

# The COMMERCIAL and FINANCIAL CHRONICLE

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## The Threatened R.R. Strike and Feather-Bed Rules

By ELISHA M. FRIEDMAN  
Consulting Economist

Three dissenting rail unions reject Board's findings. But "feather-bedding" not practiced on New York subways or British railroads. Taft-Hartley Law prohibits "feather-bedding" and should also cover rail workers.

Three railroad unions are threatening a strike on May 11. They dissent from an opinion of the President's Fact-Finding Board, which was accepted by 19 other unions concerning the wage increase and insist also on the adoption of additional feather-bed rules. These would increase costs by \$1,400,000,000. In the past their dissent had been successful. The government reconvened the judicial body to satisfy the dissenters' demands. Where resides sovereignty—in the government of 140,000,000 people, or in the leaders of three railroad unions, engineers, firemen and switchmen, representing 150,000 workers? This is the large issue that confronts the country.



Elisha M. Friedman

Present Railroad Feather-Bed Demands  
The railroad unions have de-

(Continued on page 47)

## Human Freedom Rests on Gold Redeemable Money

By HON. HOWARD BUFFETT\*  
U. S. Congressman from Nebraska

Congressman Buffett stresses relation between money and freedom and contends without a redeemable currency, individual's freedom to sustain himself or move his property is dependent on goodwill of politicians. Says paper money systems generally collapse and result in economic chaos. Points out gold standard would restrict government spending and give people greater power over public purse. Holds present is propitious time to restore gold standard.

Is there a connection between Human Freedom and A Gold Redeemable Money? At first glance it would seem that money belongs to the world of economics and human freedom to the political sphere. But when you recall that one of the first moves by Lenin, Musso-



Howard Buffett

lini, and Hitler was to outlaw individual ownership of gold, you begin to sense that there may be some connection between money, redeemable in gold, and the rare prize known as human liberty. Also, when you find that Lenin declared and demonstrated that a sure way to overturn the existing social order and bring about communism was by printing press paper money, then again you are impressed with the possibility of a relationship between a gold-backed money and human freedom.

In that case then certainly you and I as Americans should know the connection. We must find it (Continued on page 46)

\*An address by Congressman Buffett before the Conference of American Small Business Organizations, Washington, D. C., May 4, 1948.

## Progress and Future of Television

By DR. ALLEN B. DuMONT\*  
President, Allen B. DuMont Laboratories, Inc.

Prominent television producer traces development of television and its recent rapid progress, indicated by an increase from 200,000 receivers at end of 1947, to over 340,000 at present. Sees television supplementing radio, and predicts eventual large television hook ups, which will include small as well as large population centers. Does not foresee early price reductions in receivers, but looks for continual improvement in sets and reduction in costs of transmission. Concludes, within 5 to 10 years, television will be one of top industries.

I was going to try to cover, today, in the time at my disposal, a little about what has happened in television within the last few years and maybe go back a little bit further than that to give you a little background on the subject and then, to try and take a peek



Allen B. DuMont

as to how this thing may develop.

I think that you might be interested to know that the television art and the idea of television is rather old. As a matter of fact, the original idea of scanning, as we use it today, is just 65 years old. It was originally proposed by an Austrian by the name of Nipkow, in 1883, and we still use that same principle in breaking up the picture and transmitting it over a single radio (Continued on page 43)

\*Stenographic report of an address by Dr. DuMont at Luncheon Meeting of the New York Financial Advertisers, New York City, April 28, 1948.

### EDITORIAL

## As We See It

A Form of Escapism?

Those of us who are a little older than we like to admit readily remember when the "flappers" of that day were "always chasing rainbows" or "blowing bubbles in the air." It may well be doubted whether the authors of such popular songs had much more in mind than those who were responsible for "little lamsie divy" and other nonsensical gibberish which constituted the warp and woof of the incantations of later generations.

But "chasing rainbows" and "blowing bubbles in the air" has for something approaching a generation appeared to be a favorite pastime of the American people. The same habit may have taken hold of many other peoples, too. Certainly it sometimes appears as if it had. As to ourselves, however, there can be no gainsaying the fact that continuous, if not organized self-deception—usually inspired by some resonant "radio voice"—has apparently become a fixed habit which virtually nothing can break.

The most frequently mentioned example at the present moment is, of course, our "disappointment" in Russia and the Kremlin. Precisely how we could ally ourselves with one of the world's most notorious despots (Continued on page 38)

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# Problems in Administering Securities Act

By ROBERT K. McCONNAUGHEY\*  
 Member, Securities and Exchange Commission

Commissioner McConnaughey, after describing purposes and working of registration requirements for securities offerings, points out, under present restrictions regarding the 20-day waiting period, underwriters cannot diminish risks through rapid turnover. Sees friction in this, and outlines SEC proposals to allow tentative solicitation of orders before expiration of waiting period. Sees need for reframing law, particularly in cases of competitive bidding, and concludes, if Justice Department anti-trust suit against underwriting firms is successful, competitive bidding will have wider scope.

What I want to try to do today is to give you a birdseye view of some of the problems raised when the Federal Government undertakes to regulate a highly complicated, fast moving national business. Although my discussion will be somewhat technical, I want to

lay a background for some fairly basic ideas. I shall have to sacrifice the opportunity to describe the work of the SEC as a whole in broad perspective in order to give you a reasonably adequate picture of a rather significant set of



R. K. McConnaughey questions we encounter in administering the Securities Act of 1933.

The particular point of contact between government and business I propose to explore (perforce sketchily) is the modern system of underwriting and distributing securities; and the instrument of regulation which I shall analyze in part is the Securities Act of 1933 as it applies to securities underwriting and distribution. What I want to do is to describe to you a concrete example, in an important field, of the dynamic and experimental aspects of regulatory law in action.

You know, of course, that many, perhaps most, new issues of the securities of large businesses are underwritten and distributed through the so-called syndicate method.

In the typical case, the business organization proposing to seek public funds through the sale of securities consults an investment house. The discussion with the investment house may range from such broad questions as the suitability to the issuer, of the particular kind of security the management proposes to issue, or the appetite of the market for such a security, to such details as the probable market reception of a particular interest or dividend rate.

Before an underwriter commits himself to take an issue of substantial size he is likely to explore the interest of other large houses to determine whether they will participate with him in the underwriting.

The houses willing to participate form a group to share in the initial purchase of the issue at a wholesale price. This group, usually a relatively small number of houses, is the underwriting group or syndicate.

At a later stage a larger group

\*Remarks of Commissioner McConnaughey before Prof. John A. Griswold's Class in Financial Management, Dartmouth College, Hanover, N. H., Jan. 22, 1948.

of additional dealers is formed who will buy a part of the issue from the underwriters for retail distribution. The usually larger group of dealers formed to assist with the retail distribution is commonly called the selling group.

The selling group buys its portion of the issue from the underwriters at a discount off the public offering price. Its profit is the spread between the dealer's price and the retail price. The underwriters customarily retain part of the issue for retail distribution through their own selling organizations.

The American system of distributing new securities is geared and powered for rapid turnover. It's difficult to tell whether that situation is the cause or the result of the fact that, generally speaking, individual underwriting houses do not have sufficient capital independently to acquire and hold for leisurely distribution quantities of securities as large as those frequently offered. In a sense the system is flexible and efficient. By varying the number of relatively small participants to correspond to the size and probable dispersion of the particular issue it accommodates itself fairly readily to diverse sorts of financing. It utilizes a comparatively small amount of capital to accomplish the distribution of large amounts of securities. It achieves the distribution rapidly and thereby frees the underwriters' capital quickly to be used in financing the distribution of other securities. To the extent that the capital is genuinely needed in business that's probably a good thing.

However all that may be, the fact is that enormous amounts of securities are distributed every year by houses whose capital severally, or even collectively, would not conceivably be sufficient to enable them to buy, over a similar period, a comparable quantity of securities for inventory and piecemeal distribution by a less extensive organization and less intensive methods.

Of course with this sort of a setup, adjusted to rapid distribution and based on relatively limited capital, failure in a few large issues could have serious consequences.

### Risk Diminution in Underwriting

In view of this possibility one of the primary aims in the present American underwriting system is a diminution of risk. This purpose accounts for many of the system's characteristics. Its effect shoots through the system, from the basic contracts that fix the

various relationships in the underwriting to the mechanism of distribution itself.

Syndication and group formation are, themselves, risk spreading devices. They not only ameliorate the burden of individual risk by spreading the participation. They also reach closer to a wider and more diversified market than any one underwriter could and thereby speed the distribution process and minimize the time capital is tied up in the distribution of any one issue.

The underwriter's contract with the issuer gives the underwriters various "outs" in the event of adverse market, or other conditions. The contracts among underwriters and dealers usually by their terms require each of them not to prejudice the distribution by selling under the fixed offering price. Risk avoidance accounts in large part for the zeal with which underwriters frequently seek out institutional purchasers to take large parts of the issue off their hands—thus avoiding small-lot retail selling.

It accounts for the practice known as stabilization, in which, subject to limits set by rules of the Commission, in certain situations, an underwriting group makes open market purchases during a distribution in order to support its price. It accounts for the various penalties against group members for sales made to free riders or quick turn speculators who dump their purchases while the distribution is going on, thus creating the threat of an uncontrollably disordered market while undistributed securities are still in the hands of the groups. It accounts for the pressures for speedy wholesale and retail distributions, utilizing all the arts of salesmanship likely to contribute toward that result.

These comments are not intended either to condemn or to commend any of these characteristics of the system. They are intended only to point out that they exist.

### Purposes of Securities Act of 1933

To regulate abuses Congress found to have grown up within this system, the Securities Act of 1933 was enacted. That legislation is intended to protect the investor. Roughly, the way it is intended to protect the investor is to require that he be told enough about the investment to enable him to make an intelligent appraisal of it before he buys it. That sounds like a fairly mild sort of regulation. The effort to make it effective in practice has evolved some rather complicated machinery. Whether that machinery has been effective in proportion to its complexity has frequently been questioned. I'll try to tell you some of the reasons why. You might consider, as you listen to this discussion, whether some of the trouble that we've had in making this Act fully effective may not come from the fact that it is essentially a mild regulation—that it attempts to accomplish its protection with a minimum of interference with established practices by merely requiring issuers and underwriters to tell investors the truth about the securities they have for sale. A more drastic regulation might be easier to administer—

(Continued on page 36)

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**INDEX**

Articles and News

Page

Progress and Future of Television—Allen B. DuMont	Cover
Human Freedom Rests on Gold Redeemable Money —Rep. Howard Buffett	Cover
The Threatened Railroad Strike and Feather-Bed Rules —Elisha M. Friedman	Cover
Problems in Administering Securities Acts —Robert K. McConaughy	2
Optimistic Wall Street Psychology Justified —Anthony Gaubis	3
Switzerland's Gold and Dollar Policy—M. A. Kriz	4
Our Foreign Aid Policy in Operation—Hon. John W. Snyder	4
Thinking About the World and Its Economics —Beardsley Ruml	6
What to Do About Prices?—Jay D. Runkle	7
Economic Relation of Wages and Prices—Earl Bunting	8
Banking in Michigan Today—Morris A. Schapiro	12
Money, Government Spending and Interest Rates —Sigurd R. Wendin	14
ERP—Misguided and Expensive Venture—B. J. Gardener	17
Reduced Taxes or Capital Shortage!—Harry L. Derby	18
What Makes Production?—Henry Hazlitt	19
How to Find True Value of Paper Dollar—Lewis Haney	23
A Roundup of Business Conditions—Kenneth Field	25
We Are Winning the Cold War—Erwin D. Canham	30
<b>Bank Economist Says "Shots-in-the-Arm" Delay Postwar Depression</b>	<b>7</b>
Nadler Sees Conflicting Trends	8
NYSE Revises Printed Listing Requirements	11
J. K. Lasser Holds Tax Cuts Will Spur Dividend Payments	15
Schram and Boylan Comment on End of Exchange Strikes	17
N. Y. Reserve Bank Issues Text of Treasury Rule on Swiss Accounts	20
Charles O. Hardy Holds International Relations No. 1 Problem	21
Documentary Film of Natural Gas Industry Prepared for Public	21
Murray vs. Third Parties (Boxed)	21
Senator McCarran Wants Free Gold Market	22
N. Y. Chamber of Commerce Recommends No Change in Monetary Standard	22
Federal Reserve Board Reports Drain on Foreign Gold and Dollar Holdings	23
Committee on Public Debt Policy Urges Stable Prices as Protection of "Future Dollars" of Insurance Policyholders	24
Republican Senators Blast Congressional Appropriations	24
FHA Reports Record Home Building	24
Export-Import Bank to Provide \$1 Billion for Latin American Republics	26
New York Stock Exchange Suspends Broker	26
Internal Revenue Bureau Clears Up Tax Liability on Loaned Stock	28
First National Bank of Boston Calls for Economy in Non-Defense Items	28
Guaranty Trust Co. of New York Holds Reduced Tax on High Incomes Benefits All	28
New York Curb Suspends Member	31
NICE Survey Reports Business Executives Optimistic	51

**Regular Features**

As We See It (Editorial)	Cover
Bank and Insurance Stocks	12
Business Man's Bookshelf	27
Canadian Securities	18
Coming Events in the Investment Field	11
Dealer-Broker Investment Recommendations	8
Einzig—A "Keynes Clearing Plan" for Western Europe	27
From Washington Ahead of the News—Carlisle Barger	6
Indications of Business Activity	45
Mutual Funds	20
NSTA Notes	10
News About Banks and Bankers	29
Observations—A. Wilfred May	5
Our Reporter's Report	51
Our Reporter on Governments	29
Prospective Security Offerings	50
Public Utility Securities	27
Railroad Securities	14
Securities Salesman's Corner	26
Securities Now in Registration	48
The State of Trade and Industry	5
Tomorrow's Markets (Walter Whyte Says)	42
Washington and You	52

**Optimistic Wall Street Psychology Justified**

By ANTHONY GAUBIS  
Investment Counselor

Mr. Gaubis, after analyzing recent stock market trends, contends realistic appraisal of fundamental economic forces justifies conclusion of impending substantial rise in values. Says favorable developments could lead to revival of normal confidence before end of year, which could raise Dow-Jones Industrial Average to about 240-260.

There has been an almost dramatic reversal of psychology in Wall Street during the past 60 days. The small minority of market students who have been insisting that the October, 1946 lows of the Dow-Jones Industrial Average were not likely to be broken materially, if at all, before the upward trend of the market was resumed, are no longer being looked down upon as misguided optimists. Even some of the Dow theorists seem to be getting ready to reclassify the underlying trend of the market retroactively, of course since October, 1946, and/or May, 1947. Generally speaking, Wall Street has not been so bullish since April and May of 1946.



Anthony Gaubis

This reversal of psychology and current predominance of bullish opinion cannot help but be disturbing to the thoughtful and sophisticated investor. Is it possible that Wall Street is now just as wrong in expecting materially higher prices over the next six to twelve months, as it was wrong in expecting, almost universally, a business recession and a repetition of the 1920-1921 stock market pattern during 1947? While I personally disagreed with the prevailing Wall Street optimism of early 1946 (and recommended that investors be prepared for a probable decline to somewhere between 160 and 170 in the Dow-Jones Industrial Average during that year); and again fought Wall Street opinion throughout 1947 (when fundamentals, as I saw them, suggested that a majority of the better grade issues were definitely in a cyclical buying area); I believe that Wall Street will prove justified in its current optimism for at least the next six to eight months. After all, prevailing opinion in Wall Street is not always wrong, the general impression to the contrary notwithstanding!

**Basis of Improvement in Psychology**

The basic cause of the improvement in Wall Street psychology may be traced largely to the change in the economic propaganda line from Washington. Throughout 1946 and 1947, the would-be economic planners who seem to be in control of the economic propaganda machine in Washington were telling us about the terrible things that were bound to happen if we did not first continue, and then reinstate, price controls. The chorus of doom was particularly vocal in

the spring of 1947, when these theorists joined forces with the CIO to secure a second round of wage increases to help sustain buying power during the recession that we were told was inevitable, primarily because commodity prices had been decontrolled.

The bogey of a depression "by the last half of 1948" was trotted out late last year in connection with the drive to put across the Marshall Plan. We were told that unless Congress did approve the Marshall Plan, the inevitable decline in exports would surely bring about the depression which had been promised for 1947, but got lost somewhere along the way. I may be wrong, of course, but it seems to be more than a coincidence that talk of a depression died down in May of 1947 with the establishment of a new wage pattern and a second round of wage increases, and again in February of this year, once the passage of the Marshall Plan was assured. Unfortunately, the predictions of our Washington bureaucrats have a major effect on the psychology of radio commentators and the economic writers for such national publications as "United States News," "Business Week," and "Kiplinger." It is not surprising, therefore, that public psychology is more or less dominated by what seems to be nothing more or less than a propaganda line.

Our Washington propagandists have not only stopped crying "wolf, wolf" during the past two months but are now telling us of the possibility of shortages of manpower and materials by summer or fall, and are predicting new high records in production and consumer incomes during the very period when we had been told to expect a recession. What is behind this change in the Washington point of view? At the moment we can only guess. Could it be that our bureaucrats realize that business fundamentals are sound, and that they might as well try to get credit, at the November elections, for the high level of prosperity? (Remember the campaign keynote of November, 1936: "Business does not just happen to be good, we planned it that way!") In any event, the current "explanations" of the right-about-face in the forecasts of business (and stock prices) seems to be rather superficial. The passage of a tax reduction bill and the ERP legislation was a fairly safe prospect by December of last year. Stepping up the

(Continued on page 34)

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# Switzerland's Gold and Dollar Policy Our Foreign Aid Policy in Operation

By DR. M. A. KRIZ\*  
Federal Reserve Bank of New York

Dr. Kriz explains current Swiss gold policy in light of balance of payments developments. Concludes although Switzerland acted voluntarily in suspending gold sales to public, it actually realigned its gold policy with International Monetary Fund.

The year 1947 saw a profound though gradual change in the Swiss gold and dollar policy. During the war and in the first year and a half after its end, Swiss policy was largely motivated by vivid apprehensions as to the inflationary impact of the influx of gold and dol-



Miroslav A. Kriz

lars on the Swiss domestic economy—hence the anti-inflationary measures such as gold sterilization, gold sales to the public, quantitative limitations on the conversion of dollars into Swiss francs, etc. This policy was reversed in 1947 in conditions briefly described in the introductory part of this article, the main body of which reviews the sequence of measures taken by the Swiss National Bank in the recent past.

## Reversal in the Swiss Balance of Payments

The change in the Swiss gold and dollar policy is a direct outcome of Swiss foreign trade developments in 1947. Switzerland's trade deficit last year was the largest ever recorded—1,552 million francs (363 million dollars), compared with a deficit of 747 million francs (175 million dollars) in 1946, and a surplus of 248 million francs (58 million dollars) in 1945. Normally the balance of trade in Switzerland shows a deficit, which, however, is easily covered by the favorable balance of noncommercial transactions, including tourism and income from Swiss investments abroad. As a result of the great increase in the Swiss trade deficit last year, the Swiss balance of payments on current account was probably barely balanced, or may even have been passive, instead of showing the usual surplus, although no balance of payments statistics are available.

Switzerland's current trade deficit is due in large measure to the deficit of Swiss trade with

\*The author is on the staff of the Federal Reserve Bank of New York. The opinions he expresses are personal.

the United States—637 million francs, out of 1,552 million last year (149 million dollars, out of 363 million). In 1946 this balance was passive only to the amount of 95 million Swiss francs (22 million dollars), while in 1945 it was active by 148 million francs (35 million dollars). Since the deficit in the trade balance reflects fundamentally the fact that Switzerland is now reconstituting its stocks of foodstuffs and raw materials depleted during the war, it might be inferred that the deficit is likely to diminish as the stocks of foodstuffs and raw materials are replenished. On the other hand, however, Swiss exports are encountering very considerable difficulties because of the shortage of Swiss francs, a currency even more scarce than the United States dollar: a large number of countries recently prohibited or limited the import of Swiss products (the United Kingdom, Canada, Argentina, Spain and Portugal, among others). What the cumulative effect will be of these restrictions cannot be foreseen, but in any event Switzerland's current payment-obligations *vis-à-vis* the dollar area would undoubtedly outstrip its receipts.

## Changes in Dollar Policy

Observing these foreign trade developments, the Swiss National Bank several months ago began to take measures to remove the limitations on the transferability of dollars into francs at the official rate of exchange that had been established during the war and the immediate postwar period. More particularly, with a view to increasing the inflow of dollars, the bank took the following steps:

On May 14, 1947, restrictions on the conversion of income from blocked dollar assets (when properly certified) were lifted for such income as accrued in 1946 and also for current income in 1947. Previously only income for the year 1945 had been convertible.

As of May 15, 1947, American tourists were permitted to convert into Swiss francs at the official rate of exchange up to \$200 per

person per week, instead of only up to \$125.

As of July 1, 1947, restrictions were lifted on the export of watches to the dollar area; and on Sept. 5 the regulations blocking a part of the dollars received as payment for exports of goods other than watches were abolished. These restrictions were imposed during the war to reduce the amount of dollars received as payment that the national bank would have to convert into francs.

Finally, as of Jan. 1, 1943, the national bank began to accept on a limited scale the transfer of dollars from capital investments. For the time being, however, only 10% of such capital may be converted at the official rate.

## Changes in Gold Policy

Further evidence that the Swiss no longer fear an excessive conversion of dollars into Swiss francs is supplied by their gold policy:

On March 4, 1947, the Swiss National Bank suspended sales of gold bars to Swiss commercial banks.

On Sept. 9, 1947, the Swiss National Bank suspended sales of gold coins to the commercial banks, which in turn were selling them to the public.

The gold sterilization policy, under which the government was buying gold accruing from Swiss exports by raising the necessary francs through the issue of Treasury bills, was at first continued in 1947, and the exporters who wished to take advantage of additional exports to certain countries were required to help meet the costs incurred by the national bank in sterilizing gold. In the fall, however, in view of the slowing down of the gold influx, it became possible to abolish this contribution.

The purchase of gold by the Swiss Government was discontinued, and the national bank instead took over from the government by far the greatest part of its gold holdings. This policy is reflected in Chart I; it will be commented upon later on.

Among the measures taken the suspension of domestic gold sales was the most spectacular. In its annual report for 1947 the national bank ascribes this action to "excesses" in gold dealings. Gold sales led to widespread arbitrage operations, under the disguise of which gold purchased in Switzerland was sold for dollars on the world gold market, the dollars so obtained were returned to Switzerland and sold on the free market there, and gold was purchased again with the Swiss franc proceeds. Losses on dollars were more than offset by profits made on gold. The large dollar sales

(Continued on page 32)

By HON. JOHN W. SNYDER\*  
Secretary of the Treasury

Secretary Snyder reviews conditions leading to ERP and describes its working administration. Says basic financial policy comprises both gifts and loans, and that supplies may be procured in foreign countries to relieve pressure on U. S. goods and services. Stresses phase of self-help provisions, and notes progress of 16 Western European nations in effecting cooperative measures of reconstruction. Says ERP administration is in excellent hands and will assist our peaceful foreign policy.



John W. Snyder

The United States Government, through its foreign aid policy, has instituted a program unparalleled in history in an effort to re-create world confidence, courage, and security. We have taken a positive and unprecedented step in constructive statesmanship which

should be most reassuring to people of war-devastated and war-threatened countries. We have initiated strong measures toward the establishment of cooperation in economic reconstruction, and toward preserving the peace. Especially is the European Recovery Program an outstanding example of united and practical effort for the common good.

The support which the foreign aid legislation received from the great majority of the American people is singular evidence of our ability and capacity to meet a critical situation with effective action. Certainly, the promptness with which the Congress passed this legislation is a vigorous demonstration of the operation of American bipartisan foreign policy.

You are well aware of the world-wide conditions which necessitated the recovery program. They have been described in great detail in the newspapers, in the magazines, on the radio and in Congressional debate. Few matters of state have been the subject of such widespread public discussion among our citizens. The recovery bill itself clearly describes the issue in these words: "The existing situation in Europe endangers the establishment of a lasting peace, the general welfare and national interest of the United States, and the attainment of the objectives of the United Nations."

## Working of Program

I think it is essential to understand clearly the actual working administration of the program and some results which are expected to be accomplished.

The foreign Assistance Act of 1948 authorizes \$5.3 billion for recovery for the 12-month period ending next April. This particular figure was determined after consideration of the minimum recovery needs which were estimated

\*An address by Secretary Snyder at the 1948 convention of the Missouri Bankers Association, St. Louis, Mo., May 4, 1948.

by the 16 Western European countries at their meeting in Paris last summer. Our Government carefully examined this appraisal of European needs in the light of available supplies in the Western Hemisphere. By this screening process the Executive Branch reduced the Paris estimates to \$6.8 billion for the 15-month period ending June 30, 1949. The \$5.3 billion which Congress approved for the 12-month period ending March 30, 1949, corresponds to this estimate.

Although the Recovery Act also authorizes assistance to China, I wish to confine my remarks today to the Western European phases of the Aid program. The assistance that is being provided is recognized as crucial to the economic recovery of Western Europe and to world economic stability. I believe that we cannot over-emphasize the importance of that recovery to the United States.

We have moved speedily. Mr. Paul Hoffman was nominated by the President and confirmed by the Senate as the Recovery Administrator within hours after the bill became law. Administrator Hoffman is confronted with an enormous task in establishing the machinery to carry out the provisions of the recovery bill. However, he established a skeleton organization at once in order to get the program promptly into action. Ships sailed for Europe almost immediately with supplies authorized under the new act. This quick action was made possible by the advance work which had been done by the executive branch of the Government over a period of months.

The Administrator, under the direct authority of the President, is responsible for reviewing and appraising the requirements of participating countries, for developing programs of assistance to meet these requirements, and for directing their efficient execution. The headquarters of the Economic Cooperation Administration is in Washington, and consists of the offices of the Administrator, the Deputy Administrator and the necessary operating staff. This headquarters will be primarily charged with allocating funds for the purpose of the program, and with arranging the procurement of supplies. Procurement will, so far as is practicable, be carried out through normal channels of private business and United States manufacturers and suppliers will deal directly with foreign buyers. Some goods will be bought, however, through government agencies, although these purchases probably will be of lesser extent over the next year or so than they have been in the past. This government purchasing will be principally in the case of goods which are extremely scarce and subject to export allocations, or where competitive independent buying might have serious effects on the market price of the commodity. Conspicuous cases of government buying will be in the procurement of wheat and coal. Where advisable, cer-

(Continued on page 33)

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## The State of Trade & Industry

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

Total industrial output advanced moderately the past week with the production of most goods continuing to hold somewhat above the level of the corresponding week of last year.

Despite scattered temporary lay-offs in some lines, total employment and payrolls remained close to peak levels.

Orders for many products, it was noted, exceeded output and practically all types of durable goods remained in large demand.

Steel companies are still losing production this week as a result of the walkout of coal miners which ended in late April; the American Iron and Steel Institute reported on Monday of this week. Production the current week will be 117,300 tons lower than the output in the week immediately preceding the start of the walkout March 15. Through this week, the total loss of steel output directly caused by the cessation of mining will be more than 1,535,700 tons.

The strike has interfered with the steel industry's attempts to set a new steel production record this year. In 1947, the industry produced approximately 84,800,000 tons of steel, an amount greater than ever before in peacetime. With additional capacity in operation in 1948, it was expected that this year's output would be greater than in 1947, and go far toward restoring the balance between supply and demand for those steel products which have been most eagerly sought. Production in the first quarter of 1948 was slightly more than 22,000,000 tons, a record peacetime output for the first three months of the year.

A third interim railroad freight rate boost, effective May 1, has been authorized by the Interstate Commerce Commission. This increase is also shared by water carriers and freight forwarders.

The ICC, in granting additional rates, recognized that the eastern railroads need the largest proportion of relief and hence, increases of an additional 10% will raise rates in this section 30% above last October levels. The eastern railroads petitioned for an increase of 41%.

Southern roads were granted 5% additional rates, bringing the total to 25% over last October. They had asked for 31%.

Developments in the railroad industry last week portended a possible strike on May 11, next, affecting 132 Class I railroads due to the failure of union officials and management to arrive at a satisfactory settlement of a dispute over wages and working conditions which has been under discussion for a period of about six months. Involved in the dispute are the Brotherhood of Locomotive Engineers, the Brotherhood of Locomotive Firemen and Enginemen and the Switchmen's Union. President Truman was reported to have said that he believes Federal labor mediators will settle the railroad wage dispute.

Should the railroad industry speedily adjust its differences with the rail unions, the nation will still have other possible strikes to contend with, such as the threatened walk-out of the automotive workers at the Chrysler plant. Then, too, unless some satisfactory solution is found for the coal industry during the present month, there remains the danger of another coal strike when the miners' contract expires on June 30.

Boosted by an increase in the consumer demand for seasonal merchandise, retail volume rose slightly during the week. While resistance to luxury goods remained strong, early buying of graduation and Spring wedding gifts stimulated the demand for jewelry in some areas.

Promotional sales of many types of goods attracted very favorable attention and retail dollar volume continued to compare favorably with that of the corresponding week a year ago.

A large number of buyers attended the wholesale centers and retailers continued to be cautious and selective. There was very little change in wholesale volume during the week, with total dollar volume moderately above the level of the like week of 1947.

### STEEL OPERATIONS AT HIGHEST LEVEL FOLLOWING COAL STRIKE

The depth and scope of the steel price cuts made last week by U. S. Steel were amazing to other steelmakers. On top of that move the Supreme Court ruling against the basing point system portended either financial ruin for some steel companies or an "anarchy" in selling if eventually the same ruling applies to steel, states "The Iron Age," national metalworking weekly, in its review of the steel trade.

For the first time, says the magazine, the steel user is finding so many steel prices for the same kind of product that it may be difficult for him to make any rhyme or reason out of his estimated manufacturing costs—if he can estimate. U. S. Steel's cuts have not all been met by other steel mills. Some steel firms have refused to reduce the price on items which were showing a loss or little profit. On others, they have made deeper cuts and on others they have met competition.

The steel price cuts by U. S. Steel were more numerous and deeper on some items than could have been imagined and came as a shock to some other steel companies which had to study their own costs before making a similar move.

In the face of increased freight costs on raw materials, the possibility of higher coal costs and perhaps the imposition of controls (which tend to increase costs) later, some steel officials believe that a steel price cut was not warranted, this trade authority notes.

If the attempt of all steel companies to strike a telling blow at inflation is not a success it will be a costly lesson for U. S. Steel and others which have gone along in the move.

It is a bitter pill for the steel industry to find Congressmen, who only a month ago wailed about a price increase, now talking about

(Continued on page 33)

## Observations . . . . .

By A. WILFRED MAY

### Confusing the Stockholder

For a decade-and-a-half now our Federal securities laws have been rigidly prescribing the disclosure of company information. Management has been evincing growing realization of its obligations to stockholders. And the public's interest in the reporting process is awakening (stimulated by vigorous public relations activities such as company report contests). Nevertheless, despite these constructive happenings, it unfortunately must be concluded that the very important communal function of getting the rank-and-file of investors intelligently informed remains largely unfulfilled.



A. Wilfred May

The shortcomings are the joint result of stockholder apathy, of certain deficiencies in our securities laws, and the normally varied policies pursued by managements in "selling" themselves.

#### Non-Uniformity the Basic Fault

Today American stockholders are receiving news about their companies in a multitude of divergent ways—some good and some quite questionable. Through the SEC, carrying out the mandate of the Securities Exchange Act, the shareholder in an exchange-listed industrial company is granted access to quarterly sales figures, detailed earnings and balance sheet data, changes in management or control, material changes in the general character of the business, stockholdings of "controlling persons," granting of options, etc.—all through inspection of the files of the Exchange on which the stock is listed, or by visiting or writing to the SEC in Washington. Also, under the SEC's rules, if and when proxies are solicited for the transaction of company business, fuller details relevant to that specific business, as those concerning directors, must be included in the proxy solicitation forms which are delivered in the shareholder's mailbox. All this information is set forth uniformly by all listed companies (excepting investment funds).

Nevertheless, there remains great difficulty in getting this information uniformly into the hands of the shareholders because they are indifferent or ignorant about data which are merely available in official files or in the proxy solicitations which there is no compulsion to issue. And it must be remembered that directors of companies which are not listed or enjoy unlisted trading privileges (as on the New York Curb) are exempted from the compulsion to give information regarding financial results and changes in personal stock holdings, and from the restrictions placed on proxy solicitation.

Hence it is evident that shareholder enlightenment largely depends on the voluntary activities of management in reporting directly to its shareholders, wholly outside of the regulations of the Commission and the purview of the statute.

#### Striking Divergence Among Listed Companies

So it is that even the stockholder of a listed company sometimes receives quarterly reports; more frequently he gets semi-annual statements—some being voluminous descriptive matter and some summaries; perhaps minutes or other summary of the annual meeting (sometimes in the form of a progress report printed ahead of the meeting); occasionally propaganda flyers, as during a wage dispute showing the relationship of dividends to wages; and in some cases monthly house organs. But it is the report covering the entire year's operations that is all-important, and over which our greatest concern should be shown, from the viewpoint both of the management's as well as the stockholder's interest.

These annual reports as now issued run the gamut from a few like Allied Chemical's, which limits the president's explanatory statement to a single page, to the increasing number of ever-expanding documents in the form of weighty volumes filled with oceans of photographs depicting all direct and indirect ramifications of the company's operations. A few companies even send out two sections simultaneously, one being exclusively devoted to pictures. Some of these publications, resembling garden seed catalogues, in their efforts to woo the shareholder may well be unwittingly circumventing the intent of the Securities Act with its strict limitations on the prospectus.

#### Overstuffing the Goose

In any event, it seems to be a moot pragmatic question whether the current adorning and elaboration of the annual report is not ever beginning to defeat its own ends. Perhaps some shareholders, far from being impressed by the extravagant ultra-decoration, are instead imbued with more confidence by the modest, simple, short recital of the facts with a visible "good old-fashioned" balance sheet.

Some directors are already beginning to search their souls about this. For example, a large electric manufacturing company this year issued a sharply abbreviated report, accompanied by a query infer-

(Continued on page 16)

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## Municipal Bond Club of Chicago Elects

CHICAGO, ILL.—At the annual meeting of the Municipal Bond Club of Chicago, held



J. P. Jamieson

April 30, 1948, the following officers and directors were elected. President—James P. Jamieson, Glore, Forgan & Co.

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The new President appointed committee chairmen as follows: Program—P. K. Van Winkle, Paine, Webber, Jackson & Curtis; Attendance—John P. Ballman, Ballman & Main; Finance—John W. Clarke, John W. Clarke, Incorporated; Publicity—George B. Wendt, First National Bank of Chicago.

### With Paine, Webber Firm

(Special to THE FINANCIAL CHRONICLE)  
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# Thinking About the World and Its Economic

By BEARDSLEY RUMI\*  
Chairman of the Board, R. H. Macy & Co.

Mr. Rumi, holding that, in foreseeable future, we shall have neither war nor peace, sees armament program as likely to put some strain on production and lead to some allocation and controls. Points out, however, expanding production can ease burden. Stresses need of U. S. prosperity for wholesome world situation, and looks for impulse to push for constitutional basis of peace as favorable sign.

The subject assigned to me for this meeting was "Understanding the World and Its Economics" but this seemed to me pretty ambitious, and so I have changed the title to "Thinking about the World and Its Economics." This much at least we can do. The

first subject we must think about is War and Peace. This is unfortunate, but the questions concerning war and peace affect significantly every other important question related to the world and its economics. Also I find it distasteful to discuss war and peace from the point of view of economics. War and peace to be properly discussed should be considered on humane and moral grounds, and the economic should be subordinated, except as the economic, too, affects humane and moral values. But the subject assigned to me is the world and its economics, and here the matter of war and peace comes first. We shall have to subordinate the distasteful and the unfortunate to the necessary.

I do not believe that we shall

\*An address by Mr. Rumi before the Second Annual Magazine Forum of the National Association of Magazine Publishers, New York City, April 27, 1948



Beardsley Rumi

have war in the foreseeable future. Whether I am right or not makes no difference for this discussion, because if I am wrong, we have very little to discuss anyway.

On the other hand, I do not believe that we are going to have peace in the foreseeable future either; and this does give us something to think about. If I am wrong about this, and I sincerely hope I am, that would make quite a difference — literally, quite a difference.

If we are not going to have peace in the foreseeable future, then we are going to have defense programs indefinitely, and this means armament indefinitely. It means armament indefinitely, not only in the United States, but largely, if not generally, throughout the world. I have been told that some of the younger and as yet under-developed countries want steel plants or more steel plants for their own armament, and that at least one that as yet has no navy wants a couple of cruisers and a few destroyers for defense.

Whether this information is correct or not, and I believe that it is, it is relatively unimportant in comparison to the consequences of armament indefinitely for the

economics of the United States and thereby for the economics of the world.

## Consequences of Armament Program

In presenting the consequences of an armament program, I do not want to give you the impression that I feel these consequences are so unfortunate that we should withdraw from our defense responsibilities. On the contrary, the consequences though serious are not intolerable, and as long as we have no peace, armament, adequate armament, is inevitable.

What does adequate armament for the United States mean in terms of economics—first in terms of dollars? We have had some glimpses of what the global figures may become and we are not deceived by the moderate and even then presently unspendable funds that have been requested by the Administration. We know that these funds are preparatory for building an armament that will be adequate when fighting is done with atoms. Consequently it does not come as a complete shock when the figure of \$30 billion a year is mentioned as a likely requirement for defense in the budget two or three years away. And after that, \$30 billion a year or more indefinitely. This compares with some \$11 billion originally planned for the next fiscal year; and so we may be facing total Federal budgets of some \$50 to \$60 billion a few years from now and for as long as we need armament for defense.

But there is another aspect of \$30 billion a year armament program that has been frequently commented upon, namely, that the money requirements do not fully state the true economic problem. It is not the dollars themselves that build defense, it is particular kinds of raw materials, industrial plants and skilled labor. At the moment, such materials, plants and labor are being rather fully utilized, and a vast increase in productivity, such as occurred from 1940 on, is not in the picture. Fortunately such an increase in productivity is not required for defense.

Nevertheless, a \$30 billion a year armament program is likely to put some strain on some kinds of production. It may make necessary some allocations and some controls. It will certainly limit the production of capital goods that otherwise might be available to raise the output of consumers' goods and the standard of living both in the United States and elsewhere throughout the world.

## Increase in Productivity

Since the armament program we are contemplating will require two or three years to reach a \$30 billion a year total, it is proper to offset this demand on our productive capacity by the ordinary annual increase in productivity resulting from improved technical methods and a growing labor force. Under conditions such as we are thinking about, the annual increase in productivity might well be as much as 4%, or, over a three year period, as much as 12%, perhaps as much as \$25 billion a year.

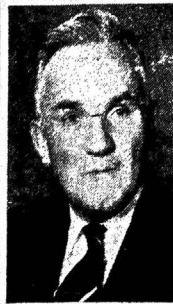
This increase would be an overall increase, and would not be fully applicable to the particular requirements of an armament

(Continued on page 39)

# From Washington Ahead of the News

By CARLISLE BARGERON

When you get away from the East and go out among the urban and rural people of a State like Ohio, for example, and see these people at their daily tasks it is difficult to realize that uppermost in their minds is the question of whether the Senate will confirm



Carlisle Bargeron

David Lillenthal's nomination to head up the Atomic Energy Commission. Yet this must be the case because it is such a burning issue in the press.

Our commentators and columnists gravely assure us that the stupid Republicans with the Presidency almost in their hands may throw it away by turning Lillenthal down. It seems utterly fantastic, these fellows say, that in the present world crisis the Republicans would jeopardize our security by playing politics with this man. The people are pretty well fed up on Truman and the New Deal, we are told, and prepared to make a lot of allowance for the Republicans, but they won't go so far as to jeopardize our security. In that, the Republicans are simply asking for too much.

Apparently, the Republicans are squarely faced with the proposition of accepting a man whom they heartily despise or doing without the Presidency. It is a bitter decision for them to make. They were faced with the same situation when the matter of Lillenthal's appointment first came up. At the time they decided that the easiest solution was to give him a short-term appointment, and a Republican President could name his successor. That seemed to be eminently fair.

But Truman has sought to prevent this by sending to the Senate Lillenthal's renomination ahead of time, and his appointment now is for five years. This is described as statesmanship and broad thinking on Truman's part. For the Republicans to demur and insist that if they have to act upon him at all, they will confirm him for but a year's term, is described as playing politics to the extent of jeopardizing the security of the country.

You confirmed him once, they are told and now that you can make no case of misconduct against him, you should confirm him again.

There was never any allegation of misconduct against him or any expectation that one would arise. He is simply not the type of administrator for this post under a Republican Administration. He fits in nicely, of course, with the New Deal.

Lillenthal comes from an old line of Wisconsin Socialists. He is at best a "public ownership" man. Charges have been made in the Senate and House, of course, that he is a Communist. These are looked upon as too extreme and have undoubtedly embarrassed the legitimate Republican opposition to him. However, his quite active daughter is listed by the House Un-American Activities Committee. His associations and leanings are unquestionably Leftist.

But his "public ownership" philosophy should be sufficient in itself to justify the Republicans' opposition. Sometime, in some way, there is supposed to be atomic energy and other scientific miracles available for the betterment of mankind. The ques-

tion is just how these great benefits will be developed and distributed, by private enterprise, or by another socialistic set-up such as TVA.

We are told that the developments of the atomic age are to have a revolutionary impact upon the lives of all of us. Then it is certainly important to us how these developments take shape.

The very fact that there is such a tremendous propaganda behind Lillenthal should preclude his being reconfirmed. It has attended him ever since his name was projected for the job. And the projection itself was clever and organized.

It was at the time that "studies" were being made, by a Senate committee, by a group appointed by the President, by the Army, to determine how we were to handle this Frankenstein. Surprisingly in the midst of the studies, came one by Lillenthal and that great scientific mind of the State Department, Dean Acheson. Nobody had asked them to make a study. Presumably they did it on their own time.

Lillenthal having now injected himself into the picture, there followed the hue and cry that of the 140 million people in this country, he was the man. Those behind this organized agitation know exactly what they want and it should be full and complete reason as to why Lillenthal should not have the job.

In his relatively brief Administration, in fact, is ample additional evidence. The Energy Commission has got completely out of the hands of Congress. With its mystery, and its occult carryings-on, it keeps the legislative body perpetually intimidated. Recently there was an article in a nationally circulated magazine by a writer who is very close to the members of the commission. It described how inquisitive members of the Congressional appropriations committees, seeking to find out what the commission is doing with its money, are frightened into silence by a play such as this:

Member of Commission: "Well, Congressman if you insist upon an answer to your question, you will have to take the consequences."

He turns to two burly men in rear of room with drawn pistols and carrying a bag.

"Bring the bag up here," he orders gravely.

"Now, Congressman, warning you again of the consequences, I ask you, do you order me to open that bag?"

The Congressman shakes all over and hastily explains that no, he doesn't want to know the commission's secrets, he simply wants to find out what becomes of the money Congress appropriates.

Those who gave the writer this story were not openly trying to show how they made fools of Congress; they were trying to emphasize how ultra hush hush and dangerous their work is.

But they have no hesitancy in telling you, apropos Lillenthal's reappointment, that once a man gets a place of responsibility with the commission, it would be dangerous ever to dismiss him. He might be disgruntled and there is no telling what he might do.

Frankly, I think we'd better do away with the commission before it is too late and take our chances with the bomb.

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# Says "Shots-in-the-Arm" Delay Postwar Depression

Unnamed bank economist contends expected postwar business slump did not materialize because of "shots-in-the-arm," such as high expenditures for foreign aid and rearmament. Foresees a Federal deficit resulting in credit expansion and more inflation, and maintains if proper corrections in present boom had been made our economy would be on sounder basis.

Only vigorous "shots-in-the-arm" have kept the American economy from experiencing the depression which, according to the business cycle theory of the late Leonard Ayres, should follow shortly after every major war, an economist for one of the largest banks of New York who prefers to remain anonymous pointed out this week.

Students of business cycle theory will recall that Ayres postulated two depressions after every major conflict; a primary depression and a secondary depression with a period of relative prosperity between the two depressions. The primary depression was to be short-lived and the secondary depression was to be a major crisis.

In essence, the Leonard Ayres theory is a description of what happened to American business after World War I. It was Ayres' view, however, that his theory had general application to economic events, particularly in modern times. The primary depression that was to have followed World War II was scheduled to have gotten under way just about a year ago.

The economist for the New York bank mentioned above feels that the forces which Ayres saw at work following every war are very much present in the contemporary economic picture even though depression has not actually appeared. It's the "shots-in-the-arm" which have prevented the depression from taking place.

Should the "shots-in-the-arm" cease to be administered, the depression would be immediately upon us, he feels. In a sense, therefore, the depression is merely being postponed. The economist is convinced that the Ayres' theory represents a good starting point from which to proceed in any attempt to analyze the current economic situation.

Postponement of the depression, the economist reasons, only means that certain abnormalities are creeping into the economic system. The primary depression was to have been only a mild one but it would have made what the economist calls some rather necessary corrections. Had the depression run its course, starting with last spring, the economy would now be on the upswing again. The corrections would have been made and the present boom would have been on a sounder foundation.

Now greater and greater "shots-in-the-arm" must be administered to the economy to keep depression from materializing, the economist believes.

At the moment, the economist thinks, conditions are favorable for a continuation of the boom in business which has been in progress for more than 20 months. If this boom does, in fact, continue through the end of this year, the economy, for the second time, will have moved through a period when reaction was to be expected. The economist sees four differ-

ent forces sustaining the present boom. (1) In spite of high costs, he points out, industry is going ahead with plans for record expenditures of new plant and equipment in 1948. New industrial construction will reach a total of \$18,700,000,000 this year or about 15% more than last year and more than three times as much as the \$5,200,000,000 figure of 1939.

(2) Though there has not been much highway construction and repair since the war, now the prospect for such construction is brighter, he believes. Public demand for "smoother travel" will probably be felt this summer, he thinks. There are unprecedented balances in state highway funds and over a billion dollars of unexpended Federal aid is now available for road-building, he points out.

(3) Despite the weather and higher building costs, more residential units were started in the first three months of this year than in the similar period of 1947, he points out. In fact, the present prospect is that total residential construction this year will surpass that of last year. A large-scale universal military training program, however, would take men away from construction work and also reduce the demand for homes.

(4) Extraordinary demand is causing many so-called "shortages." Consumer resistance to high prices has not yet appeared in volume, the economist declares. Consumer credit, now free of previous official controls, totals about \$13,000,000,000 at the present time but, if it continues to increase as it has during the last two years, will amount to about \$16,000,000,000 before the end of 1948.

The "shortages," however, do not actually represent a scarcity of products. A housing "shortage" is spoken of when actually per capita residential space, the country over, is larger than ever before. The automobile "shortage" is one in which car registrations are at an all-time peak. Per capita meat consumption is substantially above the pre-war level and yet people speak of a meat "shortage." The average family is using some 50% more electricity than it did before the war and total power output has risen to a new high point and yet there is a "shortage" of electricity.

### The "Stimulants"

The "stimulants" or "shots-in-the-arm" that are now at the point of taking effect in the economy are five in number, the economist says. (1) The foreign aid

(Continued on page 16)

# What to Do About Prices?

By JAY D. RUNKLE\*

Chairman of Board, National Retail Dry Goods Association  
Vice-President & General Manager, Crowley, Milner & Co., Detroit

Asserting war scare, "discovered by the Administration" and fostered by bureaucrats, has led to price uncertainties and threats of new controls, permanent retailer attacks government officials for dissipating military strength. Holds further inflation is not necessary if rearmament is conducted sensibly and Washington propaganda machine is turned off. Says renewal of government controls will stifle our economy.

Controls, and more controls, are the bureaucrats' answer to all problems. When it comes to prices, it is the only answer that fits into their thinking, for that leads to more power and more jobs for bureaucrats in government. Such bureaucratic reaching out



Jay D. Runkle

power and more jobs must be reckoned with in any consideration of prices. It is nothing new under the sun, for bureaucrats have always reacted that way. It is just intensified in times of emergency and peril. And if no real emergency can be found, something must be trumped up to create such a state of emergency in the minds of the people, so that government will have an excuse to exercise its powers to the fullest. This is a part of the growing philosophy that the individual is made for the state, instead of the principle that the state is the servant of the people.

Just when the price situation was about to correct itself through the normal operation of the Law of Supply and Demand, a new emergency was discovered by the administration just as if it had been created over night. The consequences were that inflation of prices was given another shot in the arm. Prices stiffened immediately, and the very inflation which the government was supposed to be so concerned about was on the march again.

It was pretty evident that there were some badly scared politicians in Washington early this year who were afraid that prices might actually be reduced and bring about deflation. The war scare fixed that up for those who were anxious to ride the bandwagon to victory in November.

There is a deep, dark suspicion throughout the country that there has been a lot of talk in Washington against inflation and high prices which has not been entirely sincere. What chances have honest men in industry or business to correct a price situation, when the whole economic picture can

\*An address by Mr. Runkle at the 36th Annual Meeting of the Chamber of Commerce of the U. S., Washington, D. C., April 28, 1948.

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be changed over night by some pronouncement of a high government official which is filled with political implications. No one seems to want to kill Santa Claus just before election.

### Economic Double-Talk

That is understandable, but what makes it so reprehensible is the amount of economic double-talk which has gone on in the attempt to make it appear that the government did not want inflation, while the politicians were afraid it would not continue and did just about everything in the book to keep it running. And now that inflation is marching on again, they are out in full cry for controls, and more controls. For them the war emergency is back.

It might be asked in passing how this nation's military power shrank from the mightiest in the whole world, to our puny defenseless position at present, all in a little over two years. How is it that we suddenly wake up and find all this out, just after we had junked the billions of dollars in war materials?

And what has all this to do with prices? It has everything to do with them, for the normal laws of supply and demand will never work unless given a fair chance by government. The law of supply and demand is nullified when the government steps into the picture and takes over our economic machinery.

Men in industry and business are confused to the nth degree. Government men have been going around "surveying" the industrial field, giving the impression that they are about to place large orders, which must be given priority over civilian production. This causes manufacturers to be hesitant about their own operations and about what can be done for civilian distributors.

Management in the field of distribution is confused because no

one knows whether the supply is going to be limited or whether the prices are going to be higher.

Economists themselves differ widely in their opinions regarding the effects of this so-called rearmament program. The country was just about ready to take the European Recovery Program in its stride. Supply in most fields was rapidly catching up with demand, so that there could have been relief from the excessively high prices of the war and post-war period very soon. But the President's speech on St. Patrick's Day, knocked that all into a cocked hat. No one knows where he stands now.

Some economists maintain that we can absorb both the ERP and the preparedness plan without a rise in prices, and assure us that there will be plenty of merchandise this fall. Others take exactly the opposite view and maintain that the ERP and Preparedness Plan will absorb a large part of our production and that the increased higher employment, increased payrolls, and the greater demand for less civilian goods will boom the prices to still higher levels.

### Price Uncertainties

Who really knows? We merchants would like to know.

The prolonged coal strike has undoubtedly stopped the steel industry from catching up with demand, and it was just about ready to come into easier supply. At the rate things were going early this year, steel would have been in easier supply by the end of this summer, according to reports.

How long it will take now to catch up in the steel industry is anyone's guess. Automobile and heavy appliance supplies have dried up, although both industries were on the way to intensive selling campaigns to move their pro-

(Continued on page 31)

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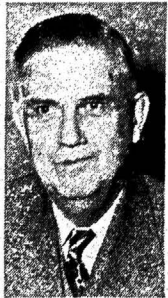
# Economic Relation of Wages and Prices

By EARL BUNTING\*

Managing Director, National Association of Manufacturers

After attacking controlled economy, Mr. Bunting points out unless it is realized heavy government spending and high taxes are the real cause of labor's futile attempts to increase purchasing power by continuous wage increases, there is no remedy for present industrial unrest and confusion. Holds wage rise without goods-rise is futile, and third round of wage rises could become catastrophic and lead to collectivist economy. Denies war controls keep down living costs and contends each wage rise has added to living costs. Opposes excess profits taxes.

I think we sometimes let ourselves be drawn into a mistaken position—a trap—in discussing what the managed economy, or renewed price controls, or another wage rise would do to this country. We discuss them as if they were entirely matters of speculation because they are in the future.



Earl Bunting

They also have a past—which their supporters would like us to ignore. They are as discredited as the Great Russian Experiment which was so sympathetically hailed 30 years ago by generous spirits who believed its promise. As the first completely socialistic state in the history of the modern world, it was to rescue the working man from the oppression of capitalism and to establish him in personal dignity and security, surrounded by the good things of life.

The demonstration is now complete that the socialistic doctrine launched a century ago by Karl Marx is the greatest vehicle of power ever discovered to take possession of the common man. It entices him into a trap from which he cannot withdraw. When socialism takes over an economy, it is astride all the ways whereby a man can earn a living. He must go along or die. The police see to that.

The pace and style of the repression depend on the native brutality of those who undertake it. The Russians are now very much in presence. But do you remember the Nazis? Their full name was the National Socialist

\*An address by Mr. Bunting at a dinner of the National Metal Trades Association and the Waynesboro Manufacturers Association, Hagerstown, Md., April 29, 1948.

Party of Germany. And even our British friends in more civilized terms are superimposing austerity on austerity, and proceeding at a more civilized pace away from economic freedom, but still intending to keep their political independence.

Our undertaking to help them and the other friendly nations of Western Europe to hold off Russia, makes it vital for us to hold fast at home to our own economic freedom. It is what has made that help possible.

### Price Control with Third Round of Wage Raises

I propose therefore to show that the third round of wage raises is one of the steps to prove the necessity of price controls now, just as the first round was used when price controls came off in 1946. Moreover, price controls then were the last stand of the wartime planners who wish to use the present threat of war to re-establish a controlled economy. Instead of discussing what these retreats from economic freedom would do, let us examine their record, in which the facts now stand out beyond the need of statistical proof.

The pattern of action became evident when our American collectivists came to power after 1929. Up to that time the national production had climbed in a succession of cycles of excess and correction that had established a new high every three or four years, and never left more than two per cent unemployed at the lowest. The depression of 1929 furnished the great occasion awaited by collectivists since the prediction of Marx that capital would accumulate and the workers would sink deeper and deeper into misery until they revolted violently. Year after year since

the great depression, it has been used as the unanswerable argument against any further public confidence in private enterprise.

Yet the record is plain that it was our accusers of the New Deal who made the depression of 1929 into the Great Depression. It is plain that common sense has only to turn back for a simple check against the record.

The Bulletin of Statistics of the League of Nations records that the industrial nations of the world went into a depression together in 1929 and that all were coming out conventionally in 1932 in mid-summer. The other nations of the world continued their recovery undisturbed. In the United States the New Deal embarked on its national programs of economic management, intended thereafter to eliminate depressions, great or small. Controls were established in agriculture, housing, money, corporate structure, and finance. Labor and prices were treated organically as if they had no relation to each other. Social security and relief and public works were extended until they raised the question now forgotten throughout the world: "How much debt can a nation carry?"

The other nations of the world went on to recovery but the United States stayed in the depression until, in 1937, the government decided to pull some of its control levers.

The result was a new depression in 1937-38, twice as steep as the 1929 decline which had halted in 1932. Production and employment fell 36%.

The Bulletin of Statistics of the League of Nations shows this government-managed depression was confined to the United States, which dropped to 16th on a list of the 21 largest industrial nations of the world in 1937. The League of Nations index of production for April, 1938, using the 1929 level of production as 100, recorded Britain as 114 and the United States as 64.

Then the Second World War put our economy under complete government command. Imposing enough controls was no further problem. It is customary to point to the wartime performance of patriotic businessmen as the proof that complete national control of the economy is the way to get production. Yet no one knows better than the industrialists who had to make sense out of the wartime commands of the economic controllers, how many of them were unconsidered, how many of them defeated their own purpose. Now it should be told, as we are preparing against another world war; as it is again suggested that controls will repeat the same performance. It is possible for the collectivists to fool people who are not experienced in the conduct of a business, by telling them our great and powerful economy has grown so vast and complex that it cannot be allowed to roll on into the future, undirected, like an avalanche. As a matter of fact the economy is truly vast in extent; but it becomes complex only when someone tries to direct it as a unit.

To illustrate: a man who is driving his two sons to town has much less complexity in the oper-

(Continued on page 30)

# Nadler Sees Conflicting Trends

New York University economist cites factors for and against price stabilization and continued boom, but says commodity price trends depend on what Congress and Administration will do.

Dr. Marcus Nadler, Professor of Finance of New York University, in addressing the 42nd Annual Convention of the American Spice Trade Association in New York City on May 4, could see only conflicting trends in our economy. "Unless rearmament expenditures



Dr. Marcus Nadler

materially exceed \$3 or \$4 billion the crest of the wave of inflation seems to have been reached and for the rest of the year the economy of the country ought to be marked by a degree of stability such as we have not enjoyed during the past few years," Dr. Nadler stated. "The new inflationary forces arising primarily out of the reduction in taxes and the increased armament expenditures," he pointed out, "can easily be counteracted and counter-balanced by the forces of readjustment which are also quite pronounced at present. Not only have the pipelines been filled and inventories risen but also the productive capacity has been materially increased, since during 1946 and 1947 nearly \$30 billion of capital producers' goods were installed.

"To this should be added the fact that the money market has become tighter and that it is not as easy to obtain short- or long-term credit at present as was the case only a few months ago. The expected increase in the certificate and discount rates will further put a damper on the money market.

"In many lines the supply of

commodities has caught up with the demand and the buyers' market is becoming more and more in evidence. Since the outlook for crops in Europe and for grains in the United States at present is rather favorable we ought to witness a moderate decline in prices of food and farm products.

"The action of the United States Steel Company in refusing to grant increases in wages and in reducing prices clearly indicates that management has fully realized the danger to the economy resulting from the constant race between wages and prices and that higher and higher prices reduce the number of potential buyers and lay the foundation for a really serious setback later on. The attitude of management toward wages and prices today therefore differs materially from that of a year ago and is a contributing factor to the belief that for the remainder of the year the economy of the country will be marked by greater stability and that the spiral between prices and wages may have come to an end.

"The future trend of commodity prices depends more on the attitude of the Congress and the Administration than on perhaps anything else. If the additional appropriations for national security are kept within the maximum stated by the President and purchases by the government for foreign account are handled carefully and skillfully, the year 1948 may go down in history as the peak year of inflation following the Second World War."

## Dealer-Broker Investment Recommendations and Literature

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

**Building Industry**—Tabulation of issues in various divisions of the industry—Joseph Faroll & Co., 29 Broadway, New York 6, New York.

**City of Philadelphia Bonds**—Valuation and appraisal—Stroud & Company, Inc., 123 South Broad Street, Philadelphia 9, Pa.

Also available is a valuation and appraisal of **Railroad Equipment Certificates** and price-earnings ratios and yields on 123 **Public Utility Common Stocks**.

**Fire and Casualty Insurance Stocks**—Comparison of earnings of principal issues for 1947—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

**Oil Stock** selling under \$3—Statement—S. R. Melven & Co., 125 Cedar Street, New York 6, N. Y.

**Opinions on the Market Outlook**—Circular—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

**Railroad Income Mortgage Bonds**—Circular—Vilas & Hickey, 49 Wall Street, New York 5, N. Y. Also available is a leaflet of current **Railroad Developments**.

**What to Buy?**—Easy-to-read memo highlighting a dozen inter-

esting stocks for retail—H. M. Bylesby & Co., Stock Exchange Bldg., Philadelphia 2, Pa.

**Why We Built the Train of Tomorrow**—Descriptive illustrated booklet on the new General Motors stream-lined, Diesel powered train—General Motors Corporation, 1775 Broadway, New York 19, N. Y.

All American Aviation, Inc.—Circular—Burnham and Company, 15 Broad Street, New York 15, N. Y.

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

**Atlantic Refining Company**—Investment appraisal—Kalb, Voorhis & Co., 25 Broad Street, New York 4, N. Y.

Also available is a review of **Sylvania Electric Products, Inc.**

**Canadian Pacific Railway Company**—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

**Forman Realty Corporation**—Analysis—Rogers & Tracy, Inc., 120 South La Salle Street, Chicago 3, Ill.

**Kuhlman Electric Co.**—Memorandum—A. H. Vogel & Com-

(Continued on page 16)

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**1 World-wide, the need for oil surpassed all records.** To help meet the need, crude oil production by Jersey Company affiliates was increased 8% over 1946, setting another new record. Their production was 14% of the world's total for the year.

**2 In the U.S., too, the need was at record levels.** Three million more cars to fuel than pre-war; twice as many tractors and trucks on farms; a million and a half more oil-heated homes; five times as many diesel locomotives. Total U.S. consumption of oil products was 11% greater than 1946, 12% greater even than the peak war year. In meeting this need, we set new output records month after month, accounting for 9% of U.S. total crude oil, and 14% of total refinery runs.

**3 The unusually hard winter** made heating oil and kerosene supply a special problem. By extraordinary effort in refineries and hard work and long hours by people all along the line, we were able to deliver about 25% more of these products than in the winter before.

**4 With such big demand, big supply, and rising prices,** money came in—and was paid out—in all-time record figures. Total dollar income reached \$2,387,000,000—45% over 1946.

Operating charges and other deductions from income reached \$2,118,040,000—44% over 1946. A record sum of \$466,954,000 was paid to our employees.

**5 Net consolidated earnings** of the Company and affiliates—\$269,000,000—equalled \$9.83 per share, or 11.3% of total income as compared to 10.8% in 1946. Dividends of \$4.00 per share were paid by the parent Company.

**6 Most important dollar figure of the year** was the 426 million dollars spent for new wells, plants, tankers, pipelines and all the other things it takes to get the oil you need. Part of a billion dollar program covering the two years 1947-48, it was by far the greatest capital investment we have ever faced. The money came almost entirely from earnings, past and current—money made on the job went back into the job.

**7 Transportation of oil was a big job.** During the year, we bought 23 ocean-going tankers from the U.S. Maritime Commission, and early this year we ordered 6 new 26,000-ton, 16-knot ships, the largest we ever operated. Pipelines were pushed to new records—our trunk lines delivering 83 billion barrel-miles, or 11 billion more than in 1946.

**8 In discovering new oil,** we spent 5 times as much as pre-war—16% more than last year. (Altogether, the country's known oil reserves were increased by 600 million barrels during the year, in spite of record consumption.)

**9 Cost of research also increased**—\$18,200,000 was spent for new knowledge. Considerable progress was made in finding more efficient and lower-cost processes for making gasoline and other liquid fuels synthetically from natural gas, oil shale, and coal.

**10 Labor-management relations** remained excellent, continuing our exceptional record of industrial harmony. Employee compensation was adjusted upward during the year to help meet rising living costs. A total of \$55,396,000 was saved in employee Thrift Plans, of which \$20,987,000 was saved by employees and \$34,409,000 contributed by the Company and its affiliates.

**T**HE 1947 JOB WAS A BIG ONE. The jobs ahead are bigger still. In a democracy the responsibility for making a better world rests with the individual and the individual enterprise. It is clear that an enterprise like Standard Oil Company (New Jersey) must exercise a full realization of the social responsibilities of profit—must understand that the peace, advancement, and the security of the people of the world are the best guarantee of the Company's own progress and security. We intend now; as always, to demonstrate in action that the free, competitive American enterprise system is far superior to any other. We believe that the Company and its affiliates are so organized, and their business so conducted, that they will continue to serve people well.

[ Copies of the full report are available on request. Address Room 1626, 30 Rockefeller Plaza, New York 20, N.Y. ]  
[ The earnings statement in this report satisfies the provisions of Section 11 (A) of the Securities Act of 1933 ]

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### Corporation News and Notes

#### Lit Brothers

At the annual meeting, stockholders of Lit Brothers, Philadelphia department store, approved management's policy of retiring company's \$6 cumulative preferred stock by purchase and authorized the directors to further reduce the senior issue. Originally, the preferred was outstanding in the amount of \$12,000,000. This has now been reduced to \$7,000,100 and it is expected that the program will be continued until another \$2,000,000 has been retired. It was indicated that the remainder outstanding might be refinanced at a lower dividend rate.

For the fiscal year ended Jan. 31, 1948, Lit Brothers earned \$2.31 on its common shares compared with \$2.20 in the preceding year. New sales records were set with more than a million more customer transactions than in 1946. Harry W. Brightman told stockholders that business thus far in the current fiscal year is continuing the upward trend. He stated that he was confident of another good year.

Company's financial position remains strong with current assets of \$18,500,000 against current liabilities of \$5,700,000. Cash alone amounted to \$6,800,000.

#### Lukens Steel Conforms

COATESVILLE—Request for a "substantial wage increase" by United Steel Workers of America, C.I.O. union, has been rejected by G. D. Stackman, Vice-President in charge of operations of Lukens Steel Co.

Mr. Stackman told the union that it would be economically unsound to raise wages at this time. He added, moreover, that Lukens could not increase wages without a corresponding immediate rise in the selling prices of its products.

#### Grinnell Corporation

A new record of both sales and earnings was established by the Grinnell Corporation during 1947. Net earnings for the common stock were \$10.78 per share, out of which dividends of \$2 per share were paid. This company, nationally known for installation of automatic fire protection systems and equipment, also serves the chemical, oil and utility industries. Conservative management and a long record of continuous dividend payments provide this stock with a much better than average investment rating.

#### Phila. Transportation Co.

At the annual meeting of Philadelphia Transportation Co. stockholders, President Charles E. Ebert stated that there is no "magic formula" by which the

transit company can pay its increased expenses without obtaining more revenues from fares. The recently granted fare increases are the subject of current court review.

Higher wage rates which became effective February 11 and the severe winter weather which cost the company about \$400,000 for snow removal are blamed for the operating loss which Mr. Ebert says the company sustained in the March quarter.

Mr. Ebert pointed out that 1947 earnings, after all taxes and expenses amounted to only a little more than one cent on each dollar of revenue. He charged that continuing efforts were being made to "deny the company fair earnings" and that these efforts are threatening P.T.C.'s ability to stay in business. The stockholders were promised "that the company will continue to protect, with every resource, its solvency, its right to earn and its ability to function as a progressive, efficient provider of an essential public service."

Resumption of dividends on the preferred and common stocks will depend on the trend of business and earnings in the coming months and on the outcome of the fare litigation, Mr. Ebert said.

#### Hajoca Corp.

Hajoca Corp., manufacturer of plumbing supplies and specialties, announces earnings of \$237,000 for the March quarter, compared with \$299,000 for the corresponding quarter of 1947. Although sales in the first quarter were 7% greater than a year ago, increased costs reduced the company's net. Per share earnings were \$2.06 on the 115,121 shares now outstanding, compared with \$4.28 on 69,873 shares outstanding March 31, 1947.

#### Penna. Salt Mfg. Co.

Leonard T. Beale, President of Pennsylvania Salt Manufacturing Co., told stockholders that although first quarter sales were 9% higher than in the corresponding 1947 period, "net results were disappointing" because of rapidly increasing costs of labor and materials which have not yet been compensated for in the price structure.

Net profit for the quarter was reported as \$505,562, equivalent

to 61 cents on the common after preferred dividends.

Stockholders authorized an increase in the company's indebtedness by amounts not to exceed \$10,000,000. The company plans to borrow \$3,000,000 under a loan agreement which provides that an additional \$2,000,000 may be borrowed in the next year or two, if needed, to help finance an expansion program.

PITTSBURGH—Stockholders at the annual meeting of United Engineering & Foundry Co. were informed that company has the largest backlog in its history and profits in 1948 should be equal or better than record earnings reported in 1947.

Robert V. White, President of Lehigh Coal & Navigation Co., informed the annual meeting that since refinancing in 1943, gross capital improvements, including those planned for the remainder of 1948, will total almost \$13,000,000. He said that he looked for a "good year" in 1948 and that results would be better, he believed, than 1947 or 1946. Banking arrangements have been made should it be necessary to borrow additional funds.

PITTSBURGH—Jones & Laughlin Steel Corp.'s annual meeting was told that although sales increased \$19,000,000 in the first quarter, net income declined to \$1.93 on the common, compared with \$2.41 in the 1947 period.

#### Pittsburgh Railways Co.

PITTSBURGH—Hearings before Special Master Watson B. Adair are continuing in the muddled Pittsburgh Railways Co. reorganization proceedings. Philadelphia Company, which controls the Railways Company through stock ownership, is endeavoring to prove its claims in respect to system securities acquired over a long period of years by purchase and through the exchange of securities. The Securities & Exchange Commission is scrutinizing the relationships between the parent company and its subsidiary as far back as 1902.

#### Philadelphia Gas Works

The Philadelphia Gas Works Co. has asked the Federal Power Commission not to allocate elsewhere the supplies of natural gas which it is scheduled to get beginning July 1.

Texas Eastern Transmission Co.'s contract with Philadelphia Gas Works stipulates delivery of 48,000,000 cubic feet a day by Oct. 1 and 57,000,000 cubic feet a day starting Oct. 1, 1949.

Charles H. Frazier, assistant to the President of the gas company, says that if the company's gas needs are not met this summer, the firm will need an additional 10,000,000 gallons of oil to manufacture gas. Because of higher costs, this, he said, would result in an operating deficit which would have to be passed on to consumers.

Horace P. Liversidge, Chairman of the board of Philadelphia Electric Co., has announced the elec-

tion of K. M. Irwin as Vice-President in charge of engineering and of H. N. Ramsey as Vice-President in charge of purchases, insurance and real estate.

Lester M. Curtiss has been named general works manager of Lukens Steel Co. at Coatesville, Penna.

The new Castor branch of Philadelphia's Frankford Trust Co. will occupy its new quarters at the corner of Castor Avenue and Hellerman St., Philadelphia, the latter part of the month. An unusual feature of the building is the automobile drive-in deposit window, the first of its kind in Philadelphia.

### Spiegelberg Admits Feuer; New Firm Name

Abram J. Feuer will become a partner in Spiegelberg & Co., 30 Broad Street, New York City,



Abram J. Feuer

members of the New York Stock Exchange, on May 17th, on which date the firm's name will be changed to Spiegelberg, Feuer & Co. Mr. Feuer was formerly a partner in Marx & Co. Prior thereto he was with J. R. Williston & Co.

### Johnson, Keen & Co. Formed in Philadelphia

PHILADELPHIA, PA.—Joseph B. Keen has been admitted to partnership in Lindley Johnson & Co., Old Broad Street Station, and the firm's name has been changed to Johnson, Keen & Co. James C. Webster has withdrawn from the firm to accept an appointment with the Treasury Department in connection with the distribution of Savings Bonds.

Mr. Keen has been with Lindley Johnson & Co. for some time. Prior thereto he was an officer of Rambo, Keen, Close & Kerner, Inc. and of Battles & Co., Inc.

### Boggs to Manage Hogle Office

LOS ANGELES, CALIF.—John D. Boggs, who has been with J. H. Hogle & Co., 507 West Sixth Street, since 1937, has succeeded C. Jerome Cable as Manager of the office. Mr. Cable has been admitted to partnership in the firm, as previously reported in the Financial Chronicle of April 22.

### Available Publications

Valuation and Appraisal  
RAILROAD EQUIPMENT CERTIFICATES

Valuation and Appraisal  
CITY OF PHILADELPHIA BONDS

Price-Earnings Ratios and Yields on  
123 Public Utility Common Stocks.

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**COMING EVENTS**

In Investment Field

**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 12, 1948 (Detroit, Mich.)**  
Meeting of Michigan Group of Investment Bankers Association.

**May 13-14, 1948 (Toronto and Montreal)**  
Meeting of Canadian Group of Investment Bankers Association (May 13 in Toronto; May 14, Montreal).

**May 17, 1948 (Boston, Mass.)**  
Meeting of New England Group of Investment Bankers Association of America.

**May 20-22 (Detroit, Mich.)**  
Association of Stock Exchange Firms spring meeting at the Book-Cadillac Hotel

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

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

**June 4, 1948 (Cincinnati, Ohio)**  
Municipal Bond Dealers Group of Cincinnati Annual Spring Party at the Kenwood Country Club.

**June 4, 1948 (Los Angeles, Calif.)**  
Bond Club of Los Angeles first annual field day at the Bel-Air 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 Charters 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 18, 1948 (Philadelphia, Pa.)**  
Philadelphia Securities Association annual outing at Llanerch Country Club, Llanerch, Pa.

**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.

**July 19-22, 1948 (Portland, Oreg.)**  
Annual Convention of National Association of Securities Administrators at the Multnomah Hotel.

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

**NYSE Revises Printed Listing Requirements**

The New York Stock Exchange is making public a revision of its printed requirements with respect to the listing of stock issued in connection with mergers, reorganizations and similar transactions, and stock issued to officers and directors under option or special remuneration plans.

Emil Schram, President of the Exchange, said that it has been the policy of the Exchange for some time to require approval by stockholders of management option, profit participating or special remuneration plans as a prerequisite to listing the stock issued for this purpose, and it now deemed desirable to state this policy in the published listing require-

ments. He also pointed out that, in connection with the issuance of securities for mergers, recapitalizations and reorganizations, it is customary for the Exchange to await the vote of stockholders before listing additional shares. In the revised requirements, the Exchange also may require approval by stockholders, as a condition of listing securities for the acquisition of property which is substantial in proportion to the size of the listed company, or which is to be exchanged for property in which officers and directors have an interest.

**With A. M. Kidder & Co.**

(Special to THE FINANCIAL CHRONICLE)  
SARASOTA, FLA.—Annette B. Van Slyke has been added to the staff of A. M. Kidder & Co., 203 South Palm Avenue.

**Municipal Forum to Hold Annual Meeting**

The annual meeting of the Municipal Forum of New York will be held on June 14, when new officers will be elected for the coming year.

The following nominating Committee has been appointed to present a slate: Elmo P. Brown, United States Trust Co., Chairman; Cushman McGee, R. W. Pressprich & Co.; John J. Rust, Equitable Securities Corporation; Phillips T. Barbour, First Boston Corporation; Roald A. Marton, The Blue List Publishing Co.; William G. Laemmel, Chemical Bank & Trust Co., and Rollin C. Bush, National City Bank.

The next regular meeting of the Forum will be held June 3.

**E. M. Bancroft Joins Barcus, Kindred & Co.**

CHICAGO, ILL.—E. M. Bancroft has become associated with Barcus, Kindred & Co., 231 South La Salle Street, in the buying department.

**Joseph Murphy, Director**

Joseph D. Murphy, President of Stifel, Nicolaus & Co., Inc., Chicago, was elected a director of Nutrine Candy Co. at the annual meeting of stockholders on May 4.

**Joins A. M. Kidder Staff**

JACKSONVILLE, FLA.—A. M. Kidder & Co., 122 West Forsyth Street, have added John C. Van Eeden to their staff.

Where does a job come from?

from a storm?

from a wire?

from a log?

Certainly! It takes a *live wire* to find markets, design the product, specify materials, organize production, sell the finished goods at a profit. Without good management to direct all these operations capably, there would be no jobs worthy of the name.

Absolutely! No company can operate without a *backlog* of working dollars, with which to build factories, buy materials and equipment, pay wages. Every job in modern industry represents an investment of at least \$1,500 . . . in some industries, as much as \$40,000!

Where do these working dollars come from? In a free country, they come from *the people themselves*. From millions of investors whose dollars make it possible for business to grow—to provide more and better jobs, to produce more and better goods. That's why the New York Stock Exchange believes it imperative that people have an *incentive* to save and invest. That's why our government's policies—*particularly its tax policies*—must be so shaped that investors are able, and *willing*, to put their dollars to work.

**NEW YORK STOCK EXCHANGE**

# Bank and Insurance Stocks

By E. A. VAN DEUSEN

## This Week — Insurance Stocks

Choice fire insurance stocks are today purchasable at an average cost of 77% of liquidating value. Only one stock in the appended list of 24 is currently priced by the market higher than liquidating value: St. Paul Fire & Marine at 1.04; next highest is Insurance Co. of North America at 0.96. Ten stocks are priced between 80% and 90%, as follows: Boston, Continental, Fidelity-Phenix, Fireman's Fund, Franklin, Glens Falls, Hartford Fire, New Hampshire, North River and Springfield. The remaining 12 stocks range downward from 78% (Phoenix) to 49% (American Equitable).

	Liquidating Values (Consol.)		Asked Price Apr. 30, 1948	Market to Liq. Value
	Dec. 31, 1946	Dec. 31, 1947		
Aetna	\$78.39	\$65.14	47	0.72
Agricultural	112.43	97.93	58	0.59
American Equitable	41.06	38.55	18 3/4	0.49
Boston Insurance	84.90	81.98	72 1/2	0.88
Continental Insurance	66.86	67.91	54	0.80
Fidelity-Phenix	74.57	75.46	60	0.80
Fireman's Fund	123.63	123.10	107	0.87
Fire Association	88.70	84.93	54	0.64
Franklin Fire	29.02	26.68	21 1/4	0.80
Glens Falls	58.27	\$52.58	46	0.87
Great American	44.66	43.69	31 1/4	0.72
Hanover Fire	43.66	41.40	28 1/2	0.69
Hartford Fire	138.07	137.92	118	0.86
Home Insurance	37.96	37.91	28 1/2	0.75
Ins. Co. of No. Amer.	108.66	109.24	104 1/2	0.96
National Fire	90.74	84.74	47	0.55
New Hampshire	54.08	49.85	44 1/2	0.89
North River	31.01	29.94	24 3/4	0.83
Phoenix	119.70	114.86	90	0.78
Providence Washington	54.09	\$45.72	33 1/4	0.73
St. Paul Fire & Marine	75.05	75.70	78 1/2	1.04
Security Insurance	51.39	47.75	28 1/2	0.60
Springfield F. & M.	68.59	\$55.69	46 1/2	0.83
U. S. Fire	75.63	74.15	54	0.73
Dow Jones Indus. Aver.	\$177.20	\$181.16		
Dow Jones 40-Bond Av.	103.73	96.74		
AVERAGE OF 24				0.77

\*Reflects change due to new financing in 1947. †Parent; no subsidiaries.

It will be observed that, in general, liquidating values were lower on Dec. 31, 1947 than on Dec. 31, 1946. Moderately higher liquidating values, however, were reported by Continental, Fidelity-Phenix, Fireman's Fund, Insurance Co. of North America and St. Paul Fire & Marine.

Some of the drop is attributable to the decline in the market value of bonds held in the portfolio of the companies. The Dow Jones 40-Bond Index, for example, dropped from 103.76 on Dec. 31, 1946 to 96.74 on Dec. 31, 1947, a loss in value of 6.8%. On the other hand, common stock equities held in their portfolios appreciated 2.2%, when measured by the Dow Jones Industrial stock average, which moved up from 177.20 to 181.16.

The principal factor in the drop of liquidating values, however, was the squeeze on surplus occasioned by the continuation of the strong demand for insurance coverage, at inflated values. According to figures summarized for 100 stock fire insurance companies, in Best's Bulletin Service, net premiums written expanded by 22% and unearned premium reserves increased 21%, but policyholders surplus declined 4.5%. Since "policyholders surplus" includes capital as well as surplus, and since capital remained substantially unchanged, except in a few instances of capital increases, it is obvious that the drop in surplus alone was greater than the 4.5% decline in capital and surplus.

The following tabulation shows some examples:

	Surplus		Change	
	Dec. 31, 1946	Dec. 31, 1947		
Agricultural	\$4,878,000	\$3,127,000	-\$1,751,000	-35.9%
Fire Association	11,180,000	9,482,000	-1,698,000	-15.2
North River	18,405,000	16,895,000	-1,710,000	-9.3
Phoenix	51,835,000	48,535,000	-3,300,000	-6.4
Security	5,277,000	3,768,000	-1,509,000	-28.6
<b>TOTAL</b>			<b>-\$9,968,000</b>	<b>*-19.1%</b>

	Unearned Premium Reserve		Change	
	Dec. 31, 1946	Dec. 31, 1947		
Agricultural	\$10,803,000	\$11,511,000	+\$708,000	+6.6%
Fire Association	14,796,000	13,975,000	-2,179,000	-14.7
North River	10,282,000	12,477,000	+2,195,000	+21.4
Phoenix	16,858,000	21,026,000	+4,168,000	+24.7
Security	9,188,000	9,992,000	+804,000	+8.8
<b>TOTAL</b>			<b>+\$10,054,000</b>	<b>*+15.2%</b>

\*Average. With each of the five companies the capital remained unchanged but surplus declined substantially, from 6.4% for Phoenix to 35.9% for Agricultural. The average drop for the five was 19.1%.

On the other hand, unearned premium reserves expanded an average of 15.2%, ranging between 6.6% for Agricultural to 24.7% for Phoenix. More significant, however, are the dollar figures. Total unearned premium reserves for the five companies increased by \$10,054,000 and a substantial portion of this was presumably financed by transfers from surplus. Total surplus decline for these companies was \$9,968,000. So far as liquidating values are concerned, the drop in surplus would be directly applicable, but only 40% of the increase in unearned premium reserves would apply as an offset.

We have prepared a  
**Comparison of Earnings**  
of principal  
**Fire and Casualty**  
**Insurance Stocks for 1947**  
Copy on Request  
**Laird, Bissell & Meeds**  
Members New York Stock Exchange  
120 BROADWAY, NEW YORK 5, N. Y.  
Telephone: BARclay 7-3500  
Bell Teletype—NY 1-1248-49  
(L. A. Gibbs, Manager Trading Dept.)

# Banking in Michigan Today

By MORRIS A. SCHAPIRO\*  
President, M. A. Schapiro & Co., Inc., New York City

Bank analyst reviews position of Michigan banks. Makes statistical comparisons with banks for nation as whole as well as between Detroit and rural Michigan banks. Concludes expansion of loans and other risk assets is enabling banks to meet rising costs, but because of inadequacy of capital and higher "break-even" point, Michigan banks are justified in paying out only 30% of current earnings in dividends. Declares test of adequate bank earnings should be based on required as well as actual capital.

Banks in Michigan hold a preeminent position among American banks because of the industrial importance of the area they serve. How they are affected by changing conditions is of interest to banks everywhere since within Michigan one finds both the most highly developed manufacturing centers and rural communities.

An understanding of banking problems in Michigan gives one an understanding of banking problems everywhere.

Our discussion this evening has been made possible by the combined cooperation of Messrs. C. B. Upham, Deputy Comptroller of the Currency, Tynan Smith, Economist, Division of Research and Statistics, Federal Deposit Insurance Corporation and E. L. Smead, Director of Division of Bank Operations, Federal Reserve System, each of whom provided the necessary data on banking operations for the year 1947 in time for this meeting. Ordinarily, this information would not have been available for some months.

There were 419 insured commercial banks in Michigan on Dec. 31, 1947, of which 229 were members of the Federal Reserve System. This member bank group comprising 78 national banks and 151 state chartered banks, held 88% of the total banking resources in Michigan.

Of the Michigan member bank group, three national banks and three state member banks are located in Detroit, a reserve city. The other 223 member banks throughout the State, constitute the group officially designated as the "country member banks" in Michigan.

In a general way, our discussion tonight deals with the problems of the country member banks in Michigan. Most of my fellow guests tonight are officers and directors of such banks, and this meeting affords us the opportunity to discuss their banking problems. In the series of charts herein submitted, space has been provided, wherever practical, for the insertion of figures of your own bank for comparison.

### Are Michigan Banks Adequately Capitalized?

Capital ratios for all member banks in the United States and in Michigan are presented in Table 1. All member banks in Michigan held on Dec. 31, 1947, 3.47% of total deposits of all member banks in the United States, but only 2.66% of total capital accounts. Total capital accounts in Michigan would have to be increased from \$225 million to \$295 million, or 30% to bring the deposit capital ratio of 18.9 times in Michigan down to the present national figure of 14.5 times. These figures raise the question of whether Michigan banks are working with adequate capital.

The six reserve city banks in Detroit held total deposits of \$2.5 billion, or 21.1 times their combined capital accounts of \$116 million, as shown in Table 2. The 223 country member banks in Michigan held \$1.8 billion of deposits, or only 16.5 times their combined capital accounts of \$109 million.

On the other hand, deposits at risk, that is, deposits not covered by cash and U. S. Government obligations, bear a higher proportion to capital accounts in the case of the 223 country member banks in Michigan, with a ratio of 5.25 to 1, than the six reserve city member banks in Detroit with a ratio of 4.15 to 1 (Table 2). Obviously,

\*An address by Mr. Schapiro before Michigan Bank Correspondents of The Manufacturers National Bank of Detroit, Detroit, Michigan, April 22, 1948.

therefore, the country member banks with their higher percentage of risk assets would appear to have the greater need of additional capital. The risk factor ratio for Michigan country member banks of 5.25 times compares with 4.15 times for Detroit, and 3.75 times for the country. Total capital accounts of Michigan country member banks would have to be increased by about 40% to bring this ratio down to the national average of 3.75.

The changed position of the country member banks in Michigan is shown in Table 3, which gives average assets and liabilities for the years 1945, 1946, 1947, and their actual status at the beginning of 1948. It will be seen that although total deposits increased from \$1.6 billion average in 1945 to \$1.8 billion at beginning of 1948, the ratio of total deposits to capital funds declined from 18.2 times to 16.5 times, reflecting the marked growth in capital accounts from \$88 million to \$109 million.

Of greater significance, however, is the rise in deposits at risk from \$277 million to \$572 million, and in the corresponding ratio of deposits at risk to capital accounts from 3.15 times to 5.25 times. The increase in risk assets was due entirely to loans up \$282 million, and to other securities up \$39 million. In the same period, cash and U. S. Government obligations declined \$95 million.

### Critical Yields: 1.63%, 2.63%

With such fundamental changes as have occurred since 1945, the operating results for the period become especially significant. The story of income and expenses is summarized in Table 4. The fact is that net current operating earnings (item 7), rose 37% despite the increased Federal income tax liability (item 6). The banks met their rising operating costs (item 1), with sharply higher interest income (item 4), resulting principally, as will be seen, from expanding loans. The banks also obtained a moderate increase in service charges, fees and other miscellaneous income (item 2).

The figures show that the country member banks in Michigan have been experiencing net current operating earnings of 10% of capital accounts, paying out cash dividends of 3%, and retaining 7%. It was the growth in risk assets, namely, loans and securities other than U. S. Government obligations, with the resulting rise in gross income, which enabled these banks to meet their rising costs, and maintain thereby their rate of net earnings.

In a period of rising costs, the yields of yesterday are no longer sufficient to do the job of today. To illustrate, the information shown in Table 4 is expressed in Table 5 as a percentage of average loans and investments. Thus, the average rate of interest required by country member banks in Michigan on their average loans and investments in order to avoid an operating deficit and just "break even," is shown in item 3, as 1.32% in 1945, 1.41% in 1946, and 1.63% in 1947.

The "break-even" point was 1.63% in 1947. This was the average rate which all country member banks in Michigan as a group required on \$1.5 billion total loans and investments to stay out of the red. If the rate realized had been no higher, there

would have been no net current operating income from which the Treasury could get income taxes, stockholders cash dividends, and banks new capital. Existing capital accounts would decline as losses and charge-offs developed.

The actual yield realized was 2.63% in 1947. The differential of 1.00% on the average volume of loans and investments constituted net current operating income subject to Federal income taxes, and actually represented \$15 million in the case of the country member bank group in Michigan.

The critical yields, that is, the required "break-even" yield and the yield realized, are shown in Table 6 for all member banks in United States, Michigan, Detroit, and in Michigan excluding Detroit, for the years 1945, 1946 and 1947.

The "break-even" point has been rising. So has the actual yield realized on average loans and investments by country member banks in Michigan, improving from 2.07% in 1945 to 2.63% in 1947, and reflecting the increase in total loans, the improvement in rates on loans, and the somewhat better rate situation in securities.

The rate realized is the resultant of the yield on loans and the yield on securities. Thus, the yield realized in 1947 by country member banks in Michigan of 2.63%, came from a rate of 4.81% on average loans, Table 7, and a rate of 1.73% on average investments, Table 8. Loan yields and investment yields are presented in Tables 7 and 8 for the years 1945, 1946 and 1947.

### Average Bank, \$8.6 Million Resources

How is the average country member bank in Michigan affected today by rising operating costs? What is the outlook for current earnings in 1948? How is the average bank situated with respect to the adequacy of its capital accounts?

To begin with, let us look at the figures of this average bank. Comparative statements of Assets and Liabilities of "A Country Member Bank in Michigan" are presented in Table 9, derived from Table 3 for all the 223 country member banks. We see that our average bank with total resources of \$7.5 million in 1945 has grown to \$8.6 million in 1948. It is staffed today by about 4 to 5 officers and by about 19 other employees. Capital accounts total \$489,000.

Its holdings of U. S. Government obligations have declined from \$4,400,000 (58.7% of total assets) to \$3,900,000 (45.2%). In the same period, its loans have increased from \$900,000 (12.5%) to \$2,200,000 (25.8%). Total risk assets of our average bank, \$1,636,000, or 21.8% of its total assets in 1945, have increased to \$3,090,000, or 36.0% of total assets in 1948. These figures represent an average or theoretical bank, and may be used as a basis of measurement by all country banks, enabling them to compare their own trends.

The operating results of "A Country Member Bank in Michigan" are presented and analyzed in Table 10. The figures show a continuation of rising costs in 1948. In estimating 1948 expenses, salaries of about 4 to 5 officers at \$5,600, which compares with \$5,400 in 1947 and \$4,400 in 1945, total \$25,200. Salaries of

about 19 other employees at \$2,080, which compares with \$2,010 in 1947 and \$1,600 in 1945, total \$39,400. Interest paid on time deposits of \$4,100,000 is calculated at \$34,850 by using the apparently minimum effective rate of 0.85%, the rate paid in 1945, 1946 and 1947. Other current expenses are estimated at 6% higher in 1948 over 1947. Thus, total expenses of our average country bank in Michigan shown in Table 10 at \$147,670 for 1948, are up nearly 6% over 1947, and nearly 40% over 1945.

After allowing for estimated fees and service charges, we find that the critical "break-even" yield is up again in 1948 to 1.69%. The question may properly be raised of whether banks are giving enough attention to service charge schedules and item costs. Have the banks been too complacent in this respect? Operating costs are up. Should not banks re-examine this field to determine

whether those who do use their banking facilities are indeed paying their fair share of the cost? Banks everywhere, large and small, share this common problem. Taking the long view, can banks with fairness to depositors and stockholders alike, justify doing business without profit just because there might be "corollary" advantages which so often have proved temporary?

Loan totals now stand at a new high, but even with the good rate of 4.85%, the figures show that loan income in 1948 will still be less than the total interest income required by our average country bank to "break even." The fact is that our average country member bank finds that it needs \$9,000 from investment income in addition to its loan income in order to "break even."

Earnings Situation Summarized

How will our average country bank be able to earn 10% in 1948

on its present capital accounts of \$489,000? To do so it will have to have a net of \$49,000 after Federal income taxes. Without any exempt interest and without any deductible losses, and disregarding such deductions as are permitted under the so-called Reserve Method for Losses, our country bank will need net income of \$49,000 subject to Federal income taxes of 38%, total of 24% normal and 14% surtax. With a requirement of \$9,000 in addition to loan income, our average country bank will require total investment income, net after amortization of bond premiums, of \$88,000 from a portfolio of fully taxable securities having a book value of \$4,681,000.

An estimate of 1948 earnings of "A Country Member Bank in Michigan" setting forth the preceding calculations, is presented in Table 11. Total investment income is calculated on an over-all fully taxable yield of 1.88%, or

tax-free equivalent, necessary to produce the desired income. Our country bank actually held \$3,883,000 U. S. Government obligations and \$798,000 other securities. Based on the yields, experienced in 1947, as shown in Table 8, which included some partially-exempt income from United States Government obligations and some wholly tax-exempt income from municipal securities, it appears that the country member banks in Michigan will undoubtedly be able to secure the desired investment income, and maintain in 1948 the satisfactory rate of 10% earned on their capital funds in 1946 and 1947, this despite the continued uptrend in operating expenses.

In conclusion, we should stress the fact that expansion in loans and other risk assets is enabling banks to meet rising operating costs. The increase in risk assets experienced by Michigan banks

poses the question of adequacy of capital.

The policy followed by these banks in recent years of paying cash dividends of only 30% of net current operating earnings and retaining 70%, is today fully justified by the present situation. Of equal importance is the question of adequacy of bank earnings.

It is clear that when the adequacy of bank earnings to total capital accounts is considered, the test should be based not only on what total capital accounts actually are, but also on what the total capital accounts should be. There must be earnings or the prospect of earnings to warrant the desired capital increase. Otherwise, new money sought will not be forthcoming. In general, the figures show that current earning power of Michigan banks is at a level sufficient to support only moderate capital increases.

TABLE I

Capital Ratios of Member Banks in Michigan and All Other Member Banks in U. S. As of December 31, 1947

Table with columns: Number of Banks, Total Assets, Deposits at Risk, Ratio of Total Deposits to Capital Accounts, Ratio of Deposits at Risk to Capital Accounts. Sub-headers: United States, Michigan, All Other Member Banks.

Note (A) represents 51.6% of the number of all insured commercial banks, shown as follows:

Table comparing United States and Michigan banks on metrics: Number of Banks, Total Cap., Total Assets. Includes sub-categories like Non-Member, Insured, All Insured Commercial Banks.

(x) Capital, surplus, undivided profits, reserve for contingencies, etc. (\*) Defined as deposits not covered by cash and United States Government obligations.

TABLE II

Capital Ratios of Member Banks in Detroit and All Other Member Banks in Michigan As of December 31, 1947

Table with columns: Number of Banks, Total Assets, Deposits at Risk, Ratio of Total Deposits to Capital Accounts, Ratio of Deposits at Risk to Capital Accounts. Sub-headers: Michigan, All Other Member Banks.

(x) Capital, surplus, undivided profits, reserve for contingencies, etc. (\*) Defined as deposits not covered by cash and United States Government obligations.

TABLE III

Average Assets and Liabilities of All Country Member Banks in Michigan for Years 1945, 1946, 1947 and Position at Beginning of 1948

Table with columns: Number of Banks, Assets (Cash, U.S. Gov't Obligations, Other Securities, Loans, Other Assets), Liabilities (Deposits, Demand and Savings, Other Liabilities), Total Assets, Total Liabilities, Total Deposits, Cash & U.S. Gov. Oblig., Deposits at Risk, Ratio of Total Deposits to Capital Accounts, Ratio of Deposits at Risk to Capital Accounts.

TABLE IV

Earnings and Dividends of Country Member Banks in Michigan For Years 1945, 1946, 1947

Table with columns: Number of Banks, Operating Expenses, Salaries and Wages, Interest Paid, Operating Income, Interest Income Required to Break Even, Interest Income Actually Realized, Net Current Operating Income, Federal Income Taxes, Total Federal Income Taxes, Effective Tax Rate, Net Current Operating Earnings, Cash Dividends, Retention, Average Capital Accounts, Net Current Oper. Earnings (%), Cash Dividends (%), Retention (%).

TABLE V

Yields Required to "Break Even" and Yields Actually Realized on Loans and Investments, Country Member Banks in Michigan for Years 1945, 1946, 1947

Table with columns: Number of Banks, Average Loans and Investments for Period, Per Cent of Average Loans and Investments. Sub-headers: 1945, 1946, 1947.

TABLE VI

Critical Yields of All Member Banks for Years 1945, 1946 and 1947

Table with columns: Number of Banks, Required, Realized. Sub-headers: In United States, In Michigan, In Detroit, In Michigan (ex-Detroit).

TABLE VII

Average Loan Yields of Member Banks in Michigan (Amounts shown are stated in thousands of dollars)

Table with columns: Number of Banks, Michigan (No. of Banks), Average Loans, Interest Income, Yield (%), Detroit (No. of Banks), Michigan (Ex-Detroit) (Number of Banks), Average Loans, Interest Income, Yield (%).

TABLE VIII

Average Investment Yields of Member Banks in Michigan (Excluding Detroit) (Amounts shown are stated in thousands of dollars)

Table with columns: Number of Banks, U. S. Government Obligations (Average Holdings, Interest Income, Yield (%)), Other Securities (Average Holdings, Interest Income, Yield (%)), All Securities (Average Holdings, Interest Income, Yield (%)).

TABLE IX

Assets and Liabilities of "A Country Member Bank in Michigan" Average Position (\*) (Amounts shown are stated in thousands of dollars)

Table with columns: Assets (Cash, U.S. Gov't Obligations, Other Securities, Loans, Other Assets), Total Assets, Liabilities (Deposits, Demand and Savings, Other Liabilities, Capital Accounts), Total Liabilities. Sub-headers: 1945, 1946, 1947, Begin of 1948. Includes a section for Distribution of Assets and Liabilities with percentages.

TABLE X

Operating Conditions of "A Country Member Bank in Michigan" Average Position (\*)

Table with columns: Expenses (Salaries and Wages, Interest Paid, Other), Total, Income Other than Int., Interest Income Required to "Break Even", Avg. Loans & Investments, "Critical Yield" to Break Even, Average Loans, Average Yield, Interest Inc. from Loans, Operating Deficiency after Loan Income, Average Investments, Yield Required on Investments, Actual Yield Realized on Investments.

(\*) Data obtained by dividing figures in Table IV by the number of Banks for the respective years.

TABLE XI

Estimate of 1948 Earnings of "A Country Member Bank in Michigan" Current Operating Income:

Table showing estimates for 1948: Interest on Loans, Investment Income (U.S. Government, Other Securities), Total Current Operating Income, Current Operating Expenses (Salaries, Officers, Salaries, Others, Interest Paid on Deposits, All Other Expenses), Total Current Operating Expenses, Net Current Operating Income Before Fed. Income Taxes, Federal Income Taxes, Net Current Operating Earnings, Cash Dividends, Retention Out of Current Earnings, Capital Accounts as of Dec. 31, 1947 (Net Earnings, Cash Dividends, Retention).

(\*) Fully taxable, or tax-free equivalent.

## Railroad Securities

With the railroad stocks generally attracting an enthusiastic following in recent months, Chesapeake & Ohio common has been under conspicuous pressure. Last week the stock sold down to 38, the lowest level reached since the uncertain days of 1943 when it hit a low of 33 3/4. The extent of the market

ceterioration of these shares is obvious when it is considered that in 1943 Great Northern sold at a low of 21 1/8 (now 46 1/2) while Southern Railway and Southern Pacific commons both sold at 15 3/4 (now 45 and 54, respectively).

Great Northern and Southern Railway are both on the same regular dividend basis as Chesapeake & Ohio (\$3) while Southern Pacific is on a \$4 basis. Chesapeake & Ohio for the past eight years has also paid extra dividends in cash or, in two instances, through distribution of its holdings of stocks of other companies. The recent action of Chesapeake & Ohio stock has naturally engendered some anxiety as to future dividend policies.

Traditionally Chesapeake & Ohio has been a liberal dividend payer. It was a consistent earner even during the depression era, it had a conservative debt structure, and it had no maturity problems. Thus it was possible to pay out a large proportion of reported earnings without endangering the road's credit standing. For a period of ten years prior to merger with Pere Marquette, Chesapeake & Ohio had paid out an average of more than 80% of its earnings in cash dividends. Under present conditions it is doubtful whether such a large ratio is any longer feasible.

For one thing, a large amount of new equipment has been purchased and financed with equipment obligations. Based on the obligations outstanding as of the end of last year, serial maturities amount to \$9,006,000 per annum. In addition, serial refunding and improvement mortgage bonds fall due to the rate of \$1,380,000 every year. Equipment and roadway depreciation and amortization charges last year were less than \$5 million in excess of the combined annual maturities. Considering the normal property needs, and additional equipment now on order, this overage, equivalent to \$0.64 a share, can hardly be considered as any cushion for common stock dividends. Moreover, regular bond maturities this year are in excess of \$2 million. Net working capital at the end of February amounted to \$12,246,000, down \$9,350,000 from a year earlier.

Earningswise, Chesapeake & Ohio has been off to a very poor start in the current year. The opening months were influenced by the very severe weather conditions. Storms and low temperatures interfered seriously with operations and involved heavy costs. Moreover, weather conditions resulted in the closing down of a number of factories, particularly in Pere Marquette territory, for a time. This was followed in March by the bituminous coal strike which cut deeply into traffic. April results will also presumably be adversely affected by the continued stoppage which re-

sulted in some reduced activity in a number of industrial plants.

Despite the adverse influences, and in part reflecting higher rates, gross revenues for the first quarter were almost identical with combined Chesapeake & Ohio-Pere Marquette revenues for the like 1947 interim. Even in March, gross was off only about 13%. Maintenance costs, however, were materially higher in the 1948 period. Also, the transportation ratio jumped from 33.9% for the opening 1947 quarter to 39.5% for the current year. In all, operating expenses were up more than \$10 million, and this was only partially offset by a cut of some \$4 million in income taxes.

For the opening 1948 quarter per share earnings declined to \$0.54. Pro forma earnings for the opening 1947 quarter were \$1.32 a share. For the full year 1947 the company reported earnings of \$4.44 a share. Barring a prolonged coal strike again in June the prospects from here on point to year-to-year earnings improvement. Nevertheless, it is difficult to visualize full year 1948 earnings of any more than \$4.00 a share at best. Presumably this would be sufficient to justify maintenance of the regular dividend rate, but any sizable dip below that might be serious.

### Robert H. McCrary With Bateman, Eichler Co.

(Special to THE FINANCIAL CHRONICLE)  
LOS ANGELES, CALIF.—Robert H. McCrary has become associated with Bateman, Eichler &



Robert H. McCrary

Co., 453 South Spring Street, members of the Los Angeles Stock Exchange. Mr. McCrary was formerly Vice-President of McCrary, Dearth & Co., Inc., of Des Moines.

### New Firm Name Is Herrick, Waddell, Reed

Cameron K. Reed of United Funds, Incorporated, has become associated with Herrick, Waddell & Co., Inc., 55 Liberty Street, New York City, and the firm's name has been changed to Herrick, Waddell & Reed.

The company has just opened a branch office in Chicago at 332 South Michigan Avenue under the management of Paul Herbert.

### Malcolm Greenough Dead

Malcolm Whelen Greenough, special partner in Hutchins & Parkinson, Boston investment firm, died at the age of 45 after an illness of several months.

## Money, Government Spending and Interest Rates

By SIGURD R. WENDIN\*

President, Heber-Euger-Wendin, Inc., Detroit, Mich.

Mr. Wendin reviews factors relating to use and value of money and the course of interest rates. Points out credit volume expands only with increased business activity, unless artificially stimulated by government. Holds gold is best credit basis, and ascribes expanding credit to increased gold supply and fiscal policy resulting from postwar depression fear. Says government talks deflation, but acts in reverse. Sees possibility of more deficit spending, and concludes demand for money will continue high and its price will not come down.

The word money represents a most vital subject which everyone should try to understand and to constantly review. Money in the broad sense, in our discussion tonight, will revolve not so much around the money in your pocket, commonly termed currency in cir-



Sigurd R. Wendin

to find out why money does what it does.

During World War I and in the subsequent so-called prosperity and depression period, and then subsequent recovery in the late thirties, and then World War II, there was evident a constant increase in the regulation of money, and the techniques of money management tended to obscure basic fundamentals. Many people have concluded that our money system was so complicated that no one could ever expect to understand it. It is probably true to say that it would take a superman to have an all-seeing comprehensive understanding of the technical details of a managed money market, which in turn implies an understanding of all those forces which influence money. However, the thesis for our present argument, if you will, is that everyone can and must understand a few basic fundamental relationships if we are to preserve our democracy and the ideals for which we stand.

It is important to remember that money in itself is not wealth. Money throughout the ages has been a medium of exchange, and its great value is as a common yardstick in measuring wealth and as a convenient way of measuring business transactions of all kinds. From a long range point of view money has been upset by the manipulation of kings, politicians, governments and economic conditions. History shows that money largely does what it does because of what people do to it. When people do too much to money it loses its value as a yardstick, and barter of one form or another develops. You merely have to look at the recent experience of the European countries to realize that something went wrong with their money system, which in turn naturally raises the question—can it happen here? Satisfactory money has as its background respect for contracts, which is another way of saying law and order, and confidence in governmental policies. Please note the plural because policies other than fiscal policies alone influence money. If you will review the full or partial failure of money in various countries of the world you will find that the basic pattern, varying in degrees as to its lack of law and order and confidence in government was present in every case. It is a common saying that money is not worth as much today as it was at some previous

\*An address by Mr. Wendin before the Detroit Mortgage Bankers Association, Detroit, Mich., April 29, 1948.

ulation, but

largely around deposit bank money, and the gold upon which our monetary system is based. In order to have a background for money problems it would appear appropriate to review some pertinent financial history if we are

time. In one sense this can be interpreted as indicating a partial failure of the money yardstick, even in this country. It should be emphasized that the United States is still the safest haven of capital and still has the best money system of any country in the world, and that the value of the American dollar is as highly regarded throughout the world as it ever was, but that does not imply that it has remained as a constant measure of value.

### The Course of the Money Market

If for sake of argument we then agree that money does what it does because of two main reasons, namely, what the money managers may do to alter the course of the money, or what business conditions over which individuals or governments have little control may do to alter the course of money, then we have reduced our problem to two broad areas of discussion. Immediately then, the point will be raised in your mind as to just how far can governments, bankers or individuals influence the course of money, and also whether or not business conditions determine the course of money or the reverse. It has always been my well considered opinion that the economic or business conditions would eventually be reflected in the money market and that money is not the master, but the servant of business and industry, and of the people. How could it be otherwise if one keeps in mind that the fundamental concept of money is that it merely is a medium of exchange, and thus, reflects in a sense, business conditions. You of course, are all familiar with such statistics as bank debits and other financial data which would lend considerable weight to this conclusion. Yet it must be recognized that in a complex civilization and monetary system, changes in money do have an important influence on business. It then becomes obvious that changes in money will affect the price of money, or as it is more commonly known, the interest rate.

### Credit Volume and Business Activity

It is fundamental that credit volume and business activity rise and fall together. It is impossible under our capitalistic system with its present type of credit financing to have low credit volume and high business activity, or vice versa. If business men then become optimistic and business is good, and they consider expansion of plant and sales, the demand for credit will increase, and naturally the effect on interest rates, all other things being equal, will be for them to rise. During the war years we were in a period of great business expansion, but most of the credit came through controlled government financing under a set pattern of rates, and not through private sources, and in the post war period the further expansion of industry continued, but the source of credit changed from the government to the banking structure and the capital market. These factors are mentioned to emphasize the fundamental relationship between business and credit. Credit in a sense is confidence money, and it is largely

the present and prospective demand in relation to the supply of this kind of money which affects interest rates.

During the last 30 years there has been a tremendous change in the concept of government and money. It might be said that prior to World War I the world operated pretty much on a so-called free enterprise basis with a minimum of regulation and interference by government. While there were wide fluctuations in the economic cycle nevertheless, private banking and private industry tended to forge ahead in a long term rising trend. World War I and the subsequent collapse of 1921 brought about new concepts of control. You will remember the Federal Reserve came into being in 1914 and it was thought its development as a dominant factor in the money system would prevent all future depressions. During the twenties the concept of central banking was growing all over the world and central banking was making its influence felt more and more. The 1929 stock market crash and subsequent depression accelerated the trend toward more managed economy, and in this country there came into being the Reconstruction Finance Corporation with its subsidiary corporations, and then in an effort to prevent abuses of earlier periods, and/or to encourage the revival of business, additional governmental corporations of one kind or another were created. In your own field you of course, are familiar with the Federal Housing Administration, the Home Owners Loan Corporation, the Federal Home Loan Bank, and others of that type. The basic fundamental purpose of these organizations was to provide either directly or indirectly credit money at relatively low cost. It was the policy of the government, rightly or wrongly, that if the price of money could be kept at relatively low levels it would induce business men to utilize that money. The results may indicate an answer to the question of how far can a government influence fundamental conditions. At that time the prospect for making substantial profits were relatively small, the Roosevelt Administration was using business men as whipping boys, and it was considered infamous to make substantial profits. Business did not take substantial advantage of the easy money readily available. It is like the old story of leading a horse to water but not being able to make him drink.

### Gold the Best Credit Basis

Further analysis of conditions prevailing in the thirties bring out that deficit financing was constantly the order of the day, and increased the supply of bank money available for lending. Because of world uncertainty during this period so called "smart" money was fleeing to a safe haven, and much of that money came to this country with the subsequent result that gold came into this country at an increasing rate, especially after we devalued the dollar in February of 1934, at which time we in effect said to the world "boys, come on in, we will pay you \$35 an ounce instead

(Continued on page 37)

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## Hold Tax Cut Will Spur Dividend Payments

**J. K. Lasser, New York accountant, also points out recent tax measure may lead to conversion of small corporations to partnerships.**

As an indirect result of the sizable income tax reductions in the upper brackets, the fall of this year may see a "terrific surge" of corporate dividend payments, J. K. Lasser of New York, Chairman of the Committee on Federal Taxation of the N. Y. State Society of Certified Public Accountants, stated on May 4.

Speaking on the effects of the new Federal tax law before 300 members of the Society at a meeting at the Engineering Auditorium, 29 West 39th Street, New York City, Mr. Lasser said that another result of the income tax reductions will be the conversion of a large number of small, closely-held corporations to the partnership or proprietorship form of operation.

Mr. Lasser based his prediction of unusual dividend increases on the fact that a factor sometimes governing dividend rates is the amount of income large stockholders can keep after taxes.

"It is an obvious fact," he said, "that dividend payments of a corporation can be directly predicated on how much the major stockholders will have left over after taxes. When personal income tax rates are high, controlling stockholders prefer to have possible dividends plowed back into the development of the company. But when income tax rates drop, high dividend payments become more natural.

"Corporations will be particularly conscious this year of stockholder need for funds because of inflation. Greater dividends are bound to follow.

"One reason for the low dividend rates since 1941 is that it has cost the individual too much tax-wise to get money. The overall percentage of dividends to profits in 1941 was only 48%. For 1947, it was even less: a little over 39%, according to Department of Commerce estimates.

"But 1948 appears to be the right year for high dividends. It has again become profitable to make money. The new income tax law, with introduction of the community property rule and lowering of surtax rates, has resulted in tax reductions of as much as \$16,000 in the \$100,000 income bracket, for example.

"This fall should see a terrific surge in dividend payments. The realization that income taxes may be raised again in 1949 because of the cost of the European recovery program gives further impetus to paying high dividends this year."

Urging conversion of small corporations to proprietorships Mr. Lasser pointed out the tax advantages which the latter form now holds.

"In the last six or seven years," he said, "numerous small companies changed from the proprietor to corporate form because corporate taxes for them were lower than personal income taxes. Under the new income tax law, the reverse is true in a great number of cases.

"A sole proprietorship earning \$55,000 a year, for instance, in which the proprietor is married

and has two dependents, will pay a tax no greater than that on a corporation earning \$5,000 less. The proprietorship would have this tax advantage up to earnings of just under \$70,000.

"A similar and even greater advantage is held by the partnership. Any small, family-held corporations should immediately look into the possibilities of conversion."

### With Noble, Tulk & Co.

(Special to THE FINANCIAL CHRONICLE)  
LOS ANGELES, CALIF.—

Oliver H. Newbert has been added to the staff of Noble, Tulk & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange.

## Events Listed for Bond Club Field Day

A schedule of sports and events which will feature the 24th annual Field Day of the Bond Club of New York has been announced by Charles L. Morse, Jr., Hemp-hil, Noyes & Co., chairman of the Field Day Committee. The outing will take place on June 4 at the Sleepy Hollow Country Club, Scarborough, N. Y.

A golf tournament enlisting several hundred bond men will get under way at 8 a.m. Each hour thereafter through a crowded day will see the start of other attractions, including tennis and horse-shoe pitching tournaments, jockey club, county fair, diving and swimming exhibitions, soft ball,

hole-in-one contest and other diversions.

The Bond Club Stock Exchange will be open for trading most of the day and terminate with a distribution of its assets late in the afternoon. Winding up the day's activities will be a dinner and floor show on the club house terrace.

## Halsey Stuart Group Offers Utility Issue

Halsey, Stuart & Co. Inc. offered publicly May 5 \$5,500,000 New York State Electric & Gas Corp. first mortgage bonds, 3% series, due 1978, at 100.75% and accrued interest. Award of the bonds was made on a bid of 100.3299.

Net proceeds are to be applied

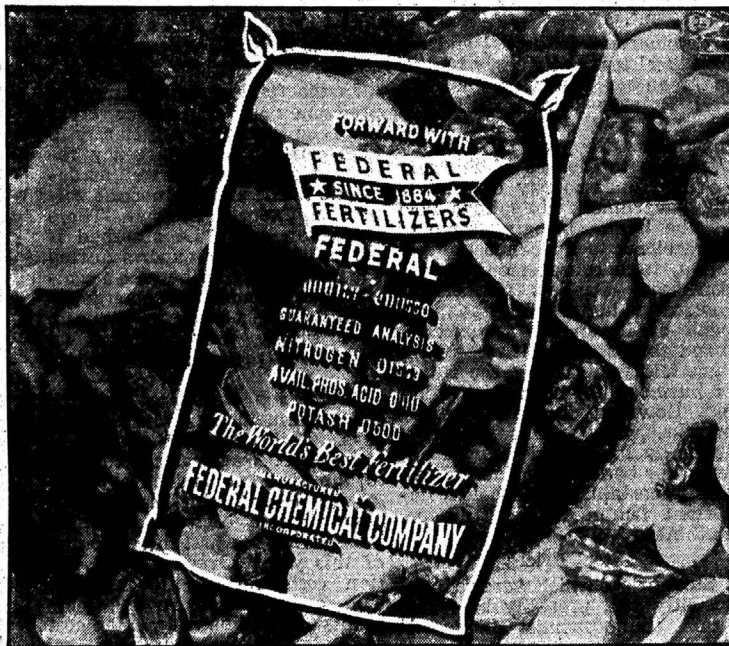
to financing the company's construction program. This program calls for estimated expenditures of \$13,500,000 for 1948 and \$15,000,000 each for 1949 and 1950.

The new bonds will be redeemable at prices scaled from 103.75% to 100% and at special prices ranging from 100.80% to 100%.

The company is an operating public utility engaged principally in the production, purchase, transmission, distribution and sale of electricity and in the production or purchase and distribution and sale of natural gas and manufactured gas. It is also engaged to a minor extent in rendering steam heating service and bus transportation service. The company's properties are located entirely within the State of New York, and it provides electric or gas service, or both, within about 35% of the area of the State.



J. K. Lasser



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# Says "Shots-in-the-Arm" Delay Postwar Depression

(Continued from page 7)

program provided by the Economic Cooperation Act of 1948 is one of the strongest stimulants to the national economy now being applied, he points out. A partial list of the requirements of the program for the current year are 557,000,000 bushels of grains; 161,000 tons of fats and oils; 38,140,000 tons of coal; 1,824,000 tons of finished steel; 609,000 tons of cotton; 54,000 trucks and 16,000 freight cars.

In addition to the amounts being sent abroad under the aid program, there are very substantial grants being made to foreign countries as well as United States expenditures in occupied areas, he says. The Act provides that China is to receive \$338,000,000 in economic supplies and \$125,000,000 in military assistance. Greece and Turkey are getting \$275,000,000 in economic aid. The International Children's Fund has been granted \$60,000,000 for child care and feeding. The United States Army will spend \$1,000,000,000 in Germany. Trieste is to get \$20,000,000 in aid.

(2) Military expenditures are expected to be increased by an additional \$3,500,000,000, the economist points out. Defense Secretary Forrestal recently outlined a sharp increase in the military program, including a 66-group Air Force. It was his estimate that the addition to the defense program would cost \$3,481,000,000. Though it is not yet certain how speedily the plan will be dealt with and, if put in force, just how fast the spending would take place, it does seem clear that increased military demands upon American industry are likely for the months ahead, the economist thinks.

(3) Since the tax reduction bill which reduces Treasury income by nearly \$5,000,000,000 a year beginning May 1, 1948, is so designed that the bulk of the tax saving will be enjoyed by those with incomes below \$5,000, it is likely that the tax saving will be used mostly for consumer purchases, the economist feels. However some of the saving will probably go to relieve the acute equity capital situation which exists at the present time, he thinks.

(4) The changes in the budget position of the Federal Government very likely increases the possibility of additional credit expansion, the economist points out. Some Treasury authorities, he declares, estimate that the government may suffer a cash deficit of \$2,700,000,000 for the fiscal year 1949 instead of the surplus of \$4,800,000,000 estimated in the original budget which did not take into account the tax reduction nor increased military expenditure.

(5) It is commonly recognized that the present pegging of the government bond market at par prevents the credit authorities from exercising their traditional function of controlling the expansion of credit through the reserve mechanism, he states. Under present practices, the Federal Reserve System is compelled to provide funds for credit expansion at the will of those who have government bonds to sell, he points out.

Commercial, industrial and agricultural loans of weekly reporting member banks of the Federal Reserve System have decreased about \$438,000,000 since the first of the year, but this has been due to the use of Treasury surplus funds to pay off maturing government obligations held by the banks, bringing some of them closer to a "loaned up" position, to encouragement by the American Bankers Association toward voluntary limitation of bank credit and to reduced demand for bank credit due to the uncertainty regarding the future of business, the economist points out. However, during the coming months, voluntary limitation of credit by banks and reduced demand for bank credit due to business uncertainty will be less important factors in the situation, he thinks.

### Steel Prices

Steel prices which were reduced recently will probably be raised again, the economist thinks. It was probably only as an experiment that the steel companies lowered their prices, he believes. The steel companies may have wanted to protect themselves against the criticism that they had not tried to see what could

happen if they cut their prices. They could not have expected to increase demand by the price reduction because demand is already very high, he points out.

The steel companies might have done better, possibly, to use the money, now being turned back to steel consumers in the form of lower prices, to expand capacity because steel, along with the American economy as a whole at present, though operating at capacity, is not meeting demand, he feels. It cannot be said that steel earnings are excessively high at present, he thinks.

The total production of goods and services in the United States has not expanded appreciably during the last 12 to 15 months, the economist points out. Since total resources of manpower and equipment have apparently been utilized at about the peak of our present "capacity to accomplish," with the present strong demand for goods and services, the pressure for further price inflation remains a very real problem, he states.

In the field of agriculture, the production of the major crops has been increased sufficiently to take care of the emergency requirements abroad as well as domestic needs and the normal volume of exports, he says. These crops can easily be absorbed if current plans for exports during the next 12 months become a reality, but should the emergency requirements abroad be reduced, over supply would become an immediate possibility, he points out.

Production costs are high for the manufacturing industries, he says. Rail rates are continuing to increase. Wage rates, according to the National Industrial Conference Board, also reached the new all-time high of \$1.41 an hour during the first three months of this year. Over-all construction costs reflect the increase. The cost of constructing new plants and equipment and the cost of residential construction are now more than double what they were in 1939.

## Dealer-Broker Recommendations

(Continued from page 8)  
pany, Penobscot Building, Detroit 26, Mich.

**Nekoosa-Edwards Paper Co.**—New report—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wisconsin.

**Oil Exploration Co.**—Data—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

**Portsmouth Steel Corp.**—Data—Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa. Also available are data on **Dumont Laboratories, Seminole Oil & Gas, and El Paso Electric Co.**

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

**A. O. Smith Corporation**—Memorandum on interesting speculation—Bendix, Luitweiler & Co., 52 Wall Street, New York 5, N. Y.

**Sterling Electric Motors, Inc.**—Analysis—Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

**Wisconsin Power & Light Co.**—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

**Zonolite Company**—Analytical memorandum—Barclay Investment Co., 39 South La Salle Street, Chicago 3, Ill.

# Observations

(Continued from page 5)

entially suggesting that the stockholders might prefer such simplification over the former elaboration.

The main reason for the extreme over-stuffing, apart from reaction from the antiquated habit of under-statement, is the effort to overcome deep stockholder apathy, and to use it as sugarcoating with which to spoon-feed him distasteful "statistics." On the one hand, a glamorizing "new look" away from the conventional ICC-type or railroad statements exclusively devoted to pages of accountant's figures, has undoubtedly been needed. All polls taken, as previously cited by this writer, have shown a startling lack of stockholder interest as well as understanding of the simplest rudiments of company statements. But, on the other hand, extreme jazzing-up is out of order and can be definitely harmful. While the "hot-a.r." can be recognized by the professional analyst, the uninitiated may falsely infer from the glamorous pictorialization, the inclusion of vital data which is actually omitted.

It seems to the writer that the report should not be the place for prospectus salesmanship. Instead the text should as objectively as is humanly possible relate the good and bad elements in the past year's developments, the bullish and bearish factors in the company's future, citation of some of the imponderables, and company policies.

### Pertinent Data

In any event, particularly because of the above-mentioned difficulties in getting the data which are legally prescribed by the SEC, these voluntary reports going direct to the shareholders should carry the important portions of that statistical information. The minimum would include adequate summary of the earnings and balance sheet items and the full data about directors' stock ownership, remuneration and other corporate relationships. While these facts are contained in the proxy statement in full detail, when proxies are not solicited the stockholder is dependent on communication with the SEC if he does not reside in Washington or near the Exchange; and, in any event, he cannot get the full remuneration information there from the Commission's form 10-K. Surely, at the least, companies which do not solicit proxies but get out voluminous annual stockholders' reports, should supplant some of the surplusage therein with the data about management and directors which they would have been obligated to distribute with the proxy statement.

### Britain's New Widespread Reporting

It is interesting to note here that despite Britain's age-old laxity in financial regulation, the recent revision of her Companies' Act under the Cohen Committee is quite stringent on these phases of reporting. Whereas in the past only a bare minimum of information had to be filed with the government's Registrar of Companies, now the directors' report is required to be mailed to all the shareholders 14 days before the annual meeting, and the balance sheet 21 days in advance thereof.

The prescribed annual balance sheet and profit and loss account now bar hidden reserves and require specification of any non-recurring items contributing to profits, but still permit the withholding of gross sales and profits figures. It is noteworthy that the British have plagiarized our proxy rules to the extent that one-twentieth of the voting rights may use the company's proxy machinery to circulate their own proposals, albeit not free of charge.

As regards directors' remuneration, Britain's 1947 Companies' Act provides that the aggregate amount paid to all directors shall be shown, rather than to each individual (in accordance with overall British policy barring disclosure of the individual's affairs). In showing only the total cost of management to the shareholders, this follows our provisions for annual filing with the Exchange under our form 10K than our more minute proxy requirements.

### Taxation and Management Compensation

It is quite interesting that a new provision in the British Law now specifically makes it unlawful for a company to pay a director remuneration free of income tax. This brings to mind the growing American practice of including in annual reports demonstrations of the burdensome effect of our generally high tax rates on corporate managers.

To the writer the propriety of this in the report, presumably as a (needless) "guilty conscience" defense of salaries, seems to be questionable. In the first place, the nation's general tax policy as set by the Congress, although extremely unwise, particularly in its steep and high progressive rates, is a matter lying entirely between the taxpayer and the Treasury and is no material concern of the stockholder. In the second place, the calculations of the impact of taxes on salary are, admittedly, partly theoretical because of each individual's other income, exemptions, etc. And in the third and more practical place, the extension of partial exemption from tax by the stockholder will act as a soporific keeping the considerable body of corporate management from waging their full and needed fight with the Congress, along with other sections of the community, for relief from confiscatory tax burdens.

### Minutes of the Annual Meeting

In the circulation of reports concerning the annual meeting, we again have complete non-uniformity, as there is on the other side of the Atlantic. In Great Britain the chairman's formal speech and the report of the meeting is often published by paid advertisements and/or, less frequently, by circulation to the shareholders. Presently they seem to embody everything from company results, to dividend policy, to inflation, to reflections on the international political situation, to outcries against the "steam-rolling" nationalization policy of the Labor Government.

Some of our large companies issue quite detailed reports, taken from a stenographic transcript, of the happenings at the stockholders' gathering. The general adoption of this practice is being vigorously urged in proxy solicitations by some minority stockholders, notably the Gilberts, on the ground of the general inability to be present at the meeting. As the cost of such reporting is quite negligible (\$2,500 versus \$18,000 for the annual statements of one representative company), there would seem to be no great objection in cases where a reasonable amount of interest therein is evinced. The objection to catering to publicity-seekers could be met by keeping the questioners' remarks anonymous.

At any rate, under present practice, data about the annual meeting comprise but one more element of non-uniform and confusing procedure.

This advertisement is not, and is under no circumstances to be construed as, an offer of these shares for sale or as a solicitation of an offer to buy any of such shares. The offer is made only by means of the Offering Prospectus.

150,000 Shares

## GENUINE PARTS COMPANY

Common Stock

(Par Value \$5 per Share)

Price \$11.00 per Share

Copies of the Offering Prospectus may be obtained from only such of the several underwriters named in the prospectus and others as may lawfully offer these shares in compliance with the securities laws of the respective states.

### Courts & Co.

Atlanta

New York

May 4, 1948



## N. Y. Stock Exchange Strike Ended

After 32 days, striking union employees vote to return to work on terms substantially the same as offered before walkout began.

Some 800 union employees of the New York Stock Exchange on April 30 agreed to return to work on the basis of an agreement outlining the terms of a new contract. This was announced in the following statement issued jointly by Emil Schram, President of the New York Stock Exchange and Robert P. Boylan, Chairman, to both members and employees:

"We are glad that the strike is over and are happy to welcome our employees back to the Exchange.

"The Exchange and the Union



Emil Schram



Robert P. Boylan

signed a memorandum of agreement this afternoon outlining the terms of the new contract. Within a few days, the new contract will be signed. It will run until April 30, 1949. Major provisions include:

"(1) Employees will be free to join the Union or not to join, as they choose. All present Union members will have an escape period of 15 days from the signing of the formal contract in which to resign if they wish to. Thereafter, there will be the same "maintenance of membership" provisions that we had in our last contract.

"(2) The wage scales, offered by the Exchange, go into effect as of Thursday, April 29th, the day the strike was terminated. Salaries below \$50 will be increased \$3 a week. Salaries between \$50 and \$74 will be increased \$4 a week. Salaries over \$75 will be increased \$5 a week.

"(3) Employees at all times will handle the business of all members and member firms, regardless of whether the Union claims to have a dispute with any member or firm.

"(4) The volume bonus will be continued and a new volume bonus period will start at the beginning of the pay week in which the new contract is signed.

"(5) The Exchange has worked out with the cooperation of the Union a program for the generous treatment of employees whose positions have been eliminated due to permanent streamlining of Exchange procedure. This number will be under 100. Reductions will be made with every regard for the interests of the employee and the Exchange operations.

"With a few minor exceptions, relating to sick leave, demotions and time off at own expense for Union officials, agreed to by both the Union and the Exchange, provisions of the previous contract will be incorporated in the new contract.

"The strike was a trying period for all of us. There were incidents in the picketing of the Exchange that are to be regretted by every fair-minded person. Those incidents are behind us. The immediate problem ahead is the continuance of operations with the minimum of personal friction. We hope an atmosphere of mutual cooperation and respect will prevail. That is the only sound basis for any successful business undertaking."

**With Maxwell, Marshall Co.**  
(Special to THE FINANCIAL CHRONICLE)  
LOS ANGELES, CALIF.—Leo A. Strelsky has become connected with Maxwell, Marshall & Co., 647 South Spring Street, members of the Los Angeles Stock Exchange.

## G. C. Haas & Co. Formed in New York

Following the retirement of E. A. Seasongood as a limited partner of the firm of Seasongood & Haas, the remaining partners announce that they will continue the business under the firm name of G. C. Haas & Co., members of the New York Stock Exchange, with offices in New York at 63 Wall Street and in Philadelphia at 123 South Broad Street. Partners in the continuing firm are George C. Haas, G. Hinman Barrett, William P. Marseilles, Jr., member New York Stock Exchange, Richard W. Ince, Robert C. Townsend and Alfred Levinger, a limited partner.

Myron F. Schlater will continue as Manager of the firm's New York Bond Department, as will Leighton H. McIlvaine, as Manager of G. C. Haas & Co.'s Philadelphia office.

## With Carter H. Corbrey

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—

Charles W. Fleisher and Howard A. Grant have become affiliated with Carter H. Corbrey & Co., 650 South Spring Street. Mr. Fleisher was previously with Paine, Webber, Jackson & Curtis and Livingstone & Co.

## ERP—Misguided and Expensive Venture

By BERNARD J. GARDENER\*

Executive Vice-President, Ernst Seidelmann Corporation

It has been suggested that my subject be the outlook for foreign trade, with particular reference to export. The political, social and economic morass that encompasses all of Europe, Asia, the Far and Near East, one might say South America and the whole world

makes it an impossibility to measure the outlook for foreign trade with any degree of accuracy. To make any forecast would be on my part audacious indeed. It would be a matter of rank speculation and pure guesswork to foretell the probable amount or scope of trade with Europe and the whole world during the next few years or even months. All that we know and can count on is that the United States is going to ship huge quantities of merchandise and raw materials to Europe and the rest of the world, even though that means that we ourselves to a large extent pay the costs of such shipments ourselves. Whether we are going to do this for humanitarian reasons or as a matter of self interest, is up to you to decide. In my opinion and as far as Europe



Bernard J. Gardener

is concerned, the purpose of the European Recovery Program is to help the countries of Western Europe get back on their feet, not for any humanitarian reasons, but to stop Communism from making any more inroads. Parenthetically, if this is its purpose, I think it is a misguided and expensive venture and doomed to failure. After the First World War when conditions were not half as bad, approximately 1/2 of Europe became totalitarian. After this World War, already one-third of Europe, in fact, all of Eastern Europe, is communistic, with very large communistic parties in the rest of Europe. I feel that almost all of Europe is bound to try the experiment within the next five to 10 years.

It isn't only Russian propaganda and influence. The best propaganda for Communism is the fact that in most of Europe, as well as in most countries of the world, the great majority of the people are underprivileged and undernourished. As Senator Lodge stated at the Mississippi Valley World Trade Conference in New Orleans, "The Russians are not smart enough to have singlehandedly created the communists of Europe. Europe's chronic ills—overpopulation, maldistribution of goods and wealth, the selfishness of its wealthy. These are the fact which create communists." In view

of my feelings that we are now in the midst of an economic and social revolution, which has been going on since approximately 1910, you can see how impossible it is to predict the future of international trade. The period we are now in, may be likened to the period of the 30 Years War, when there was a revolution and revolt against the feudal system, against the economic rigidity of the Guild and against the Church. This was accompanied by 30 years of war, as revolution usually is. In our time we have had two world wars and we have had a revolt, in brief, of everything that the 19th century stood for. We have had a revolt against capitalism, free trade and free enterprise, against religion as we knew it and against law as we knew it, and against the sanctity and freedom of the individual, and the Christian concept of the dignity of man. We are still in the process of this revolt and revolution, and it will have its concomitant, another war—this time to stop Communism.

In conclusion, I am not a seer, a prophet or a diviner and cannot prognosticate the future for foreign trade outlook for even the next few months. All that we can know is that we are going to ship huge quantities of merchandise and raw materials to Europe and to other areas of the world until something happens.

*This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these Debentures. The offer is made only by the Prospectus.*

**\$100,000,000**

**Southwestern Bell Telephone Company**

**Thirty-Five Year 3 1/8% Debentures**

*Dated May 1, 1948*

*Due May 1, 1983*

*Interest payable May 1 and November 1 in St. Louis or New York City*

**Price 102 1/2% and Accrued Interest**

*Copies of the Prospectus may be obtained from only such of the undersigned as may legally offer these Debentures in compliance with the securities laws of the respective States.*

**MORGAN STANLEY & CO.**

**BLYTH & CO., INC. THE FIRST BOSTON CORPORATION GOLDMAN, SACHS & CO.**

**HARRIMAN RIPLEY & CO. KIDDER, PEABODY & CO. LAZARD FRERES & CO.**

**LEHMAN BROTHERS MERRILL LYNCH, PIERCE, FENNER & BEANE**

**SMITH, BARNEY & CO. STONE & WEBSTER SECURITIES CORPORATION**

**UNION SECURITIES CORPORATION**

**WHITE, WELD & CO.**

*May 5, 1948.*

## Canadian Securities

By WILLIAM J. McKAY

The current wave of currency rumors, despite its relatively minor impact on exchange levels, is perhaps better founded than many of its predecessors. On previous occasions inspired devaluationist propaganda has directly clashed with official statements that have definitely precluded any action in the direction of immediate parity changes.

Now it would appear that there are definite indications of official preparation for the realignment of certain European currencies which curiously enough has not received adequate attention from the previously vociferous proponents of devaluation. The latter, perhaps having previously weakened their case by ill-timed pressure on flimsy evidence, are now wary of accepting the solid facts. These facts are the following:

(1) The International Monetary Fund has decided, apparently in agreement with the countries concerned, that the parities of certain European currencies must be adjusted in order to permit the necessary expansion of exports.

(2) In the interests of the smooth functioning of the Economic Cooperation Administration program Great Britain has been obliged to modify her attitude towards full economic and financial cooperation with the continent of Europe. Sterling thereby will become less insulated from the influence of movements of other European currencies.

(3) Further to improve the chances of full success of the ECA program, authoritative quarters here favor a healthy realignment of the unreal parity levels of the European currencies.

(4) British and other European exports are now meeting price resistance in foreign markets.

(5) ECA assistance to Europe in providing many essential imports weakens the case for the maintenance of artificially high parity levels.

In the face of these circumstances therefore it would appear that action on the currency front is now imminent. One development appears almost certain. That is the devaluation of the European currencies that are palpably over-valued both in relation to the U. S. dollar and sterling. In this event, could the artificial level of the pound vis-a-vis the U. S. dollar be maintained without further uneconomic restrictions which would jeopardize the success of the ECA program? A dispassionate review of the foregoing facts would certainly lead to the conclusion that the pound

should logically be included among the certain European currencies which are destined for revision. Moreover even as matters stand at the present time the current level of sterling has to be constantly defended. With the devaluation of the currencies of her European competitors for foreign markets, the British export position would be further weakened, and as indicated by Chancellor of the Exchequer Cripps, whenever British exports have difficulty in finding markets, the question of the exchange level of the pound will again be examined with a view to appropriate revision.

As far as the position of the Canadian dollar is concerned recent official statements clearly indicate that the Dominion has rejected currency devaluation as a solution of its present economic problems. Unlike the British and other European positions Canadian exports are not impeded by costs and prices too high to compete in world markets. On the other hand the placing of the pound at a more realistic level will remove one of the causes of uncertainty concerning the Canadian dollar.

During the week the external section of the bond market remained steady but with little activity. The internal Dominions following a reaction in free funds were quoted a little below their recent peak levels. The stock markets recovered well after a decline due to profit-taking that was easily absorbed. The International Monetary Fund statement provided the stimulus for a belated rally in the gold stocks the outlook for which had been previously definitely over-bearish.

### Philip Carret To Be Partner in Gammack Co.

On May 15th, Philip L. Carret will be admitted to partnership



Philip L. Carret

in Gammack & Co., 40 Wall Street, New York City, members of the New York Stock Exchange. Mr. Carret has been Vice-President of Carret, Gammons & Co.

### Siegel & Co. Adds Ben Gold to Staff

Siegel & Co., 39 Broadway, New York City, announce the association of Ben Gold in their trading department. Mr. Gold has been out of Wall Street for about 2½ years, however his experience in the street dates back to 1928. His previous connections have been with F. J. Lisman & Co., P. F. Fox & Co.; he was a partner of Gold Bros. just prior to his leaving the street.

## Reduced Taxes or Capital Shortage!

By HARRY L. DERBY\*

Member, Board of Directors, National Association of Manufacturers

Leading industrialist, stressing need for risk capital to maintain and expand prosperity, holds high tax rates are destroying business incentive. Says we are threatened with a capital shortage in form of equity investments, which can be overcome only when taxes are reduced.

The success or failure of a business venture rests upon the ability to conduct the enterprise with profit. There are in the Nation three million small businesses and 500,000 so-called "large businesses." Bear in mind that all large businesses were originally small



Harry L. Derby

businesses. At the risk of appearing to stress elementary considerations, I would like you to consider how a business has its beginning.

Someone must have an idea for the establishment of a business, and if the business be one dealing with production, he must take from his savings or borrow the funds to purchase the facilities to produce the article in question. Having done so, if his product has merit and finds a market, he has established a business. If his individual efforts are insufficient for the manufacture, sale and other activities, he hires others to help him, and from his profits or from the investment of capital by himself or others he purchases the additional tools and facilities, and the business expands and is successful.

The success of any business depends upon obtaining the lowest possible costs consistent with quality and service. High overhead charges, all non-productive spending, excessive sales cost, and excessive advertising and other expenses are all a drag on attaining low costs, but this sort of spending is controlled by the head of the business and his judgment (prudent or otherwise) is the chief determining factor.

#### Taxes as a Cost of Business

However, in the last fifteen years Government spending and taxes have become a most important factor in business costs, and I am not referring to the expense of conducting the last World War.

In 1933 there were 630,000 civilians employed by the Federal Government. As on March 1 this year there were 2,012,143 civilian employees of the Federal Government. This figure does not take into account the members of the Fighting Forces.

The 1933 Federal Budget was \$3,800,000,000.

The 1949 Federal Budget is \$39,700,000,000 and this was prepared and presented to Congress before the expense of the present Defense Program was added to the contemplated cost of Government. The Budget for 1949 is ten billion dollars more than it cost the United States in winning the first World War. To put it otherwise, it is a tax of \$320.00 for each and every man, woman and child in the Nation, or an average of \$1280 per family.

The cost of operating the Federal Government is 27% of the contemplated National Income for the coming year. Add to this staggering total the cost of operating Municipal, County and State Governments and we find that one-third of our National production is now required to pay the expense of Government. This burden is made up of taxes on real estate and personal property, school taxes and other taxes levied by the State, County and local

\*An address by Mr. Derby before the School of Business Administration, Rutgers University, New Brunswick, N. J., April 29, 1948.

Governments, and the Federal Government comes in for a big share through its levy of taxes on income, for Social Security and the excise taxes upon various products, including gasoline, jewelry, furs, leather-goods, telephone and telegraph messages, etc. Aggregate taxes in 1948 will have exacted more than \$50 billion from the American people—an amount greater than the nation's total expenditure for food.

It would seem that this is too much "Government" for a Free People to indulge in. This cost falls very largely on business in its first impact and, ultimately, must be passed on to the individual consumer.

One marvels that such a huge burden could be borne by any Nation and still be able to maintain even a moderate standard of living. The answer to the question lies in the great productivity of our industries and farms.

No country in the world has succeeded in making the progress that the United States has made in the development of its resources and in the expansion of its production facilities. The reason for this is that here our forefathers adopted a Constitution guaranteeing the right of every individual to work out his own destiny with freedom of choice and with absence of old-world controls and restrictions. Here, the individual has had the opportunity, under an incentive system, whereby initiative, energy and original ideas may be turned into profit and, under this system huge production and great efficiency have resulted.

#### Incentive System as Springboard

The incentive system has been the springboard of creative accomplishment. Contrast this with the theory of Government compulsion and we become aware of logic of the former.

Could Edison have been compelled by Governmental edict to invent the electric light; could Marconi have been required to discover the marvels of wireless communication; would Kettering have found inspiration in bureaucratic compulsion?

Production of American farms has also greatly increased chiefly through the employment of scientific methods and modern mechanical equipment. Even the cows have responded. New York State statistics show that the unit of production in 1870 was 2,500 pounds while, seventy years later it amounted to 6,000 pounds. Thus, food for an ever expanding population has been available in quantities and quality not found elsewhere in the world.

During the last eighteen years American workmen have received 80% of all income produced by manufacturing industry. This large share of the National Income has had the effect of creating increased demand for goods, with a consequent further expansion of production.

Standards of living have risen and the purchasing power of the American workman's hourly earnings today are five and one-half times as great as the workman of one hundred years ago. One of the reasons for this is found in the fact that one hundred years ago machines did only 6% of man's work, whereas, today they do 80%.

Mass production has resulted in costs of goods which were unheard of in the nineteenth century. Today's modern automobile, if

manufactured as one-unit would cost a King's ransom but, as produced in large numbers, the automobile becomes available to the purse of the ordinary citizen.

When Government no longer views with favor the operation of a business for profit and places in the way of success such a multiplicity of rules and regulations as to make it impossible to realize a profit, or if, through such rules and regulations and the resulting hindrances, goods cannot be produced economically, then private enterprise can no longer function successfully. It is of more than passing importance that nearly one million small businesses ceased to exist during the year 1943.

The business system of America has made a record unequalled by any Nation on earth. While, over the years, there have been ups and downs in our progress, our system of free competition has been a levelling force in the price structure, permitting the sale and distribution of goods in great volume.

#### What Goes to Profits

We frequently hear the statement that business profits are excessive, but the Government records show that last year (which was one of the best years of profit) there remained for the investor in the tools and production facilities only 6.2% from the sales of those products, and less than half of that—in the form of dividends and interest—was paid to the investor in the tools and facilities needed to produce the goods.

Let us for a moment, consider what happens to the earnings of a manufacturing company or of any other business, for that matter.

As its sales increase added facilities must be provided and the money for these facilities must come from those who wish to invest their savings in a business enterprise.

Assuming that the company is one having good prospects, is well managed and in sound financial condition, the investor gives his money to the company and receives stock in exchange. At the end of the year if he finds that business has been prosperous and that earnings have resulted, he is hopeful of receiving adequate dividends in return for the use of his money.

The government steps in at that point and, under the present tax laws, takes approximately 40% of the earnings of the company in the form of Corporate Income Taxes. Out of the remaining 60%, that portion then declared out as dividends to the stockholders, the government further taxes the individual stockholder 20% to 30% depending on his tax bracket. The investor finds that instead of a satisfactory share in the profits of the enterprise in which he invested, that the government has taken by far the lion's share and left him with but a very small return for the risk and use of his money.

Not only does this unduly penalize the investor through double taxation of business profits—first, upon the earnings themselves, and secondly, upon the distribution of the earnings to the owners, but it acts as a definite brake upon the flow of investment money (capital) into American enterprise.

Over the years, more and more money has been needed to pro-

(Continued on page 34)

### CANADIAN BONDS

GOVERNMENT  
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### CANADIAN STOCKS

A. E. AMES & CO.  
INCORPORATED

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# What Makes Production?

By HENRY HAZLITT\*  
Associate, "Newsweek Magazine"

**Mr. Hazlitt contends a free exchange economy is essential for maximum incentive to produce, and changing profits are an indication whether production is in balance or is directed into proper channels. Advocates freedom of markets and avoidance of crushing taxation both of corporations and of individuals.**

We are talking today about what may seem to be a very elementary question and is certainly a very fundamental one.

What makes production? It seems odd to raise this question. For the last 25 years or more hardly any social reformers or politicians

seem to have been interested in it. All their talk has been about distribution. All their emphasis has been on distribution. They have simply taken production for granted—as if it were something that came to us from heaven, as a free gift, and as if our only problem were how to share it around.

And yet the problem of getting production, which has been so neglected, is incomparably more important than the problem of distribution upon which nearly all our attention in recent years has been centered. Production determines how much there is to distribute. The real stake of most of us in securing the fullest national production is far greater than that in any possible redistribution of it.

Well, what makes production? Why and how do people produce? Historically, the first reason why people produced goods was for their own use. The pioneer family raised food for its own consumption, built shelter for its own protection, made clothes for its own warmth.

The important thing to notice in the case of a Robinson Crusoe is that his production and "distribution" go together. They are simply two names for the same thing. He gets what he produces.

This is just as true in an exchange economy. If William grows wheat and Robert makes radio and Harry builds houses, they don't throw their production into a common pool and wait for a government or someone else to distribute it back to them in so-called "fair" proportions. Each voluntarily exchanges his production of one particular commodity or service for an equal value of varied commodities or services in the proportions that he wants them for his own use. As a result each gets, not the precise product he makes himself, but its equivalent value in varied products. Under free enterprise "distribution" is not something entirely separate from "production." There is production and there is exchange of that production. Exchanging value for value, each ends up with the value that he has himself contributed to production. Under this system, each has the maximum incentive to produce.

But when somebody, like the State, steps in to redistribute the fruits of production, production itself is destroyed. If A has been producing 10 times as much as B, and both are told that from now on each will get an equal share of their combined production, both will cut down their production. A will see no point in continuing to produce more than he is going to be allowed to retain. Even B will have less incentive to produce, because he will expect part of A's production.

In the modern world goods are

\*Opening statement of Mr. Hazlitt at the Town Meeting of the Chamber of Commerce of the U. S., Washington, D. C., April 29, 1948.



Henry Hazlitt

produced not to be exchanged directly but indirectly through the medium of money. In acting as a medium of exchange money performs another function hardly less important. It serves as a common standard for measuring and comparing values. It makes possible accounting; that is to say, it makes it possible to determine whether or not production is profitable.

This is of vital importance. If costs of production exceed the value of the goods produced, this means that the labor, capital and raw materials used up in making those goods have a greater value than the goods themselves. This means that such production has been misdirected. It should never have been undertaken. On net balance such production is not production at all. It represents a destruction rather than a creation of values.

Profit, therefore, performs two vital functions. It tells us in any particular instance whether or not production on net balance has actually taken place. And it directs

production into the proper channels, by pointing to the directions in which the greatest relative shortages exist. It provides the maximum incentives for production precisely where those greatest relative shortages exist. It penalizes production in lines where there is a relative surplus.

Yet today a strange thing has happened. Profits, though always uncertain, and likely at any moment to become losses, are today regarded as sinful. Only wages are virtuous. But when we look up the figures, we find that profits constitute an astonishingly small proportion of the national income. In 1947 corporate profits after taxes amounted to 8 1/2% of the national income, in 1946 to 7%, in 1945 to 5%. Even in 1929 they were less than 10%. In 1931, 1932 and 1933 they were actually a negative sum. Yet though profits take only a minute fraction of the total national income in relation to the vital and indispensable role they play in making that whole national income possible, it has become fashionable to rail against even this minute fraction. People who do this are just about as sensible as those who would propose throwing the spark plugs out of an automobile on the ground that they constitute too much weight for the car to carry.

Profits not only make production possible, but they bring about a fluid balance in the production of thousands of different commodities and services. It is the relative profits and losses of different industries that are constantly driving production out of one line and drawing it into others. It is this process that government planners

and price fixers have never understood. Not only does price fixing discourage overall production, but it leads to a huge misdirection and a great unbalance of production. Under pricefixing, production in terms of the goods consumers want is even lower than mere overall statistical comparisons can show.

Production is made by free wages, free prices, and free profits. It is because of its relatively free market that the United States has been the most productive country in the world.

But there is another reason. Until recent years, we have had, as a result of the incentives, industry and enterprise made possible by the freedom of the market, the world's highest volume of capital accumulation. It is our inventiveness, and our great accumulation and investment of capital, that have made American wages the highest in the world, by putting more and better machines and tools in the hands of the worker and increasing his productivity. It has been calculated that behind each industrial job in this country there is an average capital investment of more than \$5,000. In at least one major industry this average ranges as high as \$17,000 per job. It is this system that we have been working to destroy in recent years by crushing taxation both of corporations and of individuals. Corporate taxes of nearly 40%, and individual taxes running as high as 86% have been drying up not only the incentive to invest but the funds out of which investment is possible. In real terms we

have been consuming our capital and not increasing it.

It is because they do not understand what makes the production on which we all depend that well-meaning reformers and politicians all over the world have been busily destroying the incentives to production and the sources of production. They have been trying to distribute wealth and income "equally" or "fairly" without stopping to inquire what it is that brings wealth and income into existence in the first place. The lesson that we must learn once more is that the size of our total production is incomparably more important to the common man than any possible redistribution of it.

## Two New Members Of Moreland Firm

DETROIT, MICH. — Paul I. Moreland, President of Moreland & Co., investment brokers, announces the admission of Valette R. Eis and A. Vaughan Herrick to the firm. Eis, long-time "Griswold Streeter" and a member of the Detroit Stock Exchange since 1930, will be a Vice-President and Director and in charge of the firm's floor trading activities. Herrick, manager of the Moreland Bay City office, will be a Director. Walter Eis is joining the firm's sales department. Moreland & Co., with offices in the Penobscot Building and branches in Lansing, Muskegon and Bay City, is a member of the Detroit Stock Exchange.

*This is under no circumstances to be construed as an offering of these Securities for sale, or as an offer to buy, or as a solicitation of an offer to buy, any of such Securities. The offer is made only by means of the Prospectus.*

NEW ISSUE

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May 5, 1948

**With Slayton & Co.**  
(Special to THE FINANCIAL CHRONICLE)  
 ST. LOUIS, MO.—Clarence F. Krone has become affiliated with Slayton & Co., Inc., 408 Olive Street.

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# Mutual Funds

By HENRY HUNT

## A Sales Approach

For the benefit of salesmen who are selling mutual funds for the first time, we are suggesting a sales approach for the initial interview with the prospect:

Assuming that you are selling a common stock fund, place a copy of the portfolio of the fund before your prospect, and ask: "How would you like to own an interest in all of these companies, Mr. Adams?"

After giving the prospect time to look over the portfolio, the following points should be made:

(1) Whether Mr. Adams' surplus capital is \$100 or \$100,000, he can obtain an interest in all of these companies through a single investment.

(2) Furthermore, he will receive his pro rata share of dividends, less expenses, in four quarterly checks, instead of a couple of hundred tiny ones—if he could afford to purchase all the underlying stocks.

(3) This is the kind of offering that he can buy, put away, and forget about, as he will enjoy continuous supervision of the portfolio by professional analysts, who devote their entire working time toward the elimination of any underlying security that appears to be in a weakening position, and the addition of more promising equities.

(4) He will obtain the wide diversification of risk adopted by every large estate, insurance company, or trust fund in the investment of their funds.

(5) In the event that he has to raise some cash, his shares enjoy the best of marketability on any business day.

(6) The systematic purchase of such an offering would enable him to leave an estate for his family with the knowledge that they will receive continuous dividends throughout their life time, and that of their heirs as well.

The above is not a comprehensive list of sales points on mutual funds. However, at the first interview, an experienced salesman does not give the pros-

pect more than he can digest at one sitting.

### Herrick, Waddell Doing Good Job

One of the smaller funds that has shown rapid growth in recent months is **United Income Shares**, distributed by **Herrick, Waddell & Co.**, of New York. Since the beginning of 1947, **United Income Shares**, currently 90% invested in common stocks, has nearly doubled in size with present assets approximately \$14 million.

This fund, organized in 1940, is one of the few sold solely through a retail organization. Last year, its ratio of redemptions to sales was only 4%, as compared with a national average of 34%. Congratulations, Barrett and Chauncey. That's what we call selling mutual fund shares the way they should be sold—for long-term holding.

### Outlook for Utilities

Calvin Bullock's April 15 issue of "Perspective" discusses public utility stocks and concludes as follows:

"If the electric utilities are to register any appreciable gain in earning power it is essential the costs stabilize. If revenue and expense trends in evidence throughout 1947 continue through 1948 and effect is given to probable increases in capitalization incident to construction it is not unlikely that common share earnings in 1948 might average 10% to 12% below 1947. A shrinkage of such proportions, except in isolated instances, would not affect present dividend rates which afford generous yields. Thus, as of April 1, a group of 66 electric operating company common stocks were selling in the open market at an average price of 25½ to yield 6.4% on the average current div-

idend rate of \$1.64. Latter is equal to 69% of average 1947 share earnings of \$2.37 (\$2.42 in 1946) and the average price is 10.8 times share earnings. A 10% to 12% contraction in earnings in 1948, a conservative approach, would lower average share earnings to \$2.09-\$2.13, about 29% greater than the present average dividend rate. Balancing all the factors, we believe that selected utilities are entitled to a place in well-rounded investment accounts for their defensive characteristic and dependable income, but suggest that the need for discrimination is today probably greater than at any time in recent years."

### Record Demand for Oil

The following excerpt from the "Wall Street Journal" cites a few reasons why the demand for oil is at new peak levels:

"A P-51 fighter plane of World War II burned about 65 gallons of fuel per hour; current jet-powered counterpart takes 300 to 500. . . . In '41, 2.4 million home-size oil furnaces were in use; now there are over 3.5 million. Industrial users of heavy fuel oil were using 288,000 furnaces in '41; now 432,000 of them are roaring."

(Quoted from "These Things Seemed Important," issued by Selected Investments Company of Chicago.)

### Wealth and Women

According to the Institute of Life Insurance, American women own:

- (1) 40% of the 30 million U. S. homes.
- (2) 48% of the stock in U. S. railroads.
- (3) 70% of the nation's private wealth.

It looks as if our American women should be a logical and fertile field for mutual fund salesmen.

## Courts & Co. Offers Genuine Paris Stock

A syndicate headed by Courts & Co. on May 4 offered 150,000 shares common stock of **Genuine Paris Co.** (par \$5). The offering price was \$11 per share.

This Georgia corporation, whose headquarters are in Atlanta, has been engaged in the business of distributing wholesale automotive parts and supplies since 1928. Five warehouses, 29 jobbing stores and one parts rebuilding plant are directly operated by the company to serve areas in Georgia, Alabama, Mississippi, Louisiana, Arkansas, Tennessee, North Carolina, South Carolina, New York, New Jersey, and Connecticut.

Genuine Parts Co., which was founded by Carlyle Fraser, its present Board Chairman, began as a single supply house in Atlanta with an original capital of \$40,000. Its expansion has been financed primarily through reinvestment of retained earnings. Gross sales in 1928 were \$75,129. In 1947, they were \$18,531,472. Capital and surplus at end of the latter year was \$3,029,334.

Present financing will retire all outstanding debt and place the company in position to further expand on a sound basis in areas now covered.

## NEW ENGLAND FUND

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## N. Y. Economic Club Appoints Eckerman

The appointment of Dwight Eckerman to the position of Executive Director of the Economic Club of New York was announced by Theodore

M. Rennie, President of the club. Mr. Eckerman succeeds Robert E. Ely, one of the founders of the club, who retired last year after serving as Executive Director for 40 years.



Dwight Eckerman

Mr. Eckerman was educated at Monmouth College and Yale University. For the past several years he has been engaged in public relations work in New York. Before that he was editor of the New Haven "Journal-Courier," one of the country's oldest daily newspapers. Previously he was head debate coach at Michigan State College. He was born in Washington, Iowa.

Since the Economic Club of New York was founded in 1907, speakers who have appeared on its platform have included Presidents of the United States, members of the Supreme Court, Cabinet officials, Governors, business executives and other prominent figures. The club serves as a non-partisan forum for the discussion of economic and social subjects. Membership includes leaders of business, industry, finance and the professions, principally from New York City.

## N. Y. Reserve Bank Issues Text of Treasury Rule on Swiss Accounts

The Foreign Exchange Committee of the Federal Reserve Bank of New York has received the following letter, dated April 28, 1948, from the Treasury Department:

"In our recently concluded discussions with the Swiss Delegation, it was agreed that the principle of General License No. 97 be applied to Swiss omnibus accounts, provided that the Swiss Compensation Office states in writing to the American custodians of the assets, the correctness of the representations by the respective Swiss banks that the amounts which are the subject of the unblocking instructions represent the aggregate value of only those accounts on the books of the respective Swiss banks which contain property valued on Aug. 1, 1947 at \$5,000 or less and are owned beneficially by persons whose property is eligible for unblocking under General License No. 97.

"Accordingly, you are requested to advise banks and other interested persons that any statement of the type described above signed by the Swiss Compensation Office on or before Sept. 1, 1948 shall be effective for unblocking the property designated therein.

For the purpose of this arrangement, all dollar accounts held for any one person by any Swiss bank are regarded as constituting one account."

## At MacNaughton-Greenawalt

(Special to THE FINANCIAL CHRONICLE)  
 GRAND RAPIDS, MICH.—Donald J. Haga has been added to the staff of MacNaughton-Greenawalt & Co., Michigan Trust Building, members of the Detroit Stock Exchange.

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**THE PARKER CORPORATION**  
 ONE COURT STREET, BOSTON 8, MASS.

# Hardy Holds International Relations No. 1 Problem

Staff Director of Joint Committee on Economic Report says great risk is not that we may lose a war but that essence of democratic economic and political system may be destroyed. Praises reconversion accomplishments.

At the Town Meeting of the Chamber of Commerce of the United States in Washington, D. C., on April 29, Dr. Charles O. Hardy, economist and Staff Director of the Joint Congressional Committee on the Economic Report, in a symposium on "What Makes Production?" maintained



Charles O. Hardy

that international relations are our No. 1 problem. "No economic group," Dr. Hardy stated, "has yet consented to any measure of stabilization that will reduce its own share of total output, or admitted that such action would increase total output. However, this point is academic until such formulae have been developed. "I agree with Mr. Street that 'power corrupts and absolute power corrupts absolutely.' "I have four points, partly growing out of what has been said, which I want to emphasize.

"(1) The No. 1 problem is international relations, and under present conditions this is infinitely more important than any internal economic question. The frictions which threaten the peace of the world, moreover, are not economic questions; they are questions of ideology. Absolute power threatens peace, and dogmatic convictions which are held more dearly than economic prosperity, or life itself, also threaten peace. "The great risk which confronts us is not that we shall lose a war, but that either we shall win a war and in winning it destroy the essence of our democratic economic and political system—as Russia has already lost the essence of Socialism—or, alternatively, that the world will develop a type of civilization in which there is no real peace and no real war—no real distinction between peace and war, in which there will be constant pressure to sacrifice democratic government and the free market economy to the ever-increasing demands of the State, more or less justified by the ever-increasing responsibilities of the State abroad and at home.

"(2) I agree with Mr. Street about the terrific plight of the British. Britain is the outpost—the frontier guard—of freedom. In case of war their position looks hopeless; in case of peace scarcely less hopeless. Britain has built up a population dependent for two-thirds of its food supply on imports. For such imports it is traditionally paid by overseas trade and the proceeds of overseas investment, an exchange which was possible when, under British leadership, the civilized world was committed to relatively free international trade, international investment, and international peace. Now, again under British leadership, the world has drifted strongly to economic isolationism, abandoning the free market and the international financial policies which make overseas investment possible.

"(3) Domestically, America has done a great job of reconversion. We should stop apologizing for our postwar program. The record of the last three years is one of full employment and high production; we have raised the standard of living of the mass of the population, greatly increased domestic investment and broken all peacetime records for net exports. At the same time the government has

balanced its budget and paid off a small fraction of its debt. We have done this, not by expanding the area of government control, but by removing controls faster than did any other country in the world. This, in my judgment, is the explanation of the world dollar shortage. Dollars are short because the world looks to us for food, for the tools of production, and the means of defense. Such inflation as we have had, is a small price to pay for the economic achievements of 1945-1948.

"(4) We have maintained an island of freedom in a world that is rushing to political and economic authoritarianism. It is no accident that the stronghold of democracy, the chief defense of international peace, and the last refuge of capitalism are in the same country. The period of historic capitalism is the only period of rapid economic progress, the development of toleration of free speech, of respect for law and property, and of humanitarianism. These things are all an outgrowth of the same basic attitudes, which developed as a reaction against feudalism, absolutism, guild controls of trade and industry, mercantilism, the doctrines of a just price and the sinfulness of interest-taking, internal trade barriers, and constant warfare. Adam Smith in economics, and Roger Williams in religion and Bentham and Thomas Jefferson in politics, preached the same fundamental truth. But there is great danger that we shall lose our faith in the institutions that have made America great, and rush to the nostrums developed in the decaying civilizations of the old world."

## Lynch Wholesale Mgr. For Carreau & Co.

Carreau & Co., 63 Wall Street New York City, members of the New York Stock Exchange, announce that Frank R. V. Lynch has become associated with the firm as manager of its wholesale department.

Since termination of active duty in the U. S. Naval Aviation Reserve Service, where he was on the staff of Commander Air Force Atlantic Fleet, and later Senior Air Controller, Northwest Sector, Mr. Lynch has been associated with Van Alstyne, Noel & Co. in the buying department.

Prior to World War II, his principal interests were in the paper manufacturing and publishing industries. He has in the past been a Vice-President and Director of the Munising Paper Co.; Comptroller of The Butterick Publishing Co. and business manager and assistant publisher of "Nation's Business." He was formerly a director of the General Bronze Co. and is presently a director and member of the Executive Committee of Sterling, Inc.

Mr. Lynch served as an officer in both World Wars in the Naval Aviation branch of the U. S. Navy. He was a member of the "First Yale Unit" and qualified among the first one hundred designated Naval Aviators.

**With Geo. C. Lane & Co.**  
(Special to THE FINANCIAL CHRONICLE)  
NEW HAVEN, CONN.—Fredrick G. Allen is with George C. Lane & Co., Inc., 70 College St.

## Documentary Film of Natural Gas Industry Prepared for Public

The first documentary film to tell a comprehensive story of the natural gas industry is being readied for release to non-commercial audiences by The Columbia Gas System.

Titled "Eternal Flame," the film was shown at a special preview to an audience of financial news writers and analysts of New York insurance and financial institutions. The story was photographed in full color with sound, dialogue and narration and covers nearly every phase of natural gas production and distribution.

"Most users of gas," said Stuart M. Crocker, President of The Columbia Gas System, Inc., parent of the System's operating companies, "are unaware of the magnitude of the operations which bring them this fuel at the turn of a hand. We set out to bring them the story of these operations; some of the drama and a few of the problems that are met in providing gas to millions of homes and industries over the country. It is not Columbia's story alone, but the story of any large gas distribution system in operation."

The film is being distributed for exhibition through operating groups of the Columbia System, operating in Ohio, Pennsylvania, New York, Maryland, Kentucky, West Virginia and Virginia. It will also be available to small groups in New York City. It was produced by Wilding Picture Productions under the supervision of Columbia's agency, Cecil & Presbrey, Inc.

**With A. M. Kidder & Co.**  
(Special to THE FINANCIAL CHRONICLE)  
FT. LAUDERDALE, FLA.—Garland P. Wright has become affiliated with A. M. Kidder & Co., Fort Lauderdale National Bank Building. He was formerly with Daniel F. Rice & Co. and Merrill Lynch, Pierce, Fenner & Beane.

## Murray vs. Third Parties

"The Third party in the United States of America is a divisionist party created for the purpose of causing confusion and dissension and undermining the labor movement of the United States.

"There can be no question about that. The Third party was created by people who are not in the labor movement. It was thrust upon the American people by organizations that have no interest in the labor movement, and its creation was deliberate in the sense that its propagators and its creators sought to impose the Third party idea on the American people for the deliberate purpose of creating confusion and division in our country.



Philip Murray

"A reflection of what has transpired with reference to the Third party activities in the United States in the course of the past few months is to be found in almost every community throughout this country, where trade unionists are oftentimes found to be against each other fighting each other and quarreling and bickering about political matters and about political candidates and about Third parties, thereby bringing about the desired hopes of the propagators of Third party ideas in the United States of America.

"This is no time to mince words. I charge in this mighty convention that the Communist party is directly responsible for the organization of a Third party in the United States."—Philip Murray.

Mr. Murray's allegation seems a trifle absurd to us, although we make no claim to much knowledge of the subject — and admit little interest in it.

What concerns us a great deal more is the conduct of the party, which presumably is believed by Mr. Murray to "have an interest in the labor movement," and in the activities of its supporters such as Mr. Murray and his followers.

Their essential un-Americanism is far more damaging and dangerous than that of the Third party conglomerations.

*This advertisement appears as a matter of record only and is under no circumstances to be construed as an offering of these shares for sale, or as an offer to buy, or as a solicitation of an offer to buy, any of such shares. The offering is made only by the Prospectus.*

150,000 Shares  
**Idaho Power Company**  
Common Stock  
(\$20 Par Value)

Price \$31.50 per share

*Copies of the Prospectus may be obtained from the undersigned only by persons to whom the undersigned may legally offer these shares under applicable securities laws.*

Blyth & Co., Inc.

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Central Republic Company  
(Incorporated)

May 6, 1948

## Senator McCarran Wants Free Gold Market

Introduces bill in Senate permitting transactions in gold in U. S. and its territories and allowing gold exports without licenses or restrictions.

Senator Pat McCarran (Dem.-Nev.) on April 28, introduced in the Senate a bill that would nullify the late President Franklin D. Roosevelt's Executive Order nationalizing gold and prohibiting purchase, sale or export of the metal without special license. According to a statement issued by Sen. McCarran:



Sen. Pat McCarran

"I have been asked to comment on my bill S. 2583, which I introduced April 28, to permit the sale of gold within the United States, its Territories, and possessions, including Alaska, and for other purposes.

"The bill would establish a free market for gold either (1) mined in the United States, its Territories and possessions, including Alaska, or (2) imported into the United States, subsequent to enactment of the proposed legislation; and would permit free and unrestricted export of such gold. "My bill also implements the President's anti-inflation program."

Continuing his explanation for introducing the bill, the Senator states:

"The Federal Reserve Board has been complaining that authority is needed to increase bank reserves because of the large imports of gold which add to bank reserves and bank deposits and increase inflationary pressures on the money supply and goods. The Board points to the fact that during the fiscal year from July 1, 1947, to date, the Treasury has had a cash surplus of \$7 billion, most of which developed from December through March. Through December the surplus was an even billion dollars; in January, \$1.4 billion; February \$1.9 billion, March, \$2.8 billion surplus; and for the first 26 days of April, a deficit of \$286 million. When these surpluses are added up and after subtracting the deficit in April, they amount to approximately \$7 billion. This represents a total surplus for the year, as the other months just about balanced out. The Board points out that in order to buy \$2 billion of imported gold during the fiscal year they had to contract the money supply by reducing bank deposits.

"The excess of Treasury receipts over expenditures was used to offset increased bank reserves and bank deposits influenced by the imported gold. There was a reduction of about \$0.5 billion in currency which had to be offset. The Board contends that upon these reserves of currency or gold a six-to-one expansion of bank credits would take place.

"Imports of gold are estimated for the next 12 months at \$2 or \$3 billion and I am interested in avoiding the resultant inflationary pressures, which serve as a basis for a six-to-one expansion of bank credit and deposits.

"Gold was sterilized in 1937 and 1938, meaning that contracts for the payment of gold were invalidated, possession of gold coin or gold certificates was outlawed, and the gold was buried at Fort Knox and was not allowed to get into the banking system. In order to sterilize the gold at that time, the Treasury had to go into the money market and borrow an amount of money equal to the value of the sterilized gold and had to pay interest on the money; it was an expensive proposition. During 1937-38 when we did not want this gold to get into the monetary system we had a gold stock of only \$12 to \$13 billion.

As a result, in 1937-38, when we had only half of our present monetary gold stock, it was deemed desirable to prevent more gold from going into the monetary system, thus preventing the creation of further inflationary pressures.

"There is no need to borrow money, and we can accomplish the same results by not permitting additional gold to get into the monetary system at all.

"I commend the Treasury Savings Bond Campaign now underway (during April and May). These bonds will immobilize 'hot' dollars, and are cashable on 60 days' notice. Newly-mined and imported gold, if held by individuals, will serve the same purpose, and provides a reserve for a future rainy day, just as Savings Bonds do. In the case of gold no payment of interest is involved and, therefore, it is considerably cheaper for our government to immobilize inflationary dollars by permitting gold to be privately owned.

"When money is tied up in gold it is not likely to be spent easily. In either case the gold is not spent, but a portion of the Savings Bonds will be turned in to the Treasury for dollars.

"When free-market gold is brought into the picture, any individual or firm buying the metal would exchange his dollars for gold, but no new dollars would be created. It would just be an exchange of the existing supply of dollars between individuals. It would not reduce bank reserves or bank deposits; it would not contribute to the creation of any additional money, and, consequently would be anti-inflationary.

"This method of treating the problem of increasing the money supply and bank reserves would reduce substantially demands upon the Treasury under the law requiring the Treasury to buy all newly-mined and imported gold at \$35 an ounce, and automatically makes unnecessary the imposition of any further government controls; and does this without changing our banking structure in any way. Thus the gold would not enter into the money supply and it would not be necessary to impose any elaborate control on the banking system.

"No question would arise as to the confidence of the public in the currency of the United States since the dollar is the only currency that will buy things in any quantity anywhere without serious restrictions.

"In every boom period in world history the gold miner has been pinched between rising costs for labor and materials and a fixed price for his product. The Economic Cooperation Administration and the State Department have given a great deal of thought to stabilizing currencies in other countries, chiefly in Europe, and gold is essential to the establishment of public confidence in order that paper money is made acceptable.

"The reestablishment of the stability of European currencies, which we must concede will be a matter of years rather than months, requires the largest possible supply of gold, and any incentive of a higher price for bullion will tend to stimulate the world's production. A large gold supply is particularly essential now in establishing confidence in paper currencies since we have such a huge supply of paper money, much of which has al-

ready lost a large proportion of its value.

"A free gold market would not change the obligation of the Treasury to buy all gold offered at \$35 an ounce, nor would it require the United States to sell any gold at all, or to redeem any currency in gold. The Treasury could still retain \$23 billion in monetary gold without any obligation to sell any of it or to redeem any currency with it, and the Treasury would be freed of the necessity of buying any new gold at a price above \$35 an ounce.

"It would not affect in any way the management of the public debt; it would not require the purchase of outstanding bonds, affect the interest rate or the price of bonds.

"The position of other countries that have exchange controls imposed on the flow of funds would not be affected in any way because gold can only reach this country if it is legally exported.

"Enactment of my bill (S. 2583) will enable the President to reach the objective he has in mind, and I believe it expresses the views of many members of Congress who would prefer to accomplish these results without establishing an elaborate system of controls. This would also accomplish the same results that the Reserve Board hoped for by instituting an elaborate system of controls over the banking and monetary systems."

The text of Sen. McCarran's bill follows:

### A BILL

To permit the sale of gold within the United States, its Territories, and possessions, including Alaska, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding any law or Executive order, gold in any form, mined subsequent to the enactment of this Act within the United States, its Territories, and possessions including Alaska, may be bought, held, sold, or traded upon the open market within the United States, its Territories, and possessions, including Alaska, for any purpose whatsoever, and may be exported without the imposition of duties, excise taxes, the requirement of licenses, permits, or any restrictions whatsoever.

SEC. 2. Gold imported into the United States after the effective date of this Act may be held, bought, sold, or traded upon the open market within the United States, its Territories, and possessions, including Alaska, for any purpose whatsoever, and may be exported without the imposition of duties, excise taxes, the requirement of licenses, permits, or any restrictions whatsoever.

### With Kidder in Jacksonville

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, FLA.—Mrs. Margaret D. Camp has been added to the staff of A. M. Kidder & Co., Barnett National Bank Building.

### Kidder Adds in Tampa

(Special to THE FINANCIAL CHRONICLE)

TAMPA, FLA.—A. M. Kidder & Co., 563 Florida Avenue, have added Francis C. Bidwell to their staff.

### With Barclay Investm't Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Allan E. Nielsen has become connected with Barclay Investment Co., 39 South La Salle Street.

## N. Y. Chamber of Commerce Recommends No Change in Monetary Standard

In report on proposal of Col. E. J. W. Proffitt, its Committee on Finance and Currency, headed by John M. Schiff, reviews history of gold standard and present international situation and recommends immediate withdrawal of President's authority to alter gold content of dollar.

The Committee on Currency and Finance of the Chamber of Commerce of the State of New York which, for several months, has had under consideration a proposal of Col. E. J. W. Proffitt to recommend a return to the gold coin standard by the United States, has issued a report, which accompanies a resolution advocating that in view of unsettled international conditions no changes be made in present monetary legislation beyond the repeal of the authority given the President under the Gold Reserve Act of 1934, to alter the gold content of the dollar.



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### Text of Report

The text of the Committee's report follows:

The Committee on Finance and Currency has had the desirability of the nation's returning to a full gold standard under consideration since January 1947.

At that time Colonel Edward J. W. Proffitt brought the matter to the Chamber's attention, and the Committee was directed to study the subject. A meeting of the Committee was held on Jan. 22, 1947, which Colonel Proffitt attended by invitation. It was decided that because of the subject's controversial nature, it should be investigated further, so as to bring out the considerations on both sides of the question.

Such an investigation was made by the Chamber's Research Department, including several days work in Washington. The results of this investigation were reviewed by the Committee at a meeting on February 24, 1947, and because the International Monetary Fund was scheduled to go into operation March 1, the Committee believed it inappropriate at that time to offer a resolution upon the subject for the Chamber's consideration. The Committee's Chairman reported to that effect at the meeting of the Executive Committee on Feb. 25, and that Committee concurred.

In March 1947 Colonel Proffitt again brought the subject to the Chamber's attention. At that time a report was made on behalf of the Committee on Finance and Currency as to the studies which the Committee had in progress, and also as to the decision which had been reached at its meeting on Feb. 24. The Committee was urged to continue its studies along the lines suggested in his new resolution.

In January 1948 Colonel Proffitt again urged the Chamber to take action.

In response to this request, the Committee on Finance and Currency submitted a report to the Chamber at its February 1948 meeting in which it concluded "that it would be premature to return to the gold standard at this time" and recommended "that the resolution of Colonel Proffitt should be tabled." The Chairman of the Committee on Finance and Currency read a letter which he had received from Colonel Proffitt agreeing to such a disposal of the subject. He pointed out, however, that in view of more recent developments, particularly the opening of a free gold market in France, he was requesting the Chamber's permission to withdraw his Committee's report and

study the subject further. Other members of the Committee who were present agreed as to the desirability of such further study. Captain John B. Trevor and C. Oliver Wellington voiced opposition to the Committee's original recommendation, and agreed as to the desirability of further study.

To clarify its own thinking upon the subject the Committee held a series of meetings with informed individuals who could furnish it with information both "for" and "against" a return to the gold standard.

As a result of these conferences the Committee presents the above resolutions and the following report.

### History of Gold Standard

The gold standard seems to have originated in the Byzantine Empire during the Middle Ages. From there it was brought by the Crusaders to the Italian mercantile cities (Florence and Venice). In those cities, however, gold was used only by the merchants—the silver standard still was official.

The gold standard was used in England as early as 1717. It made little headway, however, in other European countries and in other parts of the world. In 1785 France went on a bimetallic standard (silver and gold), and in 1847 Holland reverted from bimetalism to the silver standard.

Prior to the Civil War the United States also was on a bimetallic standard. Because of gold's more favorable ratio to silver in France, however, gold tended to gravitate to that country, and virtually none came to the United States. To bring gold to the United States, the ratio was changed in 1834. The new ratio operated very well, and attracted great quantities of gold to this country.

This experience shows clearly the effectiveness of monetary policy and human management in bringing about fundamental changes in a nation's monetary system.

The quarter-century from 1848 to 1871 was marked by wars and revolutions in Europe and the Civil War in this country. Most of the important countries abandoned their established monetary systems and resorted to paper money. At the end of this period, however, the silver standard still was in effect throughout Europe and the East.

### Trend Toward Worldwide Gold Standard

The trend toward a worldwide gold standard started in Germany in 1871. With the huge sums of money collected from France as indemnity from the Franco-Prussian war, Germany decided to go on the gold standard. To do so, it bought gold in huge quantities in the international markets and sold silver in equally large quantities. The unloading of such large quantities of silver on the world market depreciated the value of the silver which served as the basis of the currency in all of the countries which then were on that standard. In self-defense, therefore, to prevent Germany from obtaining all of

R. G. Hawtrey, *The Gold Standard in Theory and Practice*, 5th edition, 1947, p. 65. All of the historical material with regard to the silver and the gold standard is taken from this source.

(Continued on page 42)

## Reports Drain on Foreign Gold and Dollar Holdings

Federal Reserve Bulletin points out "sharp acceleration" in foreign gold losses and steady increase in U. S. gold reserve in 1947. U. S. now owns 60% of monetary gold, exclusive of 5% held by International Monetary Fund. Finds gold holdings have expansionary effects upon monetary factors in U. S.

The April issue of the Federal Reserve Bulletin, published by the Board of Governors of the Federal Reserve System has a leading article covering the postwar drain on foreign gold and dollar reserves and the consequent increase in the U. S. gold reserve in 1947. According to the article:

Foreign gold and dollar reserves were built up to an unprecedentedly high level during the war, when Lend-Lease operations were taking care of a large portion of foreign requirements, especially in Europe, and when many countries in the Western Hemisphere and elsewhere found it impossible to spend their current dollar earnings because of supply shortages. Since the end of 1945, however, these reserves have had to be liquidated on a large scale, mainly to pay for United States exports which could not be financed in other ways. Total foreign holdings of central gold reserves and of banking funds in the United States, which increased from 12 billion dollars to nearly 23 billion during 1939-45, declined again during 1946 and 1947 to around 16 billion.

Although still larger in money terms than before the war, in terms of purchasing power foreign holdings of gold and dollars at the end of 1947 were less than half what they had been in 1938. Furthermore, the large concentration of reserves among a few countries from which the world was already suffering before the war, has been accentuated in some respects by war and postwar developments. Despite the additional source of funds which has been provided to foreign countries through the creation of the International Monetary Fund, most of the world finds itself very inadequately equipped with liquid gold and dollar resources. Only a few countries now hold gold and dollar reserves in an amount sufficient to provide them with reasonable liquidity in their international transactions.

The gold inflow into the United States and the liquidation of foreign dollar balances in the United States have had significant expansionary effects upon the domestic monetary and credit situation.

### United States Exports and Sources of Financing

Since the end of the war foreign countries have had to rely upon the United States to an unprecedented degree as a source of supply for food, raw materials, and manufactured equipment and supplies. United States exports of goods and services amounted to 15 billion dollars in 1946 and reached 20 billion in 1947. Relief and reconstruction in large areas of Europe and the Far East have absorbed immense quantities of these exports. In addition, countries which escaped war damage and disruption, notably those in the West Hemisphere, have made heavy demands upon United States production because of their high levels of domestic income, their large deferred demands for many products, and the slow recovery of other sources of supply.

Less than half of total exports could be paid for currently by funds derived from foreign sales of goods and services to the United States. The balance, amounting to over 19 billion dollars during the two-year period, placed a heavy strain upon the various sources of dollar financing available to foreign countries. A summary table of the international transactions of foreign countries in 1946-47 affecting their gold and dollar holdings is given at the end of this article.

United States exports, imports, and the export surplus in the

light quarters of 1946 and 1947 are shown in the accompanying chart. Exports of goods and services were 28% larger in 1947 than in 1946. At the peak in the second quarter of 1947, they were moving at an annual rate of 21 billion dollars.

The marked increase in the dollar volume of merchandise exports last year was made possible by the expanded physical capacity of the United States to produce for export, but it also reflected a substantial rise in export prices. Merchandise imports, on the other hand, were only slightly larger in 1947 than in 1946, and the entire growth was accounted for by increased import prices. In relation to national income, imports into the United States have been much smaller than before the war. This lag in imports is primarily a reflection of production and supply difficulties abroad, particularly in Europe. Merchandise imports from Europe, which in the interwar years accounted for between 40 and 50% of all imports of goods by the United States, amounted to only 15% of the total in 1947.

The export surplus has been financed in large part by grants and credits extended by the United States Government, as may be readily seen in the accompanying chart. In fact, government aid programs covered nearly one-third of total United States exports during the two years 1946-47. Of the net exports not financed from this source, some part has been paid for by an outflow of private gifts and investments from the United States; by loans from the International Bank, which commenced active operations in 1947; and by the liquidation of miscellaneous foreign-owned assets in the United States. Much the larger part, however, has necessitated drafts upon the gold and dollar reserves of foreign countries: i.e. their central gold reserves, their holdings (both official and private) of banking funds in the United States, and—since early in 1947—their drawing rights upon the International Monetary Fund. The drafts upon these reserves may be regarded, from the point of view of foreign countries, as the final balancing item in their transactions with the United States. In addition, foreign countries have had to make drafts upon their gold reserves in the process of setting up the Fund and establishing their drawing rights upon that institution.

### Nature of Foreign Gold and Dollar Reserves

The specific categories of resources included in "foreign gold and dollar reserves" form a convenient grouping for purposes of analysis even though they cannot be sharply distinguished from other types of gold and dollar assets.

Central gold reserves, i.e. gold holdings of foreign monetary authorities, may be supplemented in some cases by private gold hoards. Under present conditions, however, foreign countries can scarcely rely upon such hoards as a potential resource for making international payments, and in any case reliable data regarding them are not available.

Foreign banking funds in the United States represent a regularly reported statistical series covering all short-term claims, i.e.,

(Continued on page 40)

## James Imhof Joins First California Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—James R. Imhof has become associated with First California Co.,



James R. Imhof

300 Montgomery Street. In the past he was Manager of the trading department for Monasch & Co., and for Chapman & Co.

## McAndrew & Co. Open In San Francisco

SAN FRANCISCO, CALIF.—The San Francisco office of E. H. Rollins & Sons, Incorporated was closed as of April 30, according to Alexander McAndrew, Vice-President in charge. At the same time Mr. McAndrew announced his retirement from the Rollins organization and the formation of McAndrew & Co., Incorporated.

The new firm occupies the old Rollins quarters on the 19th floor of the Russ Building and will conduct a brokerage underwriting and investment banking business. Direct wire connections will be maintained with the Rollins offices in New York, Boston, Philadelphia and Chicago.

McAndrew & Co., Incorporated, will be composed of former Rollins associates. The board of directors and officers of the new firm will include, in addition to Mr. McAndrew, Baptiste Barthe, Earl G. Burns, August W. Carne, Robert H. Cummings, Hugh J. Jacks, Axton F. Jones, Kenneth R. Lynch, Thomas W. Price, William J. Quinn, F. F. Taylor and David S. Tucker.

## To Be Bioren & Co. Partner

PHILADELPHIA, PA.—Bioren & Co., 1508 Walnut Street, members of the New York and Philadelphia Stock Exchanges, will admit J. Raymond Leek to partnership on June 1.

# How to Find True Value Of Paper Dollar

By LEWIS HANEY\*

Professor of Economics, New York University

Dr. Haney states that although real value of dollar is what it will buy, we may turn to price of gold, commodities, labor, or foreign currencies to find this out.

There are at least four ways to find out what is the true value of the paper dollar (the only kind of dollar we have). We can find its value in: (1) gold; (2) commodities other than gold; (3) labor, and (4) other currencies—pounds, francs, etc. The real value of the dollar is what it will buy, and we may turn to gold, commodities, labor or foreign currencies to find this out.



Lewis H. Haney

At present, we don't know definitely what our paper dollar is worth in an objective way in any one of these respects.

In this country, there is no free gold market. We can't buy and sell gold freely, so we don't know how much gold a paper dollar would buy.

All we can do is to find out what foreigners pay for gold and for dollars, and thus guess at the true rate of exchange between the two.

To be sure, our Government has a fixed "buying price" which the Treasury pays for gold. This is \$35 per ounce. But that is an arbitrary arrangement, and represents no free or continuous market.

It is designed to "fix" the price of gold, rather than to find out what the dollar is worth.

### Probably Too Low

Originally, \$35 (paper) per gold ounce was much too high, and was part of the New Deal scheme to raise prices by depreciating dollars. Now, however, the \$35 treasury price of gold is probably much too low. This is the indication given by all foreign markets.

So we don't know what a paper dollar is worth in terms of gold. And even if we did, we wouldn't know what gold is worth in terms of other goods, because we can't have gold, and exchange it as we wish.

In order to find out what paper dollars are worth, or whether

\*Reprinted with permission from the "California Mining Journal," May, 1948.

"prices" are high or too low, we will have to establish free markets. Not till we do that, can we know these things.

First, we need free markets for commodities and for labor. This would require that the government quit supporting farm prices, and that organized labor monopolies be broken up.

### Free Gold Mart

How can we find out what a true dollar's worth of financial labor is when gangs of outside "goons" from the seamen's union mass picket and riot as I have seen them doing with my own eyes?

Second, we must have free markets for foreign exchange. Today, the government arbitrarily maintains "official" exchange rates that have no validity.

Third, and most important, we must have a free market for gold. This is our only hope for a standard of value that may be truly objective. Commodity prices we can only measure as partial and unreal "averages." Foreign exchange will always be "controlled."

Gold is one simple thing about which we can know, and all men can agree. A free gold market is our greatest need.

## Du Bois a Director

J. Delafield DuBois, Secretary of J. P. Morgan & Co. Inc., has been elected a member of the Board of Directors of Seaboard Surety Co., it is announced. Mr. DuBois was an Assistant Counsel to the Federal Reserve Board in Washington from 1933 to 1936 and later was associated with the law firm of Davis Polk Wardwell Gardiner & Reed. He was a Lieutenant Commander in the Navy during World War II.

## Marxer & Co. Adds

(Special to THE FINANCIAL CHRONICLE)  
SAGINAW, MICH.—Marxer & Co., Bearinger Building, has added George W. Weadock, II to their staff.

This announcement is not an offer to sell or a solicitation of an offer to buy these securities. The offering is made only by the Prospectus.

\$5,500,000

## New York State Electric & Gas Corporation

First Mortgage Bonds, 3% Series due 1978

Dated April 1, 1948

Due April 1, 1978

Price 100.75% and accrued interest

The Prospectus may be obtained in any State in which this announcement is circulated only from the undersigned and such other dealers as may lawfully offer these securities in such State.

**HALSEY, STUART & CO. Inc.**

May 5, 1948

## Wants Stable Prices as Protection of "Future Dollars" of Insurance Policyholders

Committee on Public Debt Policy, of which W. Randolph Burgess is Chairman, says Treasury and Federal Reserve can curb inflation, but in applying fiscal remedies, it must guard against deflation. Notes decline in investment earnings of life companies, 40% of whose assets comprise government securities.

The rapid rise of the national debt since 1940 has set up forces, inflationary and otherwise, which have placed increasingly severe burdens upon those who rely upon life insurance for protection, the Committee on Public Debt Policy finds in its sixth study of the national debt.



W. R. Burgess

problems made public on May 4. Three out of every four American families own life insurance, represented by policies amounting to \$191 billion, and millions of other people depend for some of their support on policies that have matured, the committee points out.

Because the cost of living has gone up, according to the study, a thousand dollars of life insurance buys much less in 1948 than it would have bought in 1941; also, because of higher living costs, and heavier taxes, large numbers of people cannot purchase the additional insurance they need; further, the net cost of insurance has risen because of the Government's policy of keeping interest rates at an extremely low level.

In order to preserve the value of the "future dollars" for which policyholders pay, it is urged that management of the public debt work towards economic stability and not towards either inflation or deflation. "As positive steps," says the committee, "the Treasury and the Federal Reserve have the power actively to combat inflationary trends by paying off the debt out of budget surpluses and by causing the possession of Treasury securities to shift gradually from commercial banks to other investors. Both steps tend to reduce the volume of money and bank deposits outstanding and to prevent the inflationary spiraling of money supply, prices and wages. Both, of course, have to be taken with care," to avoid deflationary influences.

The committee says that since rates on government securities set the pattern for rates not only on current new investments of insurance companies, but also through refunding operations, on the earnings on holdings already in their portfolios, the government's interest rate policy in the future will continue to affect the amount of dividends paid to policyholders and hence the net cost of insurance.

The study shows that since the early 1930s there has been a progressive downtrend in dividend scales of insurance companies. Thus, in 1930 policyholders received back as dividends 15.7% of their premiums, whereas dividends were less than 8.9% of their premiums 16 years later. The difference between these two figures, representing the added annual cost of insurance, is estimated at approximately \$390 million.

Although old policies could not be altered, many companies, according to the study, found it necessary to increase their premiums on new policies. The combined result has been that the net cost of carrying life insurance (the premiums less the dividends) was from 10 to 30% higher in 1946 than in 1930, depending on the type and plan of policy and the age of the insured at the time of its issuance.

Because of declines in the prevailing rate of interest, the study

finds, net investment earnings of a representative group of life insurance companies dropped from about 5% in 1930 to 2.9% in 1946. This reduction of about 40% is described as "a cut in the wages of securely invested savings."

Noting that interest rates on prime securities stiffened somewhat in 1947, the committee comments that this benefits life insurance only to the extent that new funds are invested at higher rates of return, and does not increase the investment income from the securities already in insurance portfolios. The committee says that even if the trend of interest rates is higher during the next few years, it seems unlikely that the overall investment return of life insurance companies will rise as rapidly as it declined during the 1930-1946 period.

Much of the effect of the war-bred inflation is described as part of the inevitable price that all of society paid for a great war, "but," says the committee, "the dilemmas created by a large national debt remain. While the compulsions of wartime finance have passed, our large national debt and expanded money supply continue as potential inflationary forces and call for wise and statesman-like debt management."

Life insurance companies hold about \$20 billion of government securities and compose the largest single group of purchasers of the long-term 2½% bonds issued during the Defense, War Loan and Victory drives, holding more than 36% of these bonds. 40% of the assets of the life insurance business is now invested in government securities.

The study was undertaken by Sherwin C. Badger, Second Vice-President and Financial Secretary of New England Mutual Life Insurance Co., was reviewed at various stages by the Committee on Public Debt Policy and appears with the committee's approval. W. Randolph Burgess, Chairman of the Executive Committee of National City Bank of New York, is the Committee Chairman, and its studies are financed by the Maurice and Laura Falk Foundation of Pittsburgh, which, however, assumes no responsibility for the findings.

## Alm, Kane, Rogers Co. Formed in Chicago

CHICAGO, ILL. — Announcement is made of the organization of a new Chicago investment house, Alm, Kane, Rogers & Co., to conduct a general securities business. Offices will be at 39 South La Salle Street. Paul E. Alm is President, Arthur W. Rogers and Vincent T. Kane, Vice-Presidents, Herbert G. Wickstrom, Treasurer, and Marion C. Freiburg, Secretary. All were formerly associated with C. L. Schmidt & Co., Inc. here.

The three principals of the new firm have been engaged in the investment business here for more than 25 years and are well-known in La Salle Street. Mr. Alm was Chairman last year for District No. 8 of the National Association of Securities Dealers.

Formation of the firm was previously reported in the "Chronicle" of April 22.

## William Johnson With Sutro & Co. in L. A.

(Special to THE FINANCIAL CHRONICLE)  
LOS ANGELES, CALIF.—William A. Johnson has become associated with Sutro & Co., Van Nuys



William A. Johnson

Building. Mr. Johnson was formerly Treasurer of John B. Dunbar & Co. and prior thereto was manager of the trading department for the Los Angeles office of Cruttenden & Co.

## Los Angeles Bond Club Field Day June 4

LOS ANGELES, CALIF.—June 4 has been selected at the date of the first annual field day of the Bond Club of Los Angeles, with the Bel-Air Country Club chosen as the locale for the event. A full program of golf, tennis, baseball and other athletic events is planned for the day, culminating with a dinner to be followed by entertainment at night.

There will be many prizes, awards for the athletic contests, etc.

General Chairman for the field day will be John B. Dunbar of John B. Dunbar & Co., who has selected as Committee Chairmen:

Golf Committee: Pat Patterson, Blyth & Co., Inc.

Attendance: A. C. Purkiss of Walston, Hoffman & Goodwin.

Publicity: Elwood J. Robinson, Elwood J. Robinson Advertising Agency.

Prizes and Trophies: Jo M. French, Blyth & Co., Inc.

Baseball: Stevens Manning, Blyth & Co., Inc.

Horse Shoe: Warren H. Crowell, Crowell, Weedon & Co.

Entertainment: F. Stuart Rousel, First California Co.

Tennis: Curtis H. Bingham, Bingham, Walter & Hurry.

Special: Clifford E. Poindexter, Turner-Poindexter & Co.

Dinner: Charles E. Driver, Blyth & Co., emeritus.

## Harris, Hall Opens San Francisco Branch

CHICAGO, ILL.—Harris, Hall & Co. have announced the appointment of Frank Osborne Elliott as manager of a new Pacific Coast office which will be opened at San Francisco May 5, 235 Montgomery Street.

With the exception of four years with the U. S. Navy, where he attained the rank of lieutenant-commander, Mr. Elliott has been associated with the Chicago office of this investment firm since 1935. He was graduated from Princeton University in 1934.

Harris, Hall & Co. also have an office in New York.

## Louis A. Love Opens

MELO PARK, CALIF.—Louis A. Love is engaging in the securities business from offices at 700 Hermosa Way. In the past he conducted his own investment business in Tacoma, Washington and was with the San Francisco office of Independence Fund of North America.

## Blast Congressional Appropriations

Three Republican Senators, Styles Bridges (N. H.); Clyde M. Reed (Kans.), and Homer Ferguson (Mich.), say Republican Majority are not fulfilling economy pledges.

The following joint statement was issued on May 2, by three prominent Republican Senators, Styles Bridges (N. H.); Clyde M. Reed (Kans.), and Homer Ferguson (Mich.):

The Senate is on trial before the bar of public opinion of the United States of America. That is especially true of the Republican majority.

On Feb. 9 this year a joint committee of the Congress, through S. Con. Res. 42, pledged the people that appropriations would be reduced under the 1949 budget estimate \$2 billion. That resolution passed the House by a vote of 315 to 36 and passed the Senate without a roll call. To date neither House has fulfilled this economy pledge, and the Senate, if the pending bill on rivers, harbors and flood control is enacted in its present form, will jeopardize the possibility of the Congress staying within its self-imposed appropriations limits.

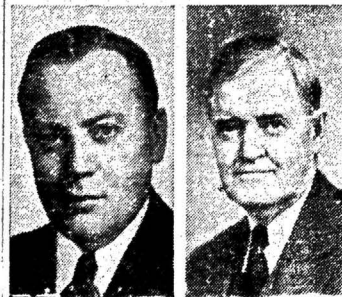
The Budget estimate for fiscal year 1949 appropriations was \$32,926,201,511. After deducting the "untouchable" items—interest on the public debt; debt retirement; government and relief for the occupied territories; Army, Navy, Air Forces; Veterans Administration—and some other items, there remains \$12,936,551,560, out of which must come \$2 billion of savings if the Congress and the Republican party are to keep faith with the people.

One, or both Houses, have considered and passed appropriation bills aggregating about \$7 billion, or more than half the total available for legislative economy. The aggregate reduction in these bills is about \$360 million. At this rate—which is not likely to be exceeded in future bills—the appropriation reduction would not amount to more than \$720 million—not \$2 billion.

There will come before the Senate early next week an appropriation bill carrying rivers and harbors and flood control items. The 1948 appropriation bill carried \$415 million for these purposes. Senate Con. Res. 42 contained this declaration:

"Large-scale expansion and acceleration of public works projects should be limited to such projects as are deemed urgently necessary to the public interest."

Notwithstanding the declaration of policy contained in S. Con. Res. 42, the House provided \$606,558,766 in the bill now before the Senate. The Senate Committee has increased this sum to \$708,536,666. We protested, filed a minority report and served notice of our intention to move, on the



Sen. Styles Bridges Clyde M. Reed

Senate floor, to recommit this bill with instructions to reduce the total by \$200 million. We further propose—

"That the Army engineers be instructed to apply the remaining sums to the projects which they deem to be most important both as to rivers and harbors and flood control, and that their selections and recommendations be based on—(1) Urgency; (2) Long-range importance; (3) Projects which can be completed with reasonable appropriations; and (4) Projects where the State or municipality bears a portion of the expense."

As experienced legislators, we declare our earnest judgment that the sum named will—if the Army engineers intelligently observe the rules suggested—fully meet every urgent or important need and continue the flood control and rivers and harbors programs at a rate consistent with the economic and financial needs of the country.

We have stated at greater length in a minority report our strong protest against the exorbitant spending in this bill, and the reasons therefor. We declare that, as it now stands, this bill is bad legislation, embodying waste and extravagance on a large scale. The Senate and the Republican party owe it to the country and to themselves to act promptly to correct this legislation, with its waste of men, money and materials sorely needed in these critical days and in the months immediately to follow.

## FHA Reports Record Home Building

Home building construction figures for the first quarter of 1948, made public by Federal Housing Administration Commissioner Franklin D. Richards, tend to bear out the belief that the current year may prove to be a record 12-month period. These figures show that more than twice as many

new dwelling units were started in the first three months of 1948 under FHA inspection than were started under similar conditions in 1947.

More than four times as many dwelling units, built under FHA inspection, were completed in these first three months than in the same period last year.

Twice as many new construction applications were received during the first three months of 1948 as were filed during that period in 1947.

In addition to the operations cited there was a gain of 21% in applications for FHA mortgage insurance covering existing structures over such applications in 1947.

The first quarter figures on which these statements are based are:

1. New dwelling construction, starts under FHA inspection were

60,432 in 1948 compared with 25,562 in 1947; a gain of 128%.

2. Dwelling units completed under FHA inspection, 51,479 units in 1948 compared with 11,798 in 1947; a gain of 336%.

3. Applications, covering new construction for the first three months of 1948, 178,435 compared with 76,909 in 1947; a gain of 132%.

4. FHA applications covering existing structures, 43,186 as compared with 35,638 in 1947; a gain of 21%.

## Pledger & Co. Adds

(Special to THE FINANCIAL CHRONICLE)  
LOS ANGELES, CALIF.—Pledger & Co., Inc., 210 West Seventh Street, members of the Los Angeles Stock Exchange, have added Leabman Willard to their staff. He was previously with G. Brashears & Co.



# A Roundup of Business Conditions

By KENNETH FIELD\*

Director of Industrial Relations Research,  
Carnegie-Illinois Steel Corporation

**Dr. Field reviews current monetary and banking factors as well as agricultural and industrial developments affecting business conditions, and contends recent rearmament appropriations and tax cuts should not affect the present balance between production, money supply and credit. Points out better knowledge exists concerning conditioning of upward and downward movements both of prices and of industrial production and better teamwork in business has been combined with physical resources in dealing with business trends.**

It is my purpose to discuss certain factors in the economy in relation to each other and in relation to historical patterns in order to throw some light on the present condition of business. I shall refrain from venturing a specific forecast of industrial production and prices during the balance of the year, since it is not possible to disassociate myself as a private individual in any such statements from the inference that my views may reflect those of my employer, and due to the pressure of other matters, I have had no opportunity to determine the position of the corporation.



Dr. Kenneth Field

Because of the impact of governmental expenditures on prices and because of the long period of relatively high prices, many discussions are concerned with whether prices will rise further, stabilize, or decline. Since this question is in the public eye at the present time, it may be well to start with some of the monetary and banking factors which have changed during the past year and which have changed since prior boom periods.

### Current Monetary and Banking Factors

Prices are bid up only as a result of demand. Under normal processes goods or services produced by a seller are exchanged for the means of buying other goods and services. Production thus creates the demand for production—and if money factors are kept constant, price level remains relatively stable.

Changes in price level which are called inflationary come about through increasing the money and credit supplies in the community. By printing more money or exchanging bonds for the right to draw checks, the government bids up prices with money and credit which were not obtained by putting an equivalent quantity of goods into the market to be purchased by others. These facts are well known to this audience, but I repeat them because I wish to emphasize that inflationary price increases can come about only by increasing the money released on the demand side of the market process without correspondingly increasing the supply of goods available for purchase.

Bearing this in mind, it is apparent that only the public can produce a further inflationary pressure during the coming months of 1948. The total supply of money and credit has remained practically stable for more than a year. The Federal Budget has finally been balanced and is producing a surplus. Recent rearmament appropriations and tax cuts should not seriously affect this balance. In addition, social security taxes and other trust funds are producing additional surplus revenues which are causing repurchase of privately held government obligations with resulting

pressure on bank credit. Sale of savings bonds will likewise tend to cause reductions in bank holdings of government bonds. In other words, the government is no longer bidding for goods with printing press dollars.

The credit policy now being followed by the banks, in cooperation with the Federal Reserve System, is likewise conservative. Although private deposits in banks during the past two years increased by approximately the amount that government deposits decreased, this policy of rapid expansion has now been halted and pressure is being exerted systematically to prevent the financing of excessive inventory accumulations with bank credit.

Perfect bench marks do not exist for determining the level at which inventories become excessive. Peacetime requirements for inventories in manufacturing are much greater than are wartime requirements. The wide diversity of products offered in peacetime causes larger inventories, as does the absence of governmental allocation of materials. During the war the government scheduled the flow of materials so that plants could be sure of a given supply. Now industry must carry inventories adequate to protect against all interruptions of supplies.

With the supply of money and bank credit no longer increasing, the remaining source of possible inflationary pressure is a more rapid tempo of private spending. The price level has not risen to the heights logically to be expected from the increase in money and bank credit because the public has not chosen to spend its money at as fast a rate as formerly. The increases in money and bank credit in the last 15 years have been partly offset by the public's unwillingness to spend. During the prewar period, lack of confidence caused the public to hold larger than normal idle cash reserves. During the war, high prices, rationing, and lack of goods became important factors in causing the public not to spend. As a result the turnover of bank deposits constantly decreased.

Were the public now impelled to reverse its recent habits and begin spending more feverishly, passing bank deposits and money from hand to hand without too much regard for prices, a much higher level of prices undoubtedly would develop without any recurrence of government deficit financing. However, such developments do not usually continue on a sustained basis. Rate of turnover of bank deposits has increased during the last six months, but such activity tends constantly to eliminate impatient holders of liquid funds from the markets. Such eliminations have probably added stability to the general structure.

### Monetary and Banking Changes Since 1929

Turning from current comparisons, it may be well to point out certain fundamental changes which distinguish the present bank credit situation from those

which existed in 1920 and in 1929. Such comparisons are of interest because a substantial part of the sharpness of the readjustments following the 1920 and the 1929 boom periods was traceable to forced liquidation brought about by contraction of bank credit.

Today bank deposits are generally insured. This fact will prevent the type of bank runs which, in recessions of the past, caused banks to seek liquidity by discontinuing sound loans and thereby forcing strong holders to liquidate at any cost. Further, a large part of the bank deposit structure is based upon federal securities which cannot be repaid on the same scale that private loans have been liquidated in the past. For these reasons the money and credit supply which is supporting the present price level is basically more stable than that which existed either in 1920 or in 1929. These unprecedented elements of mass credit stability in turn provide elements of stability for both prices and business.

### Public Debt and Price Stabilization

When price level changes, many elements in the economy adjust to take account of changed relationships. After such adjustments are made, further changes tend to require further adjustments; and even though a trend is reversed and various factors tend to push adjustments toward the original starting point, such adjustments are painful and cause dislocations comparable in severity in many respects to the adjustments made when the factors were moving in the previous direction. Because of the impacts of different factors, there is a tendency to shun adjustments wherever possible. The present levels of national income, prices, and public debt do not appear to be exceptions to this general tendency to oppose change. Today there appears to be little disposition to reduce the federal debt drastically; in fact there is much more sentiment for tax reduction than for debt reduction. Such management of the public debt operates to continue a large amount of bonds outstanding and these in turn tend to prevent reduction in the amount of bank deposits. Hence this resistance to debt reduction constitutes a factor which will tend to limit the amplitude of any downward fluctuations in prices.

### General Industrial Factors

Another factor of difference between the present situation and those of 1920 and 1929 is the period of time over which differential adjustments in the economy have been taking place. The tremendous destruction and wear and tear which the war imposed upon European heavy industry have produced sustained demands on certain heavy industries in this country. These demands have provided a high level of employment in a large sector of the economy at a time when other industries have been rapidly catching up with the war-created shortages. Supply pipelines have al-

ready filled in many consumer industries in this country; and those industries have adjusted their positions to more normal prospects while other industries were sustaining the postwar boom. These industry-by-industry adjustments have enabled inventory situations to be adjusted and labor surpluses to be shifted, with a lack of disturbance unparalleled in previous boom periods. It is to be noted that these adjustments have taken place while both businesses and individuals, with, of course, notable exceptions, have maintained relatively strong liquid positions—positions which always facilitate orderly adjustments.

### Agricultural Factors

One of the main points of difference between the agricultural factors in the present boom and those in past booms is that farmers have held their debts to much more conservative levels than in the past and hence their credit positions are basically stronger. Further, the level of farm prices is so high that even with a substantial reduction in prices the income level of farmers would still be attractive.

The continuation of the food crisis for so long after the war was traceable to droughts as well as to the effects of the war. Currently the food situation is in easier condition, as are also many non-food agricultural products. Basically the supply and demand

factors in this area of the economy are not much changed from previous booms except for governmental price supports which are now in process of restudy by Congress. Such supports will be of considerable significance; but that significance will, of course, be conditioned by the legislation actually enacted.

### Business Knowledge

In conclusion it might be well to mention that we have learned much in the past 20 years concerning the conditioning of upward and downward movements both of prices and of industrial production. Resources of teamwork and general business administration are quite as important as physical resources in dealing with business trends, and these resources have been increased immensely in recent years.

These factors, namely, (1) stability of bank credit, as influenced by stability of public debt, deposit insurance, a reasonable tempo of private spending, and conservative administration of bank loans; (2) completion of business adjustments in numerous lines while the boom was in progress; (3) governmental supports for agriculture; and (4) increased business know-how with respect to the national economy, constitute significant differences from the conditions which existed in 1920 and 1929.



The telephone was forty years old before there were six million Bell telephones in this country. Now there are twenty-nine million. The last six million have been added since these little tots were born—in about two years instead of forty.

But growth is not the only measure of the increased value of your telephone service. Many new developments, worked out in Bell Telephone Laboratories and now being put into service by your telephone company, are extending its scope and usefulness.

There is the extension of telephone service to automobiles, trucks, busses, boats, trains and airplanes.

There is the \$200,000,000 program to extend and improve

service in rural areas. Today there are 50% more rural telephones than when the war ended.

Then there is coaxial cable, no thicker than your wrist, which can carry 1800 Long Distance calls at one time. And along with it is a new system for transmitting telephone conversations by super-high-frequency radio waves. Both are designed so they can be used for Television as well as Long Distance calls.

And research on new electronic devices, now under way in Bell Telephone Laboratories, brings still wider horizons of electrical communication within view.

It's all a part of progress and our constant effort to make telephone service better and more useful for every telephone user.

BELL TELEPHONE SYSTEM



\*An address by Dr. Field at the 13th Eastern Regional Convention of the National Association of Bank Auditors and Comptrollers, Pittsburgh, Pa., April 24, 1948.

## Securities Salesman's Corner

By JOHN DUTTON

The following are ideas that we have come across during the past several weeks that may be of some assistance and benefit to you in your quest for more business.

### HE MADE IT SIMPLE

One type of security that is often difficult to place before an investor in its proper light is the low priced speculation. Sometimes companies that have been doing poorly will turn the corner. Research and investigation often shows up a change for the better in the company's affairs. At such a time some exceptional profits can be made by buying these common stocks when they are available at a very low price. However, many dealers do not care to sell this type of security; claiming the risk of losing customers is not worth the potential profit their customers might derive from such purchases. Nevertheless, there are many investors who are interested in buying low priced speculations at the present time. If they are sold right, the risk of losing customer's good will is negligible in the event of loss.

One salesman who has had more than average success in the sale of low priced, speculative common stocks does it this way: He never oversells his customer. He states quite frankly that they may even wind up with a total loss on the commitment. He also says that there is a good opportunity that for a SMALL investment they may reap a very substantial profit. The other day one of his prospects said to him, "You admit, this company has not been doing very well." The salesman replied, "That is right, but we believe from now on that it will do better." Then he asked, "Did you ever hear of a grocery store that was for sale and everyone in the neighborhood knew that it was run down?" The customer replied that he had often heard of such cases. "Well," replied the salesman, "this is exactly the same sort of proposition. When the grocery store was doing poorly anyone that wanted it could buy it at a very low price, but when business is good that is the time you would have to pay a high price for it. We think this company has turned the corner. Buying the stock now at a low price will make it possible for you to sell it someday, when their business has improved, at a real good profit." When you boil it all down to a simple illustration such as this, that is the kind of sales presentation that everyone understands, and it is effective.

### AND SO DID THIS SALESMAN

Another successful salesman who has specialized in selling high grade common stocks with ample book value, net quick and substantial earnings behind them put his story this way: "I am not interested in what MAY happen. Maybe a bridge will be constructed or an airport will be built that will increase the earnings of some railroad several times over what they are today. Maybe a new invention will improve the earnings of some industrial company well above their present level. That is all to the good. I hope it happens someday. But what we are trying to sell to our customers is value TODAY. Take XYZ stock for example. There is \$50 of cash, governments, and high grade staple inventory behind every share of stock in that company, and you can buy it for \$40 a share today. And that is without considering additional fixed assets worth several times more than the prevailing price of the stock in the market. So what if dollars aren't popular now? I like them, and so do our customers; especially when we can buy them for about 40¢. IT IS IN THE BUYING THAT YOU MAKE YOUR MONEY. THIS APPLIES TO SECURITIES THE SAME AS EVERYTHING ELSE. DON'T LAUGH AT THE VILLAGE JUNK MAN WHO IS OUT BUYING SCRAP IRON FOR 5 AND 10¢ ON THE DOLLAR. DID YOU EVERY HEAR OF ONE OF THEM WHO WENT BROKE? How's that for putting it into words that SELL?"

### OPENED A NEW ACCOUNT IN ICELAND

If you ADVERTISE you never can tell where your orders will come from. A New York firm advertised a low priced stock in the Sunday edition of a New York paper. They received a request for information from Iceland. The ad brought in over a hundred replies. All were answered by telephone, writing and personal call. But you couldn't telephone or make a call to Iceland very well. So a letter and a descriptive circular was mailed. The order came back for 200 shares. The new customer happened to be with the U. S. Army Air Corps. Doesn't this indicate that there is business around—even in Iceland? But you do have to GO AFTER IT.

## Joseph Vostal Joins Kidder, Peabody & Co.

Kidder, Peabody & Co., 17 Wall Street, New York City, members of the New York Stock Exchange, announces that Joseph Vostal has

become associated with the firm as manager of its New York municipal bond department. Mr. Vostal was formerly a partner of Vostal, Hall and Company and, before that, had been associated with Kidder, Peabody & Co. for 21 years.

## PRIMARY TRADING MARKETS

CRESSON CONS. GOLD M. & M. CO.

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## Export-Import Bank and Pan-American Congress

Wm. McC. Martin, Jr., its President, points out over \$1 billion has been authorized for use of Latin American republics, and that bank will supplement private credits and will cooperate with World Bank.

Addressing Committee IV of the Ninth Pan-American Congress at Bogota, Colombia, on April 16, Wm. McC. Martin, Jr., President of the Export-Import Bank of Washington, explained the purposes and operations of the institution, particularly in its relation to Latin

American countries, as follows:

A week ago yesterday (April 9) at the Plenary Session you all heard read the message of the President of the United States to the United States Congress requesting an increase of \$500 million in the lending authority of the Export-Import Bank. As stated in his message "This increased lending authority would place the bank in a position to assist in meeting essential requirements for the financing of economic development in the other American Republics. It would permit the bank to make loans for well-planned development projects which are economically justified and to cooperate most effectively with private funds."

We in the United States recognize clearly that although private capital must play the major role in the economic development of Latin America, nevertheless, inter-governmental financial cooperation will be required. We are confident that the International Bank as an intergovernmental institution will play an increasingly important role in supplying such capital as well as in stimulating and facilitating private investment.

The International Bank, as its name implies, is not the agency of any one government. It is, as Mr. McCloy so aptly stated, "your Bank" because practically all of you have contributed to its capital and are actively participating in its management. At Bretton Woods and in the Draft Agreement prepared by the Inter-American Economic and Social Council earlier this year it was agreed that the International Bank should be the principal instrument for inter-governmental financial cooperation. However, we are also aware that the International Bank may not at all times be in a position to meet all the requests which may be addressed to it, since it must have recourse to the private capital market for its funds and since it must have regard for the requirements of more than its Latin American members alone.

It is for this reason that the request for an increase in the lending authority of the Export-Import Bank has been made. This increase should make certain that the Export-Import Bank will be able to consider all those requests for credits to finance sound development projects which are not otherwise met. It should ensure that the economic development of your countries will not be retarded by a lack of capital.

The existing close cooperation between the Export-Import Bank and the International Bank will continue in order to ensure that the latter institution will have every opportunity to discharge its functions as the principal inter-governmental source of development credits. The cooperation will also ensure that no sound development project which cannot be privately financed will fall into a gap between the two institutions.

Everyone here, I think, under-



Wm. McC. Martin, Jr.

stands that the Export-Import Bank is a United States Government lending agency. It has a broad charter, and so long as it facilitates the financing of exports and imports it has authority to make its own lending policies subject only to two important limitations placed upon it by the United States Congress. The first relates to private capital. We are specifically directed to supplement and encourage and not to compete with private capital. In the second place, our loans must be for definite projects and must, in the judgment of the Board of Directors, have reasonable assurance of repayment. Within these limits, however, and they are the limits which must inevitably apply to the operations of any Bank designed to assist in financing development, the Export-Import Bank can make all the types of loans which may be required for development purposes. It can and does make loans to both governments and private entities. It can make loans to private entities without government guarantees where sufficient assurance of repayment is provided without such a guarantee, and where valid reason exists for the omission of this type of endorsement.

The Bank can, in exceptional and justified cases, make loans to cover local currency requirements and it has done so. However, it is the experience of the Bank that there is rarely justification for such loans. Applying governments and enterprises in discussing their financial requirements with the Bank have in most cases found that there were in fact local sources of capital to cover local currency requirements, and in view of the obvious desirability of avoiding the unnecessary amassing of obligations in foreign currencies, have chosen to borrow to finance only foreign exchange requirements.

Since the establishment of the Export-Import Bank total credits in excess of \$1 billion have been authorized for the other American Republics. Since 1940 alone credits aggregating \$908,000,000 have been authorized for your countries. Not all of these funds have actually been utilized. In some instances, changes in the plans of the borrowers, inability to obtain desired equipment, or other factors, prevented the planned utilization of these credits. However, as of March 15 of this year \$466,000,000 had been disbursed by the Export-Import Bank under credit commitments for the other American Republics, and more than \$200,000,000 had been repaid. As of that same date \$266 million was outstanding and roughly \$200 million remained to be drawn under still existing authorizations or commitments.

I take great satisfaction in the concrete record of accomplishment in the form of railroads, highways, electric power and industrial plants, and other productive installations throughout the Americas. I take equal satisfaction, as I am sure you all do, in the excellent record of repayment of these credits. This record reflects the sound judgment, in the first instance of the borrowers, and, in the second instance of the Bank, in the selection of the projects to be financed. I look forward to the continuing exercise of such sound judgment on the part of all of us.

We also look forward to a con-

tinuation of the highly satisfactory cooperation we have enjoyed in the past and we are confident that through this cooperation there will appear many more concrete expressions of economic progress, many more productive facilities which will serve to raise the level of living of all our peoples.

## New York Stock Exch. Suspends Broker

On April 30, Robert P. Boylan, Chairman of the Board of Governors of the New York Stock Exchange, announced the suspension for six months of William E. Nulty, an allied member of the Exchange and a general partner in the firm of Dreyfus & Co., for violation of Sections 6, 7 and 16 of Art. XIV of the Exchange's Constitution.

The substance of the charges, according to Mr. Boylan, was that "a registered representative of Dreyfus & Co., sold on Feb. 3, 1948, for the account of two customers, pursuant to discretionary authority, shares of Kaiser-Fraser Corp., listed on the New York Cub Exchange and of General Instrument Corp., listed on the New York Stock Exchange, that no partner of the firm knew or approved of such discretionary transactions; and that these orders, although executed as 'long' stock were actually 'short' sales. In connection with the sale of the shares of Kaiser-Fraser Corp. common stock, the firm failed to deliver. On the next full business day employees of the firm in effecting delivery against this sale, in addition to borrowing stock from other brokers in the regular course of business, in this single instance and without the knowledge of any partner of the firm, borrowed 800 shares of customers' securities, without having secured approval of such customers. Such borrowing of securities was an act inconsistent with just and equitable principles of trade. The failure to supervise diligently orders entered by the registered representatives was a violation of Rule 506. The failure to have a partner approve discretionary orders was a violation of Rule 513. The improper marking of the orders, the failure to deliver, and the use of borrowed stock to effect delivery violated Rules X-10A-1 and X-10A-2 of the Securities and Exchange Commission.

"These violations occurred without the knowledge of any partner, but Mr. Nulty, as the partner in charge of these employees, was held responsible."

## New York Stock Exchange Weekly Firm Changes

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

On May 13 transfer of the Exchange membership of the late Alan M. Mayer to Archibald Douglas, Jr. will be considered by the Exchange. Mr. Douglas will continue as a partner in Pershing & Co.

Transfer of the Exchange membership of the late Carroll B. Haff to W. R. K. Taylor will be considered by the Exchange on May 13. Mr. Taylor will continue as a partner of W. R. K. Taylor & Co.

On May 13 transfer of the Exchange membership of Malcolm MacArthur to Leo J. Goldwater will be considered. Mr. Goldwater, it is understood, will act as an individual member of the Exchange.

Cesare Barbieri limited partner in Ackerman, Conte, Mattioli & Co. withdrew from the firm on April 30.

Anita I. Gwynne, limited partner in Bonner & Gregory, retired from the firm on April 30.

Victor Emanuel, limited partner in Emanuel, Deetjen & Co., on April 30 retired from the firm.

James F. Shea & Co. was dissolved on April 23.

## Business Man's Bookshelf

**Fertilizer Industry** — In "The Index" — The New York Trust Company, 100 Broadway, New York 15, N. Y.—paper.

**Financing Old Age**—Henry W. Steinhilber — National Industrial Conference Board, Inc., 247 Park Avenue, New York 17, N. Y.—paper.

**Magic of Making Television Picture Tubes**—Illustrated booklet — Radio Corporation of America, 30 Rockefeller Plaza, New York 20, N. Y.—paper.

**Management Procedures in the Determination of Industrial Relations Policies** — Industrial Relations Section, Department of Economics and Social Institutions, Princeton University, Princeton, N. J.—paper—\$2.00.

**Private and Public Investment in Canada Outlook 1948** — C. D. Howe, Minister of Reconstruction and Supply—Department of Reconstruction and Supply, Ottawa, Ont., Canada—paper.

**Rayon, An Essential Industry for Palestine**—Leo D. Rosenstein — The Palestine Rayon Corporation, 65 Reade Street, New York, N. Y.—paper—copies on request.

**Who's Who in Foreign Correspondence 1947-1948** — Overseas Press Club of America, 1475 Broadway, New York, N. Y. — paper—\$2.00.

**Economics of the Guaranteed Wage, The**—Report of the Committee on Economic Policy, Chamber of Commerce of the United States — Economic Research Department, Chamber of Commerce of the U. S. A., Washington 6, D. C.—paper—20c (lower prices for quantity orders).

**New Chapter of Erie, A.** — The Story of Erie's Reorganization 1938-1941 — Henry S. Sturgis — Erie Railroad Company, Midland Building, Cleveland 15, Ohio — cloth.

**Prospects and Opportunities for Companies in the Air-Conditioning, Heating, and Plumbing Industries**—E. W. Axe & Co., Inc., 730 Fifth Avenue, New York 19, N. Y.—paper—\$1.25 (50c to Public Libraries and non profit institutions).

## Thors Heads Div. of N. Y. Fund Drive

Executive and employees of Manhattan's investment banking firms have organized a committee to solicit the investment banking field in behalf of the Greater New York Fund's 1948 appeal. Heading this committee as Chairman is Emerson Thors, syndicate manager of Kuhn, Loeb & Company.

The announcement was made by John E. Bierwirth, President of the New York Trust Company, who is the Fund's Manhattan Finance and Insurance Solicitation Committee Chairman.

The Fund's 1948 campaign is headed by Henry C. Alexander, Vice-President of J. P. Morgan & Company, as campaign Chairman. The Fund seeks \$8,000,000 as "business share" of the over-all contribution need required by 423 local hospitals, health and welfare agencies in New York City. The campaign will continue through June 11.

## A "Keynes Clearing Plan" For Western Europe

By PAUL EINZIG

Dr. Einzig tells of proposal of Sir Stafford Cripps for a European currency clearing system, originally offered by the late Lord Keynes for entire world. Would constitute a clearing institute, which would issue own currency to settle international balances. Holds scheme would obviate use of dollars in inter-European payments and would aid toward success of Western European reconstruction.

LONDON, ENG.—The economic integration of Western Europe stands or falls with the success or failure of the efforts to create some form of international currency clearing between the 16 countries concerned. Without it there is little hope for an expansion of trade between them.

In spite of Marshall aid their dollar resources will barely suffice for covering their most essential imports from the Western Hemisphere; there will be none left for settling trade balances between each other. They will have to continue to defend their dollar reserves by avoiding to import from each other more than is absolutely indispensable.

In the circumstances the Belgian proposal for the establishment of a Western European dollar pool for the purpose of operating a currency clearing between the 16 countries stands but little chance of being adopted. The participating governments have no dollars to spare for their contributions to such a pool, and there are no dollars allocated for that purpose in the first year's program of the Marshall Plan. What is needed, as an alternative to bilateral balancing of trade between these countries, is a clearing system which does not require gold or dollars.

The solution favored by Sir Stafford Cripps is the application of the well-known Keynes Plan. It was put forward by the British Treasury five years ago as a post-war currency scheme for the United Nations. Its essential feature was the creation of a clearing institute which would grant credits to the participating governments in terms of a new international monetary unit called "bancor." This unit, though stable in relation to gold, would not be convertible, but the participating governments would accept it in settlement of their export surpluses in relation to other participating countries. It will be remembered that this scheme was opposed by the American White Plan, and the plan eventually adopted in 1944 at Bretton Woods did not include the essential features of the Keynes Plan. It was not without regret that the idea of the "bancor" system was dropped by Britain, and most continental governments would also have preferred it to the Bretton Woods Plan, for the simple reason that while under the latter the International Monetary Fund merely re-allocates foreign exchange contributed by its members, under the Keynes Plan the proposed clearing institute would actually create credit for the requirements of international trade. The Keynes Plan is indeed the "poor man's plan." The plan of the man who has to start business by borrowing from his bank instead of paying in a deposit. It suits the requirements of the impecunious European countries. For this reason it stands a good chance of being adopted.

The scheme would be worked in the following way: The 16 nations would agree on the establishment of an international clearing institute. Their respective partici-

ipation in it would be fixed on the basis of their relative volume of foreign trade. Actual subscriptions would be purely nominal, only to cover initial expenses and such losses as may be incurred. The institute would begin operations by granting interest-free loans in terms of its monetary unit the "bancor," up to a certain proportion of the quotas of the participating countries. France has an adverse trade balance in relation to Britain; it would be settled by payment in "bancor." Britain, in turn, would pay in that form her import surplus from Denmark, and Denmark would use the "bancor" to settle her purchases from Sweden. It would no longer be necessary to aim at the balancing of trade between France and Britain, between Britain and Denmark, and between Denmark and Sweden. Trade could be carried on within the 16 nations in the same way as if they possessed an adequate dollar reserve to pay for their import surpluses. They would only need dollars for their imports from countries outside Western Europe.

Needless to say, the system would not solve the one-sided trend of trade balances. In all probability Switzerland, Sweden and Belgium would accumulate balances in "bancor," while France and Italy would run up overdrafts. In order that the scheme should operate smoothly it is essential that the "surplus" countries should be willing to acquire and hold "bancor" balances. Their unwillingness to accept payment in the form of balances in the currencies of the "deficit" countries was the cause of the trading difficulties within Western Europe. There is no reason, however, why they should not accept payment in "bancor" which could be used in payment for purchases in any of the participating countries.

The advantage of the scheme is that it obviates the necessity for contributing dollars toward an inter-European currency pool. Moreover, as "bancor" cannot be spent in the Western Hemisphere there would be less temptation for surplus countries to maintain their surplus in order to be able to obtain dollars for its proceeds. Indeed there would be a strong inducement for the surplus countries to buy more from the deficit countries in order to liquidate their "bancor" balances. The successful operation of the scheme should go a long way toward assuring the success of Western European reconstruction.

## J. H. Howe Joins Shearson, Hammill

Shearson, Hammill & Co., 14 Wall Street, New York City, members of the New York Stock Exchange and other principal stock and commodity exchanges, announce the association with the firm of James Harrell Howe as co-manager of its uptown office. Mr. Howe is a former partner of Leopold & Co.



Dr. Paul Einzig

## Public Utility Securities

### Cross-Currents in Utility Earnings

Current earnings reports of some of the leading utility companies are making an irregular showing. For example, Consolidated Edison of New York, which in the quarter ended Sept. 30 earned only 4¢ for the common stock, causing some conjecture in the Street as to continuance of the \$1.60 dividend

rate, was able to show a sharp come-back in the December and March quarters. In the final quarter of the year Consolidated Edison earned 54¢ compared with 25¢ in the previous year and in the first quarter of 1948 the report was \$1.15 against 85¢ last year.

Why these sharp fluctuations? Of course seasonal changes had a good deal to do with it but other factors contributed substantially. In the March quarter the subsidiary, New York Steam Corporation fared much better than a year ago, earning \$2,132,000 compared with \$1,019,000 a year ago (the company had obtained a rate increase, and the sharp increase in sales was doubtless partially due to the cold winter). Edison's depreciation accruals this year were smaller than a year ago by \$1,410,000; this year the ratio to gross was only 7.5% compared with 10.1% last year. It is understood that the change in depreciation policy reflects a straight-line method of accrual.

Public Service of New Jersey showed a sharp decline in its March quarter earnings, just the reverse of Consolidated Edison's trend. Only 32¢ a share on the common stock was earned compared with 71¢ last year. This appeared due to several factors which are considered largely non-recurring. A special year-end rebate in December bills, was made to residential electric customers (in lieu of a permanent rate cut) and this resulted in a decline of about \$1,250,000 in January revenues. Damages from the severe winter storms increased expenses about \$450,000, and a transit loss during the quarter has been estimated at about \$200,000. The company has applied for an increase in bus fares and it is thought that the impending increase in New York City transit fares will improve the prospects for a similar increase in New Jersey.

Niagara Hudson Power made an unfavorable showing for the first quarter — 33¢ a share compared with 48¢ last year. It is understood that the result was largely, if not entirely, due to low water conditions, which resulted in heavy use of obsolete steam equipment. Late in March, however, water power conditions began to improve. New England utilities have also suffered from drought conditions. Public Service of New Hampshire, perhaps the worst sufferer, reported earnings of only \$1.83 for the 12 months ended March 31 as com-

pared to \$2.54 for the previous year; and March earnings, after charges, were about 15% below last year.

North American Company, on the other hand, was able to make an impressive report for the 12 months ended March 31. Even after giving effect to the company's distribution of major utility interests during 1947, pro forma consolidated share earnings for the 12 months ended March 31 amounted to \$1.85 a share, and on a corporate basis \$1.48. This favorable showing was due to substantially to rapidly growing income from the non-utility subsidiary, West Kentucky Coal Company. North American is currently obtaining dividend income from this company at the annual rate of \$2,400,000, an increase of 50% over the previous period.

Rising coal costs account for losses reported by some of the manufactured gas companies, such as Brooklyn Union Gas, which has been slow to obtain adequate rate relief from Albany. On the other hand Bridgeport Gas Light Company is one of the fortunate few in the industry to have a fuel adjustment clause in its rate structure, and the company's net earnings for 1947 were \$1.69 a share compared with \$1.72 in 1946 and \$1.46 in 1945.

Among the electric companies those in Texas, Louisiana, etc. were particularly favored by their ability to use natural gas as fuel, at stable contract prices. Those included Southwestern Public Service, Houston Light & Power and ALMNO (the Electric Power & Light group of companies). Among the coal-burning companies American Gas & Electric's subsidiaries were outstanding in their continued gain in net; the company controls its own strip mines, where it produces coal with great efficiency and at low cost.

Obviously it is unsafe to forecast results for any particular utility company based on the general trend for the industry; it is important to analyze the effects of operating methods, geographical trends, weather conditions, etc. Also, it is unfair to take results for a single quarter as indicative of a future trend of earnings.

### L. J. Marquis to Admit

L. J. Marquis & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, will admit Max L. Heine to partnership on May 13.

## Newport News Shipbuilding and Dry Dock Company

Quarterly Statement of Billings, Estimated Unbilled Balance of Major Contracts and Number of Employees

Billings during the period	Thirteen Weeks Ended	
	March 29, 1948	March 31, 1947
Shipbuilding contracts	\$ 4,714,000	\$ 3,547,000
Ship conversions and repairs	13,457,000	4,095,000
Hydraulic turbines and accessories	1,272,000	338,000
Other work and operations	1,337,000	743,000
<b>Totals</b>	<b>\$20,780,000</b>	<b>\$ 8,723,000</b>

Estimated balance of major contracts unbilled at the close of the period	\$70,522,000	\$46,260,000
Number of employees at the close of the period	12,174	11,443

The Company reports income from long-term shipbuilding contracts on the percentage-of-completion basis; such income for any period will therefore vary from the billings on the contracts. Billings and unbilled balances on Government contracts are subject to any adjustments which might result from statutory repricing and profit limitations.

By Order of the Board of Directors  
April 28, 1948 R. I. FLETCHER, Vice President and Comptroller

## Clears Up Tax Liability on Loaned Stock

E. I. McLarney, Deputy Commissioner of Internal Revenue writes N. Y. S. E. loan is not a disposition of property which results in recognized gain or loss for Federal income tax purposes.

John C. Korn, Secretary of the New York Stock Exchange, has sent to members the following notice regarding tax liability in the lending and borrowing of stocks:

To the Members of the Exchange:

The following communication dated April 19, 1948, has been received by this Exchange through its Counsel from E. I. McLarney, Deputy Commissioner of Internal Revenue:

"Reference is made to your letter dated March 3, 1948, in which a ruling is requested on behalf of the New York Stock Exchange as to whether the loan of stock to a broker and return thereof to the lender constitutes a closed transaction, in so far as the lender is concerned, either for the purpose of computing the holding period of the stock or for determining gain or loss on the stock loaned.

"You state that in connection with the delivery requirements of the Exchange a broker, a specialist, or an odd lot dealer may find it necessary to borrow shares of a particular stock temporarily in order to effect a required delivery for a customer; and that the reluctance of security owners to lend their stock is in some measure traceable to a belief that the loaning of the stock would result in a realization of gain or loss on the shares loaned.

"You also state that in all cases the authorization of the customer (lender), either general or specific, must be obtained in advance of any borrowing; that when stock is loaned, the borrower deposits with the lender the current market value of the borrowed securities in order to secure the lender against loss; and that the party who becomes partially unsecured as a result of a change in market may require by a demand in writing that the loan be 'marked to market.'

"The information submitted discloses that if a record of stockholders is taken for a dividend or rights to subscribe while the loan is outstanding, the borrower must turn over the dividends or rights to the lender; that sometimes the loan is made at a premium (the

borrower pays the lender for the use of the stock), or on an interest basis (the lender of the securities pays the borrower for the use of the deposit); and that a loan remains outstanding until the lender notifies the borrower that he desires the return of the securities, or the borrower notifies the lender that he is returning the securities.

"It is stated that when the borrower makes delivery to the lender, he does so by delivering any certificate of the same stock borrowed, together with the appropriate exemption certificate provided for in the Federal and State transfer tax regulations which permits the lender's brokerage firm to transfer the stock back into its name without payment of transfer tax; and that when the certificate is delivered, the lender returns the borrower's deposit.

"The above-stated facts clearly show that the borrower does not become the owner of the stock he borrows and that he is required to return the stock any time the lender notifies him to do so; and that the lender does not have unlimited use of the money deposited with him, but must return it when the borrower returns the stock.

"It is held that the loan of stock and the return thereof to the lender, under the circumstances set forth above, is not a disposition of property which results in recognized gain or loss for Federal income tax purposes; and that such a transaction does not affect the lender's basis for the purpose of determining gain or loss upon the sale or the disposition of the stock, nor the holding period of the stock in the hands of the lender."

JOHN C. KORN,  
Secretary.

## Calls for Economy in Non-Defense Items

First National Bank of Boston sees in heavy armament costs danger of reversion to unsound fiscal policies with more inflation.

"The new armament program and Federal finance are closely related as they both involve the security of this country," says The First National Bank of Boston in its current New England Letter. Continuing the Bank says: "The struggle against communism can be lost by unsound fiscal policies as well as on the battlefield.

"We are launching a new defense program at the peak of the boom. Our Federal debt is almost six times and the budget over four times as much as when the defense program for World War II was started in June, 1940, while commodity prices are now more than twice as high. With stakes so great and the hour so late, we should face the situation in a realistic manner, think through our problems, and adopt sound measures all along the line. There are grave dangers in sugar-coated slogans that have the appearance of short cuts to utopia but which in reality lead down the road to serfdom.

"For the past 15 years our Federal fiscal policies have been largely based upon the Keynesian doctrine which has caused so much confusion that economics is now 'all sail and no anchor.' Moreover, these theories served as a basis for the New Deal spending program, the easy money policy, the lack of concern about a large public debt, the controversies over savings, wages, profits, and full employment, and for other policies that have the earmarks of socialism.

"According to the liberal interpretation made by the disciples of Keynes, the cause of depressions

is lack of adequate expenditures, and the government can offset any decline in effective demand by deficit spending. Economists, labor leaders, educators, government officials, and even businessmen hopped aboard the Keynes' bandwagon as his theories were so simple and alluring.

"But the followers of Keynes overlooked the fact that pumping in Federal credit every time there was a let-down in business would lead to an accumulation of maladjustments and the preservation of incompetent business enterprises that should be liquidated. The grants and subsidies provided to those who cannot meet the test of the market place, as well as the squandering of funds in other channels, result in the piling up of Federal debts that in the course of time would wreck private enterprise, as well as the democratic form of government, and pave the way for totalitarianism of some form.

"So over the years our domestic policies have rested upon experimentation instead of sound and tried principles. The doctrine encouraged spending and leaning on the government, and there followed shameless raids upon the Treasury by pressure groups. Under the spell of the spending theory, there developed the illu-

sion that a stabilized economy was being created that would provide security for all from the 'cradle to the grave.'

"The people have been hypnotized into believing that by the wave of a magic wand they can get something for nothing. But the government does not create income nor wealth. It merely collects money from individuals, corporations, and institutions by taxes and borrowings, and redistributes it through the manifold spending channels.

"Despite record peacetime Federal expenditures, top planners are recommending ambitious programs for education, medicine, social security, and the like, involving in the aggregate many additional billions of dollars. All of these projects are worthy when considered on individual merits. But in national affairs, as in the case of a family, expenditures must be kept within financial capacity or trouble follows as surely as night follows day.

"Now with the need for untold additional billions of dollars for military purposes, there is a critical urgency about the issue of Federal financing. In order to safeguard our private enterprise and our democratic form of Government, we must pursue sound policies. No time should be lost in eliminating waste and extravagance which now menace our security. Raids upon the Treasury by pressure groups are an unwarranted drain on our resources that should not be countenanced at any time, and particularly in such a critical period. To the extent that borrowing is unavoidable, it should be financed out of savings by the sale of bonds to individuals, which would tend to cut down on consumption. In contrast, the sale of bonds to banks would generate further inflation and thereby decrease the purchasing power of the dollar, which has already shrunk 40% in value since 1939. The more of the burden we can bear as we go along, the better will our economy be fortified to cope with the trying problems that confront us.

"The bitter and perhaps long struggle that lies ahead will be a challenge to all the ingenuity and energy we can muster. The most effective means of safeguarding Government credit and of fortifying business enterprise would be for all groups, on the basis of capacity, to share in the financing of the defense program. Our efforts should be devoted to strengthening our national fiber to withstand the vicissitudes that may come our way. We should turn our backs upon the soft life that seeks shelter and comfort under the protective wing of a benevolent Government, for victory will go to the nation whose people work hard and unflinchingly face their problems in a spirit of realism."

## Hear S. W. Coleman

CHICAGO, ILL.—S. Waldo Coleman of San Francisco, President of Commonwealth Investment Co., addressed a group of investment dealers in the Chicago district on May 4 at the Attic Club under the sponsorship of John J. O'Brien & Co., wholesale distributor of the shares for this company.

## To Be McDermott Partner

On May 13 Richard G. McDermott will acquire the New York Stock Exchange membership of the late Edgar A. Hellman and will become a partner in Peter P. McDermott & Co., 44 Wall St., New York City, members of the New York Stock and Curb Exchanges.

## Bacon, Stevenson Adds

E. Schuyler Jackson is now associated with Bacon, Stevenson & Co., 39 Broadway, New York City, members of the New York Stock and Curb Exchanges.

## Holds Reduced Tax on High Incomes Benefits All

Guaranty Trust Co. of N. Y. attacks theory heavy taxes on rich ease burden on low income groups. Computes individual gains from recent tax reductions.

"At the height of the early postwar industrial unrest there appeared certain reports, based on public-opinion polls, suggesting that the wave of strikes then sweeping the country was probably due in some measure to widespread misconceptions regarding the relative shares received by labor and capital in the distribution of the sales dollar," according to "The Guaranty Survey," monthly review of business and financial conditions, just published by Guaranty Trust Company of New York.

"Since then there has been an increasing tendency for reports and analyses of business earnings to emphasize the fact that throughout our industrial system the return to labor, instead of being (as is commonly supposed) smaller than the return to capital, is actually many times larger, and that the return to capital is in fact equal to only a few cents out of each dollar received from the consumer. The inescapable conclusion is that real and lasting gains to labor can come only from advances in productivity, and that any attempt to increase labor's share substantially at the expense of capital is an attempt to draw on a fund which simply does not exist in anything like a sufficient amount.

## Who Gets the Personal Income?

"It would be interesting to know to what extent the Federal tax structure that seems to have been so largely instrumental in restricting the flow of venture capital into industry rests upon similar errors concerning the distribution of income. Is the political pressure for steeply progressive income-tax rates due to a belief that the lower-income groups can be greatly benefited, or that large amounts of government revenue can be raised, by high tax rates on large incomes? If so, it is based on an idea of income distribution that is as widely at variance with the facts, and as unfortunate in its consequences, as the idea that labor can improve its position at the expense of capital.

"This is so not only because unduly high tax rates on large incomes have unintended economic results, inhibiting industrial development, limiting employment opportunities and restricting all incomes, large and small alike. It is so for a simpler and more easily demonstrable reason: that the total income received by the high-income groups is too small to have an important effect on incomes at the lower levels or on government revenues under any conceivable tax system.

## Some Hypothetical Cases

"The essential facts concerning the distribution of income are clearly set forth each year by the Treasury Department and are familiar to all students of economic affairs. Yet it seems that they must have escaped the notice of the majority of the people, who in the final analysis determine tax legislation. If our democracy is defeating its own best interests by pursuing a tax policy based on a misunderstanding of easily ascertainable facts, there is obviously an urgent need for wider dissemination of those facts.

"The preliminary report of the Treasury on statistics of income for 1945, which was made public in January of this year, shows that individual income above the \$25,000 level—that is, the excess after allowing \$25,000 for each taxpayer receiving more than that amount—was equal to 3.27% of total individual income as reported by those filing Federal tax returns. It was equal to 2.29% of total estimated personal income for the entire country, and to 2.15% of the national income. These percentages show how fallacious is the idea that a substantial part of the country's income is received by persons in the high-income brackets. Yet it is upon

these large incomes that industry normally depends for a considerable part of the risk-taking investment that is indispensable to expansion of plant and equipment, gains in labor productivity, and advances in wage levels.

"It is not a matter of theory but of historical fact that the level of real wages over the long term closely parallels the average amount of capital investment per wage earner. Those who are sincerely desirous of improving the economic position of the lower-income groups can work effectively toward that objective, not by trying to throw a disproportionate share of the tax burden on the higher incomes, but rather by seeking a tax structure that will permit and encourage individual investors to supply venture capital in amounts sufficient to meet the requirements of an expanding and progressing industrial system.

"The small amount of aggregate income in the higher brackets has the effect of making the high tax rates on these brackets relatively unimportant from the fiscal standpoint. If the effective tax rate on adjusted gross income in 1945 had been limited to a maximum of 50%, with rates remaining otherwise unchanged, the revenue loss to the Treasury would have been equal to about one-half of 1% of total receipts. If the rate had been limited to 25%, the loss would have been less than 5%.

"To what extent is the situation altered by the newly enacted revenue law? Important as a measure of the incentive to enterprise is the tax rate on increments of income at different levels, since it is these increments, diminished by the tax, that the individual must weigh against the efforts and risks involved in any given project. Of the increment of income between \$90,000 and \$100,000, the individual is now allowed to keep 36.75%, as against 17.92% under the old law; of the increment between \$40,000 and \$50,000, he may keep 50.40%, as against 33.31%; of the increment between \$20,000 and \$25,000, he may keep 68.25%, as against 47.37%; of the increment between \$9,000 and \$10,000, he may keep 80.64%, as against 71.50%."

## Bache & Co. to Admit

Bache & Co., 36 Wall Street, member of the New York Stock exchange and other leading national exchanges, will admit William J. Flynn to partnership on May 13. Adolph Woolner, member of the Exchange, now a limited partner, on the same date will become a general partner, and Frank T. Ryan, general partner, will become a limited partner.

## White With Laidlaw

Laidlaw & Co., 26 Broadway, New York City, members of the New York Stock Exchange, announce that Leslie White has joined the firm in its municipal bond department. Mr. White formerly was associated with Eldredge & Co., Inc.

## Hayden, Stone to Admit

On May 13, Graham Bell will acquire the New York Stock Exchange membership of Herbert G. Bell and will be admitted to partnership in Hayden, Stone & Co., 25 Broad Street, New York City, members of the New York Stock Exchange and other exchanges.

# NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS  
NEW BRANCHES  
NEW OFFICERS, ETC.  
REVISED  
CAPITALIZATIONS

The enactment into law of the **New Jersey Bank Revision Act**, which will become effective Sept. 15, is designated as "a clarified and modernized banking code," according to an item appearing in the April 30 issue of the Newark "Evening News" by C. J. Hamberger, in which it is stated that the revision clears up many controversial points for stockholder procedure and corporate elections; clears up the law on trust accounts and also clarifies the functions of a bank and a trust company.

The revision, started by Governor Edge, was delayed on presentation in 1946 and 1947 but was speeded through under Governor Driscoll this year. He signed the bill last night.

Likewise from the account of Mr. Hamberger we quote:

"For the first time, so far as commercial banks are concerned, there are specific limitations on mortgage lending. Previously the banks could make loans without restriction on first, second, third and fourth mortgages. Now they are limited to first mortgages and further bound to a percentage of the appraised value of property involved.

"The 'working staff' on the reconstruction task was Louis J. Cohen, chief revision counsel for the State Department of Banking and Insurance; Israel Spicer, his associate; J. Fisher Anderson, participant for the New Jersey Bankers Association; James L. R. Laferty, counsel for the Federal Trust Co.; Alan Lowenstein, counsel for Fidelity Union Trust Co. and for Horace K. Corbin as Chairman of the NJBA special committee, and Waldron M. Ward for the savings bank.

"Another point is the increase allowed to banks on small loans. The limit was raised from \$1,000 to \$2,000 on loans banks may make on special interest charges.

The merger of **Bank of New York** and **The Fifth Avenue Bank of New York** became effective at the close of business on April 30. Operating under the name "**Bank of New York and Fifth Avenue Bank**," the merged institution opened for business on May 3 with four offices, total resources of more than \$400 million and capital funds in excess of \$34 million. The merger was approved almost unanimously by stockholders of both banks on April 15—reference which appeared in our issue of April 22, page 1773.

On May 3 the three offices of the **Continental Bank & Trust Company of New York**, became offices of the **Chemical Bank & Trust Company**, thus completing plans for the taking over by the latter of the assets and business of the Continental. At the same time, on May 3, N. Baxter Jackson, Chairman of the Chemical Bank & Trust Company announced the appointment of the following to the official staff of the Bank, all of whom were formerly officers of the Continental Bank & Trust Co.:

"In the Domestic Banking Department as Vice-Presidents: Charles S. Parker, Jr., Mark B. Peck, Herbert M. Prior and John T. Seaman. As Assistant Vice-Presidents: Paul A. Albus, Harold Brummer, Daniel A. Finlayson, Jr., John F. Hughes and James J. Mead. As Assistant Secretary, Robert J. Lockton. In the Foreign Department as Vice-President, Einar Hammer. As Assistant Vice-President, Harold H. Hol-

lingshead. As Assistant Managers: Otto Bruggeman, David Sime and Dominic A. Suplina. In the Corporate Trust Department as Vice-President, Harry C. Thompson.

"At the 30 Broad Street Office as Vice-Presidents: Thomas F. Bennett and Ferdinand M. Bissell. As Assistant Vice-Presidents: Percy J. Hebard, Peter C. Newell and Arthur H. Queren. As Assistant Secretary, Russell L. Hauser. As Assistant Treasurers: M. J. G. Logan and John W. Marx. As Assistant Comptroller, Walter E. Sparling. As Assistant Personnel Director, Roger Hornby.

"At the 512 Seventh Avenue Office as Vice-President, Edwin Van Pelt. As Assistant Vice-Presidents: F. Stafford Cleary and Walter Freund. As Assistant Secretaries: Royal M. Anderson and Raymond J. Young. As Assistant Treasurers: Gilbert C. Henne and Albert W. Van Gelder.

"At the 345 Madison Avenue Office as Vice-President, Carl C. Lang. As Assistant Vice-President, William Pfaffle. As Assistant Secretary, Clyde W. Hiseler. As Assistant Treasurer, Raymond R. Robrecht."

The sale of the assets of the Continental to the Chemical Bank was approved by the Continental's stockholders at a special meeting on April 14, and on April 21 the Appellate Division of the State Supreme Court upheld a lower court ruling in refusing to grant a temporary injunction sought by a group of minority stockholders to restrain the sale. Details of the proposal of the Chemical Bank appeared in our issue of March 128, page 1225.

The Personal Credit Department of **The National City Bank of New York** celebrated on May 4 its 20th anniversary with a record of 3,786,082 credits granted for a total of \$1,137,788,988 58, an average of \$300. With the establishment of the department on May 4, 1928, the National City was the first major commercial bank to inaugurate small loan service for individual borrowers. Beginning with a staff of five persons, the Personal Credit Department today has a personnel of 15 officers and 754 employees. The department's 20th birthday was marked by a dinner dance and entertainment in the Grand Ballroom of the Waldorf Astoria Hotel. Roger Steffan, Vice-President, founder of the Personal Credit service, introduced the principal speaker of the evening, William Gage Brady, Jr., Chairman of the Board. Greetings were extended by W. Randolph Burgess, Chairman of the Executive Committee, and Howard C. Sheperd, President.

An interesting exhibit at the International Travel and Vacation Show at Grand Central Palace in New York which opened on May 3, is that of **The National City Bank of New York Travelers Check Division**. Featured in the display is a diorama similar to those which catch the eye of thousands of travelers in Grand Central Terminal, a facsimile of a traveler's check hand woven into a Chinese rug, a colorful map showing National City Bank branches throughout the world, and a display of posters. Kodachrome slides of travel scenes in 19 foreign countries will be constantly on show.

Arthur S. Kleeman, President of **Colonial Trust Co. of New York**, announced on April 29 the appointment of A. Kenneth Spauld-

ing as an Assistant Vice-President, at the downtown office of the bank, 57 William Street. Mr. Spaulding, who will assist F. H. Zimmer, Vice-President in charge of that office, was formerly Executive Vice-President of the Tompkins County Trust Co. of Ithaca, N. Y., and was for a number of years a National and State bank examiner.

The **Bowery Savings Bank of New York** announces the appointment of Cortland O. Burckhardt as manager of the School Savings Department. Mr. Burckhardt has been with the bank since 1933.

William F. Ferguson, Vice-President of **The Bank for Savings of New York**, announced his retirement on April 29 at a luncheon given in his honor by the officers of the bank. To signalize the occasion a watch suitably engraved was presented to him. Upon retiring in June, Mr. Ferguson plans to spend his time between his home at New Rochelle and his country place at Worcester, N. Y., a community with which his family has long been identified. Mr. Ferguson was appointed Assistant Treasurer of the bank in 1927, the office being re-established then for the first time since 1819. He became Treasurer in 1932 and Vice-President in 1945. Mr. Ferguson's connection with the bank began in 1907—41 years ago—when he entered its employ as its first stenographer. During World War I he was commissioned in the United States Navy and served for two years as deck officer on the U.S.S. Indiana, sister ship to the U.S.S. Oregon which made the famous trip around Cape Horn.

Herbert V. Prochnow, Vice-President of **The First National Bank of Chicago**, on April 25 was elected Secretary of the **Federal Advisory Council of the Federal Reserve System**.

A merger of the **Ebenezer State Bank of Ebenezer, N. Y.**, and the **Manufacturers & Traders Trust Co. of Buffalo, N. Y.**, has been voted by the directors of both institutions, it is learned from the Buffalo "Evening News" of April 30, from which we quote:

"This was made known by President Lewis G. Harriman of the Manufacturers & Traders Trust Co. and President William J. Daetsch of the Ebenezer State Bank.

"In bringing the two banks together, the Manufacturers & Traders Trust Co. is paying cash for the stock of the Ebenezer Bank, which has 10,000 shares of stock. The stockholders, about 300 in number, are to receive \$35 a share.

"This will give the Manufacturers & Traders Trust Co., with resources of more than \$235,000,000 a total of 10 offices outside of Buffalo.

"The bank has 18 offices in Buffalo, including the main office at Main and Swan Streets."

The merger, which must be approved by the State Banking Department and the stockholders of the two banks, is expected to become effective about June 1.

The Ebenezer State Bank began business on Oct. 1, 1921.

The board of directors of **The National City Bank of Evansville, Ind.**, recently announced the appointment of John R. Keener as Vice-President.

	Apr. 12, 1948	Dec. 31, 1947
Tot. resources	\$2,193,605,354	\$2,422,901,275
Deposits	2,002,333,256	2,229,664,369
Cash and due from banks	571,430,086	634,122,208
U. S. Govt. security hlds.	1,097,986,763	1,210,873,167
Loans and bills discounted	426,652,281	490,000,603
Undiv. profits	27,856,775	27,399,698

(Continued on page 38)

## Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Activity continues to decline in the government market as more investors and dealers take to the sidelines to await the expected raising of short-term rates. . . . This time it seems as though holders of Treasury obligations are not going to outsmart themselves as they have on occasion in the past, but are going to hold off until things actually happen. . . . They should not have too long to wait since it is believed that an announcement by the Treasury on the certificate rate will be forthcoming by not later than the 20th of the month. . . .

A good demand is in evidence for Treasury bills, with switching out of the 1949, 1950 and 1951 still going on. . . . The 1 1/4% yield curves continue to get plenty of attention in an effort to master-mind the future trend of yields and prices of Treasury obligations. . . . This results in a great deal of talk and discussion but not too much volume. . . . Insurance companies are also on the quiet side, although the former institutions have been fairly active in acquiring new corporate bond issues. . . . They are also giving preferred stocks some attention. . . . Sales of taps have been made by individuals and smaller institutional investors to go into the equity market. . . .

### BUYING OPPORTUNITY

Investors are watching the longer eligibles very closely, because of the possibility that weakness might develop in these obligations, with the upping of short-term rates. . . . Any price recession, however, would be looked upon as a buying opportunity. . . . Although the market has been expecting a higher certificate rate as well as an increase in the discount rate for some time now, it could be that prices of the longs will be subjected to mild price fluctuations, as the anticipated changes become effective. . . .

Psychology is a definite market force, and its actions are difficult to forecast, but based on some past happenings it might be the factor that could bring about a temporary unsettlement in sections of the government list, when the looked-for rise in rates is announced by the Treasury. . . .

### RATE INCREASES AWAITED

The financial community is looking for an increase in the certificate rate of 1/8%, along with a rise in the discount rate of either 1/8% or 1/4%. . . . However, such a small change in these rates should have no important effect upon the inflationary forces, which higher money rates are supposed to combat. . . . For the time being at least the expansion of bank credit has not only been halted but has actually declined. . . . It is indicated that the contraction in bank credit is due much more to the Treasury's debt retirement policy and the voluntary cooperation of the banks in limiting loans and investments as anti-inflation measures, than to the raising of short-term rates. . . . This brings up the question whether the expected increase in short-term rates is going to accomplish what the monetary authorities evidently are counting upon it to do. . . .

### NEGATIVE INFLUENCE

Will the raising of short-term rates lessen the tendency of investors to sell near-term securities in order to buy longer-term obligations, as long as prices of all Treasury securities are protected by the money managers? . . . Also will the upping of the discount rate have more than a passing psychological effect upon the money market? . . . To be sure, the spread between short- and long-term rates will be lessened, but only to a very minor extent. . . .

The fact that investors are hoping for weakness in the more distant maturities of government bonds (with the changing of short-term rates), so that they can purchase the higher income obligations seems to indicate that just slightly higher certificate and discount rates are going to have very little if any influence upon the trend from shorts into longs. . . .

### ANOTHER EXCUSE?

Is the Treasury's apparent concern over the ability of private business to finance its working capital needs in the defense program just an excuse to line up against proposed bank credit curbs, or is there another rabbit in the hat that will be pulled out at some later date? . . . Is the Treasury getting concerned over future short-term financing at advancing rates, which would increase already heavy debt charges? . . . Low interest rates are imperative, as far as the Treasury is concerned, and while an increase of 1/8% or 1/4% in short-term rates would still mean low interest rates, it might be the trend of interest rates that has them concerned. . . .

### TIME OUT

Greater powers over reserves of the member banks by the Central Banks would be one way to offset the inflationary forces of the rearmament program without curtailing government expenses, or immediately increasing taxes, which were only recently reduced. . . . It could be that the Treasury fears that larger reserve requirements would result in the member banks' putting their funds only in the safest and most liquid investments. . . . This would mean that the working capital needs of certain businesses for the defense program would not be taken care of by the banks because of the greater risk involved in making loans to these concerns. . . . It could be also that the old political waiting game of playing for time to see what might happen is being dusted off again. . . .

### TAX PROTECTION

The feeling seems to be growing that corporate income taxes will be increased next year because of enlarged defense expenditures and this is keeping a good demand in the market for the partially-exempt governments. . . .

However, some institutions are now taking on state and municipal obligations in place of the partially-exempt Treasuries because they believe that they have better tax protection in these issues than in the governments, since surtax rates might be upped with higher corporation taxes.

# We Are Winning the Cold War

By ERWIN D. CANHAM\*

Editor, The Christian Science Monitor

Stating U. S. in combating communism is in stronger position, prominent newspaper editor holds there is still big chance freedom will win. Says U. S. aid to Europe is appreciated.

Let me go 'way beyond my terms of reference and tell you that from my observation at Geneva, which I left the night before last, I believe that the United States is in a stronger position than it has been since the end of the war. The atmosphere at the United Nations

Conference on Freedom of Information was far more favorable to us than it has been at any other United Nations meeting since 1945. Those who would compromise and appease communism are far in the background. The neutrals and the middleground nations are all pretty much on our side now. We are winning the cold war. The communists still have powerful weapons, and they may use them at any time. But our long-range weapons, which are based on a practical application of the ideals of freedom, are making solid and steady headway. ERP is deeply appreciated everywhere in west-

\*Part of a Report of Committee on Freedom of Information made by Mr. Canham before the American Society of Newspaper Editors, New York City, April 16, 1948.

ern Europe. There is no longer any doubt among Europeans as to the disinterested and tremendous contributions Americans are making. The charge of imperialism against us is not sticking, for as the Europeans say: "If the Americans wanted to dominate us, they would not urge us to unite, but would try to keep us divided."

All of this has a real bearing on freedom of information for it means that although there are many and new impediments to freedom in the world, there is still a big chance for freedom to win. Men in Europe, newspaper men in Europe, still know the meaning of freedom and will fight for it. There are men like G. J. Van Heuven Goedhart. He was Chairman of the Dutch delegation to the Geneva Conference, and Chairman of the First Com-

mittee, on Basic Tasks of the Press. Mr. Van Heuven Goedhart is editor of "Het Parool," which was the chief Dutch underground paper during the war. There was a higher price on his head than on that of any other Dutchman. He is gaunt, raw-boned, witty and biting. He will fight compromise to the end. He is of the same stuff as his first assistant during the war whom the Germans arrested and kept imprisoned for two years. Finally they decided to execute him, and they called in his wife for a last visit. His first words to her were: "Are they still printing the paper?"

That is the spirit of many of western Europe's newspaper men today. With such men, we can cooperate, and can be proud of the chance.

In the lower income brackets where labor spends most of its earnings on living costs, the pinch of the short dollar is felt acutely. There is an outcry for relief from millions of voters. The political solution is to collect as much of the tax as possible in the higher income brackets, although the higher brackets also supply the venture capital of business.

Unless labor recognizes taxation as the real cause, it will continue to follow the lead of political and union demagogues in accusing capital of reducing the standard by profiteering.

## Excess Profits Taxes

Now the government wants to hold down the price level which its postwar spending and labor's successive wage raises are putting up. The proposed solution is an excess profits tax on business. By taking a larger share of the profits, government would correspondingly shorten the corporate share for capital reserves and dividends. Thereby it would shorten the future of jobs and goods.

Let us prepare for this attack by examining what private capital gets out of the American economy and why.

Corporate profits are defined by the tax law of the United States as the difference between the selling price and all the costs of the goods sold. The deductible costs are: materials, labor, rent, interest, and wear of all the business equipment—the wear being figured as a standardized yearly per cent of the original costs of the equipment. When these costs are deducted from the selling price they give the profits. Out of these profits the government first takes the corporate profit tax of 38%. Then the corporation takes away the increasing cost of extending credit to customers and of maintaining inventory, together with reserves to cushion the operations of the enterprise. The amount of reserves is a matter of managerial judgment. If they could be paid out safely as dividends, they would be. The 14,000-000 stockholders of all corporations in the United States are just as anxious to get more dividends out of the corporation as the labor force (of about the same number) is anxious to get more pay.

Dividends are the end-point and residue of this accounting of capital operations and profits. It is important to have it understood on the one hand that retained capital costs are vital to the current operations of business. They arise from the current operations and they are given their proportions by those operations. They cannot be diminished without diminishing the business.

On the other hand, dividends paid out are to insure the growth of business in the future as in the past. Dividends are compensation of those who ventured their capital in an enterprise. They are the incentive, if any, to venture further.

How rewarding the dividends are for venture capital is registered by the stock market. Stock prices have been sliding slowly downward since the middle of 1946. In the first quarter of 1947 and again this year, as annual reports and dividend declarations appeared, stock prices registered a pronounced sag.

The declaration of 1947 profits as the highest in history did not stir up a flow of the venture capital which the corporations need. It is true that all corporate profits were \$28 billion in 1947, but the government took \$12 billion in taxes, the corporations had to retain \$10 billion, and the dividends actually paid out were \$6 billion.

Those \$6 billion dividends are the take-home of the stockholders. They are the practical measure of the reward of capital for last year's enterprise.

The President stated that the securities markets furnished less

equity capital in 1947 than in 1946, and accounted for about only one-sixth of the new capital required during 1947. Business made large use of previously accumulated funds for expansion of output during 1947. These funds are approaching exhaustion. There is no means by which capital can be provided for the future industrial growth of this country unless it comes from individuals and institutions willing to risk their funds in equity investments.

In this connection, it should be noted that according to the President's report, page 95, in the second half of 1947 business retained undistributed profits and reserves (for depreciation, etc.) at an annual rate of \$17,800,000,000, but that business during the second half of 1947 put \$11,200,000,000 into new construction, \$18,000,000,000 into producers durable equipment and \$2,500,000,000 into increases in inventories, accounting for expenditures for these purposes amounting to \$31,700,000,000, which exceeded the amount of undistributed profits and reserves retained by \$13,900,000,000.

The truth is that business failed to maintain its historic rate of capital formation from 1930 to 1945 to the extent of approximately \$144,000,000,000. Capital was not providing labor with the tools it needed, which they had been providing during the 60 years ending in 1929—during the average of those years capital formation having taken out of gross national product approximately 20% per year. This money was used for capital formation during that period of industrial growth, and until the incentive to risk has been restored to America it will be impossible for capital to be provided for the new tools, the new industries, the new processes which are awaiting investment.

## Profits Determined by Competition

During a century and a half, until 1929, the prices and profits and the flow of goods and services in this country were regulated by the free competitive market.

In such a market, private capital alone does not decide the selling prices. They are finally decided only when the sales are finally concluded, by the buyer and the seller getting together.

The ability of purchasers to purchase is fully provided in advance by the cost payments to labor, to government and to capital—including capital's expectation of a profit. As any profit is made final, it becomes purchasing power that catches up with the goods in the market. Capital as a purchaser behaves like any other purchaser. The willingness to purchase, which must go with the ability to purchase if goods and services are to be sold, depends on the assortment offered for sale. Our economy has a characteristic which neither persuasion nor coercion can change: it distributes goods strictly in return for some contribution to the economy. The equities of this distribution have been established by the free play of markets. They shift gradually with time. The play of markets keeps the economy balanced between labor and capital, while both support government. All together, labor and government and capital constitute all the customers. A fair price is what is found by trial and error to keep the customers coming in. Fair pay is what will keep men coming to work. Fair profit is what will keep venture capital coming in. Taxes are whatever it costs to keep the government.

It is evident President Truman still believes the removal of price controls was responsible for the present rise in prices; consequently that the restoration of price controls would remedy the situation. The fact is that when OPA was removed, full production set in immediately as prom-

# Economic Relation of Wages and Prices

(Continued from page 8)

ation than an army colonel who is taking a motorized column of 1,500 of someone's sons over the same route.

## Did War Controls Keep Down Cost of Living?

As to the achievement of wartime controls in keeping down the cost of living, labor may be willing to recall that it didn't eat so well during the war; it does recall, on the other hand, it was able to accumulate savings because it didn't have to spend so much for what it could get.

It is not well enough known how this was done.

Most producers of civilian goods, clothing, shoes, food, and such, did a business divided between civilian supply and war supply. As costs increased and producers applied to the Office of Price Administration for permission to raise civilian prices to cover the costs, they were told no relief would be given so long as the combined costs of civilian goods and war goods enabled the producers to recover a fair aggregate. That meant the rising cost of civilian goods was carried onto the cost of war goods, where the government regarded price as no matter and where the excess war profits tax would keep the situation under control.

This civilian subsidy remains hidden in the war debt. Citizens who thought they were eating cheap beef, if they could get it anywhere under controlled prices, will be paying a supplement for that beef for a generation. The savings they thought they accumulated under this sort of price control will be taxed back from them as time goes on to pay the costs the debt concealed.

This maneuver not only gave the civilian control of prices a false appearance of success, but it trapped industry in a postwar squeeze of profits under continued controls. War goods which had carried part of the civilian costs ceased, but civilian producers were expected to hold the line anyway.

It is illuminating that the government, which had spent a year of postwar squeezing private profits toward extinction, gave the enterprise system a parting kick by freeing wages before prices. Then it suggested semi-officially from the Office of Secretary Henry Wallace in the Department of

Commerce, that business had enough profits to afford a 25% wage rise without raising prices. I call the suggestion "semi-official" because it was repudiated some months later after it had procured the first round of wage rises through industry-wide collective bargaining.

In any company, when the pay is raised for the same output, the cost of the raise must be added to the price of the output unless it is taken out of the profit paid to the owners of the business or out of the taxation collected by the government. The government, however, would not reduce its spending. The management, for reasons which I will discuss shortly, could not reduce its profit. Consequently the cost of the wage raise was added in full to the current asking price of the goods or services.

So far, the market has paid the increased price and business has gone on.

But the increased price of one company's product leads the purchasers in all other employment to clamor for increases in their own pay. They make up the price increase, meanwhile, out of their savings or borrowings. As the rest of the working population, in private business or in government, catches up with the wage raise, the increase in prices becomes general. The price index of all commodities rises parallel to the general increase in hourly wage rates. Everybody is paid more money but the dollar becomes worth correspondingly less. The take home of real goods is the same as before the wage raise.

The effect of the second wage raise on the wage-earner was the same. Both raises reduced the purchasing value of his savings and life insurance. They also left millions of public servants and white-collar workers further behind the pay raises, with diminishing savings.

The operation, wage-raise-without-goods raise, was futile. A third round could become catastrophic. A fourth round could be a collectivistic conspiracy.

The worker's contribution is 60 minutes of labor in an hour. The stockholder's contribution is the capital for machines, materials and management. The stockholder multiplies the worker's hands with machines and unloads his back. In his 60 minutes the worker makes more goods nowadays

than he ever could with his unaided handicraft. When the stockholder takes home a share of the products proportionate to his stock-holdings, he pays his own living expenses, and he re-invests the remainder of the share in more machines, more materials, more management. The bigger the stockholder's share the more he has to re-invest after paying his living expenses. The 60 minutes of labor which are still all the worker has to contribute in an hour, thereby become more and more productive each year.

## Worker Gets a Fair Share

The collectivists insist the worker should get a fair share of his increased production. The insistence suggests that the worker doesn't get such a fair share.

On this the economic record is unquestionable. During the lifetime of most of the business managers in this room, from the turn of the century down to the beginning of World War II, the physical volume of goods produced by a wage earner in an hour doubled. In the same 40 years his real wages, that is the physical volume of goods he took home, doubled also.

It is not generally recognized that government spending is the real cause of labor's futile attempts to increase its purchasing power by a succession of wage raises without goods raises. Let us start by recognizing that whatever the government spends, its citizens must give up through taxation.

Without counting the European Recovery Program and all other foreign and defense proposals awaiting decision, all taxation currently takes 13 cents more than it did in 1939 out of every dollar of income received as wages, salaries, and miscellaneous proceeds of capital operations, by all the individuals in this country.

Because personal income taxes clip the individual's pocketbook, and because corporate and excise taxes swell the prices he pays, the citizen's earned dollar is 13 cents shorter than it used to be, when he goes out to spend it.

He is pursuing an illusion, however, when he attempts to recover this 13-cent shortage through a corresponding income increase. Instead of abating the 13-cent shortage in the pay-dollar, each round of pay raises makes his pay dollar slightly shorter than ever.

used by industry. Prices were sent up however by two rounds of wage raises and by the array of inflationary pressures which the President himself listed earlier this year in his economic report. Apparently the President does not yet recognize that the pressures on his own list are potent producers of results. Moreover they are likely to produce explosive results if confined without the safety valve of the free market.

When OPA was taken off, by the course I have retraced, we got prices that truly represented the cost of the goods and services purchased.

Our dollar is at present the only money in the world which does that.

For that reason, not only in the United States but everywhere else in the world, everybody wants dollars. At the moment the dollar is the visiting card of the one nation that has demonstrated we can get more out of a free economy than out of a controlled economy, and can get it more plentifully and in more honest relation to costs.

Under a politically managed, or controlled or collectivist economy, we never know what is going on for a variety of reasons. During the war we tried it and in varying degrees during the first attempts at a controlled exit from the war.

The control figures for the entire economy are necessarily two or three months late. When they do turn up, they are of historic interest rather than a guide to action. The situation has changed meanwhile under its own momentum and under the adjustments made by individual businessmen who may be free to take immediate action.

#### Difficulties of Controlled Economy

The free individual acts on his own experienced judgment and on nearby data which he is used to handling. If the controller of the collectivist section of the economy acts at all—and usually he must act—he must also proceed on judgment. But his judgment is not experienced, for the career of running a nation's economy is new. And for him there is no such thing as nearby data. If he hasn't the nation-wide data, he has nothing of use.

Experience during the wartime period of command economy proves there is only one thing certain about his judgments and his orders: It is certain they won't fit most businesses or most businessmen. His predictions are guesswork unless he is in absolute command of the entire economy. Then the predictions are a consolidated report of the orders he has issued. Their correctness is only as good as his discipline. Their results may not be good at all.

Our wartime experience—the current experience of Britain—shows that control is an all-or-none proposition. In a highly developed economy, like a busy city, you can't regulate traffic on the avenues without also regulating it on the side streets. An ability and experience capacious enough to understand the full implications of such a control job, would have too much capacity to undertake it in the first instance. Moreover, the controller would be at the mercy of demagogues who need only cast suspicion on his motives and on the business responsibilities that had equipped him so far as any one can be equipped, to run an economy.

The ineffectiveness of the managed economy arises not only from the impossibility of getting the necessary control data in time, or the superhuman mental capacity to digest it after it arrives.

That is the handicap at the top level. The substantial difficulty lies at the operating or grass roots level.

Every business in America is

different from every other business not only with the impersonal differences that arise from occupation, location and size, but with the personal differences that arise from the fact that each business started with some individual and its growth has been individualistic in character—no matter how big it is now.

Unless we reorganize each business to fit as standard parts into a patterned economy and unless we breed a new generation of American businessmen who will behave as statistical units instead of individuals, any attempt to manage the American economy will be as wasteful as any mechanism put together with parts that were never designed to go together.

The individual American businesses were designed for competition, for the free market where individualism that distinguishes a service or a product from all others is a hope to survival.

Unregimented patriotism right at the company level will get more results out of them in this crisis than the remote speculations of a control office in Washington.

In this crisis, with such massive factors in motion, we require alert reporting of their behavior. For that the free market is the tested information center. It could be discarded only by those who don't understand how it got us in position to help the rest of the world. Or by those who did not want to have to expose their operations.

#### An Iron Curtain At Home

By contrast with the free market, the controlled economy is a sort of economic censorship—an iron curtain at home.

This discussion of the free market is far from ideologic. It is a recognition that collectivism has come from under cover, not only elsewhere in the world, but here also. It is emerging on a scale that represents a century of propaganda since Karl Marx decided after 20 years of further thought that capitalism could better be overthrown by infiltration.

His advice was to plant key men in labor unions, government offices, information sources, educational institutions and vital public services. Now they are mobilizing their forces and their disciples; and they all seem to share a deep conviction that in this crisis we should again have a managed economy in America.

Our American collectivists believe it will solve the problem of high prices and stop Russia if the President is made Commander-in-Chief of the national economy.

If they really think that would help instead of hindering us in this crisis, they ought to notice that Russia has had a command economy since it was established 30 years ago, yet it has high prices and so little goods that it is desperate.

That is why I raise the test of common sense—not only to meet with honest minds but to smell out the disloyal.

I doubt if any man of common sense can any longer believe that Stalin is propelled by an immediate hot zeal to spread the Russian vision of more for every man. The risks he is taking are too large and too coldly studied.

I think it is only common sense to recognize what Russia needs beyond postponement is not converts to Socialism but industries in going condition. That is a brutal necessity.

By now it is plain, also that if Stalin steals Europe, he must also knock out the United States. Otherwise he cannot be safe in the enjoyment of his loot, without maintaining a huge armed force that would drain his industrial power as he conquered it. We would be drained similarly.

Let us recognize that in Russia we are resisting the consequences of piling one socialistic falsity on another and attempting to make them work by force. The system has not only corrupted the Russian economy but also the Russian

nation, and now it threatens to lay the entire world under contribution to that system by force.

While preparing to defend America and strengthen the world against further Russian aggression, we must not let ourselves be infiltrated by our domestic collectivists.

They have done a comprehensive job of propaganda which is apparently as determined to make our economy an organ of Washington as Stalin is to make the economy of Europe an organ of Moscow.

That is why a search for the common sense of wages and the cost of living is the primary task of self-control for agriculture, labor, business, government and the principal factors of our economy.

There is no other control device except self-control that will get a low cost of living out of an economy that is paying as we are for a past war and a prospective war of unprecedented cost.

In our present situation, to promise a low cost of living under a managed economy is either mistaken or deliberately misleading. A managed economy can only bury our high costs in deficit financing or dam them up in regulations which eventually must let go under pressure. It is a faulty organization which we cannot risk at our center in this crisis.

I believe the free economy is the only device that will keep us strong enough to carry out our commitments, because it is based on a free market which will give us a balanced awareness of where we are at any moment.

It is the strong way because it is the honest way.

In that way let us use the weapon of common sense more than it has ever been used before. It is the chief mental armament of freedom.

## N. Y. Curb Suspends Jack J. Dreyfus, Jr.

The New York Curb Exchange on May 4 announced the suspension for a period of three months of Jack J. Dreyfus, Jr., a regular member of the New York Curb Exchange and a partner in the firm of Dreyfus & Co. The board imposed on Mr. Dreyfus the additional penalty that for a period of six months he may not have actively associated with him as a partner in a member firm William E. Nulty, a partner in the firm of Dreyfus & Co. The two penalties were imposed effective at once.

## Hall & Co. Is Formed in New York

Formation of Hall & Company, dealers in state and municipal bonds, is announced by Denton D. Hall, partner in the new firm. The company, with offices at 70 Pine Street, New York City, succeeds to the business of Vostal, Hall and Company which dissolved on April 29, 1948.

## Landstorfer Joins T. C. Henderson Staff

DES MOINES, IOWA — T. J. Landstorfer has become associated with T. C. Henderson & Co., Empire Building, members of the Chicago Stock Exchange, as Vice-President. Mr. Landstorfer was formerly Treasurer of McCrary, Dearth & Co.

## Watling, Lerchen Adds

(Special to THE FINANCIAL CHRONICLE)  
DETROIT, MICH. — Watling, Lerchen & Co., Ford Building, members of the New York and Detroit Stock Exchanges, have added Edward H. Lerchen to their staff.

# What to Do About Prices?

(Continued from page 7)

duction at the present price levels, or lower prices.

Most of the textile producers feel that they are the ones who are going to be "tapped" for a part of their supply, and this has stiffened a market which was beginning to sag before this emergency was discovered. If I were betting, which I am not, I would be that the supply of textiles will not be as short this fall as we are being led to believe right now. It is my humble opinion that textiles and textile products may be purchased in more reasonable price ranges than in recent years.

Leather products were beginning to feel the effects of a more balanced supply to demand before the war scare came upon us. The price of calf leather had been reduced and calfskin shoes and handbags had reflected this drop in the market. Now prices are being restored to their former high levels, with no assurances for the future.

The prices of food and farm products will depend upon the crop situation in Europe and other parts of the world as well as our own, and the reports are for a very favorable crop condition in most of Europe this summer. That will materially affect our farm price structure. However, it is generally believed that farm prices will remain about normal pre-war levels for a considerable length of time. The income of farmers is an important factor in determining the demand and therefore the price for industrial products.

Farm income is like a two-edge sword, which cuts both ways. If farm prices are low, industrial workers like it; but low prices cut the farmers' income and their ability to buy industrial products at high prices. A high priced industrial economy cannot be supported by a low price farm economy. Farm prices are more likely to be lower rather than higher before 1948 is over.

#### The Business of Controls

Now let us examine this business of controls which seems to be one of the chief topics of conversation in Washington and the heart's desire of those who would like to regiment our economy. The unfortunate thing is that most of those who are strong advocates of government controls are themselves the rankest kind of amateurs and theorists in all matters pertaining to industry or business. Being thus endowed with more theory than practical sense they immediately make the mistake of trying to control results rather than causes.

It is just about as sensible to try to control prices at the retail level as it would be to try to control the flood waters of the Mississippi by building a dam across the mouth of the river at New Orleans.

If there were to be controls, and if controls are necessary, then the controls should be put on the causes of inflation rather than upon the effects or results. These causes of higher prices of the finished products are the costs of raw materials and wages. No one but a rank amateur in economics or in the practical affairs of the world would think of trying to put controls on results unless it would be those who do not want our present economic system to work.

Every person in these United States who loves freedom and believes in our free enterprise system better bestir himself and fight this trend of thinking in Washington leading us into another set of strait-jacket controls. Once we let our government place such controls on us in peace time, we shall in all probability never be able to throw off that strait-jacket again.

The propagandists in Washing-

ton who are trying to scare the people of the country into accepting such controls are doing this country a great disservice, and must be opposed with all the strength at our command. People who have lately come over from Europe say that there is far more war talk and more war propaganda over here than there is right in Europe. We should ask our government officials why that is so.

Certainly, we are conscious of the threat of communism in Europe and in our own country. But that consciousness should not have come to us only on March 17, 1948. It should have been evident to us at Teheran, Yalta, and Potsdam. Why are we discovering this emergency just now, after all our military strength has been dissipated?

Now we are told that we must rearm with feverish haste, and that we must expect all kinds of controls as a consequence in order to control the inflationary forces let loose.

Further inflation is not necessary if the government will conduct this business of rearming in a sensible manner, and if the propaganda machine is turned off in Washington. No true American wants our country to be weak in the present world situation. But there is no strength to be gained by throwing the country into an economic strait-jacket through imposing a lot of senseless controls on wages and prices.

If we are going into a full regime of controls, we are moving straight in the direction of socialism, communism or some other form of totalitarianism. Surely the American people want none of that, and once they are aroused to the dangers right here at home they will rise up in their indignation and put an end to it.

Our present economic and political crisis can be met with the greatest present and future benefits to ourselves and to the whole world:

(1) If we continue to increase our domestic production, and reduce costs and prices through greater efficiency in production and distribution.

(2) If industrial and business management and labor will work together to minimize the inflationary forces, and to bring about an orderly readjustment of prices so that more goods will be available at prices people are willing to pay.

(3) If we prevent government controls from stifling our economy which would restrict production and create black markets.

(4) If we develop a uniform and unified national policy on international affairs, and at the same time build our economic and military strength for the protection and the preservation of our American Democracy.

## Wright Mgr. of Dept. For Butcher, Sherrerd

PHILADELPHIA, PA.—Butcher & Sherrerd, 1500 Walnut Street, members of the New York and Philadelphia Stock Exchanges, announce the appointment of William M. Wright, Jr., as manager of their municipal bond department.

## Edw'd Kling to Manage Dept. for Janney & Co.

PHILADELPHIA, PA.—Edward W. Kling has become associated with Janney & Co., 1529 Walnut Street, as manager of their newly opened municipal bond department. He was formerly in the municipal department of Butcher & Sherrerd.

# Switzerland's Gold and Dollar Policy

(Continued from page 4)

brought heavy pressure on the dollar rate on the free market and "thus ran counter to the efforts of the national bank to bring the rate for 'financial' dollars to the level of the official parity."<sup>1</sup> This reason, which the national bank already had expressly invoked in suspending sales of gold bars for arbitrage operations in March, 1947, was accompanied at the time of the suspension of the sales of gold coins in September by a second one, namely:

"By taking this measure on its own volition, solely in the interests of the Swiss currency and without any intervention from abroad, the national bank has pursued a policy in line with the recommendations of the International Monetary Fund to its members at the end of June 1947."<sup>1</sup>

In any event, the national bank now regarded the sale of gold bars and coins to the market solely as "an emergency measure of monetary policy," since "the growing import surplus created a new situation that no longer necessitated the continued sale of gold."<sup>2</sup>

Contrary to formal announcement that the Swiss National Bank made relative to domestic sales of gold, no official statement was issued that gold sterilization was no longer regarded as necessary and had been abandoned. It is true that the national bank took over the gold previously held by the government, but this gold—to the extent that it was not sold to the market—was sterilized by the national bank itself by the latter's placing on the market Treasury bills especially issued for this purpose.<sup>3</sup> In this respect the difference between the former and the new policy is one of degree: while the sterilization operations were previously of such magnitude that only the government

was in a position to carry them out, it now appears that the pressure has diminished to the point where sterilization can be handled by the national bank.

## Swiss Gold and Dollar Holdings

The changes in Swiss gold holdings are reflected in Chart I, and are summarized in Table I.

The aggregate gold holdings of the national bank and the government increased steadily from 1940 until March, 1947 when they reached the all-time peak of 6,169 million Swiss francs (1,432 million dollars). Since then they have declined to 5,836 million Swiss francs (1,349 million dollars) in the middle of February—the latest date for which government holdings are available.

The government stock reached its peak in January, 1947—1,258 million Swiss francs (291 million dollars). At that time the national bank commenced to take gold back from the government, with the result that by the end of the year the government's stock had fallen to 610 million francs (141 million dollars) and by the middle of February, 1948 to 230 million Swiss francs (53 million dollars). Of the total reduction of over 1,028 million francs (238 million dollars), 250 million francs (58 million dollars) was, however, accounted for by the payment to England, France, and the United States under the Washington Agreement. In consequence of the return of the gold to the national bank, the latter's gold holdings increased from 4,936 million Swiss francs (1,141 million dollars) in January, 1947 to 5,625 million Swiss francs (1,300 million dollars) on March 31, 1948. They would have shown a greater increase but for the large quantities of gold sold to the public: from the beginning of the year up to September 9 when the sales were suspended, the national bank sold gold worth 480 million francs (111 million dollars)—by far the largest amount in a single year since the inception of the gold program in 1941, as may be seen from Chart II. Since 1941 the Swiss National Bank has sold gold totalling about 1.5 billion Swiss francs (347 million dollars).

## "Financial" Dollar Exchange Rate

The gradual lifting of the restrictions on the transferability of

the dollar and the suspension of the domestic sales of gold had marked effects on the "financial" dollar market. Because of the various limitations on the transferability of the dollar into francs at the official rate of exchange, only dollars received from Swiss exports (with certain exceptions) and from a very restricted number of other *bona fide* transactions were accepted for transfer at the official rate of 4.28 Swiss francs to the dollar. All other dollars were transferable only at a premium on a "free" market. On this market the demand was small since the dollars thus obtained could not be used to import goods into Switzerland, while the supply was considerable as it emanated both from gold speculators and from Swiss holders of dollar assets who had no other way of converting them into francs.

The discount on the "financial" dollar, 30% in 1946, was gradually reduced, as may be seen from Table II.

TABLE II  
"Financial"  
Dollar Exchange Rate

End of:	Francs per U. S. dollar
1946	
November	3.45
December	3.54
1947	
January	3.77
February	3.71
March	3.66
April	3.67
May	3.86
June	3.82
1948	
July	3.81
August	3.73
September	4.00
October	3.94
November	3.97
December	4.15
1948	
January	4.23
February	4.13
March	4.11

The "financial" dollar rate rose considerably after gold sales were discontinued early in September, and again at the end of the year when it was announced that a portion of the Swiss dollar assets could be converted at the official rate of exchange. The decline in February was attributed by Swiss commentators to precipitate sales of certified dollar assets by Swiss nationals who, on learning the news regarding the disposal of the remaining blocked assets in the United States, preferred to take Swiss francs at a lower rate rather than to wait until the national bank was willing to transfer all dollars into francs at the higher official rate.

## Present Gold Regime

The chances in the Swiss gold policy that have been reviewed here do not affect the basis of that policy. The present Swiss currency system rests on the Decree of the Federal Council of Sept. 27, 1936, under which the Swiss National Bank was instructed to maintain the gold parity of the franc at a value rang-

ing between 190 and 215 milligrams of fine gold.<sup>4</sup> Within these limits the Swiss National Bank buys gold at 4,869.80 francs per kilogram fine, corresponding to a gold content of 205.347 milligrams fine per franc and a franc-dollar parity of 4.3276 francs to the dollar.

There is, however, no legal obligation upon the bank to buy or sell gold;<sup>5</sup> and the decree of Sept. 27, 1936, while maintaining the 40% gold-cover requirement for the note issue, released the bank from the obligation to reimburse its notes in gold on demand.

Trading in gold in Switzerland continues to be subject to the regulations enacted Dec. 7, 1942. Under these regulations, trade in gold coins and gold bars in Switzerland is limited to specially-licensed banks, and imports and exports of gold require a permit from the national bank. In November, 1946, these regulations were amended to the extent that licensed dealers were no longer required to record the names and addresses of their customers, but only to keep figures on the amounts of gold that they bought and sold each month. In its Annual Report for 1947 the national bank stated that "the question of cancelling the regulations of Dec. 7, 1942 regarding dealings in gold was considered. The national bank however, does not deem that the moment for such a decision has yet arrived."<sup>6</sup>

The price controls upon gold maintained by the Federal Price Control are unaffected by the changes in gold policy in 1947.<sup>7</sup> However, the maximum prices seem to be nominal since "owing to present circumstances gold coins and bars are not obtainable in our market for the time being."<sup>8</sup>

## Conclusions

(1) The Swiss gold and dollar policy reflects the basic trends in the Swiss balance of payments on current account. When during the war and the first year and a half afterward this balance was heavily active, Switzerland restricted the convertibility of the dollar, limited the influx of gold and sterilized a part of the gold that it had accepted mainly for the sake of sustaining its export trade. However, when in 1947 the balance of trade began to show a record deficit and the balance of payments on current account probably became passive, the restrictions on dollar transferability were partially lifted, gold was partially desterilized and domestic gold sales were suspended.

(2) In the Swiss gold policy there is only one fixed point of reference—the buying price of

<sup>4</sup> The rate of currency devaluation is thus between a minimum of 25.9% and a maximum of 34.5%, corresponding to an average devaluation of 30%—that is, an average parity rate of 4.37 francs per dollar.

<sup>5</sup> The law of April 7, 1921 simply authorizes the bank to buy and sell precious metals in bars and coins for its account or for the account of third parties.

<sup>6</sup> Annual Report for 1947, page 15.  
<sup>7</sup> The following maximum prices are in effect: Gold bars per kilogram of fine gold—4,970.00 Swiss francs; 20-Swiss-franc gold pieces—30.50 Swiss francs. A 4% sales tax brings the price of a 20-franc coin to 31.80 francs—or to 5,170 francs per kilogram. As the gold content of the coin is equivalent only to 28.80 francs, the purchase of gold implies a capital loss of about 9%.  
<sup>8</sup> Swiss Bank Corporation, "Foreign Exchange, Bank Note, and Gold Rates," Feb. 29, 1948.

gold of the Swiss National Bank. For the rest the policy is essentially flexible. Gold sales are officially suspended only "for the time being"; as regards gold desterilization, there has been no official announcement whatever; and the lifting of the restrictions on dollar convertibility, extremely gradual as it was, does not involve any policy commitments.

(3) The suspension of gold sales and the increasing transferability of the dollar into Swiss francs would point to the conclusion that the national bank wishes to accept and retain gold. On the other hand, however, Swiss dollar assets are transferable only up to 10%, from which it may be inferred that the national bank is not yet willing to accept more gold. The proper conclusion to be drawn from this apparent contradiction is probably that further relaxation of the restrictions on the transfer and the use of the "financial" dollars is indicated by the logic of Switzerland's present international position. That this position is likely to last for some time can be seen from the growing restrictions imposed by other countries on their imports from Switzerland, from the uncertainty of the European economic and political situation, and from the uncertainty as to the impact of the Marshall Plan dollars on Switzerland.

(4) Finally, the suspension of gold sales, brought about by the Swiss balance of payments developments, has relieved Switzerland of any possibility of embarrassment in the light of the gold policy being pursued by the International Monetary Fund and its principal members. Although Switzerland acted on its own volition, the actual outcome was a realignment of its gold policy with that of other principal countries.

## Candidates for Curb Nominating Comm.

Francis Adams Truslow, President of the N. Y. Curb Exchange, announced that ten exchange members have been nominated by petition as candidates for Class A membership on the exchange nominating committee. Three members have been named as Class B candidates.

Those nominated as Class A members of the committee include Townsend E. Allen of Ira Haupt & Co.; Arthur C. Brett of Goodbody & Co.; James F. Byrne, Jr.; John K. Harden of Brown, Kierman & Co.; Joseph J. Harris; Robert A. Kugler of Shearson, Hammill & Co.; William N. Moxley; N. Matthew Nilssen of Laird & Co.; Garry Onderdonk of L. A. Mathey & Co. and Chester C. Veldran of Ingalls & Snyder.

Nominees for Class B membership are O. Viking Hedberg of Auerbach, Pollak & Richardson; Henry Parish, II, of Carl M. Loeb, Rhoades & Co. and Charles J. Williams of Edward J. Duffy & Co.

A primary election will be held May 17 at which time eight Class A candidates will be elected by ballot. No primary is necessary in the case of the Class B candidates, all of whom are eligible for the final election scheduled for Tuesday, June 8, 1948.

The exchange nominating committee is composed of four Class A members, who are regular exchange members and at least one of whom must be engaged solely in the commission business and three Class B members, who are associate member partners or non-member partners of regular or associate member firms doing business for the public.

<sup>1</sup> Annual Report for 1947, page 14 (translation mine).  
<sup>2</sup> 1 and 2 Annual Report for 1947, page 14 (translation mine).  
<sup>3</sup> In June and July 1947 the national bank placed on the market 100 million francs of Treasury bills especially issued for the purpose of gold sterilization. The cost was debited to the special fund of 4.1 million Swiss francs that had been created for this purpose out of the bank's profits for 1946. At the end of 1947 the amount still available in this account was 896,000 francs.

TABLE I  
Gold and Dollar Holdings

End of	Gold (In millions of Swiss francs)			Dollars (In millions of dollars)			Total (In millions of dollars)		
	Nat'l Bank	Govt.	Total	Dollars	Total	Gold	Dollars	Total	
1938	2,890	---	2,890	277	3,167	701	65	766	
1939	2,262	---	2,262	360	2,622	549	84	633	
1940	2,173	---	2,173	995	3,168	502	232	734	
1941	2,879	---	2,879	672	3,551	665	157	822	
1942	3,565	---	3,565	57	3,622	824	13	837	
1943	4,173	3	4,176	67	4,243	965	16	981	
1944	4,554	463	5,017	101	5,118	1,159	24	1,183	
1945	4,777	1,030	5,807	161	5,968	1,342	38	1,380	
1946	4,950	1,239	6,189	158	6,347	1,430	37	1,467	
1947	5,256	610	5,866	102	5,968	1,356	24	1,380	
1948, Feb. 14	5,606	230	5,836	133	5,969	1,349	31	1,380	
1948, Mar. 31	5,625	---	5,625	67	---	---	16	---	

\*Feb. 16. †Not available.

CHART I  
SWISS GOLD HOLDINGS  
(BILLIONS OF SWISS FRANCS)

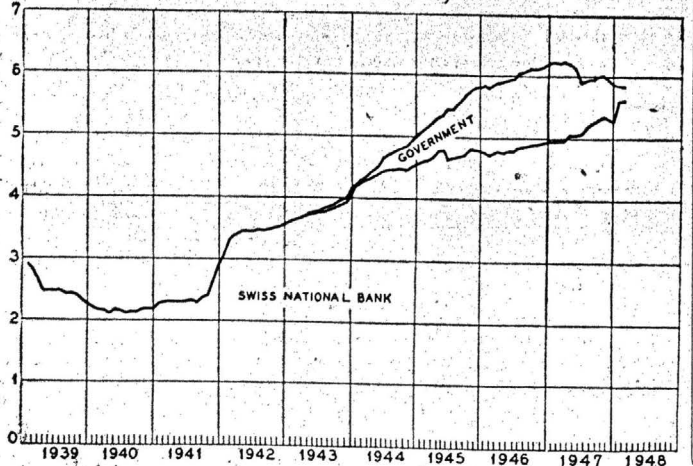
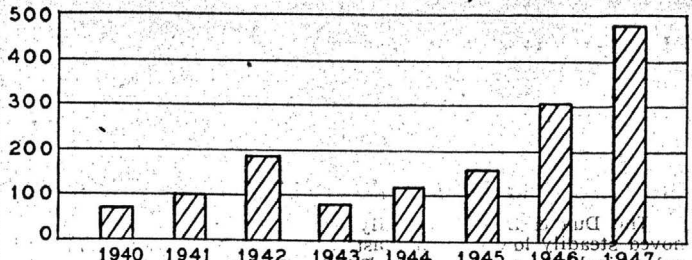


CHART II  
SWISS GOLD SALES TO THE PUBLIC  
(MILLIONS OF SWISS FRANCS)





## Stock Exchange Firms Ass'n Will Meet

The Board of Governors of the Association of Stock Exchange Firms will hold its spring meeting at the Book-Cadillac Hotel in



Homer A. Vilas

Detroit on May 20, 21 and 22, it was announced by Homer A. Vilas, Cyrus J. Lawrence & Co., New York City, President. Laurence P. Smith, partner of Bennett, Smith & Co. of Detroit, and Michigan Regional Governor of the Association, is in charge of the arrangements.

Features of the three-day business conference of the Governors will be a dinner meeting to be held on May 20 and a visit to the General Motors Proving Grounds on Friday afternoon, May 21. The dinner meeting will be attended by members of the stock exchange industry in Detroit together with officials of corporations in the Detroit area whose securities are listed on the New York Stock Exchange, and officials of Detroit banks. The speakers will be Robert P. Boylan, Chairman of the Board of the New York Stock Exchange, Emil Schram, President of the New York Stock Exchange, and Mr. Vilas. Following the inspection of the General Motors Proving Grounds the Governors will be guests of General Motors officials at dinner at the Bloomfield Hills Country Club.

Panel discussions on problems of stock exchange administrative procedure and stock exchange floor trading procedure, the former to be conducted by Edward C. Gray, First Vice-President of the New York Stock Exchange, and the latter by Walter W. Stokes, Jr., partner of Stokes, Hoyt & Co., New York Association Governor and a prominent specialist on the floor of the New York Stock Exchange. These discussions will be attended by partners, registered representatives and other key employees of the member firms.

## Louis G. Mudge With International Bank

The International Bank for Reconstruction and Development has announced the appointment of Louis G. Mudge as Assistant in the Bank's Marketing Department, located at 33 Liberty Street, New York 5, N. Y. He assumed his duties on May 3 and will engage in liaison work with financial institutions throughout the country.

Prior to joining the staff of the International Bank, Mr. Mudge, a veteran of World War I, was a Vice-President and Director of The First Boston Corporation, with which he has been associated for 25 years. For the past two and a half years he has been in charge of the Chicago office of The First Boston Corporation.

## Joins E. E. Henkle Staff

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB. — Ray W. Clark has been added to the staff of E. E. Henkle Investment Co., Federal Securities Building.

## With Wisconsin Co.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, WIS.—The Wisconsin Co., 100 East Wisconsin Avenue, have added Brenton H. Ruppel to their staff.

# The State of Trade and Industry

(Continued from page 5)

"watching to see that steel firms do not uniformly reduce prices." The tenor of FIC charge against the steel industry indicates an amazing lack of understanding of practical producer and consumer problems, "The Iron Age" points out.

If the basing point system, which evolved on a trial and error basis over many years, is out for steel, in a year or so fundamental changes in doing business will have to come. Steel firms clustered in areas with favorable assembly costs, but lacking in steel customers, will find it tough going to compete with other steel firms in large consumer areas.

It is all very confusing to steelmakers and their customers. But it will be more serious when and if the basing point ruling definitely applies to steel, "The Iron Age" concludes. So serious that steel officials shudder to think of what will happen. A possible outcome could be that Congress may favor legislation to legalize the basing point system rather than see a basic industry ripped to shreds because of a theory which looks good on paper but has never been tried except in court.

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 91.0% of capacity for the week beginning May 3, 1948, an increase of 4.4 points, or 5.1%. This compares with 86.6% last week. A month ago the indicated rate was 84.4%.

This week's operating rate is equivalent to 1,640,300 tons of steel ingots and castings as against 1,560,900 tons last week, 1,521,300 tons a month ago, 1,585,400 tons, or 90.6% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

## CAR LOADINGS UP DUE TO GREATER COAL OUTPUT AND HEAVIER ORE SHIPMENTS

Loadings for the week ended April 24, 1948, totaled 852,309 cars, according to the Association of American Railroads. This was an increase of 66,641 cars, or 8.5%, above the preceding week. This increase over the previous week was due to partial resumption of coal production and heavier ore loadings. They represented, however, a decrease of 41,403 cars, or 4.6%, below the corresponding week in 1947, but an increase of 192,045 cars, or 29.1%, above the same week in 1946 when coal loadings were reduced by labor troubles.

## ELECTRIC PRODUCTION SLIGHTLY HIGHER AFTER DIP

The amount of electrical energy distributed by the electric light and power industry for the week ended May 1, 1948 was 5,042,352,000 kwh., according to the Edison Electric Institute. This was an increase of 15,072,000 kwh. over the preceding week, which in turn was 59,546,000 kwh. below the figure for the week ended April 17. The May 1 week was also 401,981,000 kwh., or 8.7%, in excess of the corresponding week of last year, and was the 17th consecutive week that production exceeded the 5,000,000,000 kwh. mark. The peak was reached in the Jan. 24, 1948 week when output amounted to 5,436,430,000 kwh.

## AUTO OUTPUT SLIGHTLY UNDER PREVIOUS WEEK

Production of cars and trucks in the United States and Canada last week declined to an estimated 102,039 units from last week's 107,093 (revised) total, according to "Ward's Automotive Reports." This compares with 101,690 units in the like week of 1947 and 130,610 in 1941.

Ward's said last week's output included 66,163 cars and 30,276 trucks made in the United States.

Predicting further production cutbacks due to the coal tie-up, the agency said May production in the United States and Canada probably will total 392,400 cars and trucks. Preliminary figures put April output in the two countries at 458,950 vehicles.

## BUSINESS FAILURES SHOW SLIGHT RISE THE PAST WEEK

Commercial and industrial failures numbered 106 in the week ending April 29, reaching the highest level in six weeks, reports Dun & Bradstreet, Inc. This compared with 100 in the preceding week and 70 a year ago. Casualties continued to be about five times as numerous as in 1945 and 1946, but were far below the prewar total of 281 registered in the corresponding week of 1939.

All of the week's increase was centered in failures involving liabilities of \$5,000 or more. Ninety-six of these larger failures occurred, rising from 80 last week and 57 in the comparable week of 1947. Included were 10 casualties with losses of over \$100,000 each. Small failures involving liabilities under \$5,000 fell to 10, one-half their number a week ago and below last year's 13.

More businesses failed than in the preceding week in manufacturing and the two trade groups. The rise was sharpest in wholesaling with 20 or twice as high as last week. Wholesalers failing were more numerous than in any week since 1942.

Retail trade, with 43, continued to have the most failures, followed by manufacturing with 29. In both construction and commercial service, casualties were low, claiming six and eight concerns, respectively.

Geographically, the week's failure were concentrated in the Pacific States with 29, the East North Central with 21 and the Middle Atlantic with 20. The East North Central States had the sharpest increase from both last week and a year ago.

## WHOLESALE FOOD PRICE INDEX DOWN 1.3% IN WEEK

Following a nine-cent rise last week, the Dun & Bradstreet wholesale food price index fell by a like amount the past week to stand at 77.76 on April 27. This represented a percentage drop of 1.3 for the week, but it was still 12.3% above last year's level of \$6.02.

## COMMODITY PRICE INDEX RECEDED FURTHER LAST WEEK

The Dun & Bradstreet daily wholesale commodity price index moved steadily lower in the past week, reflecting easiness in foods and agricultural commodities. The index figure closed at 281.01 on April 27, as compared with 286.80 a week earlier and with 253.35 on the corresponding date last year.

Grain markets were irregular last week and prices sagged under the influence of heavy liquidation.

Volume of sales of grain futures on the Chicago Board of Trade reached a daily average of 33,200,000 bushels last week, comparing with 28,500,000 bushels the preceding week and 24,800,000 bushels for the same week a year ago. Although Government buying of cash wheat continued in fair volume, prices fell sharply in both the cash and futures markets. Bearish factors included a Department of Agriculture release indicating adequate stocks of wheat for all anticipated requirements and reports of good rains and improved soil conditions in southwestern Winter wheat areas. There was considerable selling pressure in corn and oats and prices declined sharply in sympathy with the reaction in wheat. Flour demand was slow as buyers avoided making commitments beyond their immediate needs. Cocoa turned sharply lower following last week's rise and recent advices indicated a further downward trend in the consumption of chocolate products. Coffee showed resistance to the lower trend in other commodities; demand was fair and prices remained firm. Hogs were slightly higher for the week, while steers and lambs declined. Lard and other facts and oils continued to show weakness.

After reaching new high levels for the season at mid-week, cotton prices broke rather sharply.

The New York spot quotation finished with a net low of about 1/2 cent per pound for the week. Contributing to the early strength of the market were better outlook for exports of the staple, the improvement in textile markets and the continued decline in the stock of certified cotton. Heavy and sustained profit-taking set in and prices declined rapidly, influenced also by reports that some of the ECA recipients were contemplating deferring purchases of cotton in this country pending movement of the new crop. Sales of cotton in the ten spot markets were reported at 105,500 bales last week, as against 127,600 bales in the previous week and 108,300 bales in the like period a year ago.

Soil preparations and planting made good progress in most sections of the belt as the result of improved weather conditions.

Prices for carded gray cotton cloths remained generally steady. A feature of the market was the active demand for drills and twills for third quarter delivery.

Business in the Boston wool market continued dull last week, due largely to the lack of desired types of wools. Contracting for new-clip wool in the range States showed considerable decline from the previous week. Advices from foreign primary markets indicated continued strength and advancing prices.

## RETAIL AND WHOLESALE TRADE REFLECTS A SLIGHTLY HIGHER LEVEL FOR WEEK AND 1947 PERIOD

Mild weather and numerous promotional sales helped to stimulate consumer buying. Retail dollar volume increased slightly during the period ended last Wednesday and remained somewhat above the level of the corresponding week of 1947. There were scattered clearance sales of apparel and furniture with price reductions neither as large nor as widespread as a year ago. Requests for credit continued to be numerous and collections remained prompt, states Dun & Bradstreet, Inc., in its survey of trade.

Practically all types of lightweight clothing were sought by consumers the past week. Women's suits, blouses and accessories continued to sell well with sheer Summer dresses and beachwear popular in some areas. Promotions of bridal gowns and gifts attracted favorable attention along with increased buying of wedding rings and graduation gifts which boosted jewelry volume in some stores. Men's tropical worsted and gabardine suits were steadily purchased as was the case of sport jackets, slacks and light hats.

The consumer buying of food increased slightly, particularly in rural areas.

In some sections of the country picnic specialties, soft drinks and beer were heavily purchased. Fresh fruits and vegetables were plentiful and in large demand and meat and butter substitutes continued to be sought. The purchasing of canned foods increased moderately, but fresh fish and poultry sold well.

Household linens and home sewing supplies were sought by many housewives. Waxes, paints and cleaning preparations were also in large demand. Draperies, slip covers and Summer furniture attracted favorable attention, as did nationally advertised refrigerators and ranges. Sporting goods and automobile supplies, equipment and services were also in large demand.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 6 to 10% above that of a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England and Middle West 5 to 9, East 6 to 10, South 3 to 7, Northwest 9 to 13, Southwest 10 to 14, and Pacific Coast 4 to 8.

A slight decline in re-order volume reflected chiefly the disposition of some retailers to reduce inventories of some seasonal goods. The total dollar volume of wholesale trade remained close to the high level of the preceding week and moderately exceeded that of the corresponding week a year ago. Buyers generally concentrated on seasonal merchandise and responded very favorably to offerings of specially priced promotional goods.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended April 24, 1948, increased by 11% from the like period of last year. This compared with an increase of 8% in the preceding week. For the four weeks ended April 24, 1948, sales increased by 4% and for the year to date by 6%.

Retail trade here in New York the past week suffered a setback due to cold and rainy weather, resulting in a lower percentage increase over last year than was the case in preceding weeks.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to April 24, 1948, increased 10% above the same period last year. This compared with an increase of 6% in the preceding week. For the four weeks ended April 24, 1948, sales increased by 3% and for the year to date by 5%.

## Optimistic Wall Street Psychology Justified

(Continued from page 3)

contemplated expenditures for military purposes from \$11 billion to \$14 billion also does not justify such a complete reversal in the business forecasts for the last six months of 1948.

We learned (or should have learned) under the Hoover Administration that economic fundamentals rather than propaganda are the controlling elements in the business outlook. We have been relearning this lesson during the past year. As pointed out in an article which appeared in the "Commercial & Financial Chronicle" on Nov. 20, 1947, the fundamentals behind our economic structure are too strong to justify the fear of a downward spiral in either business or stock prices for some time to come. With our present enormously expanded credit base, and the tremendous worldwide demand for the products of our most highly cyclical industries, there has seemed to be every reason for believing that the ever-recurring maladjustments in our economy could be corrected without bringing about a downward spiral. Developments of the past few months are confirming that view. It may be said, therefore, that Wall Street is now merely recovering from the jitters which had no substantial basis, and which were caused largely by two factors: (1) the publicity given to the not disinterested predictions of a Washington clique; and (2) Wall Street's inability to properly appraise the relative importance of the differences as well as the similarities between conditions prevailing two years after World War II, and those following World War I.

### Orthodox Economists Also Biased

In all fairness to our New Deal economists, it should also be noted that there has been a great deal of wish-thinking and/or propaganda behind some of the bearishness of many of our prominent orthodox economists. The public has been told, for example, that commodity prices were quite certain to decline fairly soon to somewhere near prewar levels because such a decline has always been witnessed following previous wars. None of these economists seem to place much weight on the fact that for the first time in our history our national debt has reached a level of about three times our maximum prewar national income. Isn't this a major difference with the past record?

Another popular theme has been the so-called shortage of venture capital which, we are told, can be corrected only by a substantial reduction in taxes on high bracket incomes. Granting that personal tax rates have reached a level that is detrimental to our economy, is it true that legitimate requirements for capital are not being met? For one thing, a way has been found to secure the equivalent of venture capital from the growing funds of insurance companies. (Such organizations as Sears Roebuck, and the Koppers company, for example, have secured the equivalent of "equity" capital by selling some of their buildings to insurance companies, and then leasing these structures for a long period of years.) The funds of millions of small investors are also being made available for equity investments through the excellent selling job being done by some of our mutual investment trusts. While it is true that equity capital is not available without limit, this may be a blessing in disguise because it helps to restrict expansion of plant (and therefore potential competition) to a point where operations have a better chance of holding above break-even points during periods of minor business recessions.

The hue and cry about the high level of inventories and consumer

credits, as well as the emphasis placed by some economists on the decline in savings during 1947 are other examples of either superficial economic thinking or economic propaganda. Shouldn't this type of data be related to the level of our economy as a whole, and to the prewar relationships to sales and consumer incomes? It might also be noted that a great deal of the talk about the lack of consumer buying power has been based on a questionable choice of periods for comparative purposes, without any attempt to check conclusions against the detailed and impartial statistics compiled by the Department of Commerce and Federal Reserve Board.

### How High Could the Market Go?

Any investor who agrees with the view that stock prices are headed upward, must ask himself: "How high could the market go?" To say merely that the trend of the market is up, or down, is of little practical value, as there would be no point in adding to stock commitments if a rise of say only 5% to 10% were in prospect. Any investment action is tantamount to making at least an implied prediction that the anticipated gains are greater than the apparent risks. It is unrealistic to believe that anyone can avoid making assumptions as to the future, in determining investment policy: merely taking a hedged position is tantamount to assuming that the risks and profit possibilities in alternative courses of action are evenly balanced. The real danger in making forecasts lies, of course, in the possibility of a conscious or unconscious bias or influence because of brokerage activity; and in the difficulty that many superficially trained statisticians have in differentiating between co-variation and correlation.

It is my firm conviction that any market projection based on a single approach is much more dangerous, and definitely less conservative, than a forecast based on at least two or three entirely different types of market analyses. Fortunately, we are now in a period when conclusions drawn from economic analyses, timing studies, and several long-term technical approaches, are all "in gear." In any event, the studies which I have found to be most helpful, in actual practice, during the past 18 years all point to a definitely rising trend (albeit a highly selective market) until at least November or December of this year. Limitations of space permit me to touch upon only a few of these independent approaches.

In the first place, during the past two decades (with only two exceptions) the stock market, as measured by the Dow-Jones Industrial Average, has received support at about ten times earnings or higher, at the low for the year, and has sold at the equivalent of at least 13 times earnings at the high for the year. (In using this approach, it is necessary, of course, to eliminate such non-recurring items as unusual inventory profits from the earnings data, since non-recurring earnings are seldom capitalized by the market.) Last year was one of the aforementioned exceptions in that stocks failed to reach a high of 13 times earnings (ex-inventory profits) by about 10%. (Last year's low, however, was equivalent to almost exactly 10 times the earnings projections which were included in a "Chronicle" article published on July 24.) At the present time, it seems reasonable to expect that earnings for the 30 stocks which make up the Dow-Jones Industrial Average will work out to about \$18 a share for the current year, exclusive of any inventory profits. If stocks were to sell at merely

13 times these earnings, this would mean a high for the year of 234. Normally, the Dow-Jones composite group sells at a high of at least 16 times earnings during the second or third year of a cyclical rise in stock prices. If the market were to rise to 16 times our \$18 projection of earnings, this would mean a price of 288! Allowing for the fact that reported earnings would probably be about 10% below the \$18 level if special reserves were set up by all companies to put depreciation charges on a replacement cost basis, a level of 16 times earnings would be equivalent to only about 260.

It has been argued that "earnings mean nothing," since dividend payments now represent a smaller-than-normal ratio to earnings. However, dividend payments of the Dow-Jones group of stocks this year are reasonably certain to exceed \$9 a composite share. In the past, even when the dividend coverage was usually much smaller than it is today, and when government bonds were selling on a yield basis of 4% or more (instead of 2.5%), the stocks which make up the Dow-Jones Industrial Average have tended to work toward a level where the yield was 4% or less, and usually only about 3.5%. Dividend payments of \$9 a share, if capitalized at 4%, would give us a price objective of 225, while a capitalization of this level of dividends on a 3½% basis would mean a price potential of 257.

On the basis of the indicated permanent (or at least semi-permanent) decline in the value of the dollar, a rise in the Dow-Jones Industrial Average to about 250-260 also appears to be within the realm of reasonable possibilities. If our price level over the years immediately ahead is to be only about 67% above prewar (and therefore merely reflect the reduction in the gold content of the dollar since 1934), the stock market at a level of 260 would be really selling at the equivalent of 154 in prewar dollars. Even those individuals who are willing to take the risks involved in blindly following the more popular formulae plans would probably agree that a level equivalent to 154 in pre-New Deal dollars would not be "out of bounds."

Turning to some of my tested, long-term technical approaches which I like to use as a double check on conclusions drawn from my fundamental economic and timing studies, I find that it would be in line with the record of the past 50 years, if the Dow-Jones Industrial Average rose by somewhere between 45% and 60% from the lows touched in the first quarter of this year, before the current cycle runs its course. A rise of 45% from the 165 level would mean a price objective of 240, while a rise of 60% would mean a high for the Dow-Jones Industrial Average of 264.

The above studies must be used merely as tentative, practical guides, of course, rather than as forecasts which can be "guaranteed." I personally believe that the market probably will not sell up into the 240-260 zone of the Dow-Jones Industrial Average until and unless we have a return to what might be called normal confidence. This in turn would seem to depend largely on: (a) definite evidence that the Washington reform group will be replaced by an Administration which really believes in the capitalistic system; (b) general acceptance of the belief already held in some quarters that war is not inevitable, and at least not probable for the next three to five years; (c) a realization that our leading American companies can report satisfactory earnings under normal competitive conditions (when pipelines are full and there are no shortages of goods or unusual pentup demands, as for ex-

ample, in the late '20s or mid-'30s); and, (d) recognition of the fact that in all probability our economy will operate from this point on at a much higher than prewar price level.

### Averages Merely Composite of Individual Issues

Some investors seem to believe that studies summarized in the form of projections of the Dow-Jones Industrial Average are of only theoretical value. This is true only if the investor confines his purchases to stocks which are not likely to be influenced by the trend of the market as a whole. However, although few people "buy the averages," the fact remains that almost any broad selection of medium or investment-grade issues will tend to move with the averages, particularly during any pronounced rise or decline over a period of six months or longer. The performance records of any of the investment trusts will attest to the truth of this statement.

I have emphasized the prospects for the Dow-Jones Industrial Average in this review because the majority of conservative investors are concerned primarily with industrial stocks. Utilities, as a class, are of no interest to investors who wish to secure some protection against inflation, along with current income and capital gains. Investments in railroad stocks usually represent not more than 5% to 15% of the average investment portfolio, or about the amount which might normally be invested in any single cyclical industry.

It is, of course, both desirable and practical to check conclusions

based on technical studies of the averages as such, with the prospects for individual issues. As a general rule, investors should think twice about maintaining a fully invested position in equities if they find that a majority of the better grade issues are selling at levels where the appreciation possibilities do not appear to be definitely greater than the intermediate risks. (It is partly on this basis that I was on record in January, 1937, with the belief that the 1932-1937 bull market was at approximately a cyclical peak.) At the moment, there are so very many stocks selling at levels from which the appreciation possibilities are 50% or more, on the basis of earnings in prospect for the next 12 months and conservative projections of price-earnings ratios, that the above projections for the Dow-Jones Industrial Average appear quite reasonable.

### Conclusion

As stated in articles prepared for the "Commercial & Financial Chronicle" during 1947, a realistic appraisal of fundamental economic forces would seem to justify the conclusion that the market as a whole has been laying a base since October, 1946, for another substantial rise. A trend away from the one-sided economic thinking of the past 18 months, together with favorable developments along the above lines, could lead to a revival of normal confidence before the end of the year. Under the circumstances, it seems wise to go along with prevailing Wall Street psychology for the time being.

## Reduced Taxes or Capital Shortage!

(Continued from page 18)

vide expanding production facilities and that money has largely originated from the savings of individuals, either directly—through the purchase of stock and other securities—or through funds indirectly invested in the securities of American industry by the life insurance companies and the savings banks. There are 54 million owners of life insurance policies in this country. There are over 50 million Americans with savings accounts. These funds are invested by the insurance companies and savings banks in American business.

If government waste, excessive taxation and other hindrances block the flow of capital into the productive system, the country as a whole suffers. With world conditions as they are, there is increasing necessity for production of American goods. Unnecessary government spending and waste should be stopped, and our tax system further revised to promote instead of retarding our economic progress.

These are two fundamental thoughts I would like to leave with you about the effects of heavy income taxes. First, this nation has grown and prospered as a result of capital investment. Economists term it capital formation.

If you will study the nation's growth for the 60 years from 1869 to 1930, you will find that about 20% of the total production has been ploughed back, decade after decade, in the form of investment.

There is nothing theoretical about this. Capital formation has gone on in all stages of history from the first savage who found that his hunting would be more effective if he took time out to make a bow and arrow, to modern times where we have found it more efficient to make jigs, tools, dies and other labor saving machines before we make the automobile, the electric washer or any of the other consumer goods.

During the 60 years I mentioned—from 1869 to 1930—this ploughing back of capital into industry led to an eight-fold increase in production in America—an average rate of 3.8%, per year, compounded annually.

Also, in this 60-year period, productivity of labor was doubled as the result of the worker being given more and better machinery and tools with which to work. And, at the same time, labor's real wages—purchasing power—were doubled.

Now, you undoubtedly remember the succeeding decade, 1928 to 1933. In not a single one of those years did capital formation reach one-fifth of the national output. This was the first decade since the Civil War when the level of production in America did not advance.

I do not imply that the lack of capital formation caused the depression of 30's. But there is significance in the fact that during that period of deficiency of new capital there was no prosperity.

**Threatened Capital Shortage**  
And, now—in this period of prosperity—with national income and employment at peak peacetime levels, we are again threatened with a deficit of capital investment because of excessive Federal spending and high taxes.

Without bothering you with technical adjustments of available data, the answer is that the capital formation required to maintain a healthy growth in America's economy will average \$44 billion over the next five years. This may be compared with a total of only \$35 billion in 1947.

Where is the money coming from? It isn't coming. Excessive Federal spending and high income taxes are choking it off from the economy's bloodstream.

Studies based on governmental and other authoritative statistics, indicate that we are faced with an average annual deficit of \$8

billion of required capital—or a total of \$40 billion over the next five years. This includes capital of all types—bank loans, mortgages, stock investments and other venture types.

The deficit is the more serious because the overwhelming need at the present time is for the stock investment and other risk capital. This is the type of capital which comes only from the retained earnings of corporations or from the savings of individuals who are able and willing to take a chance with their money.

For the provision of such capital, the nation is mainly dependent on the savings of individuals with incomes exceeding \$10,000 per year. Those with lesser incomes cannot be expected to take the risk involved. Historically, they have provided only a minor proportion of the nation's supply of venture capital. But, it is the incomes over \$10,000 that are so heavily penalized by Federal income taxes.

Those are the simple facts. They cannot be dismissed as so much economic theory. The dearth of venture capital is already being felt by industry.

It can be overcome only when taxes are reduced. This relief is possible only after economies are effected in the Federal Government.

Of course, you can have the alternative of the government providing industry with the capital it needs. That's simply state socialism. I don't think we'd like it. Certainly, the results of Socialistic experiments in Europe today hardly recommend abandonment of our free enterprise system in its favor.

In other words, I would impress upon you that there are two kinds of governments, and only two;

In one, the individual serves the State—be it Socialism, Fascism or Communism.

The other form of government promotes and protects the rights, freedom and liberties of the individual.

The United States is the last of the powerful States which upholds the right of the individual to live his life as he may desire.

## Secs. Administrators Membership Changes

LINCOLN, NEB.—John Rutenberg has been appointed to succeed John P. Powers of New York as a member of the National Association of Securities Administrators Convention Examination Committee, Securities and Exchange Commission Liaison Committee, and as Vice-Chairman of the Stock Exchange Committee. Louis J. Conley has been appointed a member of the Pennsylvania Securities Commission by Gov. James H. Duff and thus becomes a member of the Association.

The Association reports that a large number of reservations have already been received for the Convention to be held at the Multonomah Hotel in Portland, Oregon, July 19 through 22. Mayor Earl Riley of Portland, who represented the mayors of the United States on a tour of Great Britain, will attend the meetings. Also Ralph Cake, President of the Equitable Savings and Loan Association of Portland will address the gathering on July 21. Mr. Cake will also be host to those attending the convention at a luncheon in the new auditorium of the Equitable Building. Guides will be furnished to conduct members throughout the building which is built of aluminum, the first of its kind in America.

## With Goodbody & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Reuben G. Hale has joined the staff of Goodbody & Co., 105 West Adams Street.

# Our Foreign Aid Policy in Operation

(Continued from page 4)  
tain materials will be purchased by the participating governments outside the United States and, in these cases, funds will be allocated for the purpose.

The recovery act further provides for the establishment of an American organization in Europe, under the direction of a United States Special Representative, for the supervision of all the American activities of this program in Europe. This Special Representative is, Mr. Averell Harriman, who will have the rank of Ambassador. He is responsible for coordinating the work of the American Administration with the work of the continuing Organization for European Economic Cooperation which the participating countries have established in Paris. Ambassador Harriman and his staff in Paris will have at their service a special mission attached to each of our embassies and legations in the participating countries. These special missions will report to the Administrator in Washington and also to the head of our diplomatic mission in each country concerned. In this way there should be efficient coordination both with our over-all foreign policy and with the recovery program as a whole. The special missions will study the measures which the participating countries are taking to bring about their own recovery, will observe the distribution of supplies which we make available and will report in detail on the progress of the program.

The Recovery Bill also creates a Public Advisory Board which will be required to meet at least once each month to advise and consult with the Administrator on matters of general policy. This Board is to consist of the Administrator, as chairman, and 12 additional members who will be appointed by the President with the approval of the Senate. The 12 members of the Board are to be selected from among U. S. citizens who have had broad and varied experience in matters affecting the public interest.

The self-help measures of the participating countries which are a stipulation of the foreign-aid program include the adoption of sound domestic policies. These nations are acting individually and jointly to accomplish internal improvements. Their Organization for Economic Cooperation in Paris is charged with responsibility for determining matters of policy, formulating programs of cooperative action and carrying out additional functions such as the collection of information and the preparation of joint programs. This Organization will provide information and assistance to the U. S. Special Representative in Europe. It will prepare over-all production, import and export programs on the basis of estimates submitted by the member governments. It will study the best use of the labor and productive capacity of the member countries and will promote consultation on such matters as trade, international payments and the movement of labor. It will also prepare studies and reports for the information of the United States and the participating countries.

### Basic Financial Policy

Let me turn now from details of organization to certain aspects of basic financial policy. The aid to Europe under the Economic Cooperation Act will be partly in the form of outright grants and partly in the form of credits. Some countries are in a sound enough position to receive all of the assistance on a credit basis. Other countries will receive all aid on a grant basis. Most of the countries, however, will receive aid partly on a grant basis and partly on a loan basis. In determining the division of aid be-

tween grants and loans, we must continually bear in mind that the objective of the Aid Program is to establish economic stability in Europe. An important factor that must be considered is the ability of the recipient countries to repay. The Congress has established two basic criteria for determining the extent to which any country should be aided on a grant, as opposed to a credit basis. First is the character and purpose of the assistance. Second is the anticipated capacity of the recipient country to repay. The Administrator, in consultation with the National Advisory Council, will make the determination of the proportion of loans and grants applicable to each country.

There are several other financial aspects of the ERP which should be of special interest to you. One is the authority given to the Administrator to expend funds for the procurement of supplies outside of the United States. This is the so-called off-shore procurement authority. Its primary purpose is to relieve pressure upon goods and services in short supply in the United States. It will not be possible to obtain all the materials needed for the Recovery Program in the United States, nor would it be desirable to attempt to do so. Some commodities are in short supply here and purchasing abroad will alleviate hardship for our population and will in many instances reduce the net cost of the Program. For instance, the needed amounts of food cannot all be obtained in the United States. A large percentage of the requirements of grains, fats and oils, meat and other agricultural products can be procured only in other countries of the Western Hemisphere. We can make it possible through these off-shore purchases for these countries to supply large amounts of foods and materials to Europe and at the same time maintain necessary imports from the United States. For it is of the highest importance that we avoid disturbing the flow of essential exports from this country to other Western Hemisphere countries. Canada and Latin America are heavily dependent upon the import of certain types of goods from the United States, and on our part we are equally dependent upon imports from Canada and the other Western Hemisphere countries. From the long-run viewpoint, it is clear that these trading relationships in the Western Hemisphere must be sustained and encouraged. And it should be noted that the European Recovery Program off-shore procurement authority will facilitate the maintenance of these relationships.

### A Two-Way Program

It has been emphasized that the European Recovery Program is a two-way program. The United States provides assistance, but, in the words of the Act, "continuity of assistance provided by the United States should, at all times, be dependent upon continuity of cooperation among countries participating in the program . . ." The record made since the Paris meetings of last summer by the 16 participating countries has been one of definite progress in mutual cooperation. These countries have been endeavoring to work together to promote a more effective utilization of European resources. They have set up a European clearing organization, designed to avoid unnecessary transfers of gold or dollars. They have moved to shift unemployed labor across national boundaries to those countries in need of additional manpower. They are acting to make better use of such resources as metallurgical coke, mining equipment, steel and internal transport-

ation. And, they have been further exploring the possibilities of regional customs unions. In this latter endeavor, the most advanced effort is that of Belgium, the Netherlands and Luxembourg, known as the Benelux union. As a result of severe postwar maladjustments, free flow of goods within this area is not yet possible. But it is hoped that free interchange of goods can be accomplished within a year or so, thus completing a long-range project which began in London during the war years. Economically speaking, the Benelux countries comprise a great trading and industrial area. By uniting the steel, glass, cement and other industries of Belgium and Luxembourg with the dairy products, horticulture and colonial processing of the Netherlands, more efficient utilization of manpower and material resources is being obtained. Italy and France are also intensively examining the necessary adjustments which must be made prior to establishment of a customs union. Similar discussions are taking place among the Scandinavian countries.

We should not, of course, attempt to judge the European Recovery Program by the results of the first month of its operations. But there are some recent developments which are of exceptional import. You will recall that before the Recovery Act became law, Congress provided funds for interim aid to France, Italy and Austria. This emergency assistance was needed because of the desperate situation of these countries. We have been able to furnish essential supplies to these countries and we can now begin to see the effects. Without the emergency supplies of raw materials and foodstuffs with which they were provided, these countries would have approached a state of complete collapse during the winter. The supplies enabled them to keep their industrial machine going and have permitted the continuance of approximately the existing level of rations. It has been further possible to reduce unemployment and to increase production. You have seen the positive results in Italy. Steps have been taken to put the internal finances of that country in better shape. A rigorous control of credit has been introduced. And, in France, too, considerable progress has been made toward internal stability.

### Administration in Excellent Hands

The administration of the Recovery Program is in excellent hands. The reputations of Mr. Hoffman and Mr. Harriman as businessmen and as American citizens command the respect and confidence of us all, and with the cooperation and backing of the American people we can be certain of a top notch performance in the carrying out of these grave responsibilities.

This, then, in broad outline, is the great venture in constructive statesmanship, the outstanding example of cooperative endeavor for the common good, of which the President spoke when he signed the Recovery Bill. The 16 participating European countries have already demonstrated their firm determination to do their full share of the formidable job that has to be done. This determination is reflected in the promptness with which they took action at the Paris Conference of last summer. And, since then, while proceeding with their programs of internal recovery, they have fully cooperated with the U. S. Government and amongst themselves in improving and clarifying the original Paris program. The continuing organization of the European countries was put into effective operation

in Paris two weeks after the Recovery Bill was enacted.

## Europe Must Eventually Stand on Own Feet

Let me remind you, however, that vital as American aid is to the recovery of Europe, this aid alone will not secure the recovery and stability we all seek. The European participating countries face a prodigious task and sooner or later must stand on their own feet. These countries themselves must produce most of the goods which they consume. They must achieve a level of production where, by their own efforts, they can pay for what they import by exporting goods and services. The European countries are fully aware of the tremendous tasks and obligations that confront them. What they are seeking now is time to accomplish these tasks, for they cannot be accomplished overnight.

We have in these last months witnessed a growing degree of cooperation between the free peoples of the Western European countries and of the Western Hemisphere. The European Recovery Bill has been an effective instrument in furthering this cooperation and will continue to be a strong lever in the promotion of our foreign policy objectives.

President Truman's foreign policy has been dedicated, first and foremost, to the establishment and preservation of the peace. This Administration is exerting every influence and devoting every possible means to minimize those underlying causes which continue to breed world dissension and strife. For the ever-aggressive power of totalitarian force has become a vicious and insidious threat not alone to the European nations, but to our whole democratic concept. However, I believe that wide recognition of this fact and the determination to use our knowledge and ability to work together for peace and security will prove our greatest safeguard. There is no force of sufficient strength to deter an America united in its goal of world peace and economic stability.

## Bond Club Nominates Leness for President

George J. Leness, of Merrill Lynch, Pierce, Fenner & Beane, has been nominated for President of the Bond Club of New York for the coming year, to succeed T. Jerrold Brvce, of Clark, Dodge & Co. The election will be held at the annual meeting of the club, on June 4, at the Sleepy Hollow Country Club, Scarborough, N. Y.

Charles L. Morse, Jr., of Hemphill, Noyes & Co., has been nominated for Vice-President to succeed Alfred Shriver, of Morgan Stanley & Co.

C. Cheever Hardwick, of Smith, Barney & Co., has been nominated for Secretary. William B. Chappell, of The First Boston Corporation, has been nominated for Treasurer.

Nominations for members of the Board of Governors to serve three years are Austin Brown, of Dean Witter & Co.; Harry C. Clifford, of Kidder, Peabody & Co., and Thomas T. Coxon, of Hallgarten & Co.

Continuing Governors will be Robert E. Broome, of Guaranty Trust Company of N. Y.; F. Kenneth Stephenson, of Goldman, Sachs & Co.; Joseph A. Thomas, of Lehman Brothers; Clarence W. Bartow, of Drexel & Co.; Raymond D. Stitzer, of Equitable Securities Corp., and G. H. Walker, Jr., of G. H. Walker & Co.

The Nominating Committee consisted of Robert E. Broome, Chairman; Clarence W. Bartow, F. Malbone Blodget, W. Fenton Johnston and R. Parker Kuhn.

## Problems in Administering Securities Act

(Continued from page 2)

I don't mean it would be better. It would just be simpler to apply.

But first let's see what the machinery is. To effectuate the disclosure requirement the law provides that securities proposed to be sold through public distribution shall be registered with the SEC, and that a prospectus containing required information about the securities shall be distributed to purchasers. It provides civil and criminal liabilities for fraud and for sales based on statements which, because of material misstatements or omissions, are misleading.

In order to register securities the issuer files with the Commission a completed form which calls for information about the company's structure and financial organization, its management and the nature of its operations. The law provides that a registration statement shall become effective on the twentieth day after filing. By virtue of an amendment to the original statute it provides also that the Commission may permit the registration to become effective before the 20 days have passed if the disclosure meets certain standards relating to the adequacy of public information already available about the company, to the ease with which the new financing can be understood by investors, and to the public interest generally.

The period between the filing of a registration and its effectiveness is generally called the "waiting" or "cooling" period. The process of permitting effectiveness to occur earlier than 20 days we call "acceleration."

The waiting period appears to have been conceived by the Congress as a sort of period of quiet contemplation. According to the statute, no sales, or offers, or solicitations of offers, or attempts to dispose of a security can take place until the registration statement becomes effective. The idea apparently was that, during this period, the information in the registration statement would seep out to the public and the Commission would have an opportunity to make an administrative examination of the registration statement. Meanwhile, if the Commission, through its examination, finds reason to believe that the registration statement is so inadequate or inaccurate as to be misleading, it can either prevent the statement from becoming effective or terminate its effectiveness and thus stop further sales until the statement is corrected.

Congress did not rely entirely upon the public filing of a registration statement as a source of information to the public. It required also that a prospectus, containing significant excerpts from the registration statement should be provided to each purchaser. Thus the Act makes it unlawful to transmit a security through the mails or in interstate commerce for the purpose of sale or for delivery after sale unless it is accompanied or preceded by a prospectus which meets the requirements of the law.

### How Has It Worked?

Now let's see how this scheme of regulation has worked.

Through its fraud provisions the law has considerably diminished outright swindles. In reputable deals, it has probably been of enormous help not only to investors but to underwriters and issuers.

Issuers have had to make a careful internal survey of their situation in order to prepare registration statements. In many cases the very process of preparing a registration statement has reconditioned the company's ideas about the kind of financing it wanted.

Underwriters have, since the Act, been perforce presented with

important information about the issuers. That information they are free to use in making their own decisions as to participation and pricing. This factor is not insignificant. It was not unusual, before the Act, for underwriters to take on deals on the basis of the most sketchy kind of surveys, with an eye almost exclusively to the selling qualities of the issuer's name and reputation.

The law has provided information, too, to the smaller dealers who join in the retail sales groups. These dealers have been notoriously dependent on their affiliations with underwriters for new business. In the past they had little more to go on in deciding whether to take part in a distribution than the ultimate investors did in deciding whether to buy. Now they do have, if the law is obeyed and they avail themselves of their rights—an opportunity to see a full-fledged prospectus before committing themselves to the deal.

All of these consequences of the legislation within the financial fraternity have reflected themselves in benefit to ultimate investors. Even if we should assume that ultimate investors never see the prospectus, it would still be true that the necessity for disclosure probably inhibits many bad deals from the start; and improves the quality of many issues that do come out because the distributors have an opportunity to take a good look at the facts before they commit themselves to take part in the distribution.

### Friction Points

However, when we come to the ultimate purpose of the Act—in forming the prospective investor—we find that the law has developed certain friction points. No one is completely happy with it—neither those regulated by it nor those administering it.

The friction points center mainly around what might be called a "resistant" area of the underwriting custom. The feeling generally persists that an underwriting must be consummated speedily if undue risk is to be avoided and the system preserved in its present basic form. The trade pushes for speed; the terms and apparent purpose of the law pull in the direction of less speed. The perfect answer would probably be a compromise which would tolerate as much speed and simplicity as is consistent with reasonably effective protection of investors. The history of the law is, to some extent, a history of efforts to reach such a compromise.

What underwriters and dealers probably like least about the present law is that they cannot sell, or offer, or solicit offers, before the registration statement is declared effective. The Act broadly defines a "sale" to include "any attempt to dispose of" a security. It requires that the first written offer be a prospectus which reflects information in an effective registration statement, and makes it a crime also to try to sell orally before the statement is made effective. Underwriters strictly conforming to those requirements, strictly construed, would be required in many cases to commit themselves to issuers without finding out from dealers, institutions, or other investors what appetite there would be for the issue. Underwriters can contact other underwriters before effectiveness to form a syndicate group—this has been permitted by virtue of interpretation of certain language in the law. But activities beyond this, calculated to stimulate interest in the issue, have not been regarded as permissible under the terms of the law.

It is notorious, however, that underwriters do go further—probably not with their hearts in their mouths but doubtless with

their tongues in their cheeks. They evidently have a firm conviction that to fulfill their function, at least with reasonable safety, they have to test their markets before committing themselves. Consequently they usually do elicit "evidences of interest" from dealers and large investors before tying themselves into a deal, and they would like to see the law changed to make it plain that doing so is legal.

The Commission has a good deal of sympathy towards a change in the law that would have that effect. But, while the Commission has been willing to sponsor a change in the law that would permit the seller to approach the buyer before the registration statement becomes effective, it has not been willing to foster a change which would, at the same time, permit the buyer to be subjected to a firm commitment to purchase without having had an opportunity to examine a clear and adequate prospectus, based on a completed registration statement.

### Commission's Viewpoint

From the Commission's point of view the law or the practice under it needs improving in at least two important ways.

**First:** The practical desirability, in many cases, of ascertaining the potentialities of the market before distribution is undertaken should be recognized and some suitable provision made whereby that might be done without sacrificing adequate protections against buyers being stampeded into improvident commitments based on inadequate or inaccurate preliminary information. That sounds simple. It isn't.

**Second:** The buyer should be assured an opportunity to consider a concise, clear, correct statement of facts about the security before he is committed to buy it. As the law now operates he has no such assurance.

The waiting period has never fully served its anticipated function of permitting correct information about the registered security to get wide circulation among the public.

Even if it had, the result in many cases might have been more harmful than beneficial. Many registration statements are defective when they are filed—sometimes grossly defective. Widespread public dissemination of information taken from such a statement might do more harm than good.

The fact has been, however, that while some people get photostatic copies of registration statements as soon as they are filed, and others actually examine them in the public files, the mere public availability of the statement during the waiting period does not, in practice, result in any general public knowledge of the specific information contained in the statement.

Consequently the prospectus, or some form of it, must be the primary source of full information to prospective investors. The law by its own terms falls short of making it effective for that purpose. It permits a seller to defer sending a prospectus to the buyer until the last act of distribution is complete. It is quite lawful under the present Act for the seller to withhold delivery of a prospectus to the buyer until the security is actually delivered after sale. At that point it does little more than tell the buyer what he has bought. He can be wooed and won by the uncensored arts of oral salesmanship. He is not provided with a full picture of what is being sold to him until he has bought it. It would seem to make good sense to change the law and the practice so that buyers would have a chance to consider a correct statement of facts about the

security before they are bound to take it.

### Reframing the Law

Various mechanical and conceptual difficulties have frustrated attempts thus far to reframe the law and procedure in such a way as to accomplish these two changes. I don't believe these difficulties are insuperable. But they are genuine difficulties. And they stem mainly from the characteristics of speed and risk avoidance in the distribution process which I have already pointed out.

The Commission's staff has tentatively suggested and is now giving further study to a proposal that is intended to accomplish the two improvements in the law I mentioned a while ago as desirable. This proposal is designed to permit sellers to offer securities after the filing of a registration statement but before the statement is declared effective; and to permit them to use for written solicitation before effectiveness a prospectus correct and complete except for price and related information.

Under the staff's proposal no buyer could be bound until after the statement became effective, and unless he had had a complete prospectus for a reasonable time, sufficient to enable him to consider what was offered and decide whether he wanted to buy it at the price proposed. Let's assume that a full business day is a reasonable time for that purpose. Maybe it is, maybe not. If the buyer had been furnished a correct prospectus a full business day or more before the statement became effective he could make a binding commitment forthwith upon receiving the missing price information. If he had not gotten a statutory prospectus before the statement became effective he would have a full business day after getting one to withdraw from the purchase.

Either alternative would give the buyer an opportunity to consider a complete prospectus before he could be bound to take the security. At the same time it would enable distributors to offer the securities before the registration statement had become effective. They could control the timing of the final distribution by timing their request for effectiveness on the registration statement.

Offhand it would appear that amendments along these lines would accomplish the sort of adjustments which seem generally to be considered desirable. If they would work, in practice they would seem to accommodate the law to the underwriter's desire to begin offering his securities before he had an effective statement. They also would cushion the adjustment to make it safe for investors. In fact they would, if effective, improve the efficacy of the law as a protection to investors.

However, there are some serious questions whether the proposal, as I have outlined it to you, would be consistently workable without either further refinement of some of its features or drastic revision of present distribution practices—perhaps both.

### Case of Competitive Bidding

Coupled with suitable provisions for dealing with some problems affecting trading in the new securities and some means of assuring that the prospectus would be sufficiently concise yet sufficiently informative to be genuinely useful to the investor, it would probably work in a negotiated deal of the sort I described to you at the beginning of this discussion. It runs into more serious difficulties when you attempt to apply it to sales made through competitive bidding.

First a word as to the distinction between competitive bidding and the negotiated deal. In the case I outlined to you the price the underwriters paid to the issuer was

determined in a private bargain worked out through discussions between the issuer and the underwriters. For reasons not necessary to elaborate now the SEC in its regulation of public utility holding company system financing and the Interstate Commerce Commission, in regulating railroad financing, have for some time required that securities issues within their jurisdiction be submitted for open competitive bidding by underwriting houses. Competitive bidding is also required by some state laws or regulatory practices.

If you will recall the SEC staff's proposal you will remember that it would legalize oral or written offers of securities after the filing of a registration statement but before the statement becomes effective, and that it purports to give sellers alternative ways of getting the prospectus information to the buyer.

If the seller makes his offer orally before effectiveness he would have to furnish the buyer a full prospectus after the statement becomes effective and would have to give him a definite time thereafter in which to make up his mind whether he wants to go through with the purchase.

The seller could avoid giving the buyer this option to walk off, however, by furnishing him a correct prospectus before the statement becomes effective and providing the information as to price and related data after the statement has been declared effective.

In order for this latter alternative to be of any use the distributors must have some reasonable opportunity to distribute complete prospectuses before effectiveness and thus be able to perfect sales promptly when the price information becomes available and the statement effective. Otherwise they would have to distribute prospectuses after effectiveness and give the buyers a suitable period of grace thereafter to determine whether or not to go through with the purchase.

It has been claimed that no such alternative is feasibly available in competitive bidding. When an issue is to be sold through competitive bidding various underwriters who intend to submit bids may consult with other underwriters to form a bidding group and agree on the amount of the bid. There are likely to be several such groups. None of them knows whether it will be the successful bidder. They may not know how many dealers, or which dealers, they will invite to form the retail selling group if they win the issue. The obvious problem for each group is how to arrange for advance distribution of the prospectus without unwarranted waste of effort and expense.

It is the SEC practice in competitive bidding to permit a registration statement to become effective in two stages. It becomes effective first, without price information, for the purpose of inviting bids. When the bidding is over and the price determined, it is declared effective for the purpose of public distribution. Thus final effectiveness does not occur until the bidding is over. Until that time, no single group knows whether it will get the issue.

Under the staff proposal the winning group would have to give all of its dealers the advantage of an out clause unless it had made a pre-effective distribution of prospectuses to dealers before it knew it would win the award. And the dealers in turn must have been given enough prospectuses in sufficient time before the award so that they could make pre-effective distribution to their retail customers. Since any one of the bidding groups might be the successful one this would mean that, lacking some common arrangement for general distribution of prospectuses, each group, if it wanted to avoid the out clause after effectiveness, would have to make a wholesale dis-

tribution of prospectuses, before the bids are opened, to all dealers and retail purchasers whom it might ask to buy if it should be the successful bidder. The obvious disadvantages, in the absence of some arrangement for common distribution, are undue expense, duplication and possible waste of time, money and effort by the unsuccessful bidders.

It seems not unlikely that a practicable method of organizing a common pre-effective distribution of prospectuses could be worked out to meet this problem if the industry genuinely wants to meet it. None has been worked out yet that seems generally acceptable.

Another way of meeting the problem might be to make an exception of competitive bidding cases to permit a continuation of present practice either as a whole or with some modifications. The bankers don't like that. In general they don't favor competitive bidding and would be reluctant to have issuers encouraged to use it because of less rigorous disclosure requirements in competitive bidding cases than those applicable to negotiated deals.

From the Commission's viewpoint too that alternative is objectionable for the same reason in a different aspect. If it is desirable to have the selling group and retail buyers informed about the security in advance in a negotiated deal it is at least equally desirable that they have a chance to consider the same information in a competitive deal. Competitive bidding is designed in part to procure the best price to the issuer. It does not guarantee lower prices to investors, nor does it have any necessary bearing on the quality of the issue. There is no reason why investors should not have the same opportunity to appraise the purchase of a security underwritten competitively in the light of the public offering price as they would have in the straight negotiated deal.

#### The Suit Against Investment Bankers

Further, such a concession presumes that competitive bidding is the unusual procedure for which exceptions may be made. However, we can't be certain that assumption will continue to be correct. The Department of Justice has recently commenced a suit against 17 large underwriting houses and others. The bill in that suit alleges among other things that the syndicate and group method of securities distribution as it is customarily carried out is, in certain aspects, in itself a violation of the Sherman Act. It is impossible, of course, to foresee the full consequence of this litigation. If the relief sought should be granted even in part or if the industry's practices should be modified voluntarily in partial accommodation to the complaint, competitive bidding in some form or other might come into substantially wider use as a normal, rather than an exceptional method of initiating a distribution of securities.

If that should occur it would be even more plainly essential than it is in the present context that the legislative regulations provide a suitable and practicable method of achieving their objectives in competitive bidding cases.

The Commission has not yet fully explored all the implications of the pending suit on the revision program. Until it does it is not in a position to make definite proposals.

The reasons for this should be obvious. The burden of my discussion today has been to indicate how vitally securities regulation is a matter of action and reaction, a matter of adjustment as between law and practice. To attempt to formulate rules without regard for what the practice will be is like attempting to predict the behavior of two gases in combination when only one of them is a

known substance and to make practical arrangements on the basis of the prediction.

Approximately half a year has passed since we first published the proposals of our staff for changes in the law. Those proposals have been widely distributed. They have generated a good deal of comment and discussion. There has been no general agreement on the possible effects nor has there been any firm conviction that the proposals if made into law would not give rise to many new problems.

This is a field in which small changes may have wide implications; in which no one can be quite sure of the full consequences of changes. Therefore it is a field in which there is a natural reluctance to fix wholesale changes into the law without substantial assurance that their effects have been foreseen and provided for.

It is not inconceivable that the wisest course to follow at this stage would be a candidly experimental one. Some, at least, of the objectives of the statutory revisions that have been under consideration might be substantially achieved without changes in the law through modification of some of the administrative rules and policies developed under the present law, especially if those changes were accompanied by some corresponding changes in the habits and practices of issuers and underwriters.

#### Defense of Waiting Period

As I have indicated, the 20-day waiting period has not, in and of itself, proved very effective in achieving its main purpose of enabling investors to find out about the investment before being called upon to buy. The period has been used, however, by the Commission to give registration statements a thorough, critical examination, and acceleration customarily has not been granted until so-called "deficiencies" disclosed by that examination have been corrected. The Commission does not guarantee the correctness of the statements. It does, however, do its best to discover materially misleading statements or omissions and see that those discovered are corrected before the statement is declared effective and sales can be made. That service to issuers and underwriters the statute does not require the Commission to perform. It has probably resulted in substantial improvement in many statements. But it may not have been an unmixed blessing, and it may be the cause in part of some of the difficulties the revision program is aimed to correct.

Obviously the time required for examination of the statement frequently delays effectiveness. If the corrections that result are genuinely beneficial to investors the time may be well spent. But many statements are filed in excellent shape. The delay incident to examination of such statements before effectiveness may be unnecessarily wasted time. Moreover, this practice encourages some sellers to file statements in incomplete, inadequate form, relying upon the examination process to catch errors and omissions and put the statement into suitable form. The time spent in examination of such statements might better be spent by the sellers, with saving of public expense, in preparing an adequate statement and prospectus in the first instance.

While all this is going on the sellers are likely to be champing at the bit, itching to find out how much interest there is in what they have to sell or, more realistically, itching to sell. The competitive pressures that cause the trouble continue to build up during this enforced wait. If someone jumps the gun, others have to or suffer competitive disadvantages. Many do.

Looking at this thing realistically it seems probable that if the registration has been well pre-

pared the information may be about as good as it will ever be. If it has been badly prepared the information that gets circulation during this enforced waiting period is at best inadequate or inaccurate and may be positively misleading. The first impressions based on this preliminary inadequate information are often the ones on which sales are made unless the changes are plainly pointed out by striking publicity.

#### A Proposed Plan

Perhaps the thing to try would be for the Commission to exercise the power to accelerate more freely before examination is complete, and, unless delay is requested by the sellers, where it is not patently evident on the face of the statement that it is misleading, hold it in suspense only long enough to permit a general circulation of the prospectus. I think that course would be rather plainly warranted under the present law. Indeed it seems probable that the sanctions originally intended to assure truthfulness were the civil and criminal liabilities for misstatements and material omissions. Those would remain effective.

Such a modification of our practice would enable sellers to speed their distributions if they had confidence in their statements. It would probably lead to the statements being better prepared initially in many cases.

It would restore the civil and criminal liabilities of the Act as the operative sanctions to assure truthfulness in the selling of securities. It would relieve the pressures that build up during the waiting period. It would eliminate any reasonable basis for claims that delays are based on quibbles about statements of marginal materiality.

It might result in some bad securities being sold on the basis of some bad statements. But a few stop orders where really misleading statements were used, coupled with successful prosecutions for wilful misrepresentations, and civil suits to restore the losses would probably raise the standard of disclosure fairly promptly and keep it high.

One of the principal question marks about such an optional opportunity is whether sellers would utilize it. It would be interesting to discover whether what is wanted is really the opportunity to sell quickly after filing, or the opportunity to sell quickly without responsibility or liability for misleading statements.

If it should be used, especially if it could be coupled with an administrative definition of "offer" that would permit purely exploratory inquiries calculated not to commit buyers but to forecast the market for the issue, we might be able to make substantial improvement in effectiveness without statutory change.

We haven't fully explored the possibilities of this alternative to the more or less rigid remedy of statutory revision. It may develop, however, that mutual adjustment to the aims of both the Commission and the industry can be made more feasibly by a process of rule making which allows greater flexibility than that permitted by statutory changes.

#### With Geo. A. McDowell Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Robert H. Wheeler has become associated with Geo. A. McDowell & Co., Buhl Building, members of the Detroit Stock Exchange. He has recently been with the War Assets Administration. In the past he was with Marquardt, Wilson & Co. and Dart & Co.

#### John B. Fleming Opens

SPRINGFIELD, MASS.—John B. Fleming is engaging in a securities business from offices at 172 Chestnut Street.

## Money, Government Spending and Interest Rates

(Continued from page 14)

of \$20.67." Now gentlemen, let me tell you that gold is not the best base of credit supply. Every conqueror since history was written, as his first move attempted to corner the supply of gold in the country which was being over-run. Hitler, for example, talked about his ability to finance without gold, but he did what previous dictators before him had done, namely, take the gold out of the vaults in the conquered countries as fast as he could. This merely emphasizes the importance of knowing what is happening to gold. In this discussion we are not interested in a mass of statistical details, but rather in broad sweeping changes. In February, 1934, our gold supply was somewhat in excess of \$7 billion, and went up constantly to about \$22,700,000,000 at the end of 1941, and during the war years it ranged between \$20 and \$22 billion, but during the last year it has been going up so it is at the highest level in history at more than \$23 billion. It should be obvious to all of you that we have no real current shortage of basic money supply, and that the longer the trend continues in a rising direction, the greater will be the pressure for a reduction in interest rates, all other things remaining the same. Of course, not all other things remain the same. With reference to deposit bank money, the total deposits adjusted were approximately \$38 billion in 1934; \$65 billion in 1941; \$149 billion in 1945, and currently is around \$144 billion. Gold went up three times and the deposits 2½ times between 1934 and 1948. It truly could be said that our money bags were swollen, and that there was an ample credit supply in relation to the demand, consequently, the money conditions during most of that period favored low interest rates which tied in with the policies of the Administration money managers. But, with the ending of World War II, budgetary surpluses came into being and retirement of bank held debt occurred, reducing bank deposit money. In 1945 and 1946 gold was relatively stable around figures in excess of \$20 billion, but in 1947 and to date monthly figures show a constant increase. World confidence and trade conditions are the main causes of change in the gold supply and until there is a substantial improvement in the law and order, and respect for contracts in other parts of the world, a reversal in gold trend does not appear imminent. However, in connection with the bank deposit money, most of which has been manufactured through either government loans or private loans, a change in the demand for credit would cause substantial fluctuations.

#### Balancing Demand and Supply of Credit

In attempting to bring into perspective the balance between the supply and demand for credit, the loans in all banks may be used as a guide. In 1934 there were approximately 22 billion loans by 1941 the figures were approximately \$27 billion and for the last year end about 43 billion. There has been on an absolute basis a very substantial increase, but it is not so much the absolute but the relative changes which are of definite influence on the interest rate. Remember, that the credit base increased during the period in the case of gold three times and in the case of bank money 2½ times, but current loan figures are only approximately 95% over 1934 figures. These proportions indicate why money

rates are still at relatively low levels.

In studying the money, certain bank figures reveal certain important trends, and for us the trend of investments is important because of the heavy proportion of government securities. In 1934 investments were about \$18½ billion and at the end of 1941, \$34½ billion, with a peak in 1945 of almost \$110 billion. Current figure is around \$92 billion. Remember, that the war ended in 1945 at which time the government need for large scale financing no longer was necessary. The drop in investments during the years 1946 and 1947 totalled about \$15½ billion, most of which was in government securities, but loans went up almost \$12 billion, deposits went down \$8 billion, but the gold supply increase \$2 billion. Time loans were going up and government debt was being retired; bonds had to be sold in order to make loans, with consequent pressure on the market.

#### The Fear of Postwar Depression

At the close of the war the government was greatly concerned with the probability of a depression. The conclusion was that the returning soldiers and sailors could not be quickly absorbed in the working force and therefore, encouraged inflationary measures. The ability of business to convert quickly from war to peace made it possible to take quick advantage of the tremendous pentup demand for homes, cars and wartime shortages, and since people had money and were willing to buy business turned out to be excellent. The planners in Washington were completely wrong in their guess. However, the inflationary damage had been done. Controls had been removed to a large extent and the Victory War Loan Drive of December, 1945 was heavily over-subscribed. Up to that time deficit financing had continued. When it became evident that the demand for private money or credit was coinciding with the government's unnecessary demand and inflation was developing, the government reversed its position to a certain extent, and began to consider deflationary measures which might be adopted. Yet, it insisted upon maintaining a wartime pattern of interest rates which of course, were obviously inconsistent with the money conditions. The relationship which had existed from 1932 through 1945 on a constantly increasing supply of credit in relation to the demand, was now just the reverse. The government started to reduce debt with a subsequent reduction in bank deposit money, and as previously stated, the gold supply remained relatively stable in 1945 and 1946, while the demand for private credit to finance increased sales and to finance plant expansion became exceedingly great. It became more and more difficult for private borrowers to obtain loans at extremely low rates, and the open market rates for private credit were in a definite rising trend. The government seemed reluctant at first to recognize the change in conditions. Corporations which had husbanded their resources during the war period, feeling confident in the postwar period they would have an exceptionally strong working capital position, found because of the rise in costs it was necessary to have a much greater working capital position in order to finance the same unit volume of business as prewar. Large banks and insurance companies increased term loan financing directly to indus-

(Continued on page 38)

## Money, Government Spending And Interest Rates

(Continued from page 37)

try and as loans went up the pressure of earnings from the bond market lessened and investors became less interested in low yielding government securities when higher yields were obtainable elsewhere.

### Maintaining War Pattern of Interest Rates

In attempting to maintain the wartime pattern of interest rates the Treasury Bills first stood the brunt of these developments, while during the war through the repurchase agreement which was in effect, banks held a very substantial proportion of  $\frac{3}{8}\%$  Bills, nevertheless, by 1947 the Federal Reserve Bank had acquired roughly 16 out of the 17 billion outstanding. The same trend was developing on the Treasury  $\frac{3}{8}\%$  Certificates, for it was certainly obvious that when banks were as highly liquid as they were during the war period with low loans, they would liquidate the lowest yielding items representing excess liquidity in order to make loans. In June of 1947 fiscal authorities decided to allow the Treasury Bill rate to rise to levels which they considered reasonable in relation to the long-term  $2\frac{1}{2}\%$  rate which apparently even today is considered inviolate by the money managers. Here again then we see that over the long-term money managers may attempt to cushion the changes in money, but that it is extremely difficult to oppose fundamental forces. Using the United States Treasury bank eligible  $2\frac{1}{2}\%$  due Sept. 15, 1972/67 as an indication, investors interested in government bonds can now look back over a considerable pattern of price performance and cannot help but think of high prices prevailing in 1946 when the bonds sold between 109 and 110, which compares with the current market of 101 $\frac{1}{2}$  today. You are, of course, familiar with the pegging of government bonds and right now governments are a little above the pegs. The question would arise as to whether we are having a normal rally in prices after a big decline, or whether conditions in money have changed to a point where we may again expect a decline in interest rates.

Interest rates on long government bonds tend to set the pattern on all other types of interest rates, especially in a free market. Whether or not we really have a free market is another point of argument. Take your GI loans or FHA loans for example, with their legal rate limitations; is that any better or worse than the pegging of a government bond on a  $2\frac{1}{2}\%$  basis? Ask yourselves if a government policy can ever be consistent. The government is influenced by political considerations as well as economic considerations. I think everyone is agreed that it would be advisable to eliminate the double taxation of corporate dividends, but politically it may not be feasible. For example, it might be well to eliminate capital gains taxes, but politically that would be suicide. Currently, the government policy talks deflation and through certain credit measures which the mass of voters do not understand, hopes to cause some deflation, but on the other hand, action is just the reverse. The recent buying of government bonds at pegged prices definitely put more money in the hands of banking institutions to lend out, but in all fairness it must be mentioned the reduction of government debt has just the opposite effect. If the reduction in debt is not exceeded by the increases in private credit, plus the purchases of government bonds, and gold and currency re-

main stable, then an even balance could be maintained in the money relationship. The increase in credit in the last half of 1947 has been causing the President's Council of Economic Advisors some concern, and the increase in consumer credit has also caused concern to interested groups. You are familiar with the splendid efforts of the American Bankers Association to curb credit as one means of combating inflation. The Federal Reserve has made various proposals to curb credit. In all fairness to the banking structure it should be mentioned that loans apparently have held at relatively stable levels during the first quarter of this year, but this does not mean that the demand has been satisfied. In your own field of mortgage banking you are fully aware of the terrific unsatisfied demand for credit. Mortgage credit is but one phase of the overall money problem. Willingness and ability to take varying degrees of risk also change as ideas on money change.

Now, we have been talking deflationary measures, but as I said before, our actions speak louder than words. I would hate to ask for a show of hands in this room to indicate disapproval of the pending Bill in Congress to reactivate a market for GI and Title VI mortgages. Passage of the Bill will be inflationary and increase the volume of credit which in turn will put pressure on rates to rise. You want lower food prices—the farmer wants higher. Everyone wants deflation for the other fellow. Historically inflation tends to force the price of money or the interest rate up, because goods or property are better to actually hold than the yardstick measurement of the value of that property. Would anyone venture to guess that the inflation bubble is about to burst. There are indications that we may be near the peak. The refusal of various corporations to grant great wage increases at this time, the apparent reluctance of workers to strike, and the filling of the pipe lines in many industries gives pause for serious thought. Yet tax reductions, the European Recovery Plan, and the Rearmament program are inflationary influences, but these take time to be actually felt.

### Factors in Future Interest Rates

The factors currently at work could conceivably resolve into a group of forces which would make for a reversal of the recent tendency of interest rates to rise, but because of the apparent large prospective demand for credit one would be lead to believe that such a change would not be of a long range character. If for example, the reduction of Federal income taxes, the European Recovery Plan, and rearmament, creates a deficit which will be large enough to involve bank financing, then it is conceivable that interest rates will not tend to rise. On the other hand, contacts with lenders of all types throughout the country indicate that there is no thought at the present time toward reducing interest rates on loans, rather there is a definite trend toward increasing the rates on loans. As this trend accelerates the yield differential between loans and government bonds will widen, and the same general conclusion would apply to the yield differentials between other types of investments and government bonds. The long term  $2\frac{1}{2}\%$  government bond becomes less attractive for income purposes. There are more sellers than buyers and the market is weak. Your own actions reinforce this conclusion. You are reluctant to make any more 4% loans regardless of guarantee or

insurance by governmental agencies, and if the government does set up an agency to buy your 4% loans, then the government will have to get the money to buy your loans through taxation or borrowing. Since we have just received taxes you can be sure it will result in borrowing. Credit expands.

### Threatened Deficit Spending

We aggravate the government budget problem every time some group gets help, and this in turn brings up the confidence question. For how long can any government operate at a deficit without giving thinking citizens some concern as to the soundness of money. This is a problem which is of great concern. Confidence is not easily measured and is subject to sudden change. In the thirties when there was deficit financing our debt in relation to our estimated national wealth and income, and in absolute size, was not particularly burdensome. The depression period was entered with a relatively small national debt. Now we have approximately a 250 billion debt but national income is exceedingly high, and our economy appears to be operating at a peak. Everyone knows that peaks of the present kind can hardly be maintained for many years. Yet we hate to face facts of experience. In 1930 the public government debt was slightly in excess of 16 billion, while national income was approximately 90 billion. Currently national income is running around \$240 billion which compares with the rough figure of \$250 billion of debt. These figures emphasize the fact that in previous years national income was far in excess of government debt. Now it is less. Even during World War I when public debt rose to around the high of \$25 billion, gross national income was estimated around the \$63 billion dollar level. Our debt will not be burdensome if incomes remain high, but recent studies indicate that a minor recession would cause many businesses to operate at a loss because of the rise in break even points as compared with prewar.

These comments lead to a conclusion which indicates every effort must be made to keep income high. It is to be hoped that some of our current and prospective expenditures over the next several years will create stable word conditions and permit a continuation of a sound money program. It is quite likely if business volume falters inflationary measures will be expanded so that high dollar income will be developed. In accordance with this reasoning demand for money will continue high and the price of money will not come down.

## News About Banks And Bankers

(Continued from page 29)

The First National Trust and Savings Bank of San Diego, Cal. has mailed shareholders warrants to subscribe to additional shares of common stock (\$10 par value) at the rate of 1 share for each  $2\frac{1}{2}$  shares held at \$22.50 per share. Indicating this in its April 27 issue, the Los Angeles "Times" added:

"Any shares unsubscribed for after May 11, next, will be underwritten by a syndicate headed by Dean Witter & Co. and including Blyth & Co. Inc., William R. Staats Co., Wesley Hall & Co. and Dewar Co.

"This offering involves the issuance of 40,000 shares of common stock and retirement of all outstanding preferred stock. Capitalization will consist solely of 180,000 shares of \$10 par common stock.

## As We See It

(Continued from first page)

to overthrow another, and at the same time come ultimately to regard our ally as "democratic" and a lover of any system which even remotely resembled the American way of life, is still a mystery which will probably never be solved; but convince ourselves, apparently, we did — or many did — and now our disillusionment begins to take on the depth and bitterness of our disappointment that the war to end all wars three decades or more ago turned out to be just another horrible war.

### We Still Have Not Learned

Evidently the revelation that we had made fools of ourselves about the issues of World War I did nothing at all to prevent us from developing equally foolish and unrealistic notions about what we could reasonably expect to accomplish in a second conflict of similar proportions and of much greater destructiveness. And now disappointment over the results of World War II to date appears to have failed to cause the scales to drop from our eyes. At any rate, we continue to manufacture slogans and set utterly unrealistic and self-deceptive "objectives" before ourselves as we proceed to develop and give effect to our postwar policies and programs.

This fact is quite obvious to the thoughtful observer in both the international and domestic fields. We, or at all events, the vast majority of us, now readily concede that Russia is still quite what it has always been since the "October Revolution"—and in a good many respects, what it was for a century or more prior to that time; we see plainly enough now and acknowledge that the Kremlin has never had more than a strictly hypocritical interest in the Atlantic Charter or in any of the other idealistic schemes and plans evolved in the inner circles of the New Deal. We understand now that in Moscow there exists an all-powerful regime which is the epitome of statism, of totalitarianism, of ruthlessness, and of very nearly all the attributes we so heartily and justly condemned in Fascism and Hitlerism.

But what of the allies we are developing and aiding in all ways "short of war"? Suppose we succeed in "stemming" the march of the Russian inspired totalitarianism from Moscow outward in virtually all directions. Suppose even that in some way not now discernible we are ultimately successful in wiping communism out of Russia as we have so violently promised to eradicate Fascism and Hitlerism from Italy and Germany. Would the world, in such an event, then be left purely democratic and devoted to private enterprise as we have always known it in this country? To ask such a question is to answer it.

### Britain as an Example

In Britain, our most ardent supporter and our most favored "poor relative," the government is in the hands of a party, or of elements in the population, which, while democratic in the sense that they derive their power from the majority of the people in the land, are, nonetheless, obviously, and avowedly bent upon ending private enterprise in most of the more important branches of the economy, and which for all practical purposes apparently never intends to return to the people the rights and privileges individuals have traditionally enjoyed in that land. It carefully eschews the label "communism," and in fact if the Russian regime is the only type of communism, is really not communistic. It is, however, many, many furlongs distant from a friend, even, of private ownership of most or certainly many types of property. It has been restrained somewhat in its campaign to "nationalize" most of the economy merely by the fact that it has acumen enough to see what it would do to production, and is shrewd enough to understand what effect it would have upon the willingness of the American public to continue that country upon its list of charities.

The strictly American tradition of individual initiative and private ownership of industry is as little respected in some other countries into which our goods are flowing and are now destined to flow at an accelerated rate in order — if we are to accept the popular notion—to stem the tide of much the sort of thing we are financing with these huge gifts. Indeed, the so-called Paris Conference (as is well known to all who have followed the reports emanating therefrom, and which constitute the basis in good part for the planned European Recovery Program) represents the very essence of planned economy—that is, industrial and other economic operations planned by the States involved, in collaboration, more or less, with one another and directed by public authority.

It may be that self-interest requires that we do much of this sort of charity work — we again express doubt about

the wisdom of a good deal of it — but we shall certainly be foolish if we build up hope of re-establishing a world, or of creating a world, in which our traditional ideas prevail even in reasonable degree. We may or may not be able to prevent some of the extremes of statism and of post-World War II versions of Fascism and Communism, but we shall not be able to shape the world in the image of the United States of America from the days of Washington to the time of Franklin Roosevelt — the years in which we grew to the greatness which has for so long been the envy of most of the rest of the world.

**What of Ourselves?**

Such we could not do in any event, but it would be strange indeed if we could make headway in this direction at a time when we appear to have given up the idea of retaining this type of society and economy here at home. For such we appear rather definitely to have done, regardless of the slogans now in use which at face value would lead to other conclusions.

For where is the political leader today who has shown in this election year any great stomach for traditional American ideas?

# Thinking About World And Its Economics

(Continued from page 6)

program. Nevertheless the offset is considerable, and reduces the apparent burden of the defense undertaking. I say "apparent burden" because the increase of productivity allocated for armament will not be available for what otherwise might be a general and substantial increase in the standard of living during the comparable period. This is unfortunate, even for the United States, where an improvement in conditions of life for very large numbers of people is both technically possible and morally imperative.

**Subjects Affected by Armament Outlook**

In addition to the question of war and peace, there are four other subjects which we must think about when we are thinking about the world and its economics. These four subjects are all deeply affected by the armament outlook, but each in a special way, and each has complications of its own which are worth mentioning.

The four subjects which I have in mind, and there are doubtless others, are:

1. Prosperity in the United States.
2. Reconstruction of war torn areas, particularly of Europe.
3. Policies affecting state trading and state interference with trade.
4. Development of the under-developed areas of the world.

Let us discuss them briefly in order.

First, prosperity in the United States. Our own prosperity is a necessary condition for a wholesome world economic situation. This is not a selfish proposition, although it is loaded with self-interest. It is not a political proposition, although its political overtones are enormous.

The economic consequences for the world of prosperity in the United States arise as a result of three conditions that exist when we have a high level of productive employment and confidence that it can be sustained.

(a) When we are prosperous, we are more willing to receive imports, and to take from the world its specialized production of finished goods and raw materials. Obviously this tends to increase employment and productivity abroad and to provide dollar exchange which can be used to purchase American products of every kind. If the world is to have these American products, we must have a level of prosperity at home that makes us willing to receive the products of others in exchange.

It is elementary that world

goods. Such a policy necessarily means a slowing up of production for consumption in many countries for a limited period of time, but the results in the not too distant future will justify abundantly the retarding of some immediate gains in present standards of living.

The reconstruction of Europe will involve the export of European goods and machinery to parts of the world where the American manufacturer today has an open field. This will be painful in detail, but it is unlikely that it will come quickly or abruptly. The European requirements for European production are still very large and only gradually will the markets of the world have access to reasonably full range of European supply.

The third subject which I mentioned as important in thinking about the world and its economics is that of state trading and state interference with trade. Thinking about this subject is likely to go on for a long time, and it is likely to produce several American headaches. State trading and state interference with trade has assumed formidable proportions, and the correct policies to deal with problems involved are by no means clear.

Fortunately in the International Trade Organization a forum exists where the problems can be openly discussed. The points of view of the countries of the world are available to all. They can be analyzed, evaluated, and gradually a consensus on a common ground may emerge. After that, it may be possible to have public agreement or at least public acquiescence concerning the principles that have been matured.

State trading and state interference with trade is by no means the exclusive prerogative of a totalitarian state. Some Americans seem to think that these practices are evils from which we are free, being as we are a capitalist, private enterprise, republican democracy. They also seem to think that you can't do business with a state trading monopoly. All of which means that a tremendous amount of thinking, and of controversy too, lies ahead of us.

In connection with state trading and state interference with trade, it seems to me that one distinction is useful, namely, whether these practices are engaged in for the benefit of the economy of the nation as a whole or whether their purpose is to support at public expense the special interest of some producer or group of producers, who by tradition, guile or force have become the recipients of public bounty. Today there are many situations in which the welfare of a country as a whole must be safeguarded by state trading and state interference with trade. These countries will not abandon their powers over trade, unless they feel assurance in their security and that their welfare lies along another road. In the end this should be the case, since state subsidies and restrictions on import are done by a state at an economic cost to its own citizens.

It is therefore proper to promote as an objective, the conduct of international trade on the basis of economic considerations only, recognizing that state interference should always be kept on the defensive, to justify a need or benefit that is paid for at the expense of its own nationals.

The fourth and last subject that I mentioned as necessary in thinking about the world and its economics is the development of the under-developed countries. It was recognized by the United Nations Sub-Commission on Economic Development that strictly speaking all countries are under-developed and have needs for capital goods for their citizens' welfare. Nevertheless the disparity between the more developed and less developed countries is so great, that no substantial ambi-

guity will arise in talking about the development of the under-developed countries.

Most of the world's population lives, exists, in under-developed countries. The economic opportunity for the western world in a humane program for making real for others what is potential in their own powers is literally fantastic.

But it will not come quickly. To be sure, the leaders of the under-developed countries are aroused and they are impatient. They would like to believe that their development can be manufactured overnight by loans from the International Bank and technical scholarships from UNESCO. But these leaders do not really believe these things. They know that most of their capital goods must come from their own real savings. They know that their financial institutions are inadequate. They know that incentive to work and to serve must be provided. And after that they know that investment from the western world will be imperative and welcome. Today they talk about preferring governmental loans; tomorrow they will have worked out ways of using private financial institutions to the mutual advantage of all.

Over the decades to come, the development of the under-developed countries is for the world, developed and under-developed, its greatest economic opportunity. And there is no reason why with patience and good will, the development cannot proceed without exploitation, jealousy or fear.

I have mentioned four points that are important in thinking about the world and its economics, prosperity in the United States, reconstruction of war torn lands, state trading and interference with trade, and the development of under-developed countries.

All of these subjects, as I have said, are profoundly influenced by the problems of war and peace. All are distorted by the many programs of armament which the absence of peace makes necessary.

Do we have to take the absence of peace as a point of departure for thinking about the world and its economics? For the short run, certainly yes; for the longer run, well, perhaps not.

**Need of Adequate Answer for War or Peace**

Let us remember that the people do not regard an armament program, necessary as it is for our own defense, as an adequate answer to the problem of our generation, which is the establishment of a just and durable peace. In recent weeks a new ferment of a non-sentimental, non-political character is manifesting itself among men whose leadership qualities are indisputable, but who are not prominently in the public mind. Let me give two symptoms of this tendency which I have observed.

First, there was the advertisement published during the past week by The American Society of Friends, the Quakers, calling strong attention to the fact that a worthwhile lasting peace can only be found in the dimension of a moral solution of the problem of humans living together on this shrinking and inescapable planet. Now to be sure this fact has been stated before, and stated forcibly too, but I find significance in the use by the Quakers of paid advertising to bring the point again to public attention. I take it that the Quakers mean business and that a new impulse is to be given to the search for peace in the moral realm.

The Quakers are singularly tenacious when they have determined on a purpose and a course of action. They know that the road they have chosen is a long one and a hard one, but that it is the only true way. And they know too that their journey cannot be successful if they are forced to follow it alone without compan-

ionship. This symptom, even if it is as important as I hope it may be, can hardly affect the economic events of the years immediately ahead, but it does offer some hope for the more distant future, a hope which perpetual armament and power politics can never give.

A second symptom of this ferment is a renewed determination to push for some kind of a limited world federation, limited only to the countries that accept in the first instance the minimal and essential qualifications for membership and cooperation. The demand for a world constitutional convention, preferably within the framework of the United Nations, without it if necessary, is again frequently heard in responsible quarters. With the passing of the 1948 election and with reasonable success of the European Recovery Program, the impulse to push for the constitutional basis for peace may become very strong.

If we can advance simultaneously on moral and on constitutional lines, and if we can advance rapidly enough, we may at last reach a point where the economic burden of armament will once again be negligible.

And then our thinking about the world and its economics will be a different, a difficult, but much more pleasant task. Perhaps we ourselves may be able to undertake this job some day. Who knows?

## Group Offers Idaho Power Common Stock

Blyth & Co., Inc. and Lazard Freres & Co. jointly head an investment banking group which is offering to the public an issue of 150,000 shares of Idaho Power Co. common stock at \$31.50 per share.

Proceeds from the sale of the additional shares along with the proceeds from the sale privately of \$10,000,000 first mortgage bonds will be used for additions to the company's production, transmission and distribution facilities. This will include the repayment of \$3,300,000 of bank loans made by the company for interim financing of new facilities now under construction.

The company is an operating public utility engaged principally in the hydro electric generation, distribution and sale of electric power. The territory served by the company covers an area of approximately 16,000 square miles in southern and central Idaho, eastern Oregon and northern Nevada. The area embraces principally the Snake River Valley and is primarily devoted to agriculture. The population of the territory is estimated at 250,000.

For the year ended March 31, 1948, operating revenues amounted to \$10,084,498 and net income was \$1,967,853. Dividends have been paid on the common stock in each year since 1917. Since early 1947 payments have been 45 cents per share quarterly.

Giving effect to this financing the company will have outstanding 700,000 shares of common stock; 131,000 shares of 4% preferred stock of \$100 par and funded debt of \$23,000,000.

## Bourbeau & Douglass Adds

(Special to THE FINANCIAL CHRONICLE)  
LOS ANGELES, CALIF.—Arthur W. Graham has been added to the staff of Bourbeau & Douglass, 510 South Spring Street.

## With Burke & MacDonald

(Special to THE FINANCIAL CHRONICLE)  
KANSAS CITY, MO.—William H. Luce, Jr. has been added to the staff of Burke & MacDonald, 907 Walnut Street.

# Reports Drain on Foreign Gold and Dollar Holdings

(Continued from page 23)

deposits, short-term commercial paper, Treasury bills, etc., held by foreign residents with banks in the United States. They comprise both official funds (those held by foreign central banks and governments, including as a special item certain foreign government deposits with the United States Treasury) and funds held for private foreign account. While private banking funds may not always be readily available to a foreign country for the settlement of international payments, most countries are at present enforcing exchange controls which in effect accomplish this purpose. In any case, it is necessary to combine official and private funds for purposes of the present survey since these categories are not shown separately for individual countries in the regularly published data.

In addition to banking funds in the United States, foreigners hold relatively small amounts of other short-term claims upon this country, e.g. advances to Government corporations and private enterprises, balances with brokers and security dealers, and holdings of actual United States currency. Private citizens abroad also hold large long-term investments in this country, some of which could be mobilized by foreign countries in case of need to settle balances with the United States. Ordinarily, however, foreign countries are most reluctant to requisition and liquidate such assets, especially since they are the source of current dollar income to the individual owners and to the country concerned.

The advent of the International Monetary Fund as an operating institution early in 1947 established a new category of international reserves, the conditional drawing rights of member countries upon the resources of the Fund. One of the basic purposes of the Fund as expressed in its Articles of Agreement is "to give confidence to members by making resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resort-

ing to measures destructive of national or international prosperity." Hence, each country which becomes formally eligible to use the Fund's resources—i.e., which fixes the parity of its currency in agreement with the Fund, and thereupon pays up its subscription to the institution—is given a qualified right to purchase from the Fund against payment in its own currency.

These "drawing rights" are subject to specified limitations upon the total amount of each country's purchases and the rate at which they can be made. Even within these quantitative limitations, access to the Fund's resources is not automatic. In the words of an official interpretation issued by the Fund's Executive Board, drawings should be limited "to use in accordance with its [the Fund's] purposes to give temporary assistance in financing balance of payments deficits on current account for monetary stabilization purposes." Thus drawings are expected to be made only if they can be repaid within a reasonable period of time. Subject to these various qualifications, the drawing rights of member countries upon the Fund constitute a contingent international reserve supplementing their independent holdings of gold and foreign exchange.

It should also be noted that the Fund's ability to supply dollars to its members is limited to the amount of dollars—and gold, which could be converted into dollars in case of need—subscribed by member countries. Total dollar and gold subscriptions so far amounting to about 3.4 billion dollars, including 2,750 million in dollars and gold from the United States and about 670 million in gold from other member countries. This sum is substantially smaller than the maximum theoretical drawing rights of the foreign members now formally eligible to use the Fund's resources. Further amounts of gold may be subscribed in due course by new members or by existing members that have not yet established the parity of their

currencies, but in such case drawing rights upon the Fund will also increase. Hence aggregate drawing rights for dollars will always exceed the Fund's ability to supply that currency. Nonetheless, the Fund's gold and dollar resources are certain to last under any circumstances for a period of several years, if only because of the quantitative limitations upon the rate of drawings by individual member countries. While these limitations can be waived in specific cases by the Executive Board of the Fund, such waivers are likely to be granted only in exceptional circumstances.

## Gold Inflow and Foreign Gold Reserves

Net sales of gold by foreign countries to the United States, as may be seen from the table on the subject matter, amounted to more than 3.5 billion dollars in the two years 1946-47. The inflow remained moderate during 1946, when Government aid programs alone covered two-thirds of United States net exports. In 1947, however, with the export surplus greatly expanding and with Government aid programs providing only half of the necessary financing (or about the same absolute amount as in 1946), net sales of gold to the United States approximated in each quarter the entire amount received in the previous calendar year. By the end of the year several countries which had been large sellers of gold were approaching exhaustion of their holdings. As a result, the inflow slackened considerably in the first quarter of 1948.

Almost all gold transactions between the United States and foreign countries are conducted through official channels and consequently are reflected in changes in the central gold reserves of foreign countries. The gold holdings of foreign monetary authorities are also affected, however, by new gold production, industrial consumption, and movements in private hoards in foreign countries. In addition, there was in 1947 the special factor of foreign gold subscriptions to the International Monetary Fund.

The aggregate gold holdings of

foreign monetary authorities amounted to 16 billion dollars at the end of 1945, but to only 12.9 billion by the end of 1947, reflecting a net loss of 3.1 billion within the space of two years. During the same period foreign countries derived about 1.8 billion dollars in gold from new production, so that there is a gross loss of 4.9 billion to account for. Net sales of gold to the United States came to 3,540 million dollars, and foreign gold contributions to the International Monetary Fund amounted to 670 million. The remaining sum of around 700 million presumably represents net industrial con-

sumption and accretions to private hoards in foreign countries, but this is a residual figure for which no degree of precision can be claimed.

At the end of 1945, when the total central gold reserves of the world amounted to about 36 billion dollars, some 55% was held by the United States and about 45% by the foreign monetary authorities. At the end of 1947, the total figure had reached more than 37 billion dollars. Over 60% was then held by the United States, 35% by foreign monetary authorities, and 4% by the International Monetary Fund.

The recent pattern of world gold transactions has been dominated by direct transfers from foreign central reserves to the United States. Hence, although data for sales of gold to the United States are not published by countries, the principal foreign sellers can be readily identified from changes in the gold holdings of individual foreign countries. The accompanying table presents data showing the changing distribution of foreign gold reserves during the past two years.

In 1946 France was the only country that sustained a major loss of gold, and this was largely offset by gains on the part of the United Kingdom and Canada. Other scattered changes, including losses by Mexico, Sweden, and others which were relatively severe for the countries concerned, resulted in a net loss from foreign central reserves of some 225 million dollars during the year.

There was a sharp acceleration of foreign gold losses early in 1947, with gold subscriptions to the International Monetary Fund contributing to the movement. The losses during the year were very widespread; only the U.S.S.R., as a result of the retention of most of its new domestic production, registered any substantial gain. Over 1.2 billion dollars was lost by the countries of Continental Europe which are scheduled to participate in the European Recovery Program; this amount included a further large loss by France, which brought that country's total liquidation of gold during 1946-47 to more than a billion dollars. The United Kingdom, South Africa, and Canada all became losers of gold in 1947, in contrast to their gains in the previous year, accounting together for losses of over 800 million dollars. Argentina, which sustained only a minor loss of gold in 1946, experienced a major gold outflow in 1947, none of which represented a contribution to the International Monetary Fund since Argentina is not a member of that institution. Other losses in Latin America, notably by Mexico, Columbia, and Uruguay, partly offset by a relatively substantial gain on the part of Cuba, brought total gold losses by that area during the year to nearly a billion dollars.

In summary, the major changes in the distribution of foreign gold reserves in the past two calendar years have been the displacement of France and Argentina from their status as major gold holders in the world, and relatively heavy encroachments on the reserves of other countries, including notably Sweden, the Netherlands, and Mexico. On the other hand, the U.S.S.R. added moderately to its stocks during the two-year period, while the two other principal gold holders outside the United States—the United Kingdom and Switzerland—showed little change over the period as a whole. Whereas at the end of 1945 these three countries had held only about 35% of foreign central gold reserves, by the end of 1947 they held 46% of a substantially smaller total.

## Net Sales of Gold By Foreign Countries to United States, 1946-1947

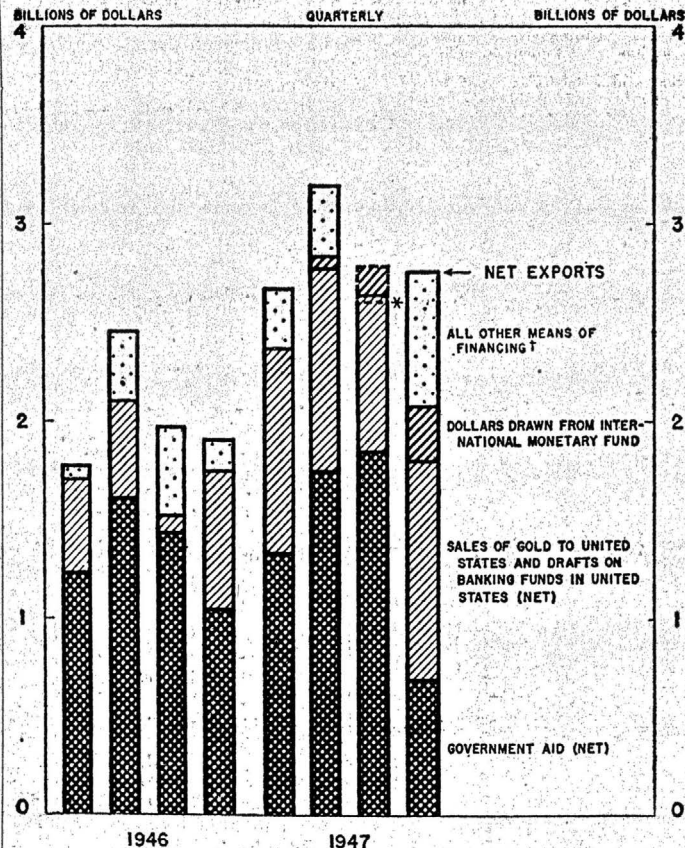
(In millions of dollars)	
Period	Amount
1946—Jan.-Mar. ....	263
Apr.-June .....	46
July-Sept. ....	94
Oct.-Dec. ....	295
<b>Total, 1946 .....</b>	<b>705</b>
1947—Jan.-Mar. ....	632
Apr.—June .....	778
July-Sept. ....	683
Oct.-Dec. ....	763
<b>Total, 1947 .....</b>	<b>2,856</b>
<b>Total, 1946-47 .....</b>	<b>3,541</b>
1948—Jan.-Mar. ....	1344

1 Partly estimated.

NOTE—Net sales of gold by foreign countries to the United States can usually be measured with reasonable accuracy by adjusting the reported net imports of gold into the United States for (a) changes in gold under earmark for foreign account at the Federal Reserve Banks; and (b) gold transactions between the United States and the International Monetary Fund, which have so far consisted solely of the payment of the United States gold subscription to the Fund in February 1947. The reported import and export data include gold consigned to, and shipped by, the Fund; but the figures for gold under earmark also include gold owned by the Fund, so that gold transactions by foreign countries with the Fund, or shifts of gold by the Fund between its depositories in this country and abroad, cancel out in this calculation.

This method has been followed in deriving the figures in this table, except that a special adjustment has been made in the figures for the last quarter of 1946 and the first quarter of 1947 to correct an unusually large distortion arising at that time from lags in the reported statistics.

## MEANS OF FINANCING UNITED STATES NET EXPORTS OF GOODS AND SERVICES

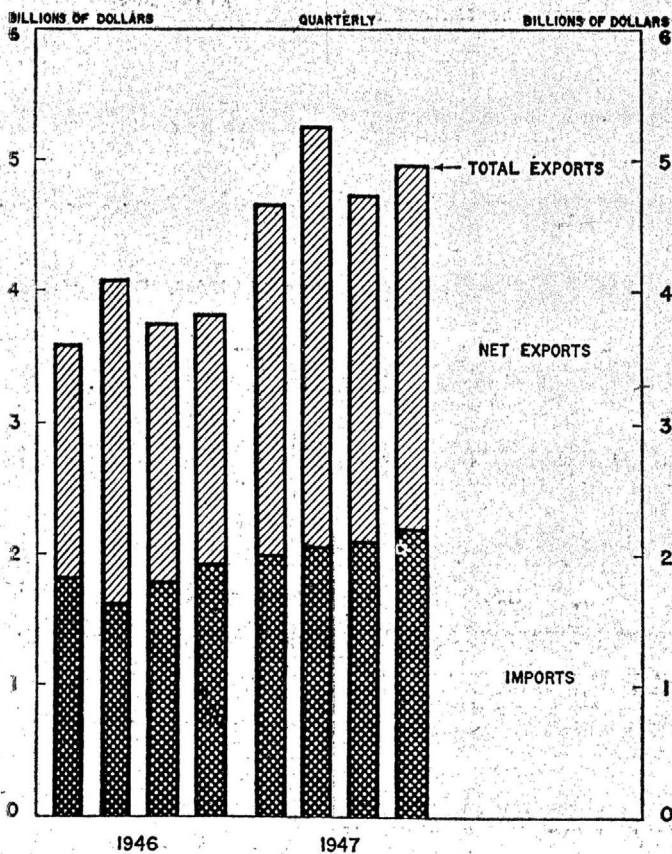


\*The broken horizontal line in the third quarter of 1947 indicates net exports for the quarter. In this quarter, the estimated net drafts by foreign countries upon various sources of dollar financing considerably exceeded estimated United States net exports.

†Includes private United States donations and investments abroad, disbursements on International Bank loans, liquidation of other foreign assets in the United States, and errors and omissions.

SOURCE—Based largely upon Department of Commerce data.

## UNITED STATES EXPORTS AND IMPORTS OF GOODS AND SERVICES



SOURCE.—Department of Commerce.

## Liquidation of Foreign Banking Funds in United States

Concurrent with the net flow of foreign gold to the United States,



foreign countries as a whole have been making steady and substantial drafts upon the dollar balances which they accumulated during the war in the form of banking funds in the United States. As may be seen in the accompanying chart, official funds (those held by foreign monetary authorities) declined by 2.5 billion dollars, or 58%, during the two years 1946-47. The aggregate amount of private dollar banking funds, on the other hand, has continued a moderate expansion, so that the net loss in total foreign banking funds in the United States

came to only about 2.2 billion dollars in 1946-7 (something over one billion in each year). Most of the countries in the world liquidated dollar balances during the two years, but these losses were partly offset by gains on the part of a few countries. As the table reveals Canada alone accounted for around 30% of the losses; the other principal losers were China, the United Kingdom and France. These four countries accounted for the entire net loss; smaller gains and losses by other individual countries were mu-

tually offsetting. At the same time, many of the smaller changes were relatively very important to the countries concerned, e.g. the losses by Sweden, the Netherlands and Norway and the gain by Cuba. It may be noted that the changes shown in the table are roughly representative of movements in official balances. The increase in private balances during 1946-47 was diffused throughout the world and hence did not greatly affect the position of any individual country.<sup>1</sup>

If the drafts on foreign banking funds are considered in conjunction with the changes in gold reserves in 1946-47, the main new point which emerges is that Canada and the United Kingdom, while avoiding net drafts on their gold holdings during the period as a whole, did find it necessary to resort to heavy liquidation of dollar balances. The same was true of Brazil and the Philippines. France and China, on the other hand, along with Sweden, Norway, and the Netherlands, found it necessary to liquidate relatively substantial amounts of dollar balances in addition to gold during this period. Switzerland, Cuba and Argentina made the largest net gains in dollar holdings over the two-year period 1946-47; the first two countries also gained some gold, but in the case of Argentina the increase in dollar balances constituted a partial offset to a very heavy loss of gold.

Considering gold and dollar balances together, France and Can-

ada were the heaviest losers in 1946-47, accounting for 1.3 billion and 1.0 billion dollars, respectively. Argentina followed with a loss of three-quarters of a billion, and Sweden and China with over half a billion each. The countries scheduled to participate in the European Recovery Program, other than the United Kingdom and Switzerland, accounted together for about half of the net foreign losses of gold and dollar balances during the two-year period. At the end of 1945 this group held over one-quarter of the outside world's central gold reserves and dollar banking funds, but by the end of 1947 it held less than one-fifth of a substantially smaller total.

**Dollar Drawings Upon the International Monetary Fund**

The International Monetary Fund became an operating financial institution on March 1, 1947, the date upon which it became ready to engage in exchange transactions with member countries. The following table lists the dollar drawings that were made upon the Fund during the remaining ten months of the year. The principal drafts, amounting to more than half the total, were made by the United Kingdom. These occurred during the last months of the year, when the United Kingdom found itself under particular pressure as a result of the temporary suspension of drawings upon its credit with the United States Treasury. Large drawings were also made by France, which has had to resort to a wide variety of sources for dollar financing during the past two years. Mexico, although its drawings were relatively small, was the only country that exer-

**Dollar Drawings on International Monetary Fund**

(In millions of dollars)

Country—	Maximum Drawing Right in Any 12-Month Period	Amount Drawn in 1947
United Kingdom—	325.0	240.0
France	131.3	125.0
Netherlands	68.8	46.0
Belgium	58.3	11.0
Mexico	22.5	22.5
Denmark	17.0	3.4
Chile	12.5	8.8
Turkey	10.8	5.0
Total	741.2	461.7

<sup>1</sup>The only non-dollar transaction in which the Fund engaged during the year was the sale to the Netherlands of 1.5 million pounds sterling (equivalent to 6.0 million dollars).

cised its maximum drawing right during 1947.

In general, the scale for foreign drafts upon the Fund's resources may be said to have been moderate during 1947. After allowing for member countries that remained ineligible to draw upon the Fund because of the lack of an agreed exchange rate, the remaining foreign members could have drawn about one billion dollars during the year without exceeding the quantitative limitations to which each is subject. But of the 27 member countries that were formally eligible to draw during 1947, only eight actually resorted to the Fund's resources. This may be taken as evidence of both self-restraint on the part of foreign members and of vigilance on the part of the Fund's Executive Board in seeing that the Fund's resources are used only for purposes consistent with the Fund's Articles of Agreement.

It may be added that during the first quarter of 1948 total dollar drawings from the Fund amounted to a further \$132 million, of which 60 million was taken by the United Kingdom. Although by now a few individual countries, notably the United Kingdom and France, have made drawings on the Fund in excess of their initial gold subscriptions, foreign countries as a whole have still drawn fewer dollars than the amount represented by their gold subscriptions. Hence the Fund's gold and dollar resources still exceed the amount initially contributed by the United States.

**Effects Upon Monetary Factors in the United States**

The liquidation of foreign gold and dollar reserves in partial payment for United States exports has had certain direct expansionary effects upon monetary factors in the United States.

The most obvious example is the net purchase of 3.5 billion dollars in gold from foreign countries in the two years 1946-47. This newly-acquired gold was "monetized" through the issuance of gold certificates to the account of the Federal Reserve Banks, and had the effect of expanding by a corresponding amount the reserves of the Federal Reserve Banks, the reserves of commercial banks, and the deposits of commercial banks. The result was to add substantially to the capacity of the banking system to extend credit.

The net reduction in foreign banking funds in the United States over the two years 1946-47 may be accounted for entirely by the decline of about half a billion dollars in deposits held by foreign central banks and governments with the Federal Reserve Banks and by the liquidation of about 1.7 billion in foreign holdings of short-term United States Government securities. Movements in other types of foreign banking funds were small and mutually offsetting.

A decline in foreign deposits with the Federal Reserve Banks has the same expansionary effects upon the commercial banking system as an inflow of gold which

(Continued on page 42)

**Change in Foreign Central Gold Reserves, 1946-1947<sup>1</sup>**  
(In millions of dollars)

Area and Country—	Gold res. at the end of 1945	Increase or decrease (—) 1946	1947 <sup>2</sup>	Gold res. at the end of 1947
<b>Countries participating in European Recovery Program (other than United Kingdom):</b>				
France (and dependencies)	1,577	-688	-319	570
Switzerland	1,342	88	-74	1,356
Belgium (and Belgian Congo)	749	2	-138	613
Sweden	482	-101	-276	105
Netherlands (and N. W. Indies)	421	-5	-161	255
Norway	100	-9	-19	72
Other ERP countries	1,036	-3	-251	782
<b>Total</b>	<b>5,707</b>	<b>-716</b>	<b>-1,238</b>	<b>3,753</b>
U.S.S.R. <sup>3</sup>	2,250	150	175	2,575
Other Continental Europe	690	2	-4	688
United Kingdom <sup>4</sup>	1,966	445	-386	2,025
Union of South Africa	914	-26	-177	762
Other sterling area <sup>5</sup>	471	-26	1	446
Canada	361	182	-249	294
<b>Latin America:</b>				
Argentina	1,197	-125	-783	289
Brazil	354			354
Mexico	294	-113	-81	100
Cuba	191	35	53	279
Other Latin America	732	22	-123	631
<b>Total</b>	<b>2,768</b>	<b>-181</b>	<b>-934</b>	<b>1,653</b>
Rest of world <sup>6</sup>	828	-107	-36	685
<b>Total for countries with net gains during year</b>		<b>997</b>	<b>273</b>	
<b>Total for countries with net losses during year</b>		<b>-1,223</b>	<b>-3,121</b>	
<b>Net total</b>	<b>15,955</b>	<b>-226</b>	<b>-2,848</b>	<b>12,881</b>

<sup>1</sup>Data have been partly estimated in the case of some countries which do not issue full reports concerning their gold holdings.

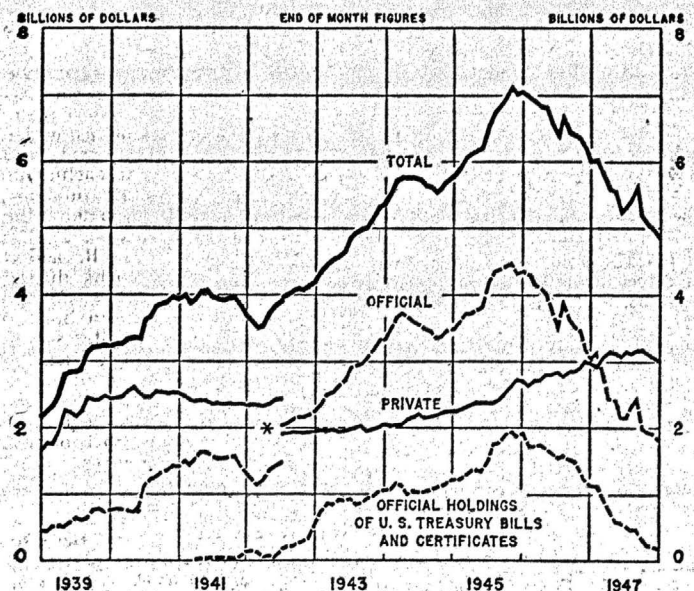
<sup>2</sup>Decreases in 1947 include nearly 670 million dollars of foreign gold contributions to the International Monetary Fund, including 210 million by the United Kingdom, 80 million by France, 74 million by Canada, 69 million by the Netherlands, and 56 million by Belgium.

<sup>3</sup>All the data for the U.S.S.R. are conjectural. Russian gold reserves at the middle of 1947 were estimated very roughly at 2.5 billion dollars in a recent report to the Senate Committee on Finance by the National Advisory Council (see "Bulletin" for February 1948, p. 164). The figures in this table have been derived from this base, making allowance for estimated new domestic production and for such exports of gold from the U.S.S.R. as have been reported.

<sup>4</sup>The gold reserves of the United Kingdom have been estimated by deducting from British reports concerning their combined official holdings of gold and United States dollars, the amount of British official dollar balances as reported by banks in the United States.

<sup>5</sup>Includes Egypt throughout, although Egypt withdrew from the sterling area in July 1947.

<sup>6</sup>China is known to have been the principal loser of gold reserves in this group in 1946-47, as a result of gold sales in its domestic market. There are no published reports concerning China's central gold holdings, but these holdings at the end of 1947 were estimated at 96.5 million dollars in a report submitted to the Congress by the Department of State on Feb. 20, 1948, in connection with the proposal for a Chinese aid program.



\*Beginning June 1942, official funds include all short-term funds held with banks and bankers in the United States by foreign central banks and governments and their agencies, part of which had previously been included in private funds.

**Change in Foreign Banking Funds in the United States, 1946-1947<sup>1</sup>**  
(In millions of dollars)

Area and Country—	Holdings at End of 1945	Increase or Decrease (—) 1946	1947	Holdings at End of 1947
<b>Countries participating in European Recovery Program (other than United Kingdom):</b>				
France (and dependencies)	2,518	-223	-100	1,95
Switzerland	304	69	73	446
Belgium-Luxemburg (and Belgian Congo)	247	-36	-43	138
Sweden	210	-37	-114	59
Netherlands (and N. W. Indies)	310	-69	-83	158
Norway	216	-92	-68	56
Other ERP countries	275	211	-61	425
<b>Total</b>	<b>2,080</b>	<b>-177</b>	<b>-396</b>	<b>1,507</b>
USSR	28	32	14	74
Other Continental Europe	77	49	27	153
United Kingdom (and dependencies)	755	-217	-139	399
Union of South Africa	6	41	-1	46
Other sterling area <sup>3</sup>	106	40	7	153
Canada and Newfoundland	21,366	-432	-524	410
<b>Latin America:</b>				
Argentina	77	36	123	236
Brazil	195	-21	-69	105
Mexico	116	33	-13	139
Cuba	128	25	82	235
Other Latin America	492	-4	-9	479
<b>Total</b>	<b>1,008</b>	<b>72</b>	<b>114</b>	<b>1,194</b>
Philippine Republic	629	4-182	42	489
China	5,768	-336	-202	230
Rest of world	246	48	-97	197
<b>Total for countries with net gains during year</b>		<b>720</b>	<b>554</b>	
<b>Total for countries with net losses during year</b>		<b>-1,782</b>	<b>-1,709</b>	
<b>Net total</b>	<b>7,069</b>	<b>-1,062</b>	<b>-1,155</b>	<b>4,852</b>

<sup>1</sup>For more complete information concerning the movement of foreign banking funds in the United States, see regular tables on pp. 480-81 of the Bulletin.

<sup>2</sup>The regularly reported figures for Canada and France at the end of 1945 have been adjusted to allow for the fact that on that date certain special funds were being held by Canada on behalf of France. This arrangement was terminated during 1946.

<sup>3</sup>Includes Egypt throughout, although Egypt withdrew from the sterling area in July 1947.

<sup>4</sup>Includes the use of 111 million dollars during 1946 for redemption of excess stocks of Philippine currency held by the United States armed forces in the Philippines. To this extent the decline in dollar reserves was matched by a reduction in the foreign liabilities of the Philippines.

<sup>5</sup>The regularly reported figure for China at the end of 1945 has been adjusted to include official Chinese holdings on that date of 186 million dollars of United States Government securities maturing in slightly more than one year and therefore falling outside the strict definition of "short-term" banking funds. These holdings were converted into "short-term" United States Government securities during 1946.

## Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Reaction signs continue to gather. Raise stops and be prepared to buy stocks back at lower levels.

Seven or eight weeks ago I suggested buying stocks. The time element, when advice was given here, seemed silly if not downright dangerous. If I remember correctly this column was almost alone in forecasting an advance. The rest is history.

Two-three weeks ago I began pulling in my horns. I began warning that reactions were indicated but doubted they would last long. Intensity of the expected break, however, would be severe. In the interim various other groups began working their way up. We saw the oils and the rails move up. It was noticeable, however, that during the rise of new groups, the old groups which started the rise, began fading with at least one airplane stock violating its critical level.

During bull market cycles groups after groups advance. But while one moves up the other doesn't decline as much as it goes into a resting period. Sometimes these resting periods can include minor setbacks. But in most cases these setbacks are limited to certain levels and the resting period isn't protracted.

The pattern for a bull market isn't fixed for any period. It fluctuates but still keeps itself in bounds.

But underneath it all there is a feeling of confidence emanating from the tape (which means the action of stocks) that indicates more strength. In the past week or so, this feeling has been slowly fading.

It is hard to put one's fin-

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Private Wires to Principal Offices  
San Francisco — Santa Barbara  
Monterey — Oakland — Sacramento  
Fresno

ger on something tangible for this explanation. It could be attributed to potential news, or something else. But whatever it is, it is present and cannot be shrugged away.

This means that a reaction of perhaps more than technical proportions is in the making, though there is nothing to show when it will occur. But unless other things change in the immediate future, I don't think the reaction will last very long, though it may run deeper than we think.

Bringing this all down to essentials it means that the critical points in the stocks recommended, bought and held by you, grow more important. In some cases the critical levels will be raised. But in practically all stocks, if the stops are broken, they are to be re-bought at lower prices. In fact if the anticipated reaction is witnessed I may add to the list but only at specific prices.

Half holdings should be sold in *Anaconda* if it breaks 35 and rebought at 32½ or better. Stock was originally bought at 32½.

*Avco* stop should be raised to 5½ where half is to be sold.

Raise stop in half position in *Bethlehem* to 32. Raise stop *Douglas* to 62. Raise stop in *Lockheed* to 20. Buy it again at 15. Rest of the prices in other stocks in the list remain as is.

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.]

## Morgan Stanley Group Offers \$100,000,000 Southwestern Bell Telephone Debentures

The largest financing operation by a member of the Bell Telephone System so far this year was undertaken May 4 with the public offering by an investment banking group headed by Morgan Stanley & Co. of a new issue of \$100,000,000 3½% debentures due 1983. The

debentures were priced at 102½ and accrued interest to yield about 3.01% to maturity. The offering was made immediately following the award of the issue to the group in competitive bidding and clearance by the Securities and Exchange Commission.

Shortly after the offering it was announced that the issue had been completely sold. Of the net proceeds from the sale of the debentures, \$95,000,000 will be used by the company to repay advances from American Telephone & Telegraph Co., parent organization and the balance will be applied toward the requirements of the company's construction program. This program, started at the end of the war, is the largest in the company's history and, to date, it has been financed in part by borrowings from the parent company.

For 1947 expenditures for new construction were approximately \$110,000,000 and \$32,000,000 for the first quarter of 1948. The prospectus states it is expected that expenditures for new facili-

## Reports Drain on Foreign Gold and Dollar Holdings

(Continued from page 41)

becomes monetized by the Treasury. Commercial bank reserves and deposits increase by an equal amount, and a further multiple expansion of bank credit becomes possible. In the case of foreign liquidation of short-term United States Government securities, the results to be anticipated are less clear-cut. As in the case of sales by domestic holders, the effect upon bank reserve and deposits depends upon whether the net purchasers in the market are the Federal Reserve Banks, commercial banks, or other holders. In general, foreign sales during the past two years have probably necessitated on most occasions additional purchases by the Federal Reserve Banks, resulting in further expansion of the credit base.

Finally, dollar drawings by foreign countries upon the International Monetary Fund have hitherto been financed by the Fund through the redemption of demand notes of the United States Treasury, in which the bulk of its dollar funds are invested. The Treasury has therefore had correspondingly less funds available to retire marketable debt, particularly that held by the Reserve Banks, with the result that commercial bank reserves and deposits have tended to remain higher than might otherwise have been the case. If and when the Fund exhausts the supply of dollars which it derived from the United States subscription (something over \$2 billion), it could meet further dollar drawings by its members only by selling gold to the United States. Hence in the future the Fund may become the source of an additional gold inflow into this country.

Altogether it is clear that the liquidation of gold and dollar reserves by foreign countries has had important effects upon monetary factors in the United States. It has served to reduce the effectiveness of fiscal and monetary policies directed to absorbing bank deposits and reserves and to curbing inflationary pressures originating in monetary sources.

## N. Y. Chamber of Commerce Recommends No Change in Monetary Standard

(Continued from page 22)

the gold, most of these other countries also went on a gold standard.

### Situation in the United States

It was not until 1879 (some 14 years after the termination of the Civil War) that paper money was made freely convertible into gold.<sup>2</sup>

Because of the political influence wielded by the western silver interests, silver continued to be used in this country, but a limit was placed upon the number of silver dollars which could be coined. Such coinage was stopped during the financial crisis of 1893. The silver groups were defeated decisively at the presidential election in 1896, and the nation definitely went on a full gold standard with enactment of the Gold Standard Act of 1900.

### Nations Go Off Gold Standard During World War I

Soon after World War I started in 1914 all of the belligerents, with the exception of England, went off the gold standard. England still permitted conversion of paper money into gold. Export of gold, however, although theoretically still permitted, was so obstructed by difficulties of war-time transportation, and so much official pressure was exerted to discourage it, that for all practical purposes England was off the gold standard. After the war was over (in 1919) export of gold was prohibited in England, and the gold standard thus officially was suspended.

The United States prohibited the export of gold as soon as it entered the war in 1917, but withdrew the prohibition shortly after the war was over (in June 1919).

### Most Countries Back on Gold by 1928

Aside from the United States, most of the other countries experienced serious difficulty in returning to the gold standard. By 1927, however, a greater number of countries were on the gold standard or a modified form of such standard than had been the case at the outbreak of the war in 1914.<sup>3</sup>

### All Countries Off Gold Again by 1937

The international financial crisis originating with the insolvency of the Austrian Credit Anstalt in May 1931 and England's going off the gold standard in September 1931 led to a large part of the world's following suit. After this crisis only the United States, France, Switzerland, Holland and Belgium still remained on the standard. The United States went off gold after the banking crisis of 1933. France managed to stay on gold until 1936, but by 1937 Belgium was the only country still on the standard.

### Three Types of Gold Standard

There are three generally recognized types of gold standard: (1) the gold-coin or gold-specie standard, (2) the gold bullion standard, and (3) the gold exchange standard.

(1) The gold-coin standard was in effect in the United States prior to 1933, and it is the standard to which H. R. 5031 proposes that the nation return. Under the standard (a) the dollar bore a definite value in terms of gold, (b) the government would coin unlimited quantities of gold for any citizen at a fixed charge, (c) any citizen could get his paper money or currency converted into gold at any time, and (d) gold moved unrestrictedly into and out of the country to balance surpluses

<sup>2</sup> Edwin W. Kemmerer, *Gold and the Gold Standard*, 1944, p. 86.

<sup>3</sup> Kemmerer, source cited above, p. 111. According to him 59 countries had been on the gold standard in 1914.

and deficits in the nation's international trade.

Neither (b) nor (c) are essential to a gold standard, however, according to Dr. Edwin W. Kemmerer, one of the acknowledged authorities on the gold standard in this country. To quote him directly:

"... gold coin or ... free coinage of gold ... may be of great convenience and may facilitate the efficient operation of a gold standard, but neither is necessary to the existence of a gold standard. ... redeemability in gold (or its equivalent) of paper money and of fiduciary coins ... is a privilege in most successful gold standard systems. This privilege is highly desirable, but it is not necessary. ...

"All the above mentioned qualities are useful devices for maintaining the gold standard, but not one of them is absolutely necessary. Furthermore, a currency system might conceivably have any or even all of them and still not be a true gold standard. A good illustration ... is found in ... the Union of South Africa in 1919 and 1920."<sup>4</sup>

According to Dr. Kemmerer, maintenance of the currency at a par with gold internationally is what he calls "the 'constituting quality' of a gold standard."<sup>5</sup>

(2) Under the gold bullion standard (as it was practiced in England from 1925 to 1931, for example) gold bullion (gold in bars of a fixed weight) is sold at a stated price to anyone who demands it and presents paper money or other currency of the required value.

(3) The gold exchange standard (as employed by Czarist Russia in the late 1800's and early 1900's, the Philippines from 1905 to 1910, and more recently by India) involves free exchange of local currency for drafts payable in other countries in which gold is freely obtainable.

### What Kind of Standard Is the U. S. on Now?

The immediate problem is one of attempting to decide (1) whether the United States ought to return to the gold standard as it was operated prior to 1933, and (2) whether there should be an immediate return to such a standard.

There is considerable difference of opinion as to the type of standard this nation has been on since enactment of the Gold Reserve Act of 1934. A leading British authority on the gold standard points out that while the nation technically has been off the standard, the system has been operated in such a way that the nation for all practical purposes has been on a full gold standard.<sup>6</sup> This authority emphasizes strongly that any monetary system reflects the public confidence in it and the integrity or lack of integrity

<sup>4</sup> Kemmerer, source cited above, pp. 135, 136.

<sup>5</sup> Kemmerer, p. 131.

<sup>6</sup> "The essential characteristic of the gold standard is the systematic maintenance of the currency unit close to a constant value in terms of gold in international markets. When the export of gold is prohibited, convertibility into gold at home ceases to discharge this function. Even then a free licensing of gold exports may preserve the gold standard, though only at the discretion of the licensing authority."

"The Gold Reserve Act, though it confirmed the previous legislation against holding gold and against transactions in gold, nevertheless did in effect reestablish the gold standard. ... Thus from a legal standpoint the gold parity of the dollar is by no means as firmly established as was required by the gold standard traditions of the nineteenth century. But the difference is not so material as at first sight seems."

"The gold value of the dollar in world markets has been fixed, and a gold standard has been established and maintained by administrative action, in spite of the narrow restrictions imposed on dealings in gold and the holding of gold at home." Hawtrey, pp. 62, 168, 169, 221.

## McDermott to Admit

Peter P. McDermott & Co., 44 Wall Street, New York City, members of the New York Stock Exchange, will admit John H. McDermott to partnership on May 13.

of the public officials who operate it.<sup>7</sup> In fact, he maintains that one of the chief difficulties in this country immediately following its going off the gold standard was what he terms "overconfidence" in the dollar both at home and abroad.<sup>8</sup>

Dr. Kemmerer describes the present standard in this country as a "new type of gold-bullion standard . . . which meets the 'constituting quality' of a gold standard."<sup>9</sup>

One of the most outspoken critics of the nation's present monetary system maintains that the nation has an "international gold bullion standard of a highly restricted type."<sup>10</sup>

Another source points out that "From the standpoint of the accepted rules governing a full gold standard the monetary system provided by the Gold Reserve Act was not such a standard . . . while the new standard may be called a modified gold standard; it is in reality a managed currency system only loosely linked to gold."<sup>11</sup>

**Inadvisability of Change at Present**

The nation's present monetary standard is serving the purpose at the moment. The other nations in the world are seeking dollars, which in itself shows no lack of confidence in the present standard.

With the European Recovery Program (Marshall Plan) getting underway, and with the International Monetary Fund in operation, but still confronted with a number of problems which remain to be worked out, the present appears to be a most inopportune time to take precipitate action which might complicate further an already complicated international financial situation. Under the circumstances, the most feasible course is for the United States to remain on its present monetary standard for the time being.

**Immediate Steps**

A number of practical considerations that have been cited above question the feasibility and the practicability of the nation's returning to the gold-coin standard at this time. The available evidence indicates that return to a gold bullion standard would be a more practicable move. In fact, the Committee on Finance and Currency in February 1935 went on record as preferring the bullion standard, and the Chamber at that time unanimously approved its stand.<sup>12</sup>

Pending changed international conditions holding forth more favorable prospects of a successful return to the gold-coin standard and continuance thereon, the following step might be taken to "put the nation's house in order" for an eventual return to such a standard.

Under the Gold Reserve Act of 1934 the President is authorized to fix the weight of the gold dollar at not less than 50% nor more than 60% of its previous weight.<sup>13</sup>

<sup>7</sup> "It should never be forgotten that the real subject-matter of monetary theory, as of all branches of economics, is human behavior. Economic forces, such as credit restriction, work through the human mind."

<sup>8</sup> "Experience in many countries has shown that it is only too easy to pass legislation to suspend or amend a gold standard law if the monetary authorities (Government and Central Bank) so choose. If there is an obstacle in the way of a change, it is to be found not in the statute book but in the minds of the authorities or in public opinion." Hawtrey, pp. 120, 169.

<sup>9</sup> Hawtrey, pp. 177, 178. This "over-confidence" is discussed more fully later in this study.

<sup>10</sup> Kemmerer, pp. 121, 131.

<sup>11</sup> Walter E. Spahr, "Should the United States Adopt a Gold-Coin Monetary Standard?" Economists' National Committee on Monetary Policy, Publication No. 226, Dec. 1, 1947, p. 4.

<sup>12</sup> A. W. Crawford, *Monetary Management Under the New Deal*, American Council on Public Affairs, 1940, p. 84.

<sup>13</sup> See Appendix B. Kemmerer predicts, p. 176, "In the gold standard of the future the gold-bullion standard will probably play an important role."

<sup>14</sup> 31 U. S. Code, 821.

By proclamation on Jan. 31, 1934, he fixed the new weight at 59 1/16% of the previous weight, making the price of gold \$35 per ounce.<sup>14</sup> That authority has not been used again since that time, and some informed sources contend that it has been revoked by subsequent legislation, especially the legislation ratifying the Bretton Woods monetary agreements and that making provision for the United States' participation in the International Monetary Fund. In the absence of clarifying legislation, however, there still is room for doubt as to whether the President, and the Secretary of the Treasury by delegation, do not still have the power to make further changes in the weight of the dollar within the two prescribed limits. To remove all such doubts, and to make certain that the value of gold cannot be changed further except by act of the Congress, appropriate corrective legislation should be enacted. Enactment of such corrective legislation is urged in the resolutions above.

14 Proc. No. 2072, Jan. 31, 1934, 48 Stat. 1730.

**Eastman Dillon Offers Sunray Oil Preferred**

Eastman, Dillon & Co. and associates publicly offered on May 5 a new issue of 800,000 shares of Sunray Oil Corp. 4 1/2% cumulative convertible preferred stock, Series B with a par value of \$25 per share. The Series B preferred stock is priced at \$25 per share, and is convertible into common stock at \$14.625 per share.

Proceeds from the sale of the new Series B preferred will be added to the company's general funds. It is expected that among the purposes for which the funds will be used will be the exploration, acquisition of interests in and development of prospective and proven oil and gas lands. The proceeds also may be used for expansion and improvement of the corporation's refining and transportation facilities.

Gross operating income of the company for 1947 was \$38,117,794 and net income was \$10,008,611. The company produces both crude oil and natural gas. Part of the crude oil is sold to other companies and the balance is refined in the company's own refineries in Allen and Duncan, Okla., and in Santa Maria, Calif. Currently producing properties are located in Arkansas, California, Illinois, Kansas, Louisiana, New Mexico, Oklahoma and Texas.

The company's net production of crude oil and condensates in 1947 amounted to 12,435,253 barrels. During the year the company processed 4,908,789 barrels of crude oil in its own refineries.

According to an independent report by Raymond F. Kravis, petroleum engineer, the company had on Jan. 1, 1948, net proved reserves of 153,081,910 barrels of crude oil, 17,978,497 barrels of condensate, 4,854,300 barrels of natural gasoline and other liquid products, and 637,177,000 M.C.F. of natural gas.

The corporation plans this month to place in operation a products pipeline connecting its Duncan 100-octane aviation gasoline refinery with its crude oil refinery in Allen, Okla. In March a crude oil pipeline was opened connecting the Beckett refinery to the Velma, Okla., field.

The corporation owns 5,000 shares of capital stock in the American Independent Oil Co. which was organized to explore oil possibilities in the Middle East, particularly in the neutral zone of Kuwait on the Persian Gulf.

Giving effect to the present offering, the company will have outstanding a funded debt of \$32,325,000; 1,018,957 shares of 4 1/4% preferred stock, Series A; 800,000 shares of 4 1/2% Series B preferred, and 4,904,647 shares of common, \$1 par value.

**Progress and Future of Television**

(Continued from first page)  
channel and then reforming it at the receiver.

Similar to a lot of other new ideas, when you go back and look at them, you find out that everybody thinks it is new, but there is usually a very long history which is behind the idea. Another important contribution to television was the invention of the cathode ray tube that came along in 1897. You can jump from there, and the next most important scientific advance was the proposal of Campbell-Swinton, an Englishman, back in 1913, and he pretty well proposed the system that we have today. He proposed a form of a pickup tube similar to an iconoscope, proposed scanning that tube with a beam of electrons and picking the charges from the face of the tube corresponding to the lights and darks of the picture and sending that signal over a wire circuit and then using another cathode ray tube at the receiver to reform the picture; and then of course, after 1913, or right about that time, the invention by Doctor DeForest, of the three element vacuum tube made a lot of these early inventions so that you could do something with them. Up until that time you had no satisfactory means of amplification of weak currents and you could not build a television system.

Well, from 1913 until 1925, there was a lot of thought given to television. Actually, during that time it was never demonstrated. In 1925, simultaneously, C. Francis Jenkins, down in Washington, and Baird in England succeeded in transmitting television pictures for the first time. They went back to the Nipkow system of 1883, which was a mechanical scanning device.

From about 1925 to about 1931, various people interested in this art did a lot of work on mechanical scanning systems. They found that it was bulky, that it was noisy and it was costly and it had mechanical inertia, so that the synchronization was very very difficult.

Around 1931, a number of companies and people decided to go back to the Campbell-Swinton idea of 1913 and figured that you had to work out a television system that was not mechanical but was completely electronic, with no moving parts in the system, and from 1931, of course, we have had the development of our present electronic television system.

**Use of Standards**

The use of standards has been interesting. Back in 1931, we were using only 48 lines to the pictures. Over the years, we have increased that from 48 to 60, to 120, to 240, to 343, to 441 and now it is 525 lines which compose the picture.

Of course, these changes necessitated hearings before the Federal Communications Commission and before a system could be standardized for the public, naturally, an agreement amongst all the manufacturers, broadcasters and the government as to a standard that was satisfactory, that would continue for use for a long time and that would give a satisfactory picture to the public was necessary.

The actual standardization of this system occurred in July 1941. Of course, we all know that six months later we had Pearl Harbor and television was pretty well taken out of the picture; so the manufacturers who had started to make receivers but had just about got going when the war came along had to discontinue their efforts. At the end of the war, the standards were revised again and we had the problem of color thrown into the picture, which for a long time tended to hold back the development of the industry.

The color question was only settled just about a year ago, and it hardly seems possible that the

progress that has been made should occur in such a sort interval of time, but the standards were finally set and the question of color standards was thrown out, just about a year ago, and we were able to proceed at that time in the sale of the receivers and the sale of the transmitting equipment, with the assurance that the receivers would not become obsolete overnight and a person buying a receiver would be able to expect to use it just as long as the set would hold together.

We have had a lot of problems to solve. Obviously, in order to get a television system in operation, somebody had to go out and put up transmitters and spend money for shows. You had to do that in order to interest the receiver manufacturers to make receivers, to put them out. Obviously, the early telecasters, or broadcasters could hardly expect to make any money until enough receivers went into the hands of the public to interest the advertisers in using the stations for advertising purposes. I have some figures I would like to give on the progress that is being made on receivers.

**340,000 Receivers in Existence**

At the end of 1946, there were 6,000 receivers in this country and at the end of 1947 there were 200,000 receivers in this country, and as of last Friday, there were about 340,000 receivers in this country.

However, about 75% of the receivers are located in the metropolitan New York area, so that this is the most active section, so far as programs are concerned, and as far as the interests of the advertisers are concerned. The point is that we have enough receivers out now, and we have a large enough audience. It is not what we would hope to have six months from now, or what we hope to have five years from now; but it is a sufficiently large audience to interest a considerable number of advertisers to put their programs on the television stations, and we have had some very interesting results on Hooper surveys that have been made, over the past three months.

**Television and Radio**

One very interesting fact is the fact that when a person purchases a television receiver, he uses his radio very little, and in the surveys that have been made so far, where they have called a hundred people that had both a television set and a radio set, they find this, that 60 out of 100 people are looking at the television programs, which of course is a very high percentage, and five out of the hundred are still listening to the radio. That simply shows you the way that the television will cut into the radio business and I do not think that there is any question in the minds of the broadcasting people now that this new medium is going to gradually replace or at least put our present broadcasting system in a supplementary role to television.

As I say, it is a problem of interesting people to manufacture receivers, and that has been pretty well taken care of. In spite of the fact that as of this date no broadcasting company, no television broadcasting station, is making money, it looks good enough so that at the present time some 70 television stations are being constructed and approximately 215 applications are in for new stations, which are awaiting action from the Federal Communications Commission. This will mean that there will be stations in 96 of the larger cities in the country.

**Television Advertisers**

The increase in the number of advertisers is also interesting. In 1946, we had 31 advertisers on television and in 1947, we had

210; and, as of last Friday, there were 237, so that there again we show a very definite increase in the advertising. The Hooper ratings that have been obtained on the television programs have been running considerably higher than the Hooper ratings normally run in radio, in spite of the fact that television programs, by and large, could stand a lot of improvement.

Several programs on the Hooper have been running over 46 — a Hooper of 46, whereas your average top radio programs have seldom gone over 30. This simply means that when a person has a television set in his home it is utilized more often than the radio and from the indications we have had, people who have had sets in their homes over a number of years indicate that it is not just a novelty proposition, that it pretty-well continues for a long period of time. The big thing that we are worrying about today in television is how to distribute these programs throughout the United States.

**Television Hookups**

It is quite obvious that in order to put the kind of programs on we would like to put on, it is necessary to distribute those to a considerable number of stations and hence spread the cost, as is done in radio broadcasting. At the present time, we do have cable connections from Washington to New York and from New York to Boston; so far, there is no station at Boston, but the first Boston station should be on the air within a month from now and we'll be able to distribute in Washington, Baltimore, Philadelphia, New York, Schenectady and Richmond, Virginia, within about a month. The cables will be available for that section of the country within about that time. Technically, there isn't any great problem in transmitting pictures from one city to another. There are simple methods of doing it, by a co-axial cable or still better, as far as I am concerned, with a micro-wave relay. However, the cost so far of either of these facilities as purchased from the A. T. and T., are too high. In other words, we can probably establish networks in the East here, where we have a lot of cities close together, but we feel that it is just out of the question to set up a national network with the present rates.

Just to give you an idea about what those rates amount to, it runs about \$35.00 per mile per month, and then there are certain charges for station connections and whatnot and the cost of a cable between New York and Washington, both ways, will run somewhere in the neighborhood of \$225,000 a year. Now, if you also feed stations in Philadelphia and Baltimore, of course, you can divide that into four and you can probably line it up all right, but when you consider tying in Los Angeles to New York, it means more than several million dollars a year to tie those in and when you get west of the Mississippi the cities are few and far between. However, I think that there are ways and means of reducing the cost of these micro-wave relays. The Western Union Company has come up with one pretty good idea and that is the so-called reversible relay, which cuts the amount of equipment in half. It does take you 30 seconds to reverse the circuit, but you can usually work in a local plug or something, and the saving in cost makes it well worthwhile.

Another thing can be done to reduce the cost. At the present time the picture signals are sent over the microwave relay and not the sound signal. I believe there are ways and means — I know a number of people have been experimenting with that, and have had fairly good results—to-com-

(Continued on page 44)

# Progress and Future of Television

(Continued from page 43)

bine both the picture and the sound over the same microwave relay, and that will save the cost of the separate voice circuits between the various cities.

## Subdivisions of Television

So much just for the general picture on television. I think it might be interesting to take up the various subdivisions of it. In other words, I am thinking of the cathode ray tube manufacturing and I am thinking of the receiver manufacturing and also the transmitter manufacturing. The cathode ray tube, as you probably know, consists of a glass blank with a rather flat surface, an electron gun, and a fluorescent screen on the inner surface, which is caused to recreate the picture at the receiver.

Last year, that is, in 1947, we had only one manufacturer, namely the Corning Glass Co., making about 225,000 of the glass blanks. Libby-Owens has recently started making glass blanks and is hoping to increase production. All these blanks, last year, were so-called hand blown blanks. They were all made by hand and if you have ever seen a glass shop working on that, you can realize that the production capabilities of a shop like that are rather low.

However, around December of last year, the glass companies decided to put in automatic machinery for making these glass blanks. This is just getting into operation now. The bugs have not been worked out of it, but the big problem as far as the manufacture of receivers is concerned, is just how fast the industry can go this year, and in my estimation pretty much depends upon how many glass blanks can be gotten from the glass manufacturers.

At the present time, they figure they can turn out this year around 700,000 blanks and maybe they are going to beat that a little bit, but we know from personal experience that in spite of the fact that they are running about three times over last year the demand for them may be ten times over the number we can get, so that the glass problem, as far as the cathode ray tubes—and that is a limiting factor of the receivers—is something to definitely worry about.

Now, in order to try and help out that situation, several manufacturers have experimented with the manufacture of cathode ray tubes where the envelope of the tube, that is the conical portion, are going to be made of metal and then just seal the face plate on the front and the glass neck at the bottom for the electron gun, but the chances are that there will be few of those this year, and it will be 1949 before there are any substantial changes in the amounts of these tubes that will be available.

## Variety of Receivers

As far as television receivers are concerned, I don't know how familiar everybody here would be with the various types available, but there is a pretty wide selection—you can start off with sets having tubes of seven-inch diameter and then you can go to ten-inch, twelve-inch, fifteen-inch, and the twenty-inch diameter. Those are sets with the so-called direct view, in which you look directly at the picture as it is reproduced on the cathode ray tube.

Then, there are other types of receivers available, the so-called projection receivers where you use a relatively small cathode ray tube of either four or five inches of diameter and project that picture to a larger size, approximately fifteen by twenty, by means of a lens, a very simple thing, the way you project the picture from a motion picture machine. These so-called projec-

tion receivers are, so far, not taking as well as the direct view.

When you build a receiver where you look directly at the tube, it is possible to get a much brighter picture, some ten times as bright, and it is also possible to get the picture with somewhat better detail and somewhat better contrast. I think it is pretty obvious why that is so. When you take a small picture and magnify it twenty-five or thirty times, you are very definitely going to lose brilliance and you are going to lose detail and you also lose contrast. In other words, the contrast is the ratio between the blackest black and the whitest white in the picture. When you have a very small tube and the picture there is a very detailed one, or there is a very bright spot at one point, right next to a very dark spot, it is impossible to focus the electronic beam sharply enough so that there is not some spillover and where you are forming the picture on a very small tube and then make a magnifying process, you are going to have blacks not as black as they should be. They will be a gray. Contrast runs on the projection set around fifteen to one, whereas on a direct view set where you have the elements farther apart, you have a hundred to one ratio.

In other words, it will compare very favorably with the contrast range you have in the motion pictures. The television sets are being put out, of course, with wide ranges, as far as costs are concerned. I think the cheapest set that is advertised today is a set with a seven-inch tube, which gives you a picture approximately four by five inches, and is just a television set with picture and sound. The price is around \$149. From there you can go up to the most expensive set, around \$2,500, and, really, that particular set is not a television receiver, it is a home entertainment device. In other words, it has short wave, standard broadcast, F.M., and automatic phonograph, and a fourteen by eighteen-inch, direct view picture.

## Contrast of Cheap and Expensive Receivers

I think that there is one thing that we have been harping on, and that is the fact that we have not been able to see as yet any reduction in price for merchandise of like quality. You can take a receiver—I have made a little comparison here, just to show how it is—I have compared the receiver we manufacture, which sells for around \$445, compared with one of the receivers selling for less than \$200. In the first place, you have a twenty-two square inch picture on the cheaper sets, as against a seventy-two square inch picture on the larger receiver.

In order to save cost on the small receiver, they cut the voltage to the cathode ray tube. In other words, they use two thousand volts on the anode, instead of ten thousand volts. That means that the brilliance of the picture, in terms of lumens, is fifteen on the small receiver and ninety lumens on the large receiver. For practical purposes, that means that pretty well, on the smaller set you'll have to dim the room in order to see the picture properly. With the other receiver, you can use the normal illumination in the room and everybody can go about his business at home or look at the television receiver.

Another difference between the cheaper set and the more expensive set is in the band width of the design of the receiver. For instance, on the smaller set, in order to save cost, they cut out tubes. It is designed for a band-width of about two megacycles, whereas the more expensive set is designed for a band width of four and a half megacycles. What that

means is that the small set is only taking advantage of approximately two hundred lines in the picture. In other words, there is still the 525 lines in the picture, but the horizontal resolution is only around two hundred resolution lines. Of course, it isn't too serious in the small picture, because the picture is so small that the angle that your eye makes with the picture can not distinguish too well as to that, so that is not too serious, but nevertheless, the information is not there.

With the larger, more expensive set, of course, being designed for the full band width, as sent out from the transmitter, you get all the detailed information the transmitter is sending out. There are a number of other differences. For instance, the expensive receivers are designed for a sensitivity of about a thousand microvolts, whereas the less-expensive set has a sensitivity of fifty microvolts. You have to have a signal of a thousand microvolts in order to operate the one set properly and one-twentieth of that to operate the other properly. That means the less-expensive receivers can not be used much over twenty or twenty-five miles, if that far, from the transmitter, whereas the more expensive receiver in a lot of cases can be used seventy-five or a hundred miles from the transmitter. The inexpensive receiver is designed to pick up eight stations and the more expensive sets pick up thirteen stations. In the less-expensive receiver, the selectivity curve, because of the small number of tubes, is not very sharp. That means that you will get more than you are entitled to, as far as diathermy interference and interference with other stations is concerned. In the more expensive sets, the better selectivity curve gives a minimum of interference. In the cheaper sets, no noise immunity circuits are used and automobile ignition will make the picture jump. In the more expensive receiver, three tubes are used to eliminate this condition.

## Future Price of Receivers

The one point I wanted to bring out is that everybody seems to think that prices are going way down on television receivers. Well, that is true. You can throw some wires and tubes and components together and get a picture, but the places you can use that receiver and the service you get out of that receiver are quite comparable to the price you pay for it. In other words you can buy a Crosley automobile and drive from here to Chicago but I would rather spend a little more money and have a little more comfort and you have the same situation in television.

There are going to be reductions, but they have not occurred yet, in the prices of television receivers. The largest reduction I can see is the reduction we are to have in the cost of glass blanks, when they are made automatically. So far, they have not passed any of those savings on, but that will be a definite saving that can be passed on. When we get into bigger production, there may be some economies in manufacture, but whether they will be offset by increased labor costs is something we don't know about right at the present time.

## Can Small Cities Be Served?

As far as the television transmitters are concerned, there are several different problems that are of interest. If you are putting up a television station in a town like New York, where it is planned to more or less be the key station of a network, it is very easy to spend from a half a million to a million dollars for the equipment and the studios. The thing that has concerned us is how are we going to get televi-

sion into all the small cities in the United States, and the particular company I am with has developed an inexpensive transmitter which can be put up in these smaller towns where they rely 100% on network programs, at a cost of somewhere in the neighborhood of \$50,000 dollars and would require one or two operators to run it. The idea is that they will start off that way and as they move along they can buy mobile pickup equipment, so they can go out and pick up the local baseball games and the local basketball games, or what have you, or the various theatricals occurring in the town, but the largest expense in the operation of a television station, of course, is the operation of the studio. It requires a lot of equipment, and a lot of technique, and, of course, you cost of the talent to put on the shows, and we feel it is pretty hopeless to expect these towns to do a good job on their own programs.

## Importance of Networks

We feel that it is even more important in television to have networks operating through this country than radio because it costs more to put the program on, and there are only a few spots in the United States where you have a large reservoir of trained talent to use, and of course, New York is the number one spot, in that regard.

The importance of Hollywood probably will not be as great in television as it has been in radio. By and large, the best performers we have found for television are the people who have had experiences in the drama or in vaudeville; people that have developed through radio or the movies, in a lot of cases, are not too good on television because, in the case of radio artists, they have not learned how to act, in many cases, and simply know how to read a script and we put on a television show and they have to memorize their lines and act out the parts and in many cases they have not learned how to memorize their lines for a lengthy production; so that we feel that New York is an extremely important key point, as far as television is concerned. We think it is going to be the main point.

The other point that is very important is Washington, from the political scene, and the networks are going to make good use of Washington pickups to keep the television audience informed of the goings on on the political scene. Now, there are a few interesting possibilities that you may hear about in the near future. One of them, something that we have been working on, and that is a method of transmitting television by means of a light beam, rather than by means of a radio wave. The transmission of sound by means of a light beam was well worked out during the last war and used quite a bit by Army and the Navy. However, the transmission of sound over a light beam only involved some three or four thousand cycles per second whereas we have to have at least four and a half million cycles for a good television picture.

## Rebroadcasts

In the last several years, we have finally developed a fluorescent salt that will go on and off at that rate of speed and we are making experimental setups now where when we wish, we can transmit television pictures on a visible light picture, a visible light beam, or an invisible light beam, up to a distance of five miles, and we are hoping, before the end of the year, to use it in connection with our New York station for picking up events at the Garden, at various theaters or ball parks and sending them back to the transmitter for rebroadcasts. The reason we are interested in working this out,

for one thing, is the problem of licenses with the Federal Communications Commission which are eliminated. As I said before, it can be either visible or invisible, but it would provide the broadcasters around the city here with an innumerable number of relay channels for picking up programs and sending them back to the transmitter. It is also more economical.

Our present micro-wave transmitter, which we use to send pictures back from the Yankee Stadium to the transmitter costs about \$12,000. It is a very bulky, heavy unit, hard to cart around or to set up. We have to have line of sight, in order to get a good picture, as we would have to have with a light beam, so there is no difference there, but with the light beam transmitter, the man can carry the transmitter in the one hand and the receiver in the other, and the total cost would be less than a thousand dollars. At the present time we can only transmit on the light system for several miles, but we think that ultimately we can use it for longer distances. It might even be useful for inter-city relays and it might provide any number of channels that you wanted between cities in this country.

Looking a little further ahead, it looks like maybe four or five years from now that it might be very useful in the smaller cities of this country. In other words, the cost of the transmitter in that small city would be about a thousand dollars, instead of fifty thousand dollars. You would have to put a pole up, maybe three or four hundred feet high, with a light on the top, and a lens similar to a lighthouse lens, and on every house in town, a pole up on the house, with a little black box in it and you can receive the pictures that way. We do not think that is practical for more than a four to five mile radius, but the television receiver that person would use would not have to have any R.F. amplifier, oscillator, intermediate frequency amplifier and so forth. The receiver would be just the cathode ray tube sweep circuits and the power supply. You would save there. In other words, the receiver probably would run about half of an equivalent receiver today, so there are a lot of developments coming along in this field. However, the increase of our present standard system undoubtedly will move forward very fast and I don't think there is any question that television will be the greatest growth industry in the United States this year, and I think that inside of five or ten years it will be well up among the top industries in this country.

## Harry Cohen Dead

Harry Cohen, chief statistician for Bear, Stearns & Co., died at the age of sixty. Before joining Bear, Stearns & Co., 20 years ago, he was active as an educator and tax expert; he also was president of the New York Realty Operators, Inc.

## James C. Willson Dead

James C. Willson, veteran of the early days of aircraft and airline financing and until his retirement head of James C. Willson & Co., Louisville, Ky., investment firm, died at the age of sixty-two after a long illness.

## Joins Staff of A. E. Weltner

(Special to THE FINANCIAL CHRONICLE)  
KANSAS CITY, MO.—William F. Chaves has joined the staff of A. E. Weltner & Co., Inc., 21 West Tenth St.

## A. H. Gordon a Director

Albert H. Gordon, partner in Kidder, Peabody & Co., has been elected a director of Burlington Mills Corporation.

# 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	Latest Month	Previous Month	Year Ago
<b>AMERICAN IRON AND STEEL INSTITUTE:</b>							
Indicated steel operations (percent of capacity).....	May 9	91.0	86.6	84.4	90.6		
Equivalent to.....							
Steel ingots and castings produced (net tons).....	May 9	1,640,300	1,560,900	1,521,300	1,585,400		
<b>AMERICAN PETROLEUM INSTITUTE:</b>							
Crude oil output—daily average (bbls. of 42 gallons each).....	Apr. 24	5,415,400	5,390,650	5,377,250	4,929,900		
Crude runs to stills—daily average (bbls.).....	Apr. 24	5,517,000	5,521,000	5,324,000	4,709,000		
Gasoline output (bbls.).....	Apr. 16	16,515,000	16,588,000	15,783,000	14,326,000		
Kerosine output (bbls.).....	Apr. 24	2,452,000	2,390,000	2,647,000	2,157,000		
Gas oil and distillate fuel oil output (bbls.).....	Apr. 24	6,631,000	7,091,000	7,682,000	5,394,000		
Residual fuel oil output (bbls.).....	Apr. 24	8,877,000	8,755,000	8,854,000	8,131,000		
Stocks at refineries, at bulk terminals, in transit and in pipe lines—							
Finished and unfinished gasoline (bbls.) at.....	Apr. 24	111,128,000	110,838,000	112,991,000	102,026,000		
Kerosine (bbls.) at.....	Apr. 24	12,481,000	12,015,000	10,459,000	9,807,000		
Gas oil and distillate fuel oil (bbls.) at.....	Apr. 24	24,237,000	33,985,000	30,717,000	30,636,000		
Residual fuel oil (bbls.) at.....	Apr. 24	49,572,000	49,110,000	48,334,000	42,280,000		
<b>ASSOCIATION OF AMERICAN RAILROADS:</b>							
Revenue freight loaded (number of cars).....	Apr. 24	852,369	785,668	664,375	893,712		
Revenue freight rec'd from connections (number of cars).....	Apr. 24	697,419	602,165	612,014	713,289		
<b>CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS-RECORD:</b>							
Total U. S. construction.....	Apr. 29	\$183,253,000	\$136,743,000	\$218,784,000	\$102,480,000		
Private construction.....	Apr. 29	68,849,000	71,656,000	136,726,000	54,724,000		
Public construction.....	Apr. 29	114,404,000	65,087,000	82,058,000	47,756,000		
State and municipal.....	Apr. 29	66,553,000	55,751,000	50,792,000	33,108,000		
Federal.....	Apr. 29	47,851,000	9,336,000	31,226,000	14,648,000		
<b>COAL OUTPUT (U. S. BUREAU OF MINES):</b>							
Bituminous coal and lignite (tons).....	Apr. 24	11,352,000	*7,730,000	2,120,000	12,825,000		
Pennsylvania anthracite (tons).....	Apr. 24	1,162,000	1,054,000	892,000	1,071,000		
Beehive coke (tons).....	Apr. 24	66,900	*32,300	13,400	138,700		
<b>DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100</b>							
.....	Apr. 24	296	294	331	267		
<b>EDISON ELECTRIC INSTITUTE:</b>							
Electric output (in 000 kwh.).....	May 1	5,042,352	5,027,280	5,036,788	4,640,371		
<b>FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN &amp; BRADSTREET, INC.</b>							
.....	Apr. 29	106	100	91	70		
<b>IRON AGE COMPOSITE PRICES:</b>							
Finished steel (per lb.).....	Apr. 27	\$3.23940c	\$3.23940c	\$3.23940c	\$2.86354c		
Pig iron (per gross ton).....	Apr. 27	\$40.11	\$40.11	\$40.29	\$33.15		
Scrap steel (per gross ton).....	Apr. 27	\$40.33	\$40.33	\$40.25	\$29.92		
<b>METAL PRICES (E. &amp; M. J. QUOTATIONS):</b>							
Electrolytic copper.....							
Domestic refinery at.....	Apr. 28	21.200c	21.200c	21.200c	21.225c		
Export refinery at.....	Apr. 28	21.425c	21.475c	21.425c	23.675c		
Straits tin (New York) at.....	Apr. 28	94.000c	94.000c	94.000c	80.000c		
Lead (New York) at.....	Apr. 28	17.500c	17.500c	15.000c	15.000c		
Lead (St. Louis) at.....	Apr. 28	17.300c	17.300c	14.800c	14.800c		
Zinc (East St. Louis) at.....	Apr. 28	12.000c	12.000c	12.000c	10.500c		
<b>MOODY'S BOND PRICES DAILY AVERAGES:</b>							
U. S. Govt. Bonds.....	May 4	100.84	100.85	100.81	104.45		
Average corporate.....	May 4	112.37	112.37	111.62	117.40		
Aaa.....	May 4	117.60	117.60	117.00	122.50		
Aa.....	May 4	115.43	115.63	115.43	120.43		
A.....	May 4	111.81	111.62	110.88	117.00		
Baa.....	May 4	105.34	105.17	104.14	110.34		
Railroad Group.....	May 4	107.44	107.09	106.56	112.56		
Public Utilities Group.....	May 4	113.89	113.89	113.31	115.80		
Industrials Group.....	May 4	116.22	116.22	115.63	121.04		
<b>MOODY'S BOND YIELD DAILY AVERAGES:</b>							
U. S. Govt. Bonds.....	May 4	2.44	2.44	2.44	2.20		
Average corporate.....	May 4	3.04	3.04	3.08	2.78		
Aaa.....	May 4	2.77	2.77	2.80	2.53		
Aa.....	May 4	2.88	2.87	2.88	2.63		
A.....	May 4	3.07	3.08	3.12	2.80		
Baa.....	May 4	3.43	3.44	3.50	3.15		
Railroad Group.....	May 4	3.31	3.33	3.36	3.03		
Public Utilities Group.....	May 4	2.96	2.96	2.99	2.71		
Industrials Group.....	May 4	2.84	2.84	2.87	2.60		
<b>MOODY'S COMMODITY INDEX</b>							
.....	May 4	417.1	413.2	410.6	396.7		
<b>NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:</b>							
Foods.....	May 1	235.4	237.0	229.2	215.9		
Fats and oils.....	May 1	269.7	283.3	228.1	240.3		
Farm products.....	May 1	254.4	257.0	250.3	241.1		
Cotton.....	May 1	358.9	365.1	337.9	335.4		
Grains.....	May 1	264.4	267.6	268.4	243.9		
Livestock.....	May 1	237.9	240.0	235.1	227.7		
Fuels.....	May 1	228.6	228.6	228.6	169.8		
Miscellaneous commodities.....	May 1	175.2	176.1	175.0	158.1		
Textiles.....	May 1	214.6	215.8	212.0	215.0		
Metals.....	May 1	164.9	164.9	163.5	147.9		
Building materials.....	May 1	227.3	227.3	230.4	203.2		
Chemicals and drugs.....	May 1	155.8	155.4	156.8	156.9		
Fertilizer materials.....	May 1	136.3	136.4	137.7	127.5		
Fertilizers.....	May 1	143.7	143.7	143.7	134.6		
Farm machinery.....	May 1	139.2	138.8	138.8	125.5		
All groups combined.....	May 1	219.3	220.4	216.8	195.6		
<b>NATIONAL PAPERBOARD ASSOCIATION:</b>							
Orders received (tons).....	Apr. 24	181,068	160,524	176,395	153,415		
Production (tons).....	Apr. 24	190,294	186,438	193,650	180,227		
Percentage of activity.....	Apr. 24	102	100	104	100		
Unfilled orders (tons) at.....	Apr. 24	393,044	403,008	419,845	534,297		
<b>OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100</b>							
.....	Apr. 30	145.8	146.5	146.2	147.9		
<b>WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:</b>							
All commodities.....	Apr. 24	163.6	162.9	161.1	146.8		
Farm products.....	Apr. 24	188.9	189.2	177.6	176.6		
Foods.....	Apr. 24	180.4	178.8	174.8	160.3		
Hides and leather products.....	Apr. 24	187.1	187.2	186.2	171.9		
Textile products.....	Apr. 24	148.2	145.9	145.2	137.8		
Fuel and lighting materials.....	Apr. 24	132.6	131.9	131.7	103.9		
Metal and metal products.....	Apr. 24	157.2	157.1	156.0	140.8		
Building materials.....	Apr. 24	195.3	194.9	192.5	178.0		
Chemicals and allied products.....	Apr. 24	136.5	136.8	135.1	130.5		
Housefurnishings goods.....	Apr. 24	144.4	144.7	144.3	128.6		
Miscellaneous commodities.....	Apr. 24	122.2	121.5	120.8	115.2		
Special groups—							
Raw materials.....	Apr. 24	177.8	178.0	175.9	161.3		
Semi-manufactured articles.....	Apr. 24	153.7	153.6	152.9	144.7		
Manufactured products.....	Apr. 24	158.9	157.8	155.9	141.1		
All commodities other than farm products.....	Apr. 24	158.0	157.1	155.5	140.1		
All commodities other than farm products and foods.....	Apr. 24	149.6	148.3	147.4	132.0		
*Revised figure.							
<b>ALUMINUM (BUREAU OF MINES)</b>							
Production of primary aluminum in the U. S. (in short tons)—Month of February.....	45,699	48,767		47,002			
Stocks of aluminum—short tons (end of Feb.).....	9,354	10,484		Not avail.			
<b>AMERICAN GAS ASSOCIATION—For Month of March:</b>							
Total gas sales (M therms).....	3,124,745	3,342,284		2,926,617			
Natural gas sales (M therms).....	2,731,091	2,896,284		2,509,343			
Manufactured gas sales (M therms).....	247,514	268,647		232,583			
Mixed gas sales (M therms).....	146,140	177,353		184,691			
<b>COKE (BUREAU OF MINES)—Month of Mar.:</b>							
Production (net tons).....	5,973,015	*6,052,117		6,253,574			
Oven coke (net tons).....	5,652,540	5,512,838		5,658,410			
Beehive coke (net tons).....	320,475	*539,279		595,164			
Oven coke stocks at end of month (net tons).....	715,527	807,478		675,621			
<b>CONSUMERS PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939=100—As of March 15:</b>							
All items.....	166.9	167.5		156.3			
All foods.....	202.3	204.7		189.5			
Cereals and bakery products.....	171.0	171.8		148.1			
Meats.....	224.7	224.8		207.6			
Dairy products.....	201.1	204.4		187.5			
Eggs.....	186.3	189.2		174.7			
Fruits and vegetables.....	206.9	213.0		199.6			
Beverages.....	204.4	104.0		186.9			
Fats and oils.....	191.7	194.2		219.1			
Sugar and sweets.....	174.4	176.8		178.6			
Clothing.....	196.3	195.1		184.3			
Rent.....	116.3	116.0		109.0			
Fuel, electricity and ice.....	130.3	130.0		117.6			
Gas and electricity.....	93.8	93.2		92.2			
Other fuels and ice.....	166.0	165.9		142.5			
Housefurnishings.....	194.9	193.0		182.3			
Miscellaneous.....	146.2	146.4		138.2			
<b>COPPER INSTITUTE—For month of March:</b>							
Copper production in U. S. A.—							
Crude (tons of 2,000 lbs.).....	83,574	*82,959		84,445			
Refined (tons of 2,000 lbs.).....	110,896	93,588		95,664			
Deliveries to customers—							
In U. S. A. (tons of 2,000 lbs.).....	122,988	106,823		123,382			
Refined copper stocks at end of period (tons of 2,000 lbs.).....	68,582	70,146		83,736			
<b>FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE—U. S. DEPT. OF LABOR—Month of March:</b>							
Earnings—							
All manufacturing.....	\$52.25	*\$51.83					
Durable goods.....	\$57.77	*\$49.97					
Non-durable goods.....	48.53	*48.53					
Hours.....							
All manufacturing.....	40.4	*40.2					
Durable goods.....	41.0	*40.5					
Non-durable goods.....	39.8	39.8					
Hourly earnings—							
All manufacturing.....	\$1.293	*					

# Human Freedom Rests on Gold Redeemable Money

(Continued from first page)

even if money is a difficult and tricky subject. I suppose that if most people were asked for their views on money the almost universal answer would be that they didn't have enough of it.

In a free country the monetary unit rests upon a fixed foundation of gold or gold and silver independent of the ruling politicians. Our dollar was that kind of money before 1933. Under that system paper currency is redeemable for a certain weight of gold, at the free option and choice of the holder of paper money.

## Redemption Right Insures Stability

That redemption right gives money a large degree of stability. The owner of such gold redeemable currency has economic independence. He can move around either within or without his country because his money holdings have accepted value anywhere.

For example, I hold here what is called a \$20 gold piece. Before 1933, if you possessed paper money you could exchange it at your option for gold coin. This gold coin had a recognizable and definite value all over the world. It does so today. In most countries of the world this gold piece, if you have enough of them, will give you much independence. But today the ownership of such gold pieces as money in this country, Russia, and all divers other places is outlawed.

The subject of a Hitler or a Stalin is a serf by the mere fact that his money can be called in and depreciated at the whim of his rulers. That actually happened in Russia a few months ago, when the Russian people, holding cash, had to turn it in—10 old rubles and receive back one new ruble.

I hold here a small packet of this second kind of money—printing press paper money—technically known as fiat money because its value is arbitrarily fixed by rulers or statute. The amount of this money in numerals is very large. This little packet amounts to CNC \$680,000. It cost me \$5 at regular exchange rates. I understand I got clipped on the deal. I could have gotten \$2½ million if I had purchased in the black market. But you can readily see that this Chinese money, which is a fine grade of paper money, gives the individual who owns it no independence, because it has no redemptive value.

Under such conditions the individual citizen is deprived of freedom of movement. He is prevented from laying away purchasing power for the future. He becomes dependent upon the goodwill of the politicians for his daily bread. Unless he lives on land that will sustain him, freedom for him does not exist.

You have heard a lot of oratory on inflation from politicians in both parties. Actually that oratory and the inflation maneuvering around here are mostly sly efforts designed to lay the blame on the other party's doorstep. All our politicians regularly announce their intention to stop inflation. I believe I can show that until they move to restore your right to own gold, that talk is hogwash.

## Paper Systems End in Collapse

But first let me clear away a bit of underbrush. I will not take time to review the history of paper money experiments. So far as I can discover, paper money systems have always wound up with collapse and economic chaos.

Here somebody might like to interrupt and ask if we are not now on the gold standard. That is true, internationally, but not domestically. Even though there is a lot of gold buried down at

Fort Knox, that gold is not subject to demand by American citizens. It could all be shipped out of this country without the people having any chance to prevent it. That is not probable in the near future, for a small trickle of gold is still coming in. But it can happen in the future. This gold is temporarily and theoretically partial security for our paper currency. But in reality it is not.

Also, currently, we are enjoying a large surplus in tax revenues, but this happy condition is only a phenomenon of postwar inflation and our global WPA. It cannot be relied upon as an accurate gauge of our financial condition. So we should disregard the current flush treasury in considering this problem.

From 1930-1946 your government went into the red every year and the debt steadily mounted. Various plans have been proposed to reverse this spiral of debt.

One is that a fixed amount of tax revenue each year would go for debt reduction. Another is that Congress be prohibited by statute from appropriating more than anticipated revenues in peacetime. Still another is that 10% of the taxes be set aside each year for debt reduction.

All of these proposals look good. But they are unrealistic under our paper money system. They will not stand against postwar spending pressures. The accuracy of this conclusion has already been demonstrated.

## The Budget and Paper Money

Under the stream-lining Act passed by Congress in 1946, the Senate and the House were required to fix a maximum budget each year. In 1947 the Senate and the House could not reach an agreement on this maximum budget so that the law was ignored.

On March 4 this year the House and Senate agreed on a budget of \$37½ billion. Appropriations already passed or on the docket will most certainly take expenditures past the \$40 billion mark. The statute providing for a maximum budget has fallen by the wayside even in the first two years it has been operating and in a period of prosperity.

There is only one way that these spending pressures can be halted, and that is to restore the final decision on public spending to the producers of the nation. The producers of wealth—taxpayers—must regain their right to obtain gold in exchange for the fruits of their labor. This restoration would give the people the final say-so on governmental spending, and would enable wealth producers to control the issuance of paper money and bonds.

I do not ask you to accept this contention outright. But if you look at the political facts of life, I think you will agree that this action is the only genuine cure.

There is a parallel between business and politics which quickly illustrates the weakness in political control of money.

Each of you is in business to make profits. If your firm does not make profits, it goes out of business. If I were to bring a product to you and say, this item is splendid for your customers, but you would have to sell it without profit, or even at a loss that would put you out of business—well, I would get thrown out of your office, perhaps politely, but certainly quickly. Your business must have profits.

In politics votes have a similar vital importance to an elected official. That situation is not ideal, but it exists, probably because

generally no one gives up power willingly.

Perhaps you are right now saying to yourself: "That's just what I have always thought. The politicians are thinking of votes when they ought to think about the future of the country. What we need is a Congress with some 'guts.' If we elected a Congress with intestinal fortitude, it would stop the spending all right!"

I went to Washington with exactly that hope and belief. But I have had to discard it as unrealistic. Why? Because an economy Congressman under our printing-press money system is in the position of a fireman running into a burning building with a hose that is not connected with the water plug. His courage may be commendable, but he is not hooked up right at the other end of the line. So it is now with a Congressman working for economy. There is no sustained hook-up with the taxpayers to give him strength.

When the people's right to restrain public spending by demanding gold coin was taken from them, the automatic flow of strength from the grass-roots to enforce economy in Washington was disconnected. I'll come back to this later.

In January you heard the President's message to Congress, or at least you heard about it. It made Harry Hopkins, in memory, look like Old Scrooge himself.

Truman's State of the Union message was "pie-in-the-sky" for everybody—except business. These promises were to be expected under our paper currency system. Why? Because his continuance in office depends upon pleasing a majority of the pressure groups.

Before you judge him too harshly for that performance, let us speculate on his thinking. Certainly he can persuade himself that the Republicans would do the same thing if they were in power. Already he has characterized our talk of economy as "just conversation." To date we have been proving him right. Neither the President nor the Republican Congress is under real compulsion to cut Federal spending. And so neither one does so, and the people are largely helpless.

But it was not always this way. Before 1933 the people themselves had an effective way to demand economy. Before 1933, whenever the people became disturbed over Federal spending, they could go to the banks, redeem their paper currency in gold, and wait for common sense to return to Washington.

## Raids on Treasury

That happened on various occasions and conditions sometimes became strained, but nothing occurred like the ultimate consequences of paper money inflation.

Today Congress is constantly besieged by minority groups seeking benefits from the public treasury. Often these groups control enough votes in many Congressional districts to change the outcome of elections. And so Congressmen find it difficult to persuade themselves not to give in to pressure groups. With no bad immediate consequence it becomes expedient to accede to a spending demand. The Treasury is seemingly inexhaustible. Besides the unorganized taxpayers back home may not notice this particular expenditure—and so it goes.

Let's take a quick look at just the payroll pressure elements. On June 30, 1932, there were 2,196,151 people receiving regular monthly checks from the Federal Treasury. On June 30, 1947, this num-

ber had risen to the fantastic total of 14,416,393 persons.

This 14½ million figure does not include about 2 million receiving either unemployment benefits or conservation checks. However, it includes about 2 million GI's getting schooling or on-the-job-training. Excluding them, the total is about 12½ million or 500% more than in 1932. If each beneficiary accounted for four votes (and only half exhibited this payroll allegiance response) this group would account for 25 million votes, almost by itself enough votes to win any national election.

Besides these direct payroll voters, there are a large number of State, county and local employees whose compensation in part comes from Federal subsidies and grants-in-aid.

Then there are many other kinds of pressure groups. There are businesses that are being enriched by national defense spending and foreign handouts. These firms, because of the money they can spend on propaganda, may be the most dangerous of all.

If the Marshall Plan meant \$100 million worth of profitable business for your firm, wouldn't you invest a few thousands or so to successfully propagandize for the Marshall Plan? And if you were a foreign government, getting billions, perhaps you could persuade your prospective suppliers here to lend a hand in putting that deal through Congress.

## Taxpayer the Forgotten Man

Far away from Congress is the real forgotten man the taxpayer who foots the bill. He is in a different spot from the tax-eater or the business that makes millions from spending schemes. He cannot afford to spend his time trying to oppose Federal expenditures. He has to earn his own living and carry the burden of taxes as well.

But for most beneficiaries a Federal paycheck soon becomes vital in his life. He usually will spend his full energies if necessary to hang onto this income.

The taxpayer is completely out-matched in such an unequal contest. Always heretofore he possessed an equalizer. If government finances weren't run according to his idea of soundness he had an individual right to protect himself by obtaining gold.

With a restoration of the gold standard, Congress would have to again resist handouts. That would work this way. If Congress seemed receptive to reckless spending schemes, depositors' demands over the country for gold would soon become serious. That alarm in turn would quickly be reflected in the halls of Congress. The legislators would learn from the banks back home and from the Treasury officials that confidence in the Treasury was endangered.

Congress would be forced to confront spending demands with firmness. The gold standard acted as a silent watchdog to prevent unlimited public spending.

I have only briefly outlined the inability of Congress to resist spending pressures during periods of prosperity. What Congress would do when a depression comes is a question I leave to your imagination.

I have not time to portray the end of the road of all paper money experiments.

It is worse than just the high prices that you have heard about. Monetary chaos was followed in Germany by a Hitler; in Russia by all-out Bolshevism; and in other nations by more or less tyranny. It can take a nation to communism without external influences. Suppose the frugal savings of the humble people of America continue to deteriorate in the next 10 years as they have in the past 10 years? Some day

the people will almost certainly flock to "a man on horseback" who says he will stop inflation by price-fixing, wage-fixing, and rationing. When currency loses its exchange value the processes of production and distribution are demoralized.

For example, we still have rent-fixing and rental housing remains a desperate situation.

For a long time shrewd people have been quietly hoarding tangibles in one way or another. Eventually, this individual movement into tangibles will become a general stampede unless corrective action comes soon.

## Is Time Propitious

Most opponents of free coinage of gold admit that that restoration is essential, but claim the time is not propitious. Some argue that there would be a scramble for gold and our enormous gold reserves would soon be exhausted.

Actually, this argument simply points up the case. If there is so little confidence in our currency that restoration of gold coin would cause our gold stocks to disappear, then we must act promptly.

The danger was recently highlighted by Mr. Allan Sproul, President of the Federal Reserve Bank of New York, who said:

"Without our support (the Federal Reserve System), under present conditions, almost any sale of government bonds, undertaken for whatever purpose, laudable or otherwise, would be likely to find an almost bottomless market on the first day support was withdrawn."

Our finances will never be brought into order until Congress is compelled to do so. Making our money redeemable in gold will create this compulsion.

The paper money disease has been a pleasant habit thus far and will not be dropped voluntarily any more than a dope user will without a struggle give up narcotics. But in each case the end of the road is not a desirable prospect.

I can find no evidence to support a hope that our fiat paper money venture will fare better ultimately than such experiments in other lands. Because of our economic strength the paper money disease here may take many years to run its course.

But we can be approaching the critical stage. When that day arrives, our political rulers will probably find that foreign war and ruthless regimentation is the cunning alternative to domestic strife. That was the way out for the paper-money economy of Hitler and others.

In these remarks I have only touched the high points of this problem. I hope that I have given you enough information to challenge you to make a serious study of it.

I warn you that politicians of both parties will oppose the restoration of gold, although they may outwardly seemingly favor it. Also those elements here and abroad who are getting rich from the continued American inflation will oppose a return to sound money. You must be prepared to meet their opposition intelligently and vigorously. They have had 15 years of unbroken victory.

But, unless you are willing to surrender your children and your country to galloping inflation, war and slavery, then this cause demands your support. For if human liberty is to survive in America, we must win the battle to restore honest money.

There is no more important challenge facing us than this issue—the restoration of your freedom to secure gold in exchange for the fruits of your labors.

# The Threatened RR. Strike and Feather-Bed Rules

(Continued from first page)

**manded 44 changes in working rules.** These demands may be classified into three groups: (1) **additional pay for little or no work;** (2) **subterfuges to increase pay;** and (3) **devices to increase work.**

For example, employees demand an entire day's pay for a few minutes' work by one craft and a penalty of another whole day's pay for the craft not used. This applies to road men or yard men who do some incidental work. If more than one engine is used the new rules would require double pay for the men that were engaged or extra pay for those who do not work. Or, for doing a few minutes' work before or after the shift, the new rules would require an entire day's pay at the overtime rate, or 1½ times the regular rate. Thus, 15 minutes would be paid at the equivalent of 12 hours. An engineer or fireman may not flag or throw a switch but an additional trainman must be carried, even though there is only one job on the entire trip.

Again, some rules are subterfuges to increase pay. The wage rate on the local freight trains is the highest in effect. Trainmen wish to raise all services to the local freight level, except through-service. For example, if in a passenger train the conductor carried a package of stationary, to be dropped off for a station agent, every member of the crew on such a passenger train would receive an increase in wage up to the basis of local freight service. Again, a full day's pay is demanded for every side-trip, in addition to all of the time earned on the day. For example, on a turn-around freight run of the Norfolk and Western out of Williamstown, West Virginia, the trip is 38 miles and includes four side-trips. Under the proposed rules, the crew would receive one basic day's pay for working, four additional days' pay for each of the side-trips, making a total of five days' pay, then double pay because two engines pulled the train, or a total of 10 days' pay. **If the trip were made on a Sunday, the pay would be 15 days.** And if the train should stop en route and drop a few cross-ties, which section laborers would unload, the trainmen who stood by and watched would receive two more days' pay, or a total of 17. Another rule would reduce the mileage for passenger service from 150 to 100 miles per day and the minimum time from eight hours to six hours, and overtime would accrue after five hours. **This is really a demand for a rise of 50% in wages.** Yet, at the present 150 miles basis, the hourly rate is \$4.22 per hour worked.

On some of the fast trains, the monthly pay would be fantastic, so the working days are reduced. For example, between Chicago and Fort Wayne, engineers and firemen work 16 days for 49¼ days' pay, or 3.02 days' pay for one day's work. Between Washington and New York, for 10 days' work there is 46.2 days' pay, or 4.62 days' pay per work-day.

Other rules are devices to create work. The new rules would limit freight trains to 70 cars and passenger trains to 14 cars. Of 164 bills introduced in State Legislatures from 1925-45, only four were passed, in three states they were never enforced, and in Arizona, the law was declared unconstitutional. The unions are now trying to obtain the same result by bargaining, after having failed in the legislatures and in the courts. Again, the new rules demand the service of additional but unnecessary men. Unions claim that it is a safety measure. But the I.C.C. analysis of 301 accidents proves that this is a fallacy. From 1932-34, 13 bills were introduced into

Congress to limit crews, but none were passed.

Referees of Railroad Adjustment Boards have issued fantastic awards under these "feather-bed" rules. Road crews who switched equipment were granted another day's pay at yard rates. If the switching is done at an intermediate point, then the road crew receives three days' pay. At the same time, the yard employees who were not present also receive the work during the few minutes. In one case where a railroad had to pay penalty payments over a long period of years to the yard crews who did not do the work, these men were no longer employed. One had moved to California, one had become a farmer, another a postmaster and another was in jail.

On one claim of four days' pay for one day's work, a referee, Royal A. Stone, who happened to be Associate Justice of the Supreme Court of Minnesota, studied a group of cases and held, "the startling result, four days' pay for one day's work suggests something of unsoundness in the argument. There is in it the fundamental error resulting from misconception and misapplication of the rules." He showed there was no justification for awards of this type. His opinion was dictated to a stenographer of the Adjustment Board. The information leaked and, as a result, the four chief executives of the Railroad Brotherhoods jointly signed a telegram hastily withdrawing the case.

### Evil Results of Feather-Bedding

The result of such "feather-bed" rules is an unmitigated evil. Operating costs are increased. Carrying a package of stationary in the baggage car of a passenger train raises the wages of every employee on that train. To pick up a car with livestock at a nearby farm requires side-trips, or three days' pay for one day's work. Therefore, livestock was not carried on the rails but diverted to the trucks. The total cost of side-trips alone would increase payrolls by \$91 million, or almost 11% of the total train and engine service wages.

Again, efficiency is checked. The management improves efficiency by increasing the power of a locomotive. Then the workers raise costs by asking for higher rates on the more powerful locomotives, although they are not harder to operate. Now the employees wish to jack up the rates on light locomotives to the higher level.

"Feather-bed" rules are an economic disease. They create inflexibility. This disease is contagious and affects other industries. Ultimately, it must lead to the death of private enterprise in a democracy. To pay a full day's wage for a few minutes' work is demoralizing, a form of graft. There is no relation between work and pay, between effort and reward. The daily mileage of 150 miles a day for passenger trains, fixed about 70 years ago, can now be accomplished in a few hours. Then, men not working on the road, as yardmen, also seek methods of getting something for nothing. The total cost of the new "feather-bed" demands is estimated at \$1.4 billion, compared with total wages of \$4.3 billion in 1947, net income of \$480 million, interest charges of \$307 million and common dividends of \$182 million.

"Feather-bedding" retards a dynamic expanding society. Central heating made chimney sweeps unnecessary. Electric lighting made unnecessary the lamp lighter that trimmed and lit each individual lamp in the city streets. The automobile made unnecessary the horse-shoer and the harness-maker. Suppose these had been organized into powerful unions. Then each central heating fur-

nace would have an idle chimney sweep standing by. The oil-lamp lighters union would require standby men at the electrical plants and the union of harness-makers and horse-shoers might be required in automobile factories.

On the railroads, the shipper and consumer must pay more for service. The security holder is expropriated as in the wave of bankruptcy since 1930. Even the worker himself is hurt. An attitude of non-cooperation, obstruction and graft becomes a labor tradition in the industry.

### What Are the Causes of Feather-Bedding?

The work is excessively divided into sections. Each union considers its job its own monopoly. If the work were more finely divided and there were more craft unions, there would be more "feather-bedding" and more inefficiency. Inter-union competition for members is the basis for some of the demands. More members mean more dues and more power to the unions. Under the Railway Labor Act, the referees in the Adjustment Board are selected for a group of cases. Referees who decide against labor are not called again. There is no provision for appeal to the courts. The interpretation of the rules does not follow a legal procedure. Therefore, each interpretation opens the way for new demands. There is no time limit on the filing of claims. The interpretations make it possible for workers to obtain hidden wage increases which do not appear in the hourly rate, or to get a wage increase by interpreting a rule.

In a dynamic society, technological change is rapid and new inventions will make old procedures obsolete. Old jobs then should disappear as new jobs arise. The desire to hold on to a dead job is pathological.

### Experience on Other Transportation Systems—Domestic and Foreign

Other transportation systems have no "feather bedding." For example, on the New York City subways the workers put in a full day. Each group of workers must perform any jobs assigned to them. Men may be shifted back and forth between road and yard. They are not paid by the mile. Therefore, on faster trains, wages are no higher than on the slow trains. In fact for the same pay, the senior employees prefer the fast express trains because, with fewer stops, they are easier to run. There are no monopolies of jobs between groups of workers. An electrician may swing a hammer. A carpenter may insert a fuse. The only rule is "no work, no pay."

In the Soviet Union, when the Assistant Commissar of Railroads was asked whether two groups of men were paid, one for performing the job and one with a supposed monopoly for not performing it, he said "Such practices would be considered sabotage and a crime against the country."

On the British railroads, there are no "feather-bed" rules. Mr. C. E. R. Sherrington, in charge of the Bureau of Research of the British Railroads, wrote, "We do not pay men for not doing work. An express locomotive crew may be called upon to return with a freight train if necessary, to switch at any junction and, generally, to make the best use of their time. I would go further and say that I think our employees are sensible enough to wish to oppose the operation of such rules as I see are in force on the American railways, which tend to make railway operations both difficult and ineffective from the labor viewpoint."

In Mexico, the "feather-bed" rules on the railroads were so

rampant that the railroads were incapable of giving the necessary service. Thereupon, the general manager of the National Railroads of Mexico addressed an official public statement to the Secretary of the Union of Railroad Workers, "It is a patriotic duty and necessity that the railroads be operated efficiently." He thereupon issued several orders, a few of which are given here: (1) **Amend existing contracts in order that the railroads make the fullest use of manpower and equipment.** (2) **Eliminate entirely from labor contracts any provisions encroaching upon the rights of management.** (3) **The management may discontinue train service where earnings are insufficient to cover maintenance.** (4) **Amend articles in the labor contract so that they do not limit employees from performing any incidental duties which may come up.**

### What Is the Cure?

The 1938 Emergency Board suggested the elimination of "feather-bed" payments, the reduction of labor costs, and recommended "a frank and candid inquiry." But in 1941, the unions threatened to strike if the recommendation of the 1938 Board for changing the rules were put into effect. The unions are unwilling to permit a fair inquiry and thus can defeat the public interest.

The problem needs a fundamental approach. Labor is defined as "bodily exertion directed to supply society with the required material things and services." Wages are defined as "pay for work or service." Under "feather-bedding," there is neither labor nor wage in the fundamental sense. Either "feather-bedding" must be stopped or the railroads will ultimately go broke. The alternatives are simple—adjust or perish.

"Feather-bed" rules might be eliminated in a trade for increased wages per hour. This remedy was suggested by the coal operators, who offered to raise wages if the portal-to-portal pay were eliminated. The dual basis of pay should be changed to eight hours' work for eight hours' pay. Because road men are paid by the mile, they insist on extra pay for other work. This is not true on the New York City subways. There, road men and yard men are interchangeable. There is also no difference between express and local services.

Other unions have adapted union practices to meet technological change. When a new machine is introduced, for three months the workers about to be displaced are charged against the new machine, but they are trained for a new craft. This is a practice introduced in the International Ladies Garment Workers Union by their Engineering-Management Department, under Dr. William Gomberg.

The railroad workers' quest for security should be considered. They already have the most favorable insurance and retirement features. But, workers displaced in a declining industry should not be saddled upon it to aggravate the decline. The road should have schools to train men for multiple duties in yard, or road, or as maintenance men. Then workers displaced, after being given an adequate severance pay, could be transferred to rising industries, as aircraft manufacturing, plastics or electronics. The relocation of victims of technological advance is a national problem, and it should be taken care of by some central organization.

The procedure of the Railroad Adjustment Board should be brought within the scope of judicial process. Perhaps the most effective remedy would be legislation. The astronomical claims for portal-to-portal pay were pressed by the unions until the law made them illegal. The legislative remedy has proven successful

after many years of failure of pleas to the workers and appeals to the courts to end the racket of putting an extra man on out-of-town trucks entering New York City. The Hobbs amendment to the Federal Anti-Racketeering Act of 1934 eliminated this evil. The general counsel of the AFL, the late Joseph Padway, advised against any constitutional test of the Hobbs amendment. The AFL is now vigorously carrying out the law and stamping out abuses, although it was equally vigorous in fighting the passage of the law.

The Taft-Hartley Law does not apply to the Railway Labor Act of 1926, and it should be extended, for the Act deals with the railroads' problems. Under the Taft-Hartley Law management has the sole authority to say who gets the work and thus would be protected against paying twice for the same job. "Feather-bedding" is prohibited. It is illegal "to cause an employer to pay any money for services which are not performed or not to be performed." Complaints of unfair labor practices become invalid when the basis for the complaint is more than six months old. The informal hearings before a Labor Board are revised "so that the rules of evidence shall be applicable in such proceedings." The Board shall have the power to petition any Circuit Court of Appeals. No employee can claim back pay for re-employment when he has been discharged for a "cause." The extension of the Taft-Hartley Act to the railroads would remove the causes of some "feather-bedding" and effect a cure of much of the rest.

The so-called "right to strike" is actually the "right to cripple the country." Shall the few so endanger the many? Where public health and safety is threatened, an injunction by the government seems essential. This the Taft-Hartley Act of 1946 provides, but the Railway Labor Act of 1926 does not. The remedy is to modernize the law.

### Robin Is Vice-President of Whitney National Bank

James A. Robin, a Vice-President of the Whitney National Bank in New Orleans, La., died on April 25 at Stockton, Cal., where, it is stated, he suffered a heart attack. The "Times-Picayune" of New Orleans, on April 27, stated that Mr. Robin had left for California earlier in the month for a vacation. The same paper said that Mr. Robin before becoming Vice-President of the Whitney National Bank in 1918 was connected with the old Bank of New Orleans, which in 1918 was consolidated with the Whitney. He was 74 years of age.

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U. S. SAVINGS BONDS

# Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

**Air Lanes, Inc., Portland, Me.**  
April 26 (letter of notification) 10,000 shares of preferred stock and 10,000 shares of common. Price—Preferred, \$10 per share and common 1 cent. For plant and equipment costs and working capital. Underwriter—Frederick C. Adams & Co., Boston.

**American Broadcasting Co., Inc., New York**  
Feb. 13, filed 250,000 shares common (\$1 par) at proposed maximum offering price of \$12.50 per share. Underwriters—None. Proceeds—For corporate purposes. Company now has plans to spend about \$5,325,000 for television facilities in New York, Los Angeles, Chicago, San Francisco and Detroit. Shares will be sold to "the persons with which the company had network affiliation agreements at Jan. 31, 1948, and to such other persons as may be selected from time to time by the company."

**American Motors, Inc., New York**  
April 29 (letter of notification) 62,500 shares of capital stock (par 50¢). Price—\$1.50 per share. Underwriting—None. Construction of Delcars, working capital, etc.

**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 \$2,200,000 in loan to Solel Boneh, Ltd., for public works.

**Anchor Steel & Conveyor Co., Detroit**  
April 19 (letter of notification) 100,000 shares (\$1 par) common stock for company and 20,000 shares for Frank J. Shude, President. Price—\$2.50 each. Underwriters—C. G. McDonald & Co., Detroit and Investment Securities Co., Jackson, Mich. For working capital.

**Angus Mines, Ltd., Montreal, Canada**  
Feb. 12 filed 600,000 shares of common capital stock (\$1 par). Underwriter—James A. Robb, 70 Pine St., New York. Proceeds—To develop gold prospects.

**Atlantic Coast Fisheries Co. (5/11)**  
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 10. The stock will be reserved against conversion of the bonds. Unsubscribed bonds will be publicly offered by underwriter. Proceeds—General corporate purposes.

**Baltimore (Md.) Colts Football Club, Inc.**  
April 29 (letter of notification) 200,000 shares of capital stock. Price—\$1 each. To take over assets of the Baltimore Professional Football Club, Inc., and operate a professional team as part of the All-American Football Conference. No underwriting.

**Bankers Fire & Marine Insurance Co., Birmingham, Ala.**  
April 27 (letter of notification) 25,845 shares of common stock. Price—\$8. To be sold to existing stockholders only. To increase capital and surplus. No underwriting.

**Bareco Oil Co., Tulsa, Okla. (5/18)**  
April 26 filed 162,435 shares (\$1 par) common stock. Underwriter—Kebbon, McCormick & Co., Chicago. Price—\$7 each. Shares are owned by the Phillips Petroleum Co.

**Bristol-Myers Co., New York (5/17-18)**  
April 23 filed \$10,000,000 20-year debentures. Underwriter—Wertheim & Co., New York. Price and interest rate to be filed in an amendment. Proceeds—To pay off bank loans and improve working capital position.

**Brockway Glass Co., Inc., Brockway, Pa.**  
April 29 filed voting trust certificates representing 50,304 shares of (\$50 par) common stock. To be issued by Deposit National Bank of Dubois, Pa., as sole voting trustee. Business—Glass manufacturing.

**Brunner Manufacturing Co., Utica, N. Y.**  
April 21 (letter of notification) 33,333½ shares of common stock (par \$1). Price—\$6.25 per share. Underwriters—Mohawk Valley Investing Co. Inc.; George H. Cooley & Co., Inc. and Cohu & Co. Offering—Offered to common stockholders of record April 28 in ratio of one new share for each six shares held. Rights expire May 12 and subscriptions are payable at First Bank & Trust Co., Utica, N. Y. General corporate purposes.

**California Electric Power Co., Riverside, Calif.**  
May 3 filed \$2,500,000 first mortgage bonds, due 1978. Underwriters—Names to be determined by competitive bidding. Probable bidders include: Blyth & Co. Inc.;

Halsey, Stuart & Co. Inc.; Shields & Co.; The First Boston Corp. Proceeds—To retire bank notes and for construction.

**Cancel Bay Corp., New York**  
April 28 (letter of notification) \$220,000 five-year 5% registered (non-convertible) debentures, due June 1, 1953, 176,000 shares of capital stock (par 10¢) and 220 warrants. Underwriter—None. Securities will be offered by directors, officers and promoters of the company. To be offered in units of one debenture and 400 shares of capital stock at \$1,040 per unit. To retire purchase money mortgage (\$114,000); build additional cottages, working capital, etc.

**Carleton Looms, Inc., Los Angeles**  
April 29 (letter of notification) 4,000 shares (\$5 par) common capital stock, half to be sold at par to William C. Osborn, Arcadia, Calif., President, and half to J. Oliver Black, Detroit, Vice-President. To buy equipment and inventory for carpet manufacturing. No underwriting.

**Cedar Lake County Club, Inc., Danville, N. J.**  
April 29 (letter of notification) 500 shares of capital stock (par \$50). Price—\$50 each. Underwriting—None. Approximately 100 shares will be offered in exchange for existing debentures. Proceeds of balance for improvement of property, etc.

**Central Maine Power Co.**  
Nov. 10 filed 160,000 shares (\$10 par) common. Underwriting—Company called for competitive bids Dec. 8, 1947 and only one bid, that of Blyth & Co., Inc. and Kidder, Peabody & Co. was submitted and was rejected by the company. They bid \$13.75, less \$1.75 underwriting commission. Now expected on negotiated basis through Blyth & Co., Inc. Offering—To be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share and one-tenth share of new common for each common share held. Price by amendment. Proceeds—For construction and repayment of bank loans.

**Central 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 Vermont Public Service Corp., Rutland, Vt.**  
March 30 filed \$1,500,000 Series E first mortgage bonds and 360,000 shares (no par) common stock. Underwriters—Names to be furnished by amendment (probably Kidder, Peabody & Co.). Proceeds—For a construction program and repair of flood damages.

**Century Steel Corp., Hollydale, Calif.**  
Nov. 10 filed 4,000 shares (\$100 par) common. Underwriting—None. Shares will be sold at par by directors. Proceeds—To purchase rolling mill, equipment and for working capital.

**Challenger Airlines Co., Salt Lake City, Utah**  
March 1 filed 600,000 shares (\$1 par) common stock, of which 400,000 are being sold for the company and 200,000 for the account of Claude Neon, Inc. Underwriting—None. Price—\$2 a share. Proceeds—For equipment purchase and general funds.

**Clinton (Iowa) Industries, Inc.**  
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. Indefinite.

**Clinton (Mich.) Machine Co.**  
April 15 (letter of notification) 10,000 shares of stock to be sold at \$5½ each (market price), for selling stockholder. Underwriter—Charles E. Bailey & Co., Detroit.

**Cole Chemical Co., St. Louis, Mo.**  
April 29 (letter of notification) 2,700 shares of 5% cumulative preferred stock (\$100 par). Price—\$110. For working capital and inventories. No underwriting.

**Consolidated Edison Co. of N. Y., Inc. (6/3)**  
March 1 filed \$57,382,600 of 3% convertible debentures, due 1963. Convertible at the rate of one common stock share for each \$25 of debentures. Offering—Common stockholders will be given right to subscribe for debentures in ratio of \$5 of debentures for each share held. The New York P. S. Commission May 4 granted company's petition to issue the debentures. Underwriting—Unsubscribed debentures will be offered at competitive

bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp. Proceeds—To redeem 273,566 shares of outstanding \$5 cumulative preferred stock and to reimburse treasury for expansion expenditures. Bids for the debentures will be invited before June 3 and debentures must be offered not later than June 15.

**Consolidated Vultee Aircraft Corp., San Diego, California**  
May 5 filed 1,159,849 shares (\$1 par) common stock. Offering—To be offered present stockholders at the rate of one new share for each one held. Atlas Corp., holder of 11.4% of outstanding consolidated stock, will exercise its subscription rights to purchase enough stock to assure consolidated a return of \$7,000,000 from the stock offering. Underwriting—None. Price by amendment. Proceeds—Added to general funds for manufacture of commercial transport planes.

**Consumers Cooperative Assoc., Kansas City, Missouri**  
Oct. 16 filed 1,000,000 4% non-cumulative common stock (\$25 par); \$4,000,000 of 3½% certificates of indebtedness cumulative; and \$1,000,000 of 1½% loan certificates cumulative. No underwriting. Offering—To the public. Common may be bought only by patrons and members. Price—At face amount. Proceeds—For acquisition of additional office and plant facilities.

**Couron (Thomas) Hardware, Danville, Ill.**  
April 21 (letter of notification) 1,000 shares 5% cumulative preferred stock (par \$100) and 3,850 shares common (no par). Price—Preferred, par; common, \$35. Underwriters—Wm. H. Flentyre & Co., Aurora, Ill.; Charles W. Johns, 2002 N. Logan Avenue, Danville, Ill. Working capital.

**Crampton Manufacturing Co.**  
Feb. 5 filed \$600,000 first mortgage 5½% sinking fund bonds, due 1966, with warrants to purchase 60,000 shares (\$1 par) common stock. Underwriter—P. W. Brooks & Co., Inc., New York. Proceeds—To retire secured indebtedness, finance inventories and supplement working capital.

**Davis Plywood Corp., Cleveland**  
April 30 (letter of notification) 3,880 shares of 6% cumulative preferred stock (\$25 par). Price, par. For general funds and operating expenses. No underwriting.

**Derst Baking Co., Savannah, Ga.**  
April 30 (letter of notification) 14,750 shares of 6% cumulative preferred stock (\$20 par). Price—Par. Underwriter—Johnson, Lane, Space & Co., Inc., Savannah. To construct a new bread plant.

**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.

**Earle Appliance Distributors, Inc., Escanaba, Michigan**  
April 26 (letter of notification) 150 shares (\$100 par) preferred stock. Price, at par. For working capital to expand lines of merchandise. No underwriting.

**Engineered Products, Inc., Denver**  
April 30 (letter of notification) 40,000 shares (\$1 par) common stock. Price—\$1.25 each. To increase inventories and pay current indebtedness. No underwriting.

**Equipment Finance Corp., Chicago, Ill.**  
Feb. 26 filed 15,000 shares (\$100 par) preferred stock. Offering—To be sold to employees and officers of the company and its parent, Curtiss Candy Co. Price—\$100 per share. Proceeds—To be used for trucks in connection with the Curtiss' franchise method of distribution.

**Federal Mining & Milling Co., Russell Gulch, Colorado**  
April 29 (letter of notification) 695 shares (\$100 par) common stock. Price, par. To develop mine sites and for working capital. No underwriting.

**Finch Telecommunications, Inc., New York**  
April 28 (letter of notification) 1,000 shares of capital stock (par \$1). To be offered at \$5.75 per share through Littlefield & Co., Providence. Proceeds to selling stockholders.

**Fission Mines Ltd., Toronto, Canada**  
April 16 filed 200,000 shares of treasury stock. Under-

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### NEW ISSUE CALENDAR

May 6, 1948

Southern Pacific Co., Noon (EDT) Equip. Tr. Cdfs.

May 10, 1948

Trans Caribbean Air Cargo Lines—Equip. Trust Cdfs.  
West Texas Utilities Co. Bonds

May 11, 1948

Atlantic Coast Fisheries Co. Bonds  
Chesapeake & Ohio Ry., Noon—Equip. Trust Cdfs.  
Island Air Ferries, Inc.—Common  
Long Island RR., Noon (EDT)—Equip. Trust Cdfs.

May 12, 1948

Halliburton Oil Well Cementing Co.—Common  
Kansas Gas & Electric Co.—Common

May 17, 1948

Bristol-Myers Co.—Debentures  
Playboy Motor Car Corp.—Common

May 18, 1948

Bareco Oil Co.—Common  
United Brush Mfg. Co., Noon (EDT)—Cl. A & Com.

May 19, 1948

Smith (Alexander) & Sons Carpet Co.—Preferred

May 24, 1948

Sierra Pacific Power Co.—Bonds

May 25, 1948

Union Electric Co. of Missouri—Debentures

June 1, 1948

New York State Electric & Gas Corp.—Preferred  
Public Finance Service, Inc.—Debentures

June 2, 1948

Illinois Bell Telephone Co.—Bonds

June 3, 1948

Consolidated Edison Co. of N. Y., Inc.—Debentures

June 4, 1948

Kansas City Power & Light Co.—Bonds & Preferred

June 7, 1948

Joseph J. O'Donohue, IV—Bonds

writer—Mark Daniels & Co., Toronto. Price—\$1 a share. Proceeds—For mining and business costs.

**Fitzsimmons Stores, Ltd., Los Angeles, Calif.**  
Feb. 2 filed 10,000 shares of 6% cumulative first preferred stock (\$100 par). Underwriting—Officers, directors and employees of the company will offer the stock to friends and associates. Price—\$100 per share. Proceeds—To retire 7% preferred stock. Business: "Super Markets" in Los Angeles, Riverside, Colton and San Bernardino County.

**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.

**Fraser Products Co., Detroit, Mich.**  
Oct. 21 filed 100,000 shares (\$1 par) common. Underwriters—Campbell, McCarty & Co., and Keane & Co., both Detroit. Price—\$5.25 per share. Proceeds—The shares are being sold by 14 stockholders who will receive proceeds. Registration statement effective Jan. 16.

**Gamble-Skogmo, Inc., Minneapolis**  
March 30 filed 120,000 shares (\$50 par) cumulative preferred stock, convertible prior to July 31, 1958. Underwriters—Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Beane, New York, and Piper, Jaffray & Hopwood, Minneapolis. Price and number of shares by amendment. Proceeds—To reduce short-term bank loans totaling \$13,850,000. Temporarily postponed.

**Glaser's Provisions Co., Inc., Omaha, Neb.**  
April 30 (letter of notification) 4,000 shares (\$50 par) preferred stock. Price—Par. To retire RFC indebtedness remodel and expand. No underwriting.

**Gold Chief Mines, Inc., Central City, Colo.**  
April 28 (letter of notification) 50,000 shares (\$1 par) common stock. Price, par. To operate mining claims. No underwriting.

**Gulf Public Service Co., Inc., Lafayette, La.**  
April 23 (letter of notification) 8,900 shares of common stock (\$4 par). Price—\$11.125. Underwriter—A. C. Allyn & Co., Chicago. Proceeds to selling stockholder.

**Halliburton Oil Well Cementing Co. (5/12)**  
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.

**Hastings (Mich.) Manufacturing Co.**  
April 28 (letter of notification) 208 shares (\$2 par) common stock, to be sold by Harold J. Newton and Louise B. Newton. Price—\$10.50 each. No underwriting.

**Hermann Manufacturing Co., Lancaster, Ohio**  
April 26 (letter of notification) \$250,000 5% sinking fund secured debentures, due 1960. Underwriter—The Ohio Co., Columbus. Proceeds—To redeem outstanding first mortgage notes and provide additional working capital.

**Huttig Sash and Door Co., St. Louis, Mo.**  
April 27 (letter of notification) 625 shares (\$5 par) common stock, owned by Roy R. Siegel, President, and 875 shares of common stock owned by Charles M. Huttig, Executive Vice-President, to be sold at \$33.50. Underwriter—Stifel, Nicolaus & Co., Inc., St. Louis.

**Illinois Bell Telephone Co. (6/2)**  
April 30 filed \$60,000,000 series B first mortgage bonds, due 1978. Underwriters—Names determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Glore, Forgan & Co. Proceeds—To be applied toward repayment of advances from A. T. & T. for general corporate purposes. Expected June 2.

**International Asbestos Co., Ltd., Sherbrooke, Quebec**  
Jan. 30 filed 1,500,000 shares (\$1 par) common stock. Underwriter—Paul E. Frechette, Hartford, Conn., is the U. S. authorized agent and principal underwriter. Price—\$1 each. Proceeds—To construct milling plant and purchase equipment.

**Island Air Ferries, Inc., Bohemia, N. Y. (5/11)**  
May 4 (letter of notification) 40,000 shares of common stock (par \$1). Price—\$2.50 per share. Underwriter—E. P. Frazee & Co., Inc. Funds for purchase of equipment and facilities and working capital.

**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., Inc., Oshkosh, Wis. For current obligations and working capital.

**Kansas Gas and Electric Co., Wichita (5/12)**  
April 16 filed 150,000 shares (no par) common stock, to be sold by American Power & Light Co. (parent). Underwriter—Union Securities Corp. Price—About \$26 per share.

**Kansas Soya Products Co., Inc., Emporia, Kans.**  
Dec. 3 (letter of notification) 3,157 shares (\$95 par) preferred. Price—\$95 a share. Underwriter—Kenneth Van Sickle, Inc., Emporia. For additional working capital.

**Kool-Aid Bottling Co., Inc. of Calif., Sheboygan, Wisconsin**  
March 22 filed 1,500,000 shares (\$1 par) common stock. Underwriter—Heronymus & Co., Sheboygan, Wis. Proceeds—To open and equip bottling plants in California cities. Price—\$1 per share.

**Legend Gold Mines, Ltd., Toronto, Canada**  
June 27 filed 300,000 shares (\$1 par) common treasury stock. Underwriting—To be supplied by amendment. Price—50 cents a share. Proceeds—To develop mining properties.

**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.

**Link-Belt Co., Chicago**  
April 21 filed 11,845 shares (no par) value common stock. Offering—To be sold to certain officers and key employees of the company and its subsidiaries. Underwriting, none. Price—\$46 each. Proceeds—Working capital.

**Lonsdale Co., Providence, R. I.**  
April 26 filed 1,192,631 shares (\$1 par) common stock. Offering—To be offered to holders of common stock of Tectron, Inc., at rate of one new share for each one held. An additional 60,000 shares will be issued to officers, directors and some employees of the newly organized company. Underwriters—For unsubscribed shares Blair & Co., Inc., and Maxwell, Marshall & Co., New York. Price by amendment. Proceeds—To be applied to the purchase price for an existing textile firm known as Lonsdale Co., a Tectron subsidiary.

**Marador Corp., Los Angeles**  
March 22 (letter of notification) 20,000 shares (\$5 par) common stock, of which 10,000 shares will be sold at par to 11 designated persons. To purchase equipment and machinery to expand plastic book binding business. No underwriting.

**Markley Corp., Plainville, Conn.**  
April 29 (letter of notification) 1,540 shares (\$1 par) common stock, to be offered to warrant holders at \$5. For corporate purposes. No underwriting.

**Martinson Improvement Corp., Brooklyn, N. Y.**  
April 29 (letter of notification) 500 shares of capital stock (par \$100). Price—\$100. Underwriting—None. To purchase tax liens, etc., in New York City realty.

**Merrimack Farmers' Exchange, Inc., Concord, N. H.**  
April 30 (letter of notification) 2,000 shares (\$25 par) common stock. Price—Par. To be sold to customers to pay current indebtedness and provide working capital. No underwriting.

**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.

**Moonlite Mining Co., Inc., Colville, Wash.**  
April 26 (letter of notification) 250,000 shares of non-assessable common stock. Price—25 cents each. For additional machinery and supplies to develop mining claim. No underwriting.

**Moore Electronic Laboratories, Inc., Worcester, Mass.**  
May 3 (letter of notification) 10,000 shares (no par) class A common stock and 2,000 shares (no par) class B shares. Price—\$100 each. For working capital and to develop headlight control system. 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—\$6½ per share. Underwriter—William C. Roney & Co., Detroit.

**Narragansett Electric Co.**  
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 this month.

**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 offered stockholders of record about May 10 at the rate of one new share for each four held. Rights expire May 24. Proceeds—For working capital.

**New York State Electric & Gas Corp. (6/1)**  
April 30 filed 35,000 shares (\$100 par) cumulative preferred stock. Underwriters—Names by competitive bidding. Probable bidders include: Harriman Ripley & Co.; Hemphill, Noyes & Co. and Drexel & Co. (jointly); Kidder, Peabody & Co.; W. C. Langley & Co.; Lehman Brothers and Glore, Forgan & Co. (jointly). Proceeds—To be applied toward a construction program. Expected June 1.

**North Canadian Oils Limited, Calgary, Alberta**  
March 11 filed 903,572 shares (no par) common stock. Price—70 cents each. Underwriter—F. H. Winter & Co., New York. Proceeds—875,000 shares being sold by company and 28,572 by stockholders. Proceeds for purchase of property and drilling.

**North Inca Gold Mines, Ltd.**  
March 10 filed 666,667 shares of common stock (par \$1). Underwriter—Transamerica Mining Co., Ltd., Toronto. Proceeds for exploration and development.

**Ocean Downs Racing Association, Inc., Berlin, Md.**  
Nov. 28 filed 34,900 shares (\$10 par) common. No underwriting. Price—\$10 a share. Proceeds—To build trotting and pacing race track near Ocean City, Md.

**(Joseph J.) O'Donohue, IV, New York (6/7)**  
April 30 (letter of notification) \$160,000 5.5% sinking fund bonds, series 1948-1973. Price—Par. Underwriter—Bioren & Co., Philadelphia. Personal and business requirements.

**Old North State Insurance Co., Greenville, N. C.**  
March 15 filed 100,000 shares of capital stock (\$5 par). Price—\$15 each. Underwriter—First Securities Corp., Durham, N. C. Proceeds—General business purposes.

**Playboy Motor Car Corp. (5/17)**  
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.

**Production Aids, Inc., Van Nuys, Calif.**  
April 26 (letter of notification) 12,500 shares (\$5 par) preferred stock and 12,500 shares (\$1 par) common stock, both to be offered at par; 12,500 shares (\$1 par) common to be reserved for conversion, and 25,000 shares of common to be held until April 1, 1951, under option to Lamson Corp., Syracuse, N. Y. at \$2 each. All stock to be offered to a limited group of stockholders, customers, and designated persons. For inventory and working capital. No underwriting.

**Public Finance Service, Inc., Philadelphia (6/1)**  
April 28 (letter of notification) \$250,000 6% cumulative debentures, due Dec. 1, 1962. Price—Par. Underwriting—None. Company is offering the debentures, as of June 1, to the present debenture holders. Operating capital.

**Regina Cargo Airlines, Inc., Brooklyn, N. Y.**  
May 3 (letter of notification) 270,740 preferred shares and 450 common shares. Price—\$1 for each class. Underwriting—None, but stock will be offered by officers and directors on a commission basis. Purchase additional aircraft and equipment, etc.

**Roto-Wing Air Service, Inc., Washington, D. C.**  
April 29 (letter of notification) 250 shares (no par) capital stock. Price—\$80 each. Capital funds for additional machinery. No underwriting.

**Sandy Hill Iron & Brass Works, Hudson Falls, New York**  
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 sink-

(Continued on page 50)

(Continued from page 49)

ing fund debentures, due 1963. **Underwriter**—Floyd D. Cerf Co., Inc. **Price**—95 (flat). **Offering**—To be offered initially to stockholders on basis of one \$100 debenture for each 100 shares held. **Proceeds**—For repayment of two notes and general corporate purposes.

**Sierra Pacific Power Co. (5/24)**

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 24.

• **Silver Knight Development Co., Ltd., Prescott, Ariz.**

April 26 (letter of notification) 150,000 shares (\$1 par) non-assessable common stock. **Price**—At par. To develop mine claims. No underwriting.

• **Smith (Alexander) & Sons Carpet Co., Yonkers, N. Y. (5/19)**

April 29 filed 50,000 shares (\$100 par) cumulative preferred stock. **Underwriters**—Morgan Stanley & Co. and Dominick & Dominick, New York. Interest rate and price to be filed by amendment. **Proceeds**—General corporate purposes. **Business**—Manufacturers of wool rug yarn.

**Southern California Edison Co.**

April 23 filed 800,000 shares of preference stock, convertible series (par \$25). **Underwriters**—The First Boston Corp. and Harris, Hall & Co. (Inc.) **Proceeds**—Reimburse company for expenditures for acquisition of property extensions, etc. **Price** by amendment.

• **Southwestern Virginia Gas Service Corp., Martinsville, Va.**

April 22 (letter of notification) \$35,000 6% debentures, due 1968. **Price**—Par. To repay bank loans, purchase equipment, and for general funds. **Underwriter**—Bioren & Co., Philadelphia, and C. T. Williams & Co., Inc., Baltimore, Md.

**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.

• **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.

• **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.

• **Theatre Candy Distributing Co., Salt Lake City, Utah**

April 29 (letter of notification) 300 shares (\$100 par) preferred stock. **Price**—Par. To increase working capital and open a Montana branch warehouse. No underwriting.

• **Tonopah Divide Mining Co., Reno, Nev.**

April 19 (letter of notification) 87,500 shares of non-assessable common capital stock (\$1 par). **Price**, par. For obligations from operation of Gaston mine and mill. No underwriting.

• **Trans Caribbean Air Cargo Lines, N. Y. (5/10)**

May 3 (letter of notification) \$150,000 7% convertible equipment trust certificates, series A, due May 15, 1951. **Price**—Par. **Underwriter**—Gearhart & Co., Inc., New York.

• **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.

• **Trion, Inc., McKees Rocks, Pa.**

April 26 (letter of notification) 50,000 shares of common stock (par \$2). **Price**—\$5 per share. **Underwriter**—A. E. Masten & Co., Pittsburgh. Discharge indebtedness representing borrowings for working capital.

• **Triumph Gold Mines, Inc., Oatman, Ariz.**

April 29 (letter of notification) 450,000 shares of non-assessable common capital stock. **Price**—50 cents each. To purchase and instal mill and develop ore reserves. No underwriting.

• **Union Electric Co. of Missouri (5/25)**

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. **Proceeds**—To pay construction loans and provide construction funds for a subsidiary, Union Elec. Power Co. Expected about May 25.

• **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. **Under-**

writing—None. **Proceeds**—To provide capital for the purchase and operation of a plant with an annual productive capacity of 4,000,000 pounds of viscose filament rayon and 3,000,000 pounds of viscose staple fiber.

• **Verney Corp., Boston**

April 27 (letter of notification) 8,000 shares of common stock, to be sold by Gilbert Verney, President. **Price**, at market (about \$12). **Underwriters**—White, Weld & Co., New York, and F. S. Moseley & Co., Boston.

• **Webrub 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.

• **West Texas Utilities Co. (5/10)**

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 May 10.

• **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.

• **Wolie (A. B.), Inc., Scarsdale, N. Y.**

May 3 (letter of notification) 300 shares of capital stock (no par), to be issued as a stock bonus employees' incentive plan.

## Prospective Offerings

• **Carolina Power & Light Co.**

April 21 the SEC granted the company, a subsidiary of Electric Bond & Share Co., permission to amend its charter to permit the public offering of additional common stock without first offering the stock pro rata to stockholders. Stockholders will vote May 19 on eliminating from company's charter the provision that any new common stock must first be offered to present common stockholders.

• **Chesapeake & Ohio Ry. (5/11)**

Company will receive bids to be opened at noon on May 11, on an issue of \$4,450,000 of serial equipment trust certificates. The certificates will be dated May 15, 1948, and will mature from May 15, 1949, to May 15, 1958. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc.; and Lehman Brothers (jointly); The First Boston Corp.; Blyth & Co., Inc.; Harris, Hall & Co. (Inc.).

• **Consumers Power Co., Jackson, Mich.**

April 30 company asked SEC permission to issue 200,000 shares (no par) preferred stock. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Harriman Ripley & Co. and The First Boston Corp. (jointly); Morgan Stanley & Co.; White, Weld & Co. and Shields & Co. (jointly). **Proceeds**—For construction work.

• **Florida Power & Light Co.**

May 4 company is expected to file with the SEC this week an issue of \$11,000,000 new first mortgage bonds. **Proceeds** will be used for construction and to pay off bank debt already incurred for the purpose. 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). Expected early in June.

• **Harrisburg Gas Co.**

May 4 the SEC granted company permission to sell 13,811 additional common shares (no par) at \$90 per share. Shares would be offered for subscription by stockholders in ratio of one share for each two shares held. Warrants will be mailed to stockholders about May 20. Unsubscribed shares will be purchased by United Gas Improvement Co. (parent).

• **Indianapolis Water Company**

May 3 company has filed with the P. S. Commission of Indiana a petition seeking approval to issue and sell \$1,000,000 bonds and \$1,000,000 preferred stock. The proceeds would be used to reimburse treasury in part for funds spent on extensions to property.

• **Kansas City Power & Light Co. (6/4)**

May 5 company asked SEC for permission to issue \$12,000,000 of first mortgage bonds and 80,000 shares (\$100 par) cumulative preferred stock. **Proceeds**—To acquire and construct additional property and retire \$3,860,000 of 1 1/4% notes issued for interim financing. Bids are expected to be opened June 14 and public offering about June 17. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp.; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Lehman Brothers; Glore, Forgan & Co. and W. C. Langley & Co. (jointly).

• **Long Island RR. (5/11)**

The company is requesting bids for the purchase of \$4,035,000 equipment trust certificates, Series K, dated May 1, 1948, to mature in 15 equal annual installments of \$269,000, from May 1, 1949 to May 1, 1963. Bids must be received at the office of Geo. H. Pabst, Jr., Vice-President, at Room 1811, Broad Street Station Building, Philadelphia 4, Pa., at or before noon (EDT), May 11. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros.

& Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. Inc. and Lehman Bros. (jointly).

• **Masco Screw Products Co.**

Stockholders recently approved an increase in the common from 354,000 shares to 600,000 shares (par \$1). A portion of the additional stock will be offered for subscription by stockholders. **Proceeds** will finance recent acquisition of company's new Dearborn (Mich.) plant.

• **Mountain States Power Co.**

The company on April 20 reported to stockholders that it was negotiating the sale privately of \$3,500,000 first mortgage bonds and \$1,000,000 preferred stock. The proceeds will be used to retire \$1,500,000 bank notes and provide funds to finance company's construction program.

• **National Fuel Gas Co.**

L. A. Brown, President, states that during the next six months company expects to sell \$12,000,000 new debentures. Of the proceeds \$5,000,000 would be used to retire bank loans and \$7,000,000 for construction.

• **New England Power Co.**

April 29 reported company will ask permission of Federal and State utility commissions and the SEC for authority to issue not more than \$11,000,000 30-year first mortgage bonds. **Proceeds** will be used to buy properties of Bellows Falls Hydro-Electric Corp., a transmission line owned by Connecticut River Power Co., and to retire bank loans. All three companies are wholly owned subsidiaries of New England Electric System. Following sale of its properties, Bellows Falls company plans to redeem its first mortgage 5% bonds on the next redemption date. New England Power, which supplies electricity in Massachusetts and Vermont, will be able to bring power from New England Electric Systems southern properties to Vermont and New Hampshire during low-water periods as a result of the proposed purchase.

• **New Jersey Power & Light Co.**

May 1 reported company preparing to sell competitively \$6,000,000 of new first mortgage bonds. Opening of bids is expected between June 1 to June 15. As part of the company's financing program, General Public Utilities Corp. (parent) will make an additional investment of \$1,750,000 in company's common stock. **Proceeds** from the sale of the bonds and stock will provide funds to pay for all of the operating company's 1948 construction requirements, and part of the 1949 prospective outlay.

• **Northern States Power Co. of Minn.**

April 30 reported officials of company are discussing possibilities for sale of new securities in the amount of some \$30,000,000. Investment banking firms already are forming into groups to compete at the sale. The new securities will be designed by the utility primarily to provide funds required by its construction program. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); Smith, Barney & Co. and The First Boston Corp. (jointly); Lehman Brothers and Riter & Co. (jointly).

• **Pacific Telephone & Telegraph Co.**

April 29 directors voted to sell 601,262 common shares of stock to shareholders at \$100 a share. Subscription rights probably will be given to common and preferred shareholders of record on June 15, 1948, one right being issued for each six common or preferred shares. Funds will be used by company to repay advances covering expenditures for construction and extension of its facilities occasioned by the heavy public demand for telephone service.

• **San Diego Gas & Electric Co.**

April 27 stockholders approved an increase in authorized common stock from 2,000,000 to 6,000,000 shares, and the preferred from 750,000 to 2,000,000 shares. There is no immediate plan to issue additional stock, officers declared. Traditional underwriter, Blyth & Co., Inc.

• **Southern Pacific Co. (5/6)**

The company is inviting bids for the purchase of \$11,100,000 equipment trust certificates, series X, to mature in 10 equal annual installments and to be secured by new railroad equipment costing not less than \$16,650,000. All bids must be received at the office of J. A. Simpson, Treasurer, Room 2117—165 Broadway, New York, at or before noon (EDT), on May 6. 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.).

• **United Brush Manufacturing, New York (5/18)**

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.

• **Westinghouse Electric Corp.**

July 12 stockholders will vote on increasing authorized debt from \$50,000,000 to \$150,000,000. It is planned to issue \$70,000,000 to \$80,000,000 of debentures to refund or retire a portion of \$100,000,000 obligations maturing in 1951. These obligations consist of \$20,000,000 of debentures and \$80,000,000 of bank loans. Traditional underwriter, Kuhn, Loeb & Co.

## Survey Shows Business Executives Optimistic

National Industrial Conference Board reports 1948 business peak expected to continue, with ineffective price resistance.

Production is generally expected to continue "at or near an all-time peak" through the first half of 1948, according to the latest survey of business practices conducted by the National Industrial Conference Board. These executives also report that the business outlook has "not been significantly altered" by the break in commodity prices earlier this year.

Some doubt in the minds of the executives queried regarding the latter half of the year. Attention is called to the "marked change in the business picture which is likely to occur" as a result of any large remobilization program. New orders are reported as still being received in substantial quantities, and few cancellations are reported. Profits are expected "to hold close to the 1947 level." Fears are expressed that wage costs may continue to rise and further increase present high break-even points. With fixed costs mounting and a third round of wage increases possible, the majority of executives see little or no hope of reducing prices.

### Level of Operations

Most companies report that they are operating "at capacity or as near to it as the availability of raw materials and labor will permit." A few industries, however have already experienced reductions in operations owing to lack of demand for their products or resistance to prices.

Comparing operations in the first half of 1948 with the last half of 1947, more companies expect increases than declines, although seven out of ten companies anticipate no change.

### Last Six Months of 1948

The outlook for the last six months of 1948 is "not quite so good." Slightly more than half of the reporting companies expect production to be the same in the first and second halves of the year. One out of four companies sees a decline in demand, while only one in five sees a possible increase.

Executives warn that capacity operations should not be taken to mean that the sellers' market is as strong as it was a year ago. Many companies are off allocation and numerous executives report that, while they can sell their full output, a more aggressive type of salesmanship is required than at any time in the past few years.

### Prices and Break-Even Points

Consumer resistance to high prices has induced many companies included in the survey to accelerate efforts to lower their break-even point. Several companies reported that they had been successful in materially reducing it by cutting overhead expenses. Others, as previously reported in surveys by the Conference Board, have been attempting to reduce the break-even point by raising

productive efficiency. In general, the break-even point is still high in nearly all companies and has caused considerable apprehension because there is little cushion in the even of a reduction in the level of production.

The "deciding factor" in the trend of break-even points and of prices is held to be the impending third round of wage increases. Numerous companies have absorbed part of their past increases in material and labor costs with the result that their break-even point has been pushed "very high." These companies report that further wage increases cannot be absorbed but would have to be passed along to their customers in the form of price increases.

Companies are almost unanimous in stating that price decreases are not likely to occur this year. At the same time, increases are not likely to take place either, because of mounting customer resistance.

### Net Income

Few companies are willing to forecast their net income for 1948 because of the unmeasurable effects of the European Recovery Program, the impending defense program, and the possible third round of wage increases. There is a general feeling, however, that net income after taxes will about equal that of 1947.

Profit margins are expected to be somewhat down and net income will be maintained by an increase in unit production. If substantial rises in wages occur, net income will suffer.

Some executives point out that the industrial dollar, even if 1948 net income equals that of 1947, will, like the consumer dollar, have less value. The purchasing power of dividends is down sharply and machinery replacement costs have mounted faster than reserves.

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## Our Reporter's Report

Sunray Oil Corp.'s offering of 800,000 shares of new cumulative convertible preferred stock is looked upon in underwriting circles as likely to usher in a period of greater activity in the field of equity financing.

This is regarded as so, especially in view of the splendid reception accorded the offering which was handled by a nationwide underwriting group of 120 firms. Offered at \$25 a share the stock was bid up to a small premium following the closing of the books.

With this "ice-breaker" out of the way the banking fraternity began to thumb the records for other equity prospects and came up with several of rather husky proportions.

In most of the latter instances, however, it is a case of first permitting present holders to exercise their pre-emptive "rights" to subscribe for the new issues which will be underwritten by bankers as to any unsubscribed proportion.

Largest in immediate prospect are Southern California Edison Co. 800,000 shares of \$25 convertible preference, and Consolidated Edison Co. of New York's \$57,382,600 of convertible debentures.

Meanwhile National Gypsum Co.'s projected offering of 422,467 shares of additional \$1 par common, is tentatively scheduled to reach market next week, probably on Monday.

### Reawakened Interest

Underwriters are finding growing evidence of a reawakening of public interest in equities, probably brought about as much by the improved tone in the seasoned market as by any other force.

The individual naturally finds

### DIVIDEND NOTICES

#### AMERICAN Standard RADIATOR & Sanitary

New York CORPORATION Pittsburgh

PREFERRED DIVIDEND COMMON DIVIDEND

A quarterly dividend of \$1.75 per share on the Preferred Stock has been declared payable June 1, 1948, to stockholders of record at close of business May 21, 1948.

A dividend of twenty cents (20¢) per share on the Common Stock has been declared payable June 24, 1948, to stockholders of record at the close of business on June 4, 1948.

JOHN E. KING  
Treasurer

#### AMERICAN GAS AND ELECTRIC COMPANY

##### Preferred Stock Dividend

THE regular quarterly dividend of One Dollar Eighteen and Three-quarter Cents (\$1.18 $\frac{3}{4}$ ) per share for the quarter ending June 30, 1948, on the 4 $\frac{3}{4}$ % cumulative Preferred capital stock of the Company, issued and outstanding in the hands of the public, has been declared out of the surplus net earnings of the Company, payable July 1, 1948, to holders of such stock of record on the books of the Company at the close of business June 4, 1948.

##### Common Stock Dividend

THE regular quarterly dividend for the quarter ending June 30, 1948 of Twenty-five Cents (25¢) and 2/100ths of a share of the Common Stock of Atlantic City Electric Company on each share of the Common capital stock of this Company, issued and outstanding in the hands of the public, has been declared out of the surplus net earnings of the Company, to be payable and distributable June 15, 1948, to the holders of such stock of record on the books of the Company at the close of business May 12, 1948.

H. D. ANDERSON Secretary  
May 5, 1948.

little to attract his funds in the market for debt securities where even secondary obligations offer yields that are only attractive to buyers of the institutional type.

A middle western distributor recently in New York on a visit, reported that for the first time in 18 months he found new people interested in buying stocks and added that his books really looked alive again.

The underwriting fraternity quite understandably is hoping strongly that a railroad strike, which would probably prove a dash of cold water on the market, will be averted.

### Giving Citation A Run

This week's sale of \$100,000,000 of new 35-year debentures of the Southwestern Bell Telephone Co. raised almost as much interest in market circles as the Kentucky Derby did in racing.

With two groups in the running the bidding aroused the usual interest because of the constant rivalry of the competitors for telephone paper. Both bid for 3 $\frac{1}{8}$ s, the winner paying 102.06999 and the runner-up offering 101.43.

On reoffering the debentures, priced at 102 $\frac{1}{2}$ , were sold in less than an hour and rose to a premium of more than a point on the offer side being quoted 103 bid 103 $\frac{3}{4}$  asked.

### New Telephone Issue

Another big telephone issue loomed into sight with the filing

### DIVIDEND NOTICES

#### IOWA SOUTHERN UTILITIES COMPANY of Delaware

Dividend Notice

The Board of Directors has declared a dividend of 25¢ a share on the Common Stock of the Company payable June 15, 1948 to stockholders of record June 1, 1948.

EDWARD L. SHUTTS,  
President.

May 4, 1948.

#### SOCONY-VACUUM OIL COMPANY INCORPORATED

Dividend No. 149 May 4, 1948

The Board of Directors today declared a quarterly dividend of 25¢ per share on the outstanding capital stock of this Company, payable June 15, 1948, to stockholders of record at the close of business May 14, 1948.

W. D. BICKHAM, Secretary

Dividend Notice April 28, 1948

#### Burlington Mills CORPORATION

The Board of Directors of Burlington Mills Corporation has declared the following regular dividends:

- 4% CUMULATIVE PREFERRED STOCK \$1 per share
- 3 $\frac{1}{2}$ % CUMULATIVE PREFERRED STOCK 87 $\frac{1}{2}$  cents per share
- 3 $\frac{1}{2}$ % CONVERTIBLE SECOND PREFERRED STOCK 87 $\frac{1}{2}$  cents per share
- COMMON STOCK (\$1 par value) (45th Consecutive Dividend) 37 $\frac{1}{2}$  cents per share

Each dividend is payable June 1, 1948, to Stockholders of record at the close of business May 5, 1948.

STEPHEN L. UPSON, Secretary

by Illinois Bell Telephone Co., of a registration to cover \$60,000,000 of new first mortgage, series B bonds due 1978.

The purpose of this issue is to provide for repayment to the American Telephone & Telegraph Co. advances of about \$100,000,000 by the end of the current month. But the operating unit will continue to borrow from its parent to cover forward needs.

It proposes later, probably before July 1, to offer to shareholders rights to subscribe for an additional 389,995 shares of common stock at \$100 a share to meet such future advances from A. T. & T.

### Big Industrial Issue

Westinghouse Electric Corp. has disclosed plans for new financing through a call to shareholders for a special meeting to increase authorized debt from \$50,000,000 to \$150,000,000.

The company proposes to issue \$70,000,000 to \$80,000,000 of long-term debentures, proceeds from the sale of which will be used to retire outstanding obligations of \$100,000,000 due in 1951.

The maturing debt includes \$20,000,000 of debentures and \$80,000,000 of bank loans.

### DIVIDEND NOTICES



A semi-annual dividend of 65¢ per share on the Capital Stock, par value \$13.50 per share, has been declared, payable June 29, 1948, to stockholders of record May 28, 1948.

THE UNITED GAS IMPROVEMENT CO.  
JOHNS HOPKINS, Treasurer  
April 27, 1948. Philadelphia, Pa.

## UNION CARBIDE AND CARBON CORPORATION



A cash dividend of Fifty cents (50¢) per share on the outstanding capital stock of this Corporation has been declared, payable July 1, 1948, to stockholders of record at the close of business June 4, 1948.

MORSE G. DIAL,  
Secretary and Treasurer

## WOODALL INDUSTRIES INC.

A regular quarterly dividend of 31 $\frac{1}{4}$ ¢ per share on the 5% Convertible Preferred Stock has been declared payable June 1, 1948, to stockholders of record May 15, 1948.

A regular quarterly dividend of 25¢ per share on the Common Stock has been declared payable May 28, 1948, to stockholders of record May 15, 1948.

M. E. GRIFFIN,  
Secretary-Treasurer.



## THE FLINTKOTE COMPANY

30 Rockefeller Plaza  
New York 20, N. Y.  
May 5, 1948

### Preferred Stock

A quarterly dividend of \$1.00 per share has been declared on the \$4 Cumulative Preferred Stock of this Corporation, payable on June 15, 1948 to stockholders of record at the close of business June 1, 1948. Checks will be mailed.

### Common Stock

A quarterly dividend of \$.50 per share has been declared on the Common Stock of this corporation, payable on June 10, 1948 to stockholders of record at the close of business May 27, 1948. Checks will be mailed.

CLIFTON W. GREGG,  
Vice Pres. and Treas.



# Washington . . . And You

Behind-the-Scene Interpretations  
from the Nation's Capital

WASHINGTON, D. C.—Santa Claus died at Bogota. That is the way the amigos Latinos interpret Secretary Marshall's offer to provide them with \$500 million of Export-Import bank loans, and not a cent more. There is an interesting story behind the hardening of the U. S. attitude toward all the good neighbors south of the Rio Grande. It involves a seeming paradox. It is believed here that the Latin American soil is the most fertile in all the world for the communist seed. Despite this, the Administration had determined that at least for the time being it is going to throw no money away down in that neck of the woods.

Latin America is said to offer a good bed for the communist seed because the rich of that area are so relatively very rich and the poor are so very poor. Add to this the dislocations of the war-induced inflation, in which the U. S. played a big part. Something of a counterpart of the mess which was staged at Bogota probably could be pulled by the commies at times and places which might suit their objectives at other points in Latin America.

There seems to be little doubt that this is a factual situation or is so accepted here. Remembering the days when the U. S. was worried about the Nazi penetration of the South American continent, the Latinos reached Bogota fully prepared to walk away with lush economic benefits freely donated once more by Uncle Sam. They got the cold-shoulder from General Marshall and don't know why.

If they've got a good, professionally trained general down there among all those wearing pretty uniforms, he can probably guess why Marshall kept his checkbook in his pocket.

There is a vast difference between the strategic situation confronting the U. S. now and six or seven years ago. Nazi Germany was on the Atlantic and in Africa. It was not an impossibility then that she might have been able to grab a base on this side of the Atlantic. Furthermore, the U. S. needed bases, particularly in Brazil, from which aircraft and ships could patrol the south Atlantic, combat German subs and surface raiders.

That situation will not be paralleled unless and until the Reds push through France and establish themselves in Africa. Should such a dire situation develop, then the Latinos will see U. S. dollars come rolling down to Rio.

General Marshall still has a strategic way of looking at things even though the top foreign officer of the government. The contest is hottest in Europe. There is no use scattering your opposition at points where it is not imminently necessary, and losing the main battle. And even a bloody communist uprising or two is not going to menace seriously the security of the

U. S. until and unless the commies are geographically in a position to cash in on same by moving troops and equipment to the spot.

Even the \$500 million of E-I bank loans may be withheld. Should the Congress ever get the pitch of how completely the Latinos expected the U. S. to kick in billions to solve their problems and keep them thereby loving the U. S., Congress wouldn't lend them a cent.

Despite the dismal picture of the Latin with the hand outstretched, palm upward, there were a few encouraging signs at the conference. Here and there a Latin American country was aware of the fact that if it wanted real development capital, it would have to come from private U. S. investors, and that if private U. S. investors are to be enticed, something must be done to protect them against confiscation. There was not enough of this to establish a trend. There was enough, however, to start some thinking in view of General Marshall's flat turn-down of easy money. Latins were told to solve their own problems and to make the climate habitable for U. S. investments if they ever expect to get any.

While the White House denies the prospect of an impending military material aid program for the "Western Union" the appropriate Federal agencies go on planning it. What should be borne in mind, however, is that any program beyond what is presently cooking in Congress will guarantee a Federal deficit for the coming fiscal year by about that amount. The boys on the Hill will tell you present programs will not threaten a deficit. The boys at the other end of the street will tell you a deficit is sure. There will be no doubt if any additional programs are forthcoming—and get enacted.

Originally designed as a haven for scared money, the postal savings system is now a repository of wise money. From this system you can get 2% compounded and withdraw on demand. From the Treasury baby bond one can get 2.9%, if he holds the obligation to maturity, but much less if he cashes in advance of maturity.

Despite this anomalous situation, and despite the fact that deposit insurance protects scared money, Congress cannot lower the postal savings interest rate of 1%. Chief objection comes from the Post Office Department, which gets just a little subsidy money to carry the operation of postal savings. Proponents of the lower interest on postal savings are frightened to bring up their proposition. They have been served notice that "the friends of the little people" will sound off if they try to get action on their bill.

Marriner S. Eccles of the Federal Reserve Board is as innocent of suspecting that President Truman might not mean what he says as any high school student of current events is who reads Presidential messages and statements.

When the President asked Mr. Eccles to remain on the Board as Vice-Chairman, even

## BUSINESS BUZZ



"Why can't any of our customers just complain and let it go at that!"

representatives may be expected to oppose it vigorously, perhaps refuse aid.

U. S. foreign aid to the 16 co-operating European countries likewise is expected to leave room for trade through the Iron Curtain. Some of the products of the East are indispensable to the economic rehabilitation of western Europe. The Redskys will take nothing in payment which is not valuable to them. The problem will be to trade the commies those items which put western Europe at the least strategical disadvantage.

Here is a snapshot of the latest thinking about war prospects, as of today: The Russians definitely want to avoid a major war with the U. S. They are impressed with U. S. potentialities for production. Despite their greater mobilized manpower, they are aware of their production deficiencies for a sustained war. There is a little more hope than formerly that Russian stooges behind the curtain will not get out of line; i.e., like Yugoslavia. Nevertheless, Russia will continue to bring pressure to bear constantly at every point where she feels she has a chance to elbow the West.

### Louis C. Seaverns Joins Staff of Wilson, McMaster

(Special to THE FINANCIAL CHRONICLE)  
CHICAGO, ILL.—Louis C. Seaverns has joined the staff of Wilson, McMaster & Co., 134 South La Salle Street. He was formerly with Shearson, Hammill & Co., Faroll & Co., and Farnwell, Chapman & Co. In the past he was a partner in Abbott, Proctor & Paine.

though he replaced him by Thomas B. McCabe as Chairman, Mr. Truman asked Eccles to remain to handle his (Eccles-FR Board) proposals in Congress. That Mr. Eccles did, reiterating his recommendation and that of the board for stand-by authority to restrict the expansion of bank credit.

Then Mr. Truman repeated on several occasions recently his plea to enact the "10-point anti-inflation" program, including curbs on credit. Then, too, the Council of Economic Advisers, which writes the economic words for the Truman political music, just a couple of weeks ago recommended restraints on the expansion of bank credit.

Now come widely printed reports in the newspapers asserting that "high Treasury officials" are disinclined to see legislation empowering the FR Board either to impose higher legal reserves on commercial bank deposits or the new-fangled secondary reserve, which Mr. Eccles again went through the motions of advocating.

Finally, the White House let the word drop that it had given no thought as of that time to designating Mr. Eccles Vice-Chairman of the Board.

Until Mr. Eccles hears from Mr. Truman's own lips the word that the President has run out on credit control, best present guess is that Mr. Eccles will

stick around. He has until 1958 to pack his bags, if he wants to wait that long. Meantime, when the new Chairman of the Board of Governors takes his seat, after returning from a nationwide swing to test banking sentiment, a couple of weeks from now, it may be anticipated that a good time will be had by all.

As of this moment an official policy has not been announced on the use of ERP aid in connection with nationalization of industries abroad under socialist regimes. There is a good chance that when it is announced, this is about what it will be:

In principle and practice the U. S. in channeling aid will take as little cognizance as necessary of local political complications. This country will avoid "mixing in" or interfering with local politics of the country receiving aid. Hence the U. S. will not attempt to balk nationalization as such by withholding or threatening to hold back its aid.

The U. S., on the other hand, will keep foremost before the governments of recipient countries its paramount objective, which is that the purpose of foreign aid is to boost the productivity and economic strength of the recipient nations. It cannot give aid primarily to further socialization. Where socialization will hamper the target of increased productivity, the U. S.

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