasonable restraint, deliveries will probably meet the increasing demands."

The estimate assumes that:

"There will continue to be freedom from governmental interference or controls;

"The excess of imports over exports will be at the levels estimated by the Bureau of Mines as of March 25, 1948;

"There will be no major interference with the industry's expansion resulting from strikes or disasters; and

"There will be no unusual delays or supply failures in the flow of materials, on order and planned, which are required to carry out the expansion programs during this period."

Proposals for Sound Banking

By JOHN J. ROWE*

President, The Fifth Third Union Trust Co., Cincinnati, Ohio

Holding present powers of Federal Reserve are fully adequate, Mid-Western banker urges banks be permitted to increase earnings and add to their capital. Says large bank deposits are result and not cause of inflation, and attacks plan to force banks to hold U. S. Government bonds in special reserve.

The Preamble to the Federal Reserve Act is as follows: "An Act to Provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

The origin of the Federal Reserve System stemmed, in my opinion, from the panic of 1907 when the actual supply of available currency ran out. The public, in great numbers, insisted upon asking for cash—in many ways as unexplainable as when cattle stampede.

John J. Rowe

Panic, in its worst sense, implies blind, black, unreasoning FEAR; often is psychological, and sometimes causes are not unreasonable. Inelasticity of currency was the first hurdle to jump; hence, that portion of the Federal Reserve Act.

The second aim, namely, to afford means of rediscounting commercial paper, has worked fairly well. The intent is thoroughly covered by the wording, but in the panic of 1929-1933 there were banks who had to pay heavy penalties for what was deemed to be excess rediscounting at the very time when they needed a low interest rate—at the very time when they needed to reduce expenses to regain solvency (somewhat like medieval days when a desperately sick man was bled, when the reverse was needed for recovery).

Today, borrowing by member banks at the Federal is practically wholly against government bonds which the banks (very rightly, in my opinion) consider their most liquid asset.

The third preamble proposed (a more effective supervision of banking in the United States) was believed to mean an improvement in bank examinations, but a steady and persistent growth in the idea of government management with the conviction that thousands and thousands of member banks should not think for themselves but need more and more all-wise and omniscient regulations by the few, produced a steady broadening of the definition of this word "supervision." More and more power was given to the Federal Reserve Board to issue regulation after regulation, so that today men active in the banks have to constantly refer to long series of Operating Letters by number and Regulations by letters, which now run through all of the letters of the alphabet. From A—Z.

Federal Reserve Supervision Adequate

If this is what the word "supervision" means, it seems to me that the present powers of the Federal Reserve System are fully adequate, and, in fact, more than adequate.

The thinking back of requests for greater powers seems to revolve about so-called inflation, the necessity to prevent further rise in price levels, and a desire to put a floor under the price of government bonds.

Economists seem to differ amazingly as to the causes of increasing prices, and unless there be an agreement among competent-thinking people as to causes it is impossible to gauge the adequacy of remedies.

The general thought seems to be that if one adds up total deposits in banks, and the total of E bonds in the hands of the public (payable on demand) plus paper money in circulation, the magnitude of the total is a self-evident cause of inflation, due to the size of this potential spending power. To my mind, this is almost completely incorrect thinking. As Charles Lamb put it—"The world is divided into two classes of people—the spender and the lender." In other words—the spender and the saver, and I think it is obvious that this is true.

Monies awaiting investment, saved to provide for the long range future, in an amount which obviously is unascertainable, should be deducted from the total "inflationary" money as being non-inflationary. This includes most "E" bonds and practically all savings deposits and currency in safe deposit boxes and the mattresses.

Next, there is a direct relation-

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*Statement of Mr. Rowe before the Joint Committee on the Economic Report, Washington, D. C., April 15, 1948.

Life Insurance Companies and Equity Financing

By GEORGE L. HARRISON*

President, New York Life Insurance Company

Contending life insurance companies, which channel $4 billion of savings annually into investments, have obligations not only to policy holders but to the economy as well, Mr. Harrison sees danger in use of these funds for debt creation alone. Notes recent authority in several states for life insurance investment in common stocks, and points out advantages and disadvantages. Asserts insurance investment in common stocks is not sufficient outlet for equity funds, and whole matter requires serious study.

My principal object today is to discuss the flow of money into savings and thence into the creation of capital—a flow which is as vital to our national economy as the bloodstream is to the human body. It is a subject with which the life insurance companies are very directly, very largely and increasingly concerned. Of course, it goes without saying that the primary obligation of a life insurance company is toward its individual policyholders. At the same time, and directly related to this responsibility, is the opportunity of life insurance management to make an important contribution to the more effective functioning of our economy. Indeed, it might be said that life insurance management as a whole has a great responsibility toward the flow of savings, not only as to increasing its volume, but also in directing it into the channels where it is most needed. The broad subject of capital formation in its various aspects is one of great concern to all of us who are interested in the continued welfare of our free enterprise system.

George L. Harrison

But first I would like to make clear that I am not using the term "savings" in its restricted sense as a deposit in a savings bank, but rather in the broad sense used by economists generally. For the individual, savings are the difference between income and expenses. These individual savings may go into capital formation directly. Or, through the payment of insurance premiums and indebtedness, or otherwise, they may go into such institutions as life insurance companies. From an economic point of view, the savings accumulated by life insurance companies are the difference between aggregate cash income and aggregate cash disbursements of the companies. Included in their income are the premium payments of individuals, living on farms and in cities and villages, who use their personal savings for this purpose. There is also investment income and other income. And before we can determine the amount of savings which the life insurance companies make available for capital formation we must deduct benefit payments and other disbursements.

Savings are fundamental to our free enterprise system and the uninhibited flow of savings into capital is essential to the proper functioning of our economy as we know it. Savings are converted into capital in the form of either debt or equity. If we hope to move ahead economically and on an even keel, the volume of equity financing must keep pace with the creation of debt. If it is not keeping pace, as some authorities argue, it might be well for us to explore this field more thoroughly, to study the various factors involved, and then to ask ourselves what, if anything, we can do about it. We should at least consider these questions because we know that life insurance is probably the most important single funnel through which the accumulation of personal savings flows into the capital markets.

Magnitude of Life Insurance Investments

While the writings on this subject are profuse, we know too little of the basic facts and we need to know much more, if we are to be able to calculate either the volume and rapidity of the accumulation of savings or the investment demands for savings. However, we do know that in recent years the annual accumulations of savings by life insurance companies as a whole are of great magnitude. Last year, for example, the aggregate savings accumulating in the hands of life insurance companies—and, as I have said, by "savings" I mean the excess of aggregate cash income over aggregate cash disbursements — amounted to about $3.3 billion. This compared with about $1 billion growth in savings bank deposits, about $1.2 billion growth of deposits in savings and loan associations and about $1.4 billion growth of time deposits in commercial banks. You can see, then, that the annual savings accumulations of the life insurance business may on occasions be almost equal to the annual aggregate of all these other forms of private savings combined.

But this does not tell the whole story. The savings that are channeled into the life insurance companies are greater than just the annual accumulations. For just as policyholders direct their savings into life insurance through the payment of premiums, so also do individuals, corporations and governments owing money on the mortgages, bonds or notes held by life insurance companies, turn over to us some of their savings through the redemption of their own debt to us. It has been estimated, for example, that during 1948 the life insurance companies as a whole will receive something like $1 billion from mortgagors in the amortization or repayment of mortgages, something like $200 million from corporations in the repayment of bonded indebtedness and something like $100 million from the Federal Government in paying off maturing debt.

When we add these savings through debt retirement to the $3.3 billion of excess income that I have previously mentioned, it becomes apparent that the life insurance business has a problem of investing funds which now amount to well over $4 billion per annum. And this is entirely apart from the proceeds of any voluntary sales of investments.

Utilization of Savings

One does not have to be a disciple of Lord Keynes to understand that there must be an equality in a healthy economy between money savings as they

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*An address by Mr. Harrison before the New York Chapter of Chartered Life Underwriters, New York City, April 16, 1948.

From Washington Ahead of the News

By CARLISLE BARGERON

The real story of Harold Stassen's campaign for the Presidency is one of the most arresting developments of our disturbed times. His progress, in fact, may be attributed to those very disturbed times and it adds to the disturbance. It is unquestionably a very disturbing thing. It has come to be disturbing to the Republican leaders. It should be disturbing to the country at large.


Carlisle Bargeron

You have here the spectacle of a young man who at the age of 41 is the complete political boss of his own state, Minnesota. He names its Governors and its Senators. Like the late Huey Long he is ambitious to increase his power. There are many other similarities.

Stassen has the likable personality that Huey had. He has the same unlimited energy and the same ruthlessness to attain his ends. He is not the rabble rousing demagogue.

It has long been taught in this country that every mother has a right to rear her son for the Presidency, and every son has a right to aspire to it. But when you consider that in all our history only 31 sons have attained it, and that of this year's crop of aspirants, Stassen is the least trained in the science of government, in industry, in the professions; the least qualified by any measurement, you can appreciate how his ambition has run complete rout.

His claim to the office is that he has been the Governor of a relatively small and uncomplicated State. This and his service as county attorney for a semi-rural county outside St. Paul constitute his career. More recently, of course, he has made his livelihood out of running for the Presidency, a most unusual way to make a living, indeed.

He has a simple and an appealing formula for settling problems. It has served to make leaders of business and industry and a lot of other substantial citizens listen to him seriously and gravely nod their heads and assert that he is what the country needs.

Are we having trouble in world affairs? Then the world leaders should sit down and talk across the table. When we have labor-management trouble, management and labor should sit down and talk across the table. It sounds so easy that you wonder why it hasn't been tried before, except that it has.

He has carefully avoided getting in on the settlement of any problems. He just tells the way to go about settling them. After his return from naval service he steered clear of the Senate, to which he could have been elected hands down, because there, men like Vandenberg and Taft, are daily confronted with taking action and not just laying down formulas.

In answer to an overwhelming public demand, Congress passes the Taft-Hartley Act. Stassen graciously gives it his approval. But he says he would have done it a little differently. On this basis he goes into the heavy industrial areas of Ohio and seeks to undermine Taft. He had reason to believe that the Democrats in those areas would be free to come into the Republican primary and help him but on this he seems to have miscalculated because the Democrats have developed a heated fight in their gubernatorial race.

Manifestly, this ambitious young man has ability. It is a Kelly-like or a Hague-like ability to organize. He got this apparently from his father who has long been the Republican boss of the Minnesota county in which young Stassen was reared.

At college he had the knack of organizing his fellows. As a county attorney he developed it. About this time, the Republican and Democratic party elders were encouraging the youngsters to organize but confining their activities to mostly social affairs. Young Stassen persuaded the second and third generation scions of Minnesota milling families and other families of wealth that if they would follow him, they could take over the State government. They did this by electing him Governor in 1938 when he was 31. When this youth crusade had completed its reorganization of the State government there was scarcely a gray head left in it.

From the day he was installed as Governor, he has been running for the Presidency. Throughout the country he and his young zealot associates have established an organization that would do credit to any of our big city bosses, which very much resembles the big city organizations except that those making it up are cleaner and in the blush of youth, more well meaning.

It has, and is spending perhaps, three times as much money as any of the other candidates, and unquestionably it must be reckoned with.

But what should be generally recognized is that it is not a Republican organization. It is in a sense a third party. It is outside the regular organization and should by chance, Stassen get the nomination at Philadelphia and win in November, it will not be a Republican victory. It will be a Stassen victory. He dominates his crowd. He is the undisputed boss something which many of his admirers do not realize. He would do to the Republican party what Roosevelt did to the Democratic. It would, in short, be more of one man rule.

The Paradox of the Airlines

By LA MOTTE T. COHU*
President, Trans World Airline

Leading aviation executive, in pointing out "startling paradox" of lower net earnings of the airlines, accompanied by increased revenues, lays blame on "confusion, miscalculations, and errors" on part of airlines themselves; their suppliers; their regulating agencies; and government aviation policy. Holds unless solutions are found, earnings results of airlines in current year will be no better than 1947. Says price inflation has nullified efforts to improve operating efficiency, and attacks inadequate government airmail compensation. Concludes, however, outlook is not hopeless.

In 1947 the airlines of the United States carried more passengers and cargo, did it more efficiently, and lost more money than ever before in their history. This startling paradox, of which there are few parallels in business history, is compounded from other paradoxes, confusions, miscalculations, and errors on the part of the airlines themselves, their suppliers, their regulating agencies, and the makers of basic government policy.


LaMotte T. Cohu

This paradox has grown also out of many uncontrollable factors, such as the complexity of the airplane and its operation, the difficulties of rapid expansion, and the disruptions of the political and economic worlds.

I don't believe that we in airline management can alibi for our errors; nor do I think we should blind ourselves to the causes of our plight. We should not deal lightly with the blunders of government nor with the stark realities of basic economic upheavals. Our job is to find out why the paradox exists and to do all in our power to remove its causes. For we do know that a sound network of airlines is just as necessary for the social and economic welfare of this country as for international security of the United States.

Record Traffic in 1947

Taking domestic and international flag-carriers as a whole, every class of traffic — passenger mail, express, and freight—increased in 1947 over any previous year. In 1947, for example, while passenger miles flown by domestic airlines increased only slightly over 1946, they were nearly six times those flown in 1940. Domestic express and air freight increased 112% over 1946 and amounted to a volume of ton miles 20 times the air express carried in 1940.

In the international field, the three American flag-carriers handled 85% of all air passengers arriving in this country over the North Atlantic route and 75% of those who departed, over the North Atlantic, for overseas points.

If all passenger arrivals from all foreign countries to the United States are considered for the year 1947, we find that the airplane brought in approximately 1½ times as many persons as did surface vessels. This is an increase, in seven short years, of more than 11 times in the volume of international air passenger business.

Lower Load Factors

These traffic increases came despite the return, in 1947, of near normal load factors, after a war period when we could handle only priority passengers and those few non-priority passengers with stamina to spend long hours at airports waiting for an occasional seat.

The airlines carried the traffic because of a prodigious increase in plane miles which resulted from the adding of hundreds of Constellations, DC-6's, and DC-4's to their operating fleets.

Personnel Reduced

Yet, with all this growth and with the complexities of breaking in new airplanes, as well as the costs of preparing for the inauguration of others, the number of employees on the domestic airline payrolls at the end of 1947 was approximately 10% less than those on the payrolls a year earlier.

In TWA, alone, the total number of employees have been reduced from over 17,000 (in the fall of 1946) to 13,000 at the end of 1947. And this reduction has been accomplished despite a 40.9% increase in the ton-miles of available capacity offered to the public.

Despite the record volume of business, and the successful efforts for improving efficiency, the airlines of the United States suffered losses of more than $22,000,000 in 1947. And, if the overseas airlines are excluded—and certain estimated profits for 1947 still depend upon undecided air mail pay—the loss for all domestic airlines exceeded $20,000,000.

Why the Paradox?

This paradox is not a one-year phenomenon.

The early months of 1948 indicate that, unless rapid solutions of the underlying airline problems are found, the results for the year 1948 may show a similarly discouraging picture.

Why this paradox? While the entire airline losses of 1947 *can* be attributed to governmental policies—both general and those specifically affecting the airlines —I would be less than candid if I did not admit our own mistakes and, at the same time, recognize those uncontrollable factors which have cost the airline business substantial sums of money.

In the wisdom of hindsight, it is easy to chide airline management for its mistakes. And I realize that one of America's favorite indoor sports has become this criticism of airline management's optimisms, errors, and struggles to plan the air transportation business on a sound footing with a vastly increased volume and scope. At the same time, these mistakes have contributed materially to the airline paradox.

Too Optimistic Planning

One of our principal mistakes was to plan too optimistically.

When, in 1944, domestic passenger business was nearly 50% above 1943 and when, in 1945, this

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*An address by Mr. Cohu before the Society of Automotive Engineers, New York City, April 15, 1948.

The Latin American Market Today

By W. A. RAFFERTY

Office of International Trade, U. S. Department of Commerce

Commerce Department expert reviews Latin American trade relations with U. S. and analyzes situation with reference to individual nations. Points out, because of wartime industrial expansion in various countries, present difficulties arise from increased competition from foreign imports. Notes steady decline in gold and exchange holdings of Latin America accumulated during war, and comments briefly on effects of ITO and ERP on future Latin American-U. S. trade relations.

All available facts justify the conclusion that Latin American imports reached their highest level in 1947. Although complete figures for 1946 are not available as yet, the value of imports in that year is estimated at $3,500,000,000. Partial figures reported for 1947 by 10 countries amount to $4.135 billion and it is estimated that the year's total for the twenty Latin American Republics will approximate $6 billion.

W. A. Rafferty

An improved supply situation abroad and growing inflation in most Latin American countries, coupled with deferred demand backed by foreign exchange holdings accumulated during the war years when the active trade balance of the area increased substantially, account for this high level of imports. A portion of the total represents increased prices, but volume also plainly registered gains.

A peak in imports obviously loomed as the year 1947 progressed and most observers were convinced that a decline could be expected in the course of 1948. Exchange and import controls in all but one of the countries exercising such controls—13 in number—were progressively tightened, as the demand for foreign exchange continued to exceed receipts. In other countries, especially those without stringent restrictions designed to control exchange payments — notably Cuba and Venezuela—the volume of consumer goods imports tended toward satisfying both the general demand and the special needs of stockpiling.

As competitive market conditions developed, there was a growing consumer resistance to high prices. Importers and dealers became more price-conscious and restraint in forward buying resulted.

In view of these developments it appears highly probable, particularly when one considers the tightening exchange controls, that total disbursements of exchange for imports and other purposes by the Latin American Republics during 1948 will approximate closely the area's exchange receipts during this twelvemonth. Exports, the principal source of foreign exchange, are expected to reach a point somewhere around the high levels of approximately $4.5 billion in 1946 and the estimated $5.5 billion for 1947. While complete data are not available concerning the use of exchange for purposes other than imports (such purposes, for example, as debt service, interest, insurance, freight and travel expenditures), there is reason to believe that such payments may amount to perhaps $1 billion—which would leave about $4 billion for the financing of imports in 1948.

Results of Industrial Expansion

Industrial expansion in many Latin American countries, especially Argentina, Mexico, Brazil, Chile and Colombia received substantial impetus during the war when imports were curtailed as a result of conditions of short supply and export restrictions abroad. During 1947, however, many of the war-nurtured industries encountered the competition of renewed imports, and pressure for increased protection arose.

While the principal reason for tightening exchange and import controls has been the desire to conserve exchange, protection has also played a part. In some countries, for example, Mexico, Peru and Chile, tariff increases on many commodities were enacted, partly for protective reasons and partly to reestablish the effectiveness of fixed specific duties vitiated by the rise in price levels. Upward revision of import duties has been talked of in a number of other countries, including Brazil and Colombia. Industrialization remains a major objective in certain of the larger Latin American countries and government sponsored or encouraged programs will continue to produce a strong demand for industrial machinery, equipment and raw materials.

During 1947, the United States supplied approximately 65% of the area's imports and took an estimated 40% of its exports. This compares with 33 and 32%, respectively, for the period 1936-1938. Increased Latin American exports to Europe since the war's end have cut down the United States share of Latin America's exports from 51% in 1944 to 40% in 1947; however, the United States position as a supplier has increased from 59% to 65%.

While the relative importance of imports into Latin America from within the Latin American area declined percentagewise from 27% in 1944 to an estimated 15% in 1947, their dollar value has remained near the level established in 1945 when, as a result of the stimulus derived from wartime trade disruption, intra-Latin American imports amounted to $590 million.

Latin America as a whole probably will record a small passive trade balance for 1947, owing largely to an import balance in its trade with the United States. The active balance developed with Europe is a limited asset at this time because of the inconvertibility of the funds acquired and the relatively scant availability, from much of that area, of essential import items. The passive trade balance with the United States has caused a drain upon accumulated dollar holdings necessitating, in many countries the tightening of existing exchange control measures in order to regulate further the outflow of dollars.

Decline in Gold and Exchange Holdings

It is reported that the gold and exchange holdings of Latin America declined from an estimated $4,450,000,000 at the end of 1946 to $3,736,100,000 at the close of 1947, a decrease of 16%. This decline was principally a loss of gold or dollars, since holdings of blocked currencies remained relatively unchanged.

While a decline of $714,800,000 in the total gold and exchange holdings of Latin America may seem insignificant, particularly in view of the large remaining balance, the case in certain individual countries is so salient as to deserve special attention. Argentine holdings declined $658 million or 38%: those of Brazil, $55 million or 7%: Mexico, $113 million or 50%; and Colombia, $51.4 million or 29%. These countries are among our largest Latin American customers. Dollar exchange holdings of a number of other countries declined also, but on a much smaller scale. Notable exceptions to the general downward trend in exchange holdings were Cuba, Peru and Venezuela; their gold and exchange holdings increased $220,100,000, $10,209,000 and $8,600,000, respectively.

Importance of U. S. Trade to Individual Countries

The importance of the United States in the total trade of Latin

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COMING EVENTS

In Investment Field

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

May 4, 1948 (New York City)
Security Traders Association of New York stamp tax meeting, Lower Church Hall, Our Lady of Victory Church, Pine & William Streets, 4 p.m.

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 11, 1948 (Pittsburgh, Pa.)
Bond Club of Pittsburgh Annual Spring Outing at the Chartiers Country Club.

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 9, 1948 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia Annual Summer Outing at the Tavistock Country Club, Haddonfield, N. J.

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.

Robert Lehman Director

Robert Lehman, Senior Partner of Lehman Brothers and President of The Lehman Corp. was elected a director of United Fruit Co.

Robert Lehman

Mr. Lehman also is a director of General Foods Corporation; Pan American Airways, Inc.; C. I. T. Financial Corporation; and Associated Dry Goods Corporation.

Gulf States Utilities Bonds on Market

Halsey Stuart & Co. Inc. and associated underwriters are offering to the public today $12,000,000 Gulf States Utilities Co. first mortgage bonds, 3% series due 1978 at 101.75% and accrued interest.

Net proceeds are to be used for general corporate purposes, including the payment of its present short-term notes in the aggregate amount of $4,500,000 and the financing of a portion of its 1948 construction requirements.

Regular redemption prices for the bonds are scaled from 104.75% to 100% while special redemption prices from 101.75% to 100%.

The company is engaged principally in the business of generating electric energy and transmitting, distributing and selling it in an area in southeastern Texas and in south central Louisiana, comprising approximately 27,500 square miles and extending from Deanville, Texas, on the west to Holden, La., on the east, a distance of over 350 miles. The company also sells natural gas and water in parts of this area. Approximately 13.5% of the company's total operating revenues is currently derived from the sale of electric energy or steam directly to the oil industry for refining, pipe line pumping and well pumping and drilling.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

Consolidated net operating profits for 1947 of 22 representative stock fire insurance companies are tabulated this week, compared with 1946 consolidated net. Figures for 1947, furthermore, show net investment income, net underwriting profits after adjustment for increased premium reserve equity, and Federal income taxes on both parent and consolidated bases.

Sixteen of the 22 companies report larger total net operating earnings for 1947 than for 1946. Two companies, viz., Agricultural and National Fire show a consolidated net operating loss.

In the March 25 issue of the "Chronicle," net investment income and net underwriting profits on a "parent" basis were tabulated, compared with 1945 and 1946. The 1947 "parent" figures tabulated in the current issue of the "Chronicle" should be used, however, instead of those given in the earlier issue, because some inaccurate adjustments were made for changes in the unearned premium reserve and distorted the underwriting results formerly shown. Figures for 1945 and 1946, however, were correctly shown, and may be used for comparison with the corrected 1947 figures.

The five companies marked with an * in the table own no affiliates, consequently the earnings shown as "consolidated" are the same as the "parent" earnings. All figures are derived from Best's publications.

It is interesting that seven companies experienced higher net underwriting profits, on a parent basis, in 1947 than in 1946, as follows: Boston, Great American, Hartford Fire, Home, Insurance of North America, Pacific Fire and St. Paul Fire & Marine. Furthermore, three companies, American Equitable, Fire Association and Phoenix, report net underwriting profits in 1947, compared with net losses in 1946.

Many of the companies are beginning to benefit from the rate increases which were made effective in 1946 and 1947 in various States. Since February, 1947, rates have been increased by most of the important New England and Middle Atlantic States, and by some of the Mid-West States. Additional States are likely to grant increases this year.

The full favorable effect of these various increases have not yet been felt and will not be fully realized until all policies written at the lower rates have matured.

It is pertinent to close with the following quotation from the current issue of Moody's Stock Survey: "Prices for insurance stocks as a group appear reasonable and the industry's longer-range prospects relatively favorable. Retention of these stocks for income is advised, generally."

1947 Earnings Per Share

	PARENT COMPANY				CONSOLIDATED COMPANY				1946
	Net Inv. Inc.	Net Und.	Fed. Tax	Total Net Oper.	Net Inv. Inc.	Net Und.	Fed. Tax	Total Net Oper.	Consol. Net Total
	$	$	$	$	$	$	$	$	$
Aetna Insurance	2.19	—1.09	Cr0.02	1.12	2.93	—0.83	Cr0.03	2.13	3.78
Agricultural Insurance	4.84	—8.02	----	—3.18	5.44	—10.00	Cr0.04	—4.52	4.05
*American Equitable	2.31	0.10	0.82	1.59	2.31	0.10	0.82	1.59	1.03
Boston Insurance	3.24	0.33	----	3.57	3.54	0.43	----	3.97	3.43
Continental Insurance	2.91	1.37	0.18	4.10	3.61	2.17	0.28	5.50	4.22
Fidelity-Phenix	3.25	0.85	0.10	4.00	4.18	1.91	0.23	5.86	4.81
Fire Association	4.16	1.21	0.14	5.23	4.63	0.94	0.15	5.42	2.75
*Franklin Fire	1.54	—0.30	----	1.24	1.54	—0.30	----	1.24	0.42
Great American	1.42	0.52	Cr0.01	1.95	2.13	0.75	Cr0.01	2.89	1.78
Hanover Fire	2.09	—0.67	0.02	1.40	2.23	—0.68	0.01	1.54	1.04
Hartford Fire	4.11	4.11	0.25	7.97	5.40	7.14	0.67	11.87	4.44
Home Insurance	1.75	1.93	0.41	3.27	1.97	1.84	0.33	3.48	1.21
Insurance of No. Amer.	4.44	1.71	0.18	5.97	6.21	1.25	Cr0.25	7.71	5.26
National Fire	2.84	—4.62	----	—1.78	3.79	—5.93	----	—2.14	0.10
New Hampshire	2.62	—0.44	----	2.18	2.89	—1.16	0.01	1.72	1.68
*North River	1.42	0.13	0.03	1.52	1.42	0.13	0.03	1.52	1.79
*Pacific Fire	6.59	6.72	0.24	13.07	6.59	6.72	0.24	13.07	6.90
Phoenix Insurance	3.74	0.81	0.08	4.47	4.61	1.54	0.12	6.03	3.50
St. Paul Fire & Marine	3.23	3.79	0.22	6.80	3.80	5.59	0.32	9.07	5.69
Security Insurance	1.73	—0.78	Cr0.10	1.05	2.52	—1.55	Cr0.42	1.39	—2.05
Springfield Fire & Mar.	1.88	0.48	----	2.36	2.20	0.35	----	2.55	4.35
*U. S. Fire	3.27	0.77	0.07	3.97	3.27	0.78	0.07	3.98	4.75

*Companies own no affiliates, hence consolidated earnings are same as "parent."

A Fair Wage for the Mortgage Dollar

By CHARLES FLEETWOOD*

Vice-President, The Prudential Insurance Co. of America

Mortgage expert calls attention to depressed and inadequate mortgage interest rates, which handicaps savings and investment as well as home building. Lays blame on prewar and postwar Federal mortgage aid policies, and foresees shortage of private funds for housing, if interest yields are artificially depressed. Says free enterprise system is endangered by low interest rates, which discourage incentive to save and invest.

The wages which mortgage dollars can earn have a profound effect that percolates through all our economy. In the final analysis it ends up with the one who is paying the wages and the one who is receiving the wages being almost indistinguishable in so far as the broad effect on our economy is concerned.

Chas. G. Fleetwood

During the last few months we have heard a great deal about the shortage of mortgage money. From what I can see, there really isn't a shortage of investment funds available to builders and buyers of real estate, provided they are willing to pay a fair rate of interest.

I should like to explore the situation with you today, and while we may not come up with an answer that will satisfy every one, perhaps we can clarify certain questions and you may be able to appreciate more fully the problems and the reasoning of an institutional lender, such as the Prudential. Before we start on this, I should like to tell you how we at the Prudential feel about mortgage investments.

*An address by Mr. Fleetwood at the Fourth Annual Long Island Mortgage Conference, Garden City, L. I., April 14, 1948.

You probably know that the Prudential has been an active mortgage lender on a nationwide basis for many, many years. In the eyes of our management and our able board of directors, mortgages always have been an investment bulwark. We believe in properly selected mortgage investments; we like to make loans on homes, farms, industrial, apartment and mercantile properties. If you will permit me to brag just a little, Texas style, I could say that over the years Prudential has made mortgage loans amounting to over $4.7 billion to a total of about 637,000 borrowers. We now hold mortgage loans in excess of $1.3 billion. We would like to see this account doubled and even trebled provided the result is a safe and profitable return on the funds of our policyholders. But—and here is the rub—mortgage interest rates during the past decade have been forced down by about one-third. During this 10-year period the cost of everything else, including our cost of doing business, has steadily increased. The result is that at present yields mortgage loans have lost much of their former attractiveness in comparison with other and more liquid forms of investment presently available. It costs money to produce and service a mortgage loan properly. Unless this cost can be met and something left over and above the net yields obtainable in government and grade A industrial securities, there is not much point in making mortgages.

Adequacy of Mortgage Interest Rates

I don't know how other insurance companies feel about this. I don't know what other institutions have done or will do. All I know and all I can say is that in the recent past we in Prudential have been mighty concerned about the inadequacy of mortgage interest rates. We have been concerned about our steadily rising costs of doing business. We are concerned because we wish to continue to make mortgages. Obviously, if costs continue to increase and interest rates are not permitted to rise, the yields will drop to a point where there is no incentive to make loans. That, we think, would be a bad thing for us, a bad thing for you, and a bad thing for the borrowing public.

Now that I am four-square with the world, we can go ahead and look at this mortgage situation in a completely objective manner.

Recently there has been a rash of articles and editorials in trade and financial journals about the so-called tightening up in the mortgage market. There seems to be a very soft market for GI 4% loans, and lenders apparently are no longer eager to pay high premiums and finder's fees for Title VI loans which bear 4%. The consensus as expressed by the articles I have mentioned is that the patient is in a pretty bad way. A great many bromides and panaceas accordingly are trotted out. Most of these are compounded of straight government aid or guarantees to be supplemented by a liberal transfusion of funds from the public purse.

An editorial in "The American Banker" is an exception to the general trend of thinking and to my mind cuts to the root of the trouble. In commenting on a proposal for the establishment of a secondary mortgage market, the editorial points out that such proposals are nothing more or less than a demand for government aid in staving off economic retribution. In place of any such palliative as this, "The American Banker" urged that steps be taken to permit the wages of investment money, and particularly mortgage money, to keep pace at least in some degree, with the increase in all other costs of housing.

I was glad to see "The American Banker" take this stand, for it parallels very closely my own views. At the same time, I regretted that the editorial could not have appeared in other papers also. The question of mortgage interest rates and their effect on home ownership and on our national economy is one which should be understood by the great general public. The only way it can be understood by them is through the columns of our newspapers and our magazines, and through the sound educational work that people such as you and I can carry out.

We cannot escape the fact that interest represents a large part of the ultimate cost of the average residential property, which is not paid for in cash but paid for over a long period of years. It is perfectly understandable that the buyer or builder of a home, concerned primarily in the advancement of his own interests, would like to see mortgage loan rates reduced to the minimum.

But let us—and I mean society as a whole and not just we who are in the real estate profession—look at the other side of the question. What do we owe to the sources of mortgage money?

Volume of Mortgage Loans

At the end of 1947, according to the most reliable estimates, the non-farm home mortgage debt of this country was approximately $30 billion. I understand that the total of new mortgage loans placed one one-to-four family non-farm homes reached $11.4 billion for 1947. Regardless of the astronomical character of these figures, the fact that must never be lost sight of is that the overwhelming bulk of that mortgage debt represents savings; the savings of our thrifty people—our men, women and, yes, even our school children. These savings are represented by life insurance contracts, savings bank accounts, pension funds, deposits in savings and loan associations and similar accumulations. And they will range from a $5 thrift account to five-digit fortunes—or more.

Why have all these millions of people, including some 24 million Prudential policyholders, sacrificed to set aside part of their earnings? They have done so in order that their savings might be put to work to safeguard their futures. They have added to these accumulations so that in their old age or under adversity they and

(Continued on page 35)

With Wefel & Maxfield

(Special to THE FINANCIAL CHRONICLE)

FT. WAYNE, IND.—Albert O. Pape is now affiliated with Wefel & Maxfield, Ft. Wayne Bank Building.

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Monte C. Coulter is now connected with Herrick, Waddell & Co., Inc., 1012 Baltimore Avenue.

NSTA Notes

NEW YORK STAMP TAX MEETING

The Security Traders Association of New York will hold a meeting on May 4 at Lower Church Hall, Our Lady of Victory Church, Pine & William Streets, at 4 p.m., to discuss New York State Tax Stamp legislation and possibilities of eliminating payment of the stamps. George Rieber of the N. A. S. D., representative of the Clearing Banks in New York City, and others are invited, so that the group may have the benefit of their experience in clarification of the laws.

Members of the New York Security Dealers Association are also invited to attend.

SECURITY TRADERS ASSOCIATION OF NEW YORK

Over 1,400 members and guests of the Security Traders Association of New York, Inc. attended the Twelfth Annual Dinner (April 19) at the Hotel Waldorf-Astoria, New York City.

After a few brief remarks by Association President John J. O'Kane, Jr. of John J. O'Kane, Jr. & Co., the gathering enjoyed a program of professional entertainment.

Pictures taken at the dinner will be published in the "Financial Chronicle" of April 29.

The annual bowling match between Philadelphia and STANY was held at the Downtown Bowling Academy, on Sunday, April 18. The match in which three teams competed was won by STANY. Following the games those in attendance retired to the old "German American Rathskeller" on Third Avenue at 17 Street, where a good old-fashioned "sauerbraten" dinner was served.

INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA

The annual summer outing of the Investment Traders Association of Philadelphia will be held on Friday, July 9, 1948 at the Tavistock Country Club, Haddonfield, New Jersey.

Speaker Martin Attacks Truman Anti-Inflation Plan

In Washington address, he says government controls will tend to encroach upon individual liberties and privileges, "exactly the principle on which the despotism of the Kremlin is based."

Speaking at the Convention of the Daughters of the American Revolution in Washington April 19, Joseph W. Martin, Jr., Speaker of the House of Representatives, expressed opposition to President Truman's program to combat inflation in the following language:—

Hon. J. W. Martin, Jr.

"We must prevent a great deception being practiced on the people. It is that we can have a few governmental controls, which can be exercised from time to time, but which will remain always just a few. It is the pretense that those controls will not tend to encroach upon the liberties and privileges of the citizens.

"Now the fact is a government with powers of control over part of the citizens' activities is under constant pressure to assume full control over the direction and speed of every part, big and little, in the whole economic machine. Such a government could deny anyone the right to earn a living. A government with such powers could make access to the necessities of life dependent upon obedience to its authority. It could tell you where you would have to live; what you would have to eat; how you should spend your leisure; how you must educate your children.

"Now, there is the picture of the compulsory state in all its naked ugliness. We want none of that in America.

"Controls necessary in war are not necessary in a peacetime economy. The objective of a war economy is to produce for the government. A peacetime economy is to produce for 145 million customers.

"When the government is the customer it knows what it wants. But how could government bureaus at Washington know what 145 million customers wanted?

"Then, on what principle would the government at Washington guide the national economy? Obviously, it would be on the principle that what somebody at Washington thought was good for the people would be done. That is exactly the principle on which the despotism of the Kremlin is based, and upon which the Russian economy operates.

"No people ever entered into the compulsory state through a door on which the price of admission was plainly posted, except in case of subjugation. There are many other entrances. But underneath the high-sounding slogans and the glitter of paternalistic scrollwork, they are all the same. The American people will not be fooled if they know the nature of this political shell game.

"Concentrated government is not successful government. It has always failed to give the people happiness, progress or prosperity. It has failed completely under the test of the last few years. Look at Russia and see what has happened there.

"For years, the Kremlin has held complete control of government, industry, agriculture, labor, and of every detail of the private citizen's life. The people are mere pawns. Yet that control has failed completely to produce efficient results. They have had worse inflation than we have had in the United States. Our tax rates are too high, but in Russia recently, they executed a 90% capital levy. Those who had saved lost nine out of every ten dollars they had. Russian living levels are only about a tenth as high as ours here at home. The prices of all goods and services in Russia are many times greater than ours. Men are chained, by governmental decree to their jobs in factories or on the land of the collective farms. Citizens are not permitted to have radios, telephones, automobiles, or any of the other comforts or luxuries of life. Wages are low and rigidly regulated by the rulers. Strikes are impossible. They would be settled—not by collective bargaining—but by the collective action of firing squads. There are grades and classes of living. The privileged rulers and their favorites deal at different stores than the rest of the people. They get better goods and lower prices. Most of the Russian people live in mud hovels, log huts, or else are packed into miserable, barren quarters which make even our crowded conditions seem highly luxurious."

Progress of Peru's Second Bond Exchange Offer

New York Stock Exchange reports record of bond exchanges only $9,405,000 to April 4.

The New York Stock Exchange informed us yesterday that only $9,405,000 of $81,580,500 Republic of Peru external bonds have been exchanged for new bonds under their June 26, 1947, offer, up to April 4, this year.

	Old Bonds Exchanged	Bonds Outstanding 6/26/47
7s of '59	$1,029,000	$8,728,000
8s of '60	5,276,500	48,383,000
8s of '61	3,099,500	24,469,500
	$9,405,000	$81,580,500

American investors are the principal owners of the three external issues, originally amounting to $115,000,000 which was reduced to $81,580,000 when Peru asked the bondholders to skip the nonpayment of 16 years bond interest and to accept a return of only 1% interest the first two years, 1½% the second two years, 2% the third two years, and 2½% to the maturity of the new bonds instead of the 6% and 7% which Peru solemnly obligated itself to pay investors on the three external issues.

Railroad Securities

Following the strange pattern that virtually all sections of the stock market have set in the past year or so, Illinois Central common stock late last week turned somewhat reactionary on good news. For the first time since 1931 the company has declared a dividend on its preferred stock. The distribution will be $3.00 a share, payable May 15. Now that the step has been taken, it seems logical to expect that the full annual $6 rate will be resumed and that later this year the management will give serious consideration to putting the common also on a regular basis.

Illinois Central was one of the few of the railroads formerly characterized as "marginal" that did not pay any dividends during the pre-war earnings recovery or the subsequent war boom. It was faced with what was admittedly a serious bond maturity problem in the 1950-1955 period. Its major financial energies, therefore, were first directed toward elimination of the debt to the RFC, and later to the reduction of the 1950-1955 maturities. This program has been singularly successful.

During the years 1941-1947 the company reduced its non-equipment debt by more than $108 million. During the same period equipment debt was cut by more than $8 million. Moreover, early this year the road called for tenders of all bonds in the 1950-1955 maturity range. It was prepared to utilize as much as $20 million of treasury cash for this purpose if the tender prices were considered reasonable. There were $13,635,000 of the 1950-1955 maturities acquired in this operation. The aggregate of debt reduction since Dec. 31, 1940, including leased line certificates, has been equivalent to more than $100 a share of common stock outstanding.

It is generally considered by railroad analysts that neither the total debt structure nor the 1950-1955 maturities may any longer be considered as presenting any real problem. As of the end of last year the 1950-1955 non-equipment maturities had been reduced to $103,948,000, exclusive of $1,208,000 Cairo Bridge 4s, 1950 for which funds have already been deposited with the mortgage trustee. They are now down to roundly $90 million as a result of the 1948 tender operation. Moreover, further substantial reductions are expected over the balance of this year. The company has more than $5,000,000 of the $20,000,000 it intended to utilize in accepting bond tenders. Also, it is contemplating public sale of $14,000,000 of equipment trust obligations, secured on equipment four or five years old. It is not likely that these bonds would be sold unless the company planned to utilize the proceeds for retirement of higher coupon mortgage debt.

With the debt problem to all intents and purposes solved, and with finances still more than adequate, it is natural to expect that stock holders may now finally look forward to some participation in the road's high earnings. This is particularly true inasmuch as large sums have been spent in recent years on property and equipment additions and betterments in addition to the debt retirement and the financial rehabilitation. Even with the new equipment trust obligations it is proposed to sell, the annual equipment maturities will still be below yearly equipment depreciation charges.

Earnings on the common stock last year amounted to $10.25 compared with $4.67 earned in 1946 without benefit of tax credits. For the industry as a whole the first two months of the current year were difficult ones. Operations were seriously hampered by weather conditions. For Illinois Central there was only a modest year-to-year drop in earnings, from $1.58 to $1.39 a share. March earnings were adversely affected by coal strikes and this undoubtedly carried into the current month. For the first four months, then, there will likely be lower earnings than a year ago. Nevertheless, and further stimulated by the rate increase announced Monday, the full year's results could well reach $12.00, or more, a common share. The stock is selling less than three times such potential earnings.

Anemostat Director

Edward A. Kole has been elected a director of Anemostat Corporation of America, manufac-

Edward A. Kole

turers of air diffusion control and measurement devices. Mr. Kole is a lawyer with offices at 39 Broadway, N. Y. City, who for years has specialized in the corporate, real estate and securities fields.

Northern Trust Co. Official Changes

CHICAGO, ILL.—The Board of Directors of The Northern Trust Co., Chicago, announces two staff changes. Norman McClave was promoted from Assistant Secretary to Second Vice-President and Robert L. Fisher was elected Assistant Secretary. Both are officers in the Trust Department.

Mr. McClave joined the bank in 1934 in the Messenger Division following graduation from Princeton University. Mr. Fisher became associated with the bank in 1941 following 13 years' experience with banking and insurance.

With Davies & Mejia

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Frederick C. Blumberg, Jr., and Hartley F. Hutchings have become associated with Davies & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges. Mr. Hutchings was previously with Sutro & Co.

Strong Railroads—Pattern for Prosperity

By F. A. DAWSON*

Vice-President, New York Central Railroad Company

Rail executive, citing railroad's role in promoting urban and industrial growth, as represented by Syracuse, N. Y., describes progress in furnishing additional railroad equipment. Points out importance of investor's role in maintaining efficient rail transportation, and decries heavy tax burden on railroad companies. Concludes nation without strong railroads is nation half crippled, and unless higher costs are matched by higher revenues, shipping and travelling services may be seriously jeopardized.

I am happy to be with you today, because this meeting affords me the privilege of participating in the celebration of the Centennial Year of the Greater Syracuse. One cannot come to your "City of Diversified Industry" without being profoundly conscious of the fact that here is a "Pattern for Progress and Prosperity." We of the New York Central are indeed proud to share in its design.

Fred A. Dawson

This pattern began to take shape over 100 years ago when salt became the foundation of your industrial life. As time went on and the lines of transportation were woven into the industrial fabric of Syracuse, the city began to develop and gain strength. The history of Syracuse is, indeed, the history of transportation. From the very days that tolls exacted from the salt industry helped to build the Erie Canal, transportation has been an integral part of your progress and prosperity. In fact, one of the principal reasons for the construction of canals and the development of railroads in this area was to facilitate the transportation of salt to the Atlantic Seaboard. The construction of these transportation routes soon was to make Syracuse known the world over as the "Salt City."

But railroad transportation, more than any other form, has developed hand in hand with the growth of this Hub of the Empire State. Over 100 years ago, the original village of Syracuse alone subscribed one-half of the total authorized capital of $800,000 for the construction of the Syracuse and Utica Railroad, a predecessor company of the New York Central System of today. The franchise of this little railroad gave it the privilege of carrying freight *in addition* to passengers, provided it paid tolls to the canal during the navigation season. Strange, how often the present mirrors the past!

Since that time, the bands of iron that once stretched through a dense forest and over spongy swamps to bisect Syracuse along its "handsomest street" have given way to the rails of steel which today, in very truth, have become the city's arteries carrying the lifeblood of its commerce and industry. Today, Syracuse lies as close to our hearts on the New York Central as it does to the heart of the nation's Empire State which we have served continuously for almost a century and a quarter. We are happy that we are part of this community. Together we have a vital stake in its Pattern for Progress and Prosperity.

It is against this background of traditional cooperation that you of this Greater Syracuse and we of the railroads must look ahead. Centuries ago, Confucius, the great Chinese philosopher, wrote, "Study the past if you would divine the future." We talk about the past and past experiences because we see in them valuable lessons for the present and future.

*An address by Mr. Dawson before the Atlantic States Shippers Advisory Board, Syracuse, N. Y., April 8, 1948.

Shippers' Advisory Boards

During the First World War, we did not have the same cooperative effort between shipper and carrier that was present during the Second World War. There was no organization to handle the large problems created by the emergency. Many of us recall all too well how thousands of freight cars were jammed up at the Atlantic seaboard awaiting unloading; jammed up because they had been ordered there despite the lack of ships; and how thousands of freight cars virtually became warehouses; because there was not place to unload them . . . all because there was no coordination of effort; no unity of purpose. The result of this chaotic condition was government control of the railroads.

But out of this melting pot of wartime transportation problems there flowed, in 1923, a plan for industrial and carrier cooperation on a nationwide scale. This plan called for the creation of Shippers Advisory Boards throughout the country. Shippers and railroads alike welcomed the opportunity thus afforded for joint consideration of mutual problems.

This closer teamwork offered opportunity for a clearer understanding of our common problems and resulted in improved transportation service. It is that same cooperation so effective in time of war which now, in time of a hopeful peace, is equally effective. The problems which today confront you of industry and us of the railroads are no less complex than those of war; the need for united effort is just as great as it was in time of war. Because you of the Shippers Advisory Boards, Traffic Clubs and the civic organizations of Syracuse have been so helpful in the past, I am asking for your continued assistance in the solution of the problems which now confront your railroads.

Scars of War

As they did over 25 years ago, your railroads, today, are struggling to recover from the deep scars received in the transportation battle of the most devastating war in history. Despite the physical wounds which they have suffered, despite the lack of adequate financial nourishment to heal these wounds, we of the railroads still have faith that the fundamental soundness of their constitution as vital arteries of our nation's economic system, both in war and in peace, will enable them to continue as a mighty power for economic stability and national security.

But the railroads require more than just faith in themselves. They require faith that those who daily depend upon the mass transportation service which the railroads—and only the railroads—can provide will see that a public policy is developed which will help to insure the continuance of their financial health and strength. That the railroads have an abundance of both kinds of faith was never better demonstrated than during the last war. Shippers and receivers of freight, the Shippers Advisory Boards and the Traffic Clubs all worked in close harmony with the military services, the civilian agencies of the government and the carriers. Such joint effort in a common cause proved once again that in unity there is strength.

As the backbone of our nation's transportation system, America's railroads constitute a mighty instrument for the strengthening of this unity. In very truth, the present and future welfare of the American people is linked inseparably with the welfare of our railroad industry. This pattern of interdependence presents a fascinating picture. Yet, its final design can be only as attractive as is our common skill in weaving together the many economic threads required to give strength and durability to the very fabric of our economy. Let us pause for a moment and examine just one part of this great national fabric—let us see just how closely the threads of commerce, industry and government are actually interwoven.

Area of New York Central

In this area north of the Ohio and Potomac Rivers and east of the Mississippi, served by the New York Central, I firmly believe that we have more to offer than any other section of the country. Within this territory are concentrated 52% of the United States' buying power; 66% of the United States' skilled labor; 75% of United States' bituminous coal and steel production; and the great ports handle 85% of the United States' Atlantic coast foreign trade.

Thus, in this area we have vast quantities of those important ingredients—natural resources, production, labor, markets—so essential to produce a strong pattern for progress and prosperity. In this pattern the railroads stand out in bold relief. Indeed, the number of employes for which the railroads are the direct means of livelihood would make a city six times the size of Syracuse. Three thousand of them located right here in this Syracuse area look to the New York Central for their wages which annually total about $9 million. Yes wages, which with pensions and payroll taxes in 1947, took over 57 cents of every revenue dollar we earned. And let us not forget that a very large part of that sum flows directly into your local commerce and industry. Thus we have a mutual interest in our common welfare, for the railroads likewise are dependent upon the patronage of Syracuse for their own livelihood.

Railroads provide not only for direct employment, but, through their purchases, they also provide indirectly for the welfare of those thousands of other employes in industries closely related to the railroads — materials and supply industries—in fact, all the way back to the farmer and the miner. It is estimated that last year railroad purchases of equipment, materials, fuels and other supplies amounted to over $2\frac{1}{2}$ billion. That is a huge sum, even in these days of astronomical figures! Its significance, however, lies more in the fact that although it represents a substantial increase over previous years, the railroads actually have no more material on hand than they have had at times in the past. Such is the price of inflated values! In fact, unit prices for materials and supplies have increased on the average of 74% since 1939, while freight rates

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The Railroads in 1947 and After

By WILLIAM T. FARICY*

President, Association of American Railroads

Railroad spokesman, commenting on railroad situation, notes progress in providing more equipment for expanded traffic in last year, but points out freight rates have lagged behind wage increases and material costs. Maintains railroads show lower return on investment than other industries and ICC has been niggardly in granting increased rates. Asserts railroads cannot afford third round of wage increases, and if granted, everyone will lose including workers themselves. In event of another war, wants rails and not government to run own business.

When I reported for work on April 1 a year ago in Washington, I found that by far the greatest problem with which we were confronted was the freight car shortage. Some of the member lines in different parts of the country were ready to fly at each other's throats, so to speak, and incidentally at mine, because of that touchy feeling even the best of people can get when a short supply of anything has to be apportioned or rationed.

William T. Faricy

The causes of the freight car shortage can now be seen as clearly as an egg in a coal bin. In 1942, the War Production Board, or its predecessor agencies, got so complacent about the railroads' performance that they cut our industry's steel requirements for freight cars at a time when its requirements should have been expanded. The war job of transportation was magnificently done, as all the world knows, but it took its toll of our freight car supply. Then came the surge of traffic incident to reconversion to peacetime pursuits, more traffic perhaps than most people had foreseen. For example, the coastwise and intercoastal steamship business, which had offered such stiff competition before the war, practically disappeared as an important competitive factor after the war. The maritime unions had caught up with the coastwise and intercoastal steamship operators, with the result that the railroads were asked to handle much of the freight that formerly had moved by water. Coincident with that development, there came a growth in our population beyond what had been predicted. Students of population statistics had thought that it would be many years before America would have as many as 150,000,000 people. Such a spurt has taken place in population growth the last two or three years that it now appears that by the end of year after next we are very likely to have 150,000,000 people in this country. This means more people to be fed and clothed, and housed. It means more schools and colleges, more facilities of every kind. It means more railroad business. The miracle of America's conversion to wartime production has been repeated in its conversion to the pursuits of peace. With it has come an amount of traffic that actually produced more loaded cars moved in 1947 than in the peak year of the war, and 45% more ton-miles than were moved in the prewar peacetime peak year of 1929.

More Freight Moved With Less Cars

With a half a million fewer freight cars than in 1929 and 50,000 fewer freight cars than in the war, the railroads moved last year's record peacetime traffic. That traffic included the largest coal movement in history, and the greatest wheat crop that our country ever saw. True, there were car shortages, particularly at the peak, last October, but at their worst they were less than one-fourth what we had had a quarter of a century ago, before the railroads and the Shippers Advisory Boards organized to handle an increased volume of business. A number of new operating records had to be set last year, such as a new low in turnaround time of freight cars, or the job could not have been done.

Last year the industry junked more freight cars than were built, but beginning in October the turn came, and now each month that goes by sees more freight cars built than are retired, so, at long last, we are gaining back some of the lost ground. And, of course, the new cars are larger and better in every way than those which they replace, so the overall carrying capacity of the American railroads is now definitely improving. This does not mean that the car shortage is over. We shall have again this fall a substantial shortage, and with the record production of steel, it is very likely that there will be a continuing shortage of gondola cars. But the railroads have on order 126,000 freight cars, which is more than can be built in a year, even if the long hoped for, but not yet attained, goal of 10,000 new freight cars per month is reached.

Freight Rates Lag Behind Wages

Another problem which was with us a year ago, and, to some extent, is still with us, is the devastating lag between increased wages in the railroad industry and compensating increases in freight rates. In 1946, we had had a lag of 180 days, which cost the railroads dearly. Every effort was made in the 1947 case to reduce that lag, and the Arbitration Board, in the non-operating employees case, recognized the force of the carriers' argument and made the award effective as of the time they put it out, instead of five months earlier, as had been urged by the Brotherhoods. By the time the Interstate Commerce Commission saw fit to act on an interim emergency application, and the rates could be made effective, 43 days had gone by, which is still too much of a lag. However, a cut from 180 days in 1946 to 43 days in 1947 is a good reduction percentagewise, as my old Chief would say, and we are hopeful that ultimately the Commission will come around to the view that it should act immediately when there is a substantial wage increase, and obviously no other way to compensate the carriers for it than to raise freight rates horizontally. There is no legal obstacle whatever under present law to the Commission acting immediately and without hearing to raise or lower rates in emergencies. It is just a question of getting the Commission around to see the necessity of acting more expeditiously. The matter is under scrutiny of the House Committee on Interstate and Foreign Commerce, and public hearings were held last week on the question whether the Commission has adequate power under present laws, and, if not, what changes in the statute should be made. We have confidence that this situation is going to improve, either through greater appreciation on the part of the Commission of the necessity of eliminating the lag, or by more specific direction from Congress, if necessary.

The 6% Return

Another problem which faced us a year ago and is still with us is the need of the railroads for a 6% return. It is mystifying why the regulatory authorities are so reluctant to see the railroads get a rate structure which will insure them a 6% return. Nobody gets excited about the fact that the utilities make, as they should, at least that much. The American Iron and Steel Institute is currently running an ad describing the 9.4% return of the steel companies on investment as dangerously low. Yet, in the railroad industry, our 1946 rate of return was only 2.75%, and improved a little in 1947 to 3.46%. While there is some progress in this, it is altogether too slow. A great deal of work has been done on this 6% campaign, and the railroad industry proposes to keep everlastingly at it until we receive the same fair treatment that the electric light and power companies, the telephone companies, and other public utilities do. We are entitled to it as a matter of fairness, and it is really in the best interest of the country to have a situation where the railroads can finance with equity money, which they cannot now do. It may be a long struggle to reach this goal, but we must never give up the fight. In that fight, we shall need the continuing, persistent help of all of you who are genuinely interested in the welfare of the railroad industry.

Concern Over Labor Situation

A present cause of deep concern in our industry is our labor situation. That always seems to be with us, but the demands from the railroad unions are being pressed with ever-increasing frequency. We used to think that if we had a wage case every two or three years, that was about all we should be asked to face. Now we have reached a point where new cases start before the old ones are disposed of. Third round wage demands have been made by some segments of our industry at a time when we are struggling with others over a possible strike at the end of their second round demands. When the 1946 strike was settled, all of us felt that the lesson which everyone learned from that experience ought to prevent a recurrence for years to come. But here we are tonight almost under the shadow of another work stoppage. Conferences are still going on, and we are hopeful that a settlement will yet be reached. But suppose it is? Are we not simply putting off the evil day? Already the non-operating unions, who comprise 78% of all the railway employees, have served demands for a third round of wage increases and the 40-hour week, with time and a half for Saturdays, and double time for Sundays and holidays. That the operating unions, representing the other 22% of railway employees, will also come in with substantial demands is a foregone conclusion. The 40-hour week demand, unless one understands the history of its non-application to the railroad industry, has at first blush a certain amount of plausibility. The

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*An address by Mr. Faricy before the Western Railway Club, Chicago, Ill., April 19, 1948.

World Bank Wipes Out Deficit

Reports net income of $1,802,672 for full period of its operations up to present.

The International Bank for Reconstruction and Development reported on April 21 a net excess of income over expenses of $1,178,792 for the entire period of its existence.

The deficit of $1,063,805 existing on June 30, 1947, due to the fact that expenses necessarily exceeded income during the early stages of organization before interest was received from lending operations has now been eliminated.

The Bank's total income for the nine months of the present fiscal year amounted to $12,780,633. After deducting expenses amounting to $8,577,770, and special reserve provision amounting to $1,960,266, the net income was $2,242,597.

The income for the quarter ended March 31, 1948 was $5,305,755. Provision for special reserve was $889,592, and total expenses, $2,613,491, leaving a net income of $1,802,672.

At March 31st, after deduction for existing loan commitments, the Bank had available U. S. dollars and short-term U. S Government obligations amounting to approximately $470,000.

During this quarter, the Bank approved loans to two Chilean corporations in the amount of $16,000,000 for the development of hydro-electric power and agriculture. These loan agreements will become effective after appropriate ratification and the guarantee of the loans by the Government of Chile.

Including the $16,000,000 approved for Chile, the total loan commitments at March 31, 1948 amounted to $513,000,000, against which disbursements have been made approximating $403,000,000. Disbursement of the $250,000,000 loan to France has been completed. The Netherlands, Denmark and Luxembourg may still withdraw approximately $94,000,000 under their loans in United States dollars or its equivalent in other currencies.

New Concepts of Corporate Responsibility

By CLAUDE ROBINSON*
President, Opinion Research Corporation

Contending survival of capitalistic system is likely to depend on social insight of corporate heads, Mr. Robinson urges dedication of corporations to public service and human side of business. Deplores hostility to capitalism, and says people should be properly informed regarding capitalism and their ignorance of it dispelled.

One of the curious facts of our times is that competitive capitalism as a social system is under constant and heavy attack. It is an undeniable fact that capitalism has rolled up a record of increasing abundance for the common man without parallel in any other social system.

It is also an undeniable fact that under Western capitalism men have enjoyed a high order of personal liberty. There are no concentration camps in America. People do have freedom of movement, the right of trial by jury and freedom to worship as they please. They can and do criticize their public officials—even the President of the United States—without fear of imprisonment for diversionist tendencies.

Yet there are forces among us who say this system is old-fashioned and antiquated—must be brought under the control of a powerful central government to work for the common man.

Our people individually and collectively have been productive, with the result that most of us have radios, automobiles, bathtubs, and two pairs of pants and real leather shoes, yet there are voices among us who preach the doctrine of work less in order to get more.

Enterprise, managerial skill, and willingness to save and risk capital have compounded our natural wealth, but in recent years such great hostility has grown up against this process that government has cracked down on the risk takers.

Historically, a liberal was one who fought for individual freedom, but through some strange semantic perversion the people who now claim the labels of liberalism put their trust in price ceilings, allocations, priorities, closed shops and government control.

It is possible that as a result of attacks from without and from within the whole system of competitive capitalism will succumb, and a system of central control by the state take its place. In which event many of us believe that poverty and tyranny will substitute for the abundance and liberty we now enjoy. I personally don't think this will happen because the American people are too smart to let it happen. Nevertheless this struggle between competitive capitalism and statism is the intellectual backdrop against which our lives today are oriented, and it is in this direction that I should like to seek "Some New Concepts of Corporate Responsibility."

Social Functions of Corporate Officers

Some officers of corporations believe they have only economic functions. They cannot admit to a broader social purpose, nor cast their thinking in other than economic terms. In the face of modern conditions this may prove to be a naive point of view.

Some officers of corporations view capitalism as God-given—like the rain or the change of seasons—a part of the natural order of things. They overlook the basic but simple fact that with social phenomena "thinking makes it so."

I should like to argue here that survival of the capitalistic system in America is likely to depend a great deal on the sociological insight of corporate heads. Specifically, I should like to advance the view that corporations, for their own and the public's welfare, should—

(a) Formulate the faith by which they live, and

(b) Propagate that faith to every public with whom they come into contact.

I have spent all the years of my professional life studying public opinion trends. More, perhaps, than any other student in the field, I have sought the basic reasons for the public's criticisms and doubts about the capitalistic system. From these studies some very practical conclusions emerge. The evidence indicates that there are two basic reasons for the public's criticism of capitalism—for its doubts and lack of wholehearted enthusiasm for the system.

The first is the widespread belief that corporations are greedy and self-seeking; that corporations exploit people and grind the face of the poor; that corporations put property rights above human rights; that dollars count more than humanity; that managers fail to understand people; and that as corporations grow bigger they lose the human touch.

Or putting it another way—the public is not sure that corporations are dedicated to public service. There is widespread doubt that corporations are on the side of the people.

Testimony on this point comes out in various ways. For example, our Public Opinion Index for Industry asked people to rate cor-

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*An address by Mr. Robinson before The Economic Club of New York, New York City, April 21, 1948.

The Future of Radio and Television

By HARRY BANNISTER*
General Manager, Radio Station WWJ, Detroit, Michigan

Stressing uncertainties of radio and television, Mr. Bannister says there is confusion in outlook because: (1) radio and television are in eternal competition; and (2) the likelihood that one may achieve dominance over the other. Looks for television station in every community over 100,000 and concludes television, because it marks milestone on road to a full life, cannot be denied its proper place.

The business future of radio and television is good, but hazy and confusing. I see no evidence of clarification for some time to come.

Any evaluation I offer is necessarily based on my own business. Please pardon me, therefore, while I dwell on the facts of my own experience.

Harry Bannister

At WWJ, we have, over the years, developed a radio enterprise which is generally regarded as being highly successful. We have operated "in the public interest, convenience and necessity" both in letter and in spirit; we have attracted and held maximum audiences; we have won and retained the confidence and affection of our community; and our financial statement has been satisfactory to the owners.

In radio, we have been fairly sure of our ground and of the ground we planned to enter upon. We had tackled and solved enough problems so that the future held no important uncertainty, and we had the assuredness, based on long experience, that there was nothing left to encounter which we hadn't met before.

Then about 2½ years ago, we decided to go into television. Immediately, we found ourselves deprived of the sure footing we once had. We found ourselves without a backlog of successful solutions and expedients. Instead, we were on a sea of uncertainty.

Guesswork and Risk

Daily, for almost two years, we've been driven into decisions based not on sure knowledge but rather on guesswork and risk. And there was no one to help us, because although we've tried to pick the brains of everyone else in the same boat, the net result added little or nothing to our fund of sure knowledge. Basically, we have sought the answers to three questions, or rather to one overall question divided into three parts. (1) Would we indefinitely operate simultaneously a radio station and a television station with both appealing to the same audience, in eternal competition with each other, as well as with all other stations in each category? (2) Would we simultaneously operate both stations only until the time when one or the other developed marked characteristics of dominance, and then concentrate on the dominant one, while still maintaining the lesser? (3) Would we operate both stations through a transitional period until television totally displaced radio, and then cease to be broadcasters and become televisors instead?

The answer is vital, not only for the future but right now, because our business today, tomorrow and next week should be shaped according to our ultimate destiny. Countless other decisions wait on this determination. But, so far, nothing has appeared to show conclusively which way we will go.

I have a sneaking hunch that within a decade, or less, the picture will look something like this. All major network stations will televise their complete schedules, from sign-on to sign-off. There will be other smaller stations in the same markets which will broadcast, without television.

There will be at least one television station in every community of 100,000 people and some in smaller marketing areas, down maybe to 60,000 or 70,000. Outside of such communities, there will be a multiplicity of FM stations, broadcasting without television. And there'll be a handful of high-powered AM stations broadcasting without TV to provide rural coverage for zones outside the range of other existing stations.

That's my hunch—but it's only a hunch: I'm not too sure. Because I am unsure, we're running our business in such manner as to retain a maximum of flexibility, in case we have to change direction. Our TV and our radio operation dovetail in the upper brackets with no duplication of personnel at managerial levels and with all policy being set on an overall basis. In that way, we can continue to run both stations indefinitely, or we can expand one while we contract the other or if necessary, we can wind one up altogether and close our ranks on the ultimate survivor.

All of this is probably an oversimplification. There are many complications. For example, no matter which way the future shapes up, it is an undoubted fact that for the next year, maybe for somewhat longer, radio must foot the bill for TV. Right now, all the profits from our radio station are sadly insufficient to take up our TV deficits.

Television vs. Radio

Therefore, we must strive in all ways to maintain our status in radio even while we strain mightily to build up TV; and meanwhile we must recognize that in building up TV, we're creating a Frankenstein which may ultimately destroy its maker.

We sell our TV to old friends of WWJ, knowing that in so doing we're making it more difficult for them to maintain their radio sponsorships. But neither they nor ourselves dare to do otherwise. They are just as uncertain as we are, but neither one of us can afford to ignore either medium, at this stage.

We've seen enough of television to know that it's terrific. It holds attention — it captures the imagination—it delivers a message—as nothing else does. Television marks a milestone on the road to living a full life and it cannot be denied its proper place.

We know this to be true, and most radio sponsors have already verified this, or will do so in increasing numbers within the near future.

But in those areas where television will be available, covering perhaps 60% of our population, there are today some 40,000,000 radio sets. The mere factor of replacement will insure the continuance of present day radio for many years, even while TV is growing and spreading. How we will manage to steer a course through such a tortuous maze, I am not prepared to state. My fervent hope is that economic conditions remain sufficiently sound to carry us out of this welter of uncertainty and into the smooth waters that, I am sure, must lie beyond.

*An address at the Fourth Annual Radio and Business Conference sponsored by College of the City of New York, New York City, April 14, 1948.

No Ground for Wall Street Depression

By WHITMAN C. HAFF
With Ward & Co.

Writer contends it is time to become optimistic over future of securities market and points out tremendous buying power is bound to be reflected, sooner or later, in better securities business

For the past two years, or so, Wall Street has had the longest depression that this writer can recall in his many years of experience in the securities business.

Good reports of earnings and announcements of extra, special and increased dividends have been almost entirely ignored by the market or have been followed by lower prices for securities. Brokers have had to sit idly by and hear their own customers tell them how good business was outside of Wall Street; how their companies were having the largest business in their history. As one broker recently told the writer "It's enough to send cold shivers up and down one's spine. Business, business everywhere and Wall Street as dead as Trinity Churchyard!"

This writer believes that if there was ever a time to become optimistic over the future of the securities market that time is right now. Here are a few of his reasons: First — With railroads, industry and public utilities enjoying the highest earnings in their history their securities, until recently, have been consistently going down. Many of the securities are at present selling at from only two to five times earnings. Never has this writer seen a time when earnings were at their peak and stocks selling so low. It is very possible, in this writer's opinion, that never again will there be such an opportunity for the investor as now exists. The market, especially during the past six weeks, has already begun to show possibilities of a great change for the better in face of strikes, the foreign situation and political conditions.

This government is about to launch an immense preparedness program calling for billions of dollars to be spent for planes guns, clothing, food and many other things too numerous to mention. On top of all this is the 16 billion or so of dollars to be spent to provide the necessities of life to the peoples of Europe under the Marshall Plan.

One fact that is given but little consideration, and yet is of vital importance, is that during the last war we had only one big problem before us and that was to win the war and save ourselves from disaster. Today, however, we have two big problems, immense problems, one to prepare ourselves in case of another war and the other to save practically the entire world from starvation and disaster.

Is not all this tremendous future buying power bound to be reflected, sooner or later, in the securities market? Also almost every line of business? It also cannot be overlooked that almost all of this money is to be spent within our own country and for merchandise manufactured within our own country.

The old adage "The early bird catches the worm" can very well refer to the investor who takes advantage of the present opportunities in the securities market.

With Ferd A. Meyer

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—Arnold Marks is with Ferd A. Meyer, 8 East Market Street.

Dillon, Read Offers Consolidated Gas Debs.

Dillon, Read & Co. Inc. heads a group of investment banking firms which is publicly offering today a new issue of $30,000,000 Consolidated Natural Gas Co. 2¾% debentures, due 1968. The securities, which were awarded to the group at competitive bidding April 20 are priced at 100¾%.

Proceeds from the sale of the debentures, estimated at $29,899,970 will be added to the general funds of the company and, together with other funds, will be used by the company from time to time to purchase additional stock of its wholly-owned operating subsidiaries. Proceeds thus realized by the subsidiaries will be applied toward construction of new facilities and other purposes.

The company, which is solely a holding company, was organized in 1942 to acquire the stocks of five operating natural gas companies from Standard Oil Co. (New Jersey) in compliance with the Public Utility Holding Company Act of 1935. The five subsidiaries, constituting an interconnected system, are the Hope Natural Gas Co., The East Ohio Gas Co., The Peoples Natural Gas Co., The River Gas Co. and New York State Natural Gas Corp.

Consolidated operating revenues for 1947 totaled $94,170,000 and net income was $14,818,000. Other than the debentures being offered, the company's sole capitalization consists of 3,274,031 shares of capital stock, par value $15 per share. Except for purchase obligations, the subsidiaries have no long-term indebtedness.

Public Responsibility in Business

By EUGENE HOLMAN*
President, Standard Oil Company (New Jersey)

Leading industrial executive points out Democratic Capitalism, despite attacks, is enjoying good appetite and great ambition, and does not propose to rest but to seek new goals and achievements. Says pressing need is to establish improved communication between business and people to lead to better understanding, and calls for greater business skill in promoting public relations. Cites problem of adequate oil supply and preventing runaway prices as instance of responsibility of industry. Seeks stable employment as business objective.

A speaker—facing so distinguished an audience as this—must wonder what he can say that will be worthy of the occasion. It seems to me, however, that among the many topics claiming our attention today there is one of particular significance to the membership of an organization such as this.

Eugene Holman

And so for a few moments I would like to talk to you about public responsibility in business. In approaching the theme, I am well aware that it is only one aspect of the much broader subject of public responsibility in general. For whatever the area in which an individual or organization moves, his responsibility to the common welfare has probably never been so vital as it is at this moment.

Over luncheon tables, in public meetings, in taxicabs and on street corners—in all the places where the men and women of America compare notes—we hear today much discussion of *democracy, freedom of enterprise* and *human liberty*.

In ordinary times these are things which Americans take for granted. We accept them as normal—as things which come to us as by some law of nature. But lately we have seen people in other countries being robbed of their freedom and whole populations suddenly disappearing behind an iron curtain. Such events have shocked all thoughtful Americans into a realization that liberty and freedom are not rights guaranteed to us forever. They are treasures we can lose—unless we accept the obligations that go with them.

Clearly, there is a price tag on human liberty. That price is the willingness to assume the responsibilities of being free men.

Payment of this price is a personal matter with each of us. It is not something that we can get others to pay for us. To let others carry the responsibilities of freedom and the work and worry that accompany them—while we share only in the benefits—may be a very human impulse, but it is likely to be fatal.

The history of our country is the paramount demonstration of what can be achieved when the energies of men are released by means of freedom of opportunity. You are all familiar with the statistics of this achievement. We have more telephones, automobiles and a great host of other things than any other people in the world—more of the comforts and conveniences that mean health and prosperity and high standards of living. Furthermore, our wealth is not held narrowly by any one class. It is spread more widely than in any other society of the past or present.

Our System the Most Productive

Everything that has happened during the past few years and continues to happen today confirms the fact that our system is more vigorous and productive than any other in the world.

I cite not only the unbelievable

(Continued on page 43)

*An address by Mr. Holman before the Economic Club of New York, New York City, April 21, 1948.

United States Should Withdraw From International Monetary Fund!

By HON. FREDERICK C. SMITH*
U. S. Congressman from Ohio
Member, House Committee on Banking and Currency

Congressman Smith, pointing to devaluating of French currency despite opposition of International Monetary Fund, contends Fund is without authority and its rules are hedged about with ambiguities. Quotes late Lord Keynes to prove escape clauses in Fund's charter permit devaluation of currencies at will, and accuses Keynes of scheming printing-press money as bringing death to private property. Holds to oppose free use of gold is communistic concept, and concludes political authority of nation must bear responsibility for evils IMF may bring to people and to world.

The action recently taken by the French political authority in adjusting the red or authoritarian value of the franc to conform more nearly to its true, free and generally accepted value, providing for an apparently partially free gold market, in spite of objection from the Fund officials, should clearly expose the utter fallaciousness of this scheme. More important, that action ought to demonstrate the danger to international relations inherent in the International Monetary Fund. Particularly should it be a warning to the United States that grave trouble is in store for it unless it withdraws from this international scheme.

Frederick C. Smith

France's action should come as no surprise for nothing but the expected and inevitable has happened. It is purely accidental that the French political authority should be the one to initiate repudiation or wrecking of the Fund. It could have been any one of the other political authorities belonging to it, not excepting that of the United States itself.

It is vital to the preservation of what is left of normal international relations that we get our thinking straight on this whole matter right now.

The French political authority (erroneously called government) has not violated any rules of the International Monetary Fund, for there are no rules. Certainly none that are founded on reality, or that are not so completely hedged about by extenuating phraseology as to nullify their meaning. Every signatory to the Fund agreement knew when it signed that it would violate any provision whenever it suited its purpose to do so.

Every forthright person familiar with the evolution of this clandestinely jerry-built international monetary contrivance knows this to be a fact.

Consider the changes made in the red or official value of the franc: from 119 francs equal $1.00 to 214 equal $1.00; and from 119 francs equal $1.00 to 305 (or whatever number of francs will exchange in a free market for $1.00) equal $1.00. Section 5(f) of Article IV of the Fund, provides that a "member" may alter the red value of its currency to any extent it deems necessary if its "domestic, social or political policies" warrant, provided only that the Fund "is so satisfied."

Escape Clause Written by Lord Keynes

That language was specifically intended as an escape clause. Lord Keynes, who wrote every substantive provision of this international monetary scheme (see page 4994, May 22, 1945, Congressional Record), in a speech before the House of Lords, May 23, 1944, made this crystal clear. He said:

"My noble friend, Lord Addison, asks who fixes the value of gold. If he means, as I assume he does, the sterling value of gold; it is we, ourselves, who fix it initially in consultation with the Fund; and this value is subject to change at any time on our initiative, changes in excess of 10% re-

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*Congressional Record remarks of Congressman Smith on April 14, 1948 on occasion of introduction of a Bill to provide for the withdrawal of the United States from the International Monetary Fund.

Why I Favor UMT

By ROBERT P. PATTERSON*
Formerly Secretary of War

Asserting military strength is only language dictators understand, Mr. Patterson contends strong military force cannot be obtained without universal military training. Says we cannot rely on United Nations to have peace, and weakness, appeasement and isolation simply invites aggression. Maintains more trained men are essential as weapons become more destructive, and selective service is no substitute for UMT.

I should like to outline why I am in favor of universal military training.

In these dangerous days readiness on the part of this country to repel aggression will avert World War III. Military strength is the only language that dictators understand. We will not have that strength unless we have trained men.

Robert P. Patterson

May I illustrate the need for trained men by recalling an incident in the early history of the United States?

The year was 1776. The Declaration of Independence had just been signed; but Washington's army had just lost New York and was in flight after disastrous defeats. The Declaration would be nothing but a scrap of paper if that army went to pieces.

Washington sent letter after letter to Congress, pointing out the need for trained men. He explained that he had to rely almost entirely on untrained men—men who would join up for two or three months—and that those untrained men could not be counted on to stand up in battle against the trained British army. Everyone who has served in war knows that Washington was right, that he was not overstating the need of trained men.

But in Congress there were men who had no knowledge about what it takes to win a war. They supposed that an untained man was as dependable as a trained man. They were well-meaning patriots, too, but utterly without experience in military matters. They rejected Washington's advice. So Washington, lacking a trained force, had to take defeat after defeat in the field. He had to fight a long, exhausting war, a war that would surely have been lost but for the help this young nation received from the French. The war dragged on for seven years, when it should have been won in three years.

That was the price this country paid for lack of trained men. It has been that way all through our history. Again and again we have been forced to fight wars that were not necessary, wars that never would have occurred if we had had, prior to war, the military strength that trained men in large numbers would have furnished.

The Case for UMT

The case for universal military training rests on two principles. First, a strong national defense will insure the peace and safety of this country and of the other countries that still remain free. Second, we will not have a strong national defense unless we adopt universal military training.

First, then, as to the necessity of a strong defense if we are to preserve peace in these troubled times.

As long as there are powerful dictators ambitious to expand their power by use of the police state by suppression of free speech and by means of terror, the rights of the weak will get short shrift. Dictators in Moscow can be as dangerous and as criminal as dictators in Berlin.

If we remain weak, we run grave risk of being plunged into war.

We see war being waged against Greece. That war would have petered out long ago if the dictators of Yugoslavia, Albania and Bulgaria had not been supplying the guerrillas with weapons, ammunition, food and clothing as they went back and forth across the border. Does anyone suppose those countries would have dared to gang up against Greece, if Greece was a strong, powerful country?

That war against Greece is plain proof of the kind of a world we are living in. It is a world where the rights of the weak to a peaceful existence, to be let alone, are not treated with the slightest respect.

There are people who think we can have peace if only we yearn for it hard enough. We yearned and yearned for peace in the 1930s, but we landed in war. The trouble was that Hitler and the Japanese war-lords were not yearning for peace.

Cannot Rely on United Nations

Other people say that we will have peace if we simply concentrate on supporting the United Nations. They say that, in spite of the monkey-wrench that Moscow throws into the United Nations machinery every time a step to promote world peace is proposed. I favor continued support of United Nations, in the hope of better days ahead; but the best service we can render to United Nations right now is to provide military strength with which to back up the peaceful and non-aggressive purposes of the great majority of the United Nations.

There are those, too, who say, "Wait and see. Wait and see! The aggressions of Moscow are a danger to world peace, but perhaps Moscow will stop." They forget that dictators do not stop, except as the firm presence of military strength persuades them to stop.

If I may repeat, a strong national defense will avert the risk of war. Weakness, appeasement, isolationism — those conditions simply invite aggression; and in the train of aggression comes war.

Second, we will not have a strong national defense until we adopt universal military training.

For national defense we need air power, an alert intelligence service, improved weapons. Those elements are important. But they are not enough, if we do not have at the same time a large reserve of trained men; and that reserve of trained men will not exist without universal military training. Every man who has seen combat knows that to be the simple truth.

The House of Representatives last week voted to spend more money for military planes. If that measure becomes law, it will strengthen the national defense. I hope that it does become law. But passage of it will by no means solve the whole problem. The planes will not fly themselves; they will not service themselves; they will not protect themselves; in case of war. And they will not win a war by themselves. The fact is that strength is needed in air, on land and on sea. We will not have the requisite strength in any unless we have trained reserves. To say that we need a strong air force but do not need trained reserves is like saying that the city needs a fire department but not a police department. We need both.

Destructive Weapons Require More Trained Men

There still are people who raise the old cry that trained men are not necessary, just as people did in Washington's day. They would not care to be treated by an untrained doctor. They would not want an untrained carpenter to build them a house. But in some strange way and in the face of all experience they think untrained men can defend them as well as trained men.

The training that would be provided by universal military training would be a lasting asset. It would not be outmoded in a year or two. If attack should come, there would be no time to begin then with training.

Others would have us believe that the era of **push-botton warfare** has come; that soldiers are no longer needed; that a handful of scientists sitting in a dug-out in Texas can pull some switches and send weapons against targets 10,000 miles away. That possibility does not exist, except in their imaginations. The scientists most familiar with what weapons can do tell us that the age of push-button warfare, if it ever comes, is in the far-off future. It is significant that those scientists also testify that universal military training is needed for the national defense.

The fact is that as weapons become more destructive, more trained men are required to transport them and to operate them, as well as to take defensive measures against use of such weapons by the enemy against us.

We used to hear opponents say that military training would "militarize" the nation; that it would substitute the "closed mind" for the "open mind" with our young men. Opponents have dropped that line. They were obliged to, in view of the fact that the millions of young men who returned to civilian life after years of service in World War II showed no trace of "militarization," no symptom of the "closed mind."

There should be no confusion between the proposed resumption of Selective Service and universal military training. Selective Service is needed to fill the standing Army, Navy and Air Force to their authorized strength, because volunteering has not been adequate. It is to bring the standing forces up to strength. Universal military training does not add a single man to the armed forces at the present time. Those in training remain civilians and will constitute the reserves, to be called up in emergency.

No discussion of universal military training would be adequate without reference to the report of the board headed by Karl Compton. The board was made up of nine citizens of distinguished service, three of them eminent in education. Their report, rendered a year ago, is one of the ablest and most convincing papers of our times. In the opinion of the Compton board, a strong national defense is necessary to the safety of this country and to the success of United Nations. It is also the opinion of the board that one of the necessary elements of a strong national defense is universal military training. The board discusses other important elements also, air power and research and development among them. The final sentence of the report sums the case up.

"We recommend the adoption of universal training because we are convinced that weakness on our part not only involves our country in grave risks but also weakens the United Nations, on which rest our hopes for lasting peace. A weak and irresolute America is an invitation to failure. A strong and resolute America is the best guarantee for our safety and for the success of the United Nations."

The polls of public opinion over the last five years show that a heavy and increasing majority of the American people are in favor of universal military training. The poll a week ago showed a majority of 5 to 1. It is significant that the majority is heaviest in the age group from 21 to 29, the group that would carry the main burden in the event of war. As happens so often, the people are ahead of Congress on the issue. Further delay on the part of Congress will increase the risk of war. The risk is one that resolute, prompt action can avert.

*A talk by Mr. Patterson at the Forum Dinner of the Associate Members, New School for Social Research, New York City, April 19, 1948.

Donald B. Hilliker V.-P. Of S. C. Parker & Co.

BUFFALO, N. Y.—Donald B. Hilliker has been elected a Vice-President of S. C. Parker & Co., Inc., Ellicott Square Building. Mr. Hilliker, who has been in the investment business in Buffalo for 18 years, was recently co-manager of the Buffalo office of R. H. Johnson & Co.

With M. N. Hogan & Co.

(Special to THE FINANCIAL CHRONICLE)

MEDFORD, ORE. — David M. Hogan is with M. N. Hogan & Co., 38 South Central Avenue.

Advantages of Tax Exempt Bonds Overlooked by Smaller Investors

By BERTRAM M. GOLDSMITH
Partner, Ira Haupt & Co.

Even under new tax laws, municipal bonds have a distinct importance to investors with a taxable income of $16,000 or more, since such investors receive an income from a 2¾% bond equivalent to the *retained* income from an investment yielding 5% that is taxable. Such a bond yields an equivalent of 8¾% to an investor in the $60,000 bracket. Safety value stressed.

The approach to any individual's investment program is, of course, a highly personalized one, but it should always be remembered that investment income is an addition to all other sources of revenue, and coming on top of other income is taxed at the top bracket into which the total income falls. If your taxable income after all deductions and exemptions, and after division of income between husband and wife, exceeds $16,000, then the tax exempt bond will afford you a considerably greater retainable income than comparable taxable securities.


B. M. Goldsmith

The Need for Tax Exemption

Under present tax laws, the government takes away a good portion of any periodic income from bonds, savings accounts and other such investments. Half an income between $20,000 and $26,000 (after deductions) is taxed away, cutting down percentage yield from high grade investments to as low as 1% and less. On incomes over $38,000 investment returns are cut 60% to 80%—certainly no encouragement to thrift.

There is a way, however, in which the lion's share of income from investments can be retained. It's done through tax-exempt securities, often a mystery to the average investor.

The "Mystery" of Tax-Exemption

Most investors are quite familiar with the securities of such corporations as General Motors, Standard Oil or U. S. Steel. They have earned general confidence and respect.

On the other hand, they know little of the reputation of bonds of the cities of Philadelphia, Boston, or Englewood, New Jersey. As a rule only the professional buyers (banks, insurance companies, larger estates) have informed themselves about such securities. Out of $16,400 million State and municipal bonds outstanding in 1945, banks, insurance companies and government agencies owned more than half, or $8,600 million.

This may be one reason why municipal and other tax-exempt bonds today are a mystery to the average investor. Another reason, perhaps, for the mystery is the relatively low interest rates declared in the bonds themselves, which up to the time of confiscatory taxes made them less attractive.

Today, however, tax-exemption brings greater net returns.

How an Individual Can Profit Through Tax-Exemption

An individual investor derives a benefit from tax-exempt securities in direct proportion to total taxable income. Briefly stated: the greater the income, the greater the benefit.

Interest and dividends received from investments are an addition to other sources of income, therefore bear the brunt of the surtax. Let us take, for example, a taxable income of $40,000. The current tax on the top portion is approximately 60%. Now let us assume that the top $4,000 of this $40,000 income was derived from an investment in 160 $1,000 U. S. Government bonds paying 2½% interest. Since the $4 000 income is taxed at the rate of 60%, the holder of these bonds receives an actual net return after taxes of only $1,600 on his investment of $160,000. This is a yield of 1%, certainly not a very satisfactory return.

If this same $160,000 were invested in high grade tax-exempt bonds at the same interest rate of 2½%, the bondholder would retain his $4,000 yield intact, free of taxes.

Looking at it another way, our man with the $40,000 income, in the 60% bracket, must find an investment paying 6¼% (hard to find without involving real risk), to equal in net return the tax-exempt income of 2½%. As income increases so does the tax-bracket, and the relative value of the tax-exemption becomes greater too. This is graphically illustrated in the accompanying table.

How Much Is Tax-Exemption Worth?

In this table you can locate for your income bracket the amount of return you must obtain from ordinary securities to equal the yield from tax-exempt investments.

You can also translate into actual returns the interest rates of tax-exempt bonds. For example, municipal bonds paying from 1.25% to 3.50% (column I) bring net returns to the $60,000 income equivalent to taxable yields of about 4% to 11% (column II).

Safety Record of Tax-Exempt Bonds

Next to United States Government bonds, State and municipal obligations have the finest record of safety of all classes of investments. Less than 2% of all municipal issues defaulted during the depression of the 1930's, and almost all such defaults were cleared up without loss to the bondholder who maintained his investment during this period. In the great majority of cases these defaults were remedied in a relatively sort period of time and did not require a period of prosperity to put the community back on its feet.

The percentage of utility bonds defaulting during this period was more than three times higher, while eight times as many railroad bonds defaulted.

A further indication of the inherent soundness of municipal bonds is shown by their ready acceptance by the professional security buyer.

COMPARATIVE RETURNS FROM TAX-EXEMPT BONDS
Shown in Percentages Based on the 1948 Tax Law

Yield that must be obtained from taxable securities according to your income to equal the taxfree yields in Column 1. In using this table see that column into which your taxable income falls, after all allowable exemptions and deductions and after division of income between husband and wife.

Tax Exempt Bond Yield	Income $16,000 to $18,000 Surtax 44%	Income $18,000 to $20,000 Surtax 46.6%	Income $20,000 to $22,000 Surtax 49.3%	Income $22,000 to $26,000 Surtax 51.9%	Income $26,000 to $32,000 Surtax 54.5%	Income $32,000 to $38,000 Surtax 57.2%	Income $38,000 to $44,000 Surtax 60.7%	Income $44,000 to $50,000 Surtax 63.3%	Income $50,000 to $60,000 Surtax 66%	Income $60 000 to $70,000 Surtax 68.6%	Income $70,000 to $80,000 Surtax 71.3%	Income $80,000 to $90,000 Surtax 73.9%
1.25	2.23	2.31	2.46	2.60	2.74	2.92	3.18	3.46	3.67	3.97	4.36	4.78
1.50	2.68	2.81	2.95	3.12	3.29	3.50	3.81	4.08	4.41	4.77	5 22	5.74
1.75	3.12	3.28	3.45	3.64	3.84	4.08	4.45	4.76	5.14	5.54	6.05	6.70
2.00	3.57	3.74	3.94	4.15	4.40	4.67	5.09	5.45	5.88	6.36	7.00	7.66
2.25	4.02	4.21	4.43	4.68	4.93	5.25	5.72	6.13	6.62	7.16	7.84	8.62
2.50	4.46	4.68	4.93	5.19	5.50	5.84	6.36	6.81	7.35	7.96	8.71	9.65
2.75	4.91	5.15	5.42	5.72	6.04	6.42	7 00	7.49	8.08	8.75	9.58	10.43
3.00	5.36	5.62	5.91	6.23	6 59	7.01	7.63	8.17	8.82	9.55	10.45	11.49
3.50	6.26	6.55	6.90	7.27	7.70	8.17	8.85	9.62	10.30	11.14	12.19	13.40

Prepared by Ira Haupt & Co., with the assistance of the "Bond Buyer," whose more complete chart will be available upon request.

First Boston Corp. Announces Changes

The First Boston Corporation, 100 Broadway, New York City, announces that in order to improve the facilities they offer institutions and dealers in Central Connecticut, certain changes in operations are being made. The Hartford office is being closed and Henry Lyman, representative of the firm will be located in the Hartford National Bank & Trust Co. Building. A direct Enterprise telephone will connect Mr. Lyman's office with New York.

The firm's Buffalo office will also be closed. Frank L. Marshall, who has been manager of that office, will be located in New York, and will be in communication with Buffalo customers from there.

The telephone number of the New York office has been changed to WOrth 4-4000.

Rails Granted Add'l Rate Increase

On April 20, the Interstate Commerce Commission granted a third interim freight rate increase, which averages slightly more than 4% over existing rates. For the Eastern roads, the increase is 10% and represents a 30% aggregate interim increase granted since September of last year, compared with an average of 21.4% increase for country as a whole.

The new rates are to remain in effect until the Interstate Commerce Commission issues a permanent order fixing freight rates. It was estimated by the Commission that total increases in gross freight revenues granted since mid-1946 aggregates in rail revenues more than $2½ billion.

Pittsburgh Bond Club To Hold Outing

PITTSBURGH, PA.—Ernest O. Dorbritz, Moore, Leonard & Lynch, President of The Bond Club of Pittsburgh has announced that the annual spring outing of the Club will be held at Chartiers Country Club on June 11, 1948. The usual feature of the outing will be the golf tournament for the bankers cup and other prizes to be followed by dinner and entertainment.

Harris, Upham Takes Over

Bond, McEnany & Co., New York City, will discontinue their commission business on commodities and securities on May 1, and Harris, Upham & Co., 14 Wall Street, New York City, will take over their customer accounts.

Interstate Financial Corp.

SYRACUSE, N. Y.—The Interstate Financial Corporation is engaging in a securities business from offices in the University Building.

Mutual Funds

By HENRY HUNT

How to Gauge Investment Management

As a novice analyst, we used to wonder how it was possible to judge the competence of the management of an industrial company, if one lacked the opportunity, or time to make an exhaustive "field" survey. Of course, the record of a company's earnings, its financial position as indicated by the latest balance sheet told you something. But, bookkeeping methods vary; some companies in the development stage spend large sums for research and show little or no earnings for years; other companies use a far more liberal depreciation policy in reporting earnings than the revenue bureau allows them on their tax returns. Though no longer a tyro, we still think it a tough assignment to make a quick check on the ability of industrial management.

On the other hand, it is relatively easy to gauge the ability of investment management of mutual funds, provided that you select **comparable** funds in comparing records. Mutual funds all have the same tools to work with and few managements are so adaptable to statistical analysis for a check.

In judging investment management, more importance should be attached to a 5-to-10 year record than a 1-to-2 year showing. It is important to note the amount of dividends paid as well as changes in asset values. In order to see just how you would have made out purchasing a mutual fund some years ago, it's a good idea to use the offering price at the time of purchase, and the bid price today.

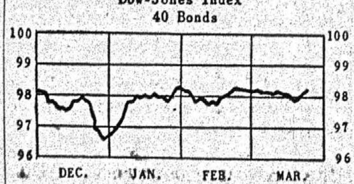
Recovery in Bond Market

Hugh W. Long's April "New York Letter" discusses the recovery in bond prices as follows:

"The fiscal authorities in Washington sent a chill through the financial markets late in December when they lowered the support level for government bond prices. Bond prices generally declined sharply and investors became skeptical as to the ability of the Federal Reserve Banks and the Treasury to continue supporting the market for very long. Selling of government securities reached flood level proportions. The Federal Reserve Banks had to buy, because no one else would, over $800 million of government bonds a week during two weeks and nearly $4.5 billion of bonds during the past three months.

"Further than that, the increase in reserve requirements of New York City and Chicago banks, the retirement of government bonds with surplus tax receipts, the firming of short-term interest rates and efforts to encourage commercial banks to adopt cautious loaning policies all created fear that the official policy of credit contraction might cause a deflationary spiral in business.

"Now, confidence has returned to the bond market. All listed government bonds are currently selling at premiums over the support levels. Most high-grade corporate bonds have recovered the December-January price decline. This recovery in the government and the high-grade corporate bond markets has been helpful to security markets in general.



It is now quite apparent that the government's anti-inflationary policy will be pursued only in moderate degree. From an investment viewpoint this is helpful."

His Own Handiwork!

"Inflation may seem to you to be an old story. But there are some men in this country—men who happen to be in influential positions—who still fail to understand or who deliberately ignore the gravity of the situation and the need for forthright measures to meet it. They have tinkered with the problem of inflation—they have even taken some feeble steps in the right direction. But they have taken other steps in the wrong direction — steps that have made the problem much worse.

President Truman

"For my part, I believe that inflation is so grave a menace to this country and to the world that I do not propose to let it be forgotten.

"I believe that the Government has a clear-cut responsibility to deal with high prices. I believe that we know what measures the Government should take. I cannot sit by silently while inflation continues to creep up on the American people."
—President Truman.

We do not know, of course, how inflation seems to the President's audience in this instance. To us it seems a direct and inevitable product of Roosevelt and Truman policies.

Moreover the Truman program to combat inflation seems to us to be nothing short of a proposal that we abandon free enterprise in the hope of curbing or eliminating a curse his policies and those of his predecessors brought down upon our heads.

Tax Reduction Increases Incentive To Invest

"The most important investment effect of the reduced taxes," says the April Investment Report of **"Group Securities, Inc.,** "is not the funds which it releases for investment but the increased incentive to invest. For many taxpayers the potential return net after taxes of income from investments has been sharply increased by the new Tax Bill, especially by its "community property" provisions. The result should be to attract, gradually, into common stocks (whose current return exceeds that of high-grade bonds, by an extraordinarily wide margin) funds that have long been unemployed."

Continuation of a high level of corporation earnings is predicted which "must inevitably attract the attention of investors to the many bargains in security values now available. Stock prices cannot indefinitely reflect a "coming depression" which has failed to materialize for 19 months since originally "forecast" by a stock market decline—and which does not appear to be in prospect for some time to come."

Stock Prices Still Lag

Vance, Sanders' "Brevits," written by Edward E. Hale, cites the following figures taken from a recent issue of the "Report For the Business Executive":

	1940	1945	1946	1947	*1st half 1948	*2nd half 1948	*1st half 1949
Industrial production (1935-1939=100)	125	203	170	187	189	191	195
Cost of living (1935-1939=100)	100.2	128.4	139.3	159.2	168	170	169
Gross national product (billion dollars)	100.5	213.1	203.7	229.6	243	247	253
Personal income (billion dollars)	78.3	171.6	177.2	196.8	207	211	217

*Estimated.

"We should like to crystallize the foregoing," says Vance, Sanders, "with the observation that since Sept., 1939 the Dow-Jones index of thirty industrial stocks has increased less than 30%."

Wellington Joins $50 Million Circle

The assets of Wellington Fund, sponsored by W. L. Morgan & Co. of Philadelphia, hit $53,600,000 on April 17. Seven individual funds now have assets in excess of $50,000,000, namely M.I.T., Investors Mutual, Incorporated, State Street, Dividend Shares, Affiliated and Wellington. Other sponsors such as Keystone, Distributors Group, Hugh W. Long, and National Securities and Research control more than $50,000,000 of assets each, but have no single fund that large. Pertinent to the subject is a letter just received from Herbert R. Anderson, Vice-President of Distributors Group, Inc. advising us that Group Securities, Inc. has assets of $87,000,000.

Notes

Fiduciary Publishers, Inc. of 50 East 42nd Street, New York, has sold over 16,000 copies of Alec Brock Stevenson's book on **"Investment Company Shares."**

National Security and Research Corp. has issued two new folders. One called "A Monthly Paycheck" discusses the "National" monthly income programs, and the other its ten industry groups.

Export-Import Bank Grants Colombia $10 Million Loan

The Board of Directors of the Export-Import Bank of Washington announced on April 15 the approval, at a special meeting, of a commitment of $10 million to the Republic of Colombia to assist that government in financing the acquisition of United States supplies, materials and equipment needed for the speedy reconstruction of properties destroyed or damaged in the recent disturbances in Colombia. Details as to requirements and arrangements will be worked out on a mutual basis.

Stalin's Objectives

By ROGER W. BABSON

Asserting goal of Stalin is to eliminate capitalism, Mr. Babson sees possibility of Russians, when they get the atomic bomb, of planting them here to blow up large cities and by this way establish Communism in America. Hints people of Central West should prepare for responsibility of taking over national affairs.

I have never met Mr. Stalin; but I have friends who have often talked with him. Some of them have been at the famous conferences attended by Mr. Stalin, Mr. Churchill, and Mr. Roosevelt. I, therefore, am using my column this week to answer certain inquiries coming to me.

Roger Babson

The conclusions are not pleasant.

There are three different economic or social theories today. They are: (1) *Capitalism.* This is what is commonly known as free enterprise which has been so successful in the United States. (2) *Fascism.* This has been tried in Germany, Italy and Japan; it is a form of State capitalism where persons continue to own their property but use it as the State directs. (3) *Communism.* This is where there is no private ownership. Communism is Socialism with brutality added. One country could get on under either the Capitalistic System or Fascistic System by itself but Communism or Socialism probably needs a world organization in order to make it work. At least, this is what Mr. Stalin thinks.

Stalin's Ultimate Goal

Therefore, Stalin's goal is to eliminate Capitalism. Anyone responsible for making a success of Communism would probably have the same aim as Stalin. The Labor government in England is gradually coming to this same conclusion. It is not ruthless like the Communists, but even their leaders believe that their success depends upon having the same program adopted by all other leading countries.

Therefore, it is possible that as soon as Russia gets the Atomic Bomb she may blow up the big cities of the United States. She may have no thought of landing troops here or of taking over our government. It would be only one step in her campaign of destroying Capitalism. Her hope would be that—with our big cities destroyed — a Socialistic System would be needed to operate our remaining industries. This would also eliminate undue competition from industries in communistic nations.

What Will the Communists Do?

If this is their program then, when the Russians get the Atomic Bomb, they may get these bombs planted, by their own friends, in the center of our big American cities. It would be easy to get them over here in trunks, or in bales of goods. They could be smuggled across our borders in automobiles, trucks or airplanes without being detected by custom examiners. Then the Russian agents could deposit these in their boarding houses in our big cities until the time came to explode them at a certain moment on a certain day. Time clocks could be used so that the Russians would have time to get away. Thus all these cities could be destroyed at a certain set hour.

Of course, the Russians would expect that we would retaliate with our airplanes. On the other hand, how can we then prove that it is the Russian Government, or the Spanish Government, or the Argentine Government that does the damage? Of course, the time would be selected when we are more or less in a row with all of these governments. Therefore, our big cities could completely be destroyed without our *knowing for sure* who destroyed them and certainly without war having been declared.

Final Result

What the final result would be nobody can foretell. With a dozen of our biggest cities destroyed, there would not be much hope for Capitalism for many years to come. Thus, the purpose of the Communists would have been attained. They might try to have a hand in the government of the United States; but it would then be taken over by the people of the smaller cities and rural communities, largely the people of Central West. If my prognostications come about, which I hope they will not, it certainly means that the people of our Central West will someday have a great opportunity and responsibility. The question is *are these people now preparing for such* even though it may be a remote possibility?

Investor Pays Dealer With Silver Dollars in Buying Securities

Officials of the Peoples National Bank of Grand Rapids, Mich., were treated to an unusual sight recently when a local investment dealer, puffing with exertion, maneuvered a small cart into the bank's office containing a waste paper basket loaded with silver dollars. The dealer, after catching his breath, explained to the startled bank attendants that the "lore," had been obtained from a client for the payment of securities. The client, it developed had been "saving up" the pieces of silver for more than 20 years and had finally decided to invest his riches in much less cumbersome manner. The load, containing 1,890 silver dollars, weighed 117 pounds and according to bank officials, most of the dollars were coined in 1922, the last year of silver dollar coinage. **Editor's Note:** In calling our attention to the above story, the dealer in question, J. Vander Moere, of J. Vander Moere & Co., Grand Rapids, Mich., says it merely points up the wisdom of a suggestion contained in a recent column by John Dutton, author of "Securities Salesman Corner," which is a regular feature of the "Chronicle." In his letter Mr. Moere writes as follows:

"You may be interested in knowing that an article written recently by Mr. Dutton was the needed inspiration for one of my men for going out and making calls on people who would not be considered as investors. We find that he is right in that people off the main roads are the ones who have the money for investment at this time. We find too that they are quite willing to invest in the better grade preferred stocks at their current high yields.

"I know you will be interested in the enclosed newspaper clippings, showing some publicity we got from an odd deposit of $2,000 in silver dollars, which came in to us from one of these kind of customers."

The Consumer Credit Structure

By THOMAS W. ROGERS*

Executive Vice-President, The American Finance Conference, Chicago, Ill.

Mr. Rogers defines "consumer credit" and analyzes its structure and subdivisions. Lists institutions extending consumer credit, and gives brief description of their various methods and operations. Classifies sales credit as: (1) book credit; and (2) instalment sales credit, and gives data on proportionate importance of each. Concludes instalment credit represents in normal times between 60% and 65% of all consumer credit outstanding.

Pertinent and factual business information can be of great benefit both to students and to business by creating a better understanding of the nature and functions of our economic and business society. Too often business men have looked upon formal education and the organized educational processes as a thing apart. Likewise, educational authorities and students have looked upon business in a critical vein and have regarded it as that part of our society which is led by selfish people and in which the millstones of competition grind relentlessly and for no useful social purpose. Those in either of these groups who are acquainted fully with the real purposes of both education and business know that neither of these critical points of view is fully correct or wholly justified.

Thomas W. Rogers

Formally organized education and training should and must assist us in adjusting to and integrating with the realities of life; and the chief objectives of business must be—always—to serve society by serving its customers. Without such customer service there can be no reward for those who direct the affairs of business; neither can there be reward for those who are employed in individual enterprises under the direction of management.

It is in this spirit and against the background of this point of view that we want to approach the subject which has been assigned us for discussion today.

Your session theme this morning is "Consumer Credit in the National Economy," and the particular topic assigned to me is "The Structure of Consumer Credit." In discussing this topic we shall give emphasis to the word "structure" and shall attempt to outline for you the types of financial agencies and institutions now engaged in consumer credit activities in the United States and describe in a general way their procedures.

The term "consumer credit" is being used more frequently in our economic literature. However, its connotation is still somewhat vague to some persons, particularly with reference to its scope. To some the term is an all-inclusive one, while to others it has a more restricted meaning. Therefore, in our discussion here we shall use the term "consumer credit" as denoting that form of credit which in some way serves primarily and directly the current credit needs or credit desires of the individual in his capacity as an individual or as a consumer and which is liquidated in a period of not more than three years. Thus defined, the term will not embrace credit extended to individuals for business purposes and not related to the consumption needs of the individual as such. This definition also rules out mortgage credit on real estate and the other forms of "investment" credit funded over a longer period of time.

Classes of Consumer Credit

Consumer credit, thus defined, may be classified broadly into two main divisions; namely,

(1) **Money or Cash Credit.** That is, credit which is extended to individuals in the form of money or its quivalent, and

(2) **Sale Credit.** That, is, credit which is extended in connection with the sale of some article or articles of merchandise or in connection with the sale or rendition of some service.

Much confusion will be avoided and a much better understanding

(Continued on page 41)

*An address by Mr. Rogers at the National Conference on Consumer Credit, Ohio State University, Columbus, Ohio, March 23, 1948.

Sproul Discusses Inflation Trends

In 33rd Annual Report of Federal Reserve Bank he describes U. S. inflation as "chills and fever" type and ascribes inflationary pressure in last half year to deterioration of European situation. Prefers "open inflation" that came after end of OPA, to "disguised" or "suppressed" type, and points to increased production resulting from removal of price curbs. Looks to larger food output with resulting lower food prices as decreasing inflationary pressure.

In transmitting to stockholders the 33rd Annual Report of the Federal Reserve Bank of New York, Allan Sproul, the Bank's President, offers, as an introductory portion, an enlightening discussion of U. S. inflationary trends since the beginning of the war. According to the report:

Allan Sproul

The outstanding economic feature of the year 1947, both at home and abroad, was the further progress of inflation. Since the war ended, the world has been faced with a condition of inflation as severe, and seemingly as intractable, as the deflationary conditions that characterized the thirties. It has taken different forms in different countries. The differences have arisen partly out of the differences in circumstances, economic and political, and partly out of the differences in the policies pursued.

The whole problem must be viewed against the background of the war. It is due basically to the destruction of resources in the war, and to the difficulties inherent in the conversion of resources from peacetime to wartime ends and back again. These immense changes have been carried out, in all countries, by a combination of specific measures designed to direct and ration production and consumption and to control wages and prices, and of the more general monetary and fiscal policies designed to control the money supply and the aggregate volume of spending. During the war, the pattern of policy pursued in the different countries was fairly uniform. Considering the magnitude of the war effort, it was in most countries surprisingly successful. But as we see clearly now, its main effect was to postpone rather than remove inflationary pressures. The uniform pattern of policy may be said to have ended almost with the war itself. In most of the European countries the main emphasis continued to be placed on the direct controls, whereas here at home the reconversion process was accompanied by early removal, or breakdown, of direct wartime controls, and the main reliance was placed on freeing the economy to make its own adjustments.

That the policy of relaxing direct restraints was more feasible for us than for most other countries can hardly be doubted. Inflation always consists of some combination of deficiency of goods and superfluity of money. In both respects we entered the postwar period in relatively favorable conditions. We had given an astonishing demonstration of productive capacity and could look forward, once reconversion was completed, to a backlog of deferred demand, both domestic and foreign, which would keep our economy running, for some years at least, at full speed provided cumulative maladjustments did not interfere. On the money side, we came out of the war with a substantially higher ratio of money to national product than at the beginning, but with nothing comparable to the large money "overhang" that has plagued the European countries. Though most of the European countries—despite the wartime destruction of plant, the big hole still remaining in Germany, the disruptions in trade produced by the iron curtain, the loss of foreign assets, and the chaotic conditions in the Far East—have made more progress in production than is commonly recognized, and though some have resorted to unprecedented measures of monetary contraction, their problem, in general, is still one of acute deficiencies in output combined with a highly redundant money supply.

One result of these differences in circumstances and in policies has been the now familiar distinction between our "open" inflation and what in Europe is being called "disguised" or "suppressed" inflation. Since the abandonment or breakdown of OPA in the middle of 1946, inflation has expressed itself here in a rise of prices which, up to the break in the primary agricultural markets in January and February of 1948, had carried our price level approximately to the point from which the postwar deflation began in May 1920. But this rise in prices was accompanied by an expansion of physical output which despite a period of hesitation and uncertainty last year, carried us by the end of the year to a record peacetime peak. In some of the European countries on the other hand, the attempt to suppress the rise of prices by direct controls and subsidies has met with a rising volume of complaint that the process is only accentuating the scarcities, diverting labor and materials from more to less essential employments, and leading to disruption of trade and hoarding of goods. Moreover, there is increasing evidence that, in a number of countries at least, the controls are cracking and the suppressed inflation is coming out into the open in the form of price increases that go far beyond anything we have seen, or are likely to see. This rise of internal prices and the disturbed conditions of production and distribution have of course had the effect of greatly increasing their international deficits, which has resulted in increased inflationary pressure on our own economy.

It is against this sort of background that our own experiences in 1947 must be appraised. Throughout the year, the impact of world conditions on our economy, and the differences here and abroad that have been described, had a major effect upon the course of prices and production.

(Continued on page 36)

Canadian Securities

By WILLIAM J. McKAY

Paradoxically enough the Canadian economic prospects were never brighter than they are today, despite the currently acute exchange situation and the violent criticism of Canadian action in reestablishing the dollar at its previous parity. This conclusion on casual analysis would appear to be in contradiction to the apparent facts of the case, especially when the present situation is compared with that prevailing just prior to the revaluation of the Canadian dollar. At that time the Canadian exchange reserves of gold and U. S. dollars were almost embarrassingly large, the Canadian favorable balance of foreign trade was at a record level and the strength of the Canadian dollar in the free market brought pressure to bear on the official exchange level of 10% discount.

According to the superficial facts and indications the Canadian overall picture then was never more attractive. When looking under the bright surface however, it was possible to discern underlying darker aspects of the case that gave rise to serious reflection. In the first place an analysis of the pleasing total of the Dominion's foreign exchange reserves would have revealed that a large proportion was derived from U. S. investment in Canadian internal securities, a part of which represented speculation on an almost certain upward revaluation of the Canadian dollar. Another portion of the remaining balance arose from non-recurrent U. S. war purchases in the Dominion. The remainder of this U. S. dollar surplus was made possible as a result of the ready conversion into U. S. dollars of sterling and other currencies which formed part of Canada's overall favorable foreign trade balance.

This latter feature of Canada's complicated exchange system has long constituted the Achille's heel of the Dominion's economy. While the other two sides of the time-honored U. S. British Canadian exchange triangle remained firm, the Canadian exchange line could be easily maintained. With the breakdown of the British component the basic defect of this system has been thrown into sharp relief.

Let us now consider the current situation in the light of this development and the revaluation of the Canadian dollar. A direct result of the latter event is the cessation of speculative purchases of Canadian securities, which at no time exercised any constructive influence on the Canadian economy and on the contrary gave an illusory appearance of strength of the Canadian balance of foreign payments. The collapse of the U. S.-British-Canadian exchange triangle also has had a most salutary effect north of the border.

Although the faulty basis on which this system rested has long been recognized, while it continued to operate successfully there was a pardonable complacency on the part of the Canadian authorities. Its breakdown however has now changed the whole course of Canadian economic policy. The austerity program which is the first outcome of the changed mentality could only have been imposed in the face of a dire calamity of this nature. In addition to its corrective influence on the U. S.-Canadian trade balance it has directed Canadian attention towards the greater exploitation of the Dominion's wealth of natural resources. Another beneficial aspect is the likelihood that U. S. industries rather than lose their best foreign customer will establish branch plants in Canada. Consequently the previous flow of U. S. speculative capital is likely to be replaced by industrial investment in Canada of a permanent nature which will supplement the Dominion's own efforts to achieve a greater degree of industrial self-sufficiency.

Thus it would appear that as a result of the recent series of economic setbacks Canada has been jolted from her previous state of complacent reliance on outmoded procedure and will now follow an economic course directed towards a fuller development of her native resources and the insulation of the domestic economy from the impact of external influences.

During the week the external section of the bond market displayed a firmer tone and the internals improved sharply as a result of the sustained strength of free funds. With the approach of the tourist season, the improvement of the overall exchange position, and the absence of imminent maturities of internal issues, the prospects for a further advance in this section are decidedly favorable.

Canadian stocks also made further headway with the exception of the golds which now appear more than ever to be unduly depressed. Western oils have now replaced the golds as speculative favorites and the recent encouraging results from the highly promising Leduc field will give further impetus in this direction.

Holton, Herrington, Farra Form Invest. Co.

LEXINGTON, KY.—The firm of Holton, Herrington, Farra Co. has been formed with offices in the Bank of Commerce Building, to engage in a securities business. Principals of the firm are John B. Farra, Alex P. Herrington, and William B. Holton. Mr. Farra was formerly with Otis & Co. and Mr. Herrington and Mr. Holton were with Merrill Lynch, Pierce, Fenner & Beane. In the past Mr. Holton and Mr. Farra were associated in the firm of Holton, Foster & Co.

Jacquin, Bliss Admits

Jacquin, Bliss & Stanley, 61 Broadway, New York City, members of the New York Stock Exchange, will admit F. Romana Witenberg to limited partnership on May 1.

Capital Levy in Britain

By PAUL EINZIG

Dr. Einzig describes repercussions of Britain's proposed capital levy, and characterizes it as a political issue on part of Labor Government. Holds it will handicap raising of fresh British capital, and will discourage savings. Points out levy is unnecessary because government's budgetary surplus is already substantial

LONDON, ENGLAND—Interest in Britain in the adoption of the ERP Bill by Congress was overshadowed by the sensation caused by the announcement of a form of capital levy in Sir Stafford Cripps' budget speech. For months past lively controversy was raging in the press about the question, but during recent weeks it was almost generally assumed that nothing would be done at any rate this year. It was contended that the administrative difficulties of the assessment of capital for the purposes of a levy would be unsurmountable in existing conditions when the Inland Revenue Department is some 18 months in arrears with income tax assessments. This difficulty was overcome, however, by assessing the tax not on capital but on income, even though it will have to be paid in many instances out of capital, for total taxation on income from investment will amount to anything up to just under 150% of the total income for 1947-48.

Dr. Paul Einzig

As a capital levy, this "special contribution" (as it is called) is moderate. Assuming that the average yield in investment is 5%, the maximum rate of 50% is only 2½% of the capital taxed. If it were possible to accept the assurance of the Chancellor of the Exchequer that this tax is "once for all" there would be no cause for discontent. But everybody, Socialists and Conservatives alike, is convinced that this tax is merely the thin edge of the wedge, and that it will either be repeated in frequent intervals or it will be followed by a much heavier capital levy to be assessed on capital values.

Although the British Labour Party has been advocating capital levy ever since World War I, during World War II active agitation has been suspended, owing to the heavy direct taxation on profits. As the British income tax and surtax amount to 97½% on high incomes and death duties have also been raised to a very high level, there was a feeling in Socialist circles that the rich were now adequately taxed. The revival of the capital levy as a live political issue was due in part to personal causes, but largely to political causes.

It seems doubtful whether a capital levy had come to the fore at all had it not been for Mr. Dalton's resignation. While in office he did not seem to want to adopt it. Once out of office, however, he began to agitate in its favor and placed himself at the head of the Left Wing Socialists advocating it. In face of Mr. Dalton's attitude, Sir Stafford Cripps felt impelled to show that he was as good a Socialist as his predecessor. Hence his small capital levy in this year's budget. This did not satisfy Mr. Dalton who, in a speech during the budget debate demanded a big capital levy.

The political reason for the adoption of the special contribution was the desire to make the government's wage-stabilizing policy acceptable to the workers by a move directed against capital. From this point of view, however, the choice of the means to that end must be considered very ill-advised. Had Sir Stafford Cripps decided in favor of an increase of the profits tax or on a compulsory limitation of dividends, it would have been very unpopular in financial circles, but it would have caused less actual harm. In a way, even the adoption of a big capital levy would have been less harmful, for everybody would have assumed that it would not repeat itself in the lifetime of this generation. As it is, it is widely assumed that the special contribution would be repeated again and again. For this reason many wealthy people are inclined to liquidate their investments and to keep their money either in a liquid form or to invest it in a form that does not yield any income, at least until the next general election of 1950. This trend, if it should assume considerable proportions, would gravely handicap production, for it would make the task of raising fresh capital very difficult. It would also interfere with the savings movement and the cost of government financing would increase.

It is absurd that the government should expose the country to such disadvantages for the sake of a mere £105,000,000 which in any case is not needed, seeing that there is already a substantial budgetary surplus. The only purpose of the special contribution is to enable the government to reduce income taxes without having to reduce the revenue surplus. This, in itself, is a most unsound practice. For the only possible justification of a capital levy is to serve the purpose of debt cancellation. To fritter away the proceeds of a tax on capital for current purposes is fundamentally wrong.

In the course of his speech, Mr. Dalton advocated a big capital levy as a means for ensuring the success of cheap money policy. He is still smarting under the reverse suffered by that policy towards the end of 1948 and its abandonment by his successor who agreed to pay out holders of stocks in nationalized railroads in 3% government bonds instead of 2½% as Mr. Dalton would have done. He believes that, if the public debt were reduced with the aid of a big levy, it would be easier to enforce the cheap money policy. What he appears to overlook is that the capital levy would reduce the demand for government bonds at the same time as it would reduce its supply and that there is, therefore, no reason why it should affect interest rates.

The revival of capital levy has gone a long way towards embittering relations between the government and its opponents. The latter regard it as a hostile move which could not be justified on any economic grounds. It is considered, in fact, an undiguised act of class war.

Rafferty Municipal Mgr. For Schwabacher & Co.

SAN FRANCISCO, CALIF.—Schwabacher & Co., 600 Market Street, members of the New York and San Francisco Stock Exchanges, announce that James F. Rafferty has become associated with them as manager of the municipal department.

Treasury to Raise Certificate Rate

Authoritatively reported increase from 1⅛% to 1¼% to be made possibly on June 1.

It is reported, on the basis of views expressed by Treasury officials attending the meeting of the Executive Council of the American Bankers Association, that beginning with June 1 or July 1, the Treasury will advance the rate on one-year certificates of indebtedness from 1⅛% to 1¼%. This is in line with a policy of higher short-term pattern of rates that has been followed since last Spring.

This higher interest rate policy, it is generally believed, is a move of the monetary authorities to continue their drive against inflation through increasing the cost of funds to all borrowers and thus make lenders reluctant to reach for long-term and speculative commitments. Whether the new rate is the final step in the series taken by the Treasury toward a higher short-term rate pattern since last Spring is still uncertain.

Curb Settles Strike, But N. Y. S. E. Holds Out

After more than three weeks duration, the strike of New York Stock Exchange employees continues, though without noticeable interruption to normal operations. The New York Curb Exchange, on the other hand, came to an agreement with its striking employees on April 15. It entered into new contract for a period of two years which is exactly like the contract just expired March 1, with exceptions noted below:

The new contract preserves the free choice of all employees as to union membership.

It continues the provisions of the old contract on maintenance of union membership by those who have voluntarily chosen to join the Union, but it will provide a period of 30 days, after the signing of the contract, within which any employee may, if he chooses, withdraw from the Union. The withdrawal period in the old contract was 15 days.

The new contract continues the provisions of the old contract regarding deduction of union dues by the Exchange for all employees who are union members and authorize such deductions, except that only new authorizations will be acted on by the Exchange and must be revocable at the end of one year.

The new contract, like the old, may not be cancelled by either party and continues the same agreements of the union not to strike as have existed in the old agreement.

The volume bonus plan which the Exchange adopted in 1945, as it now exists, is to be incorporated without change in the new contract.

The new agreement will provide an increase of 10% in salaries, effective when the contract is signed. Salaries are fixed for the full period of the contract.

Despite efforts of the Federal Conciliation Service, no agreement appears in prospect yet between the New York Stock Exchange and the striking union of its employees. Picketing of the entrances to the Exchange continues, but few disturbances have been reported. Negotiations between representatives of the Exchange and of the Union, however were still going on at the close of the market on April 21.

Banks and Tomorrow

By T. C. ROOT*

Assistant to the President, Texas Technological College

Commenting on uncertainties regarding future, Texas educator foresees likelihood of more deficit financing with intensified inflation. Predicts bank rates will not soon rise, and attacks Federal Reserve buying of government bonds. Does not look for nationalization of banks and contends our foreign policy is closely allied to inflation.

A sage once remarked, "The future is intensely interesting to me because I intend to live in it." The future is interesting to all of us for that very good reason, and it becomes especially important if, as bankers, it is necessary for you not only to live in the future but to operate the banks of our country safely and soundly for your depositors and profitably for your stockholders.

T. C. Root

I find the most impressive, and only definite, fact in today's situation is the fact of uncertainty. This uncertainty has been caused by the possibility of increasing government control over the operations of banks, inflationary tendencies, the disturbing influences of strikes, rumors of war, government operations in the organized commodity markets, constant sniping at the profit system, the future developments in credit control and continued vacillation in foreign policy. War and the New Deal have ruptured practically all old economic relations and substituted some new ones along with subsidy and control, and the administration stands ready to try anything which seems politically expedient. There seems to be no place for an economist except perhaps to lift his small voice to proclaim the ultimate sanity of economic interdependence and the utter insanity of militant nationalism and way; yet, I shall discuss three things: the possible course of government control in the future, the possible course of business and the possible course of foreign policy.

Dilemma of Federal Reserve

Federal Reserve officials find themselves on the horns of a dilemma. They know they cannot raise discount rates and Reserve requirements and at the same time support the market for government bonds. The recent advance in discount rates and Reserve requirements was accomplished by a drop in the bond market because a raise in Reserve requirements brings about the sale of bonds. The only way open for credit control then seems to be the individual bank's efforts to curtail credit. In England the Socialistic Government has made very little attempt to control the domestic policies of banks, although exchange control has been rigid to the extreme. In this country we have had control in the form of repeated warnings from Federal and State banking authorities and a campaign for voluntary restraint by the American Banks Association. These, coupled with rapid loan expansion, have served effectively to prevent speculative banking. Another strong force often overlooked is the skill and ability of the bankers coupled with a desire and determination to keep their banks sound and solid.

Of course, the banks are inseparably bound to the economy of the nation and the course of business determines the course of banking. Banks are also irrevocably tied into government financing through the purchasing of government bonds. The future of government financial policy will determine the future of bank investments in government bonds. I think that in the future, as in the past, banking policies will be dictated primarily by the government's need for deficit financing, with the apparent needs of the business economy a very poor secondary consideration.

Mr. Binson told you yesterday that selfish interests may prevent a group from favoring something good for the nation as a whole. With your large holdings of government bonds, you would not like to see their prices decline, would you? I think we would have a healthier economy without a pegged market for government bonds. The wartime rule requiring the Federal Reserve to buy any bonds offered by members should be ended. It gives the Treasurer an artificially low rate of interest and permits banks to create an additional credit which can be spent as money. We hear much of government control of credit—we need control of government credit.

What About Unbridled Inflation?

I do not believe our present form of government, or of economic activity can survive another war, or weather a period of unbridled inflation and its aftermath. We have too many people who are ready and anxious to convert to a fully planned and managed economy. We have too many groups who turn to the government for relief, assistance or subsidy in any real of fancied emergency. For 16 years we have had a type of administration that encouraged this tendency in order to perpetuate itself. It has become quite common to point the finger at "big business" or "Wall Street" or "the money lenders," and some are constantly sniping at profits. I do not believe the banks as a whole are open to this kind of rabble-rousing scapegoatism, especially in this section where the citizens know and respect and have constant business contacts with their bankers.

I do not believe the government will attempt to take over our banks. Banking is too highly decentralized and to work a highly decentralized system with detailed rules would certainly create more problems than it would solve. I feel quite certain that if we had branch banking with few central offices, government planners would make every effort to get firm control. So far in this country, the people have accepted executive controls only in time of war. I hope we will continue to reject controls in time of peace. If war comes, it is needless for us to worry or try to predict, because government controls will be clamped on and will stay on and you will again become clearing-houses of ration tickets and gasoline coupons.

Last year at this time at the South Plains Bankers convention, I predicted a downturn in business for the last half of 1947. I was wrong. This time I am predicting a boom for the last half of 1948. I hope I am wrong, for a boom will lead to wilder inflation with collapse following. It seemed that prior to the President's speech on March 17, the forces of inflation had about run their course. When the forces of expansion versus contraction or inflation versus deflation are fairly evenly balanced, it takes but little to tip the scales either way. Truman's message seemed to bring an abrupt change in business psychology, with caution almost disappearing. The swift passage of ERP, the tax cut of $4 billion. the almost certainty of a large increase in the military budget, and the usual interruptions of production due to strikes, have furnished an impetus upward and almost completely reversed the direction of recent cautious thinking.

Another Siege of Deficit Financing

We are in for another siege of deficit financing which, when superimposed upon our present heavy debt, will be an almost unbearable strain upon our economic system. In the past the world's wildest inflations, ending in the complete wreckage of the value of money, have been accompanied by a succession of badly unbalanced national budgets. Debt retirement is deflationary and no party in power wants deflation. Unfortunately, the party out of power is always the one that talks economy. Deficit financing is inflationary, and in this country has been by far the most powerful inflationary force. The truth is that you cannot bring about a little deflation nor a little inflation. Once started the same forces that started either condition snowball and become major developments. There is no stopping place for inflation except economic ruin. The same thing can be said for militarism once it is injected into the system, except that it has no stopping place short of complete military defeat at the hands of another country. Deficit financing is opposed to higher bank rates. Higher bank rates are the forces of credit control and stabilization. We are not to have higher rates in the near future

Our foreign policy is so closely allied to inflation and resulting business conditions that it is difficult to discuss each separately. Also, our foreign policy is now almost entirely in the hands of the ex-military. We need to strike a balance between military power and economic interdependence. Happiness in the home is engendered by economic security. Peace between nations comes when those nations are engaged in profitable, and mutually beneficial, commercial intercourse. A strong military department, mutual trade agreements, favorable tariffs, and non-discrimination, are equally important in foreign policy. It is not good when some of our people suspect the military of beating the drums and waving the flags just at appropriation time each year.

The Foreign Policy

In the past, our foreign policy has had only one characteristic—vacillation. There have been delays, confusion and secrecy, and by the time the policy has been discovered it has been reversed. Appeasement is a word that should have no place in our government's dealings with any other government. It is a word which is beneath the dignity of the United States of America. I think we are all agreed that our foreign policy should be firm from now on and that the power should be present with which to back the policy.

One thing seems certain for the future in the territory served by your associations: assets, deposits, and capital funds of your banks will continue to increase with the continued economic development and expansion of this great area. This increase will be brought about by continued increases in population and in industrialization, accompanied by a more complete utilization of natural resources. It seems entirely safe to say that this definite trend will continue in war or peace.

For the future, it seems that the banks in this territory will be forced to go more and more into departmentalization, and as government agencies and others factors take business away hunt new fields for profitable operations. As the drug stores took business away from the hardware and jewelry stores, and as department stores took business away from drug stores and others, the individual bank will have to make new business, and go out and get it. Banks' participation in installment loan business has not yet been developed to any great extent. The personal loan department offers real opportunity for increased profits. Most of the customers of a bank do not use all of its services. Indeed many are not aware of all of the services offered by the bank.

The bank will have to pay more and more attention to public relations, to the education of present and prospective customers, to keeping the public informed so that its opinion may be shaped intelligently.

The banker as a citizen will have to take an active and militant part in local and national political affairs on a non-partisan basis. The leading citizens of the old West formed themselves into vigilante bands to discourage murder and pillage and to bring law and order to their communities. The citizens of the present day West need to form themselves into good government leagues, to choose condidates and persuade these candidates to stand for election, to support their election campaigns and to insist that once elected, the representative works free of group pressure, free from class prejudice, free from the desire to perpetuate himself in office. We need to demand statesmanship in our Government servants.

*An address by Mr. Root at joint meeting of the South Plains Bankers Association and the Southwestern Bankers Association, El Paso, Texas, April 10, 1948.

Nadler Foresees Revamping of Fiscal Policy with Budget Deficit

Looks for new powers over money market and credit expansion should bank deposits and lending increase.

Speaking at the Eighth Annual Forum of the New York Chapter of the American Society of Chartered Life Underwriters in New York City on April 16, Dr. Marcus Nadler, Professor of Banking and Finance at New York University, warned of additional controls over the money market and credit, should the inflationary spiral become accentuated by a budgetary deficit.

Dr. Marcus Nadler

"The present credit policies of the monetary authorities rest on two props," Dr. Nadler said, "first, the maintenance of an orderly government bond market and, second, the redemption of Treasury obligations held primarily by the Reserve and commercial banks.

"Through this policy the Reserve banks, despite the fact that they acquired a large amount of long-term government obligations, were able to reduce their holdings of government securities and thus narrow the credit base of the country and reduce the ability of the banks to create additional deposits through lending and investing. So long as the surplus of the Treasury is maintained and the authorities are able through their redemption policy to counteract the reserve balances created by the acquisition of government securities, this policy can and will be effective.

"An entirely different problem will arise, however, if the surplus of the government is converted into a deficit. The recent action of the Congress in lowering taxes by $4,800 million, plus the need for rearming, which during the next fiscal year may increase military expenditures by an additional $3 to $4 billion, have created the possibility that the present surplus may be converted into a deficit. Once this occurs and particularly if the volume of bank deposits should rise through increased lending and investing, the monetary authorities will find themselves before a very difficult task. If they then wish to curb credit expansion they will have to abandon the present policy of maintaining the government bond market unless, of course, they obtain new powers over the money market and over credit expansion by the commercial banks.

"As conditions are at present it is highly doubtful whether the monetary authorities will abandon their policy of maintaining the government bond market. First, such a move would greatly complicate the refunding operations of the Treasury and would materially increase the debt burden of the country which already exceeds $5 billion. Second, the stability of the government bond market is considered an important cornerstone in the general stability of the economy of the country. A material decline in prices of government obligations accompanied, as it would be, by a corresponding decline in prices of high-grade corporate, State and municipal obligations, could inject an element of great uncertainty into the business picture of the country. Thirdly, the monetary authorities must consider how a sharp break in government obligations would affect holders of Series E, F and G bonds which are demand obligations. If the latter should decide to redeem these obligations it would not only cause embarrassment to the Treasury but also if the proceeds of the sale of these securities were spent they would greatly stimulate the inflationary forces.

"Because of these factors and since the Treasury is now starting a new drive to sell such obligations to the public in large amounts, it is highly doubtful whether the monetary authorities will abandon the present policy of maintaining the government bond market."

New York Stock Exchange Weekly Firm Changes

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

B. Walter Vos will retire from limited partnership in Boody, McLellan & Co., New York City, on April 30.

J. Harrell Howe will withdraw from partnership in James M. Leopold & Co., New York City, on April 30.

Chicago Purchasing Agents Report Some Slipping of Business

P. C. Patch, Chairman of Business Survey Committee, sees deliveries better and faster and says for first time since 1947, more firms reported greater employment decrease than increase. Hints tax reduction and ERP may again change trend.

In the report of the Business Survey Committee of the Purchasing Agents Association of Chicago, of which P. C. Patch is Chairman, a slight downward movement of business is reported for March as compared with February. The basis for the conclusion, arrived at by analyzing returns from member concerns, is summarized as follows:

P. C. Patch

(1) Deliveries were better for more than half.

The 53% mentioning faster deliveries is the best since last August.

(2) Prices show a marked tendency toward stabilization.

Those who had to pay higher prices last month were the fewest in number since the start of survey.

(3) Inventories are lower.

More members reported a reduction in average inventories than in any month since June 1946.

(4) Employment shows a general trend toward the lesser side. Employment level is interesting in several respects:

Fewer members reported an increase than in any month since June, while the largest percentage since October, 1945 found employment reduced from preceding month. Also, for the first time since May, 1947, more firms reported employment decreased than found it increased.

(5) Production declined on balance.

Lower production was experienced by 30%, the largest number since February, 1946.

(6) Order backlog was reduced for a small majority.

The "smaller" side of order backlog showed the most so reporting since May last year.

(7) No change in the buying policy. It is almost entirely 90 days and less.

(8) Finally, business conditions are the same or poorer for a substantial majority.

The largest number since the survey began said they thought business conditions were worse than in the month before.

For the most part, sufficient materials evidently are available for prompt shipment to permit production to ease off somewhat, and to put brakes on the price spiral. This situation is aided by the apparent increased output per man hour and results in short term buying, smaller backlogs and less need for stockpiling of inventories.

Special Questions

If no more orders were received after today, almost two out of three would complete their order backlogs within 90 days. The heaviest percentages fall in the two, three and four month categories. Thus, when taken in conjunction with amount of production materials already on hand, order backlogs bear out the buying policy of 90 days and less. One member even stated that the order backlog of his firm would be completed in three hours.

The employment level is still high when we see that 79% of the reporting members found their firms' employment had not varied more than 10%, either up or down, from what it was the first of the year. However, 10% more firms experienced declines than increases.

Conclusion

Business has evidently begun to slide off about as precipitously as in last year's second quarter. However, we have all heard much of the European Recovery Plan, large orders for aircraft manufacturers, and the new defense program. It will be interesting to see if the volume of these expenditures together with other governmental activities, such as recent tax reduction, will be sufficient and come fast enough to put us back on the upward track again in the next few months.

Alm, Kane, Rogers Co. To Open in Chicago

CHICAGO, ILL. — Alm, Kane, Rogers & Co., will be formed with offices at 39 South La Salle Street

Vincent T. Kane

to act as underwriters and distributors of industrial real estate and public utility stocks and bonds and over-the-counter securities. Officers will be Paul E. Alm, president; Vincent T. Kane and Arthur W. Rogers vice-presidents; H. J. Wickstrom, treasurer; and Marion Frieburg, secretary. All officers were formerly with C. L. Schmidt & Co.

SEC Orders NASD To Admit Firm

Overrules refusal of membership to Dewitt Investment Company of Wilmington, Del.

The Securities and Exchange Commission, on April 15, ordered the National Association of Securities Dealers, Inc., to admit to membership the firm of Dewitt Investment Company, of Wilmington, Del. The firm had been refused membership to the NASD and appealed to the SEC to have this decision reversed.

The SEC said the Association had refused membership because Dewitt's principal officer, Paul K. Guthrie, was suspended from the Philadelphia Stock Exchange in 1922. It also stated that the NASD had found that the Dewitt concern was not regularly engaged in the brokerage business. "We, of course, endorse the efforts of the NASD to maintain the highest possible standards and we appreciate that the position it has urged is based on its desire to attain that objective," the SEC ruled. It said, however, the question involved hinged on interpretation of law.

Merritt Robinson Opens

EAST ROCHESTER, N. Y. — Merritt L. Robinson is engaging in a securities business from offices on Eaglehead Road.

What Government Expects of Corporation Reports

By WILLIAM W. WERNTZ*
With Touche, Niven, Bailey & Smart, Accountants
Formerly Chief Accountant, Securities & Exchange Commission

Former SEC accountant, in calling attention to burden of formulating reports to various government agencies, opposes establishment of single agency to receive and distribute reports. Upholds present system of having report forms approved by Bureau of the Budget. Says real difficulty is in different purposes for which report information is obtained, and admits much data has little or no use. Concludes great deal remains to be done in simplifying and clarifying report forms.

For a long time, but most especially in the recent past, a great deal of the factual information necessary, first for the adoption and later for the administration of legislative programs, is derived from reports furnished by American business corporations to government — be it Federal, State or local. It is common knowledge that in our economy the part played by business conducted in corporate form is vast in size and of extreme importance to the whole economy. Indeed, there is some feeling that many corporate enterprises are now so large in size and affect so many customers, creditors, investors and employees that they have almost bcome affected with a public interest. It is not the least surprising, I think, that under such conditions government is becoming more and more dependent on information about, and furnished by, such companies. It would be most surprising and most dangerous if government were to undertake to proceed with its affairs and policies without obtaining such information or in spite of the data furnished. It seems to me our economy has gotten to a point where the self-interest of the corporation is clearly best served by seeing to it that government has adequate and reliable business data before it on which to base its decisions. The question now is not whether, but how to get proper data before those in the government—Federal, State and local—who must make decisions, and I include in the word government not merely the executive, but especially the legislative and the judicial departments.

William W. Werntz

This is not to say that no further problem exists. Corporate reports to government like any other business matter ought to be tailored to fit the government's proper needs with a careful balancing of benefits against cost in time and effort, and neither business nor government can be the sole judge as to what is or is not necessary data, and what is or is not too costly and time-consuming to prepare. It is an area where cooperative joint-discussion is the only satisfactory means of solution, and there have been a good many examples in recent years of just that. Undoubtedly there have been many instances of improvident and unnecessary demands for information and there have likewise been, in my opinion based on my own experience, some unreasonable refusals and delays on the part of those requested to supply data. In this important area of informational requests, an advisory committee of business and professional men has performed valiant and valuable services both in resisting and defeating unreasonable demands for data, and on the other hand in persuading the reluctant of the real importance of supplying adequate information.

With this somewhat long drawn out preamble, I would like to take up some of the specific questions which your Chairman has suggested would be of particular interest to you. I want to approach these as practical business problems that must be solved for the benefit of the general public welfare and not at all in the sense of a justification of any particular demand for data. Necessarily, I can express only my own personal point of view which may or may not coincide with that of the agency with which I was recently associated or, indeed, with that of any of my present associates.

Perhaps the most frequent suggestion toward easing the task of corporate reporting has been to create some sort of overall report filed with a centralized agency which would then disseminate to interested agencies such of the information as was necessary or pertinent to their activities. The idea is a most inviting one and it may be that it can be achieved in whole, or at least in part. However, it does provide some very difficult questions both for reporting companies and for the recipient agencies.

You are much more aware than I of the breadth and variety of information you now are asked to furnish, and the number of different agencies to which such data is sent. You also undoubtedly can point out a good many cases in which other companies furnish data which you do not, as well as the opposite situation. This poses the first and perhaps the greatest difficulty with the

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*An address by Mr. Werntz before the Brooklyn Chapter, National Association of Cost Accountants, Brooklyn, N. Y., March 24, 1948.

Report Building Contracts at High Mark

Thomas S. Holden, of F. W. Dodge Corporation, says construction contracts east of Rockies in first quarter of 1948, exceed previous year's by 23%.

Thomas S. Holden, President of F. W. Dodge Corporation, reports that a new first-quarter high mark in dollar volume of construction contracts has been set in the 37 states east of the Rocky Mountains with a total of $1,986,936,000. This volume surpasses by 23% the previous first-quarter record established last year.

Thomas S. Holden

While the dollar volume of residential contracts was maintained at a level equal to the first quarter of last year, nonresidential contracts were up 42% and heavy engineering awards increased 46% over the comparable period of 1947, analysis of the corporation's field project reports discloses.

Mr. Holden, in an interpretation of the activity record, pointed out that the sharp increase in construction costs during the last year accounted for some, if not all, of the dollar volume gain.

The physical volume of nonresidential space as measured by square foot floor area and covered under contracts awarded in the first quarter was substantially in excess of that reported for the corresponding period of last year, Mr. Holden said. At the same time, considerably less new floor area is reported for residential buildings.

Gains in dollar volume of construction contracts were shown for 11 of the corporation's 15 reporting regions. Those areas whose gains were equal to or greater than the average for the 37 states are: upstate New York; the Middle Atlantic states; the Southeastern states; southern Michigan; northern Illinois, Indiana, Iowa and Wisconsin, eastern Missouri, southern Illinois, western Tennessee and Arkansas; Louisiana and Mississippi; Minnesota, North Dakota, South Dakota; western Missouri, Kansas, Nebraska and Oklahoma. Other regions showed a gain over the first quarter of last year except New England, down 7%; metropolitan New York and northern New Jersey, off 2%; southwestern Ohio and Kentucky, down 19%; and Texas, off 4%.

New England—Construction contracts awarded in the first quarter totaled $99,064,000 and represented a decline of 7% from the total reported for the corresponding period of last year. Non-residential volume showed a gain of 7%, residential volume was off 48%, and heavy engineering volume was more than double that reported in the first quarter of last year. The Dodge corporation reported that 44% of the dollar valuation of total awards was for projects classified as publicly owned against a percentage of 18 in the first quarter of last year.

Metropolitan New York and Northern New Jersey—The dollar volume of construction awards in the first quarter totaled $226,778,000 against $231,161,000 in the corresponding quarter of 1947. Non-residential volume showed a gain of 1%, while heavy engineering contracts declined 17% compared with the first quarter of last year and residential awards were down less than 1%.

Upstate New York—Marked by substantial increases in residential and heavy engineering contracts, the dollar volume of $74,803,000 reported for the first quarter was 55% greater than that shown for the corresponding period of last year. Non-residential contracts with a gain of 29%, alone were below the 37-state average gain.

Middle Atlantic States—The total of contracts reported in the first quarter was $275,265,000 to show a 29% gain over the first quarter of last year. Non-residential awards were up 61%, residential awards were off 3%, while heavy engineering contract volume was almost double that reported for the first quarter of last year.

Southeastern States—The dollar volume of contracts reported for this area in the first quarter amounted to $225,655,000 to show a 27% gain over the total reported for the corresponding quarter of 1947. Non-residential contracts were up 42%, residential contracts increased 36%, while heavy engineering awards were down 3%.

Western Pennsylvania and West Virginia—The first-quarter dollar volume of $90,844,000 was 14% greater than that reported for the corresponding period of last year. The advance was marked by an 86% gain in non-residential contracts, and an 85% gain in heavy engineering awards. These volume increases were more than enough to offset a 54% decline in residential contract volume.

Northern and Eastern Ohio—Contracts awarded in the first quarter were 13% higher than in the corresponding quarter of last year. The total was $80,239,000. Non-residential building awards increased 55%, residential contracts declined 19%, and heavy engineering awards showed a 6% gain.

Southwestern Ohio and Kentucky—Moderate declines in residential and non-residential awards were reported during the first quarter, total awards being $45,469,000, and representing an over-all drop of 19%. Heavy engineering awards showed a gain of 5% during the first quarter compared with the volume reported for the corresponding period of last year.

Southern Michigan—The dollar volume of first quarter contracts totaled $93,767,000 to place the area with a gain of 29% over the first quarter of last year somewhat in advance of most other regions east of the Rockies. Non-residential awards in the first quarter were 84% higher than last year, residential awards were up 5%, while heavy engineering awards showed a gain of 3%.

Northern Illinois, Indiana, Iowa, Wisconsin, Northern Michigan—With a total dollar volume of $245,047,000 in the first quarter, the region showed a 47% advance over the corresponding quarter of last year. The gains were particularly pronounced in non-residential awards, which were up 98%. Residential contract volume gained 7% and heavy engineering awards were up 45% in the quarter.

Eastern Missouri, Southern Illinois, Western Tennessee and Arkansas—The greatest gains among the 15 major Dodge reporting areas were reported for this region during the first quarter, with a volume slightly more than double that shown for the corresponding period of last year. Total contract volume of $112,613,000 reflected a gain of 178% in non-residential awards, an increase of 75% in residential contracts, and a 53% increase in heavy engineering awards.

Louisiana and Mississippi—Contract volume in the first quarter was running slightly ahead of the average for the 37 eastern states, with an over-all 28% gain reported on the basis of a total of $69,593,000. Non-residential awards doubled in the first quarter over the corresponding three months of last year. Residential awards were up 22%. Heavy engineering awards showed a 5% gain.

Minnesota, North Dakota and South Dakota—With sharp increases in March, the area total for the first quarter amounting to $52,726,000 reflected a 64% gain over that reported for the corresponding period of last year. Non-residential awards, with a particularly heavy March volume, were slightly more than double the total shown for the first quarter of last year. Residential awards showed a decline of 10%, while heavy engineering awards were up 74% for the quarter.

Western Missouri, Kansas, Nebraska, Oklahoma—This area showed the second heaviest volume gain of all regions in the Dodge reporting area east of the Rockies during the first quarter. The total volume of $126,196,000 was 81% higher than that reported for the corresponding period of last year. The advance was marked by a gain of 130% in heavy engineering awards. Residential contract volume was up 53% and non-residential awards increased 58% in the quarter over the corresponding period of 1947.

Texas—The state of Texas showed a modest 4% decline in the first quarter with a total of $168,977,000. Heavy engineering awards were up 43%, but the gain was insufficient to offset a 25% decline reported for non-residential awards and a 4% decline in residential contract volume.

Tony Bottari Joins Wm. R. Staats Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Tony Bottari has become associated with Wm. R. Staats Co., 111 Sutter Street. He was formerly in the trading department of Blair & Co., Inc., and prior there to was manager of the trading department for Sutro & Co., and Mitchum, Tully & Co.

Tony Bottari

Russ Turkey Blind to Be Held on April 30

SAN ANTONIO, TEX.—Russ & Co. of San Antonio is holding a "turkey blind" at the Texas Hotel on April 30 from 4:30 to 7:30 p.m., during the meeting of the Texas Group of the Investment Bankers Association which will be held in Fort Worth from April 29-May 1.

The firm has issued very amusing invitations, in the manner of a gay-ninety wood cut.

Public Utility Securities

Kansas Gas & Electric

American Power & Light has announced that it will sell 250,000 shares of Kansas Gas & Electric common stock, out of the 600,000 shares which it owns and which constitutes the entire issue outstanding. It has asked the SEC for an exemption from competitive bidding requirements. However, under the compromise method now in vogue, the company has invited a number of investment banking houses to look at the deal. It is understood that some seven houses are currently interested and some of them are sending representatives to look over the property. Eventually the company will select one dealer, who will then "negotiate" with the company, and form a group to sell the stock. There is no indication yet as to the offering date, but this will probably be in the near-term future if market conditions remain generally favorable.

While the prospectus does not so indicate, it appears likely that American Power & Light will use the proceeds of sale of this stock to increase its equity investment in other subsidiaries, in connection with their construction financing needs. Eventually, of course, American will be dissolved (two plans were recently filed proposing bases for allocation of assets to the preferred and common stocks). The remaining 350,000 shares of Kansas will be distributed in accordance with the eventual plan adopted and approved by the SEC and a Federal Court.

Kansas Gas & Electric, with headquarters at Wichita, was incorporated in 1909 and its charter runs to 1980. The business is all-electric, the gas business having been disposed of in 1925. The territory served includes most of southeastern Kansas (about 6,000 square miles) and a very small part of Missouri near the State line. Retail electric service is provided to 114 communities in Kansas with a population of 304,000; Wichita with a population of 160,000 provides about half the company's revenues. Wholesale service is also provided to 22 communities with a population of 40,000. The business in Missouri is negligible.

The territory served is largely agricultural, but mineral resources, including coal, oil and gas and the processing of these and of agricultural products comprise a substantial portion of the area's economic activity. Diversified industries in the area include flour, feed and alfalfa milling, meat packing and the manufacture of farm implements, oil field machinery, cement, clay products and fertilizers. In addition, Wichita is a major center of the aviation industry in the southwest.

The company's average revenue per residential kwh was 3.48 cents in 1947, and average annual sales to residential customers were 1,265 kwh. While these figures are somewhat less favorable than the national averages, this is doubtless explained by the rural character of the area.

The company's earnings and dividend record in recent years has been as follows:

Year	Earned	Paid
†	$2.36	$1.60
‡	2.38	1.60
1946	2.81	1.30
1945	1.72	.83
1944	1.66	.63
1943	1.66	.85
1942	*	1.25
1941	*	1.00
1940	*	1.20
1939	*	1.07
1938	*	1.20

*Not available in Prospectus.

†Twelve months ended Feb. 29, 1948.

‡Calendar Year 1947.

These earnings are after provision for amortization of electric plant acquisition adjustments amounting to $85,685 a year, which amount would be equivalent to 14c a share (before any tax savings). Depreciation and maintenance expenditures in 1947 were about 13% of revenues. Property account is stated at original cost, and the common stock equity is about 28%.

N. Y. Attorney General Freezes Assets of Edward R. Parker Co.

Charges concern with appropriating customer's securities without consent to get bank loan.

Attorney General Nathaniel L. Goldstein of New York State, on April 14, obtained a court order to freeze the assets of Edward R. Parker Company, Inc., securities dealers of 165 Broadway, New York City, on the ground that the firm used stock belonging to a customer, without his consent, to obtain a bank loan, and thus save it from bankruptcy. The same order also freezes the personal bank and trading accounts of the company's officers: Edward R. Parker of Metuchen, N. J., President; Mrs. Anna E. Parker, his wife, Vice-President, and Benjamin E. Fuqua of 13 Charles Street, Secretary.

Irregularities in the company's books were first noticed by the Securities and Exchange Commission during a routine check of the company in 1947. The matter was then referred to Mr. Goldstein. Assistant Attorney General John Trubin told the court that his investigation showed the Parker Company was on the "brink of insolvency" in December, 1947, and was anxious to fortify its financial position to impress the SEC examiners as of Jan. 1.

The Birth of the Republican Party

Many letters of commendation have been received regarding an article by Noble Berrien in our issue of March 18 last regarding the "Birth of the Republican Party." We omitted saying that the small frame school building, in which the Republican Party was organized, is now on the Campus of Ripon College (Wisconsin) of which Dr. Clark G. Kuebler is President. Dr. Kuebler is also President of the National Guild of Churchmen of the Protestant Episcopal Church, a lay organization.

William Troutman Apptd. Officer of J. B. Dunbar Co.

LOS ANGELES, CALIF.—John B. Dunbar & Co., 634 South Spring Street, announce that William Troutman has been elected to the Board of Directors and has been appointed Secretary and Treasurer of the firm.

Converse, Pokorny & Co. Formed in Allentown

ALLENTOWN, PA.—C. V. Converse & Co. and J. M. Pokorny & Co. announce the merger of their firms to be known as Converse, Pokorny & Co., with offices in the Commonwealth Building. The new organization will conduct a general securities business.

Life Insurance Companies and Equity Financing

(Continued from page 6)

accrue and the utilization of these savings by borrowers who want to put them to work. Most of you would probably agree that, if savings accrue in larger amounts than can be put to work, there would be a tendency for the country's economy to slow down.

Fortunately, there is little evidence of over-savings, as some people like to call it, or under-investment, as other people prefer to speak of it. To the contrary, there is some evidence that there is more demand for money for the creation of new capital that there is money being made available for that purpose by the accrual of savings. I, for one, believe this country is greatly under-mechanized and under-capitalized, in and around the home, in the office, in the mines, factories, and transportation and distributive systems, and within the realm of government for such things as roads, bridges, schools, libraries, post offices, hospitals, playgrounds and parks. In short, I do not agree that our economy has grown old and decadent, but rather that it is still vigorous and dynamic with great opportunities for further growth. The vitality of our economy was well demonstrated by the pictorial presentation we have just witnessed in this room. I have every belief that, if the innate optimism and natural desires of our people are not unnecessarily hampered or discouraged by the confusion and uncertainty of governmental direction and action, there will continue for a long time to be ample opportunity for putting to work all the savings that accrue.

However, it takes more than just a demand for money to keep savings moving into suitable and profitable channels. Savings must be available in a form and at a rate satisfactory to the user; and the user in turn must seek to offer an investment security in a form and at a yield which will be appropriate to the saver or to the institution through which the savings are flowing.

This entire question is not just an academic one, of interest only to the life insurance business. It is a matter of great importance to all of us. And thoughtful people everywhere, not only in business, but also in government, are aware of the problems involved and are concerned with the serious maladjustments that may arise if savers and users are not properly brought together. More specifically, the question has been raised as to whether the flow of savings is being unduly impeded anywhere along the line. And, most particularly, we wish to know whether the life insurance business is doing its part in helping to maintain the freedom of the flow.

Past Role of Life Insurance Investments

Life insurance companies have always been sensitive to the changing capital needs of the country's economy. They have made substantial purchases of railroad securities, mortgage loans, government securities for the financing of wars and, more recently, public utility and industrial securities. However, the supplying of funds to meet these needs has been almost exclusively through the creation of debt. In fact, life insurance companies in this country have not been an important source of equity capital. This point gains importance from the fact that many people feel there has been a drying-up of some of the previous sources of equity capital.

For one thing, Federal and State income tax laws have made it difficult for persons with substantial incomes to save as large a proportion of their incomes as formerly. Thus, much of the savings accumulated by these individuals that historically may have flowed into risk capital is now flowing into the hands of the tax collector. It is unavailable to corporate users.

Furthermore, many individuals have become more hesitant to do their own investing in corporate securities, both bonds and especially stocks. With this growing reluctance to make direct investments, an important source of funds for the purchase of common stock has been diminished. In addition, it should be remembered that an increasing number of individuals are having much of their saving done for them through the operation of pension systems. These funds which formerly were available for equity investments directly from individuals are now being channeled, to a larger and larger degree, into institutions such as the life insurance companies.

Prohibition of Purchase of Common Stocks

But at this point we strike a serious impediment to the flow of funds into equity investments, especially common stocks. In New York State, for instance, the purchase of common stocks by life insurance companies is prohibited, and in some other states where it is authorized there are substantial restrictions. It is estimated that the total amount of life insurance company investments in common stocks is about $250 million. This is but a small percentage of the $50-odd billion of life insurance company assets.

With the reduced flow of personal savings into equity capital, many corporations are finding themselves becoming burdened with what is probably a disproportionately large volume of debt.

For example, some very well operated public utility companies are being pressed to issue such a large volume of dollar obligations to finance their necessary expansion of facilities that they are beginning to encounter difficulties in qualifying under their own mortgage indentures. In many cases, State Public Utility Commissions are urging the public utility companies to expand their plants and equipment to meet the rising needs of their communities at a time when utility debt is already high in relation to asset values.

But there is a limit to the amount of debt which can be supported by any company. We all can remember the unfortunate position in which many railroads found themselves in the past because too great a part of their capital was in the form of debt rather than in equities.

As a corporation grows and expands very often the most logical way for it to acquire additional capital is through the issuance of both junior and senior securities. If the capital structure of the borrowing company is to be well balanced, a certain amount of equity financing is necessary. The same principal holds for the economy as a whole. If there cannot be adequate equity financing along with the issuance of debt, then the new debt, since it may represent a contract difficult of fulfillment in times of business depression, becomes undesirably hazardous. Because of the need in our economy for more equity financing, and because selected equities may very often measure up to the conservative standards required by life insurance companies, it is quite understandable why the investment managers of some life insurance companies are beginning to look with greater favor upon equities.

Question Requires Study

At any rate, we must recognize our responsibility to take the matter under the most serious study. We may well be open to grave criticism if we do not at least consider the problem with all the earnestness at our command. It is vitally important that we find a solution, for the successful operation of the free enterprise system may in part depend upon it. Somewhere, somehow, the answer must be found, and the life insurance companies have a real obligation to be helpful in finding it. Indeed, with you men and women of the field so actively engaged in selling life insurance and in directing funds into the life insurance business, it is becoming increasingly important that we do find a solution.

In view of the nature and extent of the problem, we might very well ask ourselves what we are now able to do in meeting the needs of equity financing.

Life insurance companies generally are now authorized, subject to some restrictions, to buy and hold guaranteed and preferred stocks. At the end of 1947 the companies owned about $1,100,000,000 of these securities, having increased their holdings during the past two years by about $400,000,000. But however desirable preferred stocks are as an investment for life insurance companies, there is the disadvantage that, as non-amortizable assets, they are evaluated at a year-end market price. For that reason they contribute to artificial changes in the valuation of company assets which affect company gains and losses. Fortunately, this is probably not an insurmountable obstacle. A sub-committee of the Life Insurance Investment Research Committee has already evolved a formula which would greatly assist in this situation. While that formula has not yet been adopted and may not be the final answer, it nevertheless points the way toward a possible solution.

The total volume of preferred stocks which might be purchased by life insurance companies is distinctly limited and at present there seems to be a hesitancy on the part of many corporations to use this type of security to meet their capital needs.

Field of Rental Housing

The challenge to participate more directly in matters vitally affecting our country's future has also been answered in part by the recent entry of insurance companies into the field of rental housing. Only during the last few years has legislation been sufficiently broad and applicable to enough states to enable life insurance companies in general to make a substantial contribution to the solution of our housing problem.

Of course, life insurance companies have long recognized the importance to the family of adequate housing. Since their earliest days they have made it possible for people of moderate means to acquire a home of their own through mortgage financing. A large part of the $8,500,000,000 of mortgage loans owned by life insurance companies at the close of 1947 was on residences. The life insurance companies may well be proud to have played such an important role over the years in fostering home ownership.

And at present time, there is another great need which should be met—the need for rental housing. Thousands of veterans, newly married and starting families of their own, are confronted with a serious shortage of housing. It should not be necessary, and in many cases it may be highly undesirable, for these young people to be forced to purchase homes and to assume an indebtedness that will last for many years. Often it is wiser for them to retain a considerable degree of mobility so that they can more

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Securities Salesman's Corner

By JOHN DUTTON

Several months ago it was suggested here that business could be developed by seeking out new customers by cultivating people who were not regular investors. The theory being that much new money has gone into the hands of those who formerly did not enjoy the larger incomes which they do today. If current statistics on this subject are reliable there has been a definite shift in certain quarters of the population as to their prevailing annual incomes compared to their status in this respect before World War II. Some actual experiences of salesmen who have put forth effort in this field indicate that intelligent sales effort directed along these lines will be productive.

A New York City Investment Banking firm offered a common stock in the $11 price range, in a newspaper advertisement. The ad pulled over 100 inquiries. As a result of a telephone interview one order for 1,000 shares was obtained from an executive in a large organization. Obviously the buyer was acquainted with the company whose shares were being offered. The salesman in this unusual instance did not even talk with the buyer but gave the information concerning the security to his secretary. The order came in later by mail. Exposing yourself to business often turns up unusual opportunities but you must seek them out in the first place.

Another salesman reports an instance of $2,000 invested in securities by an investor who made payment in 2,000 silver dollars. This transaction was so unusual the local paper made a feature story out of it.

Then there was the case of a salesman and his family who had been giving their trade to a neighborhood delicatessen dealer for many years. He had a busy store and appeared to be the saving, thrifty, sort of individual. The salesman made an evening appointment and opened the account in a small way. Several weeks later the delicatessen owner turned over several thousand dollars in cash to the salesman and told him to invest it. The account has now grown to sizable proportions. Here's one time when slicing the baloney supplied the cash for investment.

Another salesman opened up an account with the owner of a small chain of shoe repair stores. This was the first experience this investor ever had in the purchase of securities. The account has eventually been built up to a total of approximately $50,000 worth of securities in less than a year's time.

Shoe repair store operator, delicatessen owner, collector of silver cart wheels, and a business executive — all held idle funds which were available for investment. But someone had to go to see them and make suggestions for the investment of this idle cash. There are people like these investors in your town. If the signs are right there seems to have been a revival of confidence in the business outlook during the past two weeks. This confidence has been reflected in higher stock prices. When investor confidence begins to revive it is much easier to bring out some of this idle cash and convert it into securities.

This might be a good time to look in new places for new customers.

Validates Jap Liquidation of Allied Banks

Philippines Supreme Court, by 7 to 3 decision, rules Japanese occupation forces had power under international law to order liquidation of allied banks through the Bank of Taiwan.

The validity of wartime payments to allied banks in the Philippines made through the Bank of Taiwan on order of the Japanese military administration was upheld by the Philippine Supreme Court on April 11 in a precedent-setting 7-to-3 decision.

The ruling of the high court settled one of the most important postwar legal questions which arose from wartime bank transactions of the Bank of Taiwan with allied banks involving more than 50 million pesos. [The situation was covered in the "Chronicle" by Francisco Ortegas, Jr., of Manila, P. I., issue of March 13, 1947.—Editor]

The tribunal through Justice Felicisimo R. Feria ruled:

(1) The enemy occupant (Japan) through the Bank of Taiwan, had power under international law to order the liquidation of allied banks which were declared as enemy institutions by the Japanese military administration;

(2) The liquidation and sequestration of allied bank assets was not confiscation of enemy property, but was made for its conservation subject to further disposition by treaty between belligerents at the end of the war;

(3) That such payments made by debtors to the Bank of Taiwan had removed their obligation to the allied banks;

(4) The allied banks adversely affected by the Supreme Court ruling can seek recourse from Japanese Government for indemnity by virtue of the validated wartime payments;

(5) That the Jap war notes were legal tender during the occupation, having value at par with the Philippine peso.

Life Insurance Companies and Equity Financing

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readily move in the event that opportunities are offered to them elsewhere. Until the young family knows definitely where it wants to settle down permanently and can find the kind of home it will need, it may be well advised to rent rather than to buy a place to live.

In view of the social need for more rental housing I am glad to say that rental housing for approximately 200,000 persons, representing an investment of more than $400,000,000, is either completed or planned by the life insurance companies of this country. Under present circumstances of high costs, this is a substantial contribution on the part of life insurance companies, although it does not go nearly far enough in meeting the serious national need.

But it must be recognized that this type of investment outlet for life insurance funds has important limitations. In the first place, it takes a very considerable period of time to plan and to erect sizable amounts of rental housing. A second limitation has to do with the present costs of construction, which are especially discouraging in view of the widespread need and demand for low rental accommodations.

As a practical matter, it is very difficult indeed to establish a satisfactory scale of rents based on current construction costs. General rent levels for old construction have been frozen by the government. The cost of new construction has doubled since 1939, and rental scales for new construction should necessarily take into account these increased costs. But because of the maintenance of artificially low rents on old construction, the public is not yet prepared to accept the higher rents that higher construction costs necessitate. Of course, one approach to this problem is to reduce building costs, but very little progress has been made in this direction either as respects the costs of building materials or labor. Quite understandably, this situation is a serious deterrent to equity investment in rental housing.

Acquisition of Business Properties

The recent acquisition by life insurance companies of business properties for rental to businesses is still another new development of some assistance in helping the flow of savings into the hands of users. This type of investment has recently been authorized to a limited extent under the laws of many states. Most life insurance companies are now permitted to build or buy properties designed for the use of business enterprises, and to lease these properties at a net rental which gives a fair return on the funds invested and complete repayment during a reasonable period of years.

This type of investment is a step in the right direction. It provides capital for corporate users without requiring those corporations to increase their capital indebtedness or to sell common stocks under present adverse conditions. However, it moves along slowly and is not yet a very important factor in helping the flow of funds. At the end of 1946 all life insurance companies held about $77,000,000 of such business properties and by the end of 1947 the amount had increased some $115,000,000 to $192,000,000.

It is apparent from what I have said about preferred stocks, rental housing and business properties that the need for equity financing is being recognized to an increasing degree by the life insurance companies within the powers granted by the laws of the several states. But, as we have seen, such investments, quite apart from the law, have distinct limitations as an outlet for equity funds. It may well be that they are not yet sufficient to have an appreciable effect upon the overall situation.

So, we find that by far the most important and the usual form of corporate equity financing is through common stocks. Such investments, within certain limitations, are now permitted for life insurance companies by some 30 states, including such states as New Jersey, Connecticut, Massachusetts and Pennsylvania. Two other important states, Wisconsin and Ohio, have only last year liberalized their laws. These six states together are the domicile of life insurance companies holding over 46% of all life insurance assets. But New York, where companies holding almost 40% of such assets are domiciled, does not permit the purchase of any common stocks by life insurance companies.

On the other hand, Canadian life insurance companies are permitted to invest up to 15% of their assets in common stocks, and in England, where some of the world's most conservative life insurance companies are domiciled, there is no restriction on the purchase of common stocks.

However, permissive legislation is not necessarily the entire answer. Even among the companies domiciled in states permitting some investment in common stock, such investments are, for the most part, well below the legal limitations. This may be due in part to the fact that some of the permissive legislation has been passed so recently, and it may also be due in part to the fact that, traditionally, and by long-standing custom, life insurance companies have been purchasers of fixed income obligations, not equities.

Objections to Common Stocks

I well appreciate that in many segments of the life insurance business there are objections to common stocks and it must be admitted that there are disadvantages to them.

Perhaps the most frequently mentioned argument against common stocks is the possibility of loss of principal due to the fact that common stocks, representing the equity of a corporation, suffer the first impact of bad times or poor earnings. The instability of market prices, the ups and downs of life insurance company asset valuations and the resulting difficulty of apportionment of life insurance dividends emphasize very well the uncertainties in this kind of investment. Still another disadvantage is the irregularity of income that is inherent in the increases or decreases of dividends paid by corporations. An added argument against common stocks is the political one that unless emphatically restricted their ownership might lead to too great involvement of life insurance in the management of industrial companies throughout the country. As you all know, charges of such control have been raised in past investigations of life insurance.

It must be admitted, therefore, that these various questions constitute real problems and they are not easy of solution. It seems to me, however, that by serious thought and study they may be answered. For example, some loss of principal might be offset by setting up a reserve, over a period of time, from the relatively high average yield that is offered by common stocks. This same device might also be used to lessen the irregularity of income. The disadvantage of the volatility of asset values and the adverse effect upon a divisible surplus would have to have most serious study. The likelihood that the holding of common stocks will put the life insurance companies too much into the affairs of corporate management, while a possibility that must be very carefully considered, can probably be offset by certain limitations (such as already exist in many states) as to the amounts of any one common stock which can be held by an individual company.

While many of the arguments against the holding of common stocks might be answered, nevertheless, if there were no real and compelling reason for the purchase and holding of common stocks by life insurance companies, perhaps these arguments would be decisive. However, if, as has been suggested by some, there is a real impediment in the flow of savings into investment—and I might add that there is no conspicuous agreement about this—and if the purchase of common stocks by life insurance companies will materially help to remove that impediment, then I believe it would be a wise and statesmanlike thing for the life insurance business itself to endeavor to see if there are any ways by which the disadvantages or obstacles may be effectively and safely overcome.

Cannot Alone Solve Problem

Of course, the life insurance companies cannot alone solve the whole problem of the flow of funds from savings into capital formation. But we should at least seriously concern ourselves with approaching the problem in an open-minded fashion.

My comments this afternoon have simply been personal observations. On this important subject of equity financing and common stocks, there are many others who are far more expert and better qualified to speak than I am. The answer to this question should depend upon a broad and overall study by experts and not on personal or individual observations. At any rate, I would not want to assume any definite position about it without having the benefit of such a survey before me. Accordingly, I think the first step should be for the Life Insurance Investment Research Committee, which was created to direct its attention to just such questions as these, to make a major study of the entire subject, both the supply of savings and the demands for their use. I earnestly believe it is timely for us to focus our thoughts in that direction. We must be certain that we are not missing any possible opportunity to make life insurance an even greater and more dynamic force in our economy.

U. S. Should Withdraw From International Monetary Fund!

(Continued from page 16)

quiring the approval of the Fund, which must not withhold approval if our domestic equilibrium requires it.

"For instead of maintaining the principle that the internal value of a national currency should conform to a prescribed *de jure* external value, it provides that its external value should be altered if necesssary so as to conform to whatever *de facto* internal value results from domestic policies, which themselves shall be immune from criticism by the Fund. Indeed, it is made the duty of the Fund to approve changes which will have this effect."

Lord Keynes and Sir John Anderson, according to a news item in the New York "Herald Tribune" on March 22, 1945, almost a year later, amplified the above assertion.

It stated:

"Both Sir John Anderson, Chancellor of the Exchequer, and Lord Keynes, have declared that the British Government will adjust the value of the pound whenever Whitehall considers it necessary. The Chancellor even said that the policy pursued here would be similar to that of 1933. He said that the Government would commit itself only to consult the Internationl Monetary Fund before changing the value of the pound sterling, reserving its right to persist with its intentions should the Fund refuse consent."

Then there is Article XIV of the Fund, which also gives the French political authority a clean bill of health. But that body is completely exonorated from having done any wrong on quite other grounds than those mentioned, which will be considered later.

In contriving this international monetary plan Keynes sought to achieve several objectives. One was to finagle the United States to underwrite his full employment and purchasing power scheme with printing-press dollars; that is, put the producing element of this nation under compulsion to share the fruits of its toil with other nations and in particular with Great Britain (something not wanted by the sound thinking people of England or any other country). Under "The Objects of the Plan" in his International Clearing Union scheme, of which the Fund is but a paraphrase, he said:

"We need a quantum of international currency, which is neither determined in an unpredictable and irrelevant manner, as, for example, by the technical progress of the gold industry, nor subject to large variations depending on the gold reserve policies of individual countries; but is governed by the actual current requirements of world commerce, and is also capable of deliberate expansion and contraction to offset deflationary and inflationary tendencies in effective world demand."

Printing press money is the only currency that can be made to fit into this formula. Of course, the contraction feature has so seldom been anything but a broken political promise that it can be ruled out as a part of the definition of a printing-press-money system. That system possesses the property of expanding, but not contracting.

Keynes' International Clearing Union called for an international pool of printing-press money amounting initially to about $25 billion to be drawn upon by the members of the Union to produce employment and purchasing power.

About $18 billion, the bulk of which consists of printed money, was provided in the International Monetary Fund and Bank setup. Fundamentally the Fund and Bank merge themselves into a single political instrument and serve a common purpose.

Keynes seemed to be satisfied that he had achieved his goal as is evidenced in the speech above referred to where he lists the benefits that would accrue to Britain from the Fund. He said:

"Third, the wheels of trade are to be oiled by what is, in effect, a great addition to the world's stock of monetary reserves, distributed, moreover, in a reasonable way. The quotas are not so large as under the Clearing Union, and Lord Addison drew attention to that. But they are substantial and can be increased subsequently if the need is shown. The aggregate for the world is put provisionally at £2,500,000,000. Our own share of this—for ourselves and the Crown Colonies, which, I may mention, are treated for all purposes as a part of the British monetary system (in itself a useful acknowledgement)—is £325,000,000 . . ."

Since the Keynes employment and purchasing power concept is predicated on printing - press money it necessarily postulates repudiation of public debts, both domestic and foreign. Sections 5 and 7 of Article IV of the Fund provide for such repudiation and for making it legal.

Ipso facto, unlimited confiscation of private property is in the very nature of things an integral part of this concept.

Streamlined Marxism

Stripped naked of its trappings Keynes' employment and purchasing power scheme is but a streamlined version of Marxism. Marx wrote, "The theory of communists may be summed up in the single sentence: abolition of private property," to which he added, "You reproach us with intending to do away with your property. Precisely so; that is just what we intend." Marx, in his manifesto, advocated progressive taxation as a means for effectuating that end.

Keynes was never so bold in openly stating his ultimate objective, or the end result of his scheming. The fact is, however, that printing-press money is a quicker death to private property ownership and freedom than progressive taxation.

Of course, progressive taxation must inevitably lead to absorption by the political authority of all social power, with resultant absolutism. Such absorption is now developing in the United States, and has already progressed to the extent that it is causing marked retrogression of production capacity. This is the cardinal symptom of the virus of communism in the body social, and because of its importance will be mentioned again later.

To be sure, Keynes had objectives besides that of jockeying this political authority into expropriating the produce of American labor and giving it to the political authorities of his and other countries. In the speech from which we have previously quoted, he lists, among others, the following advantages accruing to Great Britain from the scheme: (1) The right to retain wartime restrictions and other special arrangements during the transition postwar period of uncertain duration (the French political authority did nothing that contravenes this right); (2) an indispensable means for maintaining London as the financial center of the world; adding greatly to Britain's monetary reserves; and in Keynes' own words:

"The Americans, who are the most likely to be affected by this, have, of their own free will and honest purpose, offered us a far-reaching formula of protection against a recurrence of the main cause of deflation during the interwar years, namely the draining of reserves out of the rest of the world to pay a country which was obstinately borrowing and exporting on a scale immensely greater than it was lending and importing. Under Clause VI (Article VII of final draft) of the plan a country engages itself, in effect, to prevent such a situation from arising again, by promising, should it fail, to release other countries from any obligation to take its exports, or, if taken, to pay for them."

In this connection it should be remembered that Morgenthau's two first drafts for an International Monetary Plan expressly provided for assumption by the United States of British foreign debts. The provision to accomplish this, no doubt written by Keynes, was so technical and involved that even Treasury so-called experts who led in promoting the passage of the Fund proposal did not fully understand it. However, that provision was dropped like a hot potato when Dr. Benjamin M. Anderson and others exposed its "hidden" purpose.

We should carefully keep in mind the objectives which the political authority of this nation sought to achieve by this scheme. It was meant to provide artificially high employment and income by exporting huge amounts of goods in excess of imports, and to perpetuated the illusion that the earning element of the nation is being made richer by giving away its produce.

Cult of Neo-internationalism

Then there is the cult of neo-internationalism, one - worldism, which is in the process of annihilating all true, natural and spontaneous internationalism, that is, voluntary international trading and intercourse between private individuals, and substituting therefor international authoritarianism, that is, monetary, financial, commercial and other transactions only between political authorities under a centralized power.

The ulterior motive was extension of political control over the life of the individual citizen and to promote communitarian imperialism.

It is a purely communistic concept to oppose the free use of gold in the economy. Political ownership and control of gold is the very essence of communism. Gold is a fetish to the communistic mentality only so long as it remains in free use. Once a political authority has complete control of the gold stocks of the country over which it rules, it possesses the essential means for sustaining the communist state. Experience proves this. The Bolsheviks, before they got control, condemned gold; but the moment they came into power they grabbed the gold stocks with an avidity that characterizes the communist ideology. Once they were in possession of the gold of Russia their power was complete. Hitler and Mussolini knew the secret. It was the urge for acquiring authoritarian power that caused the architects of the New Deal to seize the gold stocks of the United States in 1933 and 1934. With the gold in their possession they were free to print money and to tax without limit and start the United States on the self-same road that the Bolsheviks, the Nazis and Fascists traveled that led to their totalitarian regimes.

When the Fund was being devised the gold stocks of practically every nation had been nationalized. Through this scheme its designers sought to centralize control of all gold holdings in a single authority and establish what Lord Keynes, in his Clearing Union Plan, calls "a genuine organ of truly international government," and which he says "might become the pivot of the future economic government of the world," that is, commissar rule over all mankind.

Stalin, who embraces only such internationalism as conduces to his rule, who never joins anything he can't control, and although he has the veto power in the United Nations and Trygve Lie is his man, hesitated to take out membership in the Fund. He just wanted to be sure whose commissar it was going to be.

False Assumption of IMF

The International Monetary Fund, like the other foreign aid undertakings, is predicated on the assumption that the United States is in a sound monetary, financial and economic condition, that it is possessed of almost limitless resources and that, withal, it is the "richest nation in the world." Having, through the unlimited power of taxation, obtained dominion over such resources, the political authority has not only presumed itself to possess the brain power to lift the distressed peoples of almost the whole world (the Soviet, too, was invited to participate in ERP) out of the trouble they have got themselves into, but has appointed itself to execute this task.

But the very basis of this assumption of power belies all the premises upon which it rests, for the political authority is a consuming and not a creative or productive mechanism. Its almighty power can last only so long as resources remain for it to devour.

The fact is, the social organism of the United States is afflicted with the same pernicious virus, state planning or collectivism, that has sickened the countries the political authority of this nation alleges it can restore to a state of health. This cannot be overemphasized or too often repeated.

The Federal debt is nearly equal to the total reproducible wealth of the United States which has been accumulated over a period of more than 300 years. The real public debt is considerably more than the Treasury statement shows. One unlisted item alone—uncollected pay roll taxes pledged for Social Security benefits, which would add many billions to the listed debt.

The political authority has outstanding obligations and promises to pay amounting to roundly 3¾ trillion grains of gold, or paper with purchasing power equal thereto. However, it actually possesses less than 1/10 that amount of gold. If the United States were called upon pay much of its short term net foreign liabilities in gold, by no means an impossibility, the picture would be still darker.

The total Federal debt, including nearly all circulating currency, is composed of inflation, that is, printing-press money or political-promise-to-pay, media.

The Marxian system of progressive taxation and New Deal Socialism is having a telling effect in annihilating private ownership of capital. It is destroying the private profit system and hindering the plowing back of capital for the creation of new tools of production. It has made this nation into a welfare or "seed-corn" eating state, the same as England, France, Russia and the rest.

Quoting from the Tool Owners Union Economic Progress Report Number 2, C. Reinold Noyes states:

"It appears that, for the first time in our recent history and perhaps for the first time in our entire history, the process of growth in reproducible wealth has practically ceased for an entire decade . . . business real capital stood in 1945 considerably below the point at which it stood at the end of 1930 . . . the private economy in the aggregate has not only failed to create any new real capital; it has not even maintained its net real capital intact."

To reverse the trend of shrinkage of tools of production, and to put the nation back on the road of progress, it is necessary to rid it of the socialism imposed by the New Deal and restore the ratio of taxation to political spending that generally prevailed at some period prior to 1929. Surely not a hopeful outlook. Accordingly, the assumption by the political authority that the economy of the United States is in a sound state of health is as unfounded as anything possibly can be. The exact opposite is true, however much we might dislike to be told this.

In the final analysis the political authority of this nation must bear full responsibility for the evils the International Monetary Fund will bring to our people and to those of the rest of the world.

After Keynes had intrigued the Washington politicians to approve the scheme, which was so easy to do, it was in turn sold to the political authorities of other countries. This also seemed not to be a difficult task, for apparently no more was necessary than the dangling before their eyes of billions of dollars worth of free American merchandise. This is no reflection on the producing populations of the countries concerned. They had practically no voice in the matter.

How U. S. Was Committed

As all who followed the formation of this scheme know, merit played little or no part in committing our nation to it. The political authority importuned Congress to approve it by its totalitarian propaganda machinery and horse-trading with the self-promoting and special-privilege-seeking lobbyists that infest the Capitol and nation. Its alleged purposes, particularly that of peace, were painted in glowing colors and the facts pertaining to its actual provisions were adroitly withheld from the public. The truth is, however, that there were so few people who understood its provisions that an intelligent presentation of them was out of the question.

The Keynesian stabilization feature embodied in the Fund scheme, as shown by the hearings relating to its consideration and the publicity given it when it was before Congress, was misrepresented.

The promoters of the plan definitely gave out the impression that the stabilization provisions were intended to prevent currency depreciation. It was to give to each currency a permanently fixed value so that it would continuously command the same amount of goods and services. The public was propagandized to swallow this whole.

Nothing could be further from the truth. That is not at all what the stabilization provisions in the Fund mean. In fact, they were specifically designed to do the very opposite and provide a system of continuously depreciating currencies having progressively less purchasing power. The provisions relate to currency parities, not to their absolute purchasing power.

Keynes' idea was to establish by peremptory international law the parities or relative values of the currencies. Section 5 of Article IV provides for doing this through devaluation of the red rate of the currencies of individual countries.

Provides for Currency Debasement

Section 7 of Article IV provides for continuous uniform more or less intermittent debasement of the currencies of all members. This complements the Keynesian printing-press money expansionist system. The formula provides that all member political authorities shall uniformly, in a more or less continuous stream, print the same proportionate amount of money. Thus, the parities or relative purchasing power of the several currencies would remain stabilized, as would also, of course, the relative repudiation of debt and plunder of the producing population. Was ever a more immoral and antisocial institution contrived by the mind of man? Marx must be smiling in his grave.

No, do not blame the French political authority for the action it took. Back of that procedure were the peasants and other enterprisers who produce the necessaries of life and pay the taxes. Their refusal to accept the franc at the red rate and their resistance to political robbery (printing-press money is that and nothing else) became so intense that the political authority was compelled to yield and exercise a little integrity.

It is too early to know to what extent the French producers will be able to hold their ground, but in this dark hour of rapidly developing world-wide tyranny their effort shines forth as a most welcome ray of hope.

The French political authority is not doing so well with the scheme to get its fingers on private gold holdings. French peasants and other producers have had much bitter experience with political manipulation of money. It is not surprising that they should be reluctant to give up their gold. They fear that once they have let loose of the metal it will fall into the hands of the political authority, that they will never see it again, and, that it will become the *ultima ratio* for taking from their mouths the last crumb of bread they have earned.

Menace of Gold Stock Control

It is political ownership and control of gold that forms the basis of the universal authoritarianism that is submerging civilization, thanks to centralized (politicalized) banking. If all the gold stocks of the world were locked up in private hoards the human race would be infinitely better off than it is with the political authorities posssessing it as now is the case.

Potentially, as least, mankind would be strong, secure and assured of future progress. To the extent that political authorities control the gold stocks civilization must languish and wither away.

Of course, if the political authorities could be dispossessed of all gold and it were recovered by the producing element, to whom it rightfully belongs, it would be freely available in the market, functioning to protect each person in his natural right to enjoy the fruit of his labor and to maintain the most equitable distribution of wealth.

On the surface, the Fund opposed the French political authority in the action it took. Fundamentally, however, the Fund was engaged in resisting the efforts of the peasants and other producers to stop the political regime of France from robbing them of the produce of their toil. The Fund lined itself up squarely on the side of state spoilation and, in so doing, exposed its collectivist feet of clay. The severe rebuke that is being leveled against the French action belongs in the same category.

It is to devlopments such as that relating to the recent French currency procedure that the world must look for redemption from the chaos that plagues it. In its Jan. 31, 1948, issue the "Statist" makes some very poignant comments on this subject. It says:

"It may even be that, in the long run, the action of France will be seen as the first revolt of national sovereignty against the attempts of the Atlantic Charter period to subdue that primal and persisting emotion. If the revolt spreads the whole of the world's international relationships may return to something akin to those of the nineteenth century, with national governments again acting as the welfare or supposed welfare of their own people dictates, and not as some remote theorist in some foreign land thinks they ought to act. Such a reaction from the ideology of the past decade would, without doubt, cause the 'Daily Workers' word 'chaos' to become justified, but out of that chaos a new order would emerge, a new order on the model of a very old order, an order of naturalism and patriotism. Should such a revolt from international fiscal collectivism occur, the example might easily spread to more limited, domestic affairs, and the mock governances of quite artificial and largely self-appointed 'authorities' be subject to the same flouting. If a nation (France) or nations (those who may easily take France for their exemplar) now find that the first law is self-preservation, and communal agreements cannot withstand the strain of the need to protect an immediate breach in the national defences against sociological and economic disaster, it may easily be that individual units, in the sense of enterprises, will be forced to the same conviction, and will act accordingly. The French hazardous experiment may be, in other words, the sign that the primal emotions and needs of men are again conquering the artificial restraints which war made possible upon men's modes of national or personal life.

". . . If other nations do follow that example, Britain will have to do what Britain should have done long ago. She will have to survey her own position and needs in the clear light of national self-interest."

A Record of Failure

The Fund has been in operation since March 1, 1947. Failure and discredit are its record. Its inability to prevent free market operations in gold is complete—thanks to the spirit of liberty that still lives. While condemning the French political authority's action it condoned the establishment of multiple currencies or was unable to prevent this being done in Chile, so it is reported. Ernest Weinwurm, in the "Commercial and Financial Chronicle," Feb. 5, 1948, says, ". . . there are persistent rumors in Washington that the American executive director of the Fund cast his vote with the majority against the French proposal while the State Department and the Treasury issued statements expressing satisfaction with the plans . . . the French were by no means the only ones that were shocked by these apparent inconsistencies of American policy. There are indications that they were led to believe that the United States would support their plans for free exchange markets and that this expectation was a contributing factor in their strong defense of those plans . . . certain foreign reports expressed the opinion that the Fund had suffered a heavy and perhaps fatal loss of prestige," all which is consonant with the nature of this scheme.

The reports which the Fund publishes can tell us nothing about the favoritism, corruption, and pernicious international implications that must eventuate from its operations. Political conduct when exposed to the most enlightened publicity and effective checks has always been bad enough. But what must it be in managing secretively and autonomously an institution like the 18 billion dollar International Monetary Fund-Bank? The answer may well be foreshadowed in the high, tax exempt salaries and perquisites which the officers of the Fund provided for themselves and employees.

As the International Monetary Fund's financial statement shows, and as everyone who understood this scheme knew when it was passed would be the case, it is being used to supply foreign countries with dollars, the same as all the other foreign aid schemes. The Fund's statement for the month of March, 1948, shows that it has "loaned" the dollar equivalent of roundly $600,000,000, approximately 99% of which consisted of American dollars.

In order to prevent further injury to international relations and universal degradation of morals inherent in the operation of the International Monetary Fund, and to save the nation as much as possible from the anathema this is bringing down upon it, I ask the Congress to support my Bill for the immediate withdrawal of the United States from this international communitarian scheme.

Estate Planning in Practice

(Continued from first page)

a supply of such elementary items as pencils and paper, because there will be plenty of figuring to be done! And last, but by no means least, he must have the capacity for understanding human nature and also interpreting his suggestions and plans in a way which will be comprehensible to the layman.

Sparing A Widow Additional Grief

We can assume that the individual in this case finally has realized the need for establishing a concrete plan which will conserve for his wife and children the estate which he has worked so hard to build up during his lifetime. It is still surprising to find the large number of people who are so busy building up an estate that they neglect to take the time to make the best arrangements not only for what they already have accumulated, but also for that which they expect to accumulate. Or if anything is done, it is limited to the making of a will—which, in effect, may merely "pass the buck" to one's family—in the case of a man. He says, "I'm leaving everything to my wife—want her to have it all." A very admirable and natural thought! But what experience has she had in handling financial matters or managing property? In most cases, the wife has had none, as she has always depended upon her husband to take care of such matters. And yet there is still echoed by the husband, "It's all taken care of," or "We have everything joint." How simple it would be to relieve a grieving widow of additional worry and not have her dependent upon a busy friend or relative who has his own affairs to handle or subject to the preying of unscrupulous individuals of whom there always will be some in the world! Regardless of how adequate and satisfactory all "home-made" plans seem to look through the rose-colored glasses of happy married life, the survivor of this union, unfortunately, does have the important problem of managing and/or disposing of the estate. Indeed it is only after considerable education — and sometimes after needless misfortune—that the average layman decides to do something about his usually hard-earned estate.

Let us now sit down and have our initial talk with our contact, whom we shall call Mr. Prospect.

(1) Analysis of the Nature of ALL Property: After the preliminaries, during which Mr. Prospect asserts that he has been going to do this very thing for some time and decided that the start of the New Year provided an excellent opportunity, he asks, "Well, what can you do for me?" Of course, I explain to him that first he must disclose to us ALL of his property or assets and also what he hopes to accomplish with his estate. Perhaps the best way to start, I tell him, will be to make a complete inventory of his present assets and liabilities. For this purpose a form is used as follows:

Bonds:	Husband	Wife	Joint	Total
U. S. Government	----	----	$5,000	$5,000
Other	$1,000	----	----	1,000
Stocks	3,000	$1,000	----	4,000
Bank accounts	3,000	----	3,000	6,000
Business assets	5,000	----	----	5,000
Automobiles	1,500	----	1,500	3,000
Home	----	----	25,000	25,000
Other Real Estate	1,000	----	----	1,000
Life Insurance	125,000	----	----	125,000
Miscellaneous	----	----	----	----
	$139,500	$1,000	$34,500	$175,000

The form lists the assets in that order because that seems to be the most natural way for people to think of these items. Many times they never even mention the items which are owned jointly until they are asked about them. They presumably believe, as do many uninformed individuals, that such items are taken care of completely by virtue of joint ownership. And then they casually mention their insurance since they already have selected one of the options available to them. Under the terms of their policies, the proceeds are going to be paid in a predetermined manner directly to the wife or children. Such a false sense of security, into which so many are lulled, is one of the factors which causes great suffering to the very persons who are supposed to be benefiting from these properties and the proceeds of these policies.

In any event, Mr. Prospect seems quite impressed with the tabulation of his own assets. It is not at all unlikely that it is the first time that such a compilation has been made for or by Mr. Prospect. We also learn that there are no liabilities other than those of a routine and minor nature.

The next step is to estimate roughly Mr. Prospect's Federal estate tax—we can do no more than that at this time—which we find to be approximately $23,000. Mr. Prospect looks very much surprised so I have the feeling that he already is finding the conference and analysis most worthwhile. It is pointed out that there is some discussion of a change in the tax law but that he should make some plans on the basis of our present law and, if necessary, revise them at a later date.

Continuing with the analysis of the estate, we learn that all of the property is a result of the contribution through earnings of the husband, excepting $1,000 stock and about $1,000 of the joint bank account. Those two items came to Mrs. Prospect from the estate of an aunt. At this point he also mentions the possibility that his wife may inherit as much as $25,000 more from other relatives sometime during the next ten-year period. It is surprising how much valuable and pertinent data is obtained through casual conversation with every prospect. Yet the best job can only be done for the prospect with complete information. The business assets consist of equipment and accounts receivable. Interrogation discloses that Mr. Prospect's business is operated on a partnership basis. Furthermore, no arrangements have been made to carry on the business in the event of the death of one of the partners. It is something which apparently had been mentioned by the partners, but never pursued to the point where a definite decision on disposition was reached. A very common and, again unfortunately, very human occurrence.

(2) Review and Reconsideration of Any Plans Already Formulated: No previous plans had been made, so it is not necessary to devote any time to this step.

(3) Frank Discussion of Desired Objectives: Of course, Mr. Prospect says that his overall objective is to provide financial security and comfort for his wife and children. His wife is the same age as he—41—and he has three children—two boys, aged 5 and 6, and a girl, aged 11. As is usually the case, Mr. Prospect wants his wife to be in a position to maintain the standard of living to which she has been accustomed during their married life. He also wants to insure a college education for each of the children, including the possibility of professional or graduate school training for the boys. The present home, he hopes, will be retained by his wife until the children have completed their schooling, although he then feels that it might be sold and smaller quarters found for his wife. It is his further expectation that his insurance monies will provide an estate of $20,000 for each child, while his wife will have the balance of about $65,000 for her exclusive use. Nevertheless, it is his intent that the wife will have full access to the entire estate, including the insurance, during her lifetime.

Mr. Prospect estimates that his earnings over the next ten years will be $30,000-$40,000 annually, while his savings or surplus funds each year will vary between $5,000 and $8,000.

We also learn which members of his wife's family, as well as his own family, are still living. This fact usually comes to light when discussing the possibility of a common disaster to the husband and the wife. It is wise to provide for such a contingency and have a legal guardian named in the will for the children, if they still are minors. Mr. Prospect, like many others, had never thought of that possibility and said that he would have to talk that point over with his wife. He would guess that his sister-in-law, who has only one child, probably would assume the responsibility of the moral or spiritual guardianship.

We now break away from consideration of the specific steps and the balance of the interview is devoted to the discussion of the general aspects of Mr. Prospect's situation and the various possibilities that may fit his requirements. This is possible due to our wide and long experience, not only in working out plans for many others like Mr. Prospect, but also in the administration of an equally large number of estates in our various capacities as executor, administrator, guardian and trustee. However, no commitments can be made pending further study and conferences with his attorney, his insurance underwriter and himself, as well as any other specialists which it is deemed best to consult on the plan. It is already discernible that Mr. Prospect is beginning to realize that this is a much more important—and certainly more complex!—problem than he had imagined.

It is then agreed that Mr. Prospect will bring his insurance policies in to the trust company and that plans will be submitted to him prior to our first conference with his attorney. He takes his leave very appreciative of our pointing out his great need for a definite estate plan.

Upon receipt of the insurance policies the following day—which indicated Mr. Prospect's interest—we resume our study of his estate plan.

(4) Consideration of Federal Tax Liabilities: First we determine the estimated Federal estate tax as shown by the list and nature of the assets given to us by Mr. Prospect and on the basis of the present tax laws. All assets, with the exception of the $1,000 of stock and $1,000 of cash owned by his wife as separate property, will be subject to the Federal tax in Mr. Prospect's estate, if he predeceases his wife. After his present exemption of $60,000 and deduction of $5,500 for approximate last illness and funeral expenses and costs of administration, there will be an estimated estate, subject to Federal taxes, of $107,500 on which the Federal estate tax alone will be about $23,000.

We set up tables to show the cash requirements of this estate, what his wife will own outright as a result of the joint registration of certain property—and also the items which will constitute his estate. Of course, the insurance is payable directly to his wife and/or children under selected options, so we find that there is a deficit of roughly $8,500 for Federal tax purposes in Mr. Prospect's estate. In view of such circumstances the Federal Government will have a prior lien against his insurance monies so that any deficiency for Federal estate taxes will be collected from the insurance monies, even though payable to his wife and/or children. This immediately raises an important question which will be discussed under step (6).

Next we show what the Federal estate tax liability will be on his widow's estate. Assuming that Mr. Prospect predeceases his wife and further assuming that she, in turn, becomes deceased five years after his death, we find that tax liability to be approximately $12,500. Certain other assumptions are made regarding the use of some principal funds by his widow.

From a purely tax angle we estimate the same tax liability for the estates, including the insurance monies, of both Mr. Prospect and his wife, if they were placed in trust. If a trust is set up giving his wife a "life interest" therein with ultimate distribution upon her death to the children, there will be a probable tax saving—for Federal estate taxes alone—on the combined estates of $12,500. Under such an arrangement the trust provision in the will must be drawn in such a way that there will be no danger of the trust assets being included in the widow's estate.

On the basis of Mr. Prospect's own estimate of minimum annual savings of $5,000 over the next ten years, we calculate their tax liability ten years hence—both with and without the aforementioned trust arrangement. The respective estimates are $37,000 and $59,000, a saving of approximately $22,000 with the trust arrangement on a combined basis.

There are still other factors which should be noted in this particular case and they are cited in footnotes to the plan—for discussion with his attorney or any other specialist.

(a) Possibility of a $25,000 inheritance by his wife—it would be wise not to build up the wife's estate much above $60,000 if that can be prevented, although we may find it necessary to equalize the two estates inasmuch as death is an uncertainty.

(b) The new Community Property Tax Law now in effect in Michigan.

This law is a motivating factor for Mr. Prospect to:

(1) Maintain accurate records of the distribution of income between his wife and himself. (Suggestion that his partnership make out two checks each month—one to his wife and one to himself.)

(2) Maintain separate bank accounts. (Each party could have the power of attorney on the other.)

Lastly, we have prepared a table showing Mr. Prospect's income tax liability both currently and under the new Community Property Tax Law, indicating the approximate savings under the new law. Supplementing this table, we also show the estimated monthly income for his wife under the various proposals as suggested and outlined above.

(5) Disposition Now of Certain Items in the Estate Through Sale, Outright Gift or an Irrevocable Trust; or the Determination of the Methods of Liquidation at a Later Date: Under this category we are ready to consider the annual estimated increase to Mr. Prospect's estate through savings. We know that a portion of this increase in the estate will be consumed by death taxes upon his decease. Perhaps we should consider the possibility of Mr. Prospect making some gifts over the next 10-year period. If he makes gifts to his wife, her estate probably will be over the $60,000 level, although such action would be better than permitting the savings to become an increment to his estate, because the tax rates are in the higher brackets for Mr. Prospect's estate. Probably the best suggestion for Mr. Prospect, provided that he feels that circumstances will permit, is to make annual gifts of $1,000-$2,000 to each of his children and establish irrevocable trusts for that purpose. The income from these trusts then could be accumulated in guardianship accounts until such time as the children would need the funds for their education. This would accomplish two parts of Mr. Prospect's over-all objective:

(1) Build up an estate for each of the children—possibly to the maximum desired.

(2) Reduce tax liability.

It has been noted that no provision has been made by Mr. Prospect and his partner for the convenient liquidation of their business upon the death of one of the partners. This is another example of how lax many successful business and professional men can be about some phases of their personal affairs. On the other hand, it gives some indication of the need for good financial advisers who provide not only counsel, but who also have the facilities for relieving these very busy individuals of the burdens of physically handling the many and complicated details. A simple solution for Mr. Prospect and his partner would be for each partner to take out an insurance policy on the life of the other in the estimated amount of their respective interests in the business. By such an arrangement, the surviving partner would be provided with funds to purchase immediately the assets of the deceased partner from the latter's estate. And in Mr. Prospect's case, such an arrangement would aid substantially in meeting the anticipated tax liability.

(6) Review of Life Insurance to Ascertain the Adequacy of the Insurance Program: It has been indicated that Mr. Prospect's estate at present, and probably over the next year or so, will be inadequate to satisfy Federal tax claims against it. Thus, any deficiency will have to be paid out of his insurance monies. However, Mr. Prospect may wish to take out additional insurance to cover this anticipated deficit since he has told us that he feels that his present insurance will be required to take care of his family. Furthermore, his estimated earnings will be sufficient to provide the additional insurance which can be made payable directly to the estate.

As outlined under step (5) above it also will be suggested that Mr. Prospect consider with his partner the advisability of a business insurance policy.

(7) Determination of the Method of Handling the Insurance Proceeds and Consideration of Establishment of a Life Insurance Trust: With Mr. Prospect's permission we now discuss his policies with the insurance underwriter from whom he purchased them. The life insurance underwriter is fully equipped with the knowledge of the various options which are available to Mr. Prospect. We explain the objectives of the case—outline the estimated tax liability under the plans we intend to present to our prospect—and also what has been suggested under steps numbers (5) and (6) regarding a business insurance policy.

Some insurance companies permit a trustee, where a life insurance trust has been established, to select the option either of taking a lump sum settlement or permitting the monies to remain with the insurance company. However, Mr. Prospect's company is **not** among those relatively few companies which grant a trustee such latitude.

A life insurance trust is not always a "must," but after careful consideration of all angles, including the information received from life insurance underwriter, it is deemed best that Mr. Prospect consider the establishment of such a trust. There are several reasons which warrant this conclusion, the more important of which are:

(a) Sufficient income to take care of the family.

(b) Trust arrangement will not seriously affect income tax status of the wife.

(c) Greater flexibility in utilization of the proceeds of the life insurance policies.

d) Contribute, in part, to reduction of death taxes.

(8) **Consideration of an Immediate Plan for the Management of All or a Part of Present Property:** At the present time there is nothing in Mr. Prospect's estate tha' requires management service However, if he should pursue ou' suggestion that individual trusts of an irrevocable nature be established for each of the children this would constitute a form of investment management.

The above information is now assembled and charted and it is reviewed by our Estate Planning Committee, comprised of personnel from the Tax, Investment and Trust Administrative Departments. The basic theories and suggestions are endorsed by the Committee after careful study and the plans are submitted to Mr. Prospect.

Ten days later Mr. Prospect telephoned to say that he has studied the material very carefully and that he likes the plans very much. He then asked that we arrange for separate conferences—first, with the insurance underwriter and, secondly, with his attorney.

The necessary arrangements were made and the first meeting was held with the life insurance underwriter and Mr. Prospect. Due to our previous discussions with the former, he was wholly familiar with the entire situation. He explained the various policies and why he, too, would recommend that a life insurance trust be established. I then queried Mr. Prospect whether he would want to "invade" the present insurance monies to satisfy the Federal Government's claim for estate taxes. He was reluctant to do that and at least until his estate had grown larger, he decided to take out an additional policy, payable to his estate, to take care of that potential indebtedness. The insurance underwriter arranged for the endorsements on his present insurance policies to be included under the trust and also to write the additional insurance. The insurance phase concluded, we adjourned and Mr. Prospect and I awaited the arrival of his attorney.

(9) **Make a Will:** A copy of our proposed plan had been delivered to the attorney at the time of arranging the appointment so that when he arrived for the conference he was apprised of the salient features of it. Mr. Prospect himself actually sold our plan to his attorney and the latter found no legal obstacles to any part of it. Mr. Prospect also furnished the missing details from our original meeting and had noted his preferences of the optional features of the plans. Both of them then discussed wills for Mr. Prospect and his wife and it was decided to set up a trust only under Mr. Prospect's will. Mr. Prospect advised his attorney that he wanted our company to act as executor and/or trustee under both wills, as well as co-guardian with his sister-in-law for any minor children. And this was an important and interesting development, because neither he nor I had even mentioned that angle. Actually, we have found this to be a very natural result whenever people have us analyze their estates and submit plans to them. Undoubtedly the prospect feels that we definitely know our business and that we can administer an estate better than any individual.

The important parts of the trust are agreed upon and there is to be a provision for the invasion of principal where necessary for the benefit of Mrs. Prospect. There also is to be granted to the wife the power of appointment, although, as the attorney stressed to his client, this provision must be very carefully worded so that there will be no danger of the trust assets, once again, being included in his wife's estate.

(10) **Preparation of Legal Documents:** In addition to the wills, we discussed the instruments to cover the life insurance trust and the irrevocable trusts for the children. Mr. Prospect decided that he could arrange to make annual gifts to each of the children and that, if the instruments are drawn up, he then could guage the size of the gifts according to his circumstances. There was one other step with respect to the children's trusts—and that was the question of setting up collateral guardianship trusts to accumulate income from the large trusts until such time as it would be needed by the beneficiaries for educational purposes.

This meeting then ended with a tentative date, to be confirmed by Mr. Prospect, for the execution of the instruments. The attorney then drafted the necessary documents and we worked closely with him on the trust provisions since the former realized that there were many phases of trust administration and operation with which he was not familiar. The wills and agreements then were submitted to Mr. Prospect for final approval by both him and his wife.

(11) **Development of Personal and Family Relationships with the Agent, Executor or Trustee:** The final meeting was held with Mr. Prospect and his wife, together with his attorney, and all documents were executed. It also provided an opportunity for Mrs. Prospect to become acquainted with the executor and trustee of both her husband's and her own estates. I took them on a tour of the Trust Company and introduced them to several of the key personnel on the staff. They remarked almost in unison upon leaving that they were doing so with an added sense of satisfaction and a greater feeling of security.

Accomplishments of Mr. Prospect

Mr. Prospect completed in about one month's time what he had wanted to do for several years. He now had accomplished:

(1) Comprehensive plan of financial protection for his wife and children—as well as for himself.

(2) His estate and that of his wife will be conserved.

(3) Taxes will be minimized.

(4) A plan sufficiently flexible and a financial counsellor sufficiently interested so that any developments, such as a change in the tax laws, that may affect his estate will be brought to his attention and the necessary action taken.

Everyone Needs An Estate Plan

Not all plans embrace as many angles as did that of Mr. Prospect. Some are relatively simpler, while others are even more complicated. But large or small—a person has a moral obligation not only to his or her family, but also to society, to conserve his or her estate. The Estate Planner, on the other hand, has an obligation to society to assist everyone in setting up the plan which will best fulfill this objective. At the risk of being repetitious, I should like to state that *everyone* has a need for developing a good estate plan.

Recent Progress in "Planning"

During the past year much worthwhile effort has been put forth toward educating the general public on this all-important subject of Estate Planning. One of the most active groups in this respect has been the banks and trust companies, probably because of their uniquely advantageous position. And they have been assisted by many outside groups, such as the Life Insurance Underwriters, who already appreciate the important part which these institutions play in Estate Planning. The Insurance Research & Review Magazine published an article recently entitled, "The Meanest Thing You Can Do to a Friend" which goes on to complete this sentence with "is name him executor in your will." The article concludes by stating that there is no one better qualified for this work than a trust company. Trust-Life Insurance Councils have been established in more communities and this is a most natural alliance as the two groups supplement each other in almost every respect. The legal profession also is coming to realize that our present complex economy requires a specialization which was not recognized in the past. Accordingly, the relationships between this group and Estate Planners, Financial Advisers and Trustmen have improved immeasurably in recent months alone.

All in all the overall trend is most encouraging, as each day finds more families like that of Mr. Prospect acquiring that much-needed financial protection through good Estate Planning.

Business Man's Bookshelf

Fundamentals of Investment Banking—A Training Course Prepared for Members of the Investment Bankers Association of America — Investment Bankers Association of America, 33 South Clark Street, Chicago, Ill.—Cloth.

Magic of Believing, The — Claude M. Bristol—Prentice-Hall, Inc, 70 Fifth Avenue, New York 11, N. Y.—cloth—$2.95.

Managerial Enterprise, Its Growth and Methods of Operation —Oswald Knauth—W. W. Norton & Company, Inc., 101 Fifth Avenue, New York 3, N. Y.—cloth—$3.00.

Proceedings of the National Federation of Financial Analysts Societies, First Annual Convention — The Analysts Journal, 25 Broad Street, New York 4, N. Y.—paper—$1.00.

Survey of Personnel Practices in Los Angeles County—Richard O. Sensor and Mary Faith Martin — Industrial Relations section, California Institute of Technology, Pasadena 4, Calif.—paper—$2.50.

Thought Starter, A — Henry Grady Weaver — The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York—paper—copies on request.

Wages in California, War and Postwar Changes—Nedra Bartlett Belloc — University of California Press, Berkeley, Calif.—paper—$2.00.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Stockholders of **Bank of New York** and of **The Fifth Avenue Bank of New York** voted at special meetings on April 15 to approve the merger agreement entered into last month by the respective boards of trustees and directors. The name "Bank of New York and Fifth Avenue" was adopted for the merged institution. Of the total vote at the Bank of New York meeting, which represented 85.7% of all stock outstanding, more than 99.9%, it is announced, was favorable. It is further stated that at the Fifth Avenue Bank meeting 94% of the stock was represented, with more than 99.9% of votes present being favorable. John C. Traphagen, President of Bank of New York since 1931, will be Chairman and Chief Executive of the merged bank. John I. Downey, President of The Fifth Avenue Bank, will be Vice-Chairman and the directing head of the Fifth Avenue office of the combined institution. Albert C. Simmonds, Jr., who has been Vice-President of Bank of New York since 1941 and more recently in charge of the commercial banking department, will serve as President. Edwin G. Merrill, who has served as Chairman since 1931, becomes Honorary Chairman. Items regarding the merger appeared in our issues of March 18, page 1228, and March 25, page 1332.

* * *

The New York State Banking Department on March 22 approved a certificate of increase of capital stock of the **Trade Bank & Trust Company of New York,** from $1,500,000 consisting of 150,000 shares of the par value of $10 each, to $1,800,000, consisting of 180,000 shares, par $10 each. An item regarding the plans to increase the capital appeared in our March 4 issue, page 1012.

* * *

Officers and employees of the **Union Square Savings Bank of New York** on April 16 celebrated the 100th Anniversary of the bank's incorporation with a "family" dinner-dance at the Hotel Astor. They also chose the occasion to honor eight of their associates who have been with the institution for 20 years or longer. R. H. Brownell, President of the Bank, welcomed the 60 men and women of his staff and their guests. He noted that when the bank opened on July 1, 1848, the only paid employees were a $400-a-year accountant and a porter who acted as office boy and messenger. The first day's business brought 38 accounts totaling $1,263, he said, and as of Jan. 1, last, the bank has $59,380,689 in deposits with 42,398 deposit accounts. An earlier reference to the bank's anniversary appeared in these columns April 15, page 1663.

* * *

The **Amalgamated Bank of New York,** at 15 Union Square, organized by the Amalgamated Clothing Workers of America, together with the **Algamated Bank and Trust Company of Chicago,** celebrated its 25th anniversary on April 14. The occasion was marked by a dinner that evening at the Commodore Hotel where Leslie R. Rounds, First Vice-President of the Federal Reserve Bank of New York was the guest speaker. In a statement issued on April 13 by Michael M. Nisselson, Amalgamated Bank President, and Jacob S. Potofsky, Chairman of the Board and President of the Amalgamated Clothing Workers, the progress made by the bank during a quarter of a century was reviewed and its services listed. Reporting resources of $37,963,524, the Amalgamated Bank of New York announced it has 12,700 depositors today in contrast to the few who helped establish the bank in 1923 under the guidance of the late Sidney Hillman, Mr. Potofsky's predecessor as head of the Amalgamated Clothing Workers. The Chicago bank today has assets of over $36,000,000.

* * *

What bankers do after "bankers' hours" is the subject of a series of exhibits, the first of which is now in the windows of **Colonial Trust Company of New York** in Rockefeller Center. The 18 paintings shown are the work of Clarence R. Chaney, Vice-Chairman of the Board of Northwestern National Bank, Minneapolis, Minn. In announcing the exhibit Arthur S. Kleeman, President of Colonial Trust Company, noted that Mr. Chaney was recently paid the unusual tribute of being invited by the Minneapolis Club to have a "One Man Show," and his pictures drew high praise from all the critics of the country who visited the show, as well as from the art editors of the Minneapolis press.

* * *

Henry Bruere, President of **The Bowery Savings Bank of New York** is giving a luncheon in honor of the trustees of the Bank, at the 130 Bowery Office, Saturday, April 24. More than 200 guests, including trustees, officers, employees and many wives, will attend the luncheon. Murray Shields, Vice-President of the **Bank of the Manhattan Company,** will talk on "The New Industrial Revolution." Adolf A. Berle, Jr., formerly with the Department of State, will speak on "Is There an Answer to the Russian Riddle?"

* * *

The **National Bank of Watervleit, at Watervleit, N. Y.,** was absorbed, effective April 2, by the **State Bank of Albany, at Albany, N. Y.** The Watervleit Bank had a capital of $153,635, of which $73,635 consists of stock A (RFC) and 40,000 preferred stock B, local, according to the April 12 Bulletin of the Comptroller of the Currency. With its absorption the Watervleit bank becomes a branch of the Albany institution.

* * *

Kneeland B. Wilkes was elected a trustee of the **Western Savings Bank of Buffalo, N. Y.,** on April 14, according to the Buffalo "Evening News" of that date. The advices from which we quote also state that the board also named Charles F. McGahan as Secretary, succeeding the late Fred C. Sprickman. Donald M. Crawford, former Vice-President of the Hill Mortgage Corporation, was appointed to the mortgage and loan department of the bank.

* * *

At a meeting of the executive committee of the **Boston Safe Deposit & Trust Company of Boston, Mass.,** on April 15, Horace W. Cole was elected Secretary of the company to fill the vacancy caused by the death of William F. Tripp. Mr. Cole has been in the employ of the company for the last 15 years and since the first of the year has served as an Assistant Trust Officer, it was stated in the Boston "Herald" of April 15.

* * *

Stockholders of the **Riverside Trust Company at Hartford, Conn.,** in annual meeting on April 13 added John S. Garvan, Jr., Vice-President of P. Garvan, Inc., to the board of directors and reelected the other members. This is learned from the Hartford

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As We See It

(Continued from first page)

havior of members of Congress. Even though the Administration, at least as represented by the President, his Defense Secretary, and apparently the Army authorities does not think it wise to launch upon any such program at this time, the plan is commonly regarded as more or less certain to find acceptance in Congress and to be enacted into law unless the President uses his veto power — and quite possibly even if he does. Meanwhile the Navy would like a greatly enlarged air arm, and is not particularly backward about making its wants and wishes known, at least on Capitol Hill.

Arguing Still

Now, first of all, there is a distressing lack of agreement among the authorities about what would constitute the best type of defense force we could build. This lack of coordinated, and in the end more or less concerted thinking about such things among the so-called experts — a lack apparently growing as much out of traditions, partisan prejudices, and the like as out of rational differences of view inevitable in any science so much in a state of flux as is the military in these days and times — was, of course, a topic of much discussion and regret during World War II. Upon occasion it seriously interfered with the attainment of the ultimate in offensive and defensive effectiveness. It was supposed to have been eliminated, or organized out of our military system when all its branches were consolidated into one defense portfolio. Evidently its elimination has not been accomplished.

But even more serious questions are raised by all this current controversy. One must conclude from the amount of money to be expended, beginning almost at once under these proposals, that fully developed and tested planes are to be put into production at the earliest moment. What kind of planes would these be? Bluntly, there is no answer to this question, so far as the rank and file of the citizens are concerned. So far as we are aware, no specific information on the point is in the possession even of those, such as plane manufacturers, who would normally be well informed on the subject— or at least as well informed as any one outside of the strictly inner circles of government. As to details— assuming that details of anything new have been developed — it is easy to conceive of good reasons why such information is not public property.

How Much Real Advance?

The fact remains, however, that opposition within the inner circle to this vast outlay for additional planes appears to rest upon knowledge that any aircraft, with certain exceptions perhaps, built in large numbers in the next year or two — or at any rate in the next year — would be so little advanced from World War II craft that they would be obsolete before completion. This, of course, is the old, old controversy about volume production of the best available craft versus much smaller production to give greater attention to improvements in design. Hitler is supposed to have decided upon mass production in the middle thirties and to have come dangerously near winning the war thereby.

But circumstances in which we find ourselves today are vastly different. We have no enemies poised just beyond our borders. We have no desire, and only doubtful ability to rush into a surprise, aggressive war against anyone. About the only condition under which it would appear at all wise for us to imitate Hitler would be one in which some prospective enemy was already doing so — with such modifications as are necessary to make their weapons effective against us thousands of miles away. Since nowhere in the world does there exist any military strength which could possibly constitute a threat to us outside of Russia, the question really resolves itself into one which concerns itself with the possibility that Russia has devised and is now mass-producing weapons with which she could reach us or our immediate and direct interests — and reach them at points which we could in any event defend.

What Competition?

If Russia has embarked upon such a course of action — not merely building 12 times as many planes as are we, but building planes and whatever other devices as are necessary to reach us at points which we can and would defend— then, of course, there is at least an argument for building as rapidly as may be a large air force to defend ourselves and our interests, one at least large enough to serve that purpose — and to build it even if in the certainty that we should have to replace it almost as soon as it was built with more up-to-the-minute craft. One could, in such circumstances, readily understand a belief that we were under the necessity of building and rebuilding a large air force year after year to keep it fully up to date. But is Russia doing anything of the sort? So far as we are aware, the American people have never been told there is any real ground even for suspecting that she is.

There is, however, another serious aspect of this situation. It is this. How does it happen — if happen it does — that we are no further advanced (beyond the latest World War II craft) than is apparently the case — or at least is the case if the arguments of Administration spokesmen are to be taken at full face value. As to the general public, it is hopelessly confused and uncertain about the current situation. Alice-in-Wonderland stories about new devices alternate with assertions that nothing very much other than what we had on V-J Day has as yet advanced much if at all beyond the drawing board stage. Is it true that should war come tomorrow, the best we could do would be to resume production of planes already well developed by the end of 1945? Is it true, as is asserted now and then, that other countries, notably England, is far ahead of us in at least some aspects of plane design? It is understandable enough that the authorities would hesitate to make information of this sort available in detail. Some of it, doubtless should be kept wholly secret.

The necessity for secrecy must not, however, be permitted to hide incompetence and neglect, and what is true of aircraft may also be true of other implements of war.

Strong Railroads— Pattern for Prosperity

(Continued from page 12)

have increased only 38% and today's basic coach fare is right where it was in 1939. In short, the increase in average prices which railroads must pay for what they buy is about twice as great as the increase in the prices which the railroads may charge for their services. Unless a greater balance can be established between cost and price, the railroads cannot long continue making these huge purchases. Yet, as you men of industry know full well, such purchases represent another large segment of our economy which has a direct stake in our mutual progress and prosperity. In very truth, the railroads are among your best customers.

Railroads—Customers and Providers

In addition to being good customers, the railroads are good providers. They furnish the cheapest and most efficient mass transportation available anywhere in the world. No other agency of transportation — highway, water, or air—is willing to carry anything, anywhere, at anytime. Only the railroads can do that job. And let me make this point crystal clear that when you pay freight charges you are not merely making payment for the transportation service rendered, but you actually are making an investment in an essential part of our national economy. Payment of freight charges, therefore, becomes a double investment.

Railroads, too, are a lucrative source of revenue for local, state and federal governments. The taxes which the railroads pay to this Empire State annually are equivalent to paying over a million dollars every day this month. Of this tremendous bill, the New York Central alone pays over one-half. Last year our company accrued over $52,000,000 for total taxes, or almost 8% of our entire gross operating revenues. Yet our net income was less than one-third of one per cent of those revenues. Payroll taxes alone amounted to almost $32,000,000 and were equivalent to about 77% of our fixed charges. In fact, they were substantially more than all our other taxes, including income taxes, because we did not have any income subject to taxation. Only as the railroads' heavy burden of high taxes is at least partially lightened during periods of maximum traffic can they hope to have an umbrella to protect them against traditional rainy days. Benjamin Franklin once said: "Only two things in this life are certain—death and taxes." But we might add, they don't come in that order!

Role of Investors

The taxpayer has often been portrayed as the forlorn little fellow in a barrel suspended from his shoulders. In the railroad industry he has a brother, in some cases, equally devoid of adequate coverage. He is the railroad investor or owner. The return to the railroad investor has been pitifully small in recent years and in some cases it has been absolutely nil. Yet, the investors stake in financially sound railroads is as important as the railroads' need for the investor. Without the investor, the ability of the railroads to provide employment, make necessary improvements, and buy new equipment—in short, to continue being one of your best customers—is seriously threatened. Investors must be assured that their money will earn an adequate return if they are to continue making investments in railroads.

There are many kinds of investors; beside the individual, there are the large insurance companies, banks, educational institutions, and foundations, all holding large investments in railroad securities for the benefit of others. Life insurance companies, for example, at the close of 1946 held almost three billion dollars of railroad bonds for the benefit of people whose lives are protected by policies of insurance. This close relationship of interest between holders of life insurance policies and the railroads emphasizes the vital necessity for the railroads to earn an adequate return on the capital invested in their facilities so that they in turn can pay a fair and proper return to their investors. Last year the railroads' return on their net property investment was only three and three-tenths per cent—far from sufficient to attract new capital to the railroad industry and to enable them to insure the continuing financial stability of those investors dependent upon railroad prosperity.

These interests—employe, shipper, receiver, government and investor, all having vital stakes in vigorous and financially stable railroads, I think, point unmistakably to the fact that all of us are closely woven into this pattern for progress and prosperity.

Improving Equipment

An eminent jurist once said, "The great thing in this world is not so much where we stand, as in what direction we are moving." The railroads recognize that progress cannot be static; it must be dynamic. Either we move ahead toward the achievement of further improvements or we deteriorate. We cannot stand still and survive. I feel that progress and prosperity can move hand in hand; unfortunately, they do not always. With undaunted faith that they will move together, we of the New York Central are forging ahead with the largest new equipment program ever undertaken by any railroad in a similar period. This program, started early in 1944—long before the end of the war—to the present time, calls for 23,400 of the most modern freight cars; 720 of the most up-to-date passenger streamliners; and 315 units of the most modern and efficient motive power. By the end of this year we expect to have 58 trains all completely equipped with new cars.

Our program of course, is not limited to new equipment and motive power; it includes plant and structures, too. Syracuse is one of the nerve centers of our System. Here are located DeWitt Yards, the largest and most modern classification yards on our railroad, where we m a r s h a l l freight for the east and west, the north and south. Like all our other facilities, these are constantly being studied in the interest of faster handling of traffic and improved freight service. For example, we have installed radio telephone systems not only at this particular yard, but also at our other major classification yards, in order to speed up operations.

In addition, we have completed final tests looking toward the installation of radio telephone service for passengers on feature trains between New York and Chicago, and eventually to St. Louis. The necessary telephone equipment has been ordered and service will be started upon delivery of new passenger cars probably in June.

Our entire program involves a total expenditure of approximately $272,000,000. This is evidence of our faith in the future of America and its railroads; faith that out of this program of progress will come prosperity for all.

Burden of Loss and Damage Claims

Yet, this program can be seriously jeopardized unless all of us vigorously attack one of the railroads' heaviest financial burdens. This burden stems from the millions of dollars which railroads pay out annually for preventable —I repeat, preventable—loss and damage claims. This, of course, is not a one-sided problem in either its causes or effects. Loss and damage claims represent a complete economic waste to shipper, transporter, and receiver of freight, and annually costs all of us tremendous sums of money. It is expected that freight claim payments by the railroads of the United States and Canada this year will again reach a figure in excess of $100,000,000, or almost five times the amount paid in 1941.

Conditions growing out of the war were important factors contributing to these progressively increased loss and damage claims. Many of these wartime conditions were difficult to control, such as shortages of manpower and experienced help, heavier loading of freight, inadequate containers, marked increase in commodity prices, and difficulties of equipment maintenance. I point these out merely to emphasize again conditions which were common to both the shippers and the railroads. The cessation of hostilities overcame some of them; others are still present and call for the most vigorous educational and policing job that *all* of us can do.

The subject is of vital concern to all who are in any way involved in freight shipments. The railroads are fully alive to the seriousness of the situation from the standpoint not only of the drain on their revenues and the reflection on the character of their service but likewise of the material and labor losses sustained by the shipper and often the inconvenience suffered by the receiver. Present-day shortages underline the importance for remedial measures.

Through the cooperation of the various Shippers Advisory Boards all over the country, the National Freight Loss and Damage Prevention Committee of the Association of American Railroads, individual railroad station committees, and greatly enlarged railroad field forces, strenuous efforts are being made to reduce the causes of loss and damage freight claims. We deeply appreciate the cooperation of shippers in these efforts and particularly the intelligent and constructive way in which they are attacking this problem and instituting corrective methods.

Convinced that the most effective results can be attained by training and education, the New York Central has undertaken an exhaustive program for training freight station personnel, truckers, and trainmen. With the cooperation of local State Boards of Education, freight handlers at stations have formed themselves into Service Committees. These Committees meet frequently to discuss and devise better ways of handling and protecting shipments on trucks, at stations, and in railroad cars. In addition, the installation of impact registers for checking switching operations has lessened the shock of shifting cars; and a visual educational instruction car shortly will be operated as an adjunct of the local training program.

All these programs are having the desired effect, but we feel that one of the greatest services we can offer shippers is to reject freight that is inadequately packed or marked. Shippers appreciate this and are cooperating by improving containers to make them strong enough for shipment. The results to date are most encouraging — claim receipts have been reduced and handling and unloading have greatly improved. We are confident that all of us recognize this as a common problem, calling for united action on the part of all. Only in such a way can we hope to achieve the improvement so desperately needed.

The annual April campaign for perfect shipping is now in progress . . . a campaign sponsored through the efforts of the Regional Shippers Advisory Boards, and a move most appreciated by the railroads. It serves to emphasize once again that "perfect shipping" can and should be the goal to be attained not one month in every year but every month in every year. Toward that end, I bespeak your continued cooperation.

The Tax Question

In closing, I want to leave with you one question. In 1936 the new Syracuse passenger station and grade crossing elimination projects were completed and opened for service. These improvements represented an outstanding example of cooperative effort among city, county, state and railroad company. They involved an expenditure on the part of the New York Central Railroad Company of over eight million dollars. No one will deny that such improvements have greatly enhanced the progress and prosperity of Syracuse. Yet, as a result of these same improvements, the railroad's taxes have been increased over $211,000 a year.

Railroads would be encouraged to make further improvements if assurance could be given that taxes would not be increased as a result of such improvements. Now the question that I want to leave with you today is just this. How can private investment in railroad improvements be made to live alongside public investment in tax free competing forms of transportation? In your own self-interest, I ask you most respectfully to think this over carefully and then decied for yourself. Unless all Syracusans support a public policy which will bring railroad taxes and earnings into greater balance, the railroads cannot hope to maintain their economic and financial stability; they cannot hope to continue as an independent, self-sustaining transportation servant of Syracuse and of our nation's other centers of commerce and industry. And let me assure you that a nation without strong railroads is a nation half-crippled.

One hundred and seventy three years ago this month, on April 19, 1775, Paul Revere took his dramatic and historic ride through New England warning the people of approaching danger. Today, the railroads of this country are faced with imminent danger. Unless rising costs are matched with adequate revenues, the ability of the railroads to continue providing the quantity and quality of transportation service which the shipping and traveling public has a right to expect may be seriously jeopardized. The great need today is for the modern Paul Reveres all over the country who will rise up and warn the public of the grave dangers which now confront the railroads in maintaining their financial integrity. If that is done and the necessary public policy is implemented, we all can be sure that out of this pattern for progress and prosperity, will come stronger railroads and an even Greater Syracuse.

Inflation Endangers Economy: Truman

(Continued from first page)

you have upon the course of our democracy that I am glad to have this opportunity to discuss with you one of the major problems confronting our country.

I am going to talk to you tonight about inflation.

All of us have the foreign situation very much on our minds these days. This is proper, for we must devote a great deal of thought to our foreign relations if we are to succeed in working out the difficult international problems facing us. But we cannot afford to neglect our problems at home.

The success of our foreign policy depends to a very large extent upon the strength and stability of our domestic economy. The plain fact is, however, that our economy is in serious danger as a result of high prices and inflation.

Inflation may seem to you to be an old story. But there are some men in this country—men who happen to be in influential positions—who still fail to understand or who deliberately ignore the gravity of the situation and the need for forthright measures to meet it. They have tinkered with the problem of inflation—they have even taken some feeble steps in the right direction. But they have taken other steps in the wrong direction—steps that have made the problem much worse.

A Grave Menace

For my part, I believe that inflation is so grave a menace to this country and to the world that I do not propose to let it be forgotten.

I believe that the government has a clear-cut responsibility to deal with high prices. I believe that we know what measures the government should take. I cannot sit by silently while inflation continues to creep up on the American people.

The basic facts which make this problem of such fundamental importance are plain. The world stands now at one of the decisive points in history. Emerging from the most terrible of all wars, people all over the earth are fixing anew the pattern of civilization.

By virtue of the strength with which we have been blessed the United States is the chief support to those people of the world who are seeking to rebuild their civilization in accordance with the principles of democracy and freedom. The heart of our support is economic assistance. To be effective, it must be coupled with sufficient military strength to give the free peoples of the world some sense of security while they rebuild.

These requirements must be met in large part from the production of American mines and factories and farms. Thus, a strong American economy is the bedrock upon which rest the hopes for establishing a peace of free men in the world. Without it we can provide neither aid, nor leadership, nor example.

The strength and vitality of our economy are being undermined by inflation. High prices are now working real hardship upon most American families. If unchecked, inflation will bring on economic consequences which will hurt every one of us. This is not a new situation, but it is getting worse.

I have been calling attention to the hardships and dangers of high prices for a long time. I have repeatedly urged business men to exercise voluntary restraint in setting prices. Many of them have courageously done what they could to hold prices down. But they were not strong enough to stem the tide, and prices have continued to rise.

Voluntary Restraint Ineffective

By last fall it had become clear that we could not place our main reliance on voluntary methods. On Nov. 17 I presented to the Congress a ten-point legislative program for dealing with inflation. That program has not been enacted. And prices have continued to rise.

The program which I presented to the Congress was sound and necessary last November. It is still sound, and it is even more necessary now.

The total demand for goods is still outrunning production. Competition for scarce items is still pushing prices up. Employment is at record levels, but the real purchasing power of most of our people is still losing ground to inflation.

In February there was a break in the market for wheat, corn and other agricultural products. But agricultural prices did not drop for long, and they did not drop very far. The prices paid by housewives were affected hardly at all. The general level of prices has remained well above the already excessive level which prevailed in 1947.

And now there are new factors that have made the outlook for inflation considerably worse.

Some key prices have been increased, unwisely and unnecessarily. The outstanding case was, of course, the increase in some important steel prices. I believe that the business men who made these increases did not consider their far-reaching effect on the rest of the economy. They made the regrettable decision to increase prices even though they were already making record profits. In the face of these actions, other business men, with a greater regard for the public welfare, have fought a losing battle to keep their prices down.

In addition to these price increases, inflation has been encouraged by some unnecessary interruptions to production. The outstanding example, of course, was the work stoppage in the coal industry. The serious effect of the loss of coal production shows the narrow margin of supply on which we are operating, and how quickly shortages of materials can cripple our entire economy.

Effect of Tax Reduction

Another new factor making for inflation is the bill recently enacted by the Congress reducing government revenues by $5 billion. This is dangerous from the standpoint of the government's financial stability, because it is likely to result in a deficit in the next fiscal year. It is also dangerous from the standpoint of high prices, for the additional billions of dollars of purchasing power will not be accompanied by any significant increase in production. It means simply that more dollars will be bidding for the same goods, and prices will be bid up accordingly. Furthermore, by eliminating the government's surplus of receipts over expenditures, the tax-reduction bill will remove the most important single factor which has helped to hold prices in check during recent months.

The ERP and National Defense

At the same time that taxes are being reduced, we are undertaking a program of assistance to foreign countries. We are also considering certain necessary additions to our national-defense program. Both of these programs are of utmost importance, and we must have them. But they will result in strains on parts of our economy which can add to inflation if we do not have proper controls.

In considering the effects of these programs, it is extremely important to realize that we now have practically no slack in our economy. We have substantially full employment. Factories generally are operating at top capacity. We cannot increase our plant capacity rapidly. We have only the normal growth in the labor force to count on for new power.

Under these circumstances, new demands for materials and production necessarily have a direct effect on prices—unless the proper anti-inflationary steps are taken.

It is apparent when all these factors are considered, that the danger of inflation has not diminished in the last few months. On the contrary, the need for the legislation I requested is even more urgent.

It seems to me that the basic question is clear. It is whether we take action in time to do some good, or whether we delay until a crisis is upon us. It is simply a matter of taking out insurance before the house catches fire.

If the cost of living continues to climb, wages and prices will continue to chase each other upward. The unhealthy boom will impose further hardships upon those who fall behind in the race. The greater the inflation and the longer it lasts, the greater the danger that it will end in unemployment, business distress and recession or depression. It is of little significance that no one can forecast the exact time when this will happen. The important point is that we cannot afford to let it happen at all.

Since I addressed the Congress one month ago today on the need for prompt action on the European Recovery Program and on universal training and selective service, there has been a greatly increased interest by our citizens in national defense and in our foreign policy. This interest has been reflected in the enactment of the legislation to aid European recovery. But our domestic economy has been dangerously neglected. It should be neglected no longer.

Wants Anti-Inflation Program Enacted

I believe that the anti-inflation program I recommended to the Congress last November should be enacted at once. That program is balanced and well rounded. It includes measures to reduce the excessive amounts of money and credit which are lifting prices. It includes measures to see that scarce goods are distributed fairly and to their most important uses. It includes measures to deal directly with specific high prices.

All these measures are reasonable and practical. They attack inflation in a direct manner. They offer a complete and consistent program to strike at the heart of the problem of high prices.

The measures I proposed are designed to hold prices down while keeping production up and increasing it as rapidly as possible. They are designed to stop runaway prices, so that great numbers of American families will not be priced out of the market for the things they need. These measures are designed to insure that scarce goods are not wasted, but are used where they will be of the greatest benefit.

I wish to emphasize that the situation has already been made more difficult by delay. Additional delay will only add to the danger.

Striving to Avoid Crisis

The American people must not be misled by those who oppose a reasonable anti-inflation program and a reasonable defense program. It has been said that the present Administration is trying to create an economic crisis or an international crisis. The exact opposite is the truth. We are striving to avoid an economic crisis by protecting our prosperity while we still have it. We are striving to avoid a war crisis by being firm before it is too late.

The welfare of our own people, the effectiveness of our foreign policy and the strength of our defenses all depend on our prosperity. Only if we preserve the soundness of our economy, through prompt and adequate measures to control inflation, can we contribute our full share to a peace in which freedom and democracy will be secure.

I believe that the people of the United States understand that we have a great opportunity and a great responsibility to lead the world through these changing and difficult times. I believe that our people have the faith, the wisdom and the unselfish devotion to the common good to take whatever actions are necessary to meet that responsibility.

We can succeed if we act courageously and act in time.

Wolfe Co. to Admit George V. Mahedy

Wolfe & Co., 60 Beaver Street, New York City, members of the New York Stock Exchange, will admit George V. Mahedy to partnership on May 1. In the past he was with Byfield & Co.

The Paradox of the Airlines

(Continued from page 7)

same rate of increase continued, it was not easy to estimate where the growth of business would stop.

In the last year-and-a-half we have experienced this same kind of problem with air-freight, which has grown at a faster rate than our passenger business ever increased. But in 1944 and 1945, when the airlines had to plan for the post-war fleets and organization to meet their public responsibility for adequate transportation and their requirements for economic size, we were faced with expert estimates of a post-war passenger potential ranging from approximately 6 billion passenger miles to 25 billion passenger miles.

While, in our own case, we planned for a domestic industry reaching approximately 10 billion passenger miles in 1950 and developed a relatively conservative equipment program, we know that certain carriers placed orders for equipment which, if actually received and properly utilized, would have required at least a 25 billion passenger-mile industry.

These equipment plans, many of which have been sharply curtailed in the last year, were altogether too often accompanied by grandiose plans for expansion of organization and personnel and by the development of palatial city ticket offices and other facilities.

Plans for bigness have a way of breeding other plans for bigness. One airline ordering an excessive amount of equipment encourages its competitors to do likewise. For the transportation business is one in which the person with the most (even though it may be too much) gets the most.

A palatial ticket office, developed on one busy downtown corner by one airline, encourages or even compels a competitor to build a more palatial office to attract customers and to perpetuate the reputation of air transportation.

Lack of Cost Control

This expansion, much of which has been warranted by the growth of the airlines, was accompanied in too many cases by a lack of organization and control to hold costs in line with actual expansion plans and the immediate outlook for traffic. I know of cases where the increase in personnel was so rapid that actual employment exceeded future budgets before it was found out how many persons were on the payroll.

There have been other times when management attempted to solve the vexing problem of an expanding business by simply adding personnel rather than by solving the basic problem involved. This occurred, I feel sure, with reservations and ground-handling immediately after the war.

The influx of passengers and the addition of plane-miles so affected the airlines as to cause just public criticism, with the result that thousands of persons were added to the payrolls to handle a problem which revised methods and quality supervision have largely eliminated since.

Competitive Fervor

The competitive fervor in the airline business near the end of the war and immediately after the war, led to flooding the Civil Aeronautics Board with route applications. It nurtured the growth of an independent and confidential attitude by each airline on research and the development of facilities. Many route applications, we realize, have been made on a defensive basis, with companies filing for routes they really did not want, but for which another company had applied and which, if granted, might impose a serious competitive threat.

There have been many cases where independent research and the development of facilities have been undertaken at the same time and on the same subject and for the same purpose by competitive airlines who could have saved considerable sums had these efforts been pooled. Some of this duplication of effort has even extended to the aircraft manufacturers and there have been cases where both airlines and manufacturers have been undertaking expensive research on instruments, heating and ventilating systems, loading devices and many other technical developments connected with airline operation.

There has been virtually no combination of efforts with respect to market research, the results of which could easily have been shared by airlines and could have assisted airline management in developing a sound economic basis for future expansion.

Uneconomic Scheduling

The competitive urge to keep up with, or get ahead of, "the Joneses" has resulted in some uneconomic scheduling of aircraft, with occasional unnecessary duplication of service. In this sphere of airline operations, like others, an individual airline, acting as an individual, is virtually compelled to keep up because those who offer the most tend to get the most.

Inadequate Financing

I recognize that mistakes have been made by the airlines in not undertaking adequate financing for the tremendous expansion programs planned. There are clearly many reasons for this. The principal reason perhaps is that we underestimated future increases in the costs of new facilities.

For example, as late as 1944, TWA felt it was making a conservative estimate when it forecast the cost of acquiring Constellation equipment at $550,000 per airplane. But, these airplanes cost $800,000 when they were delivered early in 1946.

Another probable reason for this lack of financing is that we simply could not believe that as much money would be required as has turned out to be the case. In a few years, the gross assets of this country's scheduled airlines increased 500%. As a result, the financing programs required were so vast that they called for costly caution and delays for which the favorable financing markets of 1945 and early 1946 did not wait.

Unwise Passenger-Rate-Reductions

Another costly and needless error which can be laid to the door of airline management, is the unwise domestic passenger rate reductions made in 1943 and 1945, during which time the average passenger revenue per passenger mile dropped by approximately 1c or 18%.

Most of this drop occurred in 1945. Profits of the airlines in 1945 were soaring and passengers were clamoring for airline seats. Clearly, with passenger load factors at 90%, there was no valid reason for lowering the fares and the possible excess profits tax cost to a few airlines of holding the fare level would have been more than offset by the desirability of building up financial reserves for the future and of saving passenger fare decreases until passenger loads should drop off or the future trend of airline costs should justify.

Factors Beyond Control

This paradox of the airline business was due, in part, to certain factors beyond the control either of airline management or the government.

In general, they are due to the fact that the airplane is perhaps man's most complex machine. And this complex machine engenders complex procedures for its maintenance, for passenger handling, for its operation, and even for accounting. I sometimes think that the airline business, because it is built around the complexities of the airplane, is the most complicated business of all.

Complexity and Cost of Introducing New Airplanes

The introduction of new airplanes of increasing complexity has cost the airlines of America tremendous sums of money, in addition to the cost of the airplanes themselves.

The cash outlay for placing new aircraft into service cannot be absorbed over a long period of years. When it is realized that the DC-4 is estimated to be nearly 2½ times as complex as the DC-3 and the Constellation over 1½ times as complex as the DC-4, a program which involves placing such a complex machine into smooth, safe and profitable operation involves many costs.

In the case of TWA's Constellation aircraft, even though years had gone into the airplane's design and testing, and long months of careful planning have gone into the inauguration of service, the cost of introducing these airplanes was far beyond that which we had any reason to expect.

During the year 1946 alone, we have estimated conservatively I believe, that the cost of introducing these and our international DC-4 airplanes was more than $8,000,000 and this figure is in addition to any costs for equipment or spare parts and to the fact that the Constellation grounding contributed approximately $7,000,000 to our net loss in that year.

Therefore, in one year alone, the introduction of new airplanes cost us, in loss of revenue not offset by cost reductions, and in non-recurring additional expenses, approximately $15,000,000, *in addition to the capital cost* of purchasing the airplanes and equipping the airline for their operation.

It will be some time before the airlines operating the DC-6's can properly estimate the cost of inaugurating these airplanes, including the losses suffered by their grounding, although every airline in this country which inaugurated this new equipment in the postwar period has suffered considerably.

Irresponsible Labor Leaders

Another factor which has contributed to the airline paradox, and one which has interfered with most businesses in this country, is labor leadership.

Altogether too often, loyal groups of employees are led into wasteful and harmful strikes and costly make-work operating agreements by irresponsible or uninformed union leaders.

It is a strange commentary on the American scene when a group of employees, such as airline pilots, earning upwards of $12,000 per year and working 80 hours per month, use their strategic position to cripple the business which makes possible their high salaries and to harm the great majority of employees whose earnings average a quarter as much for twice the time.

Other Factors

There are, of course, many other factors beyond our executive control.

We are still hampered by weather, operating delays and the costs and confusions of off-schedule operations.

Our costs are still affected by shortages of various kinds. For the lack of an adequate supply of a particular type of bushing, for example, we have often been required to cannibalize a spare engine or an airplane to keep our overhaul shops producing a rate necessary for our operations.

Nearly three years after V-J Day, these parts shortages increase our costs and keep us from the efficiencies which we know can be attained.

Inflation: Effect on TWA's 1947 Expenses

Perhaps the greatest single cause for the paradoxial situation of the airlines arises from the inflation of prices, particularly in the last few years.

We have analyzed the effects of these increased prices on TWA. By taking the principal items of 1939 operating expenses and applying the cost per unit to our 1947 experience, we found some startling results.

The increases in the *rates* we pay for salaries and wages and the *prices* of materials and supplies, including gasoline and oil account for almost $12,000,000 of our 1947 expenses. In other words, without inflation of prices, our $8,000,000 loss experienced in 1947 would have been a $4,000,000 profit, despite the fact that passenger rates were somewhat lower in 1939, and mail pay was but a fraction of the 1939 rates per ton mile.

A part of this inflation in prices can be laid to the disruptions of war. But a large part of it must be laid at the door of government policy which encouraged undue wage increases during and especially immediately after the war and which also encouraged wasted funds through many unnecessary government expenditures.

Added Efficiency Nullified

This inflation of prices has largely nullified our efforts to improve efficiency.

New and more efficient airplanes do not yield the profits anticipated because, by the time we have them in service, price increases have wiped out their advantages.

Reduction in numbers of employees on our payrolls are offset by increased wages.

Improved operating and maintenance techniques which yield savings measured in millions of dollars are offset by increases in the cost of gasoline and oil.

Competition and Higher Costs

This merry-go-round of price increases which absorbs efficiency increases is intensified by the fact that the airlines are unable to pass much of the cost rise on to the public in higher passenger fares or higher express and freight rates.

Passenger and cargo business is highly competitive, not only between airlines, but between airlines and surface carriers.

No individual airline is master of its sales price.

Even though the airlines were not shackled with the Anti-Trust Laws and even though customers had no alternative but public air transportation, the competitiveness of this industry would still mean that price increases could not be passed on through higher rates. How different from the sheet steel business or the business of producing automobiles and underwear!

Mail Rate Reductions

The dilemma presented by price increases is sharpened by the government attitude towards mail rates.

At the very time post-war inflation was hitting the airlines, in 1945, the Civil Aeronautics Board reduced the service mail rate of the trunk-line carriers from 60 cents to 45 cents per ton mile. While mail pay has become a decreasingly small percentage of our gross revenue, amounting to 7% domestically in 1947, the fact that the trunk-line operators have been asked to carry mail at a 25% reduction in rate below the amount paid during the war despite higher prices and costs, is strange indeed.

Had TWA received even the war-time service rate for the carrying of domestic air mail, its 1947 loss would have been reduced by $1,150,000; and had the 1939 air mail rate been applied to both domestic and international air mail carried in 1947, TWA would have earned a *profit* of $3,500,000, instead of incurring a *loss* of $8,000,000.

Government Policy Confused

Our governmental air-mail policy is confused, unrealistic, and not in accordance with the dictates of the Civil Aeronautics Act of 1938.

Few persons realize why domestic air-mail incurs costs far above those which are incurred for freight.

Air mail is handled as a top priority load.

A carrier is obliged to accept air mail, or risk fines, even if passengers are removed thereby.

In order to protect themselves and to give the Post Office the service it needs, most airlines allocate space and weight for air mail which cannot be sold in advance to passengers. This priority treatment is costly and justifies a service rate for mail well above the rate for passengers.

Inconsistency

An interesting inconsistency in government policy arises in international air mail.

If an American flag-carrier operating over the North Atlantic handles east-bound mail from the United States, it receives 75 cents per ton mile to the foreign gateways.

If a foreign carrier handles the same kind of east-bound mail, it is paid $2.86 per ton mile.

While American flag-carriers handle most of the east-bound mail, we have such startling paradoxes as the United States Government paying a foreign airline this attractive rate for flying thousands of ton miles of mail during a time when our own American Overseas Airline was shut down by a needless strike called by an American labor leader.

Feeder-Line Mail Rates

It has also seemed a little puzzling to me why the United States Government should place an inexperienced feeder-line operator into a local service and pay mail rates amounting to $20 to $100 per ton mile, when a major airline like TWA is allowed only 45 cents per ton mile for carrying mail over the feeder-type portions of its route. Yet the major airline is generally in a position to give superior mail service.

CAB Air Mail Policy Disregards Act of 1938

The handling of air-mail rates has, to a very great extent, disregarded to clear dictates of Congressional intent in the Civil Aeronautics Act of 1938.

In this Act, Congress clearly stated that the rates set for air mail must reflect the need of each air carrier for compensation for the transportation of mail, sufficient to insure the performance of service under honest, economical, and efficient management as well as to maintain and continue the development of air transportation to an extent required for national commerce, the postal service, and national defense.

The record speaks for itself.

Not only has the service rate for the carriage of mail been below that required by the costs of rendering the service required and, in the international field, below that paid to the competitors of American flag-carriers, but the rate has been far below that required by the dictates of Congress itself.

Irreparable Damage

Even though pending mail rate cases should allow an increase in the mail rate, much of the damage will have been done.

The needs of the airlines for a sound credit standing for their development and expansion in this critical time is imperative and has unquestionably been harmed by the government attitude on the mail rate cases.

The delays in handling mail rate cases have been extremely costly. TWA for example, applied for an increase in the domestic mail rate in March, 1947. More than a year later, our case, based upon an emergency situation growing out of conditions over which we had little or no control, was finally decided—within the past few days, but at a most disappointing figure. How different was this delay from the expeditious handling given to the mail rate reductions nearly three years ago.

Moreover, if the view of the Civil Aeronautics Board prevails—that no airline should be allowed back pay before the date of officially filing for an increase—then the losses due to such government actions as the grounding of the Constellations will not be reflected in mail pay. In this connection, no reading of the Civil Aeronautics Act or its amendments can lead to the conclusion that Congress intended the payment of back air mail compensation to depend upon the day when the applicant filed for the rate.

Route Pattern Haphazard

As the President's Air Policy Commission has recognized, the development of the present domestic route pattern has been confused and has not been accomplished through the careful planning which the outlining of a national route pattern demands.

Each case tends to be dealt with as it arises.

By not having a definite long-range plan and by yielding to arguments which such a plan would show to be unsound, the Civil Aeronautics Board has developed a national route pattern replete with duplicating services and routes requiring considerable subsidy.

The spurious requests of every city for one-carrier trunk line service to every other city has altogether too often been met by adding a carrier to an already over-served route, rather than by looking for such alternatives as schedule connections and equipment interchange.

To be sure, some of this blame must fall on the airlines for their applications into territories where they cannot contribute additional and economic service. But much of it has grown out of the Board's insistence upon competition, often beyond that required to protect the public; the slowness with which the Board has acted on route developed cases; its delay in establishing and enforcing rules for the control of non-certificated carriers; and, above all, the lack of a consistent plan for a national air route pattern.

More Facilities Needed

Another field of government policy of considerable importance to the airlines is the program for the construction and modification of airports and airways facilities.

Most of these are clearly required in the interests of national defense and many are necessary if we are to obtain a dependable and efficient airline operating system.

Most of these improvements are beyond the reach of any single airline, not only because of their expense, but because they are public facilities necessarily open to the use of private flyers, non-scheduled airlines and military pilots. As a matter of fact, some of our largest airports are used less by the scheduled airlines than by others.

In Kansas City, for the year 1947, only 27% of the total landings and take-offs were made by the scheduled airlines. Even at the crowded Chicago Municipal Airport, the scheduled airlines made only 64% of the total landings in 1947.

The need for these facilities has been recognized for some time and stand materially in the way of attaining dependable operation. Yet, even though the Federal Airport Program was approved by Congress in 1946, rather little has been accomplished.

Other Inconsistencies and Confusions

There are many other inconsistencies and confusions of government policy which could be mentioned. I have known of cases where one regional government administrator insisted upon us taking a course of action, with respect to the Constellations, that was different from the course of action of another administrator.

There are confusing cases where the CAA has changed its mind two or three times in a short space of time on safety specifications, such as cabin linings, for example.

For an industry necessarily as closely tied in with the government as the airline business, the confusion and chaos of government policy, from their effects upon price inflation to their effects upon safety modification of aircraft, are costly in terms of long-range planning as well as from the standpoint of daily operating expenses.

Airline Outlook Not Hopeless

I should be pessimistic indeed if I left with you the impression that the outlook for the airlines is hopeless. It would be a sad outlook if we, in the airline business, felt we had to look forward to increasing our business and extending air travel to the air public only at increasing losses. Such an outlook would, of course, spell the end to private enterprise in the airline industry.

I feel that there is much which can be done by the airlines themselves, their suppliers, their employees and by State and Federal Governments.

As a matter of fact, the rude awakening from the easy profits of wartime years and the recognition of the economic problems involved in the postwar period have already led to many actions designed to put the airlines on a sound footing.

The main job of airline management today is to improve the quality and dependability of service, and to reduce costs. And by management I include every supervisor in our companies. We *must* improve the quality and dependability of airline service and at the same time we must reduce the capital costs of expansion and the costs of operating our businesses.

I feel certain that when we have done so, public opinion will force such changes in governmental policy that we cannot fail in becoming a sound and integral part of our nation's economic structure.

This job on the part of management requires cost reduction through the development of efficient organization and methods of doing business and a cost-consciousness on the part of employees who see their economic security bound up with the efficient operation of their airline company.

Cost Reduction via Cooperation

Not only does this cost-reduction require this kind of effort on the part of each individual company and its employees, but there are many places where the airlines can reduce costs through the kind of cooperation designed to benefit the public. There has been much talk of consolidating ticket offices and ramp and airport facilities. There has been some action. The airlines are, as you know, undertaking two major experiments on consolidating airport operations at Cincinnati and at Willow Run.

The consolidation of many airport services and downtown ticket offices is still a relatively untouched field for savings. I fear that, in the past, we have attempted too often to look for these savings in the busy airport terminals of large cities where the service is highly competitive and the possibilities for savings small. Considerable possibility for savings does exist, however, in downtown ticket offices of cities large and small and in airport services at medium and small cities, especially where essentially non-competitive services are offered.

Sharing Research Results

We still have a long way to go in sharing the results of technical and economic research.

The recent Civil Aeronautics Authority mandatory fire program which required airline operators to undertake considerable modification by May 1 of this year is a good case at point.

Virtually no attempt was made between the airlines to agree on how the details of this work were to be accomplished and engineering and maintenance departments of all the major carriers incurred duplicate expenses in approaching this problem on an independent basis. Moreover, it is known that power-plant costs represented between 50% to 70% of all direct aircraft maintenance; yet there has been little concentrated effort by the airline industry to act as a group in handling necessary improvements and modification to such engines as the Wright 3350.

Pooling

Another type of cooperation which may reduce costs is the pooling of maintenance and overhaul of such items as engines, instruments and accessories. The record of pooled engine overhaul has not yet been impressive, but there has not been to my knowledge a single case where this overhaul was pooled on a large enough scale to make real economies possible.

A further field in which airline management can help in solving the strange airline paradox is through removing the pressure for duplicating route awards and facilities for extending through carrier service.

I doubt whether Ball Bearing, Ohio, or Frozen Dog, Wyoming, would be so insistent on one-carrier service to every major point in the country if the airlines could better coordinate their schedules or interchange equipment as TWA is planning to do in cooperation with Delta Air Lines this spring.

Improved Designing Essential

On the part of the aircraft, engine, and parts manufacturers, the paradox of the airlines can be assisted materially by a number of important means. Too often transport airplanes have been designed as a fuselage with wings and power plants and later with a view to their adaptability for the carrying of passengers and cargo.

I am glad to say that this fault is being corrected and that airplanes of the future will probably be built without such drawbacks. However, as of today, with our so-called post-war airplanes, the preliminary approach to the initial design and development has been one of concentrating upon structure and aerodynamics. This has resulted in designing the airplane so that accessories and systems are forced to fit into a predetermined structure, causing thereby excessively high modification costs, maintenance costs, and mechanical delays.

The airplane of the future must be designed to avoid this costly mistake. It can be so designed if the airline industry will cooperate with the manufacturer in seeing that structure and aerodynamic design is made compatible with simple and dependable accessory and system design.

If this kind of concept of design were accompanied by greater efforts toward standardization, I feel that great dividends in cost-saving and flexibility of operation would result. Airline individuality, with respect to cockpit arrangements, accessories, systems, loading devices, and other technical matters, are a costly luxury which I believe we could do away with.

It may take a long time to realize results, but airline managements, even so, should prepare for this kind of cooperation now.

The manufacturer can help us most at the present time by taking a more active interest in the production of replacement parts. For, until we can have a smooth flow of parts needed for the overhaul of our aircraft and their power plants and accessories, we can hardly reduce our maintenance costs to the minimum.

Airline labor must recognize that its monetary rewards and economic security depend upon the success of the airline enterprise.

This requires labor statesmanship of a high order, as well as an airline management which will effectively give the facts to its employees. I should hope that this labor leadership will not operate on a premise that an occasional strike is a good thing to keep management in line and labor union dues fully paid. I should rather hope that this labor leadership will develop responsibility and a knowledge of the fundamental economic axiom that no one wins from a strike, that no company can long pay wages beyond its ability, and that low cost of production of airline service means high wages and steady employment.

Need for Government Consistency

Perhaps the greatest contribution to the development of a sound airline industry lies in government policy.

This policy must be consistent within itself and over a period of time and must deal realistically with problems without requiring long, drawnout and expensive hearings and disrupting delays.

Over the long period of time, of course, the government can contribute most by making sure that its budgetary and monetary policies do not unduly disrupt the price level.

A spiralling inflation of prices has already robbed the fruits of our efforts to increase efficiency.

Further material rises in prices are likely to destroy the private enterprise existing in the airline business. This business, being highly competitive and selling a service so sensitive to price rises, cannot resort to the mere expedient of increasing prices each time the price of labor or materials rise. As I pointed out earlier, we cannot pass on labor and material cost increases as can most firms in mining, manufacturing, and retailing.

Government policy with respect to labor still leaves much to be desired.

The recently enacted Taft-Hartley Law which removes some of the inequities of 14 years of prolabor legislation does not apply to the airlines. The airlines, instead, still operate under a Railroad Labor Act which does not particularly suit the airline business and is certainly no answer to the proper government responsibility in airline labor difficulties.

Remove CAB Chaos

Basic government policy dealing with the economic and safety regulations of the airlines, as this policy is expressed in the Acts of Congress, needs very little overhaul.

What *is* needed is the removal of the chaos and the inconsistencies of the Civil Aeronautics Board in its interpretation of the clear-cut policies of the Civil Aeronautics Act of 1938.

This Act, at no point, requires the Board to develop an excessively competitive route pattern. This Act, contrary to its interpretation by the Board, does not require airlines to carry air-mail at the rates imposed nor does it refuse assistance in the proper development of the airline business. This Act does not, in my judgment, hinder the healthy development of air-freight, and its proper interpretation would not permit a system where a few carriers can skim off the cream of the air-freight business by limiting their services to hauls between large traffic generating points.

What is clearly needed under the Civil Aeronautics Act is the recognition on the part of the Board responsible for its administration that (1) excessive competition is not necessary in a business so closely regulated as the airline industry; (2) a master plan for route development must be drawn if the chaos and expense of unduly duplicated services are to be avoided; (3) the national defense importance of the airlines and the expenses of their developmental period require a mail rate high enough to cover proper costs and occasionally a special allowance to cover exceptional costs forced on the airlines through no fault of their own; (4) decisions in the public interest do not require that each city should immediately be given a feeder line route whether it can be supported or not or that each city asking for one-carrier service should be given it if by so doing a sound airline system would not result; and (5) certain routes, particularly in the international field, having been granted primarily as a matter of international policy, should be given special financial support by the government.

The Paradox Not Inevitable for The Future

The airline paradox of high traffic, high efficiency and high losses is not inevitable for the future.

By recognizing the problems involved and by attacking them head-on, whatever their causes may be, I feel sure that the airline business can develop into the position expected by its optimistic forecasters a few years ago.

But the solution of these problems *is* urgent.

The airlines are relatively small in terms of total capital investment. The total capital of all American domestic and international carriers is smaller than the road and equipment account of a single large American railroad.

The airlines have no considerable reserves from which to absorb development costs and finance expansion. In their entire 20-year history, the airlines of the United States have had only one good period of earnings—the years 1941-1945—and high taxes did not permit the accumulation of reserves needed for postwar expansion.

I do not think I have overemphasized the gravity of the problems besetting our industry. Our country became great by conquering one frontier after another. We advanced from the Atlantic Seaboard across the frontier of the Appalachian range to the fertile lands of Ohio, Indiana and the Middle West. We conquered the frontier of the Mississippi, the great Rocky Mountains and went on to the Pacific until a continent was ours.

The crossing of these terrestrial frontiers was not easy. It re-

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The Paradox of The Airlines

(Continued from page 33)

quired more than a century of a nation's effort.

We cannot expect the crossing of the remaining frontier—the air—to be easy.

Yet, the amazing fact is that in 20 short years, the airline industry of the United States leads the world in air service.

It carries passengers and cargo around the world and serves virtually every large city on the face of the globe. It brings to the people of the United States a greater volume of dependable and low-cost air service than the airlines of any other nation. It has become a major force in the American transportation scene.

This astonishing fact has been accomplished despite untold operating difficulties, disappointing earnings and business problems which seemed at the time to be beyond solution.

This fact dramatizes the virility of an industry which has grown perhaps faster than any major industry in history. And it demonstrates how the Wright brothers, Pop Hanshue, Jack Maddox, and the many others who have contributed to the progress of the airline industry, are the Daniel Boones and John Fremonts of the air—the pioneers of the better world of tomorrow.

Peninsular Telephone Offers Com. to Holders

Peninsular Telephone Co., of Tampa, Fla., is offering to stockholders of record April 15 the right to subscribe at $37.50 per share for 35,374 shares of additional common stock, without par value, on the basis of one share for each five shares held. Such rights will expire at 3 p.m., (Eastern Daylight Saving Time), on April 29, 1948. The company is also receiving subscriptions from certain of its officers and employees during the subscription period up to 2,400 shares of common stock not subscribed for by the stockholders through the exercise of rights. This offering is being underwritten by Morgan Stanley & Co. and Coggeshall & Hicks, together with G. H. Walker & Co.

Proceeds from the sale of the stock will be added to the company's general funds and used for general corporate purposes, including betterment and expansion of the company's plant and facilities. It is estimated that it will cost over $3,000,000 to complete projects already approved.

The company, operating wholly within the State of Florida, serves about 79 communities in 10 counties in the industrial, citrus, phosphate and resort areas on Florida's west coast. Among the cities served are Tampa, St. Petersburg, Lakeland, Clearwater, Sarasota, Bradenton, Bartow, Plant City and Winter Haven. According to the Florida census of 1945, the population of the area served exceeds 500,000. It is probably the only company in the country serving such an extensive area whose operation is entirely automatic. Of the 242,000 miles of wire, approximately 84% are in underground cable.

Operating revenues for 1947 totalled $6,421,231 with a net income for the year of $1,211,504 or $6.40 per share of common stock. Net income in 1946 was $990,037. The company has declared dividends for the last three quarters of this year at the rate of 62½ cents per quarter.

The State of Trade and Industry

(Continued from page 5)

and merchandise suitable for special promotions was stressed. It was also noted that deliveries of most goods were prompt.

FREIGHT LOADINGS ADVANCE THE PAST WEEK

Loadings for the week ended April 10, 1948, totaled 683,852 cars, according to the Association of American Railroads. This was an increase of 22,045 cars, or 3.3% above the preceding week. Carloadings not only in the corresponding weeks of 1946 and 1947, but also in the week of April 10 and the preceding week this year were all reduced because of labor difficulties in the mine fields. They represented a decrease of 73,987 cars, or 9.8% below the corresponding week in 1947, but an increase of 34,554 cars, or 5.3% above the same week in 1946.

ELECTRIC PRODUCTION UP, AFTER DECLINING FOR FIVE WEEKS

The amount of electrical energy distributed by the electric light and power industry for the week ended April 17, 1948 was 5,086,826,000 kwh., according to the Edison Electric Institute. This was an increase of 53,947,000 kwh. over the output for the previous week and was the first time in six weeks that an increase was shown over the preceding seven-day period. The peak was reached in the week ended Jan. 24, 1948 when 5,436,430,000 kwh. were turned out. The production for the April 17 week was also 426,506,000 kwh., or 9.2%, in excess of that for the week ended April 19, 1947 and was the 15th consecutive week that output exceeded the 5,000,000,000 kwh. mark.

AUTO OUTPUT SHOWS UPTURN IN LATEST WEEK

Production of cars and trucks in the United States and Canada last week advanced slightly to an estimated 104,740 units from last week's 103,004 (revised) total, according to "Ward's Automotive Reports." This compares with 105,377 units in the like week of 1947 and 99,945 in 1941. "Ward's" said most of this week's increase was accounted for by a higher assembly rate by Ford on Mercurys Lincolns and trucks.

The agency predicted an output of 459,700 vehicles for April compared with the postwar high of 515,223 for March. The industry as a whole, it said, seems determined to continue at originally planned schedules until stocks of steel and iron are depleted.

BUSINESS FAILURES RISE

After a three-week decline, commercial and industrial failures rebounded in the week ending April 15, reports Dun & Bradstreet, Inc. Increasing from the preceding week's 79, concerns failing numbered 101 as compared with 68 in the corresponding week of 1947 and 16 in 1946. Despite a sharp rise from the low mortality level in the past five years, business casualties were only one-third as numerous as in prewar 1939 when 313 were recorded.

The week's increase occurred primarily among failures involving liabilities of $5,000 or more. Up from 68 a week ago to 86, concerns failing in this size group exceeded by a wide margin the 53 reported in the same week last year. Losses of $100,000 or more each were incurred in eight of the larger casualties. Small failures with liabilities under $5,000 remained low, totaling 15 against 11 last week and 15 in the comparable week a year ago.

Wholesale and retail trade accounted for most of rise in failures during the week. Forty-seven retailers failed, increasing from 34 last week and exceeding the 25 reported a year ago. Wholesaling casualties at 15 were three times as numerous as in either the preceding week or last year. Manufacturers succumbing were up slightly from 22 to 24, but fell short of the 32 in 1947's comparable week. In construction and commercial service, mortality continued at a low level, with only seven and eight failures, respectively.

Over one-third the week's casualties were concentrated in the Pacific States when 36 concerns went out of business with probable loss to creditors. The next largest number of failures, 25, was reported in the Middle Atlantic States.

FOOD INDEX POINTS UPWARD IN LATEST WEEK

Resuming its upward trend, the Dun & Bradstreet wholesale food price index for April 13 rose four cents to stand at $6.76. This represents an increase of 8.3% over the $6.24 recorded on the corresponding date a year ago. It marks the highest level for this index in about two months, or since Feb. 17 when it also registered $6.76.

COMMODITY PRICE INDEX EDGES HIGHER IN WEEK

The general level of prices in wholesale markets trended upward in the latest week. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., advanced to 286.14 on April 13 from 283.67 a week earlier and compared with 258.33 on the corresponding date a year ago.

Grain markets were generally firm last week. Daily price movements held in a fairly narrow range and net changes for the period were small.

Strength in wheat was influenced by continued buying of cash wheat by the government, a tightening of supplies in commercial channels and relatively small country offerings.

The April 1 crop report, issued by the Department of Agriculture two weeks ago, indicated production of Winter wheat this year at 860,521,000 bushels, or a gain of about 22,000,000 bushels above the Dec. 1 forecast. This increase was, however, somewhat below recent trade expectations.

Corn displayed considerable strength during the week, aided by high premiums for the cash article, relatively limited country offerings and a government report showing that reserve stocks of corn still on farms were the smallest since 1937.

Reflecting improved conditions in the fresh meat trade, all classes of livestock scored substantial price advances during the week despite somewhat expanded market receipts. Lard prices also continued to rise, selling at the best level in more than two months.

Spurred by prospects of expanding export buying, cotton prices continued to gain ground in the past week.

Current quotations represent the highest levels of the year. Other strengthening features included a drop in the stock of certified cotton and continued improvement in the textile trade and other outside markets.

Activity in the ten spot markets increased sharply, sales totaling 163,400 bales for the week, as compared with 100,900 a week previous and 37,600 in the like week a year ago. About 300,000 bales of the staple were said to have been purchased for export to China. Demand from domestic mills continued rather slow. Farmers in the Southwest and Southeast were reported to be offering more freely as a result of the advancing market. Registrations under the cotton sales for export program were reported at 785,059 bales for the season through April 3, with cancellations totaling 13,300 bales. Carded gray cotton cloth markets were very active early in the week with substantial yardages reported sold for third and fourth quarter delivery. Prices remained firm.

There was a persistent demand for both domestic and foreign fine and half-blood wools in the Boston market, with little interest shown in ⅜s or lower wools.

Some business was reported in the finer grades in the week ended April 13, but supplies as a rule continued scarce.

Wool markets in South Africa and Australia were said to be firm and active with prices rising and strong competition. Conditions in the South American market were reported quiet but asking prices for super wools continued high.

RETAIL AND WHOLESALE TRADE MODERATELY ABOVE PREVIOUS WEEK AND LIKE PERIOD OF 1947

Numerous clearance and promotional sales encouraged consumer buying during the period ended on Wednesday of last week and boosted retail volume moderately. Total dollar volume was modestly above the level of the corresponding week a year ago, according to Dun & Bradstreet, Inc., in its current survey of trade.

Basement departments continued to attract a large number of shoppers and consumers evidenced little interest in high-priced and luxury goods.

The demand for Spring and Summer apparel was stimulated by mild weather in some areas. Substantial purchasing of men's lightweight suits and topcoats lifted both unit and dollar volume above the level of a year ago. The response to numerous promotions of Summer dresses and footwear was favorable and cotton, linen and pure silk print dresses were very popular. Millinery and main-floor blouse departments attracted considerable attention with cotton petticoats remaining among the best-selling lingerie.

While there was a slight increase in the demand for confectionery and bakery products, housewives generally sought staple foods.

Demand for margarine and other substitutes for high-priced butter and meat remained large.

Fresh fish and poultry sold well with canned foods steadily purchased. There was a moderate increase in the buying of fresh fruits and vegetables.

Substantial yardages of piece goods and lace trimmings were purchased for home sewing. Sporting goods, cameras and luggage attracted favorable attention. Many nurseries continued to report an increase in the demand for plant bulbs and shrubs.

Branded refrigerators and nationally advertised furniture of good quality remained in large demand.

Spring cleaning compounds and paints were sought along with hardware and building materials.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 7 to 11% above that of a year ago. Regional estimates exceed those of a year ago by the following percentages: New England 8 to 12, East 6 to 10, South and Pacific Coast 4 to 8; Middle West and Northwest 7 to 11, and Southwest 11 to 15.

An increase in offerings of goods suitable for special promotions induced many retailers to purchase heavily. Wholesale dollar volume rose moderately during the week and continued to compare favorably with that of the corresponding week a year ago. Buyers sought the merchandise which would sell most rapidly at the retail level and reluctance to incur long-term commitments remained apparent.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended April 10, 1948, increased by 13% from the like period of last year. This compared with a decrease of 12% in the preceding week. For the four weeks ended April 10, 1948, sales increased by 6% and for the year to date increased by 6%.

Activity marked the course of retail trade here in New York the past week, but department stores failed to approach the gains enjoyed by them in the preceding week. It was noted, however, that consumer response to promotions during the week proved satisfactory.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to April 10, 1948, increased 9% above the same period last year. This compared with a decrease of 11% (revised) in the preceding week. For the four weeks ended April 10, 1948, sales increased by 4% and for the year to date by 4%.

Pacific Lighting Offering Common

Blyth & Co., Inc., headed a group of investment banking firms which on March 20 announced that they intend to offer shares of the common stock of the Pacific Lighting Corp. purchased or to be purchased by them through the exercise of warrants at prices not less than $40 a share and not above a price equal to the last sale price of the common stock on the Stock Exchange during the current or previous session, as the case may be plus an amount equal to Stock Exchange brokerage commission.

The Pacific Lighting Corp. is offering its common stockholders rights to buy 321,726 additional common shares. The rights entitle holders of record April 15 to buy one additional share, at $40, for each five shares held. The offer is to remain open until April 30.

The rights are listed on the New York, Los Angeles and San Francisco Stock Exchanges.

Proceeds of the financing will retire $6,500,000 of bank loans and may be used to finance in part expansion projects of the company and its subsidiaries, the Southern California Gas Co. and the Southern Counties Gas Co. of California.

C. Jerome Cable to Be J. A. Hogle Partner

LOS ANGELES, CALIF. — C. Jerome Cable, manager of the office of J. A. Hogle & Co., 507 West Sixth Street, will be admitted to partnership in the firm on April 29. The firm, whose home office is in Salt Lake City, hold memberships in the New York Stock Exchange and other exchanges.

Proposals for Sound Banking

(Continued from page 6)

ship between a person's bank account and his current normal expenses, and as living expenses have mounted and quarterly tax payments to be made have mounted, it is my experience that the average individual's personal checking account averages much more than it used to. Accounts of this nature should be deducted.

We then come to corporation accounts, and there, there is a direct relationship of needed cash in bank, pretty much based upon the annual volume of business of each company or partnership. The rule of thumb figure is that business enterprises keep 10% of their annual volume of sales in cash, largely in the bank. With sales volume at present levels it is obvious that business bank balances are larger, perforce.

Cause of Increased Deposits

In my own opinion, bank deposits have gone up as business volume and living costs went up, and it is very much like the old question of which came first—the chicken or the egg. It is therefore unfair to say that the increase in bank deposits increased prices, as it seems almost obvious that increased prices and volume of business demanded increased deposits.

This happening is exactly in accord with the preamble to the Federal Reserve Act, namely, elasticity of the money supply.

Consider the changes in industrial production with the growth of national personal income and it seems to me obvious that bank deposits had to go up to make the facts possible. The fact that national personal income continued to go up after the war while industrial production dropped sharply, demonstrates clearly that this is a major reason for the rise in prices; namely, that income has continued to go up while industrial production went down—the old, old law of supply and demand.

Demand (ability to purchase), namely, personal income, continued to rise while the supply of goods went down.

During the war the people were glad to postpone their buying. After the war they very naturally and very humanly wanted what they could get and were willing to pay for it.

In my opinion, cures rest with a variety of necessary factors: increased production calls for bank credit or new capital for new tools; and the man-hours involved require lengthening of working hours rather than limitation of hours per week.

Wages are the overwhelming cost in production and the services, and round after round of increased wages can only mean increased costs; hence, increased prices. To think that prices can be held down by restricting credit seems to me utterly absurd.

It is my firm conviction that effective supervision of banking means progressively better and better bank examinations.

The job has been done far better, in my opinion, since the bank holiday than before, but no matter how good it has been, it still can be better.

The divergence in the performance of the banks of the country in keeping themselves strong and sound with carefully valued assets, measured risks in proportion to each bank's net worth, demonstrate clearly that the private management of banks differs greatly in this regard and that such remedy as is needed lies in the present powers of supervision, not in Regulation!

Proposal of Increased Reserves

The proposal to increase reserves of member banks with the Federal simply adds up to the fact that member banks will have to sell governments and the Federal Reserve Banks will have to buy them in order to provide the funds to deposit with the Federal, should reserve requirements be increased.

The Federal Reserve Bank is a completely separate solar system—if one may use the world—than the solar system of the member banks considered as a consolidated balance sheet. We member banks have no GOLD to deposit. To borrow the needed increased Federal Reserve balances and to continue to owe that money would be obviously disastrous. We have no GOLD to deposit nor have we currency. The currency demand has been made by the public. It is something over which we, nor the Federal Reserve Banks have any control whatsoever; hence, we have no idea when there will be a flow-back of currency which would increase our reserves and which, if and when it occurs, will give the banks funds with which to buy government bonds from the Federal.

None of us know when that will occur and the probabilities are that it will be a long and slow process; hence, not part of this discussion.

To my mind, this proves that of the three ways to increase member bank balances at the Federal due to increased reserves, the only practical one is to have the Federal own more United States bonds and the banks less.

The effect of this is lower earnings for the member banks, when they need the exact opposite, namely, higher earnings to protect their deposits and to get back to a better than 10% ratio of net worth to debt—and mind you—deposits are bank debt, and a 10% margin against bank debt (net worth) seems to me on the low side, not on the high side.

When, as and if the public realizes that the result of increasing reserves is to reduce the government bonds owned by banks and increase the government bonds owned by the Federal, there could easily be a growing apprehension lest the government bonds have to be artificially supported in price and that the case is so desperate that this action had to be taken.

Credit is as delicate as a gossamer thread and the slightest breath of suspicion could cause a panic on the part of holders of government bonds to get out of them. The result of this form of panic could accomplish the exact opposite of what we all desire, namely, to steadily and persistently increase private ownership of government bonds.

In the parlance of the investment banking profession, the digestion of a new issue of securities takes time to accomplish.

It is not easy to offer a large corporate bond issue and get them in the hands of permanent investors at once and the digestion process goes on until—again in the parlance of the investment banker, a specific bond issue has been well digested, well placed, and necessitous selling can be easily matched by new investor demand.

The size of the Federal debt naturally takes longer for this digestive process. In my opinion, they are moving from the hands of the weak holder to the hands of the strong holder better than any of us could dream when we contemplated, early in the period of increased Federal debt, how it would be possible to achieve this imperative digestion.

Efforts to interfere with the natural process of this digestion can easily work in the opposite direction. People ARE prone to mass psychology and no chances should be taken whatsoever.

Fear for Government Credit

As to the suggestion that banks either may or must own a percentage of governments against deposits as an additional reserve, the arguments mentioned immediately before this hold to an even greater degree. The moment there is a requirement to own governments, there is the risk of engendering fear as to the credit of the government.

Government bonds in the hands of the banks are constantly referred to as monetization of the debt. Isn't the same thing true of every single loan that banks make unless money is borrowed at one bank in order to pay debts at another?

The double-entry system of bookkeeping means that for every debit there is a credit and on consolidated balance sheets of all the banks, when one bank makes a loan, the proceeds are promptly deposited in other banks as the borrower pays the bills, to pay which he borrowed the money.

When people and companies have their bills paid, they are apt to promptly pay bills that they owe, so that obviously in due course, the immediate monetization of debt results in larger payments of pre-existing debts—so the double-entry growth on both sides of the ledger of the consolidated banks becomes a slow process.

In periods of great expansion in business activity, obviously bank loans go up and bank deposits go up.

During the war the banks loaned the money to the government and created the deposits imperatively needed to take care of mounting volume of production.

As long as production and prices call for high totals in dollars of industrial production, bank deposits will remain up, and bank loans and bank holding of governments will remain up.

The judgment as to what is too much credit has to be made by each bank.

The Federal Reserve examining authorities have plenty to do in challenging the ability to pay off every borrower as they examine banks and take what they deem to be appropriate action in criticism or in ordering chargeoffs.

Fair Wage for the Mortgage Dollar

(Continued from page 10)

their families need not become dependent upon others for support.

It is in our American tradition to stand on our own feet. It typifies the self-reliance that we admire and try to teach to the younger generations. It is the antithesis of the totalitarian philosophy which we as a nation are fighting throughout the world.

It was not more than a generation ago that these savings by the thrifty citizen and small wage earner were relatively limited. There were fewer opportunities to save and fewer channels through which these limited investment funds were made available to home buyers. But as time went on, people found that they could set aside more and more of their income as protection for their futures. They were encouraged to do so, and as a result all forms of savings have grown phenomenally. It does not alter the situation that today savings are represented by tens of billions of dollars instead of hundreds of thousands. The resulting scale of mortgage financing does not relieve us of the responsibility for seeing to it that these savings earn a just reward.

Factors Leading to Low Interest Rates

What was it that led to present low interest rates? In the old days money was subject to pretty much the same economic laws that applied to goods and services, and particularly to the law of supply and demand.

After the wild boom of the late '20s was over and we had begun to experience our historic depression, every effort was made to stimulate business so that employment and our national income might be increased. As a part of this national effort, there emerged the FHA mortgage insurance program. It was felt that the reluctance of investors to let loose of their funds would be overcome by offering them insurance against loss of principal and that a higher rate of home building and buying could be brought about by holding down the cost of financing.

It was fundamentally a pump-priming program, and as such I think there is little doubt but that it accomplished its objectives, at least to a large degree. Personally, I think that FHA has done a good job. It can now do a better job by insuring loans at a fair rate of interest which will be a truer reflection of the risk involved and consistent with the times. It doesn't make sense to insure high risk Title VI loans at 4% whereas more conservative and better margined loans under Title II are generally insured at 4½%.

During the war the enormous Federal expenditures for its prosecution could not be met out of current resources. There was no alternative but deficit financing and the government began to issue bonds at very low rates. I believe there are very few people who would argue the fact that in the time of a national emergency the capital of this nation should be made available to our government at modest interest.

Present Mortgage Rate Situation

But today the situation is vastly different. The entire nation is concerned with inflation. We are not faced with the need for priming the business pump. On the contrary, we are eager to do everything we can to divert money from consumer channels into capital channels. We want to do this so that we may increase production and thus reduce or eliminate the bidding up of prices which is the basis of inflationary spiral. Since this is the case, there is no need for Federal assistance aimed at holding down mortgage interest rates to starvation levels.

To me it seems obvious that we should do everything we can to encourage people to save their money rather than to spend it. Such a program is not inconsistent with our efforts to provide the people of this country with adequate housing. Lack of financing has not been the reason for the housing shortage. Mrs. Samuel Rosenman in a thoughtful article published in the New York "Times" recently pointed out that the housing log jam is due to a number of factors, including the rapid rise in costs, scarcity of critical materials, fear of sudden deflation on the part of builders and investors, failure of the building industry to take full advantage of modern methods, high real estate taxes, and the high cost of urban land in blighted areas.

Up to now there certainly has been no lack of mortgage funds for housing. But a shortage of private funds for housing may very well develop if interest yields are artificially depressed to a point where a fair return cannot be paid on savings. Then we would have the ironical situation of low interest rates actually hindering the solution of the housing problem instead of helping it as the proponents of low interest rates claim they wish to do.

We must consider very seriously this problem of savings and risk capital. A short time ago Emil Schram, President of the New York Stock Exchange, in an address at Washington University in St. Louis said that there is an "alarming shortage of venture capital" and added that a free economy does not progress unless there is money available from people who are willing to risk their funds in promising undertakings and enterprises.

Well, there we are, gentlemen. I've said my piece. Believe me, I feel very deeply that we should do everything possible to encourage private enterprise by providing a fair profit for work well done. The principles involved in this question are part and parcel of our free enterprise system which has given us the highest standard of living in the world, bar none. And I sometimes fear that through factional self-interest this system is endangered.

It is all too easy to follow the siren song of security at the price of some measure of freedom.

Investor's Incentive

And it would be all too easy to wander off into a discussion of the social implications of this problem. But no matter how far we wandered, I am sure we would find that the whole thing boils down to the matter of incentive. If we provide a reasonable incentive for mortgage money there will be plenty of it available from the traditional and time-tested sources of private savings—otherwise not. If there is plenty of mortgage money, your business and my business can go ahead—so, you see, we are in exactly the same boat.

To my mind the classic story regarding incentive concerns a rich old man who had a large family of sons. On his wedding anniversary he invited them and their wives to a dinner at his home. As they sat down, he made them a little speech saying that, praise God, all his sons had ideal wives—but there was one thing wrong. There were no grandchildren. So that very day he had established a trust fund of $1 million for the first grandchild that appeared. "Now," he said, "let us say grace." When he raised his head, they were all gone.

In all seriousness, gentlemen, let me say that we in Prudential believe that the future belongs to those who prepare for it. This saying, gentlemen, applies to a great deal more than the life insurance business. If we wish to maintain a healthy system of free enterprise, it is necessary to encourage our people to be thrifty and to be self-reliant. The way to do this is to reward thrift and self-reliance and to make it possible for the individual to attain security through his own initiative within the framework of our democracy.

Restores Italy's Gold Reserve

The Department of State has announced that the Tripartite Gold Commission in Brussels which decides about recognition of claims to monetary gold that was taken from a number of European countries by the Nazis, has decided to allow almost in full the Italian claim for the restitution of gold taken from Italy by the Nazis. Only a part of Italy's claim was recognized at the time the Gold Commission made its first distribution of looted gold recovered in Germany. The recent decision of the Gold Commission means that Italy will soon receive about $31 million worth of gold in addition to $4 million allocated to her on the occasion of the first distribution, October 17, 1947. Italy is participating on the same basis as the 10 other claimant countries, on a pro rata basis to the extent that recovered looted gold becomes available for distribution.

McDougall-Butler Co. Inc.

BUFFALO, N. Y.—McDougall-Butler Co., Inc., is engaging in a securities business from offices at 6 Evans Street.

Sproul Discusses Inflation Trends

(Continued from page 20)

During the first part of the year we had a surplus of exports never previously equaled in time of peace, and though later in the year this excess somewhat declined, the pressure of specific exports, notably grains under the government's buying program for European aid, has been a major spearhead of our inflation.

One effect of our relatively favorable conditions has been that our inflation has been of the chills-and-fever rather than the runaway type. At no time since the postwar expansion began in the first quarter of 1946 have we been entirely clear whether we should fear more the inflation that was visibly going on or the deflation that might at any time ensue if too vigorous corrective measures were adopted; and as prices and production rose to new heights, this fear of a downturn that might get out of hand grew correspondingly. The result was that the movements of prices and production both pursued an irregular course in 1947. The uprush of prices that began in the middle of 1946 appeared to have run its course by the end of the first quarter of 1947. This fact, coupled with the general feeling of uncertainty which had been generated by the stock market decline of the preceding summer, and perhaps particularly by our awareness that the level of production was already very high and that we had about reached the point in time at which depression had set in following the boom after World War I, resulted in some months of hesitation in which the upward pressure on prices seemed to have been removed and production underwent a moderate decline.

The resumption of inflationary pressure in the second half of the year can be traced fairly directly to the growing evidence of deterioration in the situation in Western Europe, as revealed particularly by Secretary Marshall's speech on June 5, and the growing recognition that the economic and political restoration of Western Europe would require not only a large-scale program of aid from us—the European Recovery Program which has now been approved—but also substantial interim aid before that program could be put into effect. During the summer—with the further adverse turn in Britain's balance of payments resulting in part from the winter fuel crisis, the rise in prices here, and the premature attempt to resume convertibility of sterling—the British loan ran out with astonishing rapidity. In May the French price level, already very high, broke out in a rise of runaway proportions. The Italian economy was in critical condition by early fall. The combination of bad harvests in Western Europe and our own short corn crop exerted acute pressure on grain prices here, and through them on meat, dairy products, and other prices. As the effects spread out, there occurred a broad rise of prices during the second half of the year, which brought us to about the level from which the downturn occurred in 1920. While the price rise has been marked in many categories, it seems clear that agricultural prices in particular have been the spearhead, rising to much beyond their 1920 peak, and giving an impetus to demands for increased wages which, in turn, resulted in higher prices of other products. No more striking evidence of the distortion of the price structure on the agricultural side could be given than the fact that, despite the pronounced drop in prices in the primary commodity markets in January and February of 1948, agricultural prices had not got down to the parity support points by the middle of February.

Until this drop in the commodity markets occurred, we had had about two full years during which the volume of effective demand exceeded our current capacity to supply it except at rising prices. There were, however, some significant differences as between 1947 and 1946. In the earlier year, industrial production increased substantially in each successive quarter, whereas in 1947 the level of industrial production reached in the first quarter was not again attained until the last quarter; but for the year as a whole it was 10% above 1946, and in many important branches of industry operations were at a record peacetime volume, with capacity being utilized to the full. Steel production in the last quarter of 1947 was only 3% under the wartime peak of the first quarter of 1944. Though steel and some other materials were still in tight supply, there was in general a better balanced flow of goods than in the preceding year, representing in part the further progress of reconversion and in part the very large volume of capital expenditures that has characterized the postwar period. One noteworthy difference between the two years was that in 1947 the main expansion was in the durable goods industries, both consumer and producer. It will be recalled that in the first phase of the expansion of civilian production after the war, the leading role had been played by consumer non-durable goods, a fact which, in view of the high level of consumption of such goods already attained during the war, took many government and business analysts by surprise, and was largely responsible for the serious errors of forecasting which were made in 1945. The production of non-durable goods in 1947, though about 4% greater in quantity than the year before, averaged about the same as in the last quarter of 1946. In dollar value, consumers' expenditures for non-durable goods increase in capital expenditures expenditures for durable goods rose 33%. The other noteworthy change was the substantial further increase in capital expenditures, for producers' equipment and new construtcion. After a period of hesitation in the spring of 1947, caused by high building costs and the uncertainty as to which way costs would turn, construction was resumed with a rush at rising prices, with the result that total private construction for the year exceeded that in 1946 by about 25% in value but less than 5% in volume.

As indicated earlier, up to the break in the commodity markets early in 1948, ours has been an intermittent inflation. It has been characterized by a strong upward movement of both output and prices, but with the emphasis transferred increasingly to the latter. There have been throughout sufficiently marked periods of pause and uncertainty to raise recurrently the question whether the inflation had run its course and would presently give way to a deflation that might get out of hand. The drop in the stock market in 1946 raised such a question, and the year 1947 has been much referred to as the year in which the expected postwar depression, paralleling 1920, did not occur. Nevertheless, as has been said earlier, there was a period in the spring of last year in which the price rise appeared to have leveled off, and this was a period also of moderate recession in output. The drop in agricultural prices this year has again raised the question. Is this merely an other interruption of the inflationary spiral; is it the first phase of the downturn twice previously anticipated; or is it a correction in one sector of the economy which had got seriously out of line, and having been brought back will now provide a basis for continued high output and employment with decreasing inflationary pressure?

These are the possible alternatives. The last would seem much the most desirable, and quite without any attempt at prediction, one may at least indicate some of the elements in our current situation which may point in that direction. That agricultural prices had got seriously out of line with other prices is apparent, as are also the reasons for this development. Since the first of this year the evidence has been accumulating that the world food situation and our own give some promise of improvement, at least as regards the grains, where the pressure has been most acute. A correction, however, of the dimensions we have had might well have collateral effects in other segments of the economy, some favorable and others less so. It might well take the edge off the wage-price spiral, which would surely be a major stabilizing factor. But it also might readily induce hesitation in trade and production which, if too pronounced or prolonged, might lead to a cumulative contraction of output and employment. But with the pressures of demand already threatening to strain the economy beyond capacity, as seemed to be the case in late 1947, some slowing up of capital expenditures would be desirable, while the release of consumer income by a drop in food prices could be an important factor in sustaining other kinds of consumer expenditure, provided consumers were not at the same time becoming worried about the outlook for employment.

If these should prove to be the results of the decline in the commodity markets, the corrective adjustment that has taken place would be salutary indeed. In the background there is still undoubtedly a large backlog of unsatisfied demand, both domestic and foreign. In any case, with many of the maladjustments that characterized the boom after the first war much less serious this time the evidence seems to warrant confidence that we do not face a downturn of such dimensions as occurred in 1920-21; and, on the other side, the improvement in the food situation, if it turns out to be substantial, might well mean that the worst phases of the inflationary spiral, so far as this country is concerned, have run their course. It is important to recognize that for the European countries also a decline of world agricultural prices would go far to lessen inflationary pressures and would be an important contributory factor to the success of the European Recovery Program. But this hopeful analysis of economic trends can be justified only on the dual assumption that the European countries will pursue a vigorous anti-inflationary policy and that American business, labor, and consumers, as well as domestic borrowers and lenders of credit will pursue a policy of watchfulness and restraint.

We must bear in mind also that in a period of rapid change like the present, new developments require continuous re-appraisal of our economic outlook. As this report is written, the foreign aid program is being broadened to include further assistance to China, Greece, and Turkey, and major budgetary changes are in process. The enlargement of the foreign aid program indicates that we must think in broader terms than Western European recovery, strategic though that is, and must take account of our economic and political relations with the world as a whole. As to the budgetary changes, it seems premature to attempt to form a judgment about the effects of the combination of income tax reduction and increased expenditures for defense, but obviously these changes raise important questions for both monetary and general economic policy, and their effects must be closely watched.

Why I am Opposed to UMT!

(Continued from first page)

successful defense of our country against attack under conditions of modern warfare. We know that if war should come it will come with terrible suddenness through the skies. We need the best possible defense against such an attack, but UMT is not the way to provide such a defense.

I oppose UMT because the threat to our security is not from mass armies. Russia can always outmatch us in number of men under arms. Our military leaders speak of the necessity for a strong military posture for the purpose of impressing Russia. Our adoption of UMT would not frighten Russia. Air power, scientific research and development industrial production, and maintenance of a sound economy are what Russia fears, because she knows that those are the primary factors that will determine the outcome if war should come. Our adoption of UMT would jeopardize all of these.

I oppose UMT because its adoption would give us a completely false sense of security. It would cause us to believe we were strong when in fact we would be weak. It would cause us to neglect genuine preparedness measures while getting our youth ready to fight the next war along the lines of the last one. Even the President's Commission on Universal Training recognized this danger. I quote from their report, "A Program for National Security," p. 29: "We realize that there may be danger, if our country puts universal training into effect, that it will therefore be lulled into a feeling of false security. There may be a tendency for this reason, coupled with a natural desire for economy and lower taxes, to seek to offset the expenses of the universal training program by a curtailment of one or more of the other elements of national security—intelligence, research and development, mobile striking force, Regular Army, Navy, and Air Forces, National Guard and reserves, maintenance of equipment and industrial preparedness. If the introduction of universal training should have such an indirect effect of weakening, rather than strengthening, the other elements of national security, then our Commission is of the firm opinion that the adoption of universal training would be a mistake and would diminish, rather than increase, our national security." Can any intelligent person seriously doubt that the adoption of UMT would have precisely that effect? Our leaders are gambling dangerously with the national security when they advocate adoption of UMT at this time.

Waste of Money and Manpower

I oppose UMT because it would be a complete waste of money and manpower. General Eisenhower says the decision in another war will come in the first 60 days. What use could we make of the Umties during that period? Training received under UMT would be outmoded within less than one year after it had been received.

I oppose UMT because our economy cannot support and the Congress will not appropriate funds to support UMT and the other activities for which funds must be appropriated if we are to be militarily strong and if we are to avert another world war. UMT and the ERP will each cost at least $4 billion a year. All will agree that neither program should be entered upon unless the Congress is prepared to support it for at least the next four or five years. Does any person seriously believe that the Congress will support both programs continuously, along with $2 billion for scientific research and development, a greatly strengthened Air Force, Navy, etc? Does any person believe that UMT is a better bet than the European Recovery Program: (a) to prevent communism from engulfing Western Europe? (b) to prevent World War III?

Termination Not Feasible

I oppose UMT because, once adopted, it would be virtually impossible to terminate it. If the War Department would spend millions of dollars of public funds in direct violation of Federal law, in order to scare and propagandize the people and the Congress into adopting UMT, as it has done, what would it not do to prevent the repeal of UMT, once it was adopted?

I oppose UMT because its only major achievement, if it were successful, would be the development of a spirit of warlike aggressiveness in American youth and eventually in the American people. Even the President's Commission on Universal Training recognized that UMT is a dangerous and undesirable thing, having no proper place in American life. If our leaders were working even half as hard today to achieve international understanding and to strengthen the United Nations as they are to bamboozle the country into adopting UMT, the outlook for peace would be much greater than it is. Instead, our government by-passes the UN and does everything it can to weaken that body, and then says that the UN has failed and can no longer be relied upon.

I oppose UMT because it just does not make sense. We all believe in a strong America. We want an America that is strong enough militarily to discourage any present or future aggressor. We don't need UMT for that. We want an America that has a strong, healthy, educated people. That was the first recommendation of the President's Commission on Universal Training, and they admitted that UMT is not the best way to improve the nation's health and education. We want an America that is strong and sound economically. UMT would impose a heavy tax burden on the American people, would take a million young men out of the field of productive effort each year at a time when production is badly needed if we are to give needed aid to Europe and at the same time avoid disastrous inflation. At the same time, the adoption of UMT would require the labors of additional millions of men and women to provide the goods, services and munitions needed for maintaining UMT. We want an America that is spiritually and morally strong, able and ready to lead the world toward peace and international cooperation. The President's Commission admitted that UMT cannot be justified on moral grounds. UMT just does not make sense.

Milton C. Powell Adds Two

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF. — Milton C. Powell Co., Security Building, has added Edward D. H. Maddox and Clarence H. Thurbur to the firm's staff. Mr. Thurbur was previously with First California Co.

With Flynn & Levitt

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Bruce Whitney Catlin is with Flynn & Levitt, 411 West Seventh Street.

Soft Spots in the Price Structure

(Continued from page 2)

before the horse. As a practical matter, you can't pay any wages unless you can sell your product; and the price you can get for your product and the productivity of your labor force determine the rate of wages you can pay. The price you can get is the one over-all limiting factor which cannot be escaped. It is the basic influence of wages on **demand** which makes wage rates so important.

There are still others who assert that labor productivity is low and that it necessarily follows that prices have to be high. This holds true only in a sellers' market where inefficient producers have to be used to secure the total production needed. Once there is a shift to a buyers' market, variations in productivity between producers become all-important and over-all productivity increases because the inefficient high cost producer will be eliminated by competition.

The current heavy tax-burden is also advanced as another factor which makes price reduction impossible. After all, the taxing authorities, Federal, State, municipal, and district, have to get their cut! Taxes can't be escaped, so it follows, they claim, that prices have to stay high until taxes are reduced all along the line.

Do Costs Determine Price?

The main weakness of all these arguments, and many similar ones, is that they assume that costs determine price. In that distant "long-run" that the economist talks about, costs may determine price, but in the "short-run" of market competition between modern products with large elements of psychic value created by advertising, costs determine profits—market surveys or price policy committees determine prices.

Over-emphasis on cost accounts, which reached a peak during the war, is undoubtedly at the bottom of much of the current disregard of market realities and potentialities. In wartime, businessmen could pass their costs on to the government no matter what the final result might be. They seem to think that they can pass their costs on to the consumer in the same fashion, no matter how high their costs may be. Under conditions of competition this is, of course, nonsensical. Under competitive capitalism, which we are beginning to once more enjoy, price determines cost much more than the opposite. When a businessman says he has to get a certain price because he has to get his costs back, he conveniently forgets the two great consumer safeguards of substitution and competition. One of the characteristics of a normal market is that a substantial percentage of producers do not get their costs back. Certain producers are selected, by consumers, to be the losers in the economic race. Failure of these marginal producers is normal and happens all the time in competition, a condition which seems to have been forgotten by many.

There is another important aspect in which pricing on the basis of market competition differs from pricing on the basis of costs. Under normal conditions, a producer will lose money on a substantial proportion of his output, break even on some of his products, and make a wide margin of profit on the remaining few. Manufacturers today, however, are generally insisting on a standard mark-up over cost on each product regardless of market conditions. This can be done in a sellers' market; but the buyers' markets which are starting in many lines will force all producers to meet the price of the lowest-cost producer, even though costs are not recovered. It is thus that the consumer gets the benefit of efficiency, economies and improvements, and that is the glory of capitalism.

May I epitomize: In a competitive economy, costs are largely of historical interest; only market price is real.

This is not to say that business can indefinitely produce at a loss. Obviously, in the long run, prices have to cover costs. But, to assume that this is just a simple matter of raising prices is all wrong. It is, instead, as every businessman knows, accomplished by a never-ending battle to reduce costs.

Under modern marketing conditions demand determines price and supply. Normally, the price so determined allows a margin over costs called profit. But prices can drop below this level for long periods of time, as there is nothing in competitive capitalism which guarantees a profit! On the contrary, all it offers, basically, is hard, unrelenting competition under the grim compulsion of "devil take the hindmost"—the basic principle of competitive capitalism.

Turning to the demand side, several very strong upward pressures against the price level are getting under way. Let us attempt to evaluate them.

Effect of ERP

The Marshall Plan, now officially titled the European Recovery Program, is being relied on too heavily by many businessmen in their estimates of the future. The plain fact is that a $5 or $6 billion ERP expenditure in the next 12 months, in the light of our current $130 billion gross national product, is relatively insignificant. Sounds a little like "pump priming," doesn't it? Other than on a few scarce items such as steel and farm machinery, and, of course, food, the plan will have little inflationary effect on our price level. Even with the ERP shipments, exports will be less this year than in 1947. What we have in the European Recovery Program is a **cushion** for the business readjustment which is in the making—not the engine for another inflation spiral!

Rearmament expenditures are expected by many businessmen to be a highly inflationary influence on the price level. If the Communists do not win the Italian elections on April 18, I do not expect heavy rearmament expenditures. In fact, we probably will not spend more than $3 to $4 billion additional for national defense, and that will be largely for planes. But such a level of defense expenditures does not even approach our wartime levels. Furthermore, the amount is so small relative to our national production that it cannot have a pronounced effect on our price level, although it will accentuate certain shortages.

Of course, if the Communists should win the Italian elections, then we shall probably embark on a real rearmament program of vast dimentions. Such a program would naturally necessitate new Treasury borrowing and a change in the present Federal Reserve credit restriction policy.

However, as I indicated before, I do not expect the Communists to win the Italian elections. The Italian population is nearly 100% Catholic and the Church has taken a strong stand against the Communists. In addition, the Church has made a strong appeal to the women of Italy to go to the polls and vote. If they do so, and I expect that they will, as women the world over are more religious than men, the spread of Communism will be brought to a halt.

Wage Increases in a Buyers' Market

Soldiers' bonuses being paid by the various States and the $4,000,000,000 Federal tax reduction definitely create new pressures against the price level. The third round of wage increases will create just that much more pressure toward higher prices as it is too much to hope that labor will increase its productivity under present conditions of what I call "over-employment." But, in this connection, I want to call your attention to a fact that is always overlooked: Wage increases in a sellers' market are inflationary, **but wage increases in a buyers' market cannot be passed on to the consumer and are thus largely deflationary** because they reduce sales and increase unemployment.

We now come to the $64 point. All of the pressures which we now foresee can be more than offset by a bountiful production of food crops. When I was here last spring, I pointed to the high level of agricultural production, which was nearly 50% above the 1935-1939 average, and the high prices prevailing and expressed the opinion that there would be a readjustment. Well, as you know, a readjustment started in about that time (spring) but the crop failure in Europe caused by too little rain, the short corn crop in the United States caused by too much rain in the spring and too little rain in the summer—both acts of God—and our government's decision to feed Europe despite the effects on our economy put up the prices of food, and general prices and wages resumed their upward race.

Remember, of all prices, food prices are the most basic. They have risen nearly three times as much as non-agricultural prices. A bumper world crop of foodstuffs, particularly grains, would force food prices back into line and would have a profound effect on our economy. So far, the world outlook for such a crop is favorable. If nature continues in a generous mood, the most basic upward pressure will be removed from our price structure and more normal relationships and levels will reassert themselves.

But even if food prices should stay at high levels because of crop failures or other reasons, most other prices, with the exception of those of steel, iron, coal, oil, farm machinery, railway equipment, and the standard make automobiles will, in all probability, decline. Serious consumer price resistance is evident in many lines; and, it is contagious! The radio industry is facing a serious situation. The tire manufacturers, despite their advertising claims of revolutionary new improvements, had to cut output and have had to bring out secondary lines at cheaper prices. In the textile field, particularly cottons, German and Japanese competition is beginning to reappear in the international markets. The home appliance industry, particularly the electric accessories people, are having their troubles, too, and so it goes for many industries.

Supply Catching Up With Demand

While a stiff upper lip is still being maintained and manufacturers are still talking about waiting lists, the plain fact is that they are pretty well caught up with demand in most lines. We might say that basic economic forces are pushing **down** while artificial forces are pushing **up** on prices.

In conclusion, barring a world crop failure, I anticipate that our food prices will drop, despite the European Recovery Program purchases. Obviously, any drop in food prices will exert heavy downward pressure on the price level. But even if food prices do not drop, I anticipate a moderate decline in non-agricultural prices.

Please note, however, I do not expect the price declines to be too sharp or too deep. As I have said many times before, a recession, not an old-fashioned depression, lies ahead. And it will be cushioned, but not prevented, by the reduced taxes and by the increased expenditures of the government for ERP and rearmament.

May I emphasize that this is forecast and not prophecy. With Russia intransigent, with government expenditures rising, and with the forces of inflation bred by World War II still rampaging throughout the world, one cannot be positive as to the economic or political future. Nowadays, we live in a truly uncertain world. It follows that we must be ready to change our minds and our position if basic influences change.

News About Banks and Bankers

(Continued from page 29)

"Courant" of April 14, which stated that Mr. Garvan's presence on the directorate continues traditional representation of members of Mr. Garvan's family, which dates back more than two generations to the founding of the institution in 1907.

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Reuben B. Hall, Vice-President of **The Philadelphia National Bank of Philadelphia, Pa.,** has been elected a director of the **Philadelphia Bourse.** For many years Mr. Hall has been actively interested in the development of the Port of Philadelphia. He is Treasurer of the Bankers Association for Foreign Trade. Mr. Hall joined the foreign department of The Philadelphia National Bank in 1911. He was elected a Vice-President in January 1942 and placed in charge of the foreign department a year later.

* * *

The First National Bank & Trust Company of Hamilton, Ohio, increased its capital, effective April 5, from $900,000 to $1,000,000 by a stock dividend of $100,000.

* * *

B. E. Hutchinson, Chairman of the Finance Committee and Vice-President of Chrysler Corp., has been elected director of the **National Bank of Detroit, at Detroit, Mich.,** it was reported in the Detroit "Free Press" of April 13, in which it was also stated:

"Bank Chairman Walter S. McLucas announced that directors approved a plan to place bank stock on a quarterly dividend basis. A dividend of 35 cents a share, equal to $1.40 annually, was declared payable May 1 to stock of record April 17. Previously, dividends of 65 cents semi-annually, equal to $1.30 a year, have been paid."

* * *

The First National Bank and Trust Company of Fargo, N. D., announces the election of Wm. F. Graves as Vice-President and director.

* * *

The Mercantile-Commerce Bank and Trust Company of St. Louis is completing an expansion and modernization program which began several years ago. The 7-story building on Seventh and St. Charles Streets, which it purchased, is being remodeled and joined to the main bank building by means of bridging the alley between Seventh and Eighth Streets. When completed, the bank will have entrances on the four streets surrounding the block in which it is located. The formal opening of the new banking quarters will occur shortly. At present the upper six floors of the building are being used for various banking activities, and the formal opening will take place as soon as the alterations to the first floor banking lobby have been completed. By acquiring this additional building, the floor space of the bank's quarters was approximately doubled. The Mercantile-Commerce Bank and Trust Company was formed in 1929, through the merger of the National Bank of Commerce and the Mercantile Trust Company, but the history of the bank dates back to 1857, when the St. Louis Building and Savings Association was chartered and opened for business in a small office at Second and Pine Streets. In 1868 the name was changed to the Bank of Commerce. Twenty years later it became a national bank. Its last banking quarters were in the National Bank of Commerce building at the southwest corner of Broadway and Olive. In 1899, Festus J. Wade organized the Mercantile Trust Co. With total resources in excess of $365,000,000 Mercantile-Commerce is said to be the 51st largest bank in the country. W. L. Hemingway is Chairman of the Board, and Gale F. Johnson is President.

* * *

James M. Kemper, Chairman of the Board of the **Commerce Trust Company of Kansas City, Mo.,** was elected President of the Kansas City Clearing House Association at its annual meeting on April 13, according to the Kansas City "Star," succeeding Thornton Cooke, Chairman of the **Columbia National Bank.** At the same time Nathan Rieger, President of the **Mercantile Home Bank & Trust,** was elected Vice-President of the Association. R. L. Dominick, President of the **Traders Gate City Bank,** was elected Treasurer of the Association and A. O. Biggerstaff was re-elected Manager for the eigteenth consecutive year. The "Star" also reported: "The election of Mr. Kemper marked the third time he has headed the Association. Officials are elected for a one-year term, but it is the custom of the membership to re-elect the President after he has served a year. Mr. Kemper's first term was in 1936."

* * *

The election of Hamlett Harrison as a director of the **Republic National Bank of Dallas, Texas,** to succeed Percy Davis, deceased, was announced on April 13 by Fred F. Florence, President. From 1935 to 1939 Mr. Harrison was associated with the firm of Touchstone, Wight, Gormley and Price, and in 1939 he became General Counsel of Trinity Universal Insurance Co. At the present time he is Vice-President and director of the Trinity Universal Insurance Co. and Security National Fire Insurance Co., which positions he has held since 1941.

* * *

Barclays Bank (Dominion, Colonial and Overseas) announce that Goeffrey Cokayne Gibbs, C.M.G. has been elected a Vice-Chairman of the Board.

* * *

William H. Sneath, New York industrialist, has been elected to the board of directors of **The Dominion Bank, Head Office, Toronto, Canada.**

William H. Sneath

Mr. Sneath is a senior executive of Union Carbide and Carbon Corporation, New York; President of the St. Lawrence Alloys and Metals Ltd., Beauharnois, Quebec, Canada; President of Electric Furnace Products Co. Ltd., Sauda, Norway; and Vice-President Electro Metallurgical Co., New York, having been associated with the latter company in many capacities over a period of years. He is also a director of several other international corporations including British Electro Metallurgical Co. Ltd., Sheffield, England. In recognition of his interest and services in Norwegian industry and commerce, Mr. Sneath was, in 1928, knighted by the King of Norway and admitted to the Order of St. Olav, one of the highest orders in Norway, of which he has since been made a Commander.

The Outlook for the Stock Market

(Continued from page 4)

(By HEINZ H. BIEL)

unreal conflict between the market analyst and the customers' broker.

Reasons Against Bull Market

In am an economist, not a chartist, and it is for economic reasons that I turned and remained bearish. The expected recession was getting under way early last year when for a variety of well-known reasons the trend reversed itself. However, despite the fact that business continued to boom all through 1947 the stock market remained skeptical. Why?

(1) Major general advances, "bull markets" to use the chartists' term, usually do not start when business, employment, earnings, dividends, etc., are at their peak.

(2) The boom was getting out of balance, and business was shaky in spots. The stock market in its pronounced selectivity mirrored these conditions. Wide segments of our economy still enjoyed an unlimited sellers' market and could afford to raise wage, and recoup the higher costs by increasing prices. But others already were facing a buyers' market. Yes, they had to pay the same high wage scales as set by the coal, steel and automobile industries; they had to pay the same high taxes, the same high prices for materials, etc. Such conditions do not last indefinitely and the proper balance will be restored sooner or later.

(3) The investors' doubt were further aggravated by the decline in exports and the deflationary aspects of our fiscal and credit policies. Treasury cash receipts were far in excess of cash expenditures and all attempts to reduce income taxes met with failure until very recently. The Treasury also made every effort to tighten interest rates, culminating in a sharp decline in prices for bonds and preferred stocks in December.

(4) Despite large profits in many industries evidence accumulated that the break-even point was rising to dangerously high levels. An ever increasing volume was necessary to maintain earnings.

Many other reasons could be mentioned for the stock market's lack of confidence in the permanency of the boom, and the refusal of investors to be tempted by high yields and low price-earnings ratios. They could not be tempted because the adjustments of prices, wages, labor efficiency, high break-even points, etc., which should follow the post-war inflationary burst had not yet taken place. Without such adjustment no extended period of prosperity is possible.

No Need for Depression

There is no need for a depression or a "bust." But neither is there any assurance that prevailing conditions won't lead to one. We bears have been accused of crying "wolf" and thereby causing, or fostering, a depression. On the contrary. By warning and by pointing out the danger we may help prevent a depression. The extreme caution being exercised by retailers and many manufacturers in their inventory policy will undoubtedly avert the collapse that would occur if a business decline should hit them unprepared. The same goes for the stock market which now is far less vulnerable because it remained sober and did not indulge in a dangerous boom psychology.

I have been a very outspoken advocate of an extremely liquid investment policy. I remained so until last month when I modified by bearishness and advised the partial commitment of reserves. I altered my position somewhat because of events which may have on our economy, an impact far greater than the trend of domestic business. I refer to the conquest of Czechoslovakia which is no less significant in 1948 than it was in 1938. I believe that war with Russia is neither imminent nor inevitable. But there are so many highly explosive elements in the situation that war has become a distinct, rather than a remote, possibility. The chances may be three-to-one against a war this year or next. But I don't like even that ratio. It frightens me.

Being a European by birth, I may be a little more sensitive about foreign affairs, but I think I am not any more easily scared than my fellow Americans. Our most natural reaction to a scare is to do something about it. We have a choice. We can surrender without a fight as Wallace advises us today and as Lindbergh advised us 10 years ago. Or, we can prepare for any emergency. *"Si vis pacem, para bellum."* There can be little doubt that we will follow this old Roman saying Wishing peace, we prepare for war.

I am far from convinced that preparations for war are necessarily "bullish." But armament expenditures on a major scale may very well halt, if not reverse the recession tendencies which again became evident in recent months. Instead of facing an era of abundance, we may re-enter a period of scarcity, of allocations, of rationing. Congress has not yet appropriated additional funds, and if it does, initial appropriations may not be more than $3 billion in excess of budgetary provisions. But the anticipation of an armament boom may prove to be a most potent psychological factor.

You and I have been holding back on purchases of shoes and shirts and tires and perhaps even a car, because we thought we might get them cheaper this Summer or Fall. Our wives postponed the purchase of sheets and home furnishings for the same reason. Well, how do we feel about it today? Dont we all remember the shoe coupons and the difficulty of getting a white shirt?

These same considerations apply to business. Exorbitant prices have caused the deferment of many expansion plans. But if there is the prospect of allocation of critical materials, or if there are to be other restrictions, we might better go ahead now, regardless of cost. Business inventories may be ample for present business prospects, but are they adequate if we face a war economy? For these reasons it may be entirely unnecessary to spend one additional cent on rearmament to get this change in psychology which can revitalize our faltering boom.

A View of Prospects

These potentialities already have caused a strong recovery in the stock market and it may carry further. We are still in that initial and happy phase where we think we can eat our cake and have it too. But lets take a realistic view of the prospects. I can see an alternative:

(1) Russia pipes down, the war scare abates, and we will rearm and stockpile strategic materials only on a minor scale. In that case, domestic economic factors will again become of paramount importance, and a "recession" may become a "slump," because we shall have larger inventories and be far more vulnerable in many other respects.

(2) The world situation remains critical, in which case we may not spend $11 or $14 billion a year on defense and rearmament, but twice or three times that amount. It is my opinion that such program must inevitably lead to a true war economy, with ceilings on wages and prices, corporate excess profit and higher personal income taxes, allocation of critical materials, priorities, etc. Add to this the threat of war, and ask yourself whether this would be a healthy climate for a budding bull market. I don't know. But I have such serious doubts that I feel compelled to warn against the commitment of all liquid reserves in common stocks, not to mention aggressive purchase of stocks on margin.

The present market bears some resemblance to last year's May/July rally which caused so much premature jubilation on the bull side. I expect that there will be a lot of stock for sale around 186 in the Dow-Jones industrial average, and I, for my part, would accept some profits on purchases made last month. In any event, it seems to me too early to bury the bear market.

(Continued from page 4)

(By SIDNEY B. LURIE)

the nature of the beast, half the speculative battle is won.

Stock Market Merchandise Salable

As I see it, the New Look manifests itself in various ways.

From the viewpoint of doing commission business, it means that we must sell individual values—not the stock market. After all, no one buys the industrial average, but many people do buy the high yields, the liquid assets available at a discount, the high earning power, etc., characteristic of the market place today. Seldom in history have we had so much salable merchandise; all that's required is merchandising technique.

In individual securities, the New Look means that the big appreciation potential is held by the so-called secondary companies rather than the industrial giants. 1947 is proof of the fact that reliance on the past drawing power of a name rather than the dynamics of a new company, or one that has changed character, means the loss of profits for your customers. A year ago, for example, you could have bought Denver & Rio Grande for $10 per share, while N. Y. Central sold at 16; where are they today?

In the final analysis, we've lived through a tumultuous decade which is bound to have profoundly affected the position of many companies. You and I can recognize this fact by realizing that selectivity is more than a catch phrase, that it has dollar and cents importance to our customers.

Selectivity

Industrywise, the New Look means that Wall Street's habit of applying a label and then closing its eyes is a mistake which the alert speculator can turn to advantage. We're living in too dynamic an era for a blanket classification of good or bad not to be subject to individual exceptions. Furthermore, bearing in mind that there is never any charm in the obvious, unanimity of opinion usually means bargains for the courageous. The suspicion attached to the textile industry's booming earnings is a case in point for Wall Street is overlooking a number of pertinent facts: (1) The industry is composed of various operations, and it is possible for one division to be prosperous at the same time another is having difficulties; (2) At the time the industry was being liquidated in New England, fortunes were being started and made in the South. Furthermore, what with lower capacity, an increase in population and an internal strengthening via consolidations, normal earning power of the 1940's will be far above the prewar average.

Marketwise, the New Look has meant two things: (1) There is too much inflation frozen into our economy, there has been too great an increase in the population and the standard of living, for stock prices to return to the prewar lows; (2) Just as the 1945 bull market anticipated the postwar boom long before it arrived, and last year's market of indecision discounted a recession which first reared its ugly head a few months ago, so will the 1948 market have completed its downside readjustment long before business stabilizes.

You may have noticed that these comments were expressed in past tense. This was purposeful, inasmuch as if we are to properly appraise the stock price outlook from here out we must first understand the background which permitted a 15-point advance from the mid-March lows. That background, as I see it, had and still points to two things: (1) Stock prices can and will sell higher or lower earnings; (2) We probably have seen the lows for the next six months.

Market Superficially High

Unquestionably, if one thinks in terms of the various averages, the market is at least superficially high; we're still above the range which has prevailed in most of past years and the drop from the 1946 top was only 28%. But there's a New Look here, too, in the sense that the averages are not representative of the stocks held by the public. With so many issues off 50% and more from their 1946 highs, we've been through a severe bear market in preparation for a lot of things which haven't happened. Furthermore, just as a number of individual groups made their highs before the market as a whole in the spring of 1946, so did certain groups show definite signs of turning the corner before last March 16th.

This does not necessarily mean that we will get a Dow Theory bull market confirmation without the market first pausing to refresh itself. Don't forget that the trend of industrial production has been downward in the last few months, that signs of business deterioration have been visible, and that it will take time before the latest series of "shots in the arm" affect the trend. After all, although some $14 billion is being injected via the tax cut, the Marshall Plan and our accelerated defense program, this is only equal to about 7% of our national income. Furthermore, our $11 billion 1948-49 defense budget can not be spent overnight, nor will the money spread throughout our industrial economy; the over-all program simply does not require the same physical facilities we needed after Pearl Harbor. Much of the $3 billion supplementary defense program, for example, will go to aircraft research and development.

But if I'm correct in my appraisal of the market implications of the New Look, any doubts and fears which later arise about the business outlook will not have more than temporary influence on the stock price structure. For one thing, it seems to me that we have passed a psychological land mark, that the tide has turned, and the speculative fraternity will stop trying to play a game of musical chairs. Secondly, Wall Street sentiment should be buoyed by the immediate and discernible benefits our armament program will give to the aluminum and copper industry. Thirdly, although we haven't started on a new boom, I do think that the selective business recession now in progress will be cushioned, and perhaps turned, by the latest stimulants. The second half of this year is likely to be a pretty good period for most industries and most companies.

Looks for 190 Industrial Average Level

In my opinion, this background suggests that the industrial average will better the 190 level between now and Labor Day. A more optimistic point of view requires certain assumptions in the realm of psychology—assumptions which I don't think are warranted at this writing. For example, we could get a tremendous lift to stock prices once the security buying public realizes that: (1) We can make our transition to normalcy without undergoing a major depression; (2) Normalcy does not spell the frenzied war years nor a period when everyone has money to burn.

More immediately, I wonder if the Italian election results will be as important a market factor as the Street expects; although a case can be made either way, the real answer rests with psychology.

Personally, I rather think that the election results will be a dud marketwise. This isn't part of the New Look but an illustration of the old axiom that once an uncertainty becomes an established fact, it ceases to be a market influence.

(Continued from page 4)

(By ARTHUR J. MESSING)

so. It is likely to be the final opportunity.

Prospects of a minor reaction (and it will only be minor and technical in character) stem from two underlying factors. They are (1) The scope of the advance itself, which up to April 12 has encompassed 15 points in the Dow Industrials, 7 points in the Rails and 11 points in the Times Averages, all in less than four weeks. (2) The fact that the Dow Industrials have reached an important supply area between 179 and just below 182, constituting the December-January topside shelf. A consolidation period for a week or two could very well take the place of a minor reaction.

Should such a minor reaction take place at this time, I do not think that it will go deep enough to warrant losing positions at this level in expectation thereof. I would consider it more astute to add to commitments if such minor reaction should develop. As to its scope, the outside possibility I would judge to be the 172½-175 level where powerful support is indicated; and with a good chance that the 175-176 level would hold. Much to the disappointment of the bears, the upside gap of Saturday, March 20, probably will NOT be closed for a long time, perhaps for years. As for the Rails, which indicate NO supply area here, I would only expect a sidewise consolidation movement in sympathy with the Industrials, at worst. In the event that the Dow Industrials should reach 182 on this move, any thought of even a minor reaction should be abandoned for the time being.

The sum and substance of my talk, therefore, is that we have been in a bull market for a very long time, led by the Rails, and irrespective of the Dow Theory; and that, subject to normal reactions which are bound to occur from time to time when the market becomes overbought, the trend will be toward considerably higher levels.

I wish to stress one important factor, namely that there is a good chance that the market might exhibit great strength toward the latter part of the current month, because this would be the final opportunity for investors to make purchases and take a long-term profit, if they so desired, just prior to the election.

(Continued from page 4)

(By N. MOLODOVSKY)

Union. They are aware of the basic economic weakness of their country. They realize that its industrial potential is infinitely smaller than that of the U. S. They may be moved to feel that in a war of machines, to say nothing of an atomic war, they cannot hope to win. They might arrive at the conclusion that the war will not have lasted many weeks before their important industrial centers, and the vital oil industry in the first place, will have been completely smashed. Should they develop such a frame of mind, we could then read one morning in our paper that the Ambassador of the Soviets has rushed, pale and disheveled, to the State Department to protest against its extraordinary misconception of the true aims of Soviet policy. Echoing his Master's voice, he will assert that far from nurturing any designs of aggression, the Soviets want nothing but peace. In the name of his government he will utter solemn pledges of everlasting friendship and offer all guarantees that Washington may wish. Complete disarmament, international control of military production, withdrawal of troops from any designated region—nothing will be refused. A magnificent offer! It cannot be turned down. It signifies an overnight change in the entire international picture. What would it mean in terms of stock prices?

Effect of Real Peace

There cannot be much doubt that a tidal wave of relief and jubilation would sweep the market. The resurgence of confidence and hope should be tremendous. The market would advance by leaps and bounds. It would light a bonfire of celebration. But after a while investors would stop to think. They would weigh against each other the implications of the stupendous economic changes that the sudden advent of real peace would bring with it. The need of rearmament and the urgency of the ERP would disappear. It would become difficult to make the American taxpayer meet their cost. For the coming fiscal year alone military and international expenditures of over $21 billion are proposed, or almost the equivalent of the entire public debt after the end of the last world war. Big slashes would have to be made in the Federal budget. In the present stage of full capacity industrial activity it should not take too long to fill the backlogs of the still unsatisfied domestic economic needs. The recovery of European industry and agriculture would make Europe increasingly able to cover its own requirements. Eventually European export surpluses would reappear. Competition would return to international trade. And despite the offsetting factor of substantial tax reductions that would become possible and inevitable, this country would soon be facing a period of contraction and deflation. No matter how much Stalin might need American machines and products, he could not be counted upon to sustain even partially the American economy by his own orders. This imaginary peace overture on his part would not have been prompted by a true spirit of benevolence. He could at least then try to trade the surrender of his plans for expansion against the hope of engineering an American depression.

What of War!

But let us also imagine another possibility. The Soviets may be economically weak but militarily strong. Just before the outbreak of the last war a great deal was heard in London and Paris about the German bluff and many alleged flaws were cited in the German military machine. The Soviet citizen may live like a dog, but the Soviet airforce is rapidly expanding. According to some reports, it is powerful indeed. And the imported German scientists have been developing further those guided missiles which came too late to become a factor in the last war. With the assistance of Soviet physicists they have undoubtedly also developed other powerful means of destruction. If war is inevitable, quickness to the draw will be an important factor. Offense has by far outstripped defense in modern strategical thinking. Suppose the Soviets take the cue from the Japs who twice in recent history attacked without prior declaration of war: the Russian fleet at Port Arthur in 1904, and the American fleet at Pearl Harbor. Imagine that a sudden attack by guided missiles launched from submarines and by squadrons of single-trip suicide planes reduces to shambles Pittsburgh, Detroit and some other industrial centers. If the plants of General Motors should vanish from the industrial map, I doubt that many bidders would be found for the company's shares even if a market for stocks still continued to exist despite the havoc of war. If war should come, who will be bold enough, in its early stages, to forecast with assurance its scope and duration or the form and nature of its battles? Until this threat has been convincingly removed, the possibility of actual physical destruction will add its shadow to the prospects of new and probably more drastic excess profits taxation and governmental controls and regulations. It is hard for me to believe that stocks would then look very attractive to investors.

Neither War Nor Peace Economy Bullish

Of course, we all earnestly hope that the present state of international tension will not reach a point of actual shooting war. The other possibility, that of a sudden assurance of peace, seems even less likely. Certainly nothing in the present Soviet attitude permits us to countenance such a hope. Both of these hypothetical events, however, are important. They represent the two extremes, the two opposite poles between which American life will now be moving. Depending upon the shape of foreign political developments, the economy of this country will increasingly lean either towards war or towards peace. And in the present position of the business cycle, neither of these two contingencies, I think, is bullish for stocks. Neither a full-fledged industrial mobilization with the accompanying heavy taxation and regimentation, nor the withdrawal of most of the artificial supports which now prevent the unfolding of the deflationary process are materials out of which a bull market is likely to be built.

For the time being, however, we have neither a war nor a peace economy. We travel through a sunny valley. The cyclical recession, whose clouds were beginning to be discernible on the business horizon, has been temporarily arrested. The additional defense appropriations now being slated are not large compared to the current total annual production of goods and services which is estimated around $250 billion. They represent not much more than 1%. But they are in the nature of marginal demand. And their injection into the economy will help to maintain the present level of prices not only by stimulating demand but also by decelerating the process of inventory liquidations. This process threatened to take place at an increasingly rapid pace as a result of fears of business recession. So far, the rearmament program has apparently brought just the right dose of actual and psychological support to business. It means the extension of the period of high industrial activity and prices and, therefore, also of corporate earnings, since the latter need a high volume of production to protect the narrowing margins of profits. And the beneficial effects of this stimulating environment are further strengthened by a reduction of taxes and by the implications of the ERP.

Change of Financial Sentiment

Small wonder then that the focusing of attention on such an immediate outlook worked a powerful change in financial sentiment. And this turnabout was made even easier by the fact that when it took place, stock prices were once more in a zone of deep undervaluation on the basis of their current earnings and dividends. A change towards a more optimistic feeling as to the probable duration of profitable operations of industry could not fail to bring about a more generous valuation of each dollar of earnings and dividends. So long as the present state of affairs prevails investors and speculators will continue to bid for stocks and could conceivably lift them to much higher levels.

It seems clear, however, that this situation is unstable. The hybrid economy of declining peacetime business increasingly bolstered by growing wartime demands cannot continue indefinitely. This unstable balance can be suddenly upset by a relapse towards either war or peace. The realization of this possibility by the public should exercise a refraining influence on sentiment and stock prices.

So far we have considered two factors only: the outlook for production and earnings on the one hand, and financial sentiment, i.e., the willingness of the public to buy stocks, on the other. Both are important determinants of stock prices. But there exists in the stock market equation another and perhaps still more potent factor. I am speaking of the effective demand for stocks.

Scarcity of Venture Capital

The scarcity of venture capital is not a new problem in American economy. It was ushered in by the New Deal. During the '30s not only the supply, but the demand for private capital as well were small. The wartime industrial expansion, and the bull market itself, were practically financed by the government. But after the war a new need for expansion appeared. Industry had to take care of the backlogs of civilian demand accumulated during the hostilities and to bring its plants in line with technological advances. It was confronted with large capital requirements for new plants and equipment. It was fortunate in having built up during the war vast liquid resources. It is doubtful that without them it would have been able to finance its needs. As it is, its use of bank credit has been substantial.

The National Association of Manufacturers estimates the current deficiency of venture capital at $8 billion annually. It points out that commercial bank loans rose rapidly in 1946 and 1947, while individual holdings of corporate securities showed little increase. This means that corporate enterprises had to borrow from banks instead of financing their capital requirements by the sale of securities. Only $4.5 billion of new money were raised in 1947 through the capital markets. Out of this amount, according to Mr. Schram's recent testimony before the SEC, only $784 million were represented by common stocks.

High taxes must carry the major share of responsibility for this lack of enterprise on the part of private capital. A well-known brokerage firm carried in last Sunday's "Times" an advertisement featuring the advantages of tax-exempt securities. Why should investors in this uncertain period risk their funds to buy even high-yielding good quality common stocks? Even the new tax reduction bill, said this advertisement, may not save them the large sums available through tax-exempt securities. If their taxable income is over $16,000 they may be paying taxes, under present laws, of from 40% to 90% on some of their investments. They may be well repaid, it continued, by an investigation of tax-exempt state and municipal bonds. Yields on such investments can bring them as much net return as taxable securities yielding 8% or more.

The recent large fortunes which sprang up in the Southwest, in Texas, Oklahoma, Colorado and Kansas were made possible by certain tax advantages. Most of these fortunes have oil or ranching as their source. The large depletion and maintenance allowances, permissible under the law, have contributed to them in no small measure. So long as this situation lasts, not much of this new money is likely to seek the advices of customers' men. And this is perhaps also partly responsible for the lack of market interest on the part of that large class of new rich—the farmers. They have never been market conscious. But at present, with taxes in mind, they may feel that it is smarter for them to buy a few additional acres rather than to invest in Sears, Roebuck or Deere.

It is not by the modest alleviations of the recent tax law that this basic shortage of venture capital will be suddenly replenished. Moreover, these tax reductions themselves are far from secure. In the report submitted last week to President Truman by his Council of Economic Advisers, these reductions are already called imprudent. And the report states that Congress should be asked to impose new taxes to compensate for added costs of the preparedness program which are not balanced by a reduction in government expenditures. In addition, the report recommends, as an anti-inflationary measure, an increase in the reserve requirements in order to hold down bank credit, as well as restrictions on the use of consumer credit. And this week already the Federal Reserve Board has again asked Congress for increased control over bank reserves as a means of backing up its policy of restricting credit.

Depressing Effect of Inflation

Besides, high taxes are not alone responsible for the lack of risk capital available for investment in industrial enterprises, either directly or through purchases of equities, in the stock market. The inflationary trends themselves have a great deal to do with it. A mere desire to buy stocks is not enough. It must be backed up by adequate purchasing power. The many demands on funds which are typical of an inflationary period may leave many potential buyers with empty hands. Only a constantly renewed demand for stocks can create a rising price trend. Once the available funds are exhausted, the bidding-up process is brought to a halt, the trend ceases to advance, and then reverses itself as profit taking sets in.

The bulk of the effective demand for stocks, which contributes to the trend building process in the course of an important upswing, comes mostly, I think, when during prosperous periods a stream of swelling earnings flows into the hands of the millions of active members of the population engaged in the various businesses and professions. The other reservoirs of investible funds are of a more static nature and their effect on the fluctuations of the stock price curve is less marked. A period of inflation practically eliminates these active bidders for stocks from the market. It becomes increasingly more difficult for them to maintain their habitual standards of living. Those among them who conduct independent businesses of their own have to face constantly rising working capital needs. The higher cost of doing business and of personal living exercises on them a relentless pressure. In many cases, it causes actual gradual liquidation of portfolios accumulated during the previous periods of large savings by all those who need to replenish the treasuries of their business firms or households. They go through an actual process of dissaving instead of investment. Caught in a squeeze between growing working capital needs and high taxes, their effective demand for stocks goes down. It cannot sustain for a long period a rising trend of the market.

Undoubtedly, the Republican tax cut will bring a certain amount of relief in this connection, particularly its community property feature. Not much of this released purchasing power, I think, is likely to go into the stock market. It will rather serve to prevent further dissaving, further living beyond one's means. It will also serve to bolster consumer demand and thus help to extend the period of high corporate earnings. But I doubt that it will contribute much to the effective demand for stocks. A significant release of venture capital flowing into the stock market, or directly into industry, will have to wait for more drastic tax reduction measures or for an important change in the present financial background.

My friend Gene Banks, over at Brown Brothers Harriman & Co., has reduced some of these factors to an index basis so that their effect can be studied throughout several business cycles. His work suggests that these financial factors tend to determine the average price-earnings ratios at any given time. In other words, the current low price earnings ratios may be caused primarily by the financial squeeze rather than by the general expectation of a business recession, as has been so often suggested.

To sum up, two facts seem to dominate the current business scene and the outlook for the stock market. As long as the present and probably gradually increasing defense appropriations remain short of large scale industrial mobilization, calling for additional taxation and governmental controls, they will exercise a stimulating effect on the economy. Corporate earnings will remain at a high level. They will place a floor under the prices of common stocks. But the financial and credit background is such that it will minimize the effective demand for stocks. This will put a ceiling on stock prices. The uncertainties of a mixed war-peace economy will dampen investment confidence. Once again the market seems to be destined to move for some time to come within a relatively narrow range. Until some decisive event forces us out of our present middle course between war and peace, the range of fluctuations of stock prices is unlikely to depart, I think, by more than a few points on either side from the highs and lows of 1947.

A. D. Watts & Co. Opens in N. Y.

Alfred D. Watts is opening offices at 216 William Street, New York City, to resume his investment business. Mr. Watts was formerly in business under the same firm name, and more recently was in the Canadian Stock Department of A. M. Kidder & Co.

L. C. Fisher Co. Opens

SHEFFIELD, ALA. — L. C. Fisher is engaging in the securities business from offices in the Sheffield Hotel Building, under the firm name of L. C. Fisher Co.

The Fear That Follows Uncertainty

(Continued from page 3)

which the particular securities were held in portfolio to have any bearing?

When a dealer spends considerable time and, in some instances, confers benefits upon the company whose securities he holds, is he to consider that as part of the yardstick which determines the amount of his selling price?

Why must a dealer at his peril translate the connotation of the term "reasonable relationship to the market price" when the SEC refuses to define it?

Yet, this he must do if he is to continue his business, and the uncertainties that have been foisted upon him are the breeding ground of fear.

The securities industry in its present anemic state has many insufferable burdens, and the Commission appears to be an artist in further provoking it, as witness its failure to treat confidentially the annual financial statements filed by registered dealers and brokers pursuant to SEC requirements.

The Commission permits a financial magazine to bolster its circulation campaign by openly boasting that it will publish in detail all of these financial statements.

There seems to be little limit to SEC daring when it comes to the invasion of the right of privacy.

How much longer will this regulatory product of an emergency continue to function? The emergency is long over. When will the securities industry again be restored to its freedom and enabled to operate in an uncontrolled economy? When will the State take its nose out of business, excepting only the business of governing the people in a system of free enterprise, the system that characterizes the American way?

The longer we examine the work of the Commission during the span of its 14-year existence, the more firmly convinced we become that the public interest requires abolition of the SEC.

If the members of the Congress had an opportunity to carefully study the Commission's reach for power, its exercise of unauthorized legislative function, the hardships that it has worked in the securities field, we are of the opinion that Congressmen generally would feel that all budgetary sums which subsidize the Commission constitute an utter waste of public funds.

What Government Expects of Corporation Reports

(Continued from page 23)

idea of a central agency, that is the size of form that would be required to cover even the minimum requirements of a group of agencies. It seems to me that under present conditions to propose that every company about which any agency wants any data should furnish all the data that any agency might want would be a grave imposition and a huge burden to corporations generally. It would necessarily result in the accumulation at great expense of a whole mass of unneeded material. On the other hand, to seek to have such a general form but to permit or require omission of parts not wanted, would result in a sort of jig-saw puzzle affair that I, personally, feel would be more difficult and more uncertain in operation than the present system. Even if the proposed agency were confined to the collection of financial data instead of including all of the various sorts of economic data that are essential to government activity, the resultant form would have to be measured in ounces, not sheets, and would increase materially the total amount of such data to be collected.

There remains a third possibility, of course. The central agency could request data from corporations, or lists of corporations as needed, and as specified by particular agencies. As the official and sole conduit for such requests, it could screen and reject requests made by the agencies as supply data already in its files. The difficulties in such a procedure are the expense of duplicate handling of data, the time consumed in such an indirect process of assembly, and, most important, the maintenance of a staff qualified to deal with the technical and special problems of a vast variety of data. If the agency did not exercise an independent and informed judgment but served as no more than a forwarding office, it would look to me very much like what is called "more red tape." And in any event, I rather think most of us would prefer to deal directly with the personnel of the agency which is to use, or pass on, the data being furnished. I do not believe, for example, I would like to have to discuss—or argue—tax questions with or through such an intermediate agency. Nor would I like to have registration statements for the sale of securities flow through an intermediate central agency. I am quite sure I would prefer to discuss such problems directly with the Bureau or the SEC.

Then there are differences in the law as to the responsibility assumed by the reporting company. Consider, for example, the quite different liability provisions of just three laws: the tax law; the Securities Acts; and the Federal Power Act. If but one filing is to be made, it seems to me that the highest level of liability would have to be applied to all of the information filed rather than just to the part needed under whichever law has in fact set up the most rigid standards. Similarly, if there are varying degrees of accuracy and detail now possible (and I am sure there are) a single filing would have to conform to the highest level of accuracy and the greatest amount of detail applicable to any of its parts. Along these same lines is the question of timing. Some data, to be worth very much, has to be obtained quickly, even if in a fairly rough and condensed form. For other data, time is not so much of the essence. In all of these cases the idea of a single filing with a single agency simply does not, as I see it, fill the bill and would increase materially the burden of reporting. Nor must we forget the problem of public disclosure of data. A good many filing requirements are for the purpose of providing public information; others, and these probably include most filed data, are to secure data for the administrative purposes of a single agency and are kept confidential or, if published, are put out only in the form of overall or *industry-wide* group figures. Here again it seems to me that safety calls for an all public or all private filing basis rather than a single filing with the public or private decision made in the agency, probably by clerical assistants who could scarcely be expected to have the breadth of experience and knowledge to distinguish the two fields with unfailing accuracy.

It may interest you to know that some years ago an experimental overall form was worked out to cover certain requirements of a small group of agencies. It was intended that one of the agencies request the data from a sizable group of companies and that each of the cooperating agencies would then take from the data that which it would otherwise have had to request itself. By the time the minimum requirements of each agency were collated, the form had grown to some 30 closely printed pages calling for all the usual financial data and a mass of semi-financial and related figures. Worst of all, several of the agencies whose informational requests were quite detailed in specific areas indicated that the receipt of such data from about one-fifth of the proposed list of companies would be entirely sufficient for their needs. After presentation of the idea and the form to a rather distinguished group of accountants, controllers, and other businessmen, it was abandoned as unworkable and impracticable.

It may also interest you to know, if you happen not to have looked into the Securities Laws and the rules issued under them, that there now exist statutory provisions whereby certain utility companies required to file with the Federal Power Commission are specifically permitted to file copies of such reports in lieu of those called for by the SEC under the 1933 and 1934 Acts. To the best of my knowledge, only two companies have ever availed themselves of that privilege.

I am personally very much in favor of another approach to this problem even though experience has shown it to be a thankless and difficult task. There is now in existence a division of the Bureau of the Budget to which the Federal Reports Act of, I believe, 1942 gave the job and the authority to comb over the reporting requirements of almost every agency and to suggest or require elimination of unused data, simplification of unduly complex requirements, utilization of data already obtained by other agencies and so on. These, it seems to me, are the essential functions of the central agency proposed. Its task is tremendous and its personnel overworked, yet its contribution to simplification, particularly in the field of prevention of additional reporting burdens, has been very large. You may have seen its trade mark "Approved by the Bureau of the Budget" in the corner of some of the forms you receive. For the present, I am satisfied that this attack on the problem promises more results than the grand revolution which the single collecting agency technique would necessitate.

To narrow the problem still further, one of your members asked me to discuss the question of the "necessity for separate reports for new financing versus annual reports submitted for the past decade or more." There is none, so far as financial data goes, except as there is a necessity for reproducing the statements in a form suitable for distribution to investors. Existing Commission rules permit a registration statement for the sale of securities under the Securities Act to incorporate statements already filed with the Commission under the Exchange Act. And the Exchange Act rules permit the filing of copies of the stockholders' report in lieu of the financial statements called for by Form 10-K. In either case, of course, the statements must cover the periods called for by the applicable forms and must substantially conform to the requirements of Regulations S-X. In practice, neither of these permissive rules has been utilized to any real degree. It appears, as far as I can determine, that affected companies have made a business decision that a fresh or different filing is desirable and preferable; moreover, from a strictly accounting viewpoint, revision of previous statements may often be essential in order to make a fair presentation in the light of subsequent knowledge, so as to "throw back" to the affected years costs, losses, and income or revenues whose existence or extent became known only long after issuance of the original statements.

It seems to me that evidence of this kind touches the heart of the matter—that the real difficulty is the different purposes for which information, financial or otherwise, is obtained and is used. Some of the material is obtained specifically and primarily to ensure disclosure thereof to the public at large, or a segment such as investors, in the exact form in which filed by the companies. This includes most of the filings with SEC—saving only the few given confidential treatment, for business reasons, or in the recent war, for reasons of the national safety. In other cases, the information, while public, is primarily to enable an agency to make the decisions required of it, as in the case of filings with SEC by utility-holding companies under the Holding Company Act, by railroads with the ICC, or by operating utility companies with the FPC. Still other reports are required for the purpose of publishing compilations of statistical data for general use without disclosure of the position of any particular company—for example, the Department of Commerce, the Federal Reserve Board or the Federal Trade Commission. Finally, there are the reports whereby a liability of the declarant is established, as in the case of tax returns. Consideration of such varied purposes and uses of data leads inevitably to the conclusion, I think, that a single, multi-purpose would not be in the best interest of those who file the data, of the agencies involved, or of the public users of the information.

I do not want to leave the impression that nothing can be done. Federal reporting has grown up very much like Topsy—it just grew and very haphazardly. There are unnecessary duplications. There are undoubtedly many instances where two or more agencies could get together and use a single form, or exchange information. There is a lot of data gotten that is put to little or no use. And it does seem at times that an effort has been made to make simple requests as complicated and abstruse as possible, or to vary them just enough to require a separate report and a separate compilation of the data. But these are precisely the areas at which the Federal Reports Act is directed and in which the Bureau of the Budget is hard at work and is making real progress.

Where data is filed primarily for direct use by the public, the collecting agency has a special interest in maximum simplification of its requirements and the accumulation of only necessary information. Accordingly, much effort has been devoted within the SEC toward devising simplified forms for filing purposes under the 1933 and 1934 Acts. An early step was the issuance of single accounting regulations, S-X, which deleted detailed accounting requirements from most of the forms and set them out in a single regulation applicable to all of the commonly used forms. A second step was the adoption of very liberal rules as to incorporation by reference of exhibits and financial data from one form to another. A third step was the permission to use a prospectus under the 1933 Act as a basic filing document under the 1934 Act. Finally, there was a determined attempt to adopt, under the 1933 Act, a registration form that would be applicable to most filings—the effort extended over some five years and finally gave birth to the present Form S-1. In this form as in the supplementary S-series forms for special kinds of issuers an attempt was made to simplify by clarification of items, elimination of burdensome details and concentration on major issues. Much remains to be done in this direction both in the drafting of requirements and in their day to day administration, as I am sure we who have to use the forms will agree.

This question of administering the specific language of the requirements has always been very troublesome. No general language can so precisely apply to any particular situation as in all cases to cover specifically the basic business or financial questions that the case presents. Of necessity, the language of a form must be broad enough to call for vital data in a variety of changing situations. It must also be sufficiently precise to keep the scope of its inquiry within reasonable bounds. As a result there is always an area of uncertainty as to whether a particular fact or circumstance must be disclosed, especially when the question is whether that fact is necessary to prevent other data from being misleading—and the furnishing of such additional data is a specific statutory requirement. Its omission brings into play some of the severe liabilities imposed by the statutes. Of course, an administrative agency such as SEC has no right or power to insist upon the use of specific language. It must, however, review whatever is submitted to it and if it feels it not to be acceptable, its redress is the issuance of a deficiency, followed, if necessary, by hearings, stop-orders, injunctions and whatever other means of enforcement of its views the governing statute makes available.

On the other hand, the staff members of many administrative agencies, such as SEC, if asked whether this or that language, or this or that presentation will be such as to cause them to take, or not to take, further action, will ordinarily indicate their position. As a practical matter, the exigencies of time and the unpalatable nature of the alternative course of action frequently compel acceptance by a registrant of language indicated by the agency as acceptable, even though the company may have real misgivings as to its materiality, its desirability, or even its accuracy.

I think I have wandered pretty far from the announced subject—"What Government Expects of Corporation Reports." I would like to return to it now—but to limit my answer to my own feelings as to financial statements filed with the SEC. Such reports can reasonably be expected to meet these tests:

(1) Conformance to sound accounting principles—to what are often called generally accepted accounting principles applicable to the facts of the case. Of course, disputes do arise in this area as to what are generally accepted accounting principles; as to which are applicable under the facts of the case; and occasionally as to whether a principle, admittedly in wide use, produces an absurd result in the particular case; or is contrary to a pronouncement of the Commission.

(2) Compliance with the applicable requirements of the Commission as to the form and content of the statements and as to the furnishing of specific information.

(3) Disclosure of information necessary to prevent the required information from being, as a whole, misleading or a half-truth.

(4) Consistency with related financial data otherwise published.

Statements meeting these tests would comply with all requirements, but they might not, even so, be free from all objection. There are still criteria whereby to distinguish the acceptable from the excellent. The difference between the two lies well into the field of artistry, and is not susceptible of hard and fast statement. The principal tools available, however, are well known; careful choice of language; presentation in a physical form that discloses rather than buries; the elimination of trivia in the statements and the footnotes (indeed the drafting of adequate, informative and still readable footnotes is an art in itself); the avoidance of unnecessary repetition and complicating criss-cross references; and many more.

Fortunately, in addition to all the time that corporate officials and accountants are devoting to the formulation and clarification of accounting thinking, there is abundant evidence that companies and their accountants still find time to give earnest thought to the best way of presenting the end product.

The Consumer Credit Structure

(Continued from page 19)

of the subject of consumer credit will be had if these two broad divisions are kept clearly in mind. Historically, the legal background out of which these two groups were developed, and the procedures used in connection with each, are based upon different legal concepts. A recognition of these differences will facilitate a better understanding of the functioning of each group. We shall point out some of these differences as we go along.

The Term "Money Credit"

Money credit, as previously noted, is credit extended in the form of money **loaned** to a borrower. The money so borrowed may be use for any purpose the borrower wishes. It may be used to meet emergency expenditures, for necessitous purposes such as the liquidation of already existing obligations, to purchase goods, wares, merchandise or services, or be put to any other purposes desired by the borrower. Consequently, the needs for and use of money credit are many and varied in form.

Where money credit is extended the lender makes an "interest" charge which, by business practice and in contemplation of law, is stated as a "percentage" of the "principal" amount or sum loaned, this percentage being applicable to a specified period of time. The usual and customary period of time used in relation to this percentage statement is one year.

Interest charges are regulated in all states by general statutes governing usury. The authority to so regulate is well embedded in the English common law and has become an inseparable part of our own statutory law in all jurisdictions throughout the United States. In many states, however, there are special laws, permissive in form, which pertain to interest charges on designated types of loans and which allow interest charges higher than those permitted by the usury statutes. We shall note these special statutes later.

The extension of money credit to consumers may or may not be accompanied by the giving of security for its repayment. Much of this type of credit is extended upon a "character" basis and an additional security is not required. This is especially true of the so-called "small loans" or individual personal loans made upon an instalment repayment basis.

Money credit may be classified for statistical or discussion purposes in a number of ways, but a basis commonly used is that of the method of its liquidation, as stated in the lending contract. The Federal Reserve Board uses the two following classifications:

(1) Instalment Loans—those repayable upon an instalment payment basis, and

(2) Single Payment Loans—those repayable at a single time and in a single payment, commonly at the end of a period not to exceed 90 days.

Institutions Extending Money Credit

Money credit, whether in the form of an instalment loan or a single payment loan, is extended by a variety of financial institutions. Principal among these are:

(1) Commercial banks
(2) Credit unions
(3) Industrial or "Morris Plan" banking companies
(4) Industrial loan companies
(5) Small loan companies (sometimes called personal finance companies)

In addition to these larger groups, money credit is extended by miscellaneous lenders such as pawn brokers, remedial loan companies, and individual lenders.

Commercial Banks

Commercial banks usually make their instalment or single payment loans through what they call their personal loan departments. In the smaller banks such activities may not be segregated into a special department, although this is the case in almost all of the larger banks, particularly those located in the larger cities. The extension of these so-called personal loans by banks on any sizable scale is a development of recent years. Earlier, commercial banks generally refused to make this type of loan and looked upon it as unprofitable, risky, and as being outside the expected functions of a commercial bank. In 1929 probably fewer than 200 commercial banks operated consumer loan departments with total loans not exceeding $45 million. Previous to that time this number and amount were even smaller. For this reason, and others, other specialized types of financial institutions were developed to make such loans and to serve the economic demand for such loans.

However, with the last decade or two, an increasing number of banks have been making consumer loans, so that now a majority of commercial banks make some form of personal loans.

Tabulation of data from insured commercial banks on June 29, 1946, shows that 11,365 banks then held instalment loan paper; 1.970 banks did not hold any of this type of paper.

About 75% of the total amount of consumer credit held by commercial banks is held by about 900 of the 11,365 banks participating in that field. More than half of such credit is held by 192 banks. Of the total consumer credit held by banks on the above-noted date, 41% of this total was in the form of instalment cash loans, 28% in retail automobile paper, and 31% in retail other than autos, including repair and modernization loans. A majority of the banks participating in this field hold only small amounts of instalment loans, representing in percentages from one to five per cent of their total loans and discounts.

The Federal Reserve Board reports that as of Dec. 31, 1947, commercial banks held $717 million in **personal instalment cash loans** and $535 million in loans to buy automobiles. In addition, these banks held $487 million in repair and modernization loans, $348 million in automobile retail paper purchased from dealers, and $512 million in loans and paper for other retail purposes.

Credit Unions

Credit unions are cooperative forms of financial institutions organized usually among a group of individuals having common interests; such as the employees of a single employer or a school or a church group. Their purpose and function is to take deposits from and make loans to their members.

The management of the individual credit union is under the supervision of a Board of Directors, Committee, or other group of officers who serve without pay. The acts and activities of these governing groups are subject to general state or Federal supervision,depending upon the law under which the group is chartered. Office space is usually furnished without charge by an employer or other interested organization or person. The groups are not subject to Federal income taxes or other forms of income taxation. These facts account for the low overhead costs these institutions have as compared with other financial organizations that operate without these subsidies. Charges for loans made to credit union members are governed by the statutes pertaining to them and vary in amount.

The first credit union law was enacted in Massachusetts in 1909. Today 44 states and the District of Columbia have laws permitting their organization and operation. In addition, there is a Federal law permitting organization under a Federal charter in any state. As of February 29, 1948, 5,280 credit unions were operating under state charters, and 3,907 groups were operating under Federal charters, a total of 9,187 units. According to the Federal Reserve Board reports, these organizations had $269 million in loans outstanding as of Dec. 31, 1947.

Industrial Banking Companies

Industrial banking companies and/or Morris Plan banking companies likewise are a specialized type of financial institution operating in most states under special state statutes which supplement the usual state banking laws and usury statutes. Because of variations in these state statutes, it is difficult to describe with precision all of the characteristics of the operations of these companies. In general, however, they are characterized by two principal features:

(1) They specialize in instalment loans secured either by the signature of a co-maker or other collateral supplied by the borrower, although such loans are not confined to this classification altogether.

(2) They obtain at least a part of their working funds from the acceptance of deposits or the sale of investment certificates.

The first company of this type was granted a general charter as a Virginia corporation about 1910. At the present time some 31 states have general statutory laws relating to the organizaion and operation of this type of institution. In a few states these companies operate under regular banking charters. Most industrial banking company statutes, however, are of a special nature and permit either the acceptance of deposits under prescribed rules or the sale of investment certificates or both.

Statutory limits as to the size of the loans which may be made by these organizations vary from state to state. A common range is from $1,000 to $2,000, with a few states permitting a top of $5,000. In some states the limit is stated as a percentage of the capital structure of the organization. The average size of all loans made by these institutions is between $300 and $400, the figure being approximately twice the size of the average loan made by small loan companies.

According to recent estimates there are approximately 425 industrial banking and industrial loan firms (not including branches) operating in the United States; 95 of these operate under the so-called "Morris Plan" and the remaining 320 firms fall under the "industrial banking" or "industrial loans" classification. Total loans outstanding in the hands of "industrial banking" organizations as of Dec. 31, 1947, amounted to $168 million.

Industrial Loan Companies

Industrial loan companies operate generally in the same fashion as the industrial banking companies. The distinction and classification between these two types of organization are somewhat arbitrary and are based largely upon the fact that industrial loan companies do not accept deposits or sell certificates of investment. Their capital funds are secured in the same fashion as are the funds of other non-banking financial institutions.

In the case of both industrial banking companies and industrial loan companies, loans are made upon an instalment repayment basis and charges are based upon the "discount" principle. These discounts are usually deducted from the proceeds of the loan at the time it is made. The statutes governing these institutions as well as industrial banking firms usually permit a "discount" rate of from 6% to 12%, depending upon the state law. In addition to the discount charge, under certain conditions, other charges such as an investigator's fee, delinquency fees, and the like may be allowed by the statute.

It is difficult to estimate the number of "industrial loan" companies as contrasted to "industrial banking" companies. A total number of these combined groups has been given under our discussion of industrial banking companies above. Those in the industry estimate that about 50% of this total might be classified as industrial banking companies and 50% as industrial loan companies.

The Federal Reserve Board estimates that loans outstanding held by industrial loan companies at the end of December, 1947, totaled $134 million.

Small Loan Companies

Small loan companies are organized and operate under special permissive and enabling state statutes known generally as "small loan laws." These laws permit these companies to make a higher rate of interest charge for loans made than is permitted by the general usury statutes of the state. Some of these statutes follow the so-called Uniform Small Loan Law. Others embody some of its features and vary therefrom in some particulars.

Interest charges permitted under most of these small loan laws are based generally upon a "per cent per month plan. These monthly rates vary from state to state, but the top rate permitted in any state is 3½% per month. Some state laws prescribe a "split" rate with one rate for the first $100 of the loan, another rate for the next bracket, and still another rate for that part of the loan over a stated amount.

Generally, small loan laws place a limit of $300 upon the amount which any one borrower may owe any one individual company at any particular time. Some states place this limit at $500, and a few even higher. Where the amount of the indebtedness exceeds the stated limit, the statutes provide that the rate of charge shall not be in excess of the general usury statute for those sums loaned in excess of the designated small loan limit. During the last few years efforts have been made in some states to have the $300 limit in the small loan laws raised.

Small loan statutes are in effect in more than 30 states. In practically all of these states the companies which operate under the statutes are required to be licensed and are under the general legal supervision of a designated state official or board. Minimum capital requirements are prescribed in some states and in others companies are required to procure "a certificate of convenience and necessity" before they can operate in the state. Generally these state statutes require that companies operating under them make annual reports to state authorities and their operations are subject to periodic inspection by state officials.

As of the end of 1947, approximately 5,500 individual business units and branch offices were operating under state small loan laws. This group of companies had loans outstanding on that date in the amount of $713 million.

FHA Loans

Many of the financial institutions and organizations extending money credit to consumers for consumption purposes also make loans for the purpose of the repair and modernization of real estate, these loans to be insured under Title I of the Federal Housing Act. By our definition these loans may be considered as "consumer credit" since they are generally payable upon an instalment repayment basis, covering a period of time limited up to 36 months. These loans are not to be confused with mortgage real estate loans which run for a longer period.

Charges for loans insured under FHA Title I are determined by the lending institution and may be any amount so determined, subject to the state usury statutes, so long as these charges do not exceed the top limit set by the Federal Housing Administration in the rules governing such charges. Such charges include FHA insurance costs, established by FHA authorities, which at the present time range from one-half to three-fourths of 1% per annum.

The amount of FHA loans made by an institution depends upon its operating policy. Some organizations more or less specialize in this type of loan and the purchase of this type of paper, while others have only a nominal volume of these loans. The number of institutions participating to some degree in this phase of lending totals several thousands. Federal Reserve Board figures indicate that as of Dec. 31, 1947, these or-

(Continued on page 42)

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Possibility of sharp break not removed. Guard paper profits by using familiar trading technique, maintaining positions at same time.

* * *

Last week I sounded off on what was stock market news and what to expect from it. After reading it you probably wondered what it was all about. I warned you, however, that it was going to be one of those columns.

* * *

This week's news has to do with airplane orders and Italian elections. The first was discounted weeks ago. The second is still being weighed. The market doesn't know what to make of it so it is doing nothing. By the time you read this the election returns will probably be in. At this writing, however, they're still unknown.

* * *

Last week (and the week before) I said that when there are two contrary indications present in the market the chances are one would cancel the other and dullness would result. Of course that was a general statement. But in every phase of the market cycle — dull to active — there are stocks that go off on a tangent. So even if the market itself may be dull, these stocks can be anything but, and a possible collapse must be guarded against.

* * *

We have been long of ten stocks for some time. They're all in the black and that makes them comfortable to hold. They will probably go higher in the future, but I don't like paper profits to disappear, whether in airplane stocks or something else. Of course there is no sure-fire guarantee that all profits will hold. The use of stops insures them partially. There is always a possibility, however, that in an active declining market, stops may become double-edged. For once a stop is broken, assuming it's a written order with the broker, it becomes a market order. Still that is a chance you have to take.

* * *

Anaconda, now about 37½, was bought at 32½. Sell half if it breaks 35. Buy back the half at 32½ or better.

Avco, now about 6½, was bought at 4½. That's a juicy percentage profit even if it doesn't mean too much in points. Stop should now be raised to 5.

There's no change in **Bethlehem.** The old stop of 31 is still good. Stock is now about 35½. You bought it at 31.

Caterpillar, bought at 55, is now about 61. Sell half if 55 is broken.

Consolidated Vultee, now about 15¾, was bought at 12. Half should be sold if 14 is broken. Buy it back at 12½.

Douglas, now about 65½, came in at 52. Sell half if 58 is violated. Buy it back at 54.

Dresser, now about 25½, bought at 22. Raise stop for half to 23.

Lockheed, bought at 15, is now about 22. Stop for half should be 18, with repurchase at 15.

G. L. Martin, bought at 16, now about 22. Sell half if 19 is broken. Buy it back at 16.

United Aircraft, bought at 24, now about 30. Sell half if 27 is broken; buy it back at 24 or better.

* * *

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.]

Weeden & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Weeden & Co., 315 Montgomery Street, have added Philip A. Zimmerman to their staff.

With John G. Perry & Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — Frank W. Check has become affiliated with John G. Perry & Co., Equitable Building.

The Consumer Credit Structure

(Continued from page 41)

ganizations had outstanding FHA insured repair and modernization loans in the sum of $552 million.

Single Payment Loans

Although the majority of money loans are repayable on an instalment basis, a substantial amount of money credit is extended upon an agreement to repay it in a single payment. Most "single payment" loans are made by commercial banks and pawnbrokers, although other financial institutions do make such loans.

The amount of single payment loans outstanding at the end of 1947 was estimated by the Federal Reserve Board to be $2,697,000,000.

Miscellaneous Lending Groups

The miscellaneous lending groups previously referred to include all organizations not otherwise included in the groups which we have mentioned specifically. In terms of volume of loans made, these miscellaneous groups represent only a small percentage of the total of all loans made in the country. The pawn broker group is perhaps the largest single group in the miscellaneous class. The activities of pawn brokers are governed by local and state law, such regulation being for the principal purpose of preventing illicit traffic in stolen property. Rates of charge are also regulated by many state laws. Because of the risk factors and other procedures involved, the charges made for such loans are relatively high.

Remedial loan companies are comparatively few in number and operate principally in large industrial centers. Many of these companies had their origin previous to the enactment of small loan laws and their activities are now comparatively unimportant. Individual lenders operate upon an informal basis, and it is difficult to have any accurate knowledge of the scope of their operations. The volume of such loans, as a percentage of the total amount of consumer credit, is probably very small.

The Federal Reserve Board estimate of the total amount of loans outstanding as of Dec. 31, 1947, in the hands of miscellaneous lenders in the United States, amounted to $120 million.

In addition to the above noted classes of organizations whose chief function is the extension of money credit, there are other groups who extend such credit in a minor way while engaged in other types of financial activities. There are no data available as to the total volume of this credit, but it is not large enough to have any particular significance to the consumer credit field.

In the time at our disposal it has not been possible to give a detailed and exhaustive description of the methods of operation of the various financial institutions extending money credit. However, the information given will serve to convey a general impression of the nature and functions of the principal classes of such institutions.

We turn now to a description of the methods of handling sale credit.

Classes of Sale Credit

Sale credit may be classified in a number of ways, depending upon the purpose of such classification. The more common classes used in current literature are the following:

(1) Charge account (or book) credit:
  (a) Merchandise credit
  (b) Service credit
(2) Instalment sale credit:
  (a) Automobile
  (b) Other

We shall discuss these items in the order named.

Charge Account Credit

Charge account credit, sometimes called "book" credit, may be extended in connection with (1) the sale of goods, wares, or merchandise, or (2) the performance of some service. Usually the terms and conditions connected with payment are informally understood and are determined by custom among merchants. Under the law of sales, there is an implied promise on the part of the buyer to pay in accordance with these customs or methods of dealing. Among city merchants, practice usually requires that the credit so extended be liquidated by the 10th of the month following the month in which purchases are made. In rural areas this time may be longer and payment may be expected or required to be made at certain seasons when crops are sold. In actual practice, however, the average amount of time taken to liquidate the average charge account on the books of the average city merchant is between 45 and 60 days.

When articles of merchandise are bought on charge account, the buyer gets the title to the merchandise immediately. His obligation to the seller is general and without specific reference to the articles purchased, or security for the liquidation of such obligation. The essential elements upon which charge account credit is extended to the buyer are: (1) his moral character, (2) his capacity to pay out of current income, and (3) his accumulated financial resources. These are sometimes referred to as the three C's of credit —character, capacity, capital. Charge account credit is used widely by retail stores, grocers, general retail merchants, department stores, and similar types of retail establishments. The number of such establishments runs into the thousands.

In general, retail merchants who extend charge account credit carry such accounts on their books to maturity. If these are carried for the usual period, no charge, separately designated, for this credit service is made. The necessary costs are included in the original price of the goods sold. If the merchant needs capital to handle his accounts, he will either borrow the amounts needed and pledge the accounts as security for such borrowings, or will discount these accounts with a commercial bank, sales finance company, or other commercial finance company specializing in handling accounts receivable.

The Federal Reserve Board's estimates show that charge accounts outstanding in the United States on Dec. 31, 1947, amounted to $3,598,000,000, the largest single consumer credit item.

Service Credit

Service credit may be variously defined, but as the term is here used it includes credit extended in connection with the performance of services—professional or manual. Such credit is extended usually by doctors, dentists, hospitals and other such groups. In previous years this type of credit has been extended upon the same informal basis as has charge account credit for merchandise. In recent years, however, there has been a growing tendency to place it upon a more formal basis in cases where the amounts involved are substantial. Frequently contracts are signed by the recipients of such services wherein it is stipulated that instalment payments are to be made on the obligation at stated intervals.

There are no detailed data as to the number of professional persons or organizations extending service credit, but the Federal Reserve Board estimates show $921 million of such credit outstanding on Dec. 31, 1947.

Instalment Sale Credit

Instalment sale credit is used principally in connection with the sale of articles involving substantial sums of credit, such as automobiles, refrigerators, stoves, washing machines, or similar durable goods. These sales involve a formal agreement between the seller and the buyer, based upon a definite undertaking whereby the buyer agrees to pay the balance of the agreed purchase price in instalments, at stated intervals, and over a period of time. Such contracts in legal form may be either (1) a conditional sale contract, (2) a sale coupled with a purchase money chattel mortgage, or (3) a bailment lease.

Under a conditional sale contract, the buyer has possesion of the article purchased, but the seller retains title to the article sold until the payment of the purchase price is complete, at which time the buyer, by terms of the contract and by operation of law, gets absolute title. In the case of a sale coupled with purchase money chattel mortgage, through the mortgage, the seller retains security title until the purchase price is paid. Under the bailment lease, which is used only in Pennsylvania, the legal effect is somewhat the same as under a conditional sale contract.

Most retail **instalment** sellers have **two** sale prices at which goods are offered—a "cash" price and a "time payment" price. The difference between these two prices is known in law as a "time price differential," but is commonly referred to by instalment buyers as a "finance charge." In fixing this "finance charge" the retail dealer must consider two major groups of costs: (1) additional costs incurred for bookkeeping, collection, risk of loss, and other such items connected with the "time sale" and (2) his "discount" cost, should he later sell or discount the instalment sale contract.

Most retail dealers who sell a large volume of consumer durable goods find it necessary to sell or "discount" their instalment contracts, or otherwise secure funds to carry on their business. These retail dealers must therefore anticipate the amount of this "discount and other costs, and include these sums in their instalment selling prices so that they may, upon selling the contract, realize their net cash price for the goods which they have sold on an instalment payment basis.

Sales Finance Companies

It is in connection with the discounting or sale of these dealer instalment sales contracts that the specialized financial organizations known as **sales finance companies** function and render financial service to both retail dealers and to instalment buyers. The development of sales finance companies began in the United States around 1910, but their real growth may be dated from the early 20's, the period immediately following World War I. The peak, in terms of their number, was reached about 1925; and, although the volume of business handled by them has increased, the number of such units has declined since that peak. At present there are about 500 such companies in the United States. There are perhaps an additional 2500 organizations that purchase small amounts of paper, as a more or less minor activity, while engaged in other types of financial activities.

A substantial number of commercial banks, especially in the larger towns and cities, also purchase dealer paper and serve retail dealers in much the same fashion as do sales finance companies. This activity on the part of these banks is a recent development. Earlier banking organizations generally refused to handle instalment paper and looked with disfavor upon the principle of instalment selling. Even now, most banks in the consumer credit field have as their chief activity, lending or "money credit" operations rather than the purchase of instalment sales paper.

Sales finance companies may be classified as national, regional, or local companies. The operations of national companies cover the entire country; those of the regional companies, a given region or area; and local companies usually operate within a single state or within a county or counties within a state. These companies may also be classified as independent, factory-owned, or factory-affiliated, depending upon the relation to a manufacturer. During recent years the Federal Government has compelled the severance of certain manufacturer-sales - finance - company relations in the automobile field as being violative of the Anti-Trust Laws.

Sales finance companies compete with each other for the privilege of buying retail instalment contracts from dealers, and the amount of the "discount" which the dealer must take on his contract is determined by this competition. This competition, however, does not determine directly the amount of the dealer's "finance charge," although it may save some indirect effect upon this charge.

Sales Finance Companies and the Instalment Buyer

Two separate steps take place before a relationship is established between an instalment buyer and a sales finance company:

Step 1—The creation of an instalment sale contract between the retail dealer and the instalment buyer, and

Step 2—The transfer of the instalment sale contract by the retail dealer to the sales finance company, by discount or sale.

The sales finance company is not a party to the instalment sale contrast until the second step takes place. Instalment buyers, generally, have not understood the nature of this three-party transaction and hence do not have, in many instances, a clear picture of the part the dealer and the sales finance company each plays in creating the relation with the instalment buyer.

In contemplation of law, the primary responsibility for fixing the "time price," "finance charge," or other similar charge — that which the instalment buyer pays —rests with the retail dealer selling the merchandise, and the dealer is free to determine the amount of this charge, subject to agreement by the buyer. When a sales finance company acquires a contract it procures an instrument already completed, and any and all rights acquired thereunder, and obligations imposed thereby, flow from the contract which the sales finance company gets from the retail dealer.

Kinds of Instalment Sale Credit

For purposes of summary tabulation the Federal Reserve Board divides instalment sale credit into two main groups: (1) automobile and (2) other. In normal times automobile instalment credit comprises the largest single amount of instalment credit. However, during the war period it declined to a very low point and has not as yet returned to its prewar percentage of the total of consumer credit.

As of the end of 1947, automobile instalment credit outstanding in the United States amounted to $1,159,000,000 and other instalment sale credit outstanding totaled $1,684,000,000.

Comparative Importance of Groups

We want to conclude this discussion by noticing the comparative importance of each of the types of consumer credit we have described. What percentage of the total of all consumer credit is represented by the total for each of the groups we have mentioned? How does each fit into the overall pattern of disposable income of the Nation? Time will not permit an exhaustive review of these two questions, but some general observations will point out further the "structure" aspects of our topic.

On the question of the percentage of each group to the total of all consumer credit, the following comparative summary for the years, 1929, 1941, 1943, 1946, and 1947 will be helpful:

Percentage of Total Consumer Credit Outstanding

At End of Year Shown (Source—Federal Reserve Board)

CLASSES OF CREDIT	1929	1941	1943	1946	1947
Money Credit					
1. Instalment Loans	8.5	22.0	21.5	23.8	24.8
2. Single Payment Loans	27.9	16.2	22.3	22.3	20.2
3. Total Money Credit	36.4	38.2	43.8	46.1	45.0
Sale Credit					
1. Charge Account					
Merchandise	22.9	17.8	28.1	30.0	26.9
Service	7.8	6.2	12.9	8.6	6.9
Total	30.7	24.0	41.0	38.6	33.8
2. Instalment Sales					
Automobiles	17.3	19.6	3.2	5.3	8.7
Other	15.6	18.2	12.0	10.0	12.5
Total	32.9	37.8	15.2	15.3	21.2
3. Total Sale Credit	63.6	61.8	56.2	53.9	55.0
Grand Total	100.0	100.0	100.0	100.0	100.0

A number of observations may be made from this summary, but only a few will be mentioned. Note the following:

(1) In normal times sale credit represents between 60% and 65% of all consumer credit outstanding, and money credit 35% to 40%. At the end of 1947, sales credit represented 55% of the total and money credit 45%.

(2) Immediately prior to, and during, the war period instalment loans as a percentage of the total, did not fluctuate as widely as some other forms of credit.

(3) Instalment loans and single payment loans have represented **approximately** the same percentage of total consumer credit, over a period of time, although instalment loans show a larger percentage at the end of 1947.

(4) During the war period and since, charge accounts for merchandise have represented the largest single percentage of the total.

(5) The percentage represented by automobile instalment credit has been increasing since the low point in 1943; and although the 8.7% figure at the end of 1947 is still far below the 19.6% figure for 1941, the low was 3.2% at the end of 1943.

(6) Instalment sale credit, automobile and other, represented 21.2%, the total at the end of 1947, compared to 37.8% at the end of 1941.

Relation to Disposable Income

Others on the program will discuss the volume aspects of consumer credit. However, we would like to allude briefly to the general relationships between the total amount of consumer credit handled by each of the groups comprising the consumer credit structure and the national disposable income. The following summary affords comparisons for the years 1929, 1941, 1943, 1946 and 1947:

Percentage Year-End Outstandings Each Class Is of Disposable Income For Years Shown

(Sources—Department of Commerce and and Federal Reserve Board)

CLASSES OF CREDIT	1929	1941	1943	1946	1947*
Money Credit					
1. Instalment Loans	.79	2.36	.86	1.52	1.89
2. Single Payment Loans	2.57	1.74	.90	1.42	1.54
3. Total Money Credit	3.36	4.10	1.76	2.94	3.43
Sale Credit					
1. Charge Accounts					
Merchandise	2.12	1.91	1.13	1.92	2.05
Service	.72	.66	.52	.54	.53
Total	2.84	2.57	1.65	2.46	2.58
2. Instalment Sales					
Automobile	1.59	2.11	.13	.34	.66
Other	1.45	1.95	.48	.64	.96
Total	3.04	4.16	.61	.98	1.62
3. Total Sale Credit	5.92	6.73	2.26	3.44	4.20
Percentage Total Credit is of National Disposable Income**	9.25	10.75	4.05	6.40	7.63

*Figures preliminary—based upon disposable income of $175.3 billions.

**Will not total because of rounding figures in body of table.

It may be noted that as of the end of 1947 total consumer credit outstandings represented 7.63% of a disposable income amounting to $175.3 billions for the year. The percentage for sale credit was 4.20% and for money credit 3.43%. Instalment sale credit represented 1.62% with less than half of this, or .66%, being represented by automobile. Other comparisons may be made by reference to the table, but the data show plainly that the volume of consumer credit outstanding has not returned to its prewar percentage of disposable income.

Conclusion

These are the highlights of the structure of consumer credit in the United States. From these it is clear that consumer credit has become an integral part of our American way of life. An intelligent understanding of it in the classroom, in business, in the home and on the street will be beneficial to all. Millions of Americans still believe that "credit used and not abused is capital that never fades away."

Public Responsibility in Business

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performance of this country during World War II, but what has happened since then. We have come out of the wartime period going full blast. Gross national product was $230 billion last year. Domestic demand for goods is enormous and stores are crowded. Our colleges and universities are hard pressed to accommodate eager applicants.

In 1947, gross private domestic investments rose to an annual rate of $28 billion—almost twice the 1929 rate. Meanwhile, the nation has undertaken huge commitments to help other people in the world.

Democratic Capitalism, far from needing either a physician or an undertaker, is enjoying good appetite and great ambition.

It is not uncommon these days to hear that the wealth of our nation is due in large measure to the fact that we fell into the cream pitcher so far as natural resources are concerned. This is *not* the key to our success. There are many parts of the world with equal or greater natural resources. The simple truth is that wealth is not found, but is made. Wealth does not exist until men and women come along and use not only their *hands* but their *heads* and their *hearts* to create it. The accomplishments of our country are due to the great productive power that was developed when a whole nation of men and women were given freedom of opportunity under law.

The American people are proud of past accomplishments. But they do not propose to rest there. In their desire to get on to new goals, they have thrown a challenge to American business and industry that we cannot ignore.

This is another way of saying that the freedom given to free enterprise in America—like the freedom enjoyed by any individual—has its price tag. That price tag is obligations to society as a whole. Our obligations must be met continuously if we are not to forfeit our freedom.

Business Responsibilities Not New

There is nothing new in the idea that businessmen have responsibilities as well as opportunities. I certainly do not want to convey the impression that I think it *is* something new.

But the desires of people today present us with a new type of responsibility—new hard problems that American industry must face.

No one can observe the events of the past few years without a realization that the American people have come to expect a very great deal indeed from business. Having achieved a standard of living which is the envy of people everywhere, we look forward to new goals—and I am very much impressed with growing evidence that the American people look to business to take leadership in working toward these goals.

Public opinion polls show, for example, that in periods of unemployment the popularity of business takes a nose dive. We see the same loss of confidence in periods of widespread strikes. During such periods the American people tend to lose patience with those of us who are in business. In such times it is almost futile to try to explain complicated economics, to try to get people to understand that there are forces beyond the power of any business to control. To the American people it is a problem that must be solved. They look to their leaders to get on with the solution. And high among their national leaders they rank men of industry.

Better Understanding Between Business and People

A vitally important area of our responsibility, it seems to me, is the pressing need to establish better communications between business and people—the kind of improved communications that lead toward better understanding.

I suppose that all of you are as conscious as I am of the difficulties to be overcome—difficulties that exist not only in business but in government, in education, in labor unions, in the professions, or in agriculture. It is an easy thing to say: "We will tell the public what we are doing." It is a far more difficult thing to seize the attention of people even for a moment and get them to listen. Who of us has not said to himself: "If only I could get people to understand my business and see with me the many complex factors in the situation, then I am sure they would agree with my course of action."

This is a problem to which we must give much time and effort. Business has paid heavily for failures in communication. Because we have been either backward or ignorant about keeping in touch, we businessmen stand indicted on many counts in people's eyes—most unjustly, in my opinion, but indicted nonetheless.

A substantial minority of Americans think we get together in smoke-filled rooms to rig markets and fix prices. Many feel that we hold back improved products, or that big business is almost synonymous with exorbitant profits and salaries.

In my company we keep as close a tab as we can on what people think, not only about Jersey Standard but about business in general. And survey after survey turns up information such as that I have just outlined. Out of this welter of confused and mistaken ideas one big need shines forth: the need for better understanding of the importance of the profit motive as the spark-plug of production, and of increased output per man as the only means for achieving increased real wages and a higher standard of living.

In a way, the ineffectiveness of our efforts at talking with people is rather a paradox. We have the will. Moreover, there are a host of tools at hand to do the job—radio, newspapers, magazines, films. We cannot complain that we lack the means.

Lacking of Skill in Public Relations

What we appear to lack is the skill. Little by little, to be sure, we are becoming more proficient; and it is my hope that we shall be able to step up this proficiency to a point where we will be able consistently to obtain the understanding of people.

This matter of communication is important not only from the viewpoint of self-interest, but from that of the common good. Business is a dynamic and creative force in our society. It is not something separate and apart but is linked and interwoven with our entire way of living. The development of a continuing friction between business and other segments of our society, therefore, would be disastrous for all. It is something that could be hoped for only by those who would weaken our society.

Better communications can prevent the development of friction and lessen any that already exists. A primary responsibility of modern business, then, is to report to the public—to act in the open—to live, as has been said, in a gold-fish bowl.

Of course, skill in communications is not the end. There must be something to communicate.

What are some of the problems for whose solution the public looks to business for responsible leadership?

A major current obligation is that of supply. The reason for any company's existence is, of course, to meet a human need. It must try to supply the kind of goods that people want, when and where they require them. Today, largely

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as a result of inability to replace and expand equipment during the war years, it is not easy to supply people's wants in some lines.

Oil Supply and Business Gain

This creates a problem, and it is up to business to do all it can to solve it. This means that managements cannot always consider economic factors alone when making decisions. In order to meet a public need it may often be necessary to undertake actions which would normally be vetoed from a narrow profit-and-loss viewpoint. In my own company, for example—and I am sure there are others which have done the same—our funds available for reinvestment are being used primarily for facilities which will increase supply. We have refrained from undertaking some ventures which promised far more attractive returns but which would not have increased the oil supply.

In connection with supply responsibility, this audience may be interested in our views on the oil situation. The industry has felt the full force of the tremendous up-surge in the national economy. This year the American people will use almost double the oil consumed ten years ago. Oil production will be 17% more than the output of the peak war year —1945.

To help meet this sky-rocketing demand we have, on the one hand, stretched to absolute capacity every bit of equipment at our disposel. On the other hand, we have invested huge sums in a program of expanding productive capacity at a rate the greatest by far in our history. Hundreds of oil companies are doing the same.

As a result, we expect that the industry can supply as much as 8% more gasoline this summer than last. Next winter the industry should be able to supply all existing heating oil customers and new dwellings which will require oil rather than some other fuel. No prolonged local shortages or breakdown in distribution can reasonably be expected under present conditions. There may be minor, temporary and localized shortages. Individual service stations here and there may be out of gas for short periods. Naturally, if present conditions change radically—if military needs increase greatly or if major strikes occur—oil, like almost any other commodity under similar conditions, might well be in short supply.

The Price Problem

Another matter of concern to the American people today is prices.

The action which the management of a particular company should take on prices is not always an easy and simple thing to decide. There are, for example, economists who will maintain that it is *irresponsible* for a company to reduce its prices when, because of factors beyond its control, it is already having to strain to meet demand. These economists will point out that the price reduction will have a tendency to expand demand, and thereby to increase still further the strain on our productive system. I may say that in my own company we were aware of this argument. However, we felt that an increasing oil supply would tend to abate upward pressure on price and that, in the meanwhile, by holding our prices even for a relatively short time, we could help avoid price spirals.

As I hardly need point out to this audience, there are many factors affecting prices which are beyond the control of businessmen. These factors include government debt, taxes, prices in other fields such as agriculture, wages, the import-export balance, and so on.

Further, businessmen must take into account their costs of doing business and the earning of a reasonable profit if they are to keep their concerns in existence, continuing to supply goods for consumers and employment for workers.

To the full extent that they are able, however, businessmen must exert themselves to prevent runaway prices. Several American companies *have* taken action of this kind, and although they have not been able to stop the tide, I believe that their efforts have at least had the effect of slowing it. Certainly such conduct is testimony to a clear awareness of public responsibility.

Disposition of Corporate Earnings

A third area in which people look for actions that are conditioned by a sense of public welfare concerns the disposition of corporate earnings. I mention this particularly because we are now at the time of year when companies are issuing their annual reports, and when the newspapers are full of earnings statements.

The profits being reported by American companies are, in many instances, high in comparison with those of past periods. In some cases, they are at record levels. But these figures, standing by themselves, have little meaning. They must be considered in relation to the jobs which profits are called upon to perform. These jobs are related to such factors as growth in population, the number of people served, the volume of goods required, and the purchasing value of money.

What is significant in net earnings, in my opinion, is not so much size but what a company does with them. It is generally agreed that there is a pressing need to enlarge the productive machinery of this country in almost all major lines. This need arises at a time when the cost of constructing new plants and building new machinery is extremely high as a result of inflationary forces throughout the world. Inflation bears also on the people who rely on dividends from business for all or part of their income. These people—who have provided the tools for America's industry by their investments—are like all of us in that they feel the declining value of the dollar.

Under such circumstances managements must exercise great responsibility when deciding what proportion of net earnings to distribute as dividends, and how much to reinvest in plants and equipment.

Preventing Depressions

Still another problem to which the American people want business leaders to give attention is that of depressions in the business cycle.

In this field again, as in that of prices, business does not have sole responsibility. Governments, farmers, labor—the habits of consumers and the hopes and fears of the general public—are all involved. Nevertheless, businessmen must try to minimize the fluctuations and to reduce their harmful effects.

That entails efforts to stabilize employment. That may be difficult, but if the men of industry cannot find ways of achieving more stable employment, people are likely to turn to government. And whenever we turn to government for help in solving our problems, we give up part of our freedom.

No two businesses are exactly alike, and things that are possible in one kind of industry may not work in another. But in the management of my company we have given a great deal of thought to the question of stable employment.

At the present moment, 90% of the domestic employees of Standard Oil Company (New Jersey) and affiliated companies have been continuously employed since the day they were hired.

In the depression of the Thirties, we introduced a "staggered work program" which enabled us to keep a substantial majority of our working force steadily employed. By the careful planning of storage operations in slack seasons, we have been able, in common with the oil industry in general, to level off seasonal peaks and valleys considerably.

In Jersey Standard, employees have been given the security of a Retirement Program, and an opportunity to accumulate savings through a Thrift Program to which the company has consistently been the larger contributor. These are means of reducing the effects of such unemployment as may be unavoidable.

Continuity of Employment

We feel that there is more yet to be achieved in the direction of continuity of employment, and we are now studying means for providing stable employment under almost any reasonably conceivable circumstances.

Of course, no purely financial arrangement reduces in the slightest the need for sound and cordial human relations within a company. Also, I should like to point out that any plan for stabilized employment, or any other program of employee protection, must be based on hard-headed practicality if it is to contribute to true security. The security built by an individual for himself, and even the security of a nation, depend on the strength and resources which each can command. Similarly, any plan looking toward greater employee security must depend on the strength and resources of the company. No such plan is stronger than the concern back of it.

The desire for security is a deep instinct, however, and the wish for stable employment is a part of it. Since business has solved so many other tough problems, it is no doubt only natural for people to look to business for help in solving this one.

No discussion of the topic we are considering tonight would be complete without reference to the responsibility of the citizen—whether individual or corporate—to his country.

It goes without saying that every company capable of producing any sort of goods required for national security must respond fully and promptly whenever called upon. America's industries are Uncle Sam's muscles They have not failed him in earlier emergencies and they will not fail him if one arises again.

While willing to serve without reservation in time of conflict, however, the corporate citizen, like the individual, should hope and work for peace.

Companies with foreign operations have a particular responsibility in this connection. They must recognize that international trade relations may involve political considerations of the highest order, and that policies governing such considerations are the responsibility of our government acting in the best interests of all its citizens.

Companies should not expect greater protection for their interests abroad that is normally afforded by the U. S. Government to any private citizen in overseas trade. When doing business in other countries, they should conduct themselves as good citizens there.

I have now spoken of a number of specific matters. I have pointed out that business is expected to show a sense of public responsibility when it takes actions affecting supply, prices, profits, business fluctuations or international trade. This list is, of course, not complete. There are many other problems on which the public expects responsible action by business—action that will help the people at large to find solutions.

But I have talked of these particular problems because they are current. They are things which are at present in the spotlight. Next month or next year, the problems may be different. But the need for communication, the responsibility for keeping people informed, will remain. Business must have the support of the public, and that support can be achieved only through continuous, effective communication of the facts.

The function of communication assumes larger and larger proportions in business management. To the extent that executives succeed in it, they will contribute to the unity and hence to the strength of our society. I am confident they will not fail.

Observations

(Continued from page 5)

The Council concludes both that complete regimentation should be avoided, and that controls should be exercised in only certain areas. But this end seems quite impossible to accomplish. At just what degree of sweet reasonableness to compromise in the overall movement, or at what areas to limit the encroachment of regimentation, is impossible to determine, either initially or permanently. Can there be sincere doubt, both on the premise of logic as well as experience throughout the world, that the initiation of any controls, no matter how innocuous, must set in motion a chain-reaction of regimentation of the entire economy and involuntary self-enslavement? The attempt to select the controlled areas initially can only accentuate the harm, by fostering a false sense of security. It must be realized that the main cause of the British Labor Government's political troubles is in having made all kinds of promises which turned out impossible to live up to.

Many parts of Mr. Truman's above-mentioned address themselves really demonstrate the difficulties of the planning which he advocates. He pictures the economy as being in great danger, omitting the qualifications cited by his "brains trust," and without indicating when during the rest of the twentieth century the economy will *not* be in danger from either inflation or deflation.

The President expresses worry over the present under-supply of labor. Is it conceivable that he and the other planners will *ever* cease to be concerned over either a shortage of labor or their traditional quest for "full employment"?

As the "outstanding" example of allegedly unwise and unnecessary price increases, he cites the adjustment in the steel industry, about which *cause celebre* three of the Administration's own agencies reported with an equal number of varying conclusions.

The President and the Advisers excoriate the newly-enacted tax reduction and the removal of consumer credit controls because of their stimulation to inflationary consumer spending. But how can the public regard these pronouncements as objective and sincere in the face of the President's own proposals to remit $40-plus per taxpayer and for an ever-higher minimum wage? Does interpretation of the economic facts of life merely depend on whose ox is being gored?

The Real Root of Inflation

The President and the Advisers plead for the necessity of direct price controls for putting the lid on inflation. But the President says not a word, and the Council includes a mere nine-word sentence, about the root causes of the trouble; namely, his Administration's fiscal policies. Certainly the government's persistence in pumping into the economy more dollars than the supply of goods and services can absorb—via easy mortgage credit, housing subsidies and the retention of $31 billion in its agencies and corporations—should at least be taken into account by the planners.

The testimony of Mr. Eccles, quite characteristically of planners' chaos, only complicates further the picture painted by the Administration. The former Reserve Board Chairman, now seemingly "quasi-discredited" by the President, proposes that the inflationary effect of the government's dollar expenditures can be neutralized by isolating them in the banking system. But even if this were practicable, under any conditions, it would necessitate a halt in the continued expansion of dollars. And in saddling the banking system with responsibility for anti-inflation, the other side of the planning-medal here is that a cutting-off of bank-lending for our badly-needed plant enlargement and capital equipment, would limit production and thus act as a highly inflationary element.

Again characteristically, Mr. Eccles' doctrines are inconsistent not only with Mr. Truman's, but even with the New York Reserve Bank of his own System. In its annual report (*cf.* this issue of "Chronicle," p. 20) this branch of the System clearly recognizes the need for *production* in lieu of superficial controls of symptons, calling attention to the dire consequences of *repressed inflation* in Europe.

* * * *

Thus, even before our planning here has fairly gotten under way, we see the portents of inevitable hopeless confusion on the European pattern.

Halsey, Stuart Group Offers Pa. RR. Equips.

Halsey, Stuart & Co. Inc. and associates today are offering $9,600,000 Pennsylvania RR. 2½% equipment trust certificates, series T, due annually $640,000 on each May 1, 1949 to 1963, inclusive. The certificates to be issued under the Philadelphia plan, are offered at prices to yield from 1.45% to 2.75% according to maturity. The sale of the certificates is subject to authorization by the Interstate Commerce Commission.

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(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Harold C. Armstrong is with Gordon Graves & Co., Shoreland Arcade Building.

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. 25	80.0	71.3	95.7	95.0
Equivalent to—					
Steel ingots and castings produced (net tons)	Apr. 25	1,442,000	1,285,200	1,725,000	1,662,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Apr. 10	5,377,400	5,388,700	5,264,850	4,912,950
Crude runs to stills—daily average (bbls.)	Apr. 10	5,568,000	5,475,000	5,407,000	4,637,000
Gasoline output (bbls.)	Apr. 10	16,569,000	*15,735,000	15,608,000	14,130,000
Kerosine output (bbls.)	Apr. 10	2,472,000	2,484,000	2,547,000	2,038,000
Gas oil and distillate fuel oil output (bbls.)	Apr. 10	7,419,000	7,586,000	7,754,000	5,397,000
Residual fuel oil output (bbls.)	Apr. 10	9,168,000	9,084,000	9,292,000	8,185,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Apr. 10	111,589,000	*113,261,000	111,918,000	104,521,000
Kerosine (bbls.) at	Apr. 10	11,438,000	10,930,000	9,677,000	9,492,000
Gas oil and distillate fuel oil (bbls.) at	Apr. 10	33,121,000	32,180,000	32,108,000	30,627,000
Residual fuel oil (bbls.) at	Apr. 10	49,226,000	47,959,000	48,546,000	42,753,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Apr. 10	683,852	661,807	797,033	757,839
Revenue freight rec'd from connections (number of cars)	Apr. 10	586,289	593,504	711,433	626,133
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS-RECORD:					
Total U. S. construction	Apr. 15	$144,579,000	$93,800,000	$90,318,000	$110,091,000
Private construction	Apr. 15	89,086,000	24,951,000	32,729,000	68,872,000
Public construction	Apr. 15	55,493,000	68,849,000	57,589,000	41,219,000
State and municipal	Apr. 15	42,944,000	54,965,000	38,877,000	28,846,000
Federal	Apr. 15	12,549,000	13,884,000	18,712,000	12,373,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Apr. 10	2,325,000	*2,090,000	13,314,000	7,172,000
Pennsylvania anthracite (tons)	Apr. 10	850,000	856,000	1,214,000	975,000
Beehive coke (tons)	Apr. 10	8,600	*9,900	122,700	63,800
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Apr. 10	298	*280	279	265
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Apr. 17	5,086,826	5,032,879	5,145,430	4,660,320
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Apr. 15	101	79	106	68
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Apr. 13	3.23940c	3.23940c	3.23940c	2.86354c
Pig iron (per gross ton)	Apr. 13	$40.11	$40.11	$40.29	$33.15
Scrap steel (per gross ton)	Apr. 13	$40.33	$40.25	$39.75	$34.75
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Apr. 14	21.200c	21.200c	21.200c	21.225c
Export refinery at	Apr. 14	21.550c	21.425c	21.675c	22.750c
Straits tin (New York) at	Apr. 14	94.000c	94.000c	94.000c	80.000c
Lead (New York) at	Apr. 14	17.500c	17.500c	15.000c	15.000c
Lead (St. Louis) at	Apr. 14	17.300c	17.300c	14.800c	14.800c
Zinc (East St. Louis) at	Apr. 14	12.000c	12.000c	12.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Apr. 20	100.82	100.87	100.80	104.48
Average corporate	Apr. 20	112.19	112.19	111.07	117.40
Aaa	Apr. 20	117.40	117.40	116.41	122.50
Aa	Apr. 20	115.43	115.63	114.66	120.43
A	Apr. 20	111.81	111.62	110.52	116.80
Baa	Apr. 20	104.83	104.66	103.47	110.15
Railroad Group	Apr. 20	106.92	106.92	105.69	112.37
Public Utilities Group	Apr. 20	113.89	113.70	112.75	118.80
Industrials Group	Apr. 20	116.02	116.02	115.24	121.04
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Apr. 20	2.44	2.44	2.44	2.20
Average corporate	Apr. 20	3.05	3.05	3.11	2.78
Aaa	Apr. 20	2.78	2.78	2.83	2.53
Aa	Apr. 20	2.88	2.87	2.92	2.63
A	Apr. 20	3.07	3.08	3.14	2.81
Baa	Apr. 20	3.46	3.47	3.54	3.16
Railroad Group	Apr. 20	3.34	3.34	3.41	3.04
Public Utilities Group	Apr. 20	2.96	2.97	3.02	2.71
Industrials Group	Apr. 20	2.85	2.85	2.89	2.60
MOODY'S COMMODITY INDEX	Apr. 20	422.5	419.7	407.4	409.4
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Apr. 17	236.6	231.5	232.1	220.6
Fats and oils	Apr. 17	276.3	269.8	246.1	298.6
Farm products	Apr. 17	258.5	254.5	251.5	245.1
Cotton	Apr. 17	357.4	348.9	322.5	330.4
Grains	Apr. 17	275.7	271.8	266.7	257.9
Livestock	Apr. 17	241.8	233.5	241.0	231.1
Fuels	Apr. 17	220.8	220.8	220.8	169.8
Miscellaneous commodities	Apr. 17	174.8	173.8	173.5	158.3
Textiles	Apr. 17	214.1	212.6	210.8	216.5
Metals	Apr. 17	164.9	163.5	163.5	148.4
Building materials	Apr. 17	227.3	230.4	233.4	203.4
Chemicals and drugs	Apr. 17	156.7	156.7	156.8	155.2
Fertilizer materials	Apr. 17	137.2	137.2	137.7	127.6
Fertilizers	Apr. 17	143.7	143.7	143.7	134.6
Farm machinery	Apr. 17	138.8	138.8	138.1	126.3
All groups combined	Apr. 17	219.0	216.7	216.5	198.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Apr. 10	163,880	233,919	188,104	139,487
Production (tons)	Apr. 10	193,572	186,484	188,587	165,902
Percentage of activity	Apr. 10	103	98	102	96
Unfilled orders (tons) at	Apr. 10	434,430	464,683	481,757	569,809
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Apr. 16	146.5	146.2	145.9	151.2
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Apr. 10	160.6	160.1	159.8	148.1
Farm products	Apr. 10	183.1	183.9	184.9	180.1
Foods	Apr. 10	174.5	172.4	171.2	163.0
Hides and leather products	Apr. 10	186.2	186.0	187.1	173.8
Textile products	Apr. 10	145.5	145.1	145.9	139.6
Fuel and lighting materials	Apr. 10	131.8	131.7	131.7	104.0
Metal and metal products	Apr. 10	157.1	156.6	155.9	140.3
Building materials	Apr. 10	193.4	193.2	192.5	177.9
Chemicals and allied products	Apr. 10	136.8	135.5	136.5	134.5
Housefurnishings goods	Apr. 10	144.7	144.3	143.7	126.7
Miscellaneous commodities	Apr. 10	120.7	121.0	119.5	114.3
Special groups—					
Raw materials	Apr. 10	174.1	174.8	174.9	163.4
Semi-manufactured articles	Apr. 10	153.6	152.9	153.7	146.2
Manufactured products	Apr. 10	156.0	154.9	154.3	142.0
All commodities other than farm products	Apr. 10	155.6	154.8	154.2	141.2
All commodities other than farm products and foods	Apr. 10	147.9	147.7	147.3	132.1

*Revised figure.

	Latest Month	Previous Month	Year Ago
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FED. RESERVE BANK OF NEW YORK — As of March 31—			
Imports	$150,959,000	$167,840,000	$157,709,000
Exports	48,328,000	42,742,000	35,887,000
Domestic shipments	12,261,000	11,344,000	13,508,000
Domestic warehouse credits	10,547,000	12,551,000	13,536,000
Dollar exchange	1,639,000	1,846,000	101,000
Based on goods stored and shipped between foreign countries	17,461,000	16,504,000	7,289,000
Total	$241,195,000	$252,827,000	$228,030,000
BUSINESS FAILURES—DUN & BRADSTREET INC.—Month of March:			
Manufacturing number	136	151	108
Wholesale number	57	35	24
Retail number	194	165	88
Construction number	43	22	13
Commercial service number	47	44	21
Total number	477	417	254
Manufacturing liabilities	$9,243,000	$17,897,000	$11,336,000
Wholesale liabilities	1,684,000	1,346,000	1,647,000
Retail liabilities	3,714,000	3,410,000	1,169,000
Construction liabilities	957,000	1,987,000	341,000
Commercial service liabilities	1,883,000	979,000	758,000
Total liabilities	$17,481,000	$25,619,000	$15,251,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—As of March 31	$311,000,000	$301,000,000	$266,000,000
COTTON SEED — DEPT. OF COMMERCE—			
Received at mills (tons) Aug. 1 to Mar. 31	3,920,323	3,869,610	2,961,165
Crushed (tons) Aug. 1 to Mar. 31	3,516,895	3,190,799	2,679,761
Stocks (tons) Mar. 31	502,956	778,339	399,110
COTTON SEED PRODUCTS—DEPT. OF COMMERCE—			
Crude Oil—			
Stocks (pounds) Mar. 31	87,096,000	117,424,000	72,546,000
Produced (pounds) Aug. 1 to Mar. 31	1,089,080,000	983,918,000	837,862,000
Shipped (pounds) Aug. 1 to Mar. 31	1,066,578,000	942,185,000	825,034,000
Refined Oil—			
Stocks (pounds) Mar. 31	182,203,000	158,523,000	191,688,000
Produced (pounds) Aug. 1 to Mar. 31	933,610,000	809,982,000	730,334,000
Cake and Meal—			
Stocks (tons) Mar. 31	86,060	85,139	128,193
Produced (tons) Aug. 1 to Mar. 31	1,630,288	1,475,900	1,182,567
Shipped (tons) Aug. 1 to Mar. 31	1,591,169	1,437,702	1,086,002
Hulls—			
Stocks (tons) Mar. 31	43,100	56,505	52,718
Produced (tons) Aug. 1 to Mar. 31	793,114	720,332	625,462
Shipped (tons) Aug. 1 to Mar. 31	785,822	699,635	598,669
Linters—running bales—			
Stocks Mar. 31	161,285	181,276	106,768
Produced Aug. 1 to Mar. 31	1,100,834	996,407	861,265
Shipped Aug. 1 to Mar. 31	1,019,293	894,875	789,551
Hull Fiber (500-lb. bales)—			
Stocks Mar. 31	713	1,536	931
Produced Aug. 1 to Mar. 31	15,867	14,169	16.165
Shipped Aug. 1 to Mar. 31	15,455	12,934	15,737
Motes, grabbots, etc. (500-lb. bales)—			
Stocks Mar. 31	20.000	18,852	13.576
Produced Aug. 1 to Mar. 31	38,866	34,693	34,137
Shipped Aug. 1 to Mar. 31	29,379	26,354	22,291
FAIRCHILD PUBLICATIONS RETAIL PRICE INDEX 1935-39=100 (COPYRIGHTED) AS OF APRIL 1:			
Composite index	140.5	140.3	135.2
Piece goods	143.3	142.9	139.8
Men's apparel	139.4	139.2	134.3
Women's apparel	136.3	135.9	130.3
Infants' and children's wear	129.1	129.6	124.3
Home furnishings	147.0	146.8	141.7
Piece goods—			
Silks	129.1	128.7	132.8
Woolens	137.9	137.6	134.3
Cotton wash goods	167.2	166.9	153.1
Domestics—			
Sheets	181.5	179.6	168.6
Blankets and comfortables	140.2	140.1	137.8
Women's apparel—			
Hosiery	107.2	107.3	111.3
Aprons and housedresses	147.0	147.3	143.1
Corsets and brassieres	133.0	133.1	133.5
Furs	155.1	155.1	143.5
Underwear	137.9	136.6	128.6
Shoes	140.6	139.8	129.0
Men's apparel—			
Hosiery	139.9	139.7	137.2
Underwear	153.1	152.2	143.6
Shirts and neckwear	132.4	132.4	129.5
Hats and caps	126.8	126.8	128.0
Clothing, including overalls	130.8	130.9	126.5
Shoes	167.5	167.6	154.6
Infants' and children's wear—			
Socks	129.9	131.6	125.8
Underwear	120.7	120.6	117.5
Shoes	144.8	144.3	137.9
Furniture	150.1	150.1	145.3
Floor coverings	154.0	153.5	147.9
Radios	123.6	123.6	123.7
Luggage	130.6	130.5	127.4
Electrical household appliances	137.8	138.0	131.7
China	132.6	132.5	127.6
NEW YORK STOCK EXCHANGE— As of Mar. 31 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$549,973	$536,636	$576,097
Credit extended to customers	61,664	56,968	64,684
Cash on hand and in banks in U. S.	375,741	396,428	410,873
Total of customers' free credit balances	591,930	596,416	677,170
Market value of listed shares	67,756,696	63,158,207	67,608,063
Market value of listed bonds	134,166,852	136,313,176	140,977,684
Stock price index, 12-31-24=100	75.5%	70.5%	79.4%
Member borrowings on U. S. Govt. issues	$68,502	$74,121	$101,427
Member borrowings on other collateral	203,814	217,026	200,531
REAL ESTATE FINANCING IN NON-FARM AREAS OF U. S. — HOME LOAN BANK BOARD — Month of Feb. (000's omitted):			
Savings and Loan Associations	$252,290	$263,649	$235,096
Insurance companies	65,853	79,812	46,608
Banks and Trust Companies	204,388	226,068	211,091
Mutual Savings Banks	33,169	49,317	35,155
Individuals	150,461	161,773	143,880
Miscellaneous lending institutions	115,713	128,828	98,265
Total	$826,874	$909,447	$770,095
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of March:			
Net sales	------	------	$4,700,000
Net purchases	$106,764,000	$177,355,550	------

The Latin American Market Today

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America has been noted, but it is necessary to consider the situation in particular countries in order to indicate the variation in the importance of the United States in the trade of individual nations. In the prewar period, 1933-1938, the United States participated in the total import trade of selected American Republics as follows: Cuba, 68%; Mexico, 60%; Chile, 28%; Brazil, 23%, and Argentina, 16%. During the same period the United States took the following percentages of exports from those countries: Cuba, 79; Mexico, 61; Brazil, 37; Chile, 20, and Argentina, 12.

While most of these nations shared in the generally increased trade of the United States with Latin America during and after the war, differences between the countries are to be noted. Percentages of imports from and exports to the United States in 1946 for certain of the countries were, respectively: Mexico, 84 and 73; Cuba, 77 and 67; Brazil, 58 and 42; Chile, 41 and 37, and Argentina, 29 and 15. Available 1947 figures indicate an increase in the United States share of imports into these countries and an increase in our position as a market for the exports of Chile and Cuba. Slight declines are indicated in our position as a market for the exports of Argentina and Brazil.

Latin America, likewise, is of significant importance in the *total* of United States trade. During 1947, the Latin American Republics supplied us with merchandise valued at $2,156,900,000, or 38% of our total imports, while our exports to that area, valued at $3,857,000,000, constituted 27% of all United States exports.

Argentine was the principal Latin American buyer of United States goods in 1947, with a total of $682,700,000, thereby displacing Mexico from the leading position it occupied for the past several years. United States exports to other countries, next in order of importance, were as follows: Brazil, $644,100,000; Mexico, $627,500,000; Cuba, $491,900,000; Venezuela, $426,800,000, and Colombia, $218,800,000.

Machinery and vehicles constituted the most important group of exports to Latin America. The value of items making up this group amounted to $1,666,900,000, or 43.5% of total United States exports to the region. Metals and manufactures, valued at $514,800,000, ranked next in importance, accounting for 13.4% of the total and exceeding considerably the remaining groups.

Argentina

Argentina's economic activity in 1947 remained at a high level, sustained by a continued strong demand for its export products and the government's promotion of the Five-Year Plan, which officially was inaugurated on Jan. 1, last year.

The value of Argentina's 1946 imports ($570,100,650) and exports ($1,183,189,180), the highest recorded since 1910, was surpassed during the period January-November, 1947, when imports and exports were valued at $1,121,864,000 and $1,394,180,000, respectively.

Of greater significance than the totals thus far registered for 1947 was the fact that, beginning in May, imports exceeded exports—a situation not experienced since 1940—resulting in a drain upon the gold and foreign exchange reserve of the Argentine Central Bank.

The Central Bank on Jan. 20, 1947, had placed all imports under the exchange permit system and in May it began suspending the granting of such licenses for items deemed non-essential by reason of being locally produced, or adequately stocked, or because of their very nature. In succeeding months the number of items subject to suspension grew to include more than 1,000 Argentine tariff classifications. Finally, on Aug. 22, as a consequence of the announcement by British authorities of the suspension of the convertibility of sterling, the Central Bank suspended temporarily the granting of exchange permits for all imports.

Shortly thereafter the suspension was lifted to permit the entry of certain essentials. This list was revised and expanded on Sept. 17 to include other goods considered indispensable or noncompetitive; these articles, which have been enumerated specifically by the Central Bank, at present constitute the only items for which exchange permits will be granted.

Another factor of importance, particularly with reference to Argentina as a market for United States goods, is the increased emphasis of that country on hemispheric development and international trade. During 1947, Argentina entered into trade and financial agreements with a number of countries, including Bolivia, Czechoslovakia, France, Italy, Rumania and Switzerland. These agreements provide in general for exchanges of specified commodities in stipulated amounts and, in some cases, the establishment of credits to cover excess imports of the signatory country in its trade balance with Argentina.

Brazil

Brazil's foreign trade in 1946 amounted to $981,459,000 in exports and $670,978,000 in imports. Total trade for the first 11 months of 1947 exceeded that of the entire preceding year, with exports and imports amounting to $1,042,376,000 and $1,096,611,000, respectively.

Principal imports into Brazil are machinery, apparatus, utensils and tools; wheat; iron and steel manufactures; vehicles, including passenger cars, trucks and buses, and accessories; chemicals, drugs and pharmaceutical specialties; coal and coke; iron and steel semi-manufactures; paper and manufactures; petroleum products; and wood pulp. The United States is the principal supplier of most of these categories.

Despite the high level of imports, deferred demand in Brazil remains strong, particularly for machinery and apparatus. However, the trend toward a passive trade balance and the consequent drain upon gold and foreign exchange holdings necessitated government exchange-control measures which restrict the effectiveness of pent-up Brazilian demand. For the first nine months of 1947 the adverse balance of Brazil's foreign trade amounted to $81,061,000. However, the import balance with the United States amounted to $260,698,800, compared with an export balance of $5,660,400 during the comparable period in 1946.

Brazil in June ordered a new system of exchange control involving a five-category priority schedule covering all remittances abroad; imports are affected by only the first and fourth categories. First category treatment, or preference in the distribution of exchange, is accorded specified goods rated as essential to Brazil's economy—principally raw materials, machinery and transportation equipment. All other imports are classified in the fourth category, for which exchange is more restricted.

The import licensing system applies only to a restricted number of commodities which are affected also by the exchange priority classifications.

The exchange regulations of Brazil do not in themselves prohibit the importation of merchandise. Rather, by establishing priorities for the purchase of foreign exchange and by limiting exchange sales to current acquisitions, it is hoped to equilibrate the balance-of-payments position by means of delays in payment rather than by quantitative restrictions on imports. However, on Feb. 25, 1948, a law was passed authorizing the government to institute a prior import-permit requirement with respect to all but a few essential commodities. This authority when fully implemented may be used directly to restrict imports quantitatively.

During the latter part of 1947, primarily because of the foreign exchange restrictions, Brazil's over-all import trade was declining gradually, with receipts of goods in the fourth category of priority falling off sharply; and a substantial reduction in the import balance with the United States was indicated. The attitude of the government toward foreign trade was to facilitate the granting of exchange only for essential category items; to encourage exports to hard-currency areas; and to permit the importation of non-essential items, where expedient, from soft currency areas with which balances difficult of conversion exist, in preference to hard-currency sources.

Mexico

Despite decreasing business activity in Mexico in 1947 and restrictive measures instituted during the last half of the year, preliminary figures indicate that 1947 represented an all-time high in Mexico's international trade. The increased demand for imported products can be attributed to several factors, including war-created backlogs and the effect of six years' emphasis on industrialization, which has increased the country's over-all demand for foreign commodities although the demand for certain items has decreased.

The great activity registered in foreign trade during the first six months of 1947, when imports were valued at $359,264,000 and exports at $223,922,000, was a matter of grave concern to the government, for, notwithstanding record high value for exports during that period, monthly imports were progressively larger.

In July, 1947, the government took steps to check the heavy inroads being made into foreign exchange reserves by issuing two decrees, suspending temporarily the importation of certain goods regarded as non-essential and increasing import duties on an additional selected group of commodities.

Effects of the new import controls were reflected in lower values of imports during the third quarter of the year, but this downward trend was reversed in the fourth quarter. The import balance for the first nine months of the year amounted to $167,479,000, and at the year's end stood at $222,184,000.

In November, the Mexican import tariff was rewritten because the government felt that an adequate margin of protection to agriculture and industry no longer existed, inasmuch as the applicable tariff schedules, which provided specific rates almost exclusively, had been negated by the steady rise in prices since 1940. The upward revision, which affects several thousand items, is designed primarily to recover at least the former rate of protection, although it is hoped that collateral benefits in the form of larger total revenues and reduced demands on foreign exchange reserves will accrue to the government.

Subsequently, on Dec. 15, 1947, items in Schedule I of the United States-Mexico Trade Agreement, which had been retained at their original rates in the November tariff revision, were provisionally converted to ad valorem or compound rates at levels equivalent to those prevailing in 1942, pending a more definite revision of Schedule I. Negotiations for such a revision are to be undertaken following the recent conclusion of the United Nations Conference on Trade and Employment at Habana.

The list of luxury and semi-luxury articles subject to prior import license under the terms of a decree of 1944 and subsequent modifications remains in effect, and the Mexican Government recently extended the prior-import-license requirement to all good subject to export license in the United States.

It is expected that the various measures taken by the Mexican Government will operate to effect a balance in the country's international payments. These measures, of course, will affect principally the United States exporters inasmuch as this country in recent years has been supplying more than 80% of Mexico's imports. However, available figures for 1947 indicate a somewhat larger volume of European participation in Mexico's foreign trade, with increases registered for the United Kingdom, France, and Belgium, and the reentry of the Netherlands and Greece.

Cuba

Although there were halts or declines in some Cuban industrial and commercial activities during 1947, peak monetary circulation and holdings existed, wage levels were the highest in the history of the country, and foreign trade attained the greatest volume since 1920. These conditions were largely a result of the high receipts from the record sugar crop of approximately 6,500,000 short tons, most of which was sold to the Commodity Credit Corporation at the increased average price of 4.9625 cents per pound f.o.b. Cuban ports, compared with 4.18 cents per pound for the smaller 1946 crop. The decline in certain commercial and industrial activities was due principally to efforts to meet the highly competitive situation emerging from the comparatively rapid trend from a seller's to a buyer's market.

During the year, stock positions of most consumer goods improved considerably, in consequence of increased deliveries on the part of manufacturers and, especially, the greater concentration of shipments to the Cuban market because of the absence there of exchange or import controls. Such products as radios, electric fans, and other household appliances were reported in amply supply, although imports of refrigerators, washing machines, and electric ranges still were insufficient to meet current demand.

Principal imports were foodstuffs, machinery and vehicles, and textile fibers and manufactures—an indication of the island's relatively large dependence upon outside sources for basic consumer goods. Many foodstuffs still are in short supply, and deferred demand continues for certain iron-and-steel construction products, other building materials, and new automobiles and accessories, backed by ample foreign-exchange holdings which continued to increase during 1947.

Venezuela

Available information indicates that Venezuela's foreign trade in 1945 exceeded the all-time peak in both quantity and value established in 1944, and that its trade in 1946 and 1947 established new records. Machinery, instruments and apparatus, foodstuffs and beverages, metals and manufactures, and textiles are the leading import groups in Venezuela, and the United States is the principal supplier.

Venezuela has enjoyed a favorable balance of trade for years and has reserves of dollar exchange and gold valued at more than $270,000,000. There is no exchange control insofar as payments for imports are concerned.

The rising volume of imports during 1947 materially relieved the internal supply situation in Venezuela, and, as the year ended, most importers possessed substantial stocks of merchandise in the majority of commercial lines. The market was slow for hardware, household wares, electrical materials and fixtures, cotton textiles, automobile parts, and certain other commodities. No important scarcities were apparent, except with respect to construction materials, but demand for machinery, technical equipment, and office machines was keeping pace with supply.

Colombia

Shortages of supplies from abroad during the war years, plus war-engendered prosperity, have created a relatively large deferred demand in Colombia for products of all kinds. This demand—and continuing high profits of Colombian industries, coupled with uncertainty concerning the international situation—has given rise to a rather general program of business and industrial expansion.

Expansion has been restrained, however, by the increasing exchange problem arising from a growing unfavorable balance of trade as imports mount. Despite frequent revisions and tightening of the exchange and import control system during the year, including the virtual suspension of the granting of import licenses on two occasions, preliminary figures indicate that 1947 was the peak year in the foreign trade of Colombia.

In 1946 the value of imports were $230,019,742 and of exports, $200,898,570. The United States supplied 69% of Colombia's imports by value, and received 82% of the country's exports. Imports and exports for the period January-November, 1947, amounted to $315,879,000 and $219,492,000, respectively. Exports of coffee, Colombia's principal export crop, were expected to reach about 5,500,000 bags in 1947. Although this estimate places coffee exports at slightly less than the total registered for 1946, the very favorable coffee prices prevailing during 1947 were expected to produce the greatest revenue from coffee exports in the history of the country.

Under the Colombian import and exchange control system, an import license is required for all imports, except parcel post and air express shipments, the value of which does not exceed $28.50. Merchandise is divided into various categories for the purpose of allotting available exchange in accordance with the importance of the respective categories to the Colombian economy. Further refinements of the Colombian control system include the assignment of basic individual import quotas to importers, pro-rated quarterly among the various categories of goods, and the issuance of three types of special licenses, for the importation of preferential and first category goods, to importers who are able to arrange credit terms longer than those usually granted by commercial practices.

As the year ended, controls had braked the alarming outflow of dollar exchange experienced earlier, and exchange authorizations and dollar receipts were approaching equilibrium. The restrictions, of course, had an effect upon the availability of imported goods, and numerous articles including textiles and building supplies were reported in short supply. Importers of less essential items were experiencing increasing difficulties in bringing in sufficient quantities to keep their establishments operating.

Effects of ITO and ERP

In the foregoing discussion, the possible effects of the ITO and the

European Recovery Program have not been appraised.

At the time this article was written, the Charter for the proposed International Trade Organization was just approaching the final stages (it was signed March 23, 1947); and the General Agreement on Tariffs and Trade signed at Geneva by 23 countries, including Brazil, Chile, and Cuba, has not entered yet into full force and effect. The benefits to be derived from these measures will not be immediate, by reason of many non-tariff factors currently distorting world trade. The Charter and the General Agreement, therefore, must be regarded as parts of a long-term program having as its purpose the stabilization, liberalization, and eventual expansion of world trade when greater stability exists in the economies of the cooperating countries.

The effects of the European Recovery Program upon Latin America, once the program is implemented, are difficult of assessment. In general it may be said that the overall effects will depend upon (1) the extent to which the Latin American countries can make available increased amounts of some of the commodities needed by the program for purchase by the United States, thus providing additional dollar exchange to the area; (2) the extent to which the United States will be able to supply needed commodities; and (3) the degree of restoration of European sources of supply and markets, effected as the program progresses, bringing about a more balanced distribution of the trade of the American Republics.

The Railroads in 1947 and After

(Continued from page 13)

brotherhoods say, "Here we are, the only large segment of American industry which does not have the 40-hour week. Our men work 48 hours per week, and we should be brought into line with other workers." There is a complete answer to that position, which is this: In the first place, these men were exempted from the Fair Labor Standards Act which established the 40-hour week, not as the result of anything which their employers sought to impose on them, but because they themselves asked Congress to exempt them, preferring the larger take-home pay that came with the longer work week to the additional leisure of the 40-hour week. Although the railroads have always believed that it is the money in the pay envelope at the end of the week that buys the groceries and pays the rent, rather than the rate of hourly earnings, the men have succeeded pretty well in convincing arbitration boards and emergency boards that the proper comparison is between their hourly earnings and those in outside industry, with the result that having built up their hourly rates through such comparisons, and having gotten the 18½-cent increase in 1946 that other employees got in consideration of the cut-back in hours—a cut-back that never took place in the railroad industry, the railroad employees now seek, through a cut-back to a 40-hour week without loss of take-home pay, an hourly rate that will make them a distinctly preferred class in our industrial economy. By reason of this proposed cut-back in hours, the 1946 increase of 18½ cents would become 22.2 cents, and the 1947 increase of 15½ cents would become 18.6 cents, thus putting the railroad men well above the pattern increases of those years. Furthermore, the railroad business is one that goes on seven days a week, 365 days a year. In many of its phases, the 40-hour week simply is not feasible for railroad operation, and the railroads will have to fight this third round movement to a finish. When we consider that each time there is a raise of 1 cent an hour across the board in the railroad industry it causes increased expense of $40,000,000 a year to the railroads, one can realize the tremendous importance of these labor cases. Until the end of World War II the railroads had been able to absorb by increased efficiency and volume of traffic the raises granted during the war, but since that time, on each occasion there has been an increase in wages an increase in freight rates has been made inevitable. While the increase in wage rates since 1939 has been 75%, and the increase in prices of what the railroads buy has been 90%, freight rates, including the raise granted today, have gone up only about 43%, as the Commission figures it.

Nevertheless, experienced railroad managers must view with a good deal of concern any such prospective crushing increases in expenses as would make inevitable large freight rate increases beyond what have already been authorized or requested. It does seem that in the interest of our economy the senseless race between wages and prices should be brought to a stop without a third round of wage increases. Everyone will lose, including the men themselves, if we have it. The railroads are well prepared and well staffed to meet the challenge of the expected third round wage increase fight.

In the last year, relations with Soviet Russia have, of course, deteriorated rapidly. Today the threat of war hangs like a cloud over the entire world, and we should be less than the realists that we are in this industry if we did not recognize war as a distinct possibility. No, I am not a warmonger. No one who has experienced war first-hand, fighting war, killing war, can ever do other than hope with every fiber of his being that there will not be war. But when we hear the tough talk on both sides of the Ataltnic—talk that couldn't be any tougher if we really were at war, we had better gird our loins and get ready. The best way to guard agaianst war is to be ready. How do our railroads stack up now for the eventuality of another war, compared to their state a year ago? While we still have some distance to go in making up the war induced deferred maintenance, I would say that we are definitely in better shape now than a year ago. In the first place we are now getting more freight cars every month than we are junking. In the second place, the new passenger equipment is coming in, and third, a considerable amount of work and money have gone into the track structure. For the next war, if we are so unfortunate as to have one, the railroads ask these things to enable them to handle the job: First, a steady inflow of materials essential to keeping up the plant and equipment; second, a supply of manpower which will recognize the essential nature of the industry; third, a freight rate structure that will recognize the higher cost plateau to which this country has ascended as a result of wartime factors beyond the control of the railroads.

Given those three things, so that we shall have the materials to put in the plant, the men to operate it, and the money to pay for the materials and the men, the railroads have only one more request to make, and that is that they be allowed to run their own business, and not have the government run it for them. Fortunately, there is no substantial body of opinion in this country wanting Government operation, even in the event of another war. Men prominent in the Executive and Legislative branches of government make this clear, both in public and private pronouncements. For that conviction on their part and ours there is the best of reasons, the test of experience. Let us never overlook an opportunity to drive home the difference between government operation in World War I and private operation in World War II. The citation of a few simple facts, easily remembered, establish a case that demolishes any argument to the contrary. Those facts are these: In World War I, government operation of the American railroads resulted in deficits paid by the American taxpayers amounting to two million dollars a day. In World War II, under private operation, not only were there no deficits to be paid by taxpayers, but the railroads paid in taxes three million dollars a day, thus making a difference of five million dollars a day to the American taxpayers between the two types of operation. Secondly, there were very substantial freight rate increases during World War I. In World War II, the railroads came out of the war with a freight rate structure no higher than that which they had when war was declared. Thirdly, in World War I, there was tremendous congestion and delay in the handling of the war traffic, whereas in World War II, a great deal more traffic was handled successfully, without the congestion and delay that had characterized railroad operation in World War I, and with half a million fewer freight cars. So, when anybody even suggests that in the event of another war it might be wise for the government to take over the railroads, just remind him of those few simple uncontroverted facts, and you have him backed down.

No one knows what lies ahead for our great country, whether it is peace or war. We do know that we have come out of what is so far the greatest war in history, with an unimpaired and unbombed physical and industrial system, and with our incomparable system still intact. We still have tremendous natural resources and the ability to produce most of what we need, and still help less fortunate countries. Above all, the recent war demonstrated the magnificent ability of American youth. A lot of us wondered ten years ago whether we were raising a generation of drugstore cowboys, who would turn out to be soft if a war came. Personally, I am ashamed for ever having entertained any such thought. The performance of American youth was so far beyond anything we had any right to expect that those of us who served in earlier wars can only bow our heads in deepest respect for our fighting men, and the girls of the woman's military organizations who backed them up. As a country, we have every right and reason to face the future with confidence, a confidence that our country will emerge from the troubles of the present, so that the historian, fifty or one hundred years from now, engaged in plotting the great graph of America's destiny, will see the problems of the present as mere temporary oscillations in a surely ascending curve of progress to a great destiny as yet undreamed of.

Maynard Murch Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Carl J. Fielden has been added to the staff of Maynard H. Murch & Co., Union Commerce Building, members of the Cleveland Stock Exchange.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government securities markets continue on the constructive side, despite recommendations of the monetary authorities as to what should be done to curb the inflation which they believe will be more pronounced in the future. . . . To be sure, many unknowns are in the picture, but dire happenings had been forecast in the past by some of these same soothsayers, and they failed to materialize in anything like the form predicted. . . . Out of this maze of imponderables, however, seem to come some rather clear-cut principles, namely, that interest rates must continue low, and the long-term rate of 2½% must be maintained. . . . Under such conditions not very much can happen that will be too unfavorable to the government bond market. . . .

WHO KNOWS?

Deficit financing and lower taxes appear to be focal points in the attack, by the powers that be, in their maneuvering for greater power over the money markets and the banking system. . . . How can one tell yet whether there will be deficit financing or whether lower taxes will be as bad as they would lead us to believe? . . . In the past decreased taxes have been very beneficial to the revenues of the government. . . . Why should the money markets and the banks be singled out and made examples of when there are so many other elements in the economic system that are much worse offenders? . . . All this talk about the need for increased credit controls in order to curb the inflationary trend would mean something if they were likely to be used. . . .

Very little, it seems, will be done aside from talking about it, since President Truman last week appears to have disowned Mr. Eccles' suggestions, which indicates that the present Administration believes inflation is more painless politically than deflation. . . . The opposition seems to be inclined to do nothing but to wait and see what will develop. . . . Election years generally do not bring about any very important changes in the status quo. . . .

BULLISHNESS WARRANTED

Mr. Eccles of the Federal Reserve Board wants larger reserve requirements for the member banks and it seems as though he will settle for any kind of increased requirements that he can get, whether they be "Primary" or "Special." . . . One of the main purposes of the sought for increased requirements is to keep the government market stable and the long-term rate at 2½%. . . . Every move of the money managers seems to bear out the conclusion that long-term interest rates will continue low. . . . **Under such conditions, with a protected market, why should owners of long Treasuries not continue bullish? . . .**

Short-term rates will be allowed to advance, and Mr. Eccles is the authority for this statement. . . . This increase, he indicated, will be slight so as not to disturb the 2½% rate on long government bonds. . . . Accordingly, it is believed that a 1¼% certificate rate is in the making whether it comes June 1 or July 1, or is eased into the market in the form of an 11 months 1⅛% obligation. . . . The rediscount rate would probably go to 1⅜% or 1½%, in order to keep the penalty features of this rate. . . . Higher short-term rates would be used as a mild credit restraint, so long as they do not interfere with the maintaining of the long 2½% rate. . . .

Again the assurance is given that the long-term rate, and accordingly prices, will be protected. . . . What more do holders of long Treasuries want in order to convince them that the more distant maturities are the ones that will be taken care of by the money managers? . . .

FUTURE FINANCING

What about financing in the future, when as and if needed? . . . How would is be done? . . . Short-term securities would be used and the banks would be the ones involved, hence the request for greater power over reserves by the authorities in order to nullify the creation of credit. . . . The belief that flotations of short Treasuries would be made to finance the requirements of the government when, as and if needed seems also to improve the position of the long-term obligations, since the supply of these securities would not be increased with the new financing. . . .

Also if such schemes as "Special Reserve" or similar methods were to be adopted, it could be that the longs would be included in the securities that might be eligible for such reserve purposes. . . .

Does President Truman's apparent repudiation of Mr. Eccles' idea on credit controls indicate that changes might be in the making in the Federal Reserve Board? . . . If Mr. Eccles and Mr. McCabe, the present Chairman of the Federal Reserve Board, should not see eye to eye on matters, would the former be likely to continue to carry on in an increasingly minor role? . . .

INSIDE THE MARKET

Insurance companies for the time being are not sellers of governments. . . . The recent liquidation by one of the "Big Five" was for the purpose of making a large loan to an oil company. . . . A firm to better market is still looked for in the longer-term obligations. . . . The 2½s due Sept. 15, 1967/72 are being bought in a substantial way by banks on the West Coast. . . . The June and December 2s due 1952/54 are still favored by many of the smaller out-of-town institutions. . . .

SAVINGS BOND CAMPAIGN

The Savings Bond campaign is off with a bang which forecasts very sizable sales of government securities to ultimate investors. . . . This will be beneficial to both the Treasury and the government market.

Our Reporter's Report

Despite the rather forceful indications that institutional investors are not keen about looking over new material where the yield gets to be measurably under 3%, bankers still show a disposition to bid most aggressively for corporate issues as they appear.

This week it looked as though they had bought themselves a couple of more "workers" as some people term offerings which do not move out immediately to buyers. One large issue was bought on a basis which made it necessary to reoffer at a price to yield about 2.70%.

The second a smaller undertaking was purchased by the successful bidders on a basis which made for reoffering to give an indicated return of around 2.91%.

The first issue was $30,000,000 of 20-year debentures of the Consolidated Natural Gas Co., which bankers bought as 2¾s at a price of 100.1399 and will reoffer as 100¾s. The second involved $12,000,000 of new first mortgage bonds, 30-year maturity, of Gulf States Utilities Co., for which a price of 101.22 was paid for a 3% coupon. Reoffering is set at 101¾.

Preliminary inquiries, following award by the issuing utilities, indicated that investor demand was a bit on the slow side. But since there is not a burdensome outpouring of new debt issues at the moment, it is expected that these offerings will be worked out in due course.

A Full Year

That the rank and file of corporate officials are none too impressed with the prospects for early financing in volume via the preferred stock route becomes increasingly apparent as time wears on.

Not that many firms aren't looking for the opportunity of obtaining equity capital through such means if it were possible on a satisfactory basis. Hosts of companies would be in the market, judging from comment around.

But D. W. Frazer, president of American Locomotive Co., appeared to sum the situation up in a few words at the annual meeting this week.

Turning to discussions about a year back looking toward refinancing of its 7% preferred stock he told shareholders that "conditions which made us put off the proposed refinancing last year have continued to make it seem unwise from the view point of the company and its shareholders to attempt any financing at this time."

Closing Out

The last few days brought about the closing of subscription books on two issues which had been somewhat slow to move at the time of original offering.

The group handling Ohio Power Co.'s first mortgage 3s announced closing on that $40,000,000 issue where demand evidently picked up materially in the wake of earlier announcement that the prices would not be cut.

Similarly Oklahoma Gas & Electric Co.'s 65,000 shares of 5¼% cumulative preferred was finally worked off by the sponsoring bankers and the books declared closed.

Call for Bids

Two utility companies have called for bids on new bond issues of dimensions that probably will result in keen competition when the time for opening tenders arrives.

Southern California Gas Co. will open bids on May 4 next, in Los Angeles, for $15,000,000 of new 30-year first mortgage 3¼% bonds and six groups already have indicated their intentions of seeking the bonds.

Meanwhile Wisconsin Michigan Power Co. will open tenders on April 26 for its issue of $14,000,000 of new first mortgage bonds to run for 30 years, maturity in 1978.

In this instance the bidders will be obligated to fix the interest rate as well as the price in making their tenders.

Georgia Plywood Stock Placed on Market

An underwriting group headed by Reynolds & Co. is making public offering today (April 22) of 69,500 shares of no par convertible cumulative $1 preferred stock and 10,425 shares of $1 par value common stock of Georgia-Pacific Plywood and Lumber Co. The preferred stock is priced at $23 per share plus accrued dividends and the common at $23 per share.

The shares being offered are all outstanding and are being sold for the account of Equitable Securities Corp., A. C. Allyn & Co., Inc., and Clement A. Evans & Co., Inc. No proceeds from this sale will accrue to the company.

Georgia-Pacific Plywood & Lumber Co. was incorporated in 1927 as Georgia Hardwood Lumber Co. and changed its corporate title to the present form in March, 1948. It manufactures and distributes at wholesale lumber, plywood and other wood products in both domestic and foreign markets. The company and its subsidiaries, including those acquired in January, 1948, reported combined pro forma sales of $37,499,000 for 1947.

Each share of this preferred stock is convertible at the option of the holder into one share of common stock. The conversion rate is protected against dilution.

The convertible stock is subject to redemption at any time at prices ranging from $21 per share on or before April 1, 1953, down to $20.25 after April 1, 1963, plus accrued dividends in each case. It is also subject to retirement through sinking fund at the rate of 5% per annum.

Outstanding capitalization of the company consists of a $2,500,000 4% term loan; 30,000 shares of $2.25 cumulative preferred stock; 100,000 shares of $1 convertible cumulative preferred stock; and 265,000 shares of $1 par value common stock.

Emanuel, Deetjen & Co. to Admit Two New Partners

Emanuel, Deetjen & Co., 52 William Street, New York City, members of the New York Stock Exchange, will admit Paul Porzelt to general partnership and Albert Emanuel II, to limited partnership on May 1. Mr. Porzelt has been associated with the firm for some time.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• American Citizens Life Insurance Corp., Washington, D. C.
April 15 (letter of notification) 2,000 shares ($50 par) common "A" stock, to be offered at $100 each, and 6,000 shares ($1 par) common "B" stock, to be offered at $5 each. For fixed capital, fixed surplus and working capital. No underwriting.

• Amico Sand & Gravel Co., Morrisville, Pa.
April 19 (letter of notification) 10,000 shares of 8% non-voting cumulative preferred stock, series A (par $10). **Price**—Par. **Underwriting**—None. Expansion of business.

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. (5/7)
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 (flat) in ratio of $1.50 of bonds for each common share held. Rights expire May 6. The stock will be reserved against conversion of the bonds. Unsubscribed bonds will be publicly offered by underwriter. **Proceeds**—General corporate purposes.

• Bebrib Steel Corp., New York
April 8 (letter of notification) 44,443 shares of common stock (par $5). **Offering**—Offered for subscription by stockholders at par in ratio of one new for each two shares held. Rights expire May 18. Working capital. Not underwritten.

Central Power & Light Co.
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Lehman Brothers; Glore, Forgan & Co., Dewar, Robertson & Pancoast. **Proceeds**—For property additions and expenses. On April 15, SEC denied effectiveness of registration statement.

• Central States Cooperatives, Inc., Chicago
April 12 (letter of notification) 800 shares ($25 par) common stock and 2,800 shares of 4% ($100 par) preferred stock. Price, par. To retire outstanding notes and bank loans. No underwriting.

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.

Challenger Airlines Co., Salt Lake City, Utah
March 1 filed 600,000 shares ($1 par) common stock, of which 400,000 are being sold for the company and 200,000 for the account of Claude Neon, Inc. **Underwriting**—None. **Price**—$2 a share. **Proceeds**—For equipment purchase and general funds.

Clinton (Iowa) Industries, Inc. (5/3-7)
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.

• Clinton (Mich.) Machine Co.
April 15 (letter of notification) 10,000 shares of stock to be sold at $5⅛ each (market price), for selling stockholder. **Underwriter**—Charles E. Bailey & Co., Detroit.

• Control Engineering Corp., Newton, Mass.
April 16 (letter of notification) 3,870 shares of class A non-voting common stock ($20 par). **Price**—Par. To buy real estate, plant facilities, and for working capital. No underwriting.

• Cooperative Services of Canton, North Canton, Ohio
April 12 (letter of notification) 2,500 shares ($20 par) common stock. Price, par. For operating and maintenance of retail stores. No underwriting.

Crampton Manufacturing Co. (4/29-30)
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.

• Diamond Head Screw Co., Los Angeles
April 15 (letter of notification) 2,000 shares ($10 par) non-assessable capital stock. **Price**—Par. For working capital. No underwriting.

• Dixie Fasteners, Inc., Chattanooga, Tenn.
April 14 (letter of notification) 75,000 shares of class B common stock (no par) of which 45,000 will be offered to the public at $1 each. For additional working capital, machinery and equipment.

Domestic Credit Corp., Chicago
Dec. 29 filed 150,000 shares ($1 par) Class A Common. **Underwriters**—None. **Offering**—To be offered to employees, executives and management personnel. **Price**—$3.49 a share. **Proceeds**—For working capital.

Empire Chemical Corp., Seattle, Wash.
March 24 (letter of notification) 60,000 shares of common voting capital stock. **Price**—$5 each. Business costs. No underwriter named, but may be Smith-Polian, Inc., Omaha, Neb.

Equipment Finance Corp., Chicago, Ill.
Feb. 26 filed 15,000 shares ($100 par) preferred stock. **Offering**—To be sold to employees and officers of the company and its parent, Curtiss Candy Co. **Price**—$100 per share. **Proceeds**—To be used for trucks in connection with the Curtiss' franchise method of distribution.

Esterbrook Pen Co., Camden, N. J.
March 17 (letter of notification) 1,500 shares of common stock (par $100). **Price**—Par. **Underwriting**—None. **Offering**—Stockholders of record April 7 will be given the right to subscribe for one new share for each four shares held. Rights expire May 7 and subscriptions are payable at First Camden National Bank & Trust Co. For working capital.

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.

NEW ISSUE CALENDAR

April 23, 1948
Glen-Gery Shale Brick Corp.____Bonds

April 26, 1948
Illinois Central RR. Noon (CDT)____Equip. Trust Ctfs.
Union Terminal Co.____Bonds
Wisconsin Michigan Power Co. 11:30 a.m. (EDT)____Bonds

April 27, 1948
M and M Wood Working Co.____Capital Stock
Moore-Handley Hardware Co.____Common

April 28, 1948
Genuine Parts Co.____Common
Swift & Co.____Debentures

April 29, 1948
Crampton Manufacturing Co.____Bonds

April 30, 1948
Peninsular Telephone Co.____Common

May 3, 1948
Clinton Industries, Inc.____Debentures

May 4, 1948
Southern California Gas Co. 8 a.m. (PDT)____Bonds
Southwestern Bell Telephone Co. 11:30 a.m. (EDT)____Debentures

May 5, 1948
Atlantic Coast Fisheries Co.____Bonds

May 6, 1948
Sunray Oil Corp.____Preferred

May 10, 1948
Sierra Pacific Power Co.____Bonds

May 11, 1948
Narragansett Electric Co.____Bonds

Finch Telecommunications, Inc., New York
March 31 (letter of notification) 1,000 shares of capital stock (par $1). **Price**—$4.50 per share. **Underwriter**—Littlefield & Co. will act as agent. Proceeds to selling stockholder.

● **Fiske Products, Inc., Mt. Kisco, N. Y.**
April 20 (letter of notification) 2,100 shares non-voting 7% cumulative preferred stock (par $10) and 1,400 shares of common (par $10). **Price**—$10 for each class. Additional working capital. Not underwritten.

● **Fission Mines Ltd., Toronto, Canada**
April 16 filed 200,000 shares of treasury stock. **Underwriter**—Mark Daniels & Co., Toronto. **Price**—$1 a share. **Proceeds** — For mining and business costs. **Business**—Mining operations.

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.

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.

Genuine Parts Co. (4/28-5/4)
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.

Glen-Gery Shale Brick Corp. (4/23)
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.

● **Halliburton Oil Well Cementing Co.**
April 20 filed 730,000 shares of common stock (par $5). **Underwriters**—Lehman Brothers and Blyth & Co., Inc. **Proceeds**—Shares are being sold by certain stockholders and company will not receive any of proceeds. Of the shares registered 50,000 are to be offered direct to employees of company. **Business** — Primarily an oil and gas service company and renders services such as oil well cementing, testing, acidizing and electrical well services.

● **Idaho Power Co.**
April 16 filed 150,000 shares ($20 par) common stock. **Underwriters**—Blyth & Co., Inc., and Lazard Freres & Co., New York and Wagener & Daly, Inc., Boise, Idaho. Price by amendment. **Proceeds** — Proceeds of stock together with proceeds from the sale of $10,000,000 of 3% first mortgage bonds to 11 institutional investors, will be used to repay short-term bank loans and other construction costs.

● **Johnson Foods, Inc., Oshkosh, Wis.**
April 13 (letter of notification) 1,000 shares of 5½% cumulative preferred stock ($100 par). Price, par. **Underwriter**—Alm & Co., Oshkosh. For current obligations and working capital.

● **Kansas Gas and Electric Co., Wichita**
April 16 filed 250,000 shares (no par) common stock, to be sold by American Power & Light Co. (parent). **Underwriters**—To be determined through competitive bidding. Probable bidders: Dillon, Read & Co. Inc.; Blyth & Co., Inc., and The First Boston Corp. Price by amendment. After the sale, American Power & Light plans to distribute the remaining 350,000 outstanding shares of Kansas Gas common stock owned by it to American stockholders. **Business**—Utility.

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.

● **Lancaster Processes, Inc., New York**
April 8 (letter of notification) 30,000 shares of common stock, of which 16,000 shares will be distributed to stockholders of Thomas Robinson Co., Inc., for all the assets of that company and 14,000 shares to be offered stockholders of Lancaster. **Price**—$2 per share. Working capital. Not underwritten.

● **Leo Rose Co., Inc., Chicago**
April 13 (letter of notification) $150,000 of redeemable subordinate 7% cumulative debentures. For working capital. No underwriting.

● **Le Roi Co., Milwaukee**
April 19 (letter of notification) 30,000 shares ($2.50 par) common stock. **Price**—$4.875. To reduce bank loans. No underwriting.

M and M Wood Working Co. (4/27)
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.

● **Macco Corp., Clearwater, Calif.**
April 15 (letter of notification) 1,000 shares ($1 par) common stock, to be sold by Edward A. Pellegrin, South Pasadena. No underwriting.

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.

● **Merrimac Mills Co., Methuen, Mass.**
April 19 (letter of notification) 50,000 shares ($5 par) common stock, to be sold at par to stockholders. For working capital. No underwriting.

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) and rights to the purchase of 30,000 shares ($2.50 par) com. 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.

Moore-Handley Hardware Co. (4/27)
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.

● **Morley Magnesium Foundries, Inc., Seattle**
April 13 (letter of notification) 192 shares ($100 par) non-assessable common stock and 1,440 shares 6% participating preferred stock ($100 par). **Price**—Par for each. To build foundry, buy machinery and for operating capital. No underwriting.

● **Motors Metal Manufacturing Co., Detroit, Mich.**
April 14 (letter of notification) 15,000 shares ($5 par) common stock, to be sold by seven stockholders. **Price**—$6⅝ per share. **Underwriter**—William C. Roney & Co., Detroit.

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.

Narragansett Electric Co. (5/11)
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 May 11.

● **National Dyeing & Finishing Corp., Los Angeles**
April 14 (letter of notification) 1,250 shares ($100 par) preferred stock. Price, par. For new equipment and raw materials. No underwriting.

● **National Gypsum Co., Buffalo, N. Y.**
April 20 filed 422,467 shares ($1 par) common stock. **Underwriters**—W. E. Hutton & Co. and Blyth & Co., Inc., New York. Price by amendment. **Offering**—To be made to present stockholders at the rate of one new share for each four held. **Proceeds**—For working capital.

New York State Electric & Gas Corp.
April 7 filed $10,500,000 first mortgage bonds due 1978, and 60,000 shares of preferred (par $100). **Underwriters**—Names to be determined under competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp. (bonds only); Harriman, Ripley & Co.; Hemphill, Noyes & Co. and Drexel & Co. (jointly); Lehman Brothers; Kidder, Peabody & Co.; Glore, Forgan & Co. **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.] Bonds expected in May and preferred early in June.

● **Nutrine Candy Co., Chicago**
April 16 (letter of notification) 600 shares ($1 par) common stock, being donated by company's President, Benjamin H. Goodman, to the Jewish Welfare Fund of Chicago and another 100 shares to the Jewish Charities of Chicago. Shares will be offered at $8⅞ each. **Underwriter**—Stifel, Nicolaus & Co., Chicago.

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.

● **Pioneer Oil & Gas Co., Oklahoma City, Okla.**
April 12 (letter of notification) 200,000 shares ($1 par) common stock. Price, par. To acquire and develop a 162-acre oil and gas lease in Brown County, Texas. No underwriting.

Playboy Motor Car Corp., Tonawanda, N. Y.
Feb. 13 filed 20,000,000 shares common (1c par). **Price**—$1 per share. Not more than 100,000 shares will be offered to employees and officers at 87½ cents per share. **Underwriter**—Tellier & Co., New York. **Proceeds**—For capital equipment and working funds.

● **Powder River Oil Co., Denver**
April 12 (letter of notification) 200,000 shares (10 cents par) common stock. Price, par. For working capital. No underwriting.

Powers Oil & Drilling, Inc., Casper, Wyo.
March 23 (letter of notification) 200,000 shares (25¢ par) common stock. **Underwriter** — John G. Perry & Co., Denver, Colo. For a drilling program.

Reiter-Foster Oil Corp., New York
Jan. 16 (letter of notification) 180,000 shares (50c par) common stock. **Price**—80 cents. **Underwriter**—Frank W. Bennett & Co. For working capital.

Robinson Airlines Corp., Ithaca, N. Y.
March 9 (letter of notification) 85,384 shares of common stock (par $1). Of the total 75,384 shares will be offered for subscription by stockholders on a share for share basis at $3 per share. The additional 10,000 shares plus any unsubscribed for by stockholders will be offered the public at $4 per share. **Underwriting**—Company may engage an underwriter to make the general public offering. Proceeds will be used for working capital, etc.

● **Romec Pump Co., Elyria, Ohio**
April 13 (letter of notification) 16,250 shares to be sold by Henry B. Harsch and his wife and 15,300 shares by John A. Zimmer. **Price**—$3 each. This stock is to be sold to Bradley Higbee and Claude G. McDonald, both of Detroit.

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.

Segal Lock & Hardware Co., Inc., New York
March 24 filed $2,000,000 15-year 6% convertible sinking fund debentures, due 1963. **Underwriter**—Floyd D. Cerf Co., Inc. Price by amendment. **Offering**—To be offered initially to stockholders on basis of one $100 debenture for each 100 shares held. **Proceeds**—For repayment of two notes and general corporate purposes.

Seminole Oil & Gas Corp., Dallas, Texas
March 4 (letter of notification) 11,400 shares of common stock. **Underwriter**—Buckley Bros. Proceeds to selling stockholders.

Sierra Pacific Power Co. (5/10)
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 10.

Silver Bell Mines Co., Denver
Feb. 26 filed 125,000 shares ($1 par) capital stock. **Price**—$2.50 each. **Offering**—To be made to present stockholders on a pro rata basis during first 10 days of sale. **Proceeds** — Exploration work, working capital and indebtedness.

● **Snowbird Mining Co., Inc., Anchorage, Alaska**
April 9 (letter of notification) 1,000,000 shares of non-assessable (10 cents par) common stock. **Price**—15 cents. To expand mill capacity. No underwriting.

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.

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South Carolina Electric & Gas Co.
Dec. 2 filed 80,858 shares ($50 par) cumulative convertible preferred and 404,293 shares ($4.50 par) common for sale, and 687,293 shares reserved for conversion of preferred. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Shares initially will be offered for subscription by company's common stockholders, the preferred on a 1-for-10 basis and the common on a 1-for-2 basis. Unsubscribed shares will be offered publicly. **Price** by amendment. **Proceeds**—Proceeds together with other funds will be used to purchase all of the outstanding common of South Carolina Power Co. from the Commonwealth & Southern Corp.

Southern California Gas Co. (5/4)
March 16 filed $15,000,000 3¼% first mortgage bonds, due 1978. **Underwriters**—Names by competitive bidding. Probable bidders. Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Harris, Hall & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane; White, Weld & Co.; Lehman Brothers. **Proceeds**—To reimburse treasury for expenditures made to expand properties. **Bids**—Bids for purchase of the bonds will be received by company at Room 934, 810 So. Flower Street, Los Angeles, Calif., up to 8 a.m. (PDT) on May 4.

Southwestern Bell Telephone Co. (5/4)
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. **Bids**—Bids for purchase of the bonds will be received at Room 2315, 195 Broadway, New York, up to 11:30 a.m. (EDT) May 4.

Sperti Foods, Inc., Hoboken, N. J.
Feb. 26 (letter of notification) 30,000 shares 5% cumulative convertible preferred stock, ($10 par). **Price**—$10 each. **Underwriters**—White, Noble & Co., Detroit, and Clair S. Hall & Co., Cincinnati. To operate pharmaceutical division and for general corporate purposes.

● **Stanley Works, New Britain, Conn.**
April 14 (letter of notification) $300,000 of common stock at the average bid price during April, which at the present bid of $60 would be about 5,000 shares. To increase cash working balance and pay bank loans. No underwriting.

● **State Drugs, Inc., Wilmington, Del.**
April 19 (letter of notification) 2,980 shares of 7% preferred stock ($100 par) and 2,000 shares ($1 par) common stock. **Price**—Par for each class. For corporate purposes. No underwriting.

Steak 'n Shake, Inc., Bloomington, Ill.
Feb. 2 filed 40,000 shares of 50c cumulative convertible participating preferred stock, ($1 par) and 160,000 shares (50c par) common stock, of which 40,000 will be sold and the remainder reserved for conversion. **Underwriter**—White & Co., St. Louis, Mo. **Price**—$8 for the preferred stock and $2.50 for the common. This stock is being offered by stockholders who are members of the Belt family.

Stearns (F. C.) Hardware, Inc., Hot Springs, Arkansas
March 26 (letter of notification) 2,000 shares of 6% cumulative preferred stock ($100 par). **Price**—Par. **Underwriter**—Southern Securities Corp., Little Rock, Ark. To retire $65,000 of loans and for general working purposes.

Suburban Gas Service, Inc., Ontario, Calif.
March 22 filed $500,000 12-year 6% series sinking fund debentures, due March 1, 1960, with purchase warrants attached for the purchase of 50 shares of common stock ($1 par). **Underwriters**—Lester & Co. and Wagenseller & Durst, Inc., Los Angeles. **Proceeds**—To purchase the California Butane Co.

Sunray Oil Corp. (5/6)
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.

● **Sylvan Seal Milk, Inc., Philadelphia**
April 19 (letter of notification) 500 shares of common stock (no par). **Price**—$8 per share. **Underwriter**—Penington, Colket & Co. Proceeds to selling stockholder.

Tabor Lake Gold Mines, Ltd., Toronto, Canada
April 2 filed 300,000 shares (par $1) preferred stock. **Underwriter**—Mark Daniels & Co., Toronto, Canada. **Price**—60 cents a share. **Proceeds**—For mine developments.

● **Tooth Polishers Corp., N. Y.**
April 14 (letter of notification) 3,750 shares of common stock (par $20). **Price**—Par. Promote business, build factory, etc. Not underwritten.

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.

● **Tyler and Simpson Co., Gainesville, Texas**
April 15 (letter of notification) 2,000 shares ($100 par) common stock. **Price**—$110 each. For operating capital. No underwriting.

● **Union Electric Co. of Missouri**
April 19 filed $25,000,000 of debentures, due 1968. **Underwriters**—To be determined through competitive bidding. 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. **Proceeds**—To pay construction loans and provide construction funds for a subsidiary, Union Electric Power Co.

● **United Funds, Inc.**
April 13 filed 3,000,000 United Income Fund shares. **Underwriter**—Herrick, Waddell & Co. **Proceeds**—For investment.

United Rayon Corp., New York City
March 29 filed 9,950 shares (no par) common stock. **Price**—$1,000 each. Each share is to be accompanied by a "production warrant" permitting the holder to buy a proportionate share of the company's output. **Underwriting**—None. **Proceeds**—To provide capital for the purchase and operation of a plant with an annual productive capacity of 4,000,000 pounds of viscose filament rayon and 8,000,000 pounds of viscose staple fiber.

United States Sheetwood Co., Seattle, Wash.
March 17 (letter of notification) 300,000 shares ($1 par) common capital stock. **Price**—par. For industrial and chemical research work to improve manufacturing.

● **Universal Utility Products Corp., Las Vegas, Nevada**
April 12 (letter of notification) 140,000 shares of stock. **Price**—50 cents each. For tool equipment and additional production machinery. No underwriting.

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.

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. Expected about April 26.

● **West Valley Realty Co., Los Angeles, Calif.**
April 12 (letter of notification) 1,500 shares ($10 par) preferred stock and 3,000 shares ($10 par) class B common stock, to be sold at par by the company, and 1,500 shares of preferred and 3,000 shares of common to be sold at the same price by Loris V. Cady, President of the company. Proceeds from the sale of the firm's stock will be used to buy and develop property. No underwriting.

● **Western Adventure Productions, Inc., Charlotte, N. C.**
April 13 (letter of notification) 250 negotiable order notes of $1,000 each, paying 6%, due in 15 months. For working capital. No underwriting.

● **Western States Oil Co., Phoenix, Ariz.**
April 8 (letter of notification) 300,000 shares of common stock (par $1). **Price**—$1 per share. **Underwriter**—Arizona Securities Co., Phoenix, Ariz. To buy oil leases and equipment for drilling.

● **Wheeler (J. K.) Machinery Co., Salt Lake City**
April 16 (letter of notification) 550 shares ($100 par) class B capital stock, to be offered at par and $100,000 5% debentures. For operating capital to launch expansion program. No underwriting.

Whitehall Fund, Inc.
March 22 filed 50,000 shares of capital stock (par $1). **Underwriter**—Broad Street Sales Corp. **Proceeds**—For investment.

Wilson-Jones Co.
Feb. 25 filed 32,937 shares of common stock (par $10). **Underwriters**—None. **Offering**—Offered for subscription by stockholders of record March 24 in ratio of one new share for each eight shares held. Rights will expire April 30. **Price**—$12 per share. **Proceeds**—Plant additions and purchase of securities and assets of other companies.

Wisconsin Michigan Power Co. (4/26)
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. **Bids**—Bids for purchase of bonds will be received by company at Room 1901, 60 Broadway, New York, up to 11:30 a.m. (EDT) on April 26.

Prospective Offerings

● **Atlanta Gas Light Co.**
April 14 company contemplates sale of $3,500,000 additional first mortgage bonds, the proceeds of which, supplemented by further bank loans, will be used to pay $1,485,000 bank loans due June 15, next, and finance 1948 construction program.

● **California Electric Power Co.**
Under present plans company contemplates the sale of some permanent securities during 1948 to finance its construction program. If sale negotiated, probable underwriters: Shields & Co. and The First Boston Corp.

● **Consolidated Vultee Corp.**
April 20 Floyd B. Odlum, Chairman, revealed that the management has plans for acquiring additional capital through a $20,000,000 credit with a group of banks together with the raising of a minimum sum of $7,000,000 through issuance of stock to the shareholders. Mr. Odlum stated: "To cure the insufficiency of working capital and obtain new banking credit it is expected to be necessary for company to commit itself to obtain new capital funds from its stockholders. The necessary procedure is now being taken to offer stockholders in the near future additional stock. Transferable rights will be issued to stockholders which will entitle them during a limited period of time to subscribe pro rata to the new issue. To enable company to firm up its new credit arrangement with the banks and obtain needed loans Atlas Corp. has stated its willingness to commit in advance to exercise at least sufficient of its primary and secondary subscription rights so that a minimum of $7,000,000 of new capital will be raised as a result of the offering."

● **Equitable Gas Co., Pittsburgh**
April 20 Philadelphia Co. filed with SEC an amendment to a plan filed last winter proposing the transfer of all of its natural gas producing, transmission and distribution properties in Pennsylvania to its subsidiary, the Equitable Gas Co. In lieu of the issuance by Equitable to Philadelphia of $14,000,000 25-year 3½% first mortgage bonds, Equitable now proposes to issue and sell at competitive bidding $14,000,000 25-year first mortgage bonds at a rate and price to be determined by the competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Smith, Barney & Co. (jointly); The First Boston Corp.; W. C. Langley & Co. and Glore, Forgan & Co. (jointly).

● **Florida Power & Light Co.**
April 16 reported company is expected to bring about $11,000,000 new first mortgage bonds to market around next June. Proceeds will be used for construction and to pay off bank debt already incurred for the purpose. Coincident with competitive sale of the new bonds, the parent company, American Power & Light Co., will invest an additional sum in the subsidiary's common stock, all of which it now owns. Probable bidders: Lehman Brothers; Drexel & Co. and Central Republic Co. (jointly); Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co., and W. C. Langley & Co. (jointly); White, Weld & Co.; Blyth & Co., Inc., and Smith, Barney & Co. (jointly); Harriman Ripley & Co., Inc.; Lazard Freres & Co. and Lee Higginson Corp. (jointly).

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.

● **North American Aviation, Inc.**
April 16 reported there have been discussions but no final conclusion of General Motors Corp.'s disposal of North American holdings. General Motors hold 1,000,000 North American shares. Probable underwriter, Morgan Stanley & Co.

● **Southern California Edison Co.**
Reported company has plans for sale of $20,000,000 first mortgage bonds (in addition to 800,000 shares preference stock). Probable bidders: Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.

● **Southern Pacific Co.**
April 20 company will soon put up for sale at competitive bidding $11,100,000 equipment trust certificates, to be dated May 1, 1948, and to mature serially from one to 10 years from date of issue. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly); The First Boston Corp.; Blyth & Co., Inc.; Harris, Hall & Co. (Inc.).

● **Union Terminal Co., Dallas (4/26)**
Bids will be received until April 26 by company in Dallas for purchase of $4,833,000 first mortgage bonds, to be dated June 1, 1948, and due June 1, 1978. Proceeds will be used to refund outstanding 2¾s, due 1967. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Shields & Co.; Salomon Bros. & Hutzler; Lazard Freres & Co.

● **United Brush Manufactories, New York**
The Attorney General of the United States invites bids for the purchase of 1,059 shares of common stock (no par), and 210 shares class A 5% first cumulative preferred stock (par $100). These shares constitute approximately 10.59% of the common and 35.77% of the class A outstanding. Company is engaged in the manufacture and sale of paint brushes, having a principal office at 116 and 118 Wooster St., New York, N. Y. Reported net worth of company as of Dec. 31, 1947, was $443,023. All bids must be presented at the Office of Alien Property, Department of Justice, 120 Broadway, New York 5, N. Y., on or before noon (EDT), on May 18. Stock will be sold only to American citizens.

● **Winston & Newell Co., Minneapolis**
April 15 reported company contemplates sale of 40,000 common shares (par $5), the proceeds to be used for working capital, etc.

New Concepts of Corporate Responsibility

(Continued from page 14)

porate executives on a number of characteristics.

68% said company heads do a good job in efficient production, but only

28% said company heads do a good job in taking a real interest in workers, and only

17% said company heads do a good job in dealing with labor unions.

Neglects Human Side

Thus people are saying that management does a fine job in production but neglects the human side: it is machine minded, not man minded. This point of view is susceptible to propaganda about class conflicts. Corporations produce a lot of wealth through exploiting workers. This wealth should go to workers but instead goes into the cash tills of the rich who are already fat on profits.

In opinion research we have formulated what we know as the ends-means principle which goes like this: People are ends minded; they think primarily in terms of goals or ends sought. They are not very critical of means. Hence they tend to judge leaders in terms of ends. Is this leader on my side? Is he for the things I want?

Politicians and labor leaders understand this principle well. When they appeal for mass support they always talk about ends, about the rosy dawn; about higher wages and sick benefits; about full employment, better housing, social security and "Every Man a King."

Even the Kremlin gang knows this principle well for they give their bloodthirsty tyranny the elegant name of "The Dictatorship of the Proletariat."

Corporate people are means minded. They assume responsibility; they must live up to their obligations — deliver on their promises. They shy away from talk about ends, and they are quick to criticize the practicality of means proposed by other leaders to reach utopian ends.

All of which angers trusting souls who want to believe in the better life. Man does not live by bread alone. In this vale of tears he must have some hope and promise to live by—hope of a better here as well as a hereafter.

Most modern corporations *are* dedicated to the public service and *do* strive mightily to discharge their public duties. Witness the dedication of corporations to the war effort; observe the struggle of electric power companies, oil, steel, and others to overcome shortages; witness the pricing restraint of large operators during this period of scarcity.

Dedicating Corporations to Public Service

But being means minded, corporations are afraid to talk about ends. Someone might regard it as a promise, and because of conditions outside one's control, one might not be able to deliver on the promise. This reasoning misses the point. People do not expect the impossible. They know that companies cannot singlehandedly control the broad social forces with which they deal. But what people do want is the assurance that companies are on their side, are dedicated to their service, and are trying honestly to surmount the difficulties in the way.

So there is one new concept of corporate responsibility: the obligation not only to be dedicated to the public service but the obligation constantly and continuously to interpret corporate goals to the public. If the people understood the public service ideals of modern corporations—if they became convinced that corporations are working for the things the common man wants, public support or the continuance of capitalism in America would practically be guaranteed.

Ignorance Regarding Capitalism

The second basic cause for the public's doubts about capitalism as a social system is ignorance of the facts about the system and the way it works.

The Public Opinion Index for Industry, for example, is compelled to report that 48% of employed workers disagree with the statement that "The way to improve the worker's standard of living is for all workers to produce more."

When the statement is made to employed people, "Owners and stockholders of the average factory put up money to buy tools and equipment amounting to $6,000 per employee," 30% disagree and an additional 41% say they don't know.

Again, studies by the Public Opinion Index for Industry show widespread ignorance of how much money companies make. People think that on the average companies make 25% on sales. The public is not opposed to profits; practically everybody says that companies must make profits. Ten per cent profit, people say is fair, but 25% is too much.

The social repercussions of this ignorance are everywhere apparent. After V-J Day, the policy of the Federal Government was to hold the price line, but encourage wage increases on the theory that the difference could come out of "swollen corporate profits."

After V-J Day hundreds of thousands of workers went on prolonged strike in the belief that they could get pay increases without price increases. Their willingness to face up to staggering wage losses was the measure of their conviction that their cause was just.

Employers find it difficult to comprehend in terms other than pure cussedness, why men slow down and loaf on the job. But if you were convinced that someone was getting rich on the sweat of your brow, you might feel like slowing down too. Why work yourself into an early grave to fatten the profits of the boss?

The Public Opinion Index for Industry has recently made a dramatic demonstration of the relation between economic ignorance and belief in government control.

People were asked how they stood on such issues as government control of prices, setting top limits on salaries, and setting top limits on company profits.

Then these same people were shown six simple statements of economic facts and were asked if they agreed or disagreed with the statements. For example, "Money invested in an industry buys equipment that helps workers produce more and earn more," and again

"Most industries, when you figure out the good years with the bad, make only a *small* per cent profit."

Analysis of this testimony shows clearly that people who are best informed on how the economy works are the ones who reject government control of prices, salaries, and profits. Those who are least informed show the highest approval of government control.

Of great significance, gentlemen, our tests show that ignorance of the way the capitalistic system works is not confined to workers alone. There is shocking lack of comprehension of capitalistic principles even among the various echelons of management.

If management wants to maintain a social environment in which capitalism can continue to work its production miracles, then it must assume an obligation to:

(a) Formulate its capitalistic faith, and

(b) Propagate this faith to all.

Literature of Capitalism Inadequate

The literature of capitalism, gentlemen, is tragic in its insufficiency. We are in desperate need of books, tracts, monographs, pamphlets, primers and case studies that expound such ideas as these:

The idea that machines are a friend of the common man, not his enemy. That machines ease man's lot, relieve him of drudgery and above all make things at prices he can afford.

The idea that the owner of capital is a partner—a good and valued partner, a tool-supplying partner who contributes much to the productive process for a relatively small reward.

The idea that the free market is a democratic institution, providing the means whereby the people, through their buying plebicite can direct the flow of economic energy.

And as a corollary, the idea that competition is necessary for the free market control of our economy. It should be a part of business morality that a company is willing to compete for the public's favor and measure its achievements in the open market place.

In this connection, the laws levying discriminatory taxes on oleomargarine are a public disgrace. It would have great tonic effect on capitalistic thinking if the butter industry would abandon its lobby and permit housewives to exercise their unfettered choice between margarine and butter at the grocery store.

The idea that property rights are not opposed to human rights; that private property widely distributed is one of our best guarantors of the continuance of personal dignity.

The idea that under a system of competitive capitalism, wealth and property under private ownership does serve a social purpose, and that in a competitive economy the common man probably gets greater benefits from capital privately controlled than from capital controlled by the State.

The idea that liberty is based essentially on a system of checks and balances and that when power is concentrated in the State, liberty must of necessity disappear.

Do your corporations, gentlemen, have any documents that expound these capitalistic principles in terms of your own operations?

Do your officers have a clear-cut conception of capitalism as a social system and of your corporation as a capitalistic institution?

Do you train your foremen, supervisors, and junior officers in the tenets of the capitalistic faith?

Could you stand up in a radio forum or go before a college class in social science and expound the principles of capitalism?

Do you have in your corporation the apparatus of scholarship to link up your activities with the intellectual currents of the day?

Do you take any responsibility for the teaching of the capitalistic faith in your plant communities?

Have you furnished any documents to teachers or clergymen or students explaining your capitalistic system of operation and telling how your company under this system serves the public?

Have you ever invited your townsmen to visit your office or factory in order to show them capitalism in operation and explain its principles in terms of the working model?

By rights, a factory should involve some of the elements of a shrine, shouldn't it? Men make their living there; many of their hopes and ambitions are centered there. The corporation creates jobs, pays taxes to support local hospitals and schools, creates the products that ameliorate our lot in peace and defend us in war. Why on earth should men shake their fist at a factory?

The answer, gentlemen, goes back in good part to the ideas in people's heads. A recent colloquy between a Marxist and Phelps Adams of the New York "Sun" joins the issue in an interesting way. Adams wrote a piece for the "Sun" on "The Free Enterprise System."

A "Sun" reader wrote the following to help clear up some of Adams's misunderstanding.

"What did you tell that man just now?
I told him to hurry.
What right have you to tell him to hurry?
I pay him to hurry.
How much do you pay him?
Ten dollars a day.
Where do you get the money to pay him?
I sell products.
Who makes the products?
He does.
How many products does he make in a day?
Sixteen dollars worth.
Then instead of your paying him, he pays you six dollars a day to stand around and tell him to hurry.
Well, but I own the machines
How did you get the machines?
Sold products and bought them.
Who made the products?
Shut up! He might hear you."

Adams thereupon revised the colloquy as follows:

"Who is that man sitting over there?
He's working for me.
What is he doing?
He's running that machine in front of him.
How much do you pay him?
Twelve dollars a day.
Where do you get the money?
I sell products.
Who makes the products?
He and the machine he is running.
How many products do they make in a day?
Fourteen dollars worth.
How much of the work does the man do?
About 5% of it—70 cents worth.
How much does the machine do?
Some 85%—or about $12 worth.
How did you get the machines —by selling products?
Heavens, no! I had to buy the machine before there were any products and before there was even a job for the man.
Then, where did you get the money?
A lot of people who saved it invested $6,500 in that machine and charge me for using it.
How much do you pay them for using the machine?
About 4%—70 cents a day.
Hey, let me get this straight! You pay the man $12 a day for doing 70 cents worth of work and you pay the owners of the machine 70 cents a day for doing $12 worth of work?
That's right.
Good Lord, man, they belong in the booby-hatch.
Shut-up! That's what worries *me!*

I would not argue, nor would you, that competitive capitalism is perfect, but I would argue that this system has produced and is capable of producing more things that people value than any socialistic system yet contrived.

Capitalism, however, cannot get its work done if people are hostile and suspicious of it. It can function only if there is wide understanding of both its purposes and processes. In order to survive, corporations are obligated to balance their budgets, keep raw materials flowing and organize distribution of finished products. In today's environment, corporate survival depends on successful fulfillment of these functions, but also on one other: Corporations must formulate the capitalistic faith by which they live and teach it to all Americans.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

"Step right this way, boys, and get your bottle in which is the one sure cure for your draft and UMT headaches. Only $1 billion, and your political health is guaranteed against those particular two evil spirits through the November election."

In just about those words, that is the call that Congress is hearing. It also is the call that Congress seems to be heeding. For the Big Air Armada cure is offered not alone as the sure remedy for the UMT ache, as widely reported. It has now come to be looked upon also as the remedy for the draft ache, which Congressmen also dread.

Put yourself in the position of a Congressman, whatever party, and conjecture about what will happen between now and November. You enact a draft. Aunty Susy's nephew down the street gets a "greetings" some time shortly before the election, and he is packd off to camp. Meanwhile, however, the folks back home don't think very much of the draft. They have got over their war scare or their war hysteria, or whatever you would like to call it.

But Joe Zilch, the opposition candidate for Congress, decides to make hay over the draft. "That present gent who purports to represent you in Congress is the one who packed Aunt Susy's boy off to camp and all your sons and sweethearts. Throw him out."

And that is just what Congressmen are fearing. That is just what they are thinking today. And that is why they went completely overboard for the Big Air Armada thing.

* * *

For the truth is that the boys on Capitol Hill are beginning to get over the jitters which resulted in the overwhelming passage of the foreign aid bill without a cut of any substantial kind. After first being skeptical of the new defense program the boys began to think of yielding. Now they are beginning to lose fear of the Red Enemy, or at least to have more fear of what will happen from an Election Enemy if they put through a draft and then the war scare dies down. Maybe tomorrow the story will be different and the thing will swing all around again—for exactly that mercurial is the underlying situation, so leaderless is the Congress as well as the Administration.

* * *

Lack of leadership in Congress is almost inevitable under present circumstances. Without a President, the Congressional majority can look to no one individual responsible for initiating party policy. In an election year the division of leadership is all the more pronounced, for there are a few gentlemen who are aspiring to shoulder the burden of leadership and pull the Congress along with them, albeit in differing directions.

Leadership ordinarily is expected, however, of the White House over the Administration. The fundamental reason for the Congress kicking over the President's defense program is that the President allowed the rival services to get out of hand and do their own special pleading. In particular, the Air Force boys stepped out of line as part of what all the Congress regards at this joke which is termed the unification of the services.

By offering something which seemed to be the sure cure for what was ailing Congress, the danger of having to enact both the draft and UMT, the Big Air Power boys got at least the first drawing on the jackpot with their overwhelming House victory.

* * *

It's a good bet that the Congress boys not only aren't sure of what they are doing, but don't care very much so long as they are pulled out of a hole. They will think they have got out of the hole if they can settle for the $922 million of increased Air Power plus the registration of youths of draft age without forcing their induction—in this election year.

Calmer hands assert that what the U. S. is seemingly headed toward doing is what Germany did to her demise—rely on special weapons, Germany relied on the submarine and on air power. When both were licked Allied ships moved with impunity to the coast of France and by bombardment, supported the invasion. With a fourth of a Navy, Germany might have stalled that invasion for months or made it terribly costly.

Likewise Congress is in a large sense determining strategy. If the strategy proves to be good, OK. On the other hand, if it just should happen as has been reported, that the Reds have got thousands of jet interceptors, then the air power which the Congress is dreaming up will be as useful in restraining the Reds as table forks and wooden clubs. For even if the U. S. also got jet fighter support, it would have to move these tactical, short-range craft to bases where their support of atom bombing would be possible. And that can't be done without a corresponding Army and Navy.

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Then, too, it is noted that early in the late war, the Congress was howling for fighting Japan instead of Germany first. What the Congress didn't know then and what they couldn't be told without tipping off Japan was that until the U. S. got a Navy preponderantly stronger than the Japanese, the U. S. couldn't step up the island offensive on the Japs. When the Navy was created, then the U. S. could fight both the Nazis and th Japs.

* * *

Yet the Big Air Armada may prove to boomerang. If Joe Stalin lays off for a while, whatever the boys do between now and June will end it for the time being. But if he acts up again, then instead of settling for a $3 billion program including 55 air groups. Congress may, having plunked for 70 air groups, find itself putting out a large additional amount for a proportionate boost for both the Army and Navy. For if the scare gets bad, Congress will be afraid to take chances with less.

BUSINESS BUZZ

"I wonder if he wants this 'burp!' in the letter?"

Incidentally you will notice that effortlessly the House slipped in to the revival of aircraft production, the Contract Renegotiation Act. In other words, for the aircraft procured under this program the wartime contract renegotiated applies. This sets up a strong presumption that Congress will do likewise with subsequent expanded defense programs, when, as and if they are approved. And this, without a moment's thought being given in advance to the whole financial problem of war preparedness, or peace preparedness, if you like.

* * *

Think you can discount the idea that Congress this year will take prolonged recesses after June with the thought of being around handy just in case it doesn't trust the Truman Administration. Congress began this practice in 1943 because it didn't want to let the late President Roosevelt think he could get too far off the pasture. There have been hints of a repeat performance for 1948. Instead, however, Congress is likely to adjourn subject to the call of the Speaker of the House and the President of the Senate. This will accomplish two purposes, major and minor. **Minor purpose:** to take a slap at Mr. Truman by not trusting him to call a special session if events require. **Major purpose:** To let the Congressmen go out and really work to harvest the votes.

Yet you can't count on the Congress getting through with its necessitous business by June 18, the tentative target date. It may have to come back for a week or so after the conventions.

There are some new turns developing in connection with the tax bill for comprehensive administrative changes, what has here been referred to as the "overall revision bill." Chairman Knutson is now reported to be ready to back down from his stand that excises should be dealt with. In particular, it is reported he is ready to give up his recent objective of repealing excises on transportation and communication.

The second development is that the committee privately is showing a disposition to go along with the Treasury. Reports that the Treasury and the committee were in violent disagreement have been exaggerated, even according to the controlling GOP sources. The Treasury is objecting to administrative changes, no matter how desirable, which threaten any substantial amount of revenue. The committee is coming to the viewpoint of agreeing with the Treasury on such objections.

"We will get an overall revision bill which is veto proof," said an informed source. This means that a program of administrative changes now has a real chance of passage this year, with lack of time for action its principal obstacle. Schedule is to finish the bill in committee by May 10. Thirty-five tentative approvals already have been made in agreement with the Treasury, and are now being drafted.

There is no basis whatever to reports, published near last week end, that the President and Treasury Secretary Snyder had dissociated themselves from the Federal Reserve Board program to ask Congress for an additional commercial bank reserve of 10% of demand deposits and 4% of time deposits.

President Truman had not been briefed about the FR program, presented earlier last week by Eccles, when a week ago he commented only that it was the "Eccles program." A close examination of Secretary Snyder's remarks revealed only that he ducked comment.

Snyder is not expected to comment until he appears before the Joint Economic Committee. Betting odds are in favor of both Snyder and Thomas B. McCabe, new FR Board Chairman, endorsing the program. If Snyder opposed this, it would be news of the first magnitude, for the FR program is aimed at achieving credit restriction without the severity and irritation of a novel program, such as was conjured by the now dead special or secondary reserve. And it is aimed at a top Truman objective.

Incidentally, the special reserve is dead. There was nothing in the Eccles presentation to indicate that he had offred it again for any other purpose other than to seem consistent. The boost in conventional or legal reserves is the proposal which now has the emphasis.

* * *

Discount entirely the story that the Joint Economic Committee will "study the shortage of equity capital." Senator Taft will ask a few questions on this subject of witnesses. It will lead to no action of any kind.