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The Foreign Assistance Act

By WINTHROP W. ALDRICH*
Chairman, Board of Directors, Chase National Bank

Prominent banker analyzes European Recovery Act and says chances for its success depend upon adoption of monetary and fiscal reforms, also economic revival of Western Germany.

Passed by overwhelming majorities in both Houses of Congress and signed by President Truman on the 3rd of April, the Foreign Assistance Act authorizes a foreign aid program of $6,098 million for the ensuing 12 months. Of this amount, $5,300 million is assigned to the European Recovery Program;[1] $275 million to Greek-Turkish military aid; $338 million to economic aid for China and $125 million to military aid; and $60

W. W. Aldrich

1 Section 111 (c) (2) and Section 114 (c). As yet funds have not been appropriated by Congress to implement Section 114 (c).

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*An address by Mr. Aldrich before a luncheon meeting of the Cleveland Chamber of Commerce and Cleveland World Trade Association, Cleveland, Ohio, May 19, 1948.

The Post-War War

By MELCHIOR PALYI
Professor, University of Wisconsin

Asserting there can be no recovery in Europe or Far East unless peace is absolute, Dr. Palyi points to flight of capital and currency depreciation as evidence of war scare. Decries importance of victory over communists in Italy and contends financial aid cannot restore distressed economies. Predicts bigger inflation and more taxation with Russia's opposition growing stronger. Says we are still appeasing Russia.

I.

". . . Instead of pursuing peace before recovery, American foreign policy has been compelled to reverse the order and seek recovery before peace," quoting the New York "Times" of Dec. 22. The editorial clarity of that dignified newspaper in formulating the prevailing confusion (and its own) is most admirable. The quintessence of the confusion is: **to assume that recovery can precede peace.** No bigger cart ever has been put before a horse.

Dr. Melchior Palyi

In reality, there cannot be recovery in Europe or in the Far East until and unless peace is absolute. For one thing, Marshall Plans and similar spending are doomed to be sheer waste **because of the capital flight,** and capital hiding caused in the recipient countries by the overhanging threat of foreign invasion, bombing, revolution, confiscatory taxation, expropriation, regimentation, and what have you. The Number One force that drives money into voluntary exile is the fear of war and/or social upheaval, both scares emanating from the same source. Of course, there are more factors at play; but the pending conflict with Russia alone would suffice.

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A Manageable Public Debt

By BENJAMIN M. ANDERSON*
Cornell Professor of Banking, University of California, Los Angeles
Consulting Economist, Capital Research Company, Los Angeles
President, Economists' National Committee on Monetary Policy

Asserting we must divorce Federal public debt from bank credit, Dr. Anderson proposes abandonment of Treasury controls on interest rates and a refunding of public debt at rates attractive to investors. Says banks could be protected from loss on bond-holdings by an exchange proposition and increased cost on public debt could be offset by less government spending.

At the present time our Federal public debt and our bank credit are so interwoven that neither can be handled right. We must divorce them to such an extent that we can guide our money market policy with respect to the needs of commerce, industry and agriculture, and with respect to the control of inflationary tendencies, without throwing upon the Treasury sudden crises in debt management.

Benj. M. Anderson

The two problems, debt management and the regulation of money and credit, are intimately tied together as a result of the incredibly bad borrowing policy of the Treasury and the incredibly bad money market policy of the Federal Reserve System in support of the Treasury's policy. Conspicuous in financing World

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*Reprinted with permission from "The Tax Review," May, 1948, published by the Tax Foundation, New York City.

EDITORIAL

As We See It

Where Are We Headed?

In a thoughtful analysis of the current situation under the heading "Are We Becoming a 'Laboristic' State?" Professor Slichter of Harvard, writing in the New York "Times" of last Sunday, begins what he has to say with this paragraph:

"Few major transformations in the American community have occurred more rapidly than the rise of trade unions during the last 15 years. The growth of unions means far more than the substitution of collective bargaining for individual bargaining. It means that the United States is gradually shifting from a capitalistic community to a laboristic one — that is, to a community in which employees rather than business men are the strongest single influence. A community in which employees are the principal influence will have its own ways of looking at things, its own scale of values, its own ideas on public policies, and, to some extent, its own jurisprudence. It will also have new and distinctive problems and its own ways of dealing with them. Hence, the rise of trade unions means that the United States stands on the threshold of major changes in its economic and political institutions."

These are strong assertions. They are thought-pro-

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What to Do About Advancing Prices!

By E. S. PILLSBURY

President, Century Electric Co., St. Louis, Mo.

Mid-Western manufacturer lays rising prices to abandonment of use of gold as measure of value, which began with the Federal Reserve System in 1914. Advocates currency with 100% gold coverage and a new issue of government bonds with sufficient "sweetness" to reduce volume of currency. Contends supply and demand prices are available only when a commodity functions as a unit of value.

Many complaints are being registered against our system of imposing taxes, on the theory that such taxes cause a shortage of risk capital which, in turn, is considered to be a menace to the perpetuation of free enterprise, and our way of life. Regardless of the merit in such contentions, it is evident that high prices for goods and services are also major factors in the problem of financing our developing economy, since if we pay five times as much for goods and services, it takes five times as much capital to finance a project.


E. S. Pillsbury

A 38% corporation income tax is certainly a factor, but a 500% payroll is a much larger factor in financing most any project one can think of. It is therefore, to sharply advancing payrolls that we are directing this study.

In pursuance of that objective, we have prepared the accompanying chart and arranged the data back of it to show what has been going on in the building trades since 1867, these being typical of union labor trades in general. The data of the tabulation are from the Bureau of Labor Statistics. However, prior to 1907, the data were incomplete and we did the best we could with what we had. We have no doubt that the showing reflects real conditions. We will go into the implications of the data and chart in greater detail later. In the meantime, we will explain the price building process, as prices were generated, in terms of gold, in our free markets prior to the Federal Reserve Act of December, 1913.

Our first assumption will be that the Creator never endowed any man, or group, or nation of men, with what it takes to correctly appraise the supply and demand relationship between two commodities, much less that relationship between all commodities. Nevertheless, we know that supply and demand have been the major factor in the control of industry for a long time. If supermen did not do the job, how was it done? The answer is, it was the system. The following illustration will show, crudely to be sure, but correctly, the setup that effected the result, insofar as it was attained. Such operations, within a little more than a century, made over a few million immigrants, mostly laborers and farmers, into the most energetic and aggressive industrial nation in the world.

Price Generation, in Terms of a Commodity

We will take, for illustration, two commodities, gold and wheat. Our problem is to determine what one is worth in terms of the other. The trading unit on the gold side will be the dollar (13.7 grs. of fine gold). On the wheat side, the unit will be a bushel (60 pounds of wheat). We will assume that a wheat crop inclusive of the carryover from the previous year, is coming to market. A million farmers have wheat they are anxious to turn into cash. Thousands of traders in, and processors of, wheat, are anxious to make arrangements for the operation of their plants, and to acquire whatever it takes to take care of the wants of their clientele. As trade gets under way, if there is a farmer, or agent, who is unable to dispose of the wheat he is trying to market, at the prevailing price, the price trend is downward. If there is a mill owner, operator or agent, who is unable to contract for the wheat he must have to satisfy his prospective customers' needs, he will raise the ante. The price trend will be upward. Prices thus generated are revised from transaction to transaction, from hour to hour, and from day to day, throughout the year until at the end of the year, the prices, as well as the carryover for seed and contingencies, land at the exact spot they were aiming at from the beginning, except as goals may have been revised or modified by the year's developments.

Now note this: In free market operations such as we have outlined, with currency anchored to a metal so as to represent the supply of such metal, as definitely as do warehouse certificates—the supply of a commodity—the purchasing power of money is no less definitely revised and reappraised from transaction to transaction than is the price of what is bought with or sold for money. Since the money unit functions in many more transactions than any commodity, not functioning as money, the value of money will tend to be more stable than the value of other commodities. Except for added stability and uses thus acquired money's purchasing power, and rental value, were no less supply and demand generated in free markets, than were the prices of goods and services exchanged for money. It followed that since the purchasing power of the monetary unit, and the price of what it is exchanged for, were generated in the same transaction; each being free to move up or down, both were supply and demand generated and were equally consistent and dependable.

Like whatever mankind does, prices generated in free markets are not perfect. However, being brought up-to-date from transaction to transaction, they reflect the verdict of all parties sufficiently interested to back their judgment with their money. They are no one's estimates, but are a unanimous verdict of those undertaking to provide the particular kinds of goods or services under consideration on both sides of the trade. Gold, because of having been the most highly prized metal in the world for at least 6,000 years, as well as on account of its characteristics, is of exceptionally stable value. Opinions to the contrary are invariably based on irrelevant incidents. A bag of gold is, of course, worthless to a drowning man. Alleged failure of gold to retain its value under certain conditions are invariably based on some such consideration, having no real bearing on free market operations.

Fractional Gold Coverage — the So-Called "Gold Coin Standard"

What we have pointed out should convince those who appreciate what it is all about that a, supply and demand, price structure for goods and services, can never be erected by pitching it up to the public to lift prices out of a plethora of funds, made available by a too paternalistic government.

For those who are unable to see the point, and those who want further proof, we will review operations prior to 1914 when we abandoned 100% gold coverage in favor of currency that could be expanded at the discretion of a central brain. Our Building Trades Wage Rate Chart shows that during 50 years (1867 to 1917), union labor wage rates advanced about 50% on the 1907 index; nearly all of which advance occurred during the last half of the period. On the other hand, it shows that, between 1917 and 1930, wage rates advanced from about 130% to 330% of the 1907 index—an advance of 200% on the 1907 index in 13 years. To explain this, we will go into the wage problem back as far as the Civil War period.

During the Civil War (1860-1865), our paper dollar declined at one time to 40c in gold. After the war, it was slow to recover its 100c gold value. The Congress finally concluded that the way to resume specie payments was to resume; so it set a date, a few years ahead, after which all money would be redeemable in gold. Long before the redemption date, all of our money was as good as gold, and the date passed without incident.

Our currency continued to be as good as gold for half a century thereafter. It was the most dependable money in the world—until, in December, 1913, the Congress passed the Federal Reserve "Act," which contemplated a government authority, or agency, to

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Wages, Prices and the People's Savings

By SUMNER H. SLICHTER*
Lamont University Professor, Harvard University

Predicting possible dangerous acute and disorderly price rise, Professor Slichter urges wage increases be curbed and Savings Bond sales be stepped up. Advocates forced savings levy in form of high-yielding tax exempt non-negotiable bonds.

I

The great spread of collective bargaining is daily making the relationships between wages and prices of more and more importance. No longer are wage movements explained in the main by the demand for labor. More and more, wages are the result of the wage policies of trade unions and more and more they are a determinant of prices rather than being determined by them. My remarks on wages and prices will be divided into three main parts. First, I wish to look briefly at what has been going on during the two and a half years since V-J Day; second, to look at the immediate future of wages and prices; and third, to examine the long-run outlook for wages and prices and some of the problems suggested by it. It is desirable, however, to preface these discussions with a few theoretical observations.

Prof. S. H. Slichter

II

Wages and salaries in 1947 constituted 55.5% of all costs of producing the private net national product. They also constituted 52.4% of all personal incomes. Since wages are a large part of the cost of production and also a large part of personal incomes, the relationship between wages and prices is bound to be close. It is obviously a two-fold relationship—a cost-price and a demand-price relationship. Under some conditions, changes in wages may affect prices more as a cost than as a source of demand; under other conditions, changes in wages may affect prices more as a source of demand than as a cost. Sometimes the cost effect of wages on prices may be in the same direction as their demand effect. At other times the two effects may be in opposite directions—as when a rise in wages diminishes the size of payrolls.

Despite the closeness of the relationship between wages and prices, there are many years in which the two move in opposite directions. During the 107 years between 1840 and 1947, there were 57 years when the annual average of wholesale prices was above the preceding year, 48 when it was below, and 2 in which it was the same. There were 72 out of the last 107 years, however, when the annual average of hourly earnings of non-agricultural workers was above the preceding year, 17 when it was below, and 18 when it was the same. There were 28 times during the last 107 years when the year-to-year movements of wholesale prices and the hourly earnings of non-agricultural workers were in opposite directions—in 24 years wages were rising when prices were dropping, and in 4 years wages were dropping when prices were advancing. There were 7 years when the annual average of wages did not change but when prices were going up, and 11 years when wages did not change but the annual average of prices dropped. The times when wages were rising and prices were falling were, as a rule, early in recessions, and the times when wages were declining and prices were advancing were in the early phases of revival.

Generalizations about wage-price relationships, which hold for periods of expanding demand, will not necessarily hold for periods of contracting demand. As the above figures indicate, the middle and later phases of expansion are times when wages adjust themselves to prices; periods of contraction are times when wages and prices are more or less independent of each other; and early phases of expansion are periods when prices are adjusting themselves to wages. Particularly striking is the fact that in half of the years when the annual average of prices dropped (namely, 24 out of 48) the annual average of wages rose.

Of crucial importance are shifts or expected shifts in the labor supply curve in response to changes in the demand for labor. Knowledge that cuts in wage rates would cause a leftward shift in the labor supply curve helps keep wages during depressions at a level where supply exceeds demand. On the other hand, during periods of expansion a rise in the demand for labor soon causes the supply curve of labor to shift. The spread of trade unionism undoubtedly makes the supply price of labor more responsive than ever to advances in the demand for labor.

During a period of expansion, the supply prices of labor may change promptly or tardily after the demand for labor rises and it may rise at the same rate as the demand for labor or at a

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*Reprinted from "The Proceedings," vol. 23, No. 1, May, 1948. "Prices, Wages and Inflation," published by the Academy of Political Science, Columbia University, New York City.

The Government's Handling of The Current Credit Situation

By ALLAN SPROUL*
President, Federal Reserve Bank of New York

Reserve Bank official strongly opposes, as clumsy, ineffective and confusing, Mr. Eccles' advocacy of increased reserve requirements. Prefers increasing short-term interest rates, with possibly a "modified ceiling reserve plan," without regard to geography. Cautions against magnifying the dangers we face or minimizing the effectiveness of our presently available weapons.

In your invitation to me to appear before this committee you posed four questions which, among others, you hoped might be discussed. They were:

(1) Adequacy of present powers of the Federal Reserve System and other Federal agencies to prevent undue expansion and contraction of bank credit, and current proposals for increasing those powers, as has been recommended in the Economic Report of the President.

Allan Sproul

(2) Extent to which existing powers should be utilized in dealing with current credit situation.

(3) The necessity or desirability of continuing support of the government bond market and ways in which this might be done with a minimum stimulus to undue expansion of credit.

(4) Justification of current complaints about difficulty in securing adequate funds for modernizing and expanding business facilities, especially for small business; effectiveness of current methods of channeling savings into investment.

My statement will concern itself with these questions, or at least with the first three, although not necessarily in the order given nor as direct answers, since they all relate to the general problem of inflation and bank credit. I shall also want to lay some stress on the longer-range problem involved, although not neglecting our immediate situation. Perhaps I can best present my views in a series of propositions or paragraphs, with a minimum of argument, leaving to subsequent discussion the elaboration of those points in which you are particularly interested. Or, if you prefer, I could submit more detailed memoranda on any points which you wish to have covered more fully in the record.

The Problem in Perspective

(1) First, it is essential that we try to put the problem in proper perspective. It has become a commonplace to say that our difficulty lies in the existence of an enormous volume of purchasing power which has meant an effective demand in excess of the existing supply of goods and services—and that this is inflation. Stated thus baldly, attention is focused on the monetary aspect of our problem and many are led to the conclusion that only by monetary action can we really cope with it. The figures most usually quoted are the increase in the money supply (adjusted demand deposits plus currency outside banks) from $33.8 billion in 1939 to $113.7 billion in December, 1947, and the inflation potential in such a tremendous increase is emphasized. These figures, however, are not very illuminating taken by themselves; they must be related to changes in the gross national product (or to some other measure of over-all production) before we can see where we are and where we may be going. Money doesn't exist in a vacuum—it has work to do. The facts are that the gross national product is estimated to have increased from $90 billion in 1939 to an annual rate of $241 billion in December, 1947, and that the ratic of our money supply to the gross national product has, therefore, only increased from 37.4 to 47.2% during that period. That puts a very different light on the inflationary potential still resident in the existing volume of money. We have already gone a considerable way in growing up to our increased money supply and adjusting our general price level to it. And if there has been a substantial and more than passing reduction in the velocity of money (the velocity of money is believed to have dropped substantially in the 100 years before the Second World War), it might be argued that we have gone most of the way in closing the gap—that the price level has come near adjustment to the money supply. I would not want to press this argument too far, but it does help, I think, to put our problem in proper perspective.

The Nation's Economic Progress

(2) This is not a surprising development. It is really a continuance of the record of progress of our industrial civilization, distorted by the incidence of war. The progress of the United States in terms of increase in the national income during the present century has been phenomenal. From 1899 to 1947 there was a five-fold expansion, and even when account is taken of the increase in population, and the decline in purchasing power of the dollar, the average real income per capita appears to have increased about 2½ times in less than 50 years. If it were not for the waste of wars and of period of unemployment, and if it were not for the inequitable distribution of the gains of productivity as one group or another—farmers, management, owners, organized labor—found itself in a position to receive or to grab a bigger hunk of the pie, we should have had declining prices commensurate with declining real costs and a lesser need for growth in the money supply. In that sense we have had a more or less continually inflationary economy, interrupted by depressions, but accentuated periodically by wartime wastes of resources and expansion of money supply. The record, however, is one of growing up to the increased money supply (plus declining velocity of money) with intervening shakeouts as in 1920-21 and 1930-32. We have never substantially reduced the money supply without concurrent serious decline in production and employment which I believe, no one would wish to contemplate now in the light of the domestic and international situation. In other words, our main hope is not in a get-tough monetary policy on the theory that a bust now is better than more boom and more bust later. Our hope lies in gradual adjustments in various parts of the economy, staggered in incidence, while the money supply and the general price level achieve an approximate balance somewhere near the present relationship.

Efforts to Ward Off Inflation

(3) This does not relieve us of the responsibility of trying to prevent a further increase in the money supply while inflationary pressures are still strong in our economy, and that is what we have been doing. It is not true that we have had no effective policy and could have none because our existing powers were inhibited by considerations involved in the management of the national debt. By means of a coordinated program of debt management and credit policy, both relying on fiscal policy and on the maintenance of some uncertainty as to the next move for their main strength, we have held back the further expansion of bank credit. The voluntary program of the commercial banks has worked toward the same end. There is reason to believe that this program has been cumulative in effect, even though it is obvious that credit has not been made either very tight or very costly. As you know, there was an expansion of bank credit in 1947 which we would have liked to prevent, at least in part, since it is difficult

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*Statement of Mr. Sproul before Joint Committee on the Economic Report, May 12, 1948.

The Profits of the Oil Industry

By ROBERT E. WILSON*
Chairman of the Board, Standard Oil Company (Indiana)

In reviewing petroleum situation, Mr. Wilson blames shortages, partly on restrictions on prices and on construction and partly on political disturbances in Near East. Says steel shortages and high construction costs, together with dwindling capital market has retarded production increase. Contends higher earnings needed for oil companies to be used as capital for additional oil producing facilities.

There is one thing that can be said about the role of the profit, regardless of the spelling, namely, that it seems doomed to be misunderstood, especially when it is left to the hazards of the headline writers who do so much to determine the impressions of the average American.

Dr. Robt. E. Wilson

Considering first the "ph" prophet, I do not claim to be the son of a prophet, and I must confess that in 1945 I shared the views of a committee of leading industry economists and statisticians which tried to forecast the postwar demand for petroleum products. In view of the fact that there were 5,000,000 fewer cars on the road than prewar and that government economists were all predicting widespread postwar unemployment, this committee predicted that 1946 consumption would average only slightly above the prewar peak, and about 1,000,000 barrels per day below 1945. It also predicted that it would take eight or 10 years for total domestic demand to surpass the wartime peak! Actually 1946 civilian demand nearly equaled the 1945 military plus civilian, and 1947 demand was 11% in excess of that of 1945. Such a bad miss should give pause to anyone who attempts to predict the dynamic American demand very far ahead.

Danger of Oil Shortage

There is, however, one league in which I am rather proud of my batting average as a prophet. That is this Division of Refining, before which I came to bat only once before, namely, at our last midyear meeting. I should like to quote from the introduction to my remarks on June 2, 1947:

". . . I feel that it is my duty to say to the public that, in spite of almost superhuman efforts on the part of the oil industry, there is a real danger of some shortage of petroleum products, particularly in the Middle West, during the next 10 months. This shortage appears probable in spite of the fact that the general level of the country's crude production, refinery runs, and imports are all making new high records. The causes are primarily an unprecedented growth in demand, coupled with a shortage of transportation facilities. The latter stems back to wartime and postwar limitations on construction, together with shortages of construction materials, and particularly delays in the delivery of steel pipe for many important projects which would largely have alleviated the situation."

You may recall that this warning of an impending shortage, documented with detailed figures, created considerable furor. While it was supported by most of those close to the situation in the Middle West, it was challenged by many, both inside and outside the industry, and particularly on the East Coast, where the majority scouted any such prospect. Such differences of opinion were honest and understandable because it was a close question, and if the early Bureau of Mines estimates of a 4.3% increase in demand had been anywhere near correct, there would have been no shortage.

Fortunately the early and repeated warnings to Middle West consumers and suppliers bore good fruit. Not only was there widespread adoption of conservation measures by consumers, but suppliers adopted many costly and unprecedented measures to bring crude and products into this area. As a result, while the prediction of shortages was amply borne out, and stocks in many areas were drawn down to levels far below the minimum needed for efficient delivery operations, the actual consumer hardships incurred in the Middle West were surprisingly few, due in no small part to the cooperation of the industry and state and local officials in many areas.

In the East, however, the many difficulties encountered in getting government-owned tankers into service, plus an unusually severe winter, created a rather serious situation in many localities, and only by almost superhuman efforts on the part of the industry was a real emergency averted. I believe that a less optimistic attitude on the part of East Coast companies last summer would have reduced the unprecedented number of oil burner and space heater installations and possibly speeded up the getting of tankers into service, though the delays in that were largely due to differences of opinion between various branches of the government.

Increase in Petroleum Consumption

So far as the oil industry performance is concerned, we need apologize for nothing. We furnished far more fuel oil in the season just closed than ever before. We did it in spite of the handicap of not being able to get needed construction materials. Certainly an industry which supplied over 20% more distillate fuels and kerosene in 1947 than in 1946 cannot be fairly criticized for falling 1 or 2% short of an almost unbelievable demand. Let us see what happened.

*An address by Mr. Wilson at the Annual Dinner of Division of Refining, American Petroleum Institute, Philadelphia, Pa., May 12, 1948.

Table I

Estimated Growth of Petroleum Consuming Units

Consumption Units in Use—	1941	1946	1947	1947 % Increase Over 1946	1947 % Increase Over 1941
Passenger Cars (thous.)	26,713	26,901	28,416	5.6	6.4
Trucks and Buses (thous.)	4,682	5,680	6,000	5.6	28.2
Tractors (thous.)	1,783	2,672	2,844	6.4	59.5
Space Heaters (thous.)	2,000	3,035	4,250	40.0	112.5
Oil Burners (thous.)	2,269	2,673	3,200	19.7	41.0
Diesel Locomotives (units)	1,032	4,196	5,281	25.9	411.7

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The State of Trade and Industry

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

Total industrial production the past week held close to the very substantial levels that prevailed in previous weeks. In fact output in many industries reflected an appreciable increase above the corresponding levels of one year ago.

As for employment and payrolls, they were maintained at a steady and high rate for the week with a considerable demand for skilled labor evident, particularly in the building and allied trades.

Performance in the stock market last week was characterized by heavy trading with share values soaring to new high levels after breaking through their high peaks reached two years ago.

To illustrate the full scope of the market's activity daily trading volume on the big board on Saturday of the previous week (May 8), amounted to 638,660 shares and compared with 2,592,440 shares on Saturday last, or an advance of 1,953,780 shares. The high point of the past week was reached on Friday last, when turnover totaled 3,836,500 shares.

* * *

On Tuesday of this week Federal Judge Goldsborough extended the restraining order which prevented the threatened railroad strike a week ago until May 29. At the same time he also deferred until May 28 a hearing which had been scheduled for Tuesday last on the government's plea for an injunction to replace the order. The action taken by the Court was requested by the Department of Justice because the three railroad unions comprising the engineers, firemen and switchmen had on that day reopened negotiations with the railroads in another attempt to effect a settlement of their dispute over wages and working conditions.

In the automotive industry the United Automobile Workers, CIO, on Tuesday of the current week filed a formal 10-day notice with the Michigan Labor Mediation Board that a strike "is pending" for 225,000 General Motors Corp. employees. Negotiations are at present continuing in an attempt to avert a second major walkout in the auto industry. On Wednesday of last week the Michigan, Indiana and California plants of the Chrysler Corporation were closed as the result of a similar dispute over wages and other working benefits.

* * *

It is learned from a current release of the American Zinc Institute, Inc. that stocks of slab zinc at United States smelters totaled 42,910 tons at the close of April, a new low in several years and a drop of 2,319 tons from the March stock of 45,229 tons.

Output of slab zinc in April totaled 70,330 tons compared with 73,209 tons in March or a decline of 2,879. The daily average rate of production for April was 2,344 tons as against 2,362 tons in March.

* * *

The total dollar volume of retail trade rose moderately during the past week and somewhat exceeded that of the corresponding week a year ago. The advent of Mother's Day stimulated the demand for merchandise suitable as gifts and consumer response to promotions of seasonal goods continued to be favorable. Clearance sales of some luxury items attracted little attention.

While there was little change in retail buying during the week, wholesale dollar volume was moderately above the level of the like week a year ago. Many retailers continued to avoid long-term commitments, and re-orders of seasonal merchandise were frequent.

STEEL OPERATIONS INDICATE FURTHER PROGRESS FOR WEEK

Higher freight rates and agitation by governmental agencies against the basing point system are driving some steel users to seriously consider moving their plants. So far some of the plants planning to move to steel centers are small ones. But this may presage a wholesale trend later. Thus when the safety of the country demands a general move towards dispersion of industry, government aims and stiff freight rate changes are causing or are likely to cause just the reverse—concentration near large steel areas, according to "The Iron Age," national metalworking weekly.

The seizure of the railroads by the government has caused some steel people to fear another freight hike later. This is on the assumption that the government may be forced to settle the wage controversy—an act which would likely be followed by approval of higher rates to support the increased cost to the roads.

Such a move could only aggravate a situation which is already acute, states this trade authority, adding that it is forcing mills to (1) use water or trucks to move steel wherever possible, (2) chop off customers who are too far from the mill when the sale means meeting competition by freight absorption, and (3) pay more for raw materials used in steelmaking.

More ominous to the steel industry is the information obtained by "The Iron Age" that the chief legal aid for the Federal Trade Commission is working on a cease and desist order to present to the Commission for approval. If present intentions are carried out an order on steel firms to (1) establish an f.o.b. mill price policy, (2) abandon the basing points system of selling steel, (3) conform to the Supreme Court decision in the Cement Case, and (4) cease other practices attacked in the Federal Trade Commission case against the steel industry is likely.

Certain to be hit and confused by the present trend in steel marketing practices are steel consumers. Those near steel centers appear to be well off—but this is poor comfort if they cannot get the kind of steel they want in their own area. Users far from any steel center will pay heavily with high freight rates to the plants under an f.o.b. mill system, the magazine points out.

With respect to current output of steel, the magazine says, that the momentum of recovering from the coal strike has run out and it will be hard to get the rate up to 97% of capacity before another week.

It concludes by saying that it now appears the full loss of steel due to the coal strike will run about 1,650,000 tons—quite a price for the industry to pay for being perennially vulnerable to John L.

(Continued on page 41)

Observations . . . .

By A. WILFRED MAY

The Market Jockeys Clear the Big Jump
(And Land on the Front Page)

This space is not being devoted to discussion of the stock market's values or to prediction of its future (*mirabile dictu*), but to the investment community's *attitude* thereto. Apart from keen academic interest in the current sensational performance by market followers, certain valuable conclusions of a practical nature are warranted which bear on the broad problem attending the Stock Exchange's functions in fulfilling the nation's crucial capital requirements.

A. Wilfred May

The stock market community's gyrations during the past week has merely represented an extension of the existing psychological trend. To an ever-increasing degree evidently, businesslike appraisal of security issues is being supplanted in the prevalent investment concept by the chasing of price *trend* coupled with pictorialization of the market's performance.

The basing of investment as well as speculative policy on already-transpired market action coupled with over-emphasis on esoteric definition and terminology, again caused absurd price distortion. For a previous example of such chain reaction we may recall the public's mass-jumping on the "bear market" band-wagon on Sept. 3, 1946. As related in the SEC's subsequent study (summarized in this writer's article "Jet Propulsion in the Stock Market" in the "Chronicle" of Oct. 30, 1947), the news ticker's announcement of the market's downward break through the previously publicized resistance point of 186 in 1946 entailed an immediate avalanche of the public's liquidation. In other words "investment policy" means mechanistic "recognition" of a bear market. By interviewing the actual participants in that day's market the Commission found that while many people themselves did not believe in the Dow or any other resistance-point theory, they nevertheless liquidated simply because they realized the important potential impact on the market ensuing from others' belief in such reasoning.

Chain-Reaction on the Upside

Now during this past week we have witnessed such chain-reacting behavior in reverse. During the third hour of trading last Friday, after months of price movement within the limits of the Dow chartists' 163-187-no-man's-land of neither bull nor bear (and hence "non-existent" and incomeless) market, the Dow Jones average of industrial stocks as well as rails (of all things now to be crucial) broke through their widely-heralded resistance points. Then, so great had been the publicization of these resistance points that a flood of buying orders quickly engulfed the market, galvanizing the ticker to a volume of 810,000 shares in the third hour, 590 000 in the fourth, and 1,350,000 in the day's final period. This closing hour's trading doubled that of the previous day and almost tripled the day before that. Saturday, the day following the "crucial" penetration, saw further extension of the trading excitement measured by a 2½-million-share volume, the largest half-day session in 15 years. The stock market made the front page Friday afternoon, and by Monday the Exchange gallery was mobbed by a record crowd straining to watch the new bull market at first hand.

The Revelation by Definition

Close scrutiny of the press accounts of our "investment" market's doings, extending from our breezy tabloids to the most technical periodicals, together with verbal polling of our academic economists as well as barbers, reveals most remarkable unanimity of explanation based on "the market's making of new highs." In lieu of bothering further with the complex financial, economic or political factors, the entire community has now arrived at *the revelation by definition*. The Dow Theorists have after these many months finally *recognized* the bull market; with various chartists severally withholding such recognition much as individual nations have done in the cases of the Soviet Union, Spain and Israel. At any rate, practically all the chartists have finally changed their minds and reinstated the market to bull respectability.

Perusal of the news accounts discloses that now to a degree unprecedented in history market interpreters are wisely disregarding external motivations—both the real and imagined ones. Never before has there been so little attempt made to "hang" the market's behavior on the news.

One exception to this monopoly of technical explanation is the characteristic expression from one leading commission firm which, in accounting for the long-existing external factors of a highly favorable nature, maintains that now at last it is "the *crystalization* of these factors in the popular mind which found reflection in yester-

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E. M. Hanrahan Named Chairman of SEC

E. M. Hanrahan

Edmond M. Hanrahan has been elected Chairman of the Securities and Exchange Commission by unanimous vote. Mr. Hanrahan has been a member of the Commission since July, 1946. He succeeds, as Chairman, J. J. Caffrey, whose resignation became effective on Dec. 31, 1947. Prior to his being appointed to the SEC, Mr. Hanrahan was a partner in the law firm of Sullivan, Donovan & Heenehan, New York.

Max C. Ibers, Jr. Is With Gross, Rogers Co

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Max C. Ibers, Jr. has become associated with Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Ibers has recently been with T. J. Feibleman & Co. in New Orleans in charge of their trading department. Prior thereto he was with Weil & Co. in New Orleans and was trading manager for Oscar F. Kraff & Co. in Los Angeles.

Joseph McManus & Co. Members of NYSE

Joseph McManus & Co., 39 Broadway, New York City, announce they have become members of the New York Stock Exchange The firm also holds membership in the New York Curb Exchange and the Chicago Stock Exchange.

A Private Marshall Plan for American Investments Abroad

By MAX J. WASSERMAN*

Mr. Wasserman, noting neglect of role of U. S. private investments abroad, sees in Marshall Plan opportunity for further expansion of American capital with improved setting. Reviews nature and extent of American foreign investments and predicts, in coming years, American finance will be called to play a larger role in world affairs. Urges adoption of an integrated private program similar to that proposed for European Recovery Program

So much attention has been focused recently upon the European Recovery Program and the newly created Economic Cooperation Administration, that the role of U. S. private investments abroad is likely to be overlooked. The Marshall Program will not compete with private investment. American bankers would of course, be unwilling to undertake a program of this type. What the Marshall Program will do, among other things, is to improve the setting for private investment. It can do this by providing for the rehabilitation and development of nations which today do not present the best investment opportunities. The stabilization of foreign currencies, as provided by the Program, will also serve to make Europe more attractive for American private finance. Without such a Program, the field of private investment in Europe would be greatly restricted.

Max Wasserman

*The author is an economist on the Staff of the Office of International Trade, U. S. Department of Commerce, and Visiting Professor of Economics at Howard University. The opinions expressed in this article are those of the author and do not necessarily reflect those of any Federal agency.

A Planned Private Investment Program

Although there are many differences between our Government or public lending program and our private lending program, one very important distinction has seldom been stressed. Government lending is planned. It not only constitutes a part of our program of grants and credits but it is also an integral phase of our foreign policy. A very large amount of study and planning went into the formulation of the European Recovery Program.

In certain areas in the world, no program similar to the European Recovery Program is possible. There is nothing, however, to prevent American financial institutions, as a group, from planning their own investment and lending program just as the Government has planned its own. A program of this type would do much to overcome many of the disadvantages which our foreign investment has experienced during the past.

Financial programs planned by groups of bankers, or by bankers and industrial groups, can be developed for areas where aid of the European Recovery type is not contemplated. Private finance can be an important complement to present day public financial programs. In the past, as this article will show, much private financial assistance has been extended abroad by American banks and industry. Much more remains to be done, however. If past experience is any guide, future private financing will need the most careful study and, if properly integrated, will return both immediate and long range returns.

Development of Private Investment Abroad

Ever since Colonial days, Americans have had some assets in foreign countries. As Cleona Lewis has shown in her "America's Stake in International Investments," our assets located abroad were estimated at $685 million in 1897. By 1914, they amounted to about $3½ billion and were located principally in Canada and the American Republics and were principally of the direct investment type.

By the end of 1919 the foreign investments of U. S. citizens and corporations had grown to almost $7 billion. The increase since 1914 reflects the change in the position of the United States in the world economy when we became a creditor instead of a debtor nation.

The prosperity of the twenties fostered the expansion of American private investments abroad. At the end of 1930, American foreign holdings, exclusive of inter-governmental debts, were estimated at $17.2 billion. Of this total, direct investments represented approximately 47%; portfolio investments 42%; and short-term investments 11%. Thus, between 1914 and 1930, the foreign assets owned in this country expanded at a rate of $700 million a year. The depression of the thirties marked a decline in the U. S. holdings abroad and in 1939 they were estimated at $11.4 billion.

In May, 1943, the Treasury Department undertook a census of the U. S. holdings abroad. This census, taken on Treasury Forms "TFR-500," was an actual count of our assets abroad. Although the census was taken with great care, it probably underestimates our foreign investments because it is obviously impossible to force all holders of foreign assets to

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Are Stocks Undervalued?

By FRANKLIN ESCHER
Partner, Dresser & Escher

Investment Dealer holds outlook for earnings and dividends is such as to warrant confidence in future of common stocks.

Take two stocks of two admittedly good companies: One is selling say at 60, the other at 20. Why? Because earnings per share in the case of the stock that sells at 60 regularly run perhaps three times those of the stock that sells around 20.

Franklin Escher

Good stocks, under normal conditions, sell at somewhere between 10 and 15 times their current earnings.

When, as at present, you find them selling at from 5 to 10 times their current earnings it can be for only one reason.

That reason is that many people who buy stocks do not expect current earnings to continue at anywhere near their present ratio. It isn't that they expect earnings to fall off **moderately** (because even in that case, at their present prices, stocks would still be selling far below their traditional "ten-to-fifteen times"). It's because they expect earnings to be cut away down—to a point, perhaps, where the current price of the stock, measured by the "ten-to-fifteen-times earnings" yardstick, would look exceedingly high.

So that the real question—stripped of all the talk about Russia, industry controls, the election and all the rest of it—is this: Are the corporations during the next two or three years going to be able to show fair earnings or aren't they?

Well, they're showing them now, and so the burden of proof, it seems to us, rests distinctly on those who claim that they won't be able to continue to show them

These are the claims generally made:

(1) Present volume of business is abnormally high and can't reasonably be expected to continue.

(2) As a result of the increase in costs, "break-even" point has been pushed so high that even a slight recession in volume will result in profits being washed out completely.

(3) Costs, which in most industries are largely labor, are inflexible. When as and if volume comes down, costs will not come down correspondingly.

Summed up, the claim seems to amount about to this: Volume is bound to fall off, costs are bound to stay up, profits are bound to disappear.

What's wrong with the above? Two things. First the idea that, in the foreseeable future, a big shrinkage in volume is bound to take place. Second, that if that happens, costs can't be brought down.

FIRST as to the volume of business—why is it that it is as high as it is? Mainly, of course, because of the increase in the supply of money (bank deposits as well as currency) resulting from the issue of $250 billion of government bonds. How long will it be before any material change may reasonably be expected in that condition—before reduction in the amount of government bonds outstanding forces any appreciable reduction in the country's money supply? Years and years, in all probability. Certainly not in the "foreseeable future."

Next — just where could the shrinkage in volume take place? In the durable goods industries? —with the steel mills for example, booked up miles beyond their capacity to produce and unable to make deliveries on new orders until 1950 or 1951. In automobiles?—try and get delivery on a new car within six months or a year! In raw materials such as copper or lead or lumber, in textiles, in household appliances, in the materials from which houses are built? In radios, perhaps and in a few other lines there has been a certain amount of over-production; but in the things that count, in practically all the durable goods industries, **under**-production is the prevailing condition, and is bound so to remain for a good long time to come.

SECOND, as to this question of costs, particularly labor: Money wages, it is true, will be slow to come down, but, there's more to it than that. Always, as the volume of work slackens, the efficiency of labor begins to increase. The unions can make all the rules they want to limiting what a man can turn out in a day; but when that man sees orders begin to slacken and begins to wonder about his job, it's only human nature for him to start working harder and better, and that's exactly what he will do. Cynicism and scepticism about it to the contrary, that's what has always happened in the past and that's what will happen again. The same amount expended for labor will produce more goods —which, of course, is only another way of saying that labor costs will come down.

Other costs, too, as the pressure on business is lessened, can be far better controlled. Efficiency of operation under war-production conditions, or, indeed, during the period of transfer to peace production, was all but impossible. Great improvement, as business settles down to more normal conditions, is sure to be seen; is, in fact, becoming already visible. Just recently, for example, a large manufacturing company reported that, while wages per man-hour had increased, output per man-hour had increased even faster.

The prospect for earnings and dividends for several years ahead being what it is, the conclusion is inescapable, it seems to us, that common stocks—shares in American industry—can be bought with complete confidence.

From Washington Ahead of the News

By CARLISLE BARGERON

The ancient and honorable profession of ghost writing is being threatened these days as there becomes an increasing demand for off-the-cuff talks and the question and answer procedure instead of the stereotyped written speech.

Carlisle Bargeron

Mrs. Roosevelt, I suspect, started the question and answer craze. It got up on a high plateau in the recent campaigning of Stassen and Taft in Ohio. I understand it is being followed by Stassen and Dewey out in Oregon.

Mr. Truman made an off-the-record speech to a convention of newspaper editors here several weeks ago. First, he read from a prepared speech and the editors sat on their hands. Then he spoke informally and lifted them from their seats. For sometime, a rather general comment of the observers around town had been that he was really impressive when he talked informally.

Now, the story is that when he goes a-barnstorming this summer he is going to rely upon the informal device. Ought to go over big, it is said.

I have heard him in these informal talks. Unmistakably he appears more human, a warm-hearted fellow who is doing the best he can. But I have never heard one that added to his stature or gave me any information that I did not already have. They are usually confined to telling how seriously he wants peace, how the burdens of his office keep him lying awake at nights. These talks tend to create sympathy for him, but I have never found any of them even interesting.

If he begins talking off the cuff on really important matters we are in for some fun. All you have to do is to consider the off and on, impetuous way in which he has handled the Palestine problem to understand what we may expect. Frankly, he is liable to do anything. If he starts to talking loosely there is no telling what will happen.

The stories going around in official circles about the manner in which he decided to recognize the Jewish State are a scream.

I am not arguing for the retention of the written speech, however, notwithstanding that its abandonment would strike appreciably at my income. I know of nothing more boring than to listen to one, particularly in the way in which it is usually delivered. Most of these speeches are used to conceal the speaker's thoughts rather than to reveal them.

My association naturally has been mostly with the speeches of politicians. The ghost writer who can succeed in slipping through a real thought in one of them is a genius.

The nearest I ever came was in a masterpiece entitled "Challenge to America." It was so butchered up in delivery that I almost cried. A beautifully written thing it was, if I do say so.

Regardless of how much progress we make, however, towards the informal speech, I am afraid that the mechanization of our civilization will always demand some written speeches. The radio people insist upon you preparing your speech in advance. Even the fellow who says, "It is now exactly 9:30 o'clock, we pause for station identification," has it written out before him.

Our newspapermen, too, have become so exacting that they insist upon prepared speeches well in advance of delivery.

There are few members of Congress or of the Cabinet who do not have ghost writers. In the case of the Congressman or Senator it may be the Secretary. It doesn't follow in every case that the official can't prepare his own speech. It is simply that he doesn't have the time. On the other hand, there are unquestionably many men in public life who without their ghost writer would be utterly speechless.

An outstanding exception is Senator Taft. I know of no one who has ever written a speech or a magazine article for him. He can talk with or without the written speech, revealing in either instance, a wealth of information on all the affairs of humankind.

When he must prepare a speech because of the press and radio, it usually takes him just 10 minutes longer to dictate it than its actual delivery. Seldom when the transcribed copy is handed back to him does he change so much as a word. The explanation is that he always knows what he is talking about when he says anything at all. He makes no attempt to talk until he has fully mastered his subject. Vandenburg not only prepares his own speeches but types them out.

But there are others who mechanically read speeches written for them without having any understanding of their content. That's one reason for so much confusion in our public affairs.

Economic Stabilization in a Troubled World

By EDWIN G. NOURSE*

Chairman, Council of Economic Advisers

Dr. Nourse, in pointing out purpose of Employment Act of 1946 is to combat the business cycle, sees inflationary danger in present situation. Says, however, there is ground for optimism and cites lowering of prices by several corporations, more moderate attitude of some labor organizations and anti-credit expansion policy of ABA as checks in inflationary spiral. Holds European Program and rearmament must be offset by deferring other government outlays and by foregoing raising of living standards of private consumers.

The great objective of the Employment Act was to devise suitable business and governmental structures and procedures to the end that we might have better sustained use of natural resources, manpower, and capital in the satisfaction of the material wants of the nation. This did not mean merely smoothing out such highs and lows as have been encountered in the past and stabilizing their median level. It meant that we should mobilize our economic brains to fashion measures—preventive so far as possible, remedial when necessary—to combat the century-old disease of modern capital, the so-called business cycle.

Edwin G. Nourse

Anyone who followed any considerable part of the legislative history of the Employment Act will be aware that a sense of urgency that was felt as to its passage reflected widespread fear of an early postwar recession and period of substantial unemployment. Fortunately, the Council was not called upon to make its maiden utterance until the end of 1946, and by that time this fear had been dissipated by actual events. In broadest terms, however, we envisaged the possibility that 1947 would present American business, labor, agriculture, and finance with a problem of making catching-up adjustments in their money, price, and income relationships. Projecting the then-apparent returns of agriculture and industrial production, we formulated our problem in terms of progressively filled pipelines and eased consumer markets, so that, by the end of the year, higher consumer incomes or lower market prices would be required if we were to achieve a workable economic balance on which to go forward.

By midyear, circumstances had altered cases. On the supply side, prospects had worsened and certain limitations to industrial production had appeared. These included shortage of cars, of steel scrap, and of several basic materials, and also delay in providing certain specialized types of heavy equipment. Some of these shortages were the result of strikes at key points. The terms on which the strike of bituminous coal miners had been settled had introduced a lever of rising costs under our whole industrial price structure. On the demand side, certain areas of income had been pushed up rather vigorously through wage advances, savings and credit had been largely drawn upon, and government expenditures current and prospective had been substantially enlarged through acceptance of the view that we should have to enlarge in amount and extend in time the financial aid which would be given toward the economic rebuilding of Europe.

Inflationary Dangers

In recognition of these changed conditions, the Midyear Economic Report of the President dwelt at some length on revived inflationary dangers. And by the time of the second annual Economic Report, these threats had become realities. The Report said:

"Since June, wholesale prices have risen at an annual rate of 20% and consumer prices at an annual rate of about 12%. . . . Rent, since the modification of rent control, has been rising at an annual rate of about 13%. At the wholesale level, textiles during the second half of 1947 were rising at an annual of 12%, fuel and lighting 36%, and building materials 18%. . . .

"The record of prices, wages and profits during 1947 shows how they fed upon one another in a developing process of inflation. In spite of the heartening production record of the year, this inflationary trend was profoundly disturbing. It not only produced great inequities among our people, but also created the danger of a serious setback.

"The purposes of the Employment Act are beginning to meet

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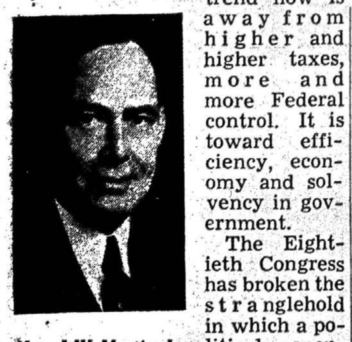
*An address by Dr. Nourse at the Annual Reunion Dinner of the Illinois Tech Alumni Association, Chicago, Ill., May 19, 1948.

Aims and Accomplishments of Republican Party

By HON. JOSEPH W. MARTIN, JR.*
Speaker of the House of Representatives

Speaker Martin extols accomplishments of Republican Congress and lists its aims. Attacks record of New Deal and points to reduced and balanced budget, tax reductions and ousting of Red and "Parlor Pinks" from government as work of Republican Party. Says Republicans are working to prevent further currency depreciation and foresees improvement in European conditions. Predicts Republican victory in November.

We may well feel great pride in the accomplishments of the Republican Eightieth Congress. The change in the trend of our government is the biggest single accomplishment we have achieved thus far. The drift to centralization of power is stopped. The trend now is away from higher and higher taxes, more and more Federal control. It is toward efficiency, economy and solvency in government.



Hon. J. W. Martin, Jr.

The Eightieth Congress has broken the stranglehold in which a political monopoly held both Washington and the Nation for 16 long years. We at last have begun to walk again in the ways of freedom. The road on which the New Deal traveled led toward a highly centralized government with regimentation and controls over business and the people.

It led us to a concentration of power, which, in a little while, would have ruined our American system of free, representative government.

You District residents, like the people of the various States, have viewed the events of the past 16 years with a justified and increasing uneasiness. I've been among you and I know. You saw, in 1932, the National Administration taken over by a crowd of opportunists. Political adventurers and crack-brained theorists, who had banded together to give the country what they called a New Deal. That strange New Deal crew had conceptions of governing, and of the government, which were radically different from our traditional ideas of representative, republican government. The type of government they used was nothing but a vest pocket edition of State Socialism. Its essence was rule of the masses by a class. As part of their technique, they faked emergencies and brought out phony crises faster than the Bureau of Printing and Engraving could turn out depreciated dollars to meet their spend-and-spend program.

At elections, the New Dealers chanted, "Don't change horses in the middle of the stream." Let me assure you of this: next November second, the American people are going to change both the horse and the rider. They are going to get rid of the bewildered donkey, and substitute for it the good old reliable Republican elephant to take us to the solid ground of sound government — to a strong, safe and solvent America.

New Deal's Record

The New Deal's 16-year record of Federal control will make one of the blackest chapters in our history. It will go down as an Administration of un-American policies; as an era of fan-dancers, political come-on artists, and specialists in the old con game techniques. Posterity will study the New Deal days as a time of bureaucracy on a bust; of Communists on the loose, and of diplomats doing strange and secret injuries to our future. The story later generations will learn of this era will be a tragic one. They will want to know the story, for they will still be paying for the blunders of this period — they and their children after them. It is a story of utter failure at the peace table. It is a story of inability to deal constructively with our many domestic problems. It is a story of higher and higher prices, of a political machine which like the noted "one-hoss shay," fell apart all at one time.

The New Deal has split the Democratic Party wide open. The patriotic, Jeffersonian Democrats have found themselves involved in their party with a group whose announced aims contradict sharply Jeffersonian tactics and methods. The Republican Party welcomes the help of millions of patriotic Democrats who never have had any more sympathy for much of the New Deal than we have had. Their first concern, like that of all good citizens, has been for the welfare of the Nation.

The American people have come to a full realization of what the New Deal really was — of what the New Dealers had in mind for America. No longer are the people fooled by politicians who talk out of both sides of their mouths at the same time. No more can the trick slogans of political opportunities lead both the States' Rights advocates of the South and the Left-wingers of the North up the same political blind alley. The New Deal is on its last legs. It can bamboozle us no more.

The proponents of spending ourselves rich have at last given place, in part, to those of us who believe saving is necessary for national salvation.

Those who have for 16 years insisted on wastefully ravelling out the fabric of national solvency have had to make way for those of us who believe a stitch in time saves the country. We hope and believe we can take those stitches in time when we get a Republican President in the White House to cooperate with a Republican Congress.

Balanced Budget Achieved

The new Republican Congress has kept faith with the American people. We promised we would restore solvency to the Government. We of the 80th Congress achieved the first balanced budget this country has had in 16 years. We promised we would reduce taxes. Three times we went down the line for a reduction of taxation, and three times the New Deal President vetoed our efforts. Finally, through the help of patriotic Democrats, we were able to make tax reduction stick.

We had to fight two long, hard battles. One battle was to cut appropriations. One was to cut taxes. The Administration, you will recall, viciously resisted every single cut, no matter how fantastic the original budget request. The officials of the Executive Branch pulled out all the stops in their propaganda campaign to discredit Congress. They actually tried to make it seem the Republicans wanted to cripple the Government! They howled that we were fighting to wreck the Government. We were, of course, sincere men who wanted to do a sensible, businesslike job of pruning excessive expenditures. The Administration even laid off border guards along the Canadian border and threatened to cut off rural mail carriers, in their no-holds-barred campaign. This they did to stop our drive for practical economy in government.

But we did cut the budget last year. And we are going to cut it as much as possible this year. We did pass a tax bill, and we made it stick in the face of the greatest possible opposition from the Executive Branch. We did it because the people of America were behind us, helping us to push. They are no longer misled by the fantastic promises and false propaganda of the New Deal.

The quack - economists who either are, or were, on the payroll

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*An address by Speaker Martin before the Republican Convention of the District of Columbia, Washington, D. C., May 13, 1948.

Dealer-Broker Investment Recommendations and Literature

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

Anthracite Industry — detailed report — Burton, Cluett & Dana, 120 Broadway, New York 5, N. Y.

Asset Number One—booklet describing the tested methods used by many leading companies who can answer the questions "Do you know your stockholders?" and "Do your stockholders know you?" with a "yes"—copies available on request written on your letterhead—ask for Booklet C—Georgeson & Co., 52 Wall Street, New York 5, N. Y.

Canadian Succession Duties (Inheritance Taxes) legal opinion on duties levied by the Dominion Government and two provinces against Canadian Securities owned by residents of the United States—Dominion Securities Corporation, 40 Exchange Place, New York 5, N. Y.

Clotheslines of America — description and analysis of **Ely & Walker**—drygoods manufacturers and converters and distributors—Scherck, Richter Company, Landreth Building, St. Louis 2, Mo.

Dividend Records—list of common stocks with outstanding records and also of low-priced dividend paying stocks — Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

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

Fire Insurance Underwriting—discussion — White & Company, Mississippi Valley Trust Building, St. Louis 1, Mo.

Also available is a tabulation of **Insurance and Bank Stocks.**

Florida Road and Bridge Debt—booklet—B. J. Van Ingen & Co., Inc., 57 William Street, New York 5, N. Y.

Insurance Stocks — brochure of comparative data on Fire-Marine, Casualty-Surety, and Multiple Line—Blyth & Co., Inc., 14 Wall Street, New York 5, N. Y.

Market Opinion — discussion—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y. Also available is a list of interesting low-priced stocks.

Railroad Income Bonds — tabulation of statistical data and estimated 1948 coverage of 20 income bonds — McGinnis, Bampton & Sellger, 61 Broadway, New York 6, N. Y.

Security and Industry Survey—quarterly issue of analytical guide for investors — Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

Under Valuation of Capital—review—Wood, Walker & Co., 63 Wall Street, New York 5, N. Y.

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American Optical Company — analysis — Estabrook & Co., 15 State Street, Boston, Mass.

Appleton Co. — statistical description — A. G. Woglom & Co., Inc., 49 Federal Street, Boston 10, Mass.

Also available are statistical descriptions of **Maine Central Railroad** and **Bates Manufacturing.**

Buffalo Bolt Co.—Data—Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

Also available are data on **Portsmouth Steel Corporation, Black Sivalls & Bryson,** and **Seminole Oil & Gas.**

Cannon Mills Co. "B" Stock—analysis — H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Celanese Corporation of America—summary and opinion — E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

Commonwealth & Southern Corp. — memorandum—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

General Crude Oil Company—up-to-date memorandum for broker-dealers only—J. W. Gould & Co., 120 Broadway, New York 5, N. Y.

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

Gulf Public Service Co.—memorandum in current issue of "Public Utility Stock Guide" — G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Imperial Oil Limited — memorandum — Sutro Bros & Co., 120 Broadway, New York 5, N. Y.

Kellogg Company—New analysis—Moreland & Co., Penobscot Building, Detroit 26, Mich.

McAleer Manufacturing Company — memorandum — Keane & Company, Penobscot Building, Detroit 26, Mich.

New York, Chicago & St. Louis Railroad Co. — analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a memorandum on **Denver & Rio Grande Western Railroad Co.**

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

Parker Appliance Company — circular — du Pont, Homsey Co., 31 Milk Street, Boston 9, Mass.

Portsmouth Steel Corporation—memorandum — Buckley Securities Corporation, 1420 Walnut Street, Philadelphia 2, Pa.

Also available are data on **Maryland Dry Dock, Gruen Watch Co.,** and **Seminole Oil & Gas.**

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

Also available is an analysis of **Miles Shoes, Inc.**

Security Banknote Company—study of situation with growth prospects — Heimerdinger & Straus, 50 Broad Street, New York 4, N. Y.

Sharp & Dohme, Incorporated—review and appraisal — Kalb, Voorhis & Co., 25 Broad Street, New York 4, N. Y.

Also available are reviews of **Ferro-Enamel Corporation** and **Corn Products Refining Company.**

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

Also available is a list of **Selected Low Priced Shares.**

Rockwell-Gould Co., Inc.

ELMIRA, N. Y. — Rockwell-Gould Co., Inc. is engaging in a securities business from offices at 159-167 Lake Street.

Connecticut Brevities

For the quarter ended April 3, 1948, Bigelow-Sanford Carpet Co. reported net sales of $20,702,854—a new record for the company—compared with $13,188,734 for the corresponding quarter of 1947. Earnings for the first three months were $902,406 against $505,610 a year ago. Earnings per share on the 6% preferred for the quarter were $34.18 compared with $19.15 a share for the first three months of last year. Common share earnings for these periods were $1.40 and 75c respectively.

An initial quarterly dividend of 50c a share will be paid on the new common on June 1 to stock of record May 17.

Equity per common share as of April 3, 1948, was $43.95 against $39.34 as of March 29, 1947.

* * *

Norma-Hoffman Bearings Corp. showed operating income of $532,314 for the year ended Dec. 31, 1947 against a deficit of $58,602 for the preceding year. Net income for 1947 was 209,028 or 83c a common share against a loss of $178,120 or a deficit of $1.32 a share in 1946.

* * *

The Silex Company reported sales of $1,269,000 for the first three months of 1948 compared to $2,897,000 in the first quarter of 1947.

* * *

Scoville Manufacturing Company reported sales of $19,871,000 for the first quarter of this year compared with $22,237,000 the corresponding period in 1947.

* * *

International Silver Co. showed sales of $16,510,000 for the first quarter of 1948 compared with $13,674,000 for the same quarter last year.

* * *

For the first quarter of 1948, Yale & Towne Manufacturing Co. showed gross revenue of $17,049,000 compared to $13,978,000 for the corresponding quarter of 1947.

* * *

For the three months ended March 31, 1948, Hartford-Empire Company reported net income of $203,650 or nearly 80c a share compared with $197,935 or 74c a share for the corresponding quarter of last year. Net working capital as of March 31, 1948 was $5,710,381 and surplus was $6,198,638.

* * *

The total of power sales of Connecticut Light & Power Company for the month of April was 94,762,000 kilowatt hours compared with 89,822,000 kilowatt hours for April of 1947, or an increase of 5.5%.

* * *

Billings & Spencer Company has announced the election of two new directors—Edwards E. Parsons, Jr., of William J. Marseicka and Company of Cleveland, Ohio, and Robert W. Kerr, Vice-President of Bingham, Herbrand Company, also of Cleveland.

* * *

Carloadings at 14 Connecticut points on the New York, New Haven & Hartford Railroad in April were 13.2% less than a year ago. Actual cars loaded for April, 1948 totalled 8,170 against 9,411 a year ago.

* * *

Peter Paul, Inc. showed net income of $2,682,155 for the year ended Dec. 31, 1947 compared with $1,952,020 in 1946 after a $39,195 write-down of investment in and advances to subsidiary. Earnings per share were equivalent to $3.94 based on 681,352 shares in 1947 compared to $2.92 on 669,448 shares in 1946.

The balance sheet as of the year ended Dec. 31, 1947 showed net working capital of $4,727,672 against $3,818,415 a year ago.

* * *

On May 13, the Town of Trumbull sold to Putnam & Co., $225,000 School bonds dated May 1, 1948 and due annually $23,000 each year May 1, 1949 through May 1, 1953 and $22,000 each year May 1, 1954 to May 1, 1958 inclusive. The winning bid was 100.025 for bonds carrying a coupon rate of 1.40%.

* * *

For the month of April, Hartford Electric Light reported power sales of 45,448,000 kilowatt hours compared with 42,231,000 for April of 1947.

* * *

In April of 1948, United Illuminating reported total power sales of 65,624,596 kilowatt hours against 61,115,319 in April, 1947. Sales of the Bridgeport division were 9.7% with a total of 38,259,820 kilowatt hours, while those of the New Haven division were up 4.5%, totalling 27,364,776 kilowatt hours.

COMING EVENTS

In Investment Field

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

May 21, 1948 (Boston, Mass.)
Bond Club of Boston annual field day at Dedham Country and Polo Club.

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

May 25, 1948 (White Sulphur Springs, W. Va.)
Spring meeting of the Governors of the Investment Bankers Association of America.

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

May 31, 1948 (New Orleans, La.)
Bond Club of New Orleans Annual Field Day at the Metarie Country Club.

June 4, 1948 (Chicago, Ill.)
Bond Club of Chicago field day at Knollwood.

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 4, 1948 (Philadelphia, Pa.)
Bond Club of Philadelphia Annual Field Day at the Philadelphia Country Club.

June 11, 1948 (Atlanta, Ga.)
Georgia Security Dealers Association annual outing and dinner at the Druid Hills Golf Club.

June 11, 1948 (Baltimore, Md.)
Bond Club of Baltimore annual outing at the Elkridge Kennels.

June 11-12-13, 1948 (Los Angeles)
Security Traders Association of Los Angeles Annual Spring party at Arrowhead Lodge.

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

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

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

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

June 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.

June 25, 1948 (Cleveland, Ohio)
Bond Club of Cleveland spring outing at Country Club.

June 29, 1948 (New York City)
New York Stock Exchange Golf Association 49th annual golf tournament at the Winged Foot Golf Club, Mamaroneck, N. Y.

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.

Michigan Brevities

A second public offering of 450,000 shares of Detroit Edison Co. capital stock (par $20) at $20.50 per share was made on April 22 by a group of underwriters which included the following Michigan bankers: First of Michigan Corp.; Watling, Lerchen & Co.; Charles A. Parcells & Co.; Wm. C. Roney & Co.; Baker, Simonds & Co.; Smith, Hague & Co.; Campbell, McCarty & Co., Inc.; M. A. Manley & Co.; McDonald-Moore & Co.; George A. McDowell & Co.; Bennett, Smith & Co.; Crouse & Co.; S. R. Livingstone & Co.; Andrew C. Reid & Co.; H. V. Sattley & Co., Inc.; MacNaughton-Greenawalt & Co. and John R. Schermer & Co. This issue, which was part of a total of 934,971 outstanding shares of such capital stock owned by the American Light & Traction Co. as of Feb. 29, 1948, was oversubscribed.

The first offering made on Jan. 7, 1948, of a similar amount of Detroit Edison Co. capital stock, at $20.50 per share, for account of the American Light & Traction Co., was also oversubscribed.

* * *

The Detroit Stock Exchange reports that trading volume in April totaled 369,567 shares, the best in six months. They had a dollar volume of $4,710,410. This compares with 240,847 shares valued at $2,956,900 in March, and with 221,398 shares valued at $3,062,473 in February.

The 10 most active stocks during April were: Gerity-Michigan Corp., Detroit Edison Co., McClanahan Oil Co., Gar Wood Industries, Inc., Detroit & Cleveland Navigation Co., Avco Manufacturing Corp., Curtiss-Wright Corp., Electromaster, Inc., Packard Motor Car Co. and National Stamping Co.

* * *

Included among the investment bankers which on May 5 participated in the public offering of 800,000 shares of Sunray Oil Corp. 4½% cumulative convertible preferred stock, series B, at par ($25 per share) were the following: S. R. Livingstone & Co., McDonald-Moore & Co. and Wm. C. Roney & Co., all of Detroit.

* * *

Holders of the capital stock of Parkview Drugs of Kansas City, Inc., of record May 5, 1948 on May 15 received an initial dividend of 6¼ cents per share. This was at a quarterly rate of 8¾ cents per share, and covers the period from March 12, 1948 to May 15, 1948, inclusive.

* * *

Campbell, McCarty & Co., Inc., First of Michigan Corp. and Watling, Lerchen & Co. were also included among the nation-wide group of underwriters which on April 13 publicly offered 200,000 shares of 4% cumulative preferred stock of the Solvay American Corp. at par ($100 per share).

* * *

The stockholders of Detroit Steel Products Co. on April 22 approved the merger with and into this company of the Johnson Metal Products Co. of Erie, Pa.

* * *

First of Michigan Corp. and Watling, Lerchen & Co. on May 12 also participated in the public offering (for account of selling stockholders) of 680,000 shares of common stock (par $5) of Halliburton Oil Well Cementing Co. at $25 per share.

* * *

Michigan Bumper Co. reports for the three months ended March 31, 1948 sales of $1,044,681, and net profits after charges and taxes of $98,568, equal to 51 cents per share on the common stock. This compares with sales of $926,676 and net profits of $104,483 or 54 cents per common share, in the corresponding quarter last year. At the end of April, 1948 unfilled orders were reported to amount to approximately $2,500,000, compared with approximately $2,250,000 at the close of 1947. Sales for the full year of 1947 totaled $3,694,619, against $2,607,349 in 1946, while net amounted to $392,964, or $2.02 per common share, in 1947, compared with $239,566, or $1.23 per common share, in 1946.

* * *

Watling, Lerchen & Co. participated in the public offering on May 12 of 800,000 shares of Southern California Edison Co. 4.56% cumulative convertible preference stock (par $25) at $26.25 per share.

* * *

The directors of King Seeley Corp. on May 12 declared a cash dividend of 30 cents per share, payable June 15 to stockholders of record May 31, 1948. This compares with distributions of 25 cents each made on Jan. 2 and April 1, last, and in each quarter during 1947.

* * *

Smith, Hague & Co. on April 27 participated in the public offering of 293,077 shares of M and M Wood Working Co. capital stock (par $5) at $17¾ per share.

* * *

Watling, Lerchen & Co., McDonald-Moore & Co. and Wm. C. Roney & Co., also were included, together with others in an underwriting syndicate headed by Dillon, Reed & Co., Inc., which on May 17 publicly offered an issue of 500,000 shares of American Broadcasting Co., Inc., common stock (par $1) at $9 per share. The net proceeds from this issue, together with the net proceeds from the sale to an institutional investor of $5,000,000 4% promissory notes due May 1, 1960 at 100 and interest, are to be used (1) to prepay $4,000,000 bank loans, and (2) the balance to be added to the company's general funds to be available for capital expenditures, working capital and other corporate purposes. The net proceeds of approximately $807,500 from the recent sale of station WOOD (Grand Rapids, Mich.) are also available for such purposes.

This is the first time in the broadcasting company's history that it has offered any of its securities to the public. It licenses and operates WJZ (New York), KECA (Los Angeles), WENR (Chicago) and KGO (San Francisco). A sub-

(Continued on page 52)

Prices and Profits

By HOWARD R. BOWEN*

Dean, College of Commerce and Business Administration, University of Illinois

Painting bright picture of economic conditions, Dr. Bowen ventures opinion we have reached end of inflation, unless we have large scale rearmament. Cites eight reasons for conclusion, but says if relations with Russia necessitate large scale rearmament, prices will again rise.

Prices, most people think, are outrageously high. Production is also high, although it is not as high as it might be if we had been able to achieve the level of efficiency to assimilate new technological developments as rapidly as we had hoped at the end of the war. Nevertheless, production is going great guns, and our labor force, for all practical purposes, is fully employed.

Howard R. Bowen

Profits are also high. They may be overstated because of the inadequacy of current depreciation charges, the failure to provide sufficient reserves for inventory losses, and the vulnerability to future losses because of high break-even points. Yet few would deny that American business as a whole is yielding handsome returns. The plain fact is that we are in a first-class boom, and the question we are all wondering about is, "Where do we go from here?"

This a period when the visibility ahead is unusually low. Every period seems that way when you are in it. And, in fact, the present situation may be somewhat clearer than most, in that there are some large and clearly identifiable factors at work.

The present economic position of the United States is by no means as distended and unstable as it is sometimes represented to be. Although we complain a great deal about prices and inflation, yet from the viewpoint of most foreign countries, the United States seems a Gibraltar of stability and security. Prices have merely doubled here. The productive plant is intact and being rapidly enlarged and improved. The governmental budgets are balanced. Confidence in the dollar and in the integrity and credit of the government is unimpaired. The population is at work and national morale is high. The consumption of goods and the standard of living is higher than ever before in the history of this or any other country. The international prestige of this country is greater than ever before in its history.

These are not the conditions of wild inflation and of national debility. These are the conditions of strength, stability and prosperity. So far as I know, there is (Continued on page 55)

*Excerpts from an address by Dr. Bowen at the Midwestern Spring Conference of the Comptrollers Institute of America, St. Paul, Minn., May 17, 1948.

Says Wage Increases Are Not Primary Cause of High Prices

Boris Shishkin, AFL economist, lays prime source of inflation to excessive money in circulation. Urges increasing productivity per man-hour, with reduction of hours of labor and higher workers' real income.

Addressing the Midwestern Spring Conference of the Controllers Institute of America at St. Paul, Minn., on May 17, Boris Shishkin, Economist of the American Federation of Labor, denies that higher wages constitute the prime cause of inflation and warned that continuing rise in prices is threatening to choke off the market for manufactured goods. Said Mr. Shishkin:

"One great obstacle in the path toward economic stability has been the inability of labor and management to agree on facts. Agreement on facts is indispensable to a sound and genuine agreement on issues.

"In wage negotiations, labor has been giving too exclusive attention to wages as income, while management has been looking on wages as costs. Labor should talk more about wages as costs and management more about wages as income. That is the only way for both to reach a common, lasting agreement about their respective obligation to the enterprise of which both are a part, as well as to the community.

"Continuing rise in price inflation is presenting an increasing threat of choking off the market for manufactured products, especially consumer durable goods, while the buying power is increasingly diverted to food, rent and other indispensable necessities. But the prime source of this inflation is the excessive volume of money in circulation in relation to prices. Wages are not a direct or sole force responsible for high prices. In fact, quite often, even generally, prices far outstripped wage costs. Consider the fact, for example, that in May, 1947, the labor cost per ton of coal was $1.65 and in November, 1947, $1.84, a rise of 19 cents a ton. Allowing an addition for a five cents a ton payment for the welfare fund, added since May, the maximum increase in the labor cost per ton of coal was 24 cents. Yet during the same period the wholesale price per ton of coal rose $1.18 while the average retail price in 34 cities rose $2.40 per ton. Here is a perfect illustration of how a 24-cent increase in the labor cost per ton was universally represented as the direct cause for the price increase which in reality was ten times as great.

"As a long term proposition, labor and management must agree that expanding productivity is a national necessity. It is in the long-term interest of all to pay labor progressively higher wages in relation to prices; to do this by progressively increasing productivity per man-hour; and to reduce hours of labor and increase real income while increasing the volume of production and distribution.

"To translate this policy into reality, genuine union-management cooperation, should begin, not in the Congressional hearing room in Washington, or at the company headquarters, but right at the local plant level, where collective bargaining is initiated."

Missouri Brevities

The common stockholders of record April 6, 1948, of Missouri Utilities Co. were recently offered the right to subscribe on or before April 23 for 22,750 shares of additional common stock (par $1) at $12.50 per share. The offering was underwritten by the following group of St. Louis bankers: Edward D. Jones & Co., Metropolitan St. Louis Co., Newhard, Cook & Co., Reinholdt & Gardner, I. M. Simon & Co., Stifel, Nicolaus & Co., Inc., Stix & Co., Taussig, Day & Co., Inc. and G. H. Walker & Co. The net proceeds from this sale and from the private placement of $400,000 3¾% sinking fund debentures due 1963 with the Equitable Life Assurance Society of the United States will be used to pay for additions and improvements to property. On March 2, last, $2,500,000 of first mortgage 3¼% bonds, series C, due June 1, 1971, was purchased by the Equitable at 100 and interest.

* * *

Missouri investment houses which participated in the public offering on May 5 of an issue of 800,000 shares of Sunray Oil Corp. 4½% cumulative convertible preferred stock, series B, at par ($25 per share) were the following: Dempsey-Tegeler & Co., McCourtney-Breckenridge & Co., Newhard, Cook & Co., Reinholdt & Gardner, Scherck, Richter Co., I. M. Simon & Co., Stix & Co. and A. E. Weltner & Co., Inc.

* * *

Net profit of Missouri Edison Co. for 1947 totaled $104,100, after charges and Federal income taxes, or $1.04 per share on 100,000 outstanding shares of common stock. This compares with a net of $96,434, or 96 cents per share, for the previous year. The report reveals that on Sept. 20, 1947, the company issued and sold to an insurance company $200,000 additional first mortgage bonds, series A, 3½%, due July 1, 1975, bringing the total amount outstanding to $1,350,000. The net proceeds were used for expansion, etc.

* * *

Barret, Fitch & Co., Dempsey-Tegeler & Co., A. G. Edwards & Sons, Reinholdt & Gardner and I. M. Simon & Co. participated on May 12 in the public offering (for account of selling stockholders) of 680,000 shares of Halliburton Oil Well Cementing Co. $5 par common stock at $25 per share.

* * *

Newhard, Cook & Co., Reinholdt & Gardner, Stern Brothers & Co., and H. O. Peet & Co. on May 17 participated, together with others, in the first public offering for the account of American Broadcasting Co., Inc. of 500,000 shares of common stock (par $1) at $9 per share.

* * *

In addition Stix & Co. participated on April 13 in the public offering of 500,000 shares of Shareholders Trust of Boston, par $1, at prices ranging from $20.41 to $20.83 per share. The Trust, a diversified open-end investment company, was organized in Massachusetts on March 13, 1948.

* * *

Net sales for the year ended Feb. 29, 1948 were the largest in the history of the Midwest Piping & Supply Co., Inc., St. Louis, in other than war years and amounted to $19,169,666, compared with $9,197,837 in the preceding fiscal year. Net profit was $1,895,966, equal to $4.91 per share, against $503,450, or $1.30 per share, in the year ended Feb. 28, 1947. In spite of the year's critical steel shortage, it is reported, each of the company's four plants — in St. Louis, Boston, Passaic, N. J., and Los Angeles—continuously operated to capacity on a single-shift basis. An extra dividend of $1 per share is payable today (May 20) to stockholders of record May 10. This is the second extra this year, one of 40 cents having been paid on January 15. The stock also receives regular quarterly payments of 15 cents per share.

* * *

A. G. Stoughton, President, has also been elected Chairman of the board, to succeed the late Hugo F. Urbauer. Walter R. Wayne, an attorney of St. Louis, succeeds Mr. Urbauer as a director.

* * *

O. H. Wibbing & Co., St. Louis, on April 27 participated in the public offering of 293,077 shares of M and M Wood Working Co. (Ore.) capital stock (par $5) at $17⅜ per share.

* * *

Included among those making public offering on May 12 of an issue of 150,000 shares of no par value common stock of Kansas Gas & Electric Co. at $26 per share were: Stern Brothers & Co., Newhard, Cook & Co. and Barret, Fitch & Co., Inc. These shares are part of the shares owned by American Power & Light Co.

* * *

Reinholdt & Gardner and Stern Brothers & Co. also were included in the list of investment bankers who publicly offered on May 12 an issue of 800,000 shares of Southern California Edison Co. 4.56% cumulative convertible preference stock, par $25, at $26.25 per share and dividends.

* * *

Other offerings in which Reinholdt & Gardner participated were as follows: On April 27 of 350,000 shares of common stock (par $1) of Moore-Handley Hardware Co., Inc. Birmingham, Ala., at $9 per share (net proceeds going to selling stockholders); and on May 4 of $100,000,000 35-year 3⅛% debentures due May 1, 1983, of Southwestern Bell Telephone Co. at 102½ and interest (which was oversubscribed). The same bankers were included in a list of 46 investment firms which have underwritten an offering to common stockholders of National Gypsum Co. of record May 10 of 422,467 additional shares of common stock at $13.50 per share (the rights will expire on May 24, 1948).

* * *

Net sales of Monsanto Chemical Co. and its subsidiaries for the three months ended March 31, 1948 amounted to $38,473,744, compared with $36,216,506 in the same period last year, or a gain of 6%. Net earnings for the first quarter of this year totaled $3,805,588, or 85 cents per share on 4,256,453 common shares outstanding, as against $4,944,502, or $1.19 per share on 3,961,693 common shares outstanding.

* * *

Stern Brothers & Co. participated in two additional public offerings, viz: On April 8 of 65,000 shares of Oklahoma Gas & Electric Co. 5¼% cumulative preferred stock (par $100) at $104 per share and dividends; and on April 22 of $12,000,000 Gulf States Utilities Co. first mortgage 3% bonds, due April 1, 1970, at 101¾ and interest.

* * *

Interstate Bakeries Corp., Kansas City, for the 16 weeks ended April 17, 1948 showed a net profit after taxes of $536,225, or $1.36 per common share, as against $642,935, or $1.71 per common share, in the 16 weeks ended April 19, 1947. For the year ended Dec. 27, 1947 net amounted to $1,529,278, or $3.73 per common share, compared with $1,310,860, or $3.02 per common share in the previous fiscal year. Sales for the 1947 year were $52,772,555, an increase of $11,102,638 over 1946.

Brown Joins Bacon

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Horace J. Brown has become connected with Bacon & Co., 256 Montgomery Street, members of the San Francisco and Los Angeles Stock Exchanges. He was previously with H. R. Baker & Co.

Irving Lundborg Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Henry A. McMicking is with Irving Lundborg & Co., 486 California Street, members of the New York and San Francisco Stock Exchanges. He was previously with Dean Witter & Co.

Railroad Securities

Railroad stocks have continued in the forefront in recent sharply advancing markets, and there are valid reasons why they should continue to do so. First quarter earnings were quite spotty and the industry as a whole did not show as high a net income as in the like period a year ago. Declines were not universal but they were widespread. For one thing, weather conditions were particularly severe throughout most of the country. This resulted in inflated operating costs and also cut somewhat into the traffic potential as plants in some parts of the country had to be shut down. Then in March came the coal strike which had a very serious impact on freight tonnage.

When April results are published they will also show the influence of the coal stoppage—the strike extended into the middle of the month. Subsequent earnings, however, are expected to make highly favorable year-to-year comparisons. Traffic volume continues high and May reports will begin to reflect the influence of the most recent emergency freight rate increase. Passage of the European Recovery Program and our own rearmament promise maintenance of the heavy traffic movement. The recession, or depression, which so many investors and speculators have been looking for for the past year or more now appears indefinitely postponed.

Under present and prospective conditions the railroads seem to have a number of advantages over other major industries. A return to material allocations or controls could hardly harm the railroads. As a matter of fact such action should be beneficial in stabilizing, and perhaps even reducing, costs. At the same time, if any type of excess profits tax should be reimposed the railroads, because of their large invested capital basis, should again be in a relatively sheltered position. If gasoline rationing should return it would presumably have a favorable impact on railroad passenger business which is now generally being conducted at substantial losses contrasted with large profits during the war.

The rate situation also appears to be more favorable than it has been for many years. In 1946 when railroad labor was given a substantial wage increase retroactive to the first of the year there was only a modest temporary rate increase in the middle of the year. The final decision did not come until the beginning of the following year. This lag did not augur well for the ability of the industry to keep pace with spiraling costs in an inflationary era. Apprehension caused by the apparently dilatory attitude of the Interstate Commerce Commission has since been allayed by the experiences of 1947 and 1948.

The Commission in the past year has given evidence that it recognizes its mandate from Congress to provide an adequate rate structure to the railroads to assure the country of an efficient transportation system. This is doubly important under present unsettled international conditions. Last year's wage increases were not retroactive. The raise awarded the non-operating employees went into effect on Sept. 1, 1948. Early the following month the Commission allowed a compensatory temporary rate increase. The operating brotherhoods were given a wage increase effective Nov. 1, 1947. Before the end of the year another temporary emergency rate increase was granted.

In April of the current year another modest rate increase was allowed the carriers. This was based on the adverse influence on earnings of the severe winter weather and the fact that due to the coal strike, traffic had not reached anticipated levels. Moreover, the rate case is still open. The Commission, therefore, can act quickly to give further aid if the earnings picture should start to deteriorate or if costs should again go up. This recent enlightened attitude of the ICC is highly encouraging. Given a sustained level of traffic and an adequate rate structure the railroads collectively and individually can hardly avoid showing high earnings. This prospect, moreover, brings with it the hopes of more liberal dividend policies.

Definitive Australian Bonds Now Available

The National City Bank of New York, as Countersigning Agent for Commonwealth of Australia Fifteen-Year 3⅜% Bonds due Feb. 1, 1962, has announced that on and after May 14 Definitive Bonds of this issue will be available for delivery in exchange for Temporary Bonds at its Head Office.

Inflation Is a State of Mind

By EMIL SCHRAM*
President, New York Stock Exchange

Mr. Schram believes period of shortages is ended and, barring unbalancing of budget, we have already entered postwar period of stabilization. Maintains we are obsessed with monetary side of price equation with underemphasis on supply of goods and commodities. Decries iron curtain around separate parts of capital and money market.

Inflation, to put it bluntly, is a state of mind. It cannot be understood solely in monetary or fiscal terms or if attention is paid only to interest rates or commodity prices. I like to think in terms of the future and base my opinions largely on an analysis of present conditions which are never exactly like those of the past. Reference to experience has value mainly in conditioning our minds to follow the facts no matter where they may lead us. In the early and mid-thirties, you will recall, herculean efforts were made by the monetary authorities to generate the forces of recovery by pushing funds out and creating excess reserves so that the commercial banks would add to their loans and investments. Excess reserves piled up but business nevertheless languished and unemployment was large. Finally the central bank authorities were compelled to admit that while a horse can be led to water, it cannot be forced to drink. We are accustomed to think that periods of a balanced budget necessarily coincide with sound credit conditions and an absence of inflation, yet in the period ending in the 1929 crash, the budget was balanced and, more than that, a large surplus—that is, for those days—made it possible to reduce the Federal Government's debt by roughly $8 billion between 1921 and 1930. Again, the deficits in the fiscal years 1934, 1935 and 1936 did not make for anything approaching full employment, let alone inflation. Interest rates in 1926 and 1927 which now seem high, were being condemned as representing the consequences of easy money policies of an unsound nature. We know, from previous periods of business expansion, that business men will borrow in one period at relatively high rates and look with a cold eye on financing plans at other times although the cost of borrowed money is relatively low. As a matter of fact, our building booms always seem to harmonize with a period of increasing and high costs. If commodity prices were a perfect mirror of inflation, a slightly downward slump in the mid-twenties to 1929 could not have occurred. The history of commodity prices in those years would give one a most distorted view of the larger business picture. This is simply by way of comment and I think illustrates why I have stated boldly that inflation is psychological, or a state of mind, hoping that you gentlemen will credit me with some acquaintance with the economic facts of life.

Emil Schram

*Statement of Mr. Schram before United States Senate Joint Committee on The Economic Report, May 13, 1948.

Not Technical Definition

I would not like to try to define inflation in a way that would stand up against the criticism of monetary experts, but I think that we can best recognize its existence or absence by a homely truth: We have inflation when money is running after goods and deflation when goods are running after money. The great problem, I might add, is to find a way of avoiding both of these conditions and pave the way for more stability so that we do not always appear to be in a period where a large number of people realize that prices are low, but cannot pay even these low prices for goods and services because of lack of income, or, having income, find it hard to make both ends meet because prices are high.

By my own definition, in the two years after V-J Day and until recently, we were in an inflationary period because certainly money was running after goods and services. A public which had done without many things and had ample funds was determined to do without no longer. More recently, despite developments such as the coal strike, which has tended to accentuate shortages in certain fields, the area of shortages has shrunk. It is my conviction that it will shrink further in coming months as the remaining pipelines are filled and production and consumption come into greater balance. According to the latest figures, the monthly production of washing machines has reached 400,000 against approximately 290,000 a year ago and the adequacy of the supply of such consumer durable goods as radios and refrigerators is common knowledge to everyone who reads the newspapers or walks into an electrical appliance store.

Consumer Goods Now Easier to Get

For a number of consumer durable goods which were so difficult to get a year ago prices have been reduced—this despite higher wage costs. Shortages that vexed us a few months ago have disappeared. There is no longer any shortage of men's white shirts and the best authority, your wives, will confirm the fact that many food items such as citrus fruits, which a year ago were hard to get, are in ample supply, and in several cases, prices have tumbled severely. I realize, of course, that some shortages in the heavy goods industries still exist and it does not seem possible for the automobile industry to catch up on the demand for some time. Only a few months ago, this Committee heard testimony on the alleged shortage of meat. If there was one subject on which everyone agreed, it was that in April and May meat prices would soar. The fact is that recently hogs in Chicago, as a result of heavy receipts, slumped to $21.75 against $23.50 only a month ago and were at the lowest prices since OPA days. It is common knowledge, however, that luxury businesses have suffered sharp curtailment.

Housing

One field that is so important as to deserve special comment is the housing shortage and real estate. In a very thoughtful survey published by the Federal Reserve Bank of Cleveland as a supplement to the April Monthly Business Review, it is pointed out that since early 1947 the rate of family formation appears to have declined substantially. For the first time in recent years the increase in dwelling units appears to have exceeded the increase in family formation. The survey concludes that while demand for the present is still in excess of the ability of the construction industry to produce, there is some evidence that the intensity of the demand for housing will gradually taper off. To quote:

"The gradual prospective reduction in the housing deficit, coupled with increasing pressure of those costs on income, and coupled with evidences of tightening of the mortgage market, should all contribute to progressive lessening of the intensity of demand."

In the field of small housing, we find an area in the economy where it seems the Government must continue to lend a helping hand. The Congress has been mindful of its responsibilities to the country in this regard in its constant and careful study of the problem. There is pending a long-term housing measure known as the Taft-Ellender-Wagner Act which is concrete evidence of further consciousness of the housing problem on the part of Congress. The FHA mortgage guaranty authority (Title 6) lapsed as of April 30, and I understand that Congress is presently reviewing the advisability of extending this authority for one year. In other words, small and mass housing continues to require a form of subsidy from the Federal Government.

In the broad objective of such legislation, I concur; as to the methods of assistance, I prefer to leave that decision to those in the Congress who have given real study to the question, as in the case of your distinguished Chairman, Senator Taft.

I do point to the fact that the former Chairman of the Federal Reserve System, Marriner Eccles, disputed the soundness of provisions of the Housing Act which made credit available on excessively easy terms in that buyers were encouraged to go deeply into debt, adding to inflationary pressures.

Financing of Small Homes

I understand the approximate carrying charge on a small home under the G. I. Bill of Rights to be about 1% of the purchase price per month. A builder informed me the other other day that in the outlying areas of New York a $19,500 home may be mortgaged for $14,500 through private channels; that the G.I. can obtain an additional loan of $3,000 for a total of $17,500 and the additional $3,000 is guaranteed as to payment by the Federal Government. The carrying charge in this particular case exclusive of maintenance is about $150 a month, or $1,800 a year. In the bracket of a $10,000 home, the carrying charge is approximately $80 per month. It seems to me that at this rate of monthly outlay we must expect that some purchasers will find it difficult to maintain their payments. This will be especially true should we find em-

(Continued on page 44)

The After Effects of the Marshall Plan

By J. ANTON de HAAS*
Professor, Claremont College, Claremont, Cal.

Prominent foreign trade expert extols Marshall Plan as aiding our own economy as well as European recovery, but points out financial transactions of magnitude contemplated will inevitably create undercurrents of fear, resentment and misunderstanding. Expresses view aid to Germany may again be means of preparing that country for renewed aggression and says there is definite fear that U. S. capital invested abroad may lead to American control of European domestic industries. Urges impressing world with our capacity for leadership and honesty of purpose.

Medical science in recent years has received the assistance of certain miracle drugs—drugs that enable the surgeon to perform operations at one time considered too risky—and enable the physician to control diseases which in the past were beyond medical control.

J. Anton de Haas

But as the use of these miracle drugs became more general, it was discovered that in many cases these drugs, if not used with extreme care, have toxic effects and not infrequently are more dangerous than the disease.

I do not claim that there is a parallel between medical science and finance—and yet it is not impossible that unless our present financial assistance to the world is handled with skill and wisdom that unexpected and disturbing after effects may develop.

I need not enter into a discussion of why the Marshall Plan was necessary. I am certain that all of you will agree that further financial assistance to the devastated countries abroad was a matter of inescapable necessity. We have begun to realize in this country that peace is indivisible—we cannot hope to enjoy a lasting peace except in a world where there is no war. But if peace is indivisible, so is prosperity. We are all in the same boat. We cannot hope to enjoy lasting prosperity except in a world where there is no economic distress.

We need a world in which there is peace—in which there are jobs for people willing to work, food and clothing for all and, above everything else, where there is hope, hope for better things for the present generation and for generations yet unborn. A world where there is economic distress and where there is no hope is a world that becomes a breeding ground for social upheaval. The Marshall Plan is the answer.

We do not yet know whether the assistance we are now giving and are going to give to the world will accomplish the results we hope for. But we could not afford not to give the help needed. The disease may be cured as the result of our remedy. But, as in medicine, much depends upon the way in which the remedy is administered and upon the bedside manner of the doctor. Psychology is important in medicine—it is also important in diplomacy. Even the most careful management may create unsuspected problems for the future.

Will Marshall Plan Accomplish Results?

In the first place, we must ask ourselves, will the aid given under the Marshall Plan accomplish the results we hope for? There is no simple answer for this. We have a two-fold aim. When the Marshall Plan was first announced, we were told that our only object was to help create a prosperous world. When Secretary of State Marshall, speaking at Harvard University on June 5, 1947, proposed his plan in general terms, he was definite in his announcement that his plan was directed against no one. He said, "Our policy is directed, not against any country or doctrine, but against hunger, poverty, desperation and chaos." It was definitely not anti-Russian.

We were quite frank about the fact that we ourselves hoped to benefit from the general revival of trade. No right thinking person could find fault with this, and judging by the results our financial assistance had accomplished by the end of 1947, there was good reason to believe that another five years of aid would do the trick. Sweden, Norway, Denmark and the Netherlands reported an overall volume of production well above the 1938 level. Although France, Belgium and Great Britain were still somewhat below prewar production, the general picture of reconstruction was encouraging indeed.

The reason further aid was needed is that recovery was spotty. Some industries were way above, others way below the 1938 level. Our modern industrial and commercial life is so delicately adjusted that it cannot function at maximum efficiency unless all elements are working smoothly It is no great help to have a factory rebuilt and equipped with new machinery unless there is ample coal to create power or unless the transportation system is functioning so that the coal can be brought from the mines to the factory. If the plant uses electric power, the electric power station and the transmission lines must be restored to normal capacity before the rebuilt factory can operate. It is largely because recovery must be accomplished all the way along the line that outside aid is still needed.

Then of course there is agriculture, badly in need of revival, and that takes time. Agriculture in Europe is all intensive agriculture. That means that the soil needs fertilizer and labor. During the war neither were available in sufficient quantities and the fertility of the soil deteriorated rapidly. On top of that there was a cold winter in 1946-47—the coldest on record — followed by long continued dry weather. This meant poor crops. If we remember that the Nazis destroyed a good portion of the cattle herd and that it takes time to build up a herd of dairy cattle, then we need not be surprised that agriculture is still not able to meet as large a portion of the local needs as before the war.

A Sound Business Proposition

From a purely economic and financial point of view, our assistance thus far and the aid now planned are a sound business proposition. From the point of view of our domestic life it is good business.

As a result of the loans given since the war, our exports have been very high, higher than at anytime in our history. We thought we were the cat's whiskers when, in 1921, we exported about $8 billion worth of American products. That was almost four times as much as in 1913. In 1947, we exported some 18 billion dollars worth. Since in that same year we imported a little more than $6 billion worth, it is clear that the world could pay back currently little more than $6 billion. More than $10 billion of our exports were then financed by us. This represented gifts and loans. This means that had we not continued to give aid to foreign countries, our exports would have declined rapidly as soon as the funds we had supplied in the past were exhausted. We had an opportunity to discover this.

As the funds the other nations had in this country became exhausted, our exports declined, and not only our exports to the European countries to whom we had given assistance, but also our exports to Canada, Australia and South America, where the debtor countries had been making purchases with the dollars we supplied. Now some people may claim that this was a good thing. Prices are too high and a decline in foreign demand would certainly help to bring them down. But whatever the virtue of this argument, it loses its force when we consider that the drop in exports not only would have come suddenly but would have affected a comparatively narrow range of industries. A sudden change is always disastrous to business and with the effect concentrated upon comparatively few industries, the drop in exports might easily have resulted in serious unemployment and price declines. Some industries have been exporting as much as 40% of their total output. No industry can stand a sudden drop in sales of nearly 40%.

If planned wisely our foreign aid may taper off gradually. While the amount of the aid decreases each year the countries abroad may recover sufficiently so that they will be able to pay for their purchases in this country out of their earnings. Perhaps their purchasing power for many years to come may not enable them to buy $18 billion worth but we have reason to expect that they will be able to pay for some $12 billion worth of American goods. Thus our aid program will give American industry and agriculture a chance to adjust themselves gradually to a somewhat lower level of foreign sales.

Europe's Liquidation of American Securities

In granting further assistance we protected ourselves against another economic danger. Faced with the possibility of finding their purchasing power in this country reduced to almost nothing, the governments abroad have made a desperate effort to buy out the private investors who were holders of American securities. These private investors were anxious to hold on to these dollar securities primarily as a protection against inflation at home The governments are interested in these securities only as a means to securing dollar balances. Had we not decided to give further loans, these securities would probably have been unloaded on the American market. Since they represent a few of our more important industries, this concentrated liquidation might well have had a disastrous effect upon our security market.

The Economic Warfare

So far so good. We are helping others and in so doing we are helping ourselves. But the problems are not only financial and commercial. A new element was introduced when the Marshall Plan, which at the beginning was spoken of as strictly a commercial

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*An address by Dr. de Haas before the 57th Annual Meeting of the California Bankers Association, Coronado, Calif., May 17, 1948.

V. E. Breeden With Hannaford & Talbot

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — V. E. Breeden has become associ-

Vic E. Breeden

ated with Hannaford & Talbot, 519 California Street. Mr. Breeden was recently associated with Wm. R. Staats Co. and prior thereto was an officer of R. H. Moulton & Co.

Gammack & Co. Admits Carret to Partnership

Gammack & Company, 40 Wall Street, New York City, members of the New York Stock Exchange, announce that Philip L. Carret, formerly of Carret, Gammons & Co., Inc., has been admitted to general partnership in their firm.

Philip L. Carret

Mr. Carret's admission to Gammack & Company was previously reported in the "Financial Chronicle" of May 6th.

Blyth's Trading Dept. Handling Listed Shares

It has been announced by Blyth & Co., Inc., that their Trading Department, operated in conjunction with their branch offices, has initiated trading in stocks listed on the New York Stock Exchange, a move designed especially for banks, large investment institutions and non-member dealers. The general public, it is said, will not be involved in the business. Altogether only 23 stocks are traded, comprising Bethlehem Steel and U. S. Steel, General Motors, N. Y. Central, Northern Pacific, General Electric, American Telephone, Westinghouse Electric and several utilities. Purchases and sales by the Trading Department are made on a net basis. The experiment of Blyth is said to be the first undertaking of the kind by a large investment house, not members of the New York Stock Exchange.

With Sutton & Company

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Otto J. Hruby is with Sutton & Co., 120 South La Salle Street.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

An interesting record of Hartford (Conn.) insurance companies' figures for the ten-year period, 1938-1947, has recently been compiled by Conning & Co. and Ballard of Hartford, Conn. Complimentary copies are available from A. M. Kidder & Co., New York.

The casualty, fire and life companies included in the study are: Aetna Casualty & Surety, Aetna (Fire), Aetna Life, Automobile Insurance, Connecticut General Life, Hartford Fire, Hartford Steam Boiler, National Fire, Phoenix, and Travelers Insurance.

The comparative record of growth during the ten years of the five fire insurance companies is most interesting, and the wide differences may prove somewhat startling to those who have not closely watched relative trends. Significant figures of each fire insurance company for 1947 compared with 1938 are as follows:

AETNA INSURANCE COMPANY

	Capital ($000)	Surplus ($000)	*Policy-holders' Surplus ($000)	Unearned Prem. Res. ($000)	Liquid. Value ($)	Market (†)
1938	7,500	21,521	29,021	19,625	49.16	42½
1947	10,000	25,475	35,475	47,890	54.63	49½
Growth (dollars)	2,500	3,954	6,454	28,265	5.47	7
Growth (percent)	33.3	18.4	22.2	144.0	11.1	16.5

AUTOMOBILE INSURANCE

	Capital ($000)	Surplus ($000)	*Policy-holders' Surplus ($000)	Unearned Prem. Res. ($000)	Liquid. Value ($)	Market (†)
1938	5,000	9,226	14,226	9,101	35.73	29½
1947	5,000	11,680	16,680	25,379	53.66	33
Growth (dollars)	-----	2,454	2,454	16,278	17.93	3½
Growth (percent)	-----	26.5	17.3	178.9	50.2	11.9

HARTFORD FIRE INSURANCE

	Capital ($000)	Surplus ($000)	*Policy-holders' Surplus ($000)	Unearned Prem. Res. ($000)	Liquid. Value ($)	Market (†)
1938	12,000	57,819	69,819	32,936	69.16	69
1947	12,000	84,619	96,619	82,708	108.09	103
Growth (dollars)	-----	26,800	26,800	49,772	38.93	34
Growth (percent)	-----	46.4	38.4	151.1	56.3	49.3

NATIONAL FIRE INSURANCE CO.

	Capital ($000)	Surplus ($000)	*Policy-holders' Surplus ($000)	Unearned Prem. Res. ($000)	Liquid. Value ($)	Market (†)
1938	5,000	27,706	32,706	14,795	77.25	55½
1947	5,000	19,609	24,609	35,245	77.41	48
Growth (dollars)	-----	—8,097	—8,097	20,450	.16	— 7½
Growth (percent)	-----	— 29.2	— 24.8	138.2	.21	—13.5

PHOENIX INSURANCE CO.

	Capital ($000)	Surplus ($000)	*Policy-holders' Surplus ($000)	Unearned Prem. Res. ($000)	Liquid. Value ($)	Market (†)
1938	6,000	44,424	50,424	8,569	89.75	75½
1947	6,000	48,535	54,535	21,027	104.91	84½
Growth (dollars)	-----	4,111	4,111	12,458	15.16	9
Growth (percent)	-----	9.3	8.2	145.5	16.9	11.9

*Capital and surplus. †Mean between high and low.

Only one of the fire companies increased its capitalization during the period, viz: *Aetna Insurance*. Shares were increased from 750,000 to 1,000,000 in 1947 through the sale of 250,000 additional $10 per shares at $40; $2,500,000 went to capital and $7,500,000 to surplus, less expenses. It is apparent, therefore, that Aetna has had no net growth in policyholders' surplus over the period but, on the contrary a shrinkage. However, the surplus account has been called upon to support a very heavy expansion in premium volume, as indicated by the growth in unearned premium reserves. If adjustment is made for the stockholders' equity of 40% in the premium reserves, as well as the "new money" subscribed in 1947, the record of net gain over the ten years is as follows:

	1938 ($000)	1947 ($000)	Gross Gain ($000)	*Net Gain ($000)
Capital and surplus	29,021	35,475		
40% of unearned premium reserve	7,850	19,156		
Total liquidating value	36,871	54,631	17,760	7,760 = 21.0%

*Deducting $10,000,000 "new money."

On a per share basis liquidating value is only 11.1% higher and the market level of its shares 16.5%.

Automobile Insurance shows a 26.5% growth in surplus, and 17.3% in capital and surplus. Unearned premium reserves are 178.9% above 1938, liquidating value is up 50.2% and the market level, 11.9%.

Outstanding growth has been achieved by *Hartford Fire* with a gain of 46.4% in surplus and 38.4% in capital and surplus, while unearned premium reserves are up 151.1%. Liquidating value is 56.3% higher, while the market level of its shares is up 49.3%.

National Fire shows a very different picture, surplus being 29.2% below the 1938 level, while capital and surplus are down 24.8%. Unearned premium reserves, however, are 138.2% higher, yet the net gain by liquidating value is less than ¼ of 1%, and the market level of the shares is down 13.5%.

Phoenix Insurance shows a moderate gain of 9.3% in surplus and 8.2% in capital funds; unearned premium reserves are up 145.4%, liquidating value 16.9% and the market level, 11.9%.

All of the figures tabulated are on a parent company basis, and are as reported to the Connecticut Insurance Commission.

Indicative of the great expansion in underwritings that has taken place during the past few years, each company reports a substantially higher volume of unearned premium reserves in 1947 over 1938, varying from 138.2% for National to 178.9% for Automobile. It is also of interest that the market prices of the stock are selling today at a wider discount from liquidating values than in 1938.

It is pertinent to note that both Hartford and Phoenix have capital funds sufficient for further expansion of premium volume, based on the ratios of capital funds to unearned premium reserves of 1.17 and 2.59, respectively. Phoenix appears to be ultra-conservative in this respect. In the cases of Aetna, Automobile and National, capital funds are lower than unearned premium reserves, which fact would seem to preclude any substantial expansion of premium volume.

NSTA Notes

AD LIBBING

If we were living in the real atomic age, the Dallas convention would be in progress at this present time. With such a market not only would this convention be terrifically successful but our "Chronicle" NSTA Year Book would have to be delivered by the expressman as it would look more like a manual due to such tremendous advertising.

Keep the above in mind when your local chairman or one of the "Commercial and Financial Chronicle" representatives calls for your ad to appear in our post-convention book next November!

Don E. Summerell of Wagenseller & Durst, Los Angeles a Vice-Chairman of the NSTA Advertising Committee has suggested that all our members endeavor to assist the advertising committee by suggesting the direction of letters and calls for ads as he feels most of the fellows on the desk are anxious to see their firm's name appear in our "Chronicle" Year Book.

Why not let us have suggestions from other members? You have seen yourselves in pictures; now why not see yourself in print?

Speaking of markets let us remember, "There is never a shortage in the alibi market."

Yours truly,
HAROLD B. SMITH, Chairman
Yearbook Committee, NSTA
Collin, Norton & Co.
120 Broadway
New York 5, N. Y.

DETROIT BROKERS BOWLERS LEAGUE

Approximately one hundred members of the Detroit Brokers' Bowling League closed their 1947-48 season with a banquet held May 5 at the Savoyard Club. A feature of the occasion was the inauguration of an annual inter-city bowling tournament between teams representing Chicago, Cleveland and Detroit. Bowling on neutral alleys, on a handicap basis, first place was captured by Larry Marr's (E. H. Rollins & Sons) Chicago-five with a total of 2,655 pins. In second position, and bowling from scratch, was Detroit's No. 1 team captained by Fred Huber, (Andrew C. Reid & Co.) with 2,528 pins. Third place went to M. A. Cayne's (Cunningham & Co.) Cleveland-five with 2,522 pins. In last position was Don Miller's (E. H. Rollins & Sons) Detroit No. 2 team totaling 2,339 pins. The winners received an appropriate trophy, donated by The First of Michigan Corporation and presented by E. F. "Spike" Connely, Chairman of the Board. It is planned to rotate this trophy annually, possession being retained by the winning team. Members of the first place team are: Elmer Erzburger, Smith, Burris & Company; Morey Sachnoff, Straus & Blosser; Arthur Sacco, Detmer & Company; Star Koerner, Mitchell, Hutchins & Co.; Larry Marr, E. H. Rollins & Sons, Inc.

Charles Bechtel

High individual honors went to Star Koerner of Chicago with 571 pins. In second place was Fred Alliston, Wm. C. Roney & Co., Detroit with 559; followed by Ed Ehrhardt of First Cleveland Corporation, Cleveland with 542. Scores of 200 and over were posted as follows: Chicago—Sachnoff 210, Koerner 205; Cleveland—Ehrhardt, 210; Detroit—Huber 225, Alliston 215, Binkley 214 and Kuhnlein 200.

Cash and other awards were presented to Detroit members, followed by a buffet dinner. First place in the team event went to the First of Michigan Corporation who nosed out Andrew C. Reid & Co. in a whirlwind finish, decided on the final night and thus qualified to receive the Michigan Investor Trophy. Third and fourth place winners were Wm. C. Roney & Co. and Paine, Webber, Jackson & Curtis, respectively. High individual average was won by Fred Huber with 184. Second place went to Bob Wallace with 177. The Norman D. Humphries trophy for most improved bowler was awarded Clayton Call of Crouse & Co. with 21.5 pins over average. All other trophies were donated by the Securities Traders' Association of Detroit and Michigan, sponsors of the league.

Officers elected for the year 1948-49 are: President, Charles C. Bechtel, Watling, Lerchen & Co.; Vice-President, Ross Sutherland, Cray McFawn & Co.; Secretary, Hayden Brown, Wm. C. Roney & Co., and Treasurer, Richard Carman, M. A. Manley & Co. Clarence A. Horn, First of Michigan Corporation is the retiring President.

SECURITY TRADERS ASSOCIATION OF LOS ANGELES

The Annual Spring Party of the Security Traders Association of Los Angeles will be held at Arrowhead Lodge, June 11, 12 and 13. There will be cocktail parties on both June 11 and June 12 from 5 to 6. The village and other spots at Arrowhead will be open for entertainment and amusement. Cost to members—$40 for Friday, Saturday and Sunday, or $20 per day; cost to guests—$50 for Friday, Saturday and Sunday, or $25 per day.

Reservations should be sent to Gordon B. Tuttle, Edgerton, Wykoff & Co., not later than June 1 (preference for room-rate should also be indicated).

BOND CLUB OF DENVER

The Bowling teams of the Bond Club of Denver held their final tournament and banquet on May 7. After the finals, the "Shorts," captained by Bill Steck, J. A. Hogle & Co., won first place with a total of 34 games won and 26 lost. The "Traders," captained by Bus Huber, Hamilton Management Corp., was second with 33 won and 27 lost. There were four ties for third with 32 won and 28 lost, which ended a very close and interesting season of bowling.

Bill Snowden, Brereton, Rice & Co., was the big winner, scoring a new high series with his handicap of 102, a 739 winner. He had a high game without handicap of 243 which was second high for the year. Earl Mayer, J. A. Hogle & Co., with a 245 and an average of 175 was in first place, followed by Johnnie Alff, Amos C. Sudley &

Co., with a 166 average. An unusual situation developed when it was found that the anchor man on each team finished in the first 12 positions.

Forty players and alternates attended the banquet and were entertained by some special recordings furnished by Bob Mitton, Robert L. Mitton Investments, who acted as Master of Ceremonies.

A total of $175 was distributed to the winners in prizes and a new Bowling Committee for 1948 was appointed, consisting of Alex Forsyth, Calvin Bullock; Jerry Bachar, J. A. Hogle & Co.; and Rich Richardson.

The Bond Club is looking forward to next year when it is hoped that some telegraphic contests with other NSTA Bowling teams throughout the country may be arranged, with the hope that the National Association may put up a prize for the best team rolling under handicap.

Pictures taken at the banquet, taken by Earl Scanlan of Earl M. Scanlan & Co., appear elsewhere in today's issue of the "Chronicle."

NSTA PETITIONS FOR ECONOMY AND TAX RELIEF

The National Security Traders Association is mailing to all its members a copy of a petition appealing to the policymakers of the two major political parties for economy in government, tax equality, and tax relief. In doing so the organization is joining with over 150 trade, civic and profesional associations throughout the nation who are also circulating this petition. The purpose of the appeal is wholly non-partisan and its purpose is to give an expression from the taxpayers and voters of this country on three matters of major importance to the economy and social welfare of the nation. The Association points out that investors, particularly, are vitally affected by high taxes, which cannot be lowered until government expenditures are reduced and waste eleminated; it is urging all its members to obtain as many signatures as possible on the petition.

San Francisco Exchange Sponsors Trip To Pacific Northwest Industries

SAN FRANCISCO, CALIF.—Ronald E. Kaehler, President, San Francisco Stock Exchange, announced that plans had been completed for a visit to the plants of companies whose securities are listed on the San Francisco Stock Exchange and other companies located in the Pacific Northwest, June 2 to 5, 1948, inclusive. The trip will cover visits to Portland, Seattle, Everett and Bellingham, and will be made via regular flights of United Air Lines, DC 4's and 6's.

This trip is a continuation of the policy adopted by the Exchange early last year when they visited the oil fields in Bakersfield and the Los Angeles Basin by charter plane. Subsequent visits were made to the Rheem Manufacturing Company plant at Richmond and the Marchant Calculating Machine Company plant in Emeryville. Kaehler said that the previous trips had been so enthusiastically received by members of the Exchange and bankers that the Public Relations and Listing Committees have outlined a schedule of plant visits for the balance of the year.

The trip to the Pacific Northwest should prove one of the most interesting as the members of the Exchange and bankers will have an opportunity to see first-hand the vast development in the pulp and paper industry as well as furniture manufacturing. Mr. J. D. Zellerbach, President, Crown Zellerbach Corporation, expects to make the trip north with the group and will be the principal speaker at a dinner to be held at the Arlington Club in Portland on Thursday evening, June 3.

The group will be accompanied by financial editors of the San Francisco and Oakland daily papers. Those participating will be:

Stock Exchange

Ronald E. Kaehler, President, and Carl Schick, Manager, Public Relations and Statistical Department, of the San Francisco Stock Exchange.

Member Firms

Walter Warren, American Brokerage Company; Berwin E. Stewart, J. Barth & Co.; Brooks D. Weber, Davies & Mejia; Stanley R. Dickover Mark C. Elworthy & Co.; Floyd W. Mosiman, Mark C. Elworthy & Co.; David Monasch, Jr., Hooker & Fay; Harry Meyerson, Kaiser & Co.; Paul A. Pflueger, Max I. Koshland & Co.; Harold B. Williams, Lawson, Levy & Williams; Andrew H. McCampbell, Mason Brothers; Ferdinand C. Smith (Chairman, Public Relations Committee), Merrill Lynch, Pierce, Fenner & Beane; Geo. F. Carson, Raggio, Reed & Co.; Albert E. Schwabacher, Jr., Schwabacher & Co.; Albert A. de Martini, Shuman, Agnew & Co.; Richard P. Gross, Stone & Youngberg; Kenneth La Boube, Henry F. Swift & Co.; Hubert J. Soher (Chairman, Listing Committee), Walston, Hoffman & Goodwin; Douglas G. Atkinson (Chairman, Board of Governors), Dean Witter & Co.; Earle Richards, Dean Witter & Co.

Banks

Frank S. Litchfield, American Trust Company; Paul B. Kelly, Anglo California National Bank of S. F.; Taylor H. Perry, Bank of America, N. T. & S. A.; Arthur W. Schiefer, Bank of California, N. A.; Arthur Merkt, Crocker First National Bank of S. F.; George I. Long, Jr., Wells Fargo Bank & Union Trust Company; J. R. McMicking, Banking & Insurance, Manila, P. I.

Newspapers

Lindsay Arthur, San Francisco "Call-Bulletin"; Sidney Allen, San Francisco, "Chronicle"; Charles St. Peter, San Francisco "Examiner"; John S. Piper, San Francisco "News"; C. N. Alexander, Oakland "Post-Enquirer".

Frank S. Bennett to Form Own Firm in NYC

Frank S. Bennett

Frank S. Bennett is forming F. S. Bennett & Co. with offices at 1 Wall Street, New York City, in partnership with David R. Brown, to engage in the securities business. Mr. Bennett has recently been with Buckley Brothers and prior thereto he was a partner in Brown, Bennett & Johnson. Mr. Brown was formerly Manager of the Municipal Department for Engle, Abbot & Co.

Ralph A. Clifton Opens

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — Ralph A. Clifton is engaging in a securities business from offices in the Colorado National Bank Building.

Tax Avoidance

By HARRY J. RUDICK*

Member of Lord, Day & Lord, Professor of Law, New York University

Corporation Tax authority traces difference between acts of avoidance and evasion, and the attitudes of the Treasury, the courts, and the Congress, thereto. Criticizes Congress for failing to plug following two alleged tax avoidance loopholes: tax exempt income from state and municipal bonds; and oil and gas industry allowances for depletion.

I

Introductory Remarks

The tax practitioner has been for many years and continues to be the target of questions by his clients as to what they can do to cut down their taxes. Even those who have learned, or should have learned, from bitter experience, that tax avoidance in the long run does not often pay come back looking for new angles. The novice in tax avoidance is usually surprised when he is told, as he generally must be told, that there is no easy path to tax avoidance. It is true that there are ways of avoiding, or to use a more euphemistic term, saving income tax, and it is not quite so hard to avoid tax as for a camel to pass through the eye of a needle; but the Treasury and the courts and the Congress—with a vigilance decreasing in the order named—have seen to it that the means of escape are quite narrow.

Harry J. Rudick

Although I have entitled my talk "Tax Avoidance," it is not my purpose to present you with a check list or catalog of methods of reducing tax liability. If I did you would not find it of great value. In shopping for tax advice it is much safer to buy it at retail than wholesale. I shall, to be sure, in the course of the discussion, refer to some of the prevalent methods of minimizing or escaping tax, but very likely all of these methods are known to some of you and some of them to all of you. During the discussion period which is to follow, I shall be glad to give you an off-the-cuff opinion on any pet scemes which you have thought of or heard about. Perhaps I can learn something from them. In any case, my purpose tonight is not to cover the technical and legal aspects of tax avoidance but to reach toward a broader horizon, mainly the policy questions involved in tax avoidance.

Estate Tax Disregarded

I should also make one further introductory point. You will note during the evening that my remarks are addressed to the subject of income taxes — corporate and individual. The subject of the estate tax is not considered. There are two reasons for this. First of all, the term "tax avoidance" is traditionally associated with the income tax. Secondly, the income tax is always with us; the estate tax affects us but once and then only, as it were *in absentia*. Because the impact of the estate tax occurs only once, we need consider it only at those infrequent intervals when we draw our wills or otherwise arrange for the future disposition of our property. The problem of tax avoidance is there too, however. The emphasis in recent years on "estate planning" is evidence of the fact, and

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*An address by Mr. Rudick before the Third National Textile Seminar, Shawnee-on-Delaware, Pa., May 10, 1948.

Securities Salesman's Corner

By JOHN DUTTON

The man who knows how to sell right doesn't win arguments, or start them. But there is a great deal of misinformation that people are constantly bringing forward especially in these complicated days and times. No one can be a walking encylopedia, but the salesman who is doing a good job for his customers is accomplishing these results because he is in a position to give his clients facts that are true and correct. Following are a few examples of facts which are taken from reliable sources that you may find will come in handy if some of your better prospects or clients come out with some garbled ideas such as these:

PROSPECT: "Business is slowing down and spending is drying up."

FACTS: Annual rate of spending for fourth quarter of 1947 $240,-900,000,000. U. S. News and World Report estimates for year starting July 1, 1948 $253,000,000,000, out of which consumer spending is estimated at $185,000,000,000; by investors $28,000,000,000; by foreigners $8,000,000,000; by government for goods and services $32,000,000,-000. Nearly all analysts agree that a setback is very improbable this year and unlikely in early 1949.

PROSPECT: "The stock market is at high levels, too risky to go in now."

FACTS: With prosperity virtually underwritten by the $6 billion foreign aid program and the pledged support of the 2½% Federal financing rate, it may be pertinent to note the disparity between the levels of the stock market, business activity now and at the market peak in 1937.

	April 1948	March 1937
Federal Reserve Board Index	193*	120**
Gross National Product	$240,900,000,000	$90,200,000,000
Personal Income	$207,100,000,000	$74,900,000,000
Population	146,000,000	128,500,000
Dow Jones Industrial Average	179.48	194.40
	(5/14/48) 188.60	

*December, 1947 **1937 Rate

(Source: Barron's National Business & Financial Weekly—April 12, page 2.)

PROSPECT: "The food and grocery stocks may be alright but they are too stable for me, not enough growth possibilities."

FACTS: In 1929 the birth rate was 18.8 per 1,000 of population. In 1947 it moved up to 25.9 per 1,000. From April 1, 1940 to Jan. 1, 1948 the POPULATION INCREASED BY APPROXIMATELY 13.7 MILLIONS. (Source U. S. Dept. of Commerce.) More babies means more business for the food distributors and processors. American industry is said to derive an income of $2,000,000,000 from serving the American baby. Every new baby in the neighborhood means $200 in new business for the local retail grocery. Who says there is no future for even the most stable business in a growing, thriving nation such as this? These facts can be applied to practically every line of industry from electric power and transportation, to consumer and capital goods, etc. More people means more business—that is the answer in a dynamic expanding economy.

PROSPECT: "I've been hearing about the coming boom in building stocks for many years but it's all talk. Prices are too high, people are not building."

FACTS: Construction activity in March, 1948 was over $1.1 billion; construction contractors added 94,000 employees during the month, bringing March employment on construction projects to 1,660,000. Compared with March, 1947 expenditures were UP $262 million, or 32% and there were 126,000 more workers employed. 67,-000 new permanent nonfarm dwelling units were started in March, almost all of which were privately financed. (U. S. Dept. of Labor release April 17.)

NOTE FOR THE BOSS

It pays to get the facts. But it does require effort to do the necessary reading and organizing of the material needed to give your salesmen the information they must have in order to sell well and sell RIGHT. This is the job of an alert statistical organization. No salesman should be expected to dig out such material. His job is to shoot the bullets, not make them. The next time you have a selling job to do why not make certain that your salesmen have information that will help them convince your investor clients that your offering is timed right and attractive from the standpoint of industry outlook.

Nat'l Advisory Council Reports on World Fund And Bank

Secretary of Treasury Snyder, as Chairman, Secretary of Commerce Sawyer, Secretary of State Marshall, and other members of the Council say Bretton Woods institutions have achieved notable progress, but time is not ripe for full adjustment of foreign exchange rates. Looks for exchange betterment in conjunction with European Recovery Program

Secretary Snyder, as Chairman of the National Advisory Council, transmitted on May 17 to the President and to Congress a special report on the results of the operations of the International Bank for Reconstruction and Development and the International Monetary Fund, since their inception in the spring of 1946. Such a report was called for by the Bretton Woods Agreements Act which created the Council.

John W. Snyder

In its first report evaluating the operations of the Bank and the Fund, the Council concludes that both institutions have achieved notable progress in carrying out their objectives, despite a postwar period characterized by economic and trade dislocations and monetary and financial conditions which have not been conducive to their most effective operation. The Council states that the Bank will have an increasingly important role in the future development and expansion of international capital markets, while the Fund may be expected to make important contributions toward maintaining conditions of international economic stability which are vital to the well-being of the United States.

The report discusses the principal problems which have faced the two international institutions and the policy of the United States with regard to these issues. In the case of the Fund, the two basic problems were the pattern of exchange rates for the immediate postwar period and the use of the Fund's resources during this period. Before action was taken by the Fund the Council gave careful consideration to the problem of the initial par values of currencies. It was in agreement with the decision of the Fund in accepting the par values proposed by the majority of the countries, since it recognized that action taken in December 1946 could at best be tentative.

The Council believed that the time was not ripe for bringing about some of the adjustments in exchange rates which would ultimately be required if the mem-

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World Trade in a Time of Crisis

By GEORGE L. BELL*

Associate Director, OIT, Department of Commerce

Mr. Bell maintains European Recovery Program is based partly on belief that use of private trade channels for purchase of recovery goods is important for rebuilding world trade. Urges greater alertness and shifting of policies in accordance with changes in world trade conditions.

Those of us who have spent the greater part of our adult lives in the field of international trade can remember clearly the time, not so many years ago, when most American businessmen thought of trade with other countries as a hunt for markets. It was almost as simple as that. Once the trader found his market and got his order, the rest was relatively easy. Whether he sold to Siam or Sweden, the exporter had no worries about such things as import permits, export licenses, exchange permits, and quota restrictions. When he looked for markets he didn't inquire about the dollar balances of the countries in which he made his market surveys. He knew generally it made no difference whether his foreign customer paid in francs, kroner, cruzeiros or yen. All currencies could be converted into dollars at relatively stable rates of exchange as a result of the continuous buying and selling of money that went on in the great banking centers of the world.

George L. Bell

Of course, life was not quite a Garden of Eden for the international trader two decades ago. In some countries he found the door shut and locked against his product because member corporations of certain huge international cartels had agreed to divide up the world markets and guarantee exclusive marketing rights for each other's products in certain areas. Then as now there were protective tariffs and some export duties. More particularly the pioneering American exporter often had to compete in a world that was full of aggressive trading nations with centuries of experience behind them. But the life of the trader in those days was almost pastoral in its simplicity compared to the life of the trader in 1948. And the life of the government official in the Department of Commerce was also somewhat simpler. His duty was to promote

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*An address by George L. Bell before Los Angeles Chamber of Commerce, May 18, 1948.

Security Analysts Choose New Officers

G. P. Caterer elected President by New York Society. Davis tells annual meeting of group's great progress.

Glenelg P. Caterer of Lionel D. Edie & Co. was elected President of The New York Society of Security Analysts at its 11th annual meeting at Schwartz Restaurant, succeeding Shelby Cullom Davis of Shelby Cullom Davis & Co. Joseph M. Galanis of Shields & Co. was chosen Vice-President, Edwin L. Thompson of Tucker, Anthony & Co., Secretary, and Marvin Chandler of Reis and Chandler, Treasurer. Eugene J. Habas of Manhattan Research Associates, Arthur R. Jansen of E. W. Clucas & Co., Theron W. Locke of Goodbody & Co., Ralph D. Kellogg of W. R. K. Taylor & Co., Ralph A. Rotnem of Harris, Upham & Co. and John W. Spurdle of Dominick and Dominick were elected to the Executive Committee.




G. P. Caterer — Shelby Cullom Davis — J. M. Galanis — Marvin Chandler

In his report for the year, Mr. Davis, who is head of the Stock Exchange firm of Shelby Cullom Davis & Co., pointed out that the membership of the Society was at a new peak of nearly 1,400 analysts throughout the country and that its luncheon forum meetings had been addressed by more than 135 corporation executives during the year. The Society more than ever before has fulfilled its basic function of providing a common meeting ground for industry and capital, he explained.

"Although the Society has gained much through this interchange of views with corporate officials, I venture to suggest that industrial, railroad and utility executives throughout the country have gained an insight into this nation's capital markets which will stand them in good stead during the active period of financing which lies ahead."

Security analysts are far more than the old time customers' men with a "new look," Mr. Davis suggested. Crystal ball gazing, investing only in corporations whose presidents wear beards, or only planning market maneuvers in moving taxicabs are as out of date as King Tut. Although these have been supplanted by such sounder modern devices as formula plans, Dow Theories and group movements, the ingredients of successful investing still rest upon the same two hoary, old-fashioned virtues: hard common sense and hard work, the report concluded.

"Proceedings" Available

It was announced that there has been an enormous nationwide demand for the "Proceedings" covering the annual convention of the National Federation of Security Analysts last March. A few copies are still available (at the office of John Kalb, 25 Broad Street, New York City—$1.10).

Food Surpluses Ahead: Mrs. Hirsch

Agricultural economist states in lieu of concern over Malthusian Law, public will shortly be complaining about food surpluses.

The wide-spread public fear that world food shortages will be permanent and that the Malthusian Law is proving valid after all is not justified by the facts, Mrs. Edith J. Hirsch, well known food authority and agricultural economist, declared on May 14. On the contrary, she predicted, within two years we are likely to be complaining about food surpluses.

Mrs. Edith J. Hirsch

Mrs. Hirsch whose predictions of world food needs and production were proved correct in 1946-47 and who late last fall forecast the break in grain and livestock prices which took place in February, spoke at the New School for Social Research on "World Grain Production and Price Spirals."

"I feel that we can safely forget about the Malthusian Law," Mrs. Hirsch asserted, "it is one of the theories which is revived after each war when the birthrate is temporarily high and when food shortages in the wake of war are acute." Already, Mrs. Hirsch said, "we can see improvement—the European crop was good and reconstruction of agriculture has made progress everywhere. Even this year the shortages of wheat, sugar, and possibly feed grains may be over but there will remain a temporary shortage of oil seeds and "we would be doing a fine job if we were to increase our exports of oilcakes to Europe."

Our War Performance Scuttled Malthus

The strongest argument against the validity of the Malthusian Law, Mrs. Hirsch contended, is the astonishing war performance of our own agriculture which increased production during the war by 33%. Such a rapid increase is not possible in most countries, she admitted, since it pre-supposes an educational level which their farmers do not possess and ample research facilities. But the same rate of increase could be reached over a longer period of years especially since the aid of this country's research facilities is at the disposal of all countries wishing to make use of it.

International Wheat Agreement Questioned

Mrs. Hirsch expressed skepticism of the International Wheat Agreement negotiated by the government for the purpose of giving the American farmer an adequate share of world wheat exports. With both Argentina, the second largest prewar wheat exporter, and Russia and her orbit excluded from the agreement, we do not know whether it will work, she said. If it should work the American farmer would have an outlet of 1.1 billion bushels of wheat a year. Unfortunately, however, Mrs. Hirsch pointed out, the agreement may actually restrict the world's food production, since exporting countries will mould production policy to their export quotas and may leave insufficient margins for crop failures. Shortages and high prices of wheat are thus much more likely than if the world's farmers were allowed to make decisions for themselves. "We may very well be inviting food shortages by a world-wide grain cartel policy," she added.

Mrs. Hirsch was also critical of the claims that the diets of people in the underdeveloped countries can be quickly improved. This is a task which cannot be accomplished from the outside, she stated, but only by the countries themselves who must increase their own food production through better seeds and better farm techniques.

The Outlook for Business and Government Bonds

By MARCUS NADLER*

Professor of Finance, New York University

Predicting no immediate serious recession, Dr. Nadler points to pent-up demand for housing and commodities as well as substantial exports arising from European Recovery Program as maintaining high level of business. Lists as inflationary forces: (1) increased military expenditures; (2) reduction in taxes; (3) large government buying; and (4) constant rise in prices. Counteracting deflationary forces are: (1) opposition to high prices; (2) large inventories; (3) increasing production; and (4) tighter money markets. Looks for no drastic credit restriction measures, or change in 2½% rate on government bonds.

No topic is of greater importance to the banks of the country at the present time than money market conditions and the outlook for business in general. Although two topics are apparently involved here, actually there is only one, because business activity is bound to have an important bearing on the money market and therefore on prices of government and other high-grade obligations. Moreover, economic conditions and the trend of commodity prices and employment will exercise a considerable influence on the movement of deposits as well as on the demand for loans from commercial banks and the attitude of bankers toward commercial loans and mortgages. Business activity and the movement of commodity prices will also have an important effect on the credit policies of the monetary authorities, and they may also influence the type of legislation that the Congress may pass to increase the powers of the Reserve authorities over the money market and hence over the lending and investing activities of the banks. It is therefore essential for bankers to give the most careful study to these matters.

Dr. Marcus Nadler

The Outlook for Business

It is not easy to make any predictions about the future business outlook because at the present time both inflationary and deflationary forces are at work in our economy. Moreover, experience of the immediate past has taught us that because of unforeseen events almost any prediction may go wrong. The predictions freely made regarding a readjustment in 1947 did not materialize because of the poor crops in Europe, the bad corn crop in the United States and the acceleration in the spiral of prices and wages. Early this year there were a number of indications that 1948 would be the year of readjustment. Commodity prices began to decrease and a widespread buyers' resistance set in. Before the forces of deflation could really begin to be felt in the country's economy, however, they were counteracted by such measures as the reduction in taxes, the passage of the European Recovery Program, to which was added additional aid to Greece, Turkey and China, and later on the increased rearmament program, which already has had a considerable psychological influence on business sentiment. The economic situation in the United States is further complicated by the fact that past legislation has forced the Government to interfere in the commodity market and thus help prevent a readjustment in food and farm prices. In fact, one almost gets the impression—justifiable or not — that neither the Administration nor the Congress is eager to see an increase in the purchasing power of the dollar.

In spite of the great uncertainties prevailing at home and the even greater uncertainties which prevail all over the world, it is possible to reach certain definite conclusions by appraising the economic forces at work at the present time. The first conclusion as regards the outlook for business is that the United States will not be confronted in the immediate future with a depression or even serious recession. This forecast is based on the following considerations:

(1) There is still a great pent-up demand for housing, and legislation has been passed which makes it easy for individuals to finance the purchase of homes. Many real estate mortgages rest on Government guarantees.

(2) There is still a great pen-up demand for such commodities as steel and iron, coal and oil, railway and farm equipment, and passenger automobiles. These industries, along with housing, are the principal industries of the country, and if they remain active, as in all probability they will, they will generate purchasing power which will have a beneficial effect on all other industries, even on those which are beginning to feel the effects of increased competition.

(3) There are price floors under farm products, and the chances are that the present floors will be continued for another period of years. This in turn gives assurance that there cannot be any sharp break in prices of farm products. In the past, whenever prices of farm products such as eggs, potatoes or poultry began to decrease, the government, under present legislation, was forced to step in and prevent a material decline from taking place. Hence we find ourselves today in a situation where taxpayers' money is being used in order to force the people to pay high prices for basic necessities of life.

(4) The ERP assures the country of substantial exports abroad. These will embrace farm products as well as machinery and equipment, and while it is quite possible that shipments from the United States to the rest of the world during 1948 may be somewhat smaller than in 1947, yet a material decline is not likely while the ERP is in effect.

(5) The Congress is at present considering a rearmament program estimated to cost $3 to $4 billion during the next fiscal year.

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*An address by Dr. Nadler before the New Jersey Bankers Association, Atlantic City, N. J., May 14, 1948.

Sees Inflation Increasing Reserve Bondholdings

Dean Madden, of N. Y. University Institute of International Finance, issues bulletin on course of money market in period of inflation. Predicts a Treasury deficit will lead either to abandonment of support of government bond prices or to additional curbs on credit.

According to a bulletin entitled "The Money Market in the Period of Inflation," issued on May 17 by Dean John T. Madden, Director of the Institute of International Finance of New York University, there is practically no limit to the amount of government securities that the Federal Reserve Banks can buy in order to support the government bond market.

Dean J. T. Madden

The ability of the Federal Reserve Banks to buy government obligations, the bulletin states, "is limited by their holdings of gold certificates and the ratio of gold certificates to their deposit and note liabilities. Under the law the Federal Reserve Banks must maintain a reserve of 25% in gold certificates against their demand obligations. On April 21, 1948, the gold certificate reserves held by the Federal Reserve Banks amounted to $21,892,698,000 while their deposits and Federal Reserve notes aggregated $42,705,958,000. The ratio of gold certificate reserves to deposits and Federal Reserve note liabilities combined was 51.3%. Since the required gold certificate reserve was only $10,676,489,500, the Reserve Banks had $11,216,208,500 of "free" gold certificates which could support an additional $44,864,834,000 of currency in circulation and deposits. Since a further material increase in the volume of currency in circulation is not likely, the Federal Reserve Banks are capable, at least theoretically, of buying almost $45 billion of government securities, which would create a corresponding amount of reserve balances. It is not likely that the Reserve authorities will be called upon in peacetime to buy such a huge amount of government securities.

"To the extent that purchases of government securities by the Reserve Banks exceed sales, new reserve balances are created. If the Reserve Banks were through open market purchases, to create an additional $4 to $5 billion of reserve balances, this would automatically cause a demand for government securities by the commercial banks as an outlet for their excess reserves. It may

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Mutual Funds

By HENRY HUNT

The "65 Stock" Question

Now that the Dow-Jones Industrial Stock Index has at last confirmed to the thousands of "Dow" theorists that we are in a bull market, the question is, "Where will the 65 stocks comprising the Dow-Jones averages go from here and how far?"

The following tabulation, prepared by Ralph Rotnem of Harris, Upham & Co., shows what stock prices have done in the past following confirmation of a bull market by the "Dow" theory:

Dow Theory Bull Market Confirmations		Top of Bull Market		Advance From Confirmation To Bull Market Peak	
Date	Price	Date	Price	Months	% Gain
6/28/97	44.61	4/ 4/99	76.04	21	70%
10/20/00	59.44	9/19/02	67.77	23	14
7/12/04	51.37	1/19/06	103.00	18	100
4/24/08	70.01	11/19/09	100.53	19	43
10/10/10	81.91	9/30/12	94.15	23	15
4/ 9/15	65.02	11/21/16	110.15	19	69
5/13/18	82.16	11/ 3/19	119.62	18	46
2/ 6/22	83.70	10/14/22	103.43	8	24
12/ 7/23	93.80	9/ 3/29	381.17	69	305
5/24/33	84.29	3/10/37	194.40	46	130
6/23/38	127.40	11/12/38	158.41	5	24
7/17/39	142.58	9/12/39	155.92	2	9½
6/15/44	145.86	5/29/46	212.50	23	46
Average				22	69%

It will be noted that the average gain in stock prices following a "Dow" confirmation has been 69% in the previous 13 bull markets. Such an advance today would carry the Dow-Jones Industrial Index to about 310.

Inflation Spiral Topping Off?

Recent price cuts and refusal of wage increases by steel and electrical equipment companies may mark the top of our inflation spiral, says the current Investment Report of **Group Securities, Inc.** If this attempt does not succeed, the top is close in any event "because of the good crop prospects throughout the world which make lower food prices appear inevitable. Against gradually declining agricultural prices a rising trend of other costs is most improbable."

$13 Billion Added Buying Power

Hugh W. Long's May "New York Letter" comments in part as follows:

"We have launched the European Recovery Program which calls for spending over $5 billion during the next year. Europe has no direct need for our money as such; it is to receive goods equal to this value. In creating these goods to send abroad, most of the ERP money will be paid out as income and will be available for spending by consumers in our own country. These dollars will look like all the others to the merchant—they will have the same buying power—but they are truly different because no corresponding supply of goods has been added to the merchant's shelves for which the money can be spent.

"Similarly, Congress has approved increased expenditures for armaments totaling near $3 billion. Most of the money created by the building of airplanes and other materiel will be paid ultimately to consumers in the form of wages and salaries, profits and the like. No goods will be added to what the consumer can buy locally; these dollars too will be spent in competition with 'ordinary' dollars, for goods and services already on the market.

"The tax reductions in the 1948 Revenue Act leave about $5 billion of additional income with the public. Again this means more money to be spent with no concurrent increase in the supply of goods and services.

"Thus, the European Recovery Program, the minimum proposed additional armament expenditures and tax reductions should create about $13 billion of additional buying power during the next year but these new dollars will not be accompanied by their normal counterpart—more goods and services—for which they can be spent. **Together with the prospects of maintained high employment, this additional buying power practically assures a strong demand for goods and continued active business.**"

Net Assets of Affiliated Hit $50 Million

Net assets of **Affiliated Fund,** sponsored by **Lord, Abbett & Co.,** now exceed $50 million as compared with less than $33 million at the beginning of the year. Including bank loans of $15 million, total assets of Affiliated now exceed $65 million.

Dupont Expands

"These Things Seemed Important," published by **Selected Investments Co.** quotes Dupont's President Greenwalt as follows:

"Dupont plans biggest single laboratory project in its history, cost $30 million, take 2½ years to build, make DD's Wilmington experimental station one of the world's largest, increase chemists and technologists from 500 to 900. We confidently expect to create many new jobs . . . 20,000 Dupont employees today are engaged in manufacture and sale of products which either didn't exist or weren't produced commercially in '36."

Notes:

Commonwealth Investment Co., which has an unusually fine management record, had its assets diversified as follows on March 31, 1948:

U. S. Governments	7.9%
Corporate Bonds	8.6%
Preferred Stocks	19.8%
Common Stocks	60.0%
Cash and Receivables	3.7%
Total	100.0%

Arthur Wiesenberger's 1948 edition of "Investment Companies," the "Bible" of the business, will be ready for delivery late in June. Copies will be available at $15 each.

74th Consecutive Dividend

The Directors have declared the 74th consecutive quarterly dividend on Wellington Fund shares. This dividend of 20 cents per share (10 cents from ordinary net income and 10 cents from net realized securities profits), is payable June 30, 1948 to stockholders of record June 16, 1948.

All shares purchased up to 4:00 p.m., (EDT) Wednesday, June 16, 1948, will receive this dividend.

Finance and Politics To Be Satirized

It's all in fun—but readers of this Year's "Bawl Street Journal" will be startled to read that Henry Ford II is swapping engines for equines and will go back to horses as driving power in the new 1949 model.

A preview of the annual burlesque publication which will appear on June 4 as a feature of the Field Day of the Bond Club of New York indicates that finance and politics will be the subject of sharply barbed but good natured satire. For example:

Emil Schram, President of the New York Stock Exchange, has discovered the secret of a perpetual bull market; surplus securities will be removed from the Big Board and sent to the European needy by ERP, thus raising the prices of stocks remaining here.

Henry Wallace had abandoned his third party for a fourth—the fourths-for-bridge who are "dummies anyway and will vote for anything."

Universal financial training will replace UMT; every boy reaching the age of 18 will be forced to spend two years selling securities, thus building up Wall Street's reserve of sales power.

John W. Valentine, Harris, Hall & Co. is chairman of the publication committee of the "Bawl Street Journal" and John Straley is editor. Norman Smith, circulation manager, announces that advance subscriptions will be accepted from all parts of the country for delivery on June 4, the date of publication. Orders may be placed now at the office of Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street.

Carl L. Schmidt Joins Staff of H. Hentz

CHICAGO, ILL.—Carl L. Schmidt has become associated with the Chicago office of the New York Stock Exchange firm of H. Hentz & Co., 120 South La Salle Street, according to an announcement from Robert Pollak, Chicago manager. Mr. Schmidt has been in the investment securities business since 1915, when he came to the "Street" as a bond salesman for the Chicago office of Spencer Trask & Co. In 1920 he became Sales Manager of the Bond Department of the National Bank of the Republic. In 1922 he organized the investment business of C. L. Schmidt & Co., which retired from the investment securities field on April 30, 1948.

Congressional Committee Reports On High Prices of Consumer Goods

Joint Committee on Economic Report, of which Senator Taft is Chairman and Dr. Charles O. Hardy is Staff Director, urges, as means of reducing prices, use of savings bonds to offset tax reductions, removal of certain excises and export controls, and deferring of public works. Would study further problem of credit controls and recommends efforts to increase food production.

Senator Robert A. Taft has submitted to Congress a report of the Joint Congressional Committee on the Economic Report on prices of consumers' goods, prepared under the direction of Dr. Charles O. Hardy, Staff Director. This report contains the recommendations of the Joint Committee and is based on the investigations of three separate subcommittees of members of Congress, known as the Eastern, Mid-Continent and Western Subcommittees. The Committee as a whole was set up during the last session of Congress "(1) to make a full and complete study of the present high prices of consumer goods, and (2) to report to the Congress . . . the result of the study and investigation . . . together with such recommendations as to legislation as it may deem desirable."

Robert A. Taft

Charles O. Hardy

The recommendations of the Committee are as follows:

(1) *Savings Bonds for Income Tax Reductions:* The Western Subcommittee recommended that "personal income tax reductions take the form of required savings in U. S. Government bonds, to be held by recipients until such time as Congress shall determine that inflationary dangers have passed." The whole Committee recognizes the merit of this suggestion, if inflationary trends are resumed. Therefore, the Committee recommends that such a saving plan be given further study and that a program, including methods of application, be worked out for consideration by appropriate Congressional Committees.

(2) *Excise Taxes:* We recommend the removal of those excise taxes which directly increase the prices of essential cost-of-living items, particularly for low-income groups.

(3) *Reclamation:* We recommend the rapid completion of reclamation and drainage programs now under construction and development with a view to increasing the food supply in line with current and prospective needs.

(4) *Export Controls:* We recommend strict application of export controls for those commodities and products for which do-

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Boylan Opposes Reducing Stock Exchange Membership

In submitting report of special committee appointed to advise on proposition, Chairman of Board of Governors of New York Stock Exchange, voicing sentiment of the Board, presents arguments against it.

Robert P. Boylan, Chairman of the Board of Governors of the New York Stock Exchange, on May 13, in submitting to members a copy of the report of the Special Committee, appointed by him on Jan. 9, 1948, to consider the advisability and practicability of adopting a plan to reduce the membership of the Exchange, pointed out the difficult problems involved and expressed approval of his, the Board of Governors and the Special Committee's unanimous opinion that membership seats should not be retired with the Exchange's funds.

Robert P. Boylan

The text of the letter of Mr. Boylan to members follows:

"*To the Members of the Exchange:*

"At its meeting on Thursday, May 6, 1948, the Board of Governors carefully considered the report of the Special Committee which was appointed to explore the advisability and practicability of adopting a plan for the retirement of memberships. For your information, a copy of the Committee's report is attached.

"You will note on reading the report that seat retirement presents a number of difficult problems not the least of which is one of financing. The Special Committee was unanimously of the opinion that seats should not be retired with present Exchange funds, a conclusion with which the Board is in complete accord. Therefore, all or a considerable portion of the cost would be imposed, directly or indirectly, on the remaining members.

"Any seat retirement program could not be selective and, unquestionably, a great number of seats which would be retired would be those held by estates or inactive members. Thus, one of the primary objectives of a seat retirement plan would be adversely affected at the outset.

"In addition, there is the question of a radical departure from a very fundamental principle of Exchange policy. The Exchange has always staunchly advocated free and open markets with supply and demand determining price. The Board of Governors is strongly of the opinion that any seat retirement plan would be a contradiction of this policy and therefore it would be a most unsound step to take. The Board feels that the efforts of the Exchange should be toward expanding the value of the services rendered by the Exchange to the public, which should tend to increase volume of transactions.

"The Board of Governors deeply appreciates the efforts of the Special Committee comprising

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Congress Should Reject ITO Charter

By Dr. ELVIN H. KILLHEFFER*
Vice-President, E. I. duPont de Nemours & Co.
Member U. S. Delegation to Havana Conference

U. S. Delegation Member declares we should scrap Havana draft and instead offer one based on American free enterprise principles, clearly stated and uniformly applied. Says present charter assumes government planning and bureaucracy can do everything better, and under it foreign investments will be discouraged.

The idea behind this proposal has a two-fold origin. It is a natural and perhaps inevitable outgrowth of the trade agreement policy followed since 1934, and is also related to the creation of the International Bank and the Monetary Fund. At the time of Bretton Woods, it was said that Bank and Fund should have a trade counterpart.

Dr. E. H. Killheffer

My justification for using the expression, "natural and inevitable outgrowth," is that most governmental bureaus grow in exactly this way. The first mistake usually leads to others. So, when the political trick of transferring tariff policy from the legislative to the executive branch of government was pulled off, the stage was set for the growth of a typical bureau. That the bureau wanted to make the transfer a permanent one, despite the contrary provisions of the U. S. Constitution, seems self-evident.

Bretton Woods enlarged the concept, for if a trade organization parallel to the Bank and Fund could be created and made a part of the United Nations, then not only would the bureau retain its powers but it would actually extend its philosophy and field of operation to take in the whole world and under international auspices. So, with the enthusiastic help of a handful of extreme internationalists, the Department of State issued its first pamphlet on "World Trade and Employment" at the conclusion of the negotiation of the British Loan. Some of you will recall how it was said at that time that a part of the *quid pro quo* was the agreement of the British to go along with ideas put forward in the Department of State publication including, importantly, the elimination of Imperial preference. The British interpretation as to what was agreed did not check with what the American public was told.

Then followed the Department of State's more specific proposals for an International Trade Organization and the call, through the United Nations, for the first conference at London, and, subsequently, a second at Geneva. During preparation for Geneva, the Finance Committee of the Senate held hearings in which the authors of the draft charter were interrogated at considerable length about many points in it. Almost at the same time the Department of State held hearings in seven cities to give the public an opportunity to give their views on a document of which most of them had never heard and few had seen.

Parenthetically, you can expect the same sort of maneuver in respect to the Havana Charter.

The document drafted at London was redrafted at Lake Success—the so-called New York draft—and this became the basis of discussion at Geneva, April to September, 1947, where two things were done. First the Charter for ITO was negotiated and adopted for submission to a world conference already arranged for Havana; and, second, the General Agreement on Tariffs and Trade was negotiated and signed. Participation in the latter was under the authority of the Trade Agreements Act and it was claimed the same authority covered the first also.

This brief outline brings us to the United Nations Conference on Trade and Employment which began in Havana on November 21 last and concluded on March 24, 1948 when it was signed *ad referendum* by almost all the nations attending the Conference.

I attended as a Member of the United States Delegation in the capacity of an advisor and it is to tell you of my impressions that I am here. Perhaps the greatest is one of keen disappointment that so great an opportunity for leadership was not employed to better purpose. Two-thirds of the nations at Havana were attending such a Conference for the first time and their eyes and ears were open for enlightenment. Either they would be influenced toward greater acceptance of the practices of Statism and planned and controlled economies or toward the opposite concept of private enterprise. Many, if not most of them, were either getting help from the United States or were expecting to get it. Certainly, they know that something accounts for our ability to extend economic help such as has never been known before in the history of the world. Surely it is difficult to imagine any more favorable auspices to impress them with a concept which has meant so much to the material prosperity of the United States. What they got was a thorough indoctrination in the ideas of preferences, special discriminations, planned and controlled economies.

The Geneva Draft

It is true that the Geneva draft, which was the basis of discussion at Havana, contained much to which objection had been voiced by such organizations as the National Association of Manufacturers, the National Foreign Trade Council, the American Tariff League, the Chamber of Commerce of the United States, and others, in addition to the searching criticisms and suggestions of the Senate Finance Committee. And it was expected that considerable improvement would be made at Havana. Actually, on balance, the Charter suffered deterioration instead. Moreover, the main criticisms of the earlier draft have not been corrected. These briefly were:

Good principles are stated only to be followed by multitudinous exceptions permitting continuance of almost every practice the good principles were to do away with;

termination of exceptions left vague in many instances;

rules applicable to United States will be avoided by other nations through exceptional authorizations;

language which is necessarily complex is also unnecessarily ambiguous, spelling later trouble when the bureaucracy interprets it;

a good Chapter regulating monopolies and cartels in private hands, followed by a longer Chapter for their creation under intergovernmental auspices;

obligations perhaps more normal for planned economies but which the United States has always opposed.

While not a complete list, all of these were pointed out in reports by the Associations previously mentioned or the Senate Finance Committee, the latter also questioning the authority of the Department of State to agree to some of them.

At Havana more exceptions were made. A good illustration is the provision for the creation of new preferential arrangements. Nations listening to the debates pro and con on preferences decided that these were just what they wanted. Pointing to the continued existence of British preferences they used that as a lever to gain the privilege for themselves. And the United States' situation on all the matters to which objection has been made is not helped any by the proposal by the United States that in ITO there shall be one vote for each country.

You will ask why the Charter was not improved at Havana. The direct answer is that what we in industry wanted as improvements would have meant rejection or drastically altering provisions by the men who were the original authors. That was a good deal to expect.

Improvement Could Have Been Made

And on the next question of whether substantial improvements could have been made, I can only say that it is my conviction that they could, if we had had aggressive negotiators who themselves believed in the ideas. The new handling of foreign investment is a case in point. The handling of it was such that Australia, a country with little, if any intention of making such investments itself, wrote the provisions. Obviously, they are written from the viewpoint of the receiving country. Yet, if such investments are made the United States must make most of them.

Another question will be as to the amount of change from the earlier Geneva draft. That does not lend itself to a mathematical answer that means anything. Geneva had 100 articles, whereas Havana has 106. And the greater part of Havana Charter is either identically the same or the same in substance. The more meaningful comparison is one which attempts an evaluation which shows:

(a) number of instances of improvement;

(b) number of instances of retention of matter criticized in the earlier draft;

(c) number of instances of deterioration from Geneva.

Obviously, the points selected, as well as their classification, would vary with the analyst. However, in examinations of earlier drafts my criticisms have not differed materially from those of any of the groups previously mentioned.

I find six improvements, thirty-four retentions of undesirable matter formerly criticized and fifty-seven further deteriorations from Geneva. In addition, there are a number of matters that are questionable.

In the time at my disposal it is impossible to cover all of these fully. Therefore, I will try to give you some of the important

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*An address by Dr. Killheffer before Third National Textile Institute Seminar, Shawnee-on-Delaware, Pa., May 12, 1948.

Canadian Securities

By WILLIAM J. McKAY

One clear point is beginning to emerge amid the fog of statements and denials concerning international currency policies; and this is in effect the impediment to the smooth operation of the ECA program, constituted by the sterling area and the current level of sterling. When consideration is given to the British economic position alone, a clear case can be made for the maintenance of the rigid controls and systems which came into being as a result of war exigencies. The U. S. enactment of the ECA program, however, completely changes the aspect of the economic problem of Western Europe and Britain in particular. It is unquestioned that British financial management of the Sterling area played an invaluable role in the successful prosecution of the war. On the other hand at the present stage, whereas Britain is powerless to restore normal economic procedures at home or abroad, this country has both the means and the intention to re-establish a freer system of finance and commerce in the area of the western democracies.

As the difficulty of the British position is fully and sympathetically recognized, ways and means will be sought to avoid a hasty clash on the delicate points at issue. This explains the guarded nature of recent official statements on this subject. However the testimony of representatives of the International Monetary Fund and the report to Congress of the National Advisory Council make it abundantly evident that the international currency situation is now steadily approaching a climax.

The liquidation of the Sterling area and the devaluation of sterling to a realistic level are not necessarily to be construed as tragic events from the British point of view. In the first place U. S. capital can be instrumental in permitting a fuller development of the British Dominions and Empire territories, which would be by no means detrimental to the interests of the United Kingdom. Similarly the international prestige of sterling is likely to be enhanced rather than impaired with the pound at a level where it could once more inspire international confidence. When consideration is also given to the fact that the operation of the ECA program will offset the higher costs of essential British imports in the event of devaluation, it would not be surprising to see British initiative rather than external pressure ultimately responsible for earlier action than is now anticipated. In the final analysis there is little doubt that the inexorable march of modern progress will ultimately obliterate the last vestiges of economic feudalism wherever it may be found.

As far as the Canadian dollar is concerned all that need be said is that its historic relationship to the pound is rapidly undergoing a fundamental change as a result of the recent reorientation of the Dominion's financial and commercial policies. Moreover as the Canadian dollar is positively not one of the currencies considered for adjustment by the International Monetary Fund, its position should not be changed in the event of sterling devaluation.

During the week both external and internal bonds were in steady demand but the turnover was negligible in view of the dearth of supply. Free funds after reaching a recent new high level of 7% were inclined to react in the face of sterling devaluation fears. Canadian stocks were buoyant and the Western oils index was at its highest peak for eight years. Base metal and paper issues were also strong but the main feature of the market was again provided by Canadian Pacifics. The basic value of this stock is at last becoming recognized largely following the recent important oil discoveries in Alberta which have highlighted the large CPR holdings of potential oil-bearing properties in this province. When it is also considered that this company has a majority interest in the highly flourishing Consolidated Mining and Smeltng Co., the recent spectacular advance of this stock requires little explanation.

Tom Canova With U. S. Security Loan Drive

Thomas A. D. Canova has been appointed to the U. S. Savings Bond Division of the Treasury Department, 253 Broadway, New York City, to assist in the promotion of sales of series F & G Bonds for the current Security Loan Drive. Mr. Canova, who has been in the securities business for the past 16 years, was recently with E. G. Ringrose Co. and previously in charge of the Government Bond Department for Schroder Rockefeller & Co., Inc.

Thos. A. D. Canova

James R. Buck Joins Shields & Co. in Texas

HOUSTON, TEXAS—James R. Buck has become associated with Shields & Co., members of the New York Stock Exchange, and will be in charge of their newly opened Houston office in the Esperson Building. Mr. Buck formerly for many years conducted his own investment business under the firm name of Buck & Co.

What's Ahead for Business?

By DEXTER M. KEEZER*

Director, Department of Economics, McGraw-Hill Publishing Co.

Economist expects over the short term business in general will continue near present boom levels, with prices slightly higher next year. For long term Mr. Keezer predicts high industrial activity will continue with 15% as maximum decline. Believes in event of depression Federal Government will promptly step in with subsidies and controls.

In dealing with the business outlook I shall first concern myself with the outlook for the short run, say until the early months of next year, 1949. Then I shall make some observations about the outlook for a longer period, say the next few years. In this kind of world I suspect it is a relatively bootless operation to worry about what is going to happen after that.

Dexter M. Keezer

For the short run I anticipate that business *in general* will carry on at somewhere near its present volume, and that prices *in general* will continue under an inflationary pressure that will make them slightly higher next New Year's Day, perhaps as much as 5% higher, than they are today.

At present, the general volume of industrial production is about 90% higher than it was in the prewar years, 1935-39. In other words, the country has about doubled in size industrially in a decade—a fabulous performance. There is very little avoidable unemployment. Thus, unless everyone were to go to work really hard—an unlikely prospect—there is no chance of increasing the volume of industrial production greatly in the short run. We are operating somewhere near the ceiling.

Possibility of Downturn

There is always the chance of going down, of course. When farm prices broke sharply a couple of months ago, a lot of people jumped to the conclusion that that was where we were headed. We did not jump in that direction, but those who did might have turned out to be right but for the impact of a number of developments, all of them initiated by the government, which are destined to give our economy another big lift.

One of these developments was a reduction in Federal income tax rates (approved on April 2) which saved taxpayers about $4.8 billion which otherwise they would have turned over to the Federal Treasury. Another was the final approval (on April 3) of an expenditure of $6.2 billion for foreign aid. A third was an addition of $3.2 billion (now in the process of being approved) of expenditures for national defense, already set at the rather staggering total of $10.7 billion.

Combined, these three actions by the Federal Government are adding about $15 billion to the funds either to be spent in the immediate future or available to be spent. That, you may say, is not such a staggering amount when you consider that our national income is currently running at a rate of about $215 billion per year.

Absence of Slack Controlling

There would be something in that idea if there were a lot of slack in our economy in the form of unemployment and idle industrial capacity, as there was in 1940. Then it was possible to lap up large military orders before the slack was used up. Now, however, the economy is going virtually full blast. In such circumstances an addition to expenditures of the magnitude just made by the Federal Government gives the economy a terrific impulse.

I find a good many people can't see that the tax cut makes much difference in terms of increasing expenditures. They reason that the only difference is that individuals will have $4.8 billion to spend rather than having the government spend it. The point is that this $4.8 billion is not a deduction from government expenditures. These expenditures are not cut on account of the tax cut. They go on much as usual and the funds left in the hands of individuals by the tax cut may and much of it will be added to them. That will become clearer when withholding taxes are reduced.

One of the types of expenditure which the tax cut is particularly likely to stimulate is that for common stocks. That is because it leaves a considerable amount of money in the hands of people who can afford to take the risks involved in common stock investment, and who were accustomed to take such risks before the tax collector took most of the money they devoted to it.

On this point our Department of Economics recently made an inquiry through the McGraw-Hill field staff which I think is of interest and importance. We asked a substantial cross-section of people with incomes of more than $15,000 annually what they proposed to do with the money if they received a tax cut of approximately the proportions which eventuated. It developed that as a group they planned to save 74% of the tax cut, as opposed to going out and buying goods with it. It further developed that of this amount saved they proposed to invest about 52% in common stocks. The share of the tax cut going to people with annual incomes of above $15,000 will amount to about $1 billion. If, as the answers to our inquiry would suggest, half of that is devoted to purchasing common stocks, it is enough to give the stock market quite a bit of inspiration. Indeed, some of the recent vitality of the stock market may well be due to that stimulus.

Stock Market Lift Beneficial

If, because of the tax cut or otherwise, the stock market continues to perk up it will be a very good, in fact a very essential thing for the country. Since the war we've been able to get along with a droopy stock market because money to finance new plant and equipment was piled up in very large volume by corporations during the war. But those reserves are running out. So if we are going to keep capital expansion going at the rate required to sustain a high volume of employment it must be possible to get a lot of new capital, and capital willing to take a chance, from the investment markets. By increasing that possibility, the tax reduction also increases the possibility of sustaining the prosperity in the long run. That's true even though it complicates life in the short run by adding to the already ample inflationary pressures created by ERP and more armaments.

While these inflationary pressures are at work, a lot of even more powerful pressures toward lower prices will continue to operate on individual industries. Industry generally came out of the war with great backlogs of orders. Some of these backlogs have been worn off—those for small radios, for example. Others have been worn thin and may disappear entirely most anytime. As they do, and prices reflect that fact, it's going to be hard to make those in the industries involved believe that things generally are not sagging. But they won't be. There is a volume of expenditure clearly in sight to keep our economy moving at or close to its present level into next year, and without any *general* decline in prices.

Well, what about the outlook for the next few years beyond that? My guess, and that's all it can be this far in advance, is that we will carry on through that period with a generally high level of business activity — one that won't fall more than 15% below the present level.

I recognize, however, that in that view I am in a very decided minority. I find a substantial majority of both businessmen and economists proceeding on the assumption that in the relatively near future we shall slide into a serious depression. When the Russians say they are counting on that happening we get indignant. But when we talk among ourselves I find from a number of informal polls I've taken on the subject, most of us are expecting a big bust.

The Longer Range Outlook

I could list at least a score of reasons for my optimism about the longer range business outlook, which I would expect you to forget about as fast as I listed them. One would be that it would take positive genius to get into the sort of jams with bank credit which have generally touched off and contributed largely to big busts in the past. Our basic banking reserves are still fabulously large. Another would be that we have social security arrangements which provide cushions for a letdown which were not present in the 30's. However, my controlling reason would be that we are living in a world, or part of a world, which for many years is going to offer an almost unlimited outlet for our goods.

Well, you may say, what are they going to use for money? I'm not altogether sure, but I gather that a promise not to turn Communist, or even a possible disposition not to turn Communist, has a high negotiable value. In this connection it is one of the great ironies of this period that the Russians, basing their foreign policy in large part on the prospect of our having a bust, are building up a program which could scarcely be better calculated to keep things moving at a high clip here.

Don't misunderstand me. I'm not basing my expectation of generally good business for several years on the expectation that we shall be able to give away enough abroad to keep prosperous. I don't share the view of the Finance Minister of New Zealand who remarked the other day that our economy would disintegrate and "there would be unprecedented unemployment" unless we could figure out a way to send

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*An address by Mr. Keezer before Water and Sewage Manufacturers Association, Atlantic City, N. J., May 5, 1948.

Profits Have a Purpose

By DR. RUFUS S. TUCKER*

Economist, General Motors Corporation

Dr. Tucker asserts profits are needed to motivate productive effort in modern free society and to facilitate corporate financing. Maintains totalitarianism is alternative.

Profits are necessary because the quest for profits is the chief motivation of productive effort in a free society that is based on the division of labor, as all modern societies are. When it is no longer possible for each family to produce all it needs, goods and services must be exchanged with other families. When simple barter between families is no longer adequate, because of distance and the number and variety of objects involved, production for the market becomes necessary. And production for the market can take place only as a result of some motivation or incentive or compulsion. Other methods have been tried, but the possibility of making a profit has been the most effective in increasing output, reducing cost and satisfying the consumers' wants. It has also been the motivation most consistent with the dignity and liberty of individual workers and consumers, and the finest development of their characters and capacities.

Rufus S. Tucker

An economic society based on profits is based on free choice and peaceful persuasion. Societies might be, and have been, based on compulsion—the compulsion of custom, or of a military ruling group, or a theocracy. They have usually been less efficient in the production of goods for peaceful uses and have usually crashed as a result of internal strains or external antagonisms created by their own rigidities, stupidities and cruelties. Experiments have been made with societies based on altruism, but have rarely lasted more than one generation.

Pecuniary Reward Least Harmful

Paradoxically, the pecuniary form of reward, which is regarded as the lowest by fastidious observers, is the least likely to harm other persons. Profits can be made only by persuading customers to buy your wares. Military glory is won by compelling others to bow to your will. Political glory is likewise won by compulsion of the minority, or, in totalitarian states, frequently by compulsion of the majority.

In the absence of fraud or violence, profits can only be made by producing what the public wants to buy. Fraud and violence can only be successful when the government is inefficient or corrupt. Even monopolies cannot make profits unless the public is willing to buy their products. Any industry or producer habitually failing to make profits is not contributing to the material welfare of society, but is using up materials and labor to create something worth less than could have been created out of the same materials and labor. It is wasting the nation's substance, not adding to it.

Savings Fictions

A great deal has been said about the danger of excessive saving. A few years ago, many schemes were proposed for preventing saving. The theory was that business depressions were caused by saving in excess of investment, which was supposed to cut down the flow of income and cause goods to remain unsold, with resulting unemployment and its intensive consequences. If there has been any connection between saving and depressions, it has been a case of insufficient saving and excessive current consumption, or of insufficient saving and excessive investments, or government expenditures financed by bank loans or by printing-press money. The figures to which the theorists sometimes appealed for support of their theory have since been repudiated by the Department of Commerce, which originally got them out.

It is necessary to have profits in good years and in well-run concerns to offset losses in bad years and in badly managed concerns. In 1921, and in every year from 1930 and 1940, inclusive, the majority of corporations submitting tax returns reported losses, not profits. If this were the universal rule, and if losses in one year were not offset by profits in another, there would soon be no investment and no private enterprise. Only government enterprises can be run continually at a loss—and then only because the citizens are compelled to pay taxes in addition to the prices they pay for such government products and services as they voluntarily buy.

The ratio of aggregate profits to the national income, or the ratio of company profits to company sales, are the only significant measures of profits for purpose of comparison over the years. Absolute dollar figures mean nothing, since the dollar has fluctuated widely in purchasing power. Ratios to invested capital as stated on the books does not represent either the present value of the investment or the cost of replacing it.

It takes a lot of capital investment to make up for four years of war and twelve years of depression, during which expansion of plant for civilian purposes of negligible and normal replacement was neglected. Unfortunately, even with a conservative dividend policy the corporations of this country have been unable—and apparently will be unable—to obtain enough capital to permit our national income to grow as it has in the past, except by relying to a dangerous extent upon borrowings from institutions and banks. Private investors are unwilling or unable to buy stocks. In addition to the extremely high rates of tax on large incomes, which cut down the amounts available for investment, the double taxation of dividends since 1935 has discriminated against investment in stocks. Of course, stocks are widely held, but persons with smaller incomes do not as a rule buy new issues, except in times of speculative mania, and when they do to any extent they necessarily use borrowed money, thus paving the way for a stock market crash like 1937 or 1929.

Profits Facilitate Financing

Higher profits would enable the corporations to finance themselves without building up a dangerously top-heavy financial structure. They would also make it easier to sell stocks to private individuals, to the extent that reductions in individual income taxes provide individuals with any money for investment.

My best guess as to the number of stockholders at the present time is between 10,000,000 and 17,000,000. About half the dividend receivers, as revealed by a study for the year 1936, had total incomes from all sources amounting to less than $2,030, and they received about 10% of the dividends. About half were received by persons with incomes over $16,000. In the classes under $15,000, single women were much more likely to receive dividends than were single men, and families were less likely. These figures reflect the presence of a large number of widows, orphans, invalids and aged persons whose income comes wholly or in large part from investments. They are in the low-income brackets because they are unable to earn much for themselves. Apparently over 84% of the single female stockholders had incomes from all sources of less than $2,500, and the single women in these low brackets received 25% of all dividends received by single women, which, of course, includes widows.

There can be no doubt that the number of stockholders has increased since 1936. Stockholders with incomes over $15,000 or so have not only been unable to buy new stocks at the rate customary in the 20's, but have even been compelled to sell their old holdings. Whereas before 1929 three-fifths of the dividend-paying stock not owned by corporations was owned by 100,000 persons, in 1941 the 100,000 biggest stockholders owned less than one-third.

The alternative to a society based on private profits is a society controlled by a totalitarian government, whether it calls itself communist, socialist or fascist. The type of mind or character naturally developed under the system of private profits is that which is independent, progressive, self-respecting and therefore easily taught to respect the rights of others, even of minorities. The type of mind or character developed under the other system in Germany and Russia is servile toward authority, aggressive toward weaker persons, and prone to believe that anyone who will not conform to the majority will has no rights. Which is the more admirable?

These are not sordid considerations; they are worthy of the attention of all who have an interest in human welfare.

*Excerpts from an address by Dr. Tucker before Midwestern Spring Conference of the Controllers Institute of America, St. Paul, Minn., May 17, 1948.

Funds Available For Interest Payment on Panama Bonds

The National City Bank of New York, as Fiscal Agent, is notifying holders of Republic of Panama 35-year 5% external secured sinking fund gold bonds, series A, due May 15, 1963, that funds have been received and are now available for distribution as a final payment on account of the interest represented by the Nov. 15, 1942, coupons in the amount of $2.56 for each $25 coupon and $1.28 for each $12.50 coupon and as a partial payment on account of the interest represented by the May 15, 1943 coupons in the amount of $17.82 for each $25 coupon and $8.91 for each $12.50 coupon. Such distribution will be made at the office of the Fiscal Agent, 22 William Street, New York City.

Senior Margin Clerks Elect New Officers

At the regular election meeting of the Senior Margin Clerks' Section of the Association of Stock Exchange Firms, the following officers were elected to serve during the coming year:

G. Arthur Behrmann

President: G. Arthur Behrmann, Hirsch & Co.; Vice-President: Guy Pepper, Hornblower & Weeks; Treasurer: Gerald P. Kossmann, W. E. Hutton & Co.; Secretary: Berkley F. Stocker, Abbott Proctor & Paine; Asst.-Secretary: John Hugelheim, Eastman Dillon & Co.

William P. Miles Opens Offices in New Orleans

NEW ORLEANS, LA.—William P. Miles has opened offices in the Whitney Building to act as dealer in general market securities and mutual fund shares. In the past he was with Waters & Alcus.

What???

"Communism has never made substantial headway in any nation where there has been a real effort to raise the living standard.

"In Czechoslovakia, for example, the postwar prestige of Russia, and therefore of Communism, was extremely high for many reasons. Yet the Communists were on the verge of a crushing defeat at the polls when they took over the country by force. The Italian Government has failed in many ways to go far enough toward meeting the needs of the people. Yet it has gone a little way, and its intentions seemed good, and this was enough to cause an anti-Communist vote.

"The same result has been seen in other nations. It should provide a guide for us in America.

"If we are to save capitalism in America, we must make sure that the mass of the American people have a stake in capitalism and we can do this only if we achieve for them a standard of living higher than they have known in the past."—Emil Rieve, President, Textile Workers Union.

Why must "we," indeed can "we," achieve "for them"? And, who, by the way, is "we"?

Do "they" not enjoy now a standard of living far above that achieved for or by any other people on the globe?

And where do the Communist nations rank?

Can we not have an end to this sort of balderdash?

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

John C. Read, New York representative of the **Midland Bank, Limited of London** has been transferred to London to take up a new appointment. He was succeeded on May 1 by W. B. J. Partridge, formerly a Deputy Assistant Manager of the Bank's Overseas Branch in London. Mr. Partridge, who first visited New York in 1933 as an official in the Midland Bank's branches on Cunard liners, brings to his new position a wide experience on the domestic as well as the foreign side of the Bank's activities.

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N. Baxter Jackson, Chairman of the **Chemical Bank & Trust Company of New York** announces that at a meeting of the Board of Directors held on May 13 the following were elected to the Board of the Bank: Frederick E. Hasler former Chairman of the Board of **the Continental Bank & Trust Company**; Rafael Carrion, Executive Vice-President, **Banco Popular de Puerto Rico**; and Joseph T. Lykes, President, Lykes Brothers Company, Inc., steamship operators of world-wide scope. All three were formerly directors of **the Continental Bank & Trust Company.**

At the same meeting, an Advisory Board was organized and established for the 30 Broad Street office of the Bank and the following were elected thereto: Frederick E. Hasler, Chairman; Rafael Carrion, Joseph T. Lykes, Siegfried Gabel, President, Hagedorn & Co.; Frost Haveland of T. L. Watson & Co.; Carl O. Hoffman, of Kadel, Hoffman & Gillis; Ody H. Lamborn, President, Lamborn & Co., Inc.; William N. Westerlund, President, Marine Transport Lines, Inc. and Henry M. Wise of Holtzmann, Wise, Shepard, Houghton & Kelley. In addition, Alfred E. Svenson was appointed Assistant Manager of the Foreign Department. These changes follow the taking over of the assets and business of the Continental by the **Chemical Bank & Trust** on May 3, referred to in these columns May 6, page 2001.

Marking the fourteenth national observance of World Trade Week, **Colonial Trust Company of New York** placed on display on May 17 in its windows, at the Avenue of the Americas and 48th Street, world trade exhibits prepared by the Import Department of Westinghouse Electric International Co., one of the bank's clients. The displays is designed to illustrate graphically that world trade is a two-way street, and have as their theme a statement by W. Averell Harriman, former Secretary of Commerce, "We must buy more from abroad to enable the world to continue to buy from us." Arthur S. Kleeman, President of Colonial Trust Company, said that the displays were arranged as a tribute to Westinghouse's Import Department. The major display shows against a background of a map of the United States, the balance between exports and imports, demonstrating how the Import Department of Westinghouse aids in bridging the gap between American exports and imports by assisting customers in other countries to obtain United States dollars through normal trade channels. With this display are exhibits of imported products, showing how these imports raise the American standard of living by helping to turn the wheels of American commerce and industry.

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The New York State Banking Department approved on May 11 the plans of the **Peoples Industrial Bank of New York** to change the location of its principal place of business from 249 West 34th Street to 855 Avenue of the Americas.

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John E. Bierwirth, President of **The New York Trust Company,** at 100 Broadway, New York, has announced the appointment of William R. Cross, Jr. as an Assistant Treasurer in the Banking Division of the company. Mr. Cross, after three years of war service with the United States Navy, joined the company in August, 1946 and was associated with the Credit and Investment Research Division.

DeCoursey Fales, President of **The Bank for Savings in the City of New York,** announces that F. Abbot Goodhue was elected a Trustee of the Bank at the May meeting of the Board. Mr. Goodhue is President of the **Bank of the Manhattan Company of New York** and a member of the Banking Board of the State of New York.

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Charles D. Behrens has been elected President of the **Kings County Savings Bank of Brooklyn, N. Y.** to succeed the late James R. McLaren, whose death on April 23 was noted in our issue of April 29, page 1894. Mr. Behrens, a partner in the real estate firm of Timm & Behrens, was elected to a Vice-Presidency of the bank in 1946 after having served as a member of the institution's finance commitee, it was stated in the Brooklyn "Eagle" of May 14.

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A "Library of Homes" will be featured at the New "Home Buyers Exhibition" which will open today, May 20, at **The Dime Savings Bank of Brooklyn, N. Y.** About 100 member-builders of The Long Island Home Builders Institute, active in building in Brooklyn, Queens, Nassau and Suffolk Counties will display their latest offerings. Prospective home buyers, builders and planners, will be able to get the latest information from a catalogue and pamphlet service, which will be maintained at the Exhibition. The Exhibition will be a complete home center, offering in exhibits, the latest in available houses, as well as the latest in materials and ideas. No selling or solicitations will be done at the exhibition. George C. Johnson is President of the bank, which was founded in 1859.

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Appointment of Alvan B. Fehn, Comptroller of **The Bayside National Bank of Bayside, N. Y.** as Manager of the bank's Union Turnpike office in Jamaica Estates North, was announced on May 12 by J. Wilson Dayton, President of the bank. At the same time, Mr. Dayton announced that Carl A. R. Landau, Chief Clerk, will be Assistant Manager. Mr. Fehn joined the Bayside National Bank in October, 1945, after more than 16 years with the **Fidelity Union Trust Company of Newark, N. J.** Mr. Landau, entered the service of the Bayside bank in 1933. He served as a Captain in the Army Air Corps during the war, returning to the bank last October.

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The **Community Savings Bank of Rochester, N. Y.** reports the following promotions, it was indicated in the Rochester "Times-Union" of May 13.

Paul E. Emerson, John E. Schubert and Thomas E. Woods were advanced from Assistant Secretaries to Assistant Vice-Presidents while Jacob Cusimano was elected Assistant Secretary by the board of trustees. Mr. Emerson has been with the bank since 1939: Mr. Schubert since 1944, Mr. Woods since 1925 and Mr. Cusimano since 1925.

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Dr. Alfred C. Neal, Director of Research for the **Federal Reserve Bank of Boston,** has been promoted to Vice-President, it was announced on May 12 by Laurence F. Whittemore, President of the bank. Before becoming associated with the Federal Reserve Bank in January, 1946, Dr. Neal held positions as economist with wartime agencies in Washington. Prior to government service, he was Assistant Professor of Economics at Brown University. Dr. Neal who received his Ph.D. at Brown in 1941 is the author of several books on economics, his latest being "Modern Economics," a new text book of which he is co-author. He is a member of the American Economics Association, the American Statisticians Association and Phi Beta Kappa.

Arthur E. Kean, Jr., Vice-President and Cashier of the **Lincoln National Bank of Newark, N. J.,** has been elected Chairman of the Newark Clearing House Association it is learned from the Newark "Evening News" of May 12. Mr. Kean is First Vice-President of Essex County Bankers Association.

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The **Pulaski National Bank of Pulaski, Va.,** has increased its capital from \$160,500 to \$200,000 effective May 5. In reporting this the office of the Comptroller of the Currency indicated that part of the increases (\$32,100) was brought about through a stock dividend, raising the capital from \$160,500 to \$192,600, while the sale of new stock to the amount of \$7,400 served to enlarge the capital from \$192,600 to \$200,000.

* * *

Representatives from 70 banks throughout the State of Virginia attended a conference on consumer credit delinquency held May 13 in Richmond, sponsored by **The Bank of Virginia of Richmond.** After a brief welcome from Thomas C. Boushall, President of the bank, the session was devoted to a series of round table discussions. Robert M. Berkeley, Vice-President of the bank, led the discussion on "Delinquency in Consumer Installment Loans"; John S. McClure, Assistant Cashier, "Delinquency in Automobile Collateral Loans"; Bernard W. LaPrade, Vice-President, "Delinquency in Amortized Mortgage Loans"; and Aubrey V. Kidd, Cashier, "Delinquency Forms and Procedures." In addition to the bankers present at the conference, Richmond civic and business leaders heard Dr. Joseph Stagg Lawrence, noted economist and Vice-President of the **Empire Trust Company in New York,** speak at luncheon at which The Bank of Virginia was host.

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Through a stock dividend of \$150,000, the **Citizens National Bank of Evansville, Ind.,** has increased its capital from \$600,000 to \$750,000, effective as of May 5. This was made known by the office of the Comptroller of the Currency May 10.

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The stockholders of the **Commercial National Bank of Chicago** have approved an increase in capital stock from \$200,000 to \$300,000, it was made known on May 12 by Harry R. Spellbrink, President, according to the Chicago "Tribune," which added:

Present stock consists of 10,000 shares of \$20 par value. Stockholders of record April 30 will be offered one new share at \$30 for each two shares held.

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Controlling interest in the **First National Bank of Wisconsin Rapids, Wis.,** has been acquired by three businessmen of that city, it was stated in advices from Wisconsin Rapids to the Milwaukee "Journal" of May 15, from which the following is also taken:

"Bernard C. Brazeau, a cranberry grower; George B. Mead, President of the Consolidated Water Power & Paper Co., and Mr. Mead's son, Stanton W. Mead, Vice-President of Consolidated, purchased the interest from William J. Taylor, the bank's President, and the Witter family.

"The bank was founded in 1872 by J. D. Witter. His son, Isaac, merged the institution with the First National Bank here in 1921, with Isaac Witter as President. Mr. Taylor succeeded to the Presidency when Isaac Witter died in 1942. Mr. Brazeau will become the new President.

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The **American National Bank of Idaho Falls,** has changed its name to the **American National Bank of Idaho, at Idaho Falls, Idaho,** according to the weekly Bulletin issued May 10 by the office of the Comptroller of the Currency. The change became effective May 6.

Francis Lambert has been elected an Assistant Vice-President of the **First National Bank of Portland, Oregon,** it has been announced by Frank N. Belgrano, Jr., President. It is learned from the Portland "Oregonian" of May 4 that Mr. Lambert, whose resignation as Treasurer of Multnomah County was announced a month ago, has been assigned to the new business department of the bank. Mr. Lembert served as County Treasurer for 12 years.

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The Chairman of the **Midland Bank Ltd. of London** announces with regret that Sir Clarence Sadd, acting on medical advice which requires detachment from all business affairs for an extended period, has been granted 12 months' leave of absence from his duties as a Director, and has resigned his position as Vice-Chairman.

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In its statement of condition as of December 31, 1947 the **Banque de la Societe Generale de Belgique, of Brussels, Belgium** reports the years profits for 1947 of francs, 144.353.675; to this was added the balance of francs 3.450.288 brought forward from the 1946 profit and loss account making the total credited to the profit and loss account Dec. 31, 1947 of francs, 147.803.963. The banks assets at the end of the late year totaled francs 26.064.386.833. Deposits and current acounts are reported at the end of 1947 as francs 18.088.-905.714. The share capital is shown in the Dec. 31 statement as francs 500.000.000; legal reserve fund as francs 50.000.000 and available reserve fund as francs 370.497.006.

David L. Dodd Now Associate Dean

The creation of the post of Associate Dean at Columbia University's School of Business and the appointment of Professor David L. Dodd to the post were disclosed last Friday at a meeting of the school's alumni association at Faculty House, 400 West 117th Street. The appointment will become effective July 1.


David L. Dodd

Dean Philip Young made the announcement of the administrative change, which followed recent action by the trustees. Pointing out that the change-over of the school to graduate status next year will involve heavier administrative duties, he said the new position is "part of the whole development program for the school."

Professor Dodd has been associated with the School of Business for more than two decades. From 1926 to 1945 he was in charge of all University Extension courses in business and economics. He was graduated from the University of Pennsylvania in 1920 with the Bachelor of Science degree, receiving his Master's degree at Columbia in 1921 and his Ph.D. in 1930.

Professor Dodd's special fields of study are business finance and investment management. He is the author of "Stock Watering" and co-author with Benjamin Graham of "Security Analysis." He is a director of Graham-Newman Corp. and a consulting expert on valuation of securities.

World Bank Reports on Loan Applications

Sixteen member nations, scattered over the globe, have approached the Bank and have loans under consideration.

The International Bank for Reconstruction and Development on May 18, 1948 reviewed the status of pending loan applications being considered by the Bank, and discussions which have been conducted by the Bank with various member countries relative to possible loan applications.

Belgium — Discussions are in progress between the Bank and prospective Belgian borrowers. Representatives of the Bank have recently returned from Belgium where they completed a preliminary study of the country's economy, and a Belgian delegation has now arrived in Washington. The discussions, however, have not yet progressed to a point where details of the projects to be included in the application can be disclosed.

Bolivia—Following an inquiry on behalf of the Bolivian Development Corporation in respect of a proposed loan of U. S. $3 million for the erection of a sugar mill, the Bank, at the invitation of the Bolivian Government, sent a mission to La Paz in order to study the general situation in Bolivia. The mission's report is now being prepared.

Brazil—Brazilian Traction, Light & Power Co., Limited, approached the Bank in 1947 for a loan to finance part of the cost of additional facilities to be completed in 1947, 1948 and 1949. After further study and after engineering and economic surveys had been made, the company, in December, 1947, submitted a revised program which contemplated a loan of U. S. $75 million, to be guaranteed by the Government of Brazil. In the new program, the period of construction was extended through 1951, and the loan applied for was to cover the foreign currency requirements of electric and telephone plant additions. Representatives of the company and of the government have been discussing with Bank officials the terms of such a loan and the legislation necessary to implement the proposed guarantee. The bill to authorize the guarantee has been favorably reported upon by the Finance Committee of the Chamber of Deputies and will be taken up again when the Brazilian Congress reconvenes.

Colombia—Through the Governor of the Bank for Colombia, the government requested the Bank, at the end of January, 1948, to lend its advice and assistance in the selection of competent advisory and engineering services in the United States and, if possible, in making contact with investors, in connection with a proposed steel mill in the northwestern part of Colombia. The possibility of an application for a loan from the Bank is envisaged. The Bank has stated its readiness to give the assistance asked for and has requested certain data. A survey previously made of the projected plant is to be furnished to the Bank for study and consideration when representatives of the government, who are now inspecting steel plants in the United States, reach Washington.

Czechoslovakia — The Czechoslovakian Government, in July, 1946, submitted an application for a loan of U. S. $350,000,000 in connection with a program of reconstruction and rehabilitation of industry, agriculture and transport, and of restocking of raw materials. After study of this program, the Bank advised the Czechoslovakian representatives to submit a more limited program, stressing those lines of industry, the rehabilitation of which would yield qiuck returns in terms of goods marketable against convertible currencies. In response to this suggestion, the Czechoslovakian Government submitted, early in 1948, a list of specific projects totaling U. S. $106.0 million. This revised program is under study and an on-the-spot investigation is planned.

Finland — After a preliminary approach through the Finnish Legation in Washington, the Minister of Finland informed the Bank in February, 1948, that Finland was contemplating applying for a loan to finance the reconstruction of her agriculture, electrical power facilities, export industries and transportation. Finnish representatives subsequently visited the Bank when the general procedure covering loan applications was explained and Finnish representatives were furnished with copies of a questionnaire covering the general economic position of Finland.

Iran—The Iranian Government, in 1946, appointed a firm of U. S. construction engineers to prepare a program for the development of the country's resources. The company's report was submitted to the Bank in September, 1947. Study of the engineers' report showed that considerable further investigation was necessary and additional information required. Following a change in government in Iran, the Bank in February, 1948, was shown a summary of a new seven-year development program which had been submitted to the Iranian Government by the Supreme Planning Board. This revised development program is still under review by the Iranian Government. The Bank has offered to send a fact-finding mission to Iran, should the Iranian Government so desire.

Italy—In August of 1947, the Italian Government requested the International Bank to extend to Italy an interim line of credit of $250 million. A fact-finding mission of the Bank which visited Italy during the autumn of 1947 reported that there were in the Italian Government's program for reconstruction and development a number of individual projects meriting further consideration as a possible basis for a loan from the bank, contingent upon the outcome of the European Recovery Program. The Bank so informed the Italian Government and, after indicating the general types of projects falling within the Italian Government's program which appeared most interesting to the Bank, suggested that the Italian Government select a group of individual projects falling within designated categories and assemble the detailed information necessary for the appraisal of the projects by the Bank. A mission is now in Italy for further investigation.

Mexico — The Government of Mexico submitted an application for a loan of U. S. $208,875,000 in April, 1947. The application covered a series of hydro-electric, irrigation, oil pipeline, railway, port and highway projects. The Bank indicated to the Mexican representatives that much more information on the particular projects and their relation to the general Mexican economic situation was required. A Bank representative was sent to Mexico in October, 1947, to familiarize himself with Mexican economic conditions and to advise with the appropriate Mexican authorities in the preparation of the required additional information. It is anticipated that this new data will be submitted to the Bank shortly and the Bank and the representatives of Mexico will then renew discussions.

Netherlands—In addition to the loan already granted to the Netherlands consideration is being given to a request for a loan to finance the purchase of cargo vessels.

Norway—There have been informal conversations of a general exploratory nature with the Norwegian Government, but as yet no definite request has been formulated.

Peru—No loan application has been received from Peru, but in December, 1947, the Peruvian Government requested that a mission be sent to Lima in order to study the Peruvian financial situation in general, and the possibilities of foreign investment in Peru. The Bank mission has visited Peru and is preparing its report.

The Philippines—Informal talks in Washington in November, 1947, resulted in an invitation to the Bank by the Philippines to send a fact-finding mission. The mission visited the Philippines during January and February, 1948, and a report is now in preparation.

Poland—A formal request for a reconstruction loan of $600 million was made to the Bank by the Polish Government in September, 1946. The general purpose of the loan was for the purchase of capital goods, mainly machinery and equipment, required for the implementation of the Plan of Economic Reconstruction prepared by the Polish Government for the four years 1946-1949. After a preliminary analysis of this application the Bank informed the Polish Government in April, 1947, that it would at that time be able to give active consideration only to a loan of limited amount to be used for the rehabilitation of the Polish coal mining industry. As a result, a revised application for such a loan was submitted by the Polish Government to cover mining equipment required for the maintenance and expansion of Polish coal production. A fact-finding mission visited Poland during the summer, after which negotiations have been carried on. They have not yet led to a conclusion.

Turkey—Preliminary inquiries have been made by representatives of the Turkish Government as to the possibility of obtaining assistance from the Bank for the financing of certain development projects which the Turkish Government has under consideration. Informal conversations with regard to this matter between the Bank and representatives of the Turkish Government are now under way.

Yugoslavia—In December, 1947, the Yugoslav Government submitted a formal application to the Bank for a loan of $500 million for the reconstruction and improvement of mines and for the development of electrification projects. No detailed information regarding the Yugoslav economy and the various projects for which financing is sought by the Yugoslav Government has yet been received.

Proposed European Timber Loan—The Bank has received from the Executive Secretary of the Economic Commission for Europe reports of the Timber Sub-Committee of that organization which state that if the European timber exporting countries (Finland, Poland, Czechoslovakia, Yugoslavia and Austria) could obtain equipment and other goods valued at approximately $17 million, they would be able to increase substantially their exports of timber to the European importing countries (mainly United Kingdom, France, Italy, Beligum and The Netherlands) in 1948 and subsequent years. The Bank is now exploring this matter with a view to ascertaining what, if any, action it can take to assist in financing the purchase of the necessary equipment and supplies.

Harry V. Van Auken Dies

Harry Vermilye Van Auken, who headed the former New York Stock Exchange firm of H. V. Van Auken & Co., died at his home at the age of sixty-nine.

Sees "Off-Shore" Purchases by ECA Opportunity For Demanding Payments Due on U. S. Exports

Wilbert Ward, Vice-President of National City Bank, points out additional dollar exchange arising from purchases in Latin America should be used to settle arrearages on remittances due on goods already shipped.

Speaking at a luncheon of the Overseas Automotive Club in New York City on May 13, Wilbert Ward, Vice-President of the National City Bank of New York stated that purchases by the Economic Cooperation Administration in foreign countries, particularly Latin America, could be put to good use as a means of compelling these countries to remit dollars due on American goods already exported to them. In his remarks on this topic, Mr. Ward stated:

Wilbert Ward

"Statements emanating from the Economic Cooperation Administration emphasize the intention to carry out the Congressional mandate that maximum use be made of private trade channels in the execution of the program. The joint release of the Administrator and the Department of Commerce of May 6 details the procedure by which procurement for specific programs may be arranged through usual trade sources. This is gratifying to the members of the Overseas Automotive Club, who can look forward, as can exporters in other lines, to dealing with the participant countries through their own agents and distributors, in supplying goods sought in the United States.

"However, it is estimated that around $2 billion of procurement for the first year's program will be 'off-shore' — purchased elsewhere than in the United States and its territorial possessions. Much of this flood of dollars will flow to Latin America. Perhaps $800 million or more will be spent in the Argentine; $250 million in Brazil. It is important to our foreign traders that the bargaining power implicit in such a shower of dollars should be utilized to the full. What are your special interests in the Latin American markets, to which this bargaining power might be applied? In the Argentine, some millions of pesos accumulated as earnings in enterprises set up with dollars and managed by United States investors, await remittance to this country. In Brazil, many millions of dollars of accepted drafts, drawn to secure payment of goods, which have long since been delivered to the drawees and passed into trade channels to support the Brazilian economy, are long overdue for remittance of the dollars to the United States exporters.

"In discussing the relation between these overdue remittances and the flow of dollars to these countries from the Economic Cooperation Administration, with various government agencies, the Administrator, the State Department, the Export-Import Bank, and the Department of Commerce, I found ready acceptance of the suggestion that 'something should be done.' But no one has held out their arms, and cried out 'that's my baby.' Nor is anyone likely to, until the baby is something more tangible than a gleam in the exporter's eye!

"So my suggestion to you of the Automotive trade, and to all export trade groups, is that you become both vocal and specific as to what you want our government to do with the bargaining power inherent in this outpouring of dollars in off-shore purchases. I remind you that on two occasions in the 'thirties, when Brazil was in default in remittance of dollars to pay for her imports from the United States, the Export-Import Bank concluded an arrangement with the Brazilian Government which enabled it to clean up this arrearage and restore Brazil to prompt payment of imports.

"Do you not think that it might be worthwhile for our foreign trade organizations to explore with the interested departments, agencies of our government, and with the Administrator, the use, to its interest, of the bargaining power created by the off-shore purchases of the ECA?"

New Orleans Bond Club To Hold Field Day; Gets Slate

NEW ORLEANS, LA. — The Bond Club of New Orleans will hold its annual field day at the Metarie Country Club on May 31st. The chairmen of the committees for the field day are Charles Manion, Merrill Lynch, Pierce, Fenner & Beane, Golf; B. Frank William, National Bank of Commerce, Athletics; and Charles Lob, Entertainment.

G. Price Crane

The nominating committee has presented the following slate for new officers, which will be voted upon on May 31:

President: G. Price Crane.

Vice-President: John E. Kerrigan, Newman, Brown & Co.

Secretary - Treasurer: Arthur Keenan, St. Denis J. Villere & Co.

Board of Directors: Joseph Minetree, Steiner, Rouse & Co.; H. W. Fowler, Jr., Weil & Co.; John J. Zollinger, Jr., Scharff & Jones, Inc.; and W. C. Hildebrand, White, Hattier & Sanford.

John E. Wheeler With Turner-Poindexter & Co.

LOS ANGELES, CALIF.—John E. Wheeler, member of the Los Angeles and Chicago Stock Exchanges, has rejoined Turner-Poindexter & Co., 629 So. Spring Street, members of the Los Angeles Exchange. Mr. Wheeler has recently been doing business as an individual dealer.

Name Is Changed To Frank & Company

The firm name of Goldwater & Frank, 39 Broadway, New York City, has been changed to Frank & Company, with the retirement of Leo J. Goldwater from the firm.

Simon Liverant Forms Co.

YORK, PA. — Simon Liverant has formed Liverant & Co. with offices at 20 South Duke Street, to engage in the securities business. In the past he was connected with J. Arthur Warner & Co. in their Philadelphia office.

Cripps' Currency Scheme—A Study in Futility

By PAUL EINZIG

Dr. Einzig maintains Brussels agreement is complete failure in providing solution for stimulating trade between Western European countries. Declares if some countries are compelled to use up dollars for financing imports from each other, their dollar deficiency will increase further. Scores European statesmen for thus blocking effective collaboration.

LONDON, ENGLAND—There is a well-known story about the Postmaster-General who inaugurated a newly-built telephone exchange by connecting the first wrong number. The governments of the five countries participating in the Brussels Alliance have certainly made a false start with their currency agreement negotiated at the meeting of the five Finance Ministers at the end of April. It completely fails in the object of stimulating trade between the Western European countries and solves none of the problems it is supposed to solve.

Dr. Paul Einzig

It was the original intention of Sir Stafford Cripps to propose to the meeting the revival of the Keynes Plan for the creation of a new inter-European currency for the purpose of settling adverse trade balances between the Western European countries. This scheme was not even submitted at the meeting. Instead, Sir Stafford Cripps came forward with a totally different scheme, under which the adverse balances are to be financed with the aid of the national currencies to be set aside on special accounts under the Marshall Plan, being the equivalents to the Marshal aid's deliveries to be received. Thus, the adverse balance of France on her trade with Britain is to be financed out of the sterling accumulating on the special Marshall aid account; the British import surplus from Belgium is to be financed out of the Belgian franc balance accumulating on the similar Belgian account, and so forth.

What Advantages?

It is difficult to imagine what advantages Sir Stafford Cripps hopes to gain by such an arrangement. If the problem to be solved were the provision of funds in the currencies of surplus countries then the formula would be useful. But the problem is to enable the deficit countries to make payment in a form which benefits the surplus countries. And from this point of view the arrangement is worse than useless. For Britain will be unable to increase her imports with the aid of the sterling to be received out of her own Marshall aid account. The transactions will merely amount to putting sterling from one pocket into the other. Indeed, from the point of view of Britain's foreign trade and foreign exchange position the arrangement will be actually disadvantageous. For, while France might make an effort to increase her exports to Britain in order to repay a sterling loan, she would certainly not try to repay sterling obtained from the Marshall aid account. And while in theory Britain might act likewise concerning the Belgian francs obtained from Marshall aid account, in practice in all probability Britain will receive no payment while she will do her best to repay her liabilities.

The futility of the proposed arrangement becomes even more evident if we examine how it affects the internal finances of the surplus countries. In the absence of any such arrangement the sterling accumulating on Marshall aid account would be used for the reduction of the floating debt. On the other hand, a government loan to France for the financing of her import surplus from Britain would increase the floating debt. Thus, if the debt repaid out of the Marshall aid account amounts to £300,000,000 and the British loan to France £100,000,000 the net reduction of the British floating debt will amount to £200,000,000 on balance. Under the new formula £$100,000,000 would be diverted from debt redemption to the financing of French imports, so that £200,000,000 will be available for debt reduction—exactly the same as the net result of debt reduction and new loan to France would have been in the absence of the new arrangement.

The Cripps plan was not accepted without modification. It was completed with the Belgian plan under which the Western European governments are to establish a dollar pool out of Marshall aid dollars, for the purpose of financing the deficits on their trade with each other. In practice this will mean that the financially strongest among them will secure the dollars of the financially weakest among them. In any case the amounts allocated under the Marshall Plan are far from sufficient for the balancing of the deficits of European countries in relation to the Western Hemisphere. If some of the countries have to use up part of these dollars for the financing of their imports from other Western European countries then their dollar deficiency will increase further.

It is not yet known to what extent the formula proposed by the Belgian Government has been accepted. But to the extent to which it will operate it will simply enable Belgium and other surplus countries in Europe to import American luxuries while it will reduce the ability of other European countries to import necessities. If French textile workers remain unemployed because the dollars needed for the import of cotton are used for the import of nylon stockings to Belgium it will not help in the task of reconstruction of Europe.

Cripps Plan Will Not Encourage Multilateral Trade

As for the Cripps plan, it will certainly not encourage multilateral trade within Western Europe. Had the Keynes Plan been adopted it would have been possible to use the international currency received in payment over and over again, and trade would be revived. As it is, once France has made payment to Britain out of Marshall aid sterling, that sterling could not be re-spent in other Western European countries. The whole scheme is utterly unimaginative and unhelpful. If the statesmen of Western Europe can do no better there is very little hope for effective collaboration between them.

Frank H. Koller, Jr. With Schafer, Miller

Frank H. Koller, Jr., formerly President and Treasurer of F. H. Koller & Co., Inc., has become associated with the New York Stock Exchange firm of Schafer, Miller & Co., 15 Broad St., New York City. Mr. Koller was associated with Schluter & Co., Inc., from 1927 until 1946 when he formed his own company. He is a director of The Vulcan Mold and Iron Co.

Frank H. Koller, Jr.

Phila. Bond Club to Hold Annual Field Day

PHILADELPHIA, PA.—H. Gates Lloyd, of Drexel & Co., President of the Bond Club of Philadelphia, has announced committees for the annual Field Day of the club on Friday, June 4, at the Philadelphia Country Club. They include:

General Committee:—Raymond J. Kerner, Rambo, Close & Kerner, Inc., Chairman; Gordon Crouter, DeHaven & Townsend, Crouter & Bodine, Assistant to Chairman.

Arrangements: — Samuel K. Phillips, Samuel K. Phillips & Co., Chairman; Chauncey P. Collwell, Merrill Lynch, Pierce, Fenner & Beane, and Clyde L. Paul, Paul & Co.

Registration:—Gordon Crouter, DeHaven & Townsend, Crouter & Bodine, Chairman; Harley L. Rankin, First Boston Corp.; and Howard E. Duryea, Starkweather & Co.

Golf: — Walter A. Schmidt, Schmidt, Poole & Co., Chairman; Russell M. Ergood, Jr., Stroud & Co., Inc., and Wallace M. McCurdy, Thayer, Baker & Co.

Entertainment:—Samuel Evans, Jr., C. C. Collings & Co., Inc., Chairman; John E. Fricke, Thayer, Baker & Co.; R. Conover Miller, E. W. & R. C. Miller & Co.; O. Howle Young, W. L. Morgan & Co.; Walter D. Larzere, Bioren & Co.; Edmund J. Davis, Rambo, Close & Kerner, Inc.; John C. Bogan, Jr., Sheridan, Bogan Co.; and George J. Ourbacker, Kalb, Voorhis & Co.

Stock Exchange: — R. Victor Mosley, Stroud & Co., Inc., Chairman; William Z. Suplee, Suplee, Yeatman & Co., Inc.; Harry B. Snyder, Yarnall & Co.; Samuel N. Kirkland, Jenks, Kirkland & Co.; and Alvin W. Jordan, Hiscox, Van Meter & Co., Inc.

Tennis: — Norbert W. Markus, Smith, Barney & Co., Chairman; Paul Denckla, Stone & Webster Securities Corp.; and S. Howard Rippey, Jr., Reynolds & Co.

Transportation: — Walter W. Buckley, Buckley Brothers, Chairman; Daniel R. Goodwin, W. H. Newbold's Son & Co.

Publicity:—Loring Dam, Eastman, Dillion & Co., Chairman; R. Conover Miller, E. W. & R. C. Miller & Co.; Carl Necker, Moncure Biddle & Co.; W. S. Boothby, E. H. Rollins & Sons, Inc.

Attendance:—R. Conover Miller, E. W. & R. C. Miller & Co., Chairman; Freeman G. Grant, Dolphin & Co., and John H. Blye, Jr., Wurts, Dulles & Co.

Public Utility Securities

Television and the Utilities

Not very much has been written in the popular magazines about the technical business of transmitting television programs. For example, a recent article in "Fortune" on television devoted only a few lines to inter-city transmission methods. Because of the broad frequency bands required, the television or "video" industry has to use special methods for long distance transmission. There are two major experimental facilities—the coaxial cable developed by the Bell system, and the microwave radio beam system, currently being developed by both Western Union and Bell.

American Telephone's coaxial cable between New York and Philadelphia, and the other cables being built to other sections, are designed primarily to handle telephone messages, though they can also be used for television. However, in some quarters it is claimed that pictures thus transmitted are apt to be "fuzzy," since the video signals are "squeezed" by putting them through the cable.

Western Union's radio relay system for television provides a $4\frac{1}{2}$ mc band width which assures high picture quality. The Western Union system also has the advantage of being reversible. The terminals are located on the broadcasters' premises, thus eliminating the need for local loops.

Pioneering in the development of a radio beam system, which will replace the familiar poles-and-wires used for carrying telegrams, Western Union was the first communications company to establish a super-high-frequency radio relay system. A triangular beam system has been constructed to link New York, Philadelphia, Washington and Pittsburgh and an experimental system has been in operation between New York and Philadelphia since 1945.

Western Union's radio beam system utilizes relay towers 30 to 50 miles apart to relay the microwave signals. Since microwaves travel in a straight line, towers must be used to redirect them at intervals to compensate for the curvature of the earth. The towers are of varying height and their location is flexible, so that high land costs can usually be avoided (hilltops are particularly desirable where such locations can be found near principal roads and good power lines).

By utilizing the same towers, buildings, and other physical facilities used in its radio beam telegraph system, and adding television equipment, Western Union can furnish both types of service at lower costs than under separate operation. The telegraph company is rushing the installation of the first two television relay circuits and expects to have them ready in June to "pipe in" the Philadelphia Convention proceedings to New York video stations (for local rebroadcasting). Being reversible systems, the Joe Louis fight could also be piped from New York to Philadelphia for the amusement of the politicians.

Western Union is using Philco television relay equipment and engineering facilities, with Sperry heterodyne klystron tubes. The new video system is free from the effects of sun-spots and other electrical disturbances.

Bell has installed a microwave system between New York and Boston and can use it for television channels. Bell will utilize both coaxial cables and the microwave towers for television transmission until the relative advantages of cable vs. microwave have been fully determined, or at least until a network of towers is constructed. Bell recently announced a heavy program for expanding both systems territorially.

Vice-President d'Humy of Western Union has stated: "For the television industry to flourish on a nationwide basis, network facilities must be provided to bring a great variety of programs into every area, and at a cost which television broadcasters can afford. Western Union believes this can best be done by microwave radio relay. In this respect it enjoys the unique opportunity to share its present and proposed telegram radio relay facilities with broadcasters of television programs. The same maintenance personnel can be utilized for both telegraph and video services, thus reducing the cost of supplying service and permitting rates which will be attractive to broadcasters and encourage expansion of the industry."

The electric companies may eventually benefit substantially from television because of the large amount of current used for operating receivers. Profits will be greater from home sets than those in taverns and theaters, where lower rates apply. It is too early, however, to appraise the possibilities with any accuracy.

Curb Elects Eight To Nominating Comm.

The New York Curb Exchange has announced the election by ballot of eight candidates for Class A membership on the exchange nominating committee in a letter addressed to Curb members. The primary election was held on the trading floor Monday.

Garry Onderdonk of L. A. Mathey & Co.; Joseph J. Harris; John K. Harden of Brown, Kiernan & Co.; Arthur C. Brett of Goodbody & Co.; James F. Byrne, Jr.; N. Matthew Nilssen of Laird & Co.; Robert A. Kugler of Shearson, Hammill & Co.; and William N. Moxley were the successful candidates. They are now eligible for the final election on Tuesday, June 8, 1948.

Also eligible, as Class B candidates, for the final election are O. Viking Hedberg of Auerbach, Pollack & Richardson; Henry Parish, II, of Carl M. Loeb, Rhoades & Co., and Charles J. Williams of Edward J. Duffy & Co.

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.

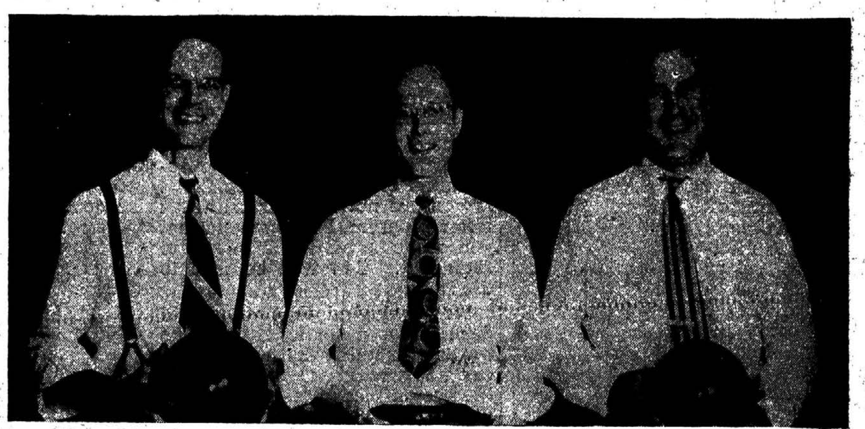
David D. Greenspan of Kimm & Co.; Frederick B. Spencer, and Philip G. Volple of Bendix, Luitweiler & Co. were tellers for the primary election.

Mallory, Adee & Co. to Admit Three Partners

Mallory, Adee & Co., 120 Broadway, New York City, members of the New York Stock Exchange, will admit William S. Sagar, member of the Stock Exchange, Alfred V. Smith, member of the New York Curb Exchange, and George E. Hite, III to partnership on May 29. Mr. Sager in the past was a partner in Sagar, Seeholzer & Co. and W. S. Sager & Co. Mr. Smith did business as an individual Curb floor broker and was a partner in May, Borg & Co. and Frank C. Masterson & Co.

Bond Club of Denver Winning Bowlers

The winning team "Shorts" (won 34, lost 36): Harry E. Buchenau, *Bosworth, Sullivan & Co.;* John J. Mullen, Jr., *Garrett-Bromfield & Co.;* William Steck, *J. A. Hogle & Co.*



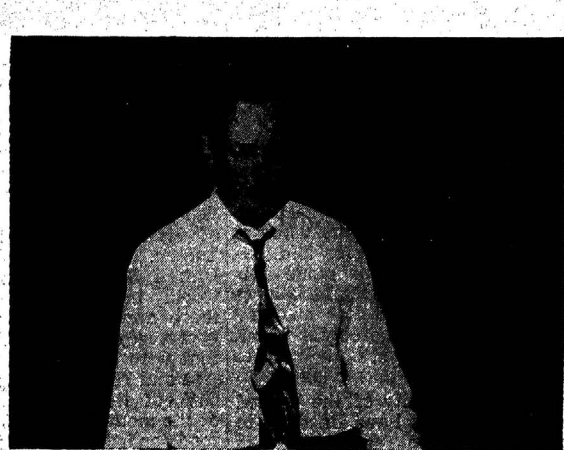
Second place winner "Traders": George B. Fisher, *Bosworth, Sullivan & Co.;* Neiswanger, *Garrett-Bromfield & Co.;* Harold Huber, *Hamilton Management Corp.*

"Locals" tied for 3rd winner high series: Ernest E. Stone, *Stone, Moore & Co.;* William Snowden, *Brereton, Rice & Co.;* Phillip J. Clark, *Amos C. Sudler & Co.*

Ray Robinson, *Sidlo, Simons, Roberts & Co.;* Donald L. Patterson, *Boettcher and Co.;* Alexander Forsyth, *Calvin Bullock*

Don Patterson, *Boettcher & Co.*, Captain of "Value Lines"

Karl Mayer, *J. A. Hogle & Co.*, high individual season average, 175



Tom Wallace, *Central Republic Co.*, low average (128 for year)

Malcolm Roberts, *Sidlo, Simons, Roberts & Co.*

John Alff, *Amos C. Sudler & Co.*, second high individual

Ernie Stone, *Stone, Moore & Co.*, third high individual

A Business Man's Platform

By THOMAS J. BANNAN*
President, Western Gear Works, Seattle, Wash.

Western manufacturer tells California Bankers center plank of business man's platform is to combat attacks on our economic system of free enterprise. Deplores growth of bureaucracy and sees strain on economy in carrying heavier load of production for military and civilian goods. Wants spread by bankers of information of benefits of free enterprise.

You have been in session throughout the day studying subjects related to banking, finance, inflation and money. It is not my intention to try to add to your technical concept. If I were a politician, I know just how I would please you and gain your attention.

Thomas J. Bannan

As a business man, it's not so easy. But as a politician I would suggest I could obtain:

(1) A minimum salary of $25,000 a year for each and every junior executive in the banking business with appropriate upgrades commensurate with officers' titles.

(2) A government subsidy that would underwrite any and all losses suffered by your institution and, of course, an increase in interest rates.

(3) An increase in deposits and better opportunity for investment.

(4) And, finally, two vacations a year and an increase in the number of bank holidays.

As a practical business man, such statements are ridiculous, though they are not too remote from some we have heard made for the benefit of certain groups.

I have never been interested in a political office and this is not intended to be a treatise on party politics. But if politics is an interest in the management and welfare of our country and if politics is going to influence the path of business in the future, then all of us in business should be politicians. Politics, national and international, has become a challenge to every American business man in the conduct of his affairs. Business men must have a platform from which they can build confidently and upon which they can stand firmly and beat off unwarranted and unscrupulous attacks.

Center Plank

In some circles even today it is not fashionable to be an American and all of us can remember in the last several years when it was "smart" to criticize and belittle the things that made this country great. We can be thankful that that trend has changed and it should be the center plank of our business men's platform to give impetus to that change.

In every locality of the United States thousands have lined up to see the Freedom Train. There is a "new look" in party politics and people are becoming concerned with the poltical integrity of their candidate. It is encouraging to observe the efforts that individual businesses and business organizations are expending to revaluate and reawaken Americanism. The new program of the United States Chamber of Commerce "The American Opportunity Program" is one example. The National Association of Manufacturers, which has been a bulwark against the attacks on our Competitive Enterprise System, has been receiving more universal acceptance in all strata of society. Unbiased research polls prove this. One of the most comprehensive and well developed program that I have yet had the pleasure of reviewing is being currently released by a joint committee of the American Society of Advertising Agencies and the Association of National Advertisers. If you are not familiar with this latter program, I recommend that you make a particular effort to review it. You will be able to use it.

*An address by Mr. Bannan before the Southern California Bankers Association, Los Angeles, Calif., April 17, 1948.

Was it logical that we would drift into a national attitude where everything that was American was wrong? Or were we led there by a scheming group of political opportunists whose one objective was personal aggrandizement? Certainly, our economic machine had one of its breakdowns in 1929, but was that an excuse to import foreign statism or preach a doctrine bottomed on class distinction, distrust and jealousies? There is no such thing as perfection this side of Utopia —or, if you prefer, Shangri-la.

Invasion of Foreign Ideologies

Every engineer knows that the perfect machine has not yet been built. He knows that he never designed a machine that he could not improve upon before building could be completed. But he knows even better that the way to make progress is not to throw away the best machine that has yet been built or to abandon principles that have been proven successful. We should ask ourselves if our political leaders were endeavoring to repair our machine when they placed imported nuts with crackpot ideas in high places. Nuts have their proper place in a mechanical contrivance but not on a governmental machine. Those who are always preaching unrest, dissatisfaction, misunderstanding and discord and who allegedly, to improve our standards, would substitute for the American system of economics and politics the foreign ideologies of Communism or Socialism — and yes, even New Dealism in its more extreme forms—simply disregard the facts.

We enjoy—and this point is not debatable—the highest standard of living the world has ever known. A hundred years ago the United States rated fifth in the world in industrial output. Is there anyone who questions our supremacy today? We all know that with only 6% of the world's area and 7% of its people, we have 60% of the telephones, 80% of of the motor cars, 35% of the railroads and that we produce 70% of the world's oil, 60% of the wheat and cotton, 50% of the copper and pig iron. There are more automobiles in California than in Great Britain, France and Italy combined. In our country there are 410 square feet of living accommodations for each person, in England 105 and in Russia 40. Some people choose to forget how fortunate we are so we should repeat these facts over and over again. It should be to our everlasting glory that after being forced into a terrible war, we won it—and in doing so, also won the greatest gamble of all times—the harnessing of atomic power—while concurrently furnishing most of the materials for ourselves and allies.

All this came because of our American system of economics; a system built on the recognition of private property, free markets, profit, wage incentives, competition and government regulation—without participation. It came because we recognize God and religion and have a system which permits political, intellectual, spiritual as well as economic freedom. The second plank then in our American business men's platform should be a reaffirmation of faith in our tradition—our system. We should have faith in ourselves, in our jobs, in our country and in our God.

Western Progress

I am a Westerner. My mother and father were born in California. The West is a big country and most Westerners think there is a big future ahead. The West has had a spectacular growth. The population in the seven Far Western States has increased five times since 1900. The national population has only doubled in the same period. Referring to California's three million population jump in the last eight years, Dr. Robert Sproul, President of the University of California, recently stated, "As far as I know, history does not record any previous occasion when so many people have voluntarily migrated to one circumscribed area in so short a period of time."

In the seven Far Western States —those west of the Rockies—we have 23.7% of the area of continental United States but even with our upsurge only 11% of the population. We enjoy 13% of the national income and 14% of the retail sales. But with 11% of the population and 14% of the retail sales we have only 7.1% of the manufacturing employment. In a steel age we produce, even after the addition of huge plants at Geneva, Utah and Fontana, California, only 3½% of the nation's total steel tonnage. We use twice that amount. The implication is clear; there is need of and an opportunity for more manufacturing in the West.

We are on the threshold of the atomic age—in the West in the State of Washington at the Hanford Engineering Works we are inside the door. The forces of destruction in cosmic energy we will deliver to the Russians when they make the request. The constructive forces are being developed for America's friends by American ingenuity and know-how. The potentials are so vast that they exceed the imagination. Much is confidential about the 1000 sq. mile project at Hanford, so much so that one hesitates to mention above a whisper what one sees. But it is easy to dream of new Detroits or Pittsburghs or a new Los Angeles situated on the Columbia River. It is significant that Richland, which had a population of 247 in 1940 will shortly have a population of 65,000.

One interesting and well founded rumor related to the choice of the site, its probable permanence and the attractiveness to future industry is this: When the plant was running at the then capacity in the Spring of 1945 with three piles operating, the atomic heat generated raised the temperature of the Columbia River a measurable amount. Some have indicated that the raise was unimportant, but one degree Fahrenheit has been mentioned. Since the flood rate of the Columbia River in the late Spring reaches 1,000,000 cu. ft./sec. with a mean temperature of 50.5 degrees F., one doesn't have to be an Einstein to compute that something big goes on there or to suspect that sites for plutonium plants are not handled by every real estate office.

The West was founded by pioneers, advocates of Individual Enterprise if there ever were any. One '49er slogan was "Cowards don't start; the weak die on the way." The West is still being built by pioneers, men and sons of men who have the energy and the will power to leave the haunts of their youth and strike out in new environment. The spirit of the pioneers has had a dominant influence in the development of our nation. There is not a man in this room, unless he be full-blooded Indian, whose forebears, if we go back far enough, did not leave home and strike out alone into a new territory—America. What is the West's greatest asset? The very same thing—only the influences are less remote. In this we are fortunate. The habits of work, of enthusiasm and of independence are still alive. Thus the third plank of our platform becomes self-evident. Business men in the West must fight to retain a Western atmosphere that is truly pioneer, which connotes truly American.

Since 1932 nearly 40 million people have become of age in the United States. Forty million people, and only about 48 million voted in the last Presidential election. Is there any wonder that many think that a long cigarette holder and a radio speaker's voice are the primary requirements of the Chief Executive of the United States? And we face another national election in a few months. There is need of much education.

Not long ago I was shocked and disturbed to read the results of a poll made by George Gallop late in 1947. The question was asked, "Assuming that the pay is the same, would you prefer to work for the U. S. Government or for a private firm?" If you don't know, make an estimate in your own mind of what you think the results of this survey were. How many of you here would prefer to work for the Government? Mr. Gallup found that 41% of the people interviewed preferred government employment, 40% said they would rather work for a private firm and 19% had no opinion. Think of it. Over half of those who expressed a choice preferred the security, the serenity, the stifling atmosphere of a government job. The implication is obvious. The self-confidence, the independence and ambition of our forefathers must be resuscitated. It can only be rekindled by facts and knowledge. Once the majority of people willingly trade their freedom for apparent security, the first stages of a police state are upon us. It is an illusion and a political snare for anyone to believe there is an easy road to security and that there can be a guarantee by legislative decree of "freedom from fear" or "freedom from want."

About 60 million people have jobs in the United States. Most of them good jobs by international standards. About 13 million of these are employed in industry. For each employee in industry it is estimated that $6,600 is invested in plant inventory and other assets. To create a new job costs $8,000 or more.

Industry, with its 13 million people, is about to be asked to carry a tremendous load in our country, greater than anything ever dreamed of before. For the next few years it is expected that our manufacturers will:

(1) Supply the military goods for our defense;

(2) Supply the civilian goods for 145 million fellow citizens whose pockets are bulging with money, and

(3) Supply the military and civilian goods—in part, at least—to stem Communism and feed and clothe 800 million people outside our country.

Our economy will be strained and there will be conflict of interest, but if not hampered by dreamers' restrictions and if given the cooperation of labor and the body politic, I believe industry will carry the load.

There is no need for me to argue here the case for the need of personal profit and incentive in business. Bankers know better than most business men that the reward must be related to the hazard—and without an incentive there is little drive. In a free economy individual profit is the driving force; in a police state it is gunpowder or hunger.

Profit Misconceptions

Let me present two or three ideas related to profits which, to say the least, are sobering.

Prior to 1930 this nation for 60 years had on the average plowed back each year into the formation of new job-creating, progress-making capital 20% of our gross national product. It took 20% of all the wealth the country created to provide the new buildings, new machines, new methods that meant better jobs and lower unit costs. But in 1929 we had an accident and in 1932 we had a new deal. Between 1930 and 1945, judged by the traditional formula, capital failed or was unable to provide funds for replacement and expansion to the extent of $144 billion. When we recall that it takes $8,000 or more to create one new job, the seriousness of the deficiency is evident. Rich or poor, every American's future depends upon the rebuilding of our national plant by making up this loss to our economy. Congress in providing a reduction in personal taxes for the first time in nearly 20 years indicated a keen realization of the problem. A major revision of our whole tax system is advocated by many honest Americans who have studied the problem.

Here are some other figures that as bankers you would certainly worry about if they applied percentagewise to any one company to which you were lending money. From Department of Commerce data, from 1939 to 1946, there was invested by the manufacturing industry throughout the nation in new plant and equipment $107,376 million. Relating the Department's index of construction costs as of that date to cost at date of completion, to replace that same plant and equipment in December, 1946, would cost $169,289 million. This is $62 billion more than the original cost. The total profit of those same groups of companies in the same period was $51,765 million or $9 billion short. Extending by estimate these figures through 1947, we find this: The replacement cost due to further inflation increased another $23 billion and the total net profit of these same companies during 1947 was only $8.8 billion. In other words, since 1929 manufacturing corporations, if they retained all their earnings —an impossible assumption— would be about $15 billion short of funds to keep their plant up to standard or to replace their job-making machines. The effect of inflation is just as real to a corporate body as to the individual. Many overlook this and some choose to forget it.

One more set of facts. Much has been said about the profits in industry and in corporations during 1947. A study has been released of 3,102 leading corporations (45% of all corporations), about half of which are manufacturers. Total profits after taxes for the calendar or fiscal year of 1947 were $9,228 million. Based on book value, which is far from the "real" or replacement value as we have just seen, $9¼ billion is 12.2% return on the capital invested. The manufacturing corporations appear to have done somewhat better, but the President in his earlier economic report used more corporations and indicated a profit of 9.5% on net book worth. Whether we use 9.5% or 12.2% when we consider the normal hazards of business, the impact of inflation and the effect of Section 102 with double taxation, it seems to me that no honest critic unless he be an avowed Socialist, should claim that the return to investors was excessive in a boom year—especially when we consider that about 1/6th of the profit before taxes represents an increase in inventory value which, though taxable, is certainly not bankable.

The economist is interested in the percentage of net corporate profits to the gross national product, the executive in a manufacturing concern thinks in terms of the percent of profit to sales. All corporate profits after inventory adjustment and Federal taxes in 1947 amounted to 5.2% (a mighty small percentage) of the gross national product. Figures prepared for a fair sampling of the leading manufacturing companies show a profit of 7.1 cents per sales dollar in 1947. In 1946 this figure was 6.0, 6.5 in 1941, 7.5 in 1940, 7.4 in 1937 and 7.6 in 1936. It would take very little drop in volume or a very small increase in unit labor costs to wipe out a profit of 7 cents per dollar. To get an expert and unbiased opinion of what corporate profits should be, you might ask the paper boy on the corner if he would be happy if he had to sell over 700 five-cent papers to make himself $2.50.

By way of driving home my point, let me quote a statement issued by the Department of Commerce which, since the abdication of Mr. Wallace, is presumed to be reasonably impartial. It is as follows: "The total value of production in 1947 was higher than ever before and corporate profits shared in the general advance. As a percentage of total income originating in the private sphere, corporate profits before taxes corrected for inventory profits were not higher than in prewar years of prosperity although of course they were much higher than in depression years. Corporate profits after taxes were lower than in years of prewar prosperity because of the heavier incidence of taxation."

Necessarily these observations are only a small portion of all the pertinent factors and considerations that relate to an important subject. But, nevertheless, they are facts. You don't make loans or formulate policies unless you are confident that you have facts and that they justify your conclusions. You cannot justify your faith in the American system without following the same processes. Thus we state another plank in our platform. Make it your business to know the truth and the whole truth. Keep informed.

Applying Education

A very well-informed industrialist made this statement the otherday. He said, "Many of us have become so absorbed in handling our personal jobs efficiently that we have forgotten the game itself cannot continue very long if the fields locally and nationally on which it must be played are not kept in good order." Gentlemen, I believe we can put our fields in good order if, being informed ourselves, we educate the uninformed and correct the misinformed.

Within the last few months I was having luncheon with a friend of mine, an important executive in one of our large manufacturing companies, whose wife was a stockholder in the General Electric Co. He commented on the fact that the company had released a memorandum to its stockholders along with a dividend check which displayed the end result of double taxation on corporate earnings. My friend stated that his wife, an intelligent and very energetic woman, was so upset in learning these facts that she sat down and did what more of us should do. She wrote a protesting letter to her Congressman.

I was as amazed at his comments as apparently his wife was over the information for I had assumed that wives of executives and every stockholder had recognized the burden and inequity of this double tax. More people need to be made cognizant of the high cost of being governed.

Only the other day one of our honest employees, while presenting his case for more money for the same work, told our Personnel Manager that corporations could juggle profits to suit themselves since dividends to stockholders were considered an expense of operation. Think of that —dividends an expense of operation! It might not be a bad idea for tax purposes, but it isn't so. Education is needed. We must correct the notions that base wages, regardless of the contributions, must increase at each contract anniversary and that there is no relationship between wages and costs. Employee income constitutes 85% of the final cost of any manufactured product. The majority must be convinced that one can't have milk and steak from the same cow.

That is another plank in our platform. Bankers and business men are not being sufficiently vocal—dynamic enough—in their advocation of the American Individual Enterprise System. Bankers particularly have an opportunity it is criminal to neglect.

Any discussion today that refers to economics or the future certainly must make reference to the international difficulties of the moment. Whether we like it or not, we are in a state of preparation for war. Whether war will come soon, or later, or can be averted no one seems to know. The situation is tense, tomorrow may be D-Day, but I have yet to find anyone who believes that the Russians have the secret and the facilities to produce the atom bomb. Two billion dollars was spent in the finest industrial plants of the world before the first explosion at Los Alamos. One kilogram—about 2.2 pounds —of that atomic stuff is the equivalent of 40,000 tons of T.N.T. One billion dollars has been spent improving our technique and product since V-J Day. We have plenty of bombs. If the Russians want to attack our kind of power they are in greater despair than we guess.

But during the present emergency it is important that we do not adopt governmental controls and programs that further violate our heritage to freedom. There has been too much concentration of power in the state and too much encroachment on the rights of the individual in the last fifteen years. An emergency is just the excuse some of the bureaucrats are looking for to centralize and grasp more power. Partial controls are harbingers of ultimate domination. In time there can be no such things as a partial control. It is essential that the plans and programs made for for our safekeeping and the defeat of Communism be made within the framework of our American ideology. It would be the height of folly to fight totalitarian oppressors with "FREEDOM" as our battlecry and, after winning, end up with a police state. And so to complete our platform, we must exercise constant care that emergencies do not supplant normality. And we must be vigilant that we do not sacrifice old and fundamental principles for momentary expediency.

Frankly, there is little new in the platform just evolved. But if there is not novelty there is logic and strength. Dynamics always have been a characteristic of Americans. This is no time to retreat. We must meet the enemies of our proven system by striking out from a platform which is soundly erected. We must have action, faith, confidence and knowledge. We must supply leadership and we must be vigilant.

The challenge of the American business man today is to prove that he and America are not accidents. If he cannot, industry as we know it will disappear and banking will become a clerk's job supervised by a bureaucratic gestapo. Intelligent action and articulate expression now can induce the members of a democratic state to do that which is best for themselves, their children and their country.

Gentlemen, what are you doing and what are you going to do about this grave challenge?

Current Trust Investment Policy

By RAYMOND RODGERS*

Professor of Finance, New York University

Professor Rodgers declares necessity of distinguishing between short-term and long-term outlook. States demonstrated "hybrid vigor" of American people should encourage confident investment in long-term trend. Over short-term he expects underlying business conditions will worsen sufficiently to absorb new inflationary pressures. For balance of year he advocates trust officers should follow adage "cash is the best policy."

Trust officers must always be extremely careful to distinguish between the short-term outlook and the long-term outlook. This is much easier said than done. In fact, it is almost a psychological impossibility. It is the very nature of man that when he becomes pessimistic about some things he is prone to take a "dim" view of nearly everything else. Or, when he is optimistic, he professes to believe that "Heaven on earth" is perfectly normal and that adversity cannot possibly intrude.

Raymond Rodgers

Let us now focus our mental lens on first one, and then, the other, of these problems taking the easy one first—the long-term outlook. Most people seem optimistic about the immediate future and pessimistic about the more distant times. I can't agree with them. If I dared really to "break down" and give you my innermost convictions as to the future of this country and its institutions, you would either think, as you say in New England, that I was "teched in the head" or that I was a professional patriot. Believe me, it is not flag-waving when I say, with the poet, "the best is yet to come!"

We have problems, of course, which must, and will, be solved. But by practically any economic or political standard, we are so far ahead of any other country that it is almost impossible to make comparisons which are meaningful. Will we continue ahead? Can our nation, in this "One World" which is so much discussed nowadays, maintain a level of wealth and a standard of living which is so far out of line with all other nations?

Reasons For Our Economic Success

Your answer to whether we can continue in a class by ourselves will depend on what you think caused our unparalleled economic success. If you think, as many do, that our national well-being came from our natural resources, then you belong on the mourner's bench because many of our natural resources are reaching the point where conservation is imperative, and some may even reach the point of practical exhaustion in the not too distant future.

Still others hold that it was our boundless west with its free land, no debt burden, and no taxes which permitted a continuous expansion that kept the economic system healthy and operating at high levels. If you think that explains our economic might, you are entitled to the head seat on the mourner's bench because there isn't any more free land.

On the other hand, if you agree with me that it was the hybrid vigor of the American people and our free institutions which gave us our wealth and our might, then you can have no rservations on the future of America. You can invest with every confidence in the long-time trend. Believe me, it is just as true today, as it was more than fifty years ago when J. P. Morgan, Senior, said that any man who is a bear on America is bound to go broke.

Short-Term Outlook

Appraisal of the short-term outlook is much more difficult. Never have trust officers had to face so many baffling uncertainties. Successful trust investment under normal conditions is a highly complex and difficult problem; under present conditions, it almost defies solution.

On the international side, both Central and South America have economic and political unrest, England continues to sink farther and farther into the economic morass of state planning without authoritarian enforcement, Europe continues to plead poverty, in the Orient conditions are steadily getting worse, and Russia continues to throw her weight around. Surely a discouraging international picture.

On the domestic side, a mighty tug-of-war is on between the forces of inflation and the forces of economic correction, or as business men prefer to incorrectly state it, the forces of deflation. (Actually, you know, we shouldn't use the world deflation to describe an economic readjustment until after it passes the normal level on the way down.) What the near-future outcome will be, is anybody's guess. "You pays your money and takes your choice!"

As you will recall, an economic readjustment got under way late last spring but the crop failure in Europe, the short corn crop in the United States, and the decision of the Administration to feed the friendly nations of Europe, despite the adverse effects on our economy, put up the prices of food and caused a major reversal of the downward trend. In the early part of this year, the long overdue business readjustment again got under way but since then government actions have been taken which could again reverse the trend.

Tax reduction of $4,800,000,000 is, as a practical matter, although it may be argued in theory, inflationary. The European Recovery Program can be handled, although I certainly hope not, in such a way that it will be strongly inflationary. The rearmament program, even if we spend only a part of the billions which are being bandied about in Washington, is bound to create serious inflationary pressures.

Renewed Deficit Financing Possible

Increased expenditures and decreased taxes may result in an unbalanced budget and the return of deficit financing. The economic and financial consequences of deficit financing are now well-known to bankers and most businessmen, but please note that there will be a new element in any new financing that we may have in the near future which will cause very important repercussions—as the advertising boys say "something new has been added." Obviously, if the Federal budget surplus is eliminated, the monetary authorities will have to abandon their present credit restriction policy or permit government securities to seek their own level. As it is unthinkable that they would, or could, permit government bonds to break par as long as there is an imminent possibility of new borrowing, their decision can easily be foretold. In plain English, this means that if the government fiscal policies develop as now indicated, the Federal Reserve System may be forced to abandon its battle against inflation unless, of course, new legislation is forthcoming from the Congress. The possibility of new legislation seems remote, judging from the hostile reception accorded such recommendations during the last two years. Please note, however, that if the inflationary conditions are aggravated, a change may take place.

If the Federal Reserve System is forced to change sides in this economic tug-of-war, then it will indeed be "every man for himself" unless underlying business conditions shall have worsened sufficiently to absorb the new inflationary pressures. I hasten to say that the latter is what I anticipate. In my opinion, tax reduction, rearmament, and the European Recovery Program will be a cushion to our business readjustment rather than the springboard for another turn on the corkscrew of inflation. I base this conclusion on the fact that our economy is now running on a $230 billion basis which, by comparison, makes the new expenditures seem relatively insignificant. Even with the European Recovery Program expenditures of $6 or $7 billions, exports will undoubtedly drop below the record $19.6 billions of 1947, and that is the acid test. Inventories have reached an astronomical level of some $42 billions which certainly ought to mean that the end of the demand for goods for inventory accumulation has been reached. Bargain sales, closing-out sales, aggressive merchandising, and price reductions in many lines indicate that the consumer pipelines are beginning to overflow.

Price Break Overdue

Clearly, on the basis of our past wars, our postwar price break is overdue, in fact, it appears to be eighteen months overdue. This is an element of weakness in the present situation which must not be underestimated.

It is against this background of basic economic developments, international political pressures, psychological tides, government debt management, and credit control by the monetary authori-

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*A talk by Professor Rodgers before Annual Trust Conference, Connecticut Bankers Association, New Haven, Tuesday, May 11, 1948.

Current Trust Investment Policy

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ties that the trust officer must make his investment decisions.

Hardy soul that I am, I shall now tell you the investment policy I would follow under the present conditions and outlook if I were a trust officer.

Basically the price of bonds, like anything else, depends on supply and demand factors; but, nowadays, superimposed on these fundamental influences we have government management of the public debt and Federal Reserve credit restriction policies which are the real controlling factors.

A decline in either commodity prices or business volume will reduce the demand for credit without appreciably affecting the supply, and thus affect the price. As indicated earlier, I expect this to happen, which would warrant us in anticipating easier money rates if it were not for the credit restriction policies. But, as I also indicated earlier, the disappearance of the Federal surplus, which now seems inevitable, will force the abandonment of the present type of credit restriction efforts. Nonetheless, as it will take time for these influences to develop, I do not expect any consequential changes in the long-term rates for the next six months.

More specifically, I expect the 2½% rate to be maintained on the long-term governments. As the debt managers will not permit governments to drop below par, the rate cannot go up. On the other hand, as a practical matter, regardless of the basic trend of interest rates, the 2½% rate will not be permitted to drop materially because the Federal Reserve Banks will start selling some of the billions of long-term government bonds acquired during the last eight months, the moment the market shows a rising tendency.

If, by chance, you think they can't support the long-term issues at par, consider that since last November they have lost through redemption or have sold $7,384,000,000 of short-term obligations while they were supporting the government bond market by purchasing some $5,872,000,000 of the long-term issues, which means that the credit base of the country (bank reserves, if you please) was decreased $1,512,000,000 by these operations during the period. True, the acquisition of short-time obligations has made the member banks more liquid and their sale has made the Federal Reserve Banks less liquid. But, as a practical matter, liquidity in this sense is of little importance to the Federal Reserve Banks. It really makes no difference to them whether the securities they hold are long or short-term as they are in a position to hold their securities as long as they desire to do so. It follows that they can continue selling shorts and buying longs until they run out of shorts! This will take a long time as they still have $15 billion of bills and certificates which they can use to swap for your government bonds as long as you bankers are willing to be outswapped!

This all means that beyond question the monetary authorities can maintain the 2½% rate if they desire to do so. And, I can see nothing on the horizon which would cause them to want to change.

With the 2½% rate setting the pattern, AAA corporate issues should sell on a yield basis of a little more than 3%. Please note, however, that although the end of the boom will have a favorable effect on government bonds and on AAA corporate issues, it will have a serious adverse effect on medium-grade bonds, especially those unduly subject to credit factors. The break-even points in industry are so high today that even a slight decline in business activity will have such an adverse effect on earnings that medium-grades will drop because of the increased credit risk. In short, to the extent that we have a business readjustment, the spread in the return on medium-grade issues and those of AAA quality will widen. Now is the time to insist on quality in your bond purchases!

This is probably as good a time as any for me to point out that the short-term rate is going a little higher. We can't be certain when the Federal Reserve will act, but it seems inevitable that another ⅛ of 1% will be permitted in the near future.

As for municipals, they follow the tax changes more than basic interest rates. If taxes are put up, and it seems that they will be with rearmament and other expenditures mounting, municipals will be strong. This will be especially true if the excess profits tax is returned to anything like its wartime status in the tax structure. The tax feature is so important in municipals that it has been a long time since they were on an investment basis for those who did not need the tax advantage. As most bond men are prone to overrate municipals, may I remind you that the twenty bonds in the "Bond Buyer's" index sold on a 5.52% basis on Dec. 1, 1933! This a certainly a far cry from the present levels, but it does show what can happen.

As for preferred stocks, where permitted, I am not too enthusiastic. Economic affairs are at a turn. Many uncertainties lie ahead. The break-even points are high in industry. The prices of many preferred stocks are out of line. Personally, I would take it easy until the outlook clarifies somewhat.

Common stocks are more in line with realities than the preferred. Common stocks have not yet risen enough to offset the decreased purchasing power of the dollar. Many industries will continue to operate at a high level regardless of any business readjustment which may materialize. Profits are large in most industries and an increase in unemployment will cause the productivity of labor to rise. There is, of course, the danger that taxes will be raised. If the Congressional appropriations continue during the next few months at a high level which makes a deficit in 1948-9 inevitable, then it seems fairly certain that corporate taxes, and possibly personal taxes, will be increased. Considering the heavy national debt we now have, it would seem reasonable to expect the Congress to make every effort to balance the budget by taxes before resorting to deficit financing. Weighing everything, it would seem, therefore, that carefully selected common stocks of companies in industries which will hold up well in a business readjustment may be brought where permitted.

Reasonable Liquidity Advocated

However, and this is a big however, in view of the uncertainties ahead and the probability that we are at a turn in business activity, I would not keep fully invested. In general, I would stay reasonably liquid for the balance of the year; and, if not liquid, at least **high-grade.** It probably is carrying "coals to Newcastle" to suggest that trust men should be conservative, but there are times when cash is the best policy!

High Cost of Government Produces The High Cost of Living

By EARL O. SHREVE *

President, U. S. Chamber of Commerce

Business leader states government spending is main cause of price pressure and squeeze on consumer. Scores extravagance in items remote from defense or foreign aid. Calls on pressure groups, including business interests, to refrain from self-interested appropriation demands.

The high cost of living is on everybody's mind and in the headlines of every newspaper. Your five-cent subway ride has gone with the inflation wind! So has the five-cent loaf of bread, the five-cent cigar and the $5 billion Federal budget. You now have a ten-cent subway ride, a sixteen-cent loaf of bread and a 40 billion dollar peacetime budget.

Earl O. Shreve

The cost of a loaf of bread and the government budget are directly linked in the chain of economic trends. The high cost of living is an unwelcome offspring of the high cost of government. Both the offspring and the parent of this fiscal lineage could be the subject of that popular song, "You're Too Fat For Me."

Government has been eating millions of its taxpayers out of house and home—literally. It is time for government to undergo some reducing exercises. A lot of the bulges can be taken out of the budget without impairing essential government services or national security. I shall cite some facts and figures to back up this argument.

First, let me reiterate one point. As long as government pours billions of borrowed dollars into the streams of consumer spending, prices will be under pressure to rise. Too well we have learned this truth of economics during the astronomical government spending of the past fifteen years. The ten-cent subway ride and the sixteen-cent loaf of bread are products of that upward trend in government spending which began with New Deal efforts to prime the pump with borrowed millions.

Remember the sugar-coated phrase which was applied to these early maneuvers in planned deficit spending? It was called "reflation." Well, we've been reflated . . . plus. We've been reflated to the peaks of 1920. In food prices, we've been reflated above the 1920 peaks. Now the problem is how to get down from those peaks without hurting ourselves, how to get the bulges out of the budget.

I am not implying that World War II budgets could have been financed without deficits. I recognize that inflation is a heritage of war. And I am fully aware that the Federal budget now shows a record-smashing cash surplus; that the Treasury is retiring more money from the market than it is putting in.

The effects of this shift in Federal finance away from deficit spending have been salutary. Inflation pressure has eased somewhat in recent months. Investment confidence has been bolstered.

Rather than detracting from my main thesis that the cost of government is too high, the Treasury surplus points up my argument. Government should work to maintain a surplus over spending and to retire bank credit from the swollen money supply. To do this government will have to economize to the utmost and stop spending for anything not vital.

*An address by Mr. Shreve before the New York Rotary Club, New York City, May 13, 1948.

Morass of Red Ink

Otherwise, the Federal Government may plunge into a morass of red ink again. More billions are being demanded for national defense, in addition to the billions for the European Recovery Program. Meanwhile, pressure groups continue their efforts to get appropriations for their own purposes, regardless of the national welfare. It all adds up to forty billion dollar peacetime budgets and a painfully high cost of living.

Government should be tapering off spending now from the war peaks; instead, the trend in Federal spending is rising again. Today, nearly three years after the end of World War II, a national budget of nearly $40 billion has been proposed for fiscal year 1949. Defense spending is projected upward. The budget is ten times the budget of the late twenties, five times the immediate prewar budgets. No wonder we are away out on that limb of high costs!

These costs enter into the prices of everything we eat, wear and ride, including the subways. The high cost of government is absorbing more than 25% of the national income through taxes, Federal, state and local. Some people shrug off the high cost of government as an unavoidable result of war.

In his January budget message, the President noted that 79% of the proposed expenditures for the fiscal year 1949 directly reflected the costs of war, the effects of war and efforts to prevent war.

Non-War Spending

But this is not the whole story of the budget. All along the line you find increased spending in items remote from defense or foreign aid. Many items of war and defense spending by prewar standards would have been considered grossly excessive in the burdens they place on taxpayers.

The pressure of organized groups has resulted in unnecessary bulges all over the budget. These pressure groups include government bureaus and agencies. It is time for the taxpayer to work up some real resistance to this pressure. Otherwise the taxpayer may find himself squeezed further between high taxes on one side and rising living costs on the other. You know how painful this squeeze can become.

The spending programs championed by various groups for the most part are worthy activities. Some may benefit special regions or segments of the population. Others have national or international significance. The total of these projects, on top of war and defense costs, and indispensable government services, makes an intolerable load for taxpayers.

The new tax law has reduced individual income taxes moderately, but not the high cost of living. The high cost of living can be brought down only by rigid economy in the Federal budget as well as in the household budget. All of us, as groups and as individuals, must plan and work for economy. And that includes the economy of abstaining from demands upon government for spending which cannot be justified in the light of national need. Self-restraint in the smaller items of the budget will add up to solvency in the total.

The non-war items in the 1949 budget amount to $8.3 billion. That used to be considered big spending. The average of all government spending over the two decades between World War I and World War II was much below this $8.3 billion, which is but 21% of the proposed budget. In the twenties the total in most years was only a little above $3 billion.

National Solvency Threatened

In calling attention to categories of increased spending, I do not mean to express lack of sympathy with the purposes of these expenditures. Rather, I cite these to show how the overall effect is to swell the budget to the point where the nation's solvency is threatened.

Moreover, inflationary fiscal policy raises living costs. Thus the individual beneficiaries of Federal spending may lose more in the end from rising living costs than they gain directly from the national Treasury. Certainly that lesson has emerged from the inflation trend of the last few years.

Outstanding among Federal expenditures which have increased under organized pressure are those for veterans, social welfare, agriculture and public works. Millions of individuals benefit from these expenditures. And these same millions are losers by the rise in living costs.

Most public spending involves politics and votes. It is particularly opportune to point this out in an election year. We need the courage to face these facts now, when the nation must build and maintain its strength. National security rests on a foundation of economic strength. And the core of our economic strength is sound Federal fiscal policy.

Everyone wants generous treatment for war veterans, especially the disabled. Still, many veterans themselves now see the gravity of fiscal problems raised by veterans' benefits. As late as 1945, some authoritative students of government estimated probable costs of postwar veterans' benefits at $2.8 billion. Instead, in the fiscal year 1947, it was $7.4 billion. The estimate for 1949 is $6.1 billion.

The present level of veterans' expenditures is about the same as all government costs in the middle thirties. This is something everybody should ponder, in considering revision of Federal laws to avoid another plunge into deficit spending.

Who has more interest in safeguarding the nation's finances than those who live off pensions and other fixed incomes? Those who receive veterans' benefits, those who count on social security for old age pensions and unemployment benefits, should be among the staunchest advocates of a balanced Federal budget.

The 1949 budget estimate for social welfare, health and security is about $2 billion. That is double the figure for fiscal year 1944.

Moreover, $1.7 billion in payroll tax revenues are being diverted to the old age and survivors insurance trust fund without appearing as a budget expenditure.

The President has proposed the broadening of this program to all gainful workers. This shows how the budget grows and bulges, with no end in sight.

Playing Leap Frog With Living Costs

Like the wage-price spiral, this is another game of leap frog with rising living costs in which everybody stands to lose unless government spending is kept within reasonable bounds.

Another bulging item of expense is education and research. The 1949 budget has $387 million for this item compared with $77 million this year. The increase comes mainly from $300 million in grants to states for elementary and secondary education.

Then there is $905 million for agriculture in fiscal 1949, not counting spending by Federal corporations on behalf of farmers. Congress for many years has shown a disposition to favor farmers in spending, pressed by farm organizations and frequently by business groups. This spending continues at a high level in face of the extraordinary prosperity enjoyed by farmers. It illustrates how spending becomes imbedded in the budget after it has begun on the plea of emergency.

Likewise startling in the 1949 budget, in midst of the struggle against inflation, is $2.8 billion in proposed public works. That figure is $800 million more than the total this year and double the 1947 figure. The item for flood control and rivers and harbors, for instance, has been raised to $620 million from $445 million in 1948 and $266 million in 1947.

So it goes through a long list of budget items. It all adds up to a $40 billion budget and the high cost of government. And that means the high cost of living, a 10-cent subway fare and a 16-cent loaf of bread.

Business groups have the responsibility to refrain from pressing Congress for more spending. So have veterans' groups and farm groups and civic groups. However worthy their causes, however, urgent their projects, there is none so worthy, nor so urgent, as the cause of the whole nation.

The national interest now demands the utmost economy in government spending. The United States Chamber of Commerce urges sound fiscal policy as a keystone of national security and has recommended that business organizations refrain from pressing Congress for appropriations for area, state and local projects. The Chamber urges business groups to use their influence with others, including state and local authorities, against this type of spending.

The high cost of government will sap our national strength at the core unless we have the will and the foresight to exercise self-restraint and to demand economy in public spending.

In everyday language, the high cost of government is the high cost of living. The cost of both is borne by the same fellow, Mr. John Q. Citizen. He is the fellow who is now squeezed by the high cost of living and whose clamor for relief makes the high cost of government a prime national issue.

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to see how the whole of the expansion could have contributed to increased production, but during the first three months of 1948 we regained much of the ground we lost during the preceding twelve. Adjusted demand deposits plus money in circulation totaled about $109.4 billion at the end of March, 1948, compared with $113.7 billion in December, 1947, and $110.0 billion in December, 1946. That is taking advantage of the very favorable situation which existed during the first quarter of 1948, in which most of the Treasury's surplus for the fiscal year 1948 was concentrated, in which a sharp break in agricultural prices shook the easy optimism of business and consumers and in which business borrowing is not ordinarily large in any case. Nevertheless, I should say that we could take considerable satisfaction in our performance with our existing powers if it were not for recent events which have aggravated the problem ahead.

Our Changed Situation

(4) It is clear, I think, that proposed increases in our military expenditures and tax reduction (plus continued foreign aid) taken together have created a new situation with respect to the coordinated program of credit policy and debt management which we have been pursuing to restrain the expansion of bank credit. A main reliance of that program, a whacking surplus in the cash budget, has been taken away from us. There are various estimates of what the fiscal results of the year 1948-49 will now be, but with the possible exception of some Congressional committee estimates, they don't leave us much fiscal ammunition. A great deal depends, of course, on how rapidly increased appropriations for preparedness are translated into actual expenditures. Our figures indicate that, barring a possible business recession which would cut down Treasury receipts, there will be a cash surplus of between $1 and $3 billion. This amount is probably no more than enough to take care of voluntary public redemptions of maturing Treasury securities, leaving nothing for redemption of securities held by Federal Reserve Banks. In fact, because of the uneven distribution of Treasury receipts and expenditures, the government might conceivably be a temporary borrower of small amounts for short periods during the latter part of the calendar year 1948—that is, during the first half of fiscal 1949. Our existing program of credit control won't be in working order much longer without some adjustment.

(5) It is uncertain, of course, whether there will be a revival of strong inflationary pressures during the second half of this calendar year, or later, and it is still debatable what and how much should be done to try to curb such pressures by over-all monetary action if they still persist. It has seemed likely, as a consequence of approaching completion of postwar plants for plant construction, expansion, and improvement in a number of industries, that there would be a falling off in business capital expenditures during the latter half of 1948 or the first half of 1949. If government expenditures (and deficits) do not pick up rapidly, it is conceivable that the inflationary effects of renewed spending may be offset by this decline in private capital expenditures. There are other elements in our economy—i.e., supply of some goods overtaking demand and the prospect of better world crops this year than last year—which would also mean a relaxation of inflationary pressures or even the introduction of deflationary forces. These can be set off against tax reduction, a sustaining influence on the demand side, increased military expenditures which will give a fillip to domestic production, European and other foreign aid expenditures which will help maintain a high level of foreign demand, and a third round of wage increases, all of which singly or taken together have inflationary implications. It cannot be too easily assumed, however, that we are definitely headed into another inflationary upsurge, nor, if we are, that it will be of the kind to demand drastic over-all monetary measures. Let me quote from the official press release concerning the memorandum to the President by the Council of Economic Advisers, dated April 9, 1948:

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

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

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

This may be an argument, say, for allocation of certain materials where specific bottlenecks develop or shortages appear, or for some other kind of direct controls, but I certainly do not think it is an argument for drastic over-all monetary controls.

(6) Nevertheless, if we take account of the possibility that we may be faced with the necessity of resisting strong inflationary pressures during the second half of this year, or the first half of next year or later, we must also take account of the possibility that these pressures will give rise to increased and inflationary demands for bank credit, even though they are primarily due to non-monetary causes. Fiscal policy, debt management and credit control should then be ready to make their contribution to the renewed struggle against inflation. The choices before us have been classified (assuming for the present that we shall not quickly reverse ourselves and increase taxes) as trying to cut down: (a) military expenditures; (b) other government expenditures; (c) private or public investment; (d) personal consumption.

Here I express rough opinions. Although there should be room for some paring of previously planned military expenditures now having a lower order of priority, and every effort should be made to this end, it is unlikely that much will be accomplished. Similarly, in the field of other Federal Government expenditures, every effort should be made to hold them to a minimum, but the prospect for substantial economies is doubtful. Federal investment expenditures may be curtailed, but state and municipal expenditures are expanding rapidly. As I have suggested, a gradual decline in private capital expenditures seems likely, unless the contemplated effects of increased military spending are exaggerated or actual expenditures prove to be greater than presently estimated, and pressure for private capital expenditures again increases. An invigorated campaign to sell savings bonds can help sop up loose dollars. And, finally, by means of action in the monetary and credit field we can attempt to prevent or restrain a further expansion of consumer and business purchasing power based on bank credit, but we can't do much, if anything, about purchasing power already in existence, unless we want to take measures so drastic as to risk a serious over-all decline in production and employment.

Our Present Powers

(7) Does this leave us entirely helpless with our present powers? I think not. With fiscal policy inhibited and debt management reduced in scope, monetary policy may be able to play a relatively more important role than in the recent past when it has been leaning heavily on Treasury surpluses. If there is a decrease in the demand for private capital funds the pressure on long-term rates which asserted itself last fall will be relieved. Maintenance of the 2½% long-term rate on government securities should not then require us to put large sums into the market, if in fact support by us is necessary. Meanwhile, we could proceed further with increases in short-term rates, so as to maintain a healthy degree of uncertainty as to future action, so as to keep the banks liquidity conscious, and so as to encourage them to use whatever reserve funds come into their possession (through gold imports, return flow of currency, Treasury expenditures, or otherwise) to purchase short government from us. While I do not believe that a public hearing of this sort is the place to try to give details of the immediate moves which the Treasury and the appropriate groups in the Federal Reserve System may be considering, I can say that I do not agree that we have necessarily approached the limit of increase in rates on short-term government securities which might be permitted without endangering the long-term market. The pattern of interest rates, in which rates follow a smooth downward curve toward the short-term end of the rate structure, has now prevailed for so long that we tend to regard it as normal. In fact, however, the present rate pattern was an outgrowth of quite abnormal circumstances — namely, the accumulation, before the war, of a huge volume of excess reserves in our banking system. Prior to 1930 short-term interest rates were more commonly above long-term rates than the reverse. And even if we admit that other things are no longer equal, we need not be too concerned about the long-term market. In theory at least, so long as we are firm in our support of the 2½% rate for long government bonds, we have made that a demand rate and there is no reason why rates on shorter-term obligations could not approach this figure. The facts, as distinguished from the theory, of course, might suggest or require that we stop at a lower figure.

One fact that must be taken into account, but must not be allowed to outweigh more important considerations, is the cost of servicing the public debt. It is easy, if one does not stop to make an actual calculation, to exaggerate the effects of a rise in short-term rates on the positive and immediate cost to the taxpayer of interest payments on the public debt. The fact of the matter is that a rather considerable rise in short-term rates could occur without too much positive effect on the budget during the next few years. The major factor in the rise in the budgetary item of interest payable on the public debt that has already occurred is not the small advance in short-term interest rates to date, but rather the increasing rate of interest accruals on savings bonds, due to the practice of accruing interest on the basis of the increments in redemption values, rather than at the rate of interest payable from issue date to maturity date. This practice has had the effect of reducing the budgetary provision for interest payments on the debt in the earlier years of the life of the bonds, at the expense of substantial increases in the later years. But, of course, no increase in actual cash outlays is involved until the bonds are redeemed. Once the facts of this situation are understood, the argument that we cannot follow an appropriate monetary policy, because of its effects on the burden of servicing the public debt, loses some of its force.

Support of Government Security Market

(8) This latter discussion may suggest a subsidiary question which I know is in some of your minds. Why should we support the government security market, and to that extent circumscribe our powers and our actions to control the volume of credit? Obviously, there is a conflict between our desire to restrain credit expansion and our acceptance of the obligation to maintain stability in the government security market, although this conflict has been exaggerated in some current discussion. The facts are that the System's purchases of government securities have been exceeded by the System's sales and redemptions, by more than $1½ billion since market support purchases were begun last November, the total amount of Federal Reserve credit outstanding has been reduced by approximately $3 billion since the end of 1946 and by about $4 billion since the end of 1945. We have moved to offset the effect of gold inflows and other factors tending to expand commercial bank credit, despite our concern about the government security market. Our policy has been actively anti-inflationary, if it has not been deflationary. If this had not been so, there would have been no need for us to support the government security market. Banks would have been swimming in reserve funds, and government securities (and probably other securities) would have had a more or less continuous bull market. I suggest, therefore, that it has been possible to support the government security market, as we have been supporting it, without

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The Government's Handling of The Current Credit Situation

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stimulating an undue expansion of bank credit. I justify the policy we have followed, not on the basis of cheap money or low interest rates so far as the government debt is concerned, although that has its important aspects, but because I question what good could have been accomplished by a vigorous aggressive policy of overall credit contraction—such sales of government securities from our portfolio as might have broken the market. As I said, in my testimony before the Banking and Currency Committee of the Senate last December, in view of the large involvement of our whole economy with a Federal Government debt of over $250 billion, in view of the continuing need for refinancing parts of that debt, and in the face of an imperative demand for maximum production, if we are to solve our domestic problems and meet our commitments abroad, it seems to me that those who suggest raising the discount rate sharply and selling government securities out of System account, without regard to the effect on the price and yield of such securities, are talking in terms of a situation which does not presently exist. Such action would probably be effective in checking the further expansion of bank credit, but at a cost in fiscal and financial disorder, and in terms of reduced production and employment which no one would want to contemplate now. A general monetary control, if used drastically enough works through a restriction of production. The steps in the process are restriction of money supply, rise of interest rates, contraction of employment and production, contraction of income. I know of no monetary device which would enable us to avoid these consequences and I think it is an illusion to think that some painless way of avoiding the consequences of making credit really tight, can be found. To use our existing powers without regard to interest rates and the government security market, in order to get the effect our critics suggest, would mean that our action would have to be drastic enough to lower the money income of a large segment of the consuming public. To accomplish this by over-all monetary or credit action would mean a serious decline in production and employment. Such action could only be justified if we were faced with a runaway inflation due solely or primarily to monetary causes. That is not our present situation and that cannot be the right policy now.

(9) To sum up this section of my testimony, we are in difficult but not impossible circumstances. We may be faced with another upsurge of inflationary pressures, but that is not certain, and in so far as the remedy is to be found in monetary action—and in most circumstances it will be supplementary at best—we still have a few shots in our locker. In other words, we should neither magnify the dangers we face nor minimize the effectiveness of the weapons we have to combat those dangers.

Regarding the Proposal to Increase Bank Reserves

(10) It has been suggested, however, that our situation may become much more critical, that we may be faced at some future time with an accelerating price rise, that our present powers may run out or prove ineffective, and that we should arm ourselves with additional powers as a necessary precaution. It has been proposed, first, that the Federal Reserve System be given authority to increase the primary reserve requirements of all commercial banks and, second, that if still further powers are needed the System be granted supplementary authority to impose a special reserve requirement permitting banks to hold, at their option, an additional reserve in specified cash assets or in short-term government securities. I do not think that either of these proposals would be particularly effective in checking the kind of inflation we are supposed to be worrying about—that is, a real runaway inflation with a monetary background—while constantly seeking their imposition does run a considerable risk of seriously interfering with our present program, and their actual application could not help but be upsetting to the securities market as deficient banks adjusted their positions to meet the new requirements. It is true, of course, that an increase in reserve requirements, either primary or special, or both, would put pressure on the banks and would reduce the ratio of possible expansion of bank loans and investments based on a given volume of reserves. But so long as we maintain our present policy of support of the government securities market, banks would still be able to obtain additional reserves (and some multiple expansion of credit would still be possible), if the alternative were to deny funds to a borrower they wished to accommodate, or to pass up an attractive investment. Commercial bank policy, individual customer relationships, the incidence of possible capital losses, and relative interest rates, would still be the sanctions in such cases, and our influence could be brought to bear just about as effectively by increasing short-term interest rates, as by the more clumsy method of increasing reserve requirements. As an instrument of short-run credit policy, increases in existing reserve requirements which must be applied in jerks and in chunks to large groups of banks regardless of their individual policies and positions, are not very useful. And if we should in the future, get into a situation in which it is imperative that additional emergency powers be available and used, in which aggressive monetary action must be taken to check a runaway inflation, regardless of the risks of such action, the powers would have to be stronger than any yet proposed. It would not be enough merely to reduce the possible ratio of expansion of bank credit: we should probably need powers that would enable us to stop the further expansion of bank credit in its tracks. I would rather try to meet that situation when and if we come closer to it, than try to anticipate its requirements now.

Too Much Geography

(11)) Going beyond such temporary emergency action which might be considered, in the future as a way of meeting an urgent and critical (but still hypothetical) situation, a more fruitful long-term approach to the whole problem of reserves would seem to be to attack the problem at its base. First, there is the method of fixing reserve requirements. I think the present method is based too much on geography and too little on existing banking facts. It is time to give serious consideration to a system of reserves related to the character of deposits rather than to their location. I think we shall find that, in the words of a recent study, we are now at a point where we could devise a uniform system of reserve requirements, uniform as to banks wherever located, and distinguishing only inter-bank deposits, demand deposits, and savings deposits which would be economically defensible, administratively feasible, equitable as between banks, and adapted to our banking system as it has evolved through the years.

Second, there is the question of the leverage factor in our present system of proportionate reserves. There may well be reasons, taking the long view, for an increase in the reserve requirements of the commercial banks of the country, and of the limits within which those requirements can be varied by the Federal Reserve System. I am inclined to believe that this could be a progressive step in our monetary-banking organization, especially if there should continue to be a persistent and substantial inflow of gold. With a modern central banking system operating in a highly developed deposit banking system, and with a decreasing reliance upon gold, much of the need for low reserve requirements and consequent economizing in the provision of money by commercial banks has disappeared. In these circumstances there may well be a balance of advantage in higher reserve requirements, as a means of reducing the dangerous expansibility and, at times, constructive contractability of a money supply based on low reserve ratios of commercial banks. There may be too great an element of leverage in our present system to be left at the disposal of 14,000 banks. We should try to discover whether there is some practical way, as a long-term improvement and not as an emergency device, to increase reserve requirements so that the ratio of expansion on a given base would be less than it is now. Perhaps the answer could be found in a modified ceiling reserve plan which would authorize an increase in reserve requirements—whether primary or special—on any increase in deposits after the effective date. Not an increase to 100% or anywhere near it, but to some figure which, on the average, would bring total reserve requirements nearer to the desired ratio, whatever it might be determined to be than the ratios which now exist. These are the directions in which I believe Federal Reserve study and the consideration of Congressional committees should be taking us.

Integration

(12) There are other things to be considered if we are going to take the long view rather than the short view. There is the integration of monetary and credit policy and powers which have been given to the Federal Reserve System, with related powers exercised by the Treasury and other agencies of the government. These diverse authorities wield overlapping powers which have been granted over a period of years—frequently with a view to strengthening some weak spot in our economy—without much regard for their accommodation to an over-all economic policy. Action taken in one place may accentuate inflationary or deflationary tendencies while we are fighting them in another. Then there is the organization and functioning of the Federal Reserve System itself. I have always believed and still believe that we have in the Federal Reserve System a wise blend of national authority and regional responsibility, of government control and private participation. But it is some time since the Congress gave us its mandate and various interpretations of its intent have gained currency. More and more, it seems to have become the habit to think of the System as a head office in Washington with 12 branches or subsidiaries in the 12 Federal Reserve Districts, and even to forget that the Board of Governors is a board and not a chairman with deputies, great though the powers of the Chairman may be. More and more, it has become the habit to minimize the value or deny the propriety of any private participation in the affairs of the System. I oppose these tendencies.

I think we shall do well to retain the regional characteristics of the System, both in the matter of decentralized operation and, more important, in the matter of System national policy. No one would deny the need for coordination of general credit policy, but we now have, in the Federal Open Market Committee, the statutory means of achieving this while retaining some regional participation and responsibility. This committee is composed, as you know, of the seven members of the Board of Governors and five of the presidents of the Federal Reserve Banks. Here are brought together, under statutory auspices and with statutory responsibilities, men who are devoting their full time to the problems of the Federal Reserve System and who are in touch with governmental policies and private views and opinions, in Washington and throughout the country. The Federal Open Market Committee now controls the principal weapon of credit policy—open market operations in government securities. It is time, I think, for the Congress to consider whether it would not be a forward and constructive step to charge the Federal Open Market Committee with the related credit powers now exercised solely by the Board of Governors and to consider this committee as the body to which any additional powers should be granted.

I also think we shall do well to retain the modest measure of private participation in the affairs of the System which we now have, and to make effective use of those public-spirited men who are willing to serve as directors of the Federal Reserve Banks. It has been argued that the only way to insure the place of the Federal Reserve System in our financial affairs is to deprive it of all taint of private participation. The government, so the argument runs, would be willing to place full reliance on the System's existing powers, or to give it additional powers, only if the remaining vestiges of private participation are removed. This seems to me to be a misreading of the longer-term future and a miscalculation of the policy which will serve us best now. Rather than seek powers by trying to make ourselves just another government agency, we can claim powers because we are a successful working example of government functioning in the economic field, with the aid and support of private business. Our experience in government-business cooperation—government having the dominant voice, as it should have in the field of monetary and credit policy—might be a sign-post along the way to solution of one of the major economic problems of the postwar years: the relation between government and business in our whole economy.

It may be that these are not matters within the immediate purview of your committee. They are matters, however, which affect any long-range consideration of credit powers and credit policy. There has been no general review of our whole monetary and credit organization and its workings since the studies of the National Monetary Commission which preceded the establishment of the Federal Reserve System in 1913. It is time, I submit, to review all of our legislative authorities in the light of our experience and our existing economic environment.

A Private Marshall Plan for American Investments Abroad

(Continued from page 6)

declare their holdings with accuracy.

This census shows that, as of May 31, 1943, U. S. holdings of foreign assets amounted to $13.5 billion. Direct investments accounted for 54% of this total, securities or portfolio investments 27%, deposits or short-term assets 6% and other types 13%.

Although no census of private U. S. owned assets abroad has been taken since 1943, the Treasury Department and the Department of Commerce have estimated private holdings, at the end of 1946, to stand at $15.6 billion, an increase of $2 billion in three and one-half years. If the U. S. Government investments of $5.3 billion are added, our total investment abroad, both public and private, is estimated at $20.9 billion in 1946. Table I shows these assets by principal category.

The latest data presenting a geographic breakdown and figures for the various types of assets are those of the Treasury census of 1943. The analysis presented in this article, therefore, deals principally with our assets abroad in 1943 as presented in the Treasury publication "Census of American-owned Assets in Foreign Countries."

At the end of May, 1943 investments were distributed almost evenly between Canada and Newfoundland on the one hand and Europe on the other. These two areas accounted for approximately 65% of the value of all foreign holdings owned in the United States. Latin America was next in importance with American-owned properties totaling $3.5 billion. Our holdings in Canada amounted to $4.40 billion and were more than four times as valuable as those in either Germany or the United Kingdom.

The value of our most important assets located in the

TABLE I

Estimated Value of American-Owned Assets in Foreign Countries, End of 1946

(In millions of dollars)

United States Investments Abroad	$20,885
Private United States Investments	15,605
Long-term	14,380
Direct Investments	8,500
Portfolio Investments	5,880
Dollar Bonds	1,535
Foreign Currency Securities	2,900
Estates and Trusts	210
Other	1,235
Short-term	1,225
Deposits	440
Other	785
United States Government Investments	5,280
Long-term	4,715
Short-term	565

NOTE—Direct investments, book value; private securities, market value; government loans and short-term assets, stated value.

Source: Based on Treasury Department, TFR-500 data, adjusted by the Department of Commerce and Treasury Department on the basis of current information.

American Republics were Cuba $590 million, Argentine $497 million, Mexico $422 million, Venezuela $399 million, Chile $388 million and Brazil $335 million. In the American Republics, the largest holdings consisted of interests in controlled enterprise. These varied from 66 to 90% of the total for each country. Securities owned were next in importance.

The Owners of Foreign Assets

As of May 31, 1943 more than 215,000 American individuals, corporations and other organizations owned foreign assets. Seventy percent of these owned property valued at less than $10,000 and having an average value of $2,300. Most of these small owners were individuals, estates and trusts. Even among corporations, however, approximately 30% reported less than $10,000 worth of foreign property.

Individuals owned $3.6 billion or about 26% of the total foreign assets, while estates and trusts and non-profit organizations reported $727 million and $380 million, 5 and 3% respectively. Twelve thousand corporations and other profit-making organizations in the U. S. owned $8.9 billion of foreign assets or about two-thirds of the total owned in this country. The average value of property owned by corporations was $740,000.

Individuals in the U. S. were primarily interested in stocks and bonds. One hundred and sixty-eight thousand individuals reported ownership of foreign assets having an average value of $21,000. Estates, trusts and non-profit organizations owned stocks and bonds to a much greater extent than any other class of property.

American Interests in Controlled Enterprises Abroad

Investments in American controlled foreign enterprises abroad are often called "direct investments" and were the most significant category of American-owned property abroad. By the end of 1946, it was estimated that these investments totaled $8.5 billion.

In 1943, more than 6,000 individuals, corporations and other organizations in the U. S. had controlling interests in 15,210 foreign enterprises. These holdings had a book value of $7.4 billion, at that time, and constituted approximately 54% of the total U. S. privately-owned investments in foreign countries.

Most of these investments were located in Europe, Canada and the American Republics. In May, 1943 our holding in Europe totaled $2 billion, Canada $1.7 billion and the American Republics $1.6 billion. Table II shows the American-owned controlling interests in enterprises in foreign countries by type of business, as of May 31, 1943.

More than two-thirds of these enterprises, both in number and in value, were organized abroad as corporations. The other principal form of organization utilized was the branch. Approximately 87% of the value of controlled enterprises abroad was held by 2,608 U. S. corporations; the remaining 13% was owned by American individuals, estates, trusts and partnerships. One hundred corporate groups, composed of 385 U. S. enterprises, owned 70% of all interests in controlled enterprises abroad.

Our control of these enterprises was generally based on a majority interest in the voting stock. Table III shows the ownership of these direct investments by type of organization abroad.

TABLE III

Number of American Controlled Foreign Enterprises and the Value of American Interests by Type of Organization Abroad as of May 31, 1943

(Values in millions of dollars)

	Number	Value
Corporation	10,536	$5,096
Branch	2,452	1,944
Partnership	1,670	168
Non-Profit Organization	552	157
Total	15,210	$7,365

NOTE—For statistical purposes control was determined on the basis of the ownership by one person or by a group of persons of 25% or more of the voting stock of corporations and similar interests in partnerships and other organizations.

Foreign Securities Owned In the U. S.

By the end of May, 1943 Americans owned securities amounting to $3.7 billion. Government and government - guaranteed obligations comprised one-half of the total and amounted to $1.5 billion and $378 million, respectively. Stocks and bonds of private corporations accounted for most of the other half—$1.4 billion and $432 million, respectively. Other types of holdings, such as warrants and rights, were relatively unimportant and were valued at but $14 million.

Canadian securities of all types were held in large volume in 1943 and accounted for 64% of the total value of foreign stocks and bonds owned in the U. S. European securities were net in value and amounted to 22%, while those of all other areas formed a relatively small part of the total.

American-owned foreign securities are generally divided into two main classes; first, stocks and bonds denominated in foreign currency; second, bonds payable in U. S. dollars, generally called "foreign dollar bonds."

In these days of dollar shortages, the distinction between these two types is far from academic. The interest on foreign dollar bonds must be paid in dollars while the service on foreign currency denominated securities can be paid in local currency. The foreign dollar bond, therefore, carries an additional element of risk; the difficulties associated with obtaining dollars by foreign governments and foreign enterprises to service the debt.

The total value of our foreign dollar bonds amounted to $1.6 billion in 1943. Those of the American Republics, including Central and South America as well as the West Indies, amounted to $184 million. Our holdings of Canadian and Newfoundland dollar bonds were considerably larger and stood at $1.2 billion while those of Europe totaled $79 million, Africa $1 billion, Asia $23 million and Oceania $34 million.

The Canadian issues were sold at close to par while those of other areas averaged about 95% of par. These foreign dollar bonds were generally part of an issue, sold both in the U. S. and abroad, during the last 25 years. Between 35 and 40% of the outstanding foreign dollar bonds, however, were owned in the U. S.

Our experience with investments in foreign dollar bonds has not been entirely satisfactory since many countries which borrowed after World War I later defaulted on their obligations.

Our total holdings of securities denominated in foreign currency in 1943 amounted to $2.1 billion. The largest share of this total was represented by Canadian and Newfoundland securities valued at $1.1 billion. Other American Republics, including Central and South America and the West Indies, accounted for $142 million. Those of Europe were $735 million, Africa $32 million, Asia $74 million, Oceania $8.4 million.

Other Foreign Assets Owned in the U. S.

All of the other foreign assets owned in the U. S. amounted to $2.5 billion in 1943. The largest type was real estate valued at $846 million and located principally in Europe. Bullion holdings in foreign countries and foreign currency were very small in value and amounted in 1943 to but $364 million. Interest in estates and trusts abroad totaled $210 million and were located principally in Europe.

Miscellaneous assets, accounting for $1.1 billion in 1943, were composed primarily of goods, merchandise, notes and accounts receivable, together with other claims. The accounts and notes receivable were largely owed to U. S. corporations by debtors located in Canada and Latin America. A considerable part of the goods and merchandise consisted of furniture, jewelry and other objects left in Europe by repatriates and refugees.

U. S. Income From Private Investments Abroad

The income from American-owned private investments abroad has not always kept pace with the increase in the investments themselves. Thus, for instance, in 1919, when our total investment abroad was $7 billion, the income amounted to $544 million. In 1939, when our assets were estimated at $17.2 billion, the return amounted to but $541 million.

This relative fall in income was due to a declining rate of interest; the reduced earnings of certain investments; declines in primary prices; and to the fact that new enterprises abroad add considerably to the amount of invested capital but do not contribute immediately to income received.

TABLE IV

Income from American Investments Abroad 1919-1939

(In millions of dollars)

Year	Total	Portfolio	Direct	Short-Term
1919	544	87	433	24
1920	588	96	452	40
1921	405	121	208	76
1922	544	154	351	39
1923	676	181	457	38
1924	602	212	347	43
1925	752	254	454	44
1926	793	288	446	59
1927	821	324	429	68
1928	922	374	474	74
1929	982	409	467	106
1930	876	429	373	74
1931	674	383	180	111
1932	460	311	85	64
1933	417	267	105	45
1934	436	215	200	21
1935	521	188	320	13
1936	568	176	380	12
1937	577	158	410	9
1938	584	135	440	9
1939	541	133	400	8
1940	561	142	413	6
1941	535	130	400	5
1942	496	134	358	4
1943	497	125	368	4
1944	556	134	418	4
1945	539	142	392	5
1946	767	191	571	5

The return on American investments abroad is quite sensitive to movements of the business cycle as Table IV, prepared by the Department of Commerce, shows. Income from government-owned debt has been excluded from these figures.

The depression of 1921-22 is reflected principally in the decline in the return on direct investments. The boom years of the twenties show the growing prosperity in all types of U. S. investments abroad. The depression years of the thirties are likewise reflected in these figures, especially in portfolio and short-term investments. Although the returns on direct investment declined in the early years of the depression, they started to increase in 1934, largely as a result of improved economic conditions.

Between 1940 and 1945, income on our overseas investments declined. In 1946, however, this income increased, principally for direct and portfolio investments.

Table V, prepared by the Department of Commerce, shows the income received from American direct investments in selected countries, 1943.

There is an extremely large variation in the rate of return on investments among the several countries. In 1943, American direct investments in India, for instance, earned a rate of return of almost 16%. The yield on Chinese direct investments, however was but ½ of 1% in that year. Our investment in Egypt earned 11.4%, South Africa, Brazil and Chile 10.3% each. In general, the rate of return was above 6% in the Sterling Area countries and in the American Republics, although the variations between the several American Republics was substantial.

Table VI, prepared by the Department of Commerce, shows the average yield of American investments abroad, by industry and area, in 1943.

There was a wide variation in yield in the same industry in the various areas. The highest yield was in mining and smelting in the American Republics, 11.9%, and the smallest in public utilities located in "other areas." Mining and smelting was a good income producer in all areas as was also petroleum. Miscellaneous industries, on the hand, made a rather poor showing.

The Future

These figures show that America has been fulfilling its role of creditor nation as far as private investment is concerned. The results, however, have been rather spotty. Some poor investments have been made, especially in dollar bonds. All of the direct investments have not proved profitable, although many of them have.

In the coming years, American finance will doubtless be called upon to play a larger and larger role in world affairs. If our loans and investments are to prove of maximum efficiency—that is, if they are not only to promise immediately satisfactory returns, but pave the way for future opportunities—much more thought and planning — more group action — will be required.

There is no reason why economic development should be the exclusive purview of governments and international bodies. Private loans have played an important part in the past in this work. Their role in the future can be extended but will need much thought.

Instead of piecemeal loans, an integrated private program is needed. The alternative to public planning need not be no planning, as many would have us believe. It could very well be private planning—private financial plans, which look more to the welfare of the debtor nations than to immediate profit and which in the long run, will yield the best and most permanent returns.

TABLE II

American-Owned Controlling Interests in Enterprises in Foreign Countries (Type of Business as of May 31, 1943)

(In millions of dollars)

	Value	Percentage
Manufacturing	$2,153	29.2
Mining and Smelting	625	8.5
Petroleum	1,393	18.9
Public Utilities and Transportation	1,227	16.7
Agriculture	503	6.8
Trade	654	8.9
Finance	374	5.1
Miscellaneous	279	3.7
Non-Profit	157	2.1
Total	$7,365	99.9

NOTE—For statistical purposes control was determined on the basis of the ownership by one person or by a group holding 25% or more of the voting stock of corporations and similar interests in partnerships and other organizations.

TABLE V

Income Received from American Direct Investments by Areas and Selected Countries, Value of Investments and Yield, 1943

(In millions of dollars)

Country	Income	*Value	Yield
Sterling Area	$58.1	$863.0	6.7%
Australia	7.8	114.5	6.8
British West Indies	0.7	33.0	2.1
Egypt	1.9	16.7	11.4
India	6.5	41.0	15.9
South Africa	5.5	53.4	10.3
United Kingdom	32.1	526.3	6.1
All Other Countries	3.6	77.9	4.6
Canada	109.5	2,290.0	4.8
American Republics	180.9	2,728.0	6.6
Argentina	15.8	393.3	4.1
Brazil	23.5	232.0	10.3
Chile	34.6	336.2	10.3
Cuba	19.9	527.8	3.8
Dominican Republics	5.7	70.5	8.1
Guatemala	4.4	86.9	5.1
Honduras	1.8	37.0	4.9
Mexico	16.9	286.2	5.9
Panama	6.0	112.9	5.3
Peru	8.0	70.8	11.3
Uruguay	0.6	5.5	10.9
Venezuela	38.1	370.5	10.3
All Other Countries	5.6	198.7	2.8
Other	19.3	1,885.0	1.0
China	0.2	40.0	0.5
Portugal	1.3	14.1	9.2
Spain	0.7	123.5	0.6
Sweden	1.0	32.8	3.0
Switzerland	1.3	43.6	3.0
All Other Countries	14.8	1,630.9	0.9

Detail will not necessarily add to totals because of rounding.

*Value figures are as of May 31, 1943, and include capital of U. S. citizens residing abroad amounting to roughly $50 million, for which a geographic distribution is not available. Income on this investment is not included in this table. Figures also exclude investment in insurance companies.

TABLE VI

Average Yield on American Direct Investments Abroad by Industry and Area, 1943, in Percent

	All Areas %	Sterling Area %	Canda %	American Republics %	Other %
Manufacturing	4.5	6.4	5.4	6.6	1.0
Distribution	4.6	9.5	3.0	8.4	0.9
Agriculture	4.3	1.0	0.3	4.9	--
Mining and Smelting	8.7	3.1	6.5	11.9	--
Petroleum	5.6	7.4	3.8	9.0	1.2
Public Utilities	3.1	--	4.8	2.8	0.2
Miscellaneous	2.3	5.8	0.7	12.9	1.4
Total	4.7	6.7	4.8	6.6	1.0

Wages, Prices and Savings

(Continued from page 3)

faster rate or a slower rate.[1] The effect of changes in the supply price of labor upon commodity prices must not be expected to be the same in these three cases. One possibility is that wages do not increase at all in response to a rise in the demand for labor. Whether the resulting change in the wage-price relationship produces a further rise in expenditures and in prices depends upon whether the original rise in prices relative to wages increases the investment opportunities associated with different levels of national income more than it increases the propensity to save—in other words, whether it produces a greater shift in the investment function than in the saving function. If it increases investment opportunities more than the propensity to save, the rise in expenditures and prices will continue. **Eventually** the rise in profits per dollar of sales, and hence total profits, will cause investment-seeking funds to increase as fast as investment opportunities. At that point the rise in prices relative to wages will cease to generate further increases in prices.

Another possibility is that wages may rise instantly and at the same rate as prices. This would prevent a rise in employment but would preserve the wage-price relationships which permitted the original rise in prices; hence the advance in spending, prices and wages will continue until halted by the limited supply of money and the rise in interest rates or by extraneous events.

Between these two extremes are various other possibilities—wages advancing (1) with a lag of varying amounts and (2) at various rates. If wages rise only slightly less rapidly than prices, the advance in prices may have to go quite far before the widening margin between costs and prices eventually checks the rise by causing investment-seeking funds to grow as fast as investment opportunities. A lag of wages behind prices may be expected to produce an expansion of credit—both because it causes investment opportunities to grow faster than savings and because it improves the credit standing of enterprises. Some particular lag of wages behind prices will be most inflationary of all because it will produce the most rapid expansion of credit and hence the most rapid rise in prices.[2] The rate of credit increase which produces the most **rapid** rise in prices will not necessarily produce the **greatest** rise. Until more is known about these matters, economics will be able to offer very limited information about the inflationary effects of wage changes.

III

What about wage-price relationships during the last two and a half years since V-J Day? During most of this period, prices were rising moderately faster than wages. The lag of wages behind prices between 1945 and 1947 may be related to the fact that between 1940 and 1945 wages rose more rapidly than prices. At any rate, between 1945 and 1947, for example, hourly earnings in manufacturing increased by less than 19%, whereas the consumer price index increased by over 23% and the wholesale price level of finished goods by almost 43%. Perhaps I should add that, if one breaks up the period into parts, the relationship between wages and prices is not uniform—part of the time wages were rising more than prices and part of the time prices were rising faster than wages.[3]

There are four principal observations to be made about wages and prices during the last two and a half years.

(1) The wage increases of the period have affected prices mainly as a source of demand rather than as costs. This is true despite the fact that the break-even point in many industries is far higher than before the war. Evidence that wage increases have affected prices more as demand than as costs is found in the absence of a close relationship between the wage increases in different industries and the advances in the prices of their products. For example, the prices of agricultural products, which represent less wage cost than most other prices, rose quite as much as other prices.

(2) Less than half of the increase in the demand for consumer goods during the last two years has been caused by higher wages in private industry. For example, between 1945 and 1947, wage and salary payments in private industry (less contributions for social security) rose by about $14.8 billion, and personal consumption expenditures increased by $20.7 billion. About $5.3 billion of the increase in payrolls in private industries was the result of the growth of the labor force, leaving about $9.5 billion, or 45%, attributable to higher wages. The fact that higher wages account for less than half of the rise in prices between 1945 and 1947 indicates the importance of other inflationary influences. One of these other influences was the tendency of people to save only a declining proportion of their rising incomes; another was that holdings of cash and demand deposits were high in relation to prices and expenditures.

(3) A remarkable feature of recent wage movements is that they have indirectly helped to bring about a rise in the profits of industry. They have done this by causing the volume of spending to increase more than payrolls. The growth in the volume of spending is a result of the fact that under present conditions wage advances have not diminished employment in the capital goods industries. Hence they have increased the profits of agriculture and of the consumer goods industries. The demand for the products of these industries is advanced by the amount of the rise in payrolls in **all** industries (including the capital goods industries) less the additional taxes and savings of the workers. The wage costs of the consumer goods industries, however, rose by only the amount of the wage increases given to their own employees. Since the growth of payrolls in the capital goods industries exceeded the higher taxes and savings associated with the wage advances in all industries, the demand for the products of agriculture and the consumer goods industries advanced by more than the increase in their wage bills. The greater profits of agriculture and the consumer goods industries have increased the demand of these industries for equipment and plant. In this way wage advances have indirectly raised the demand for capital goods and the profits of the capital goods industries. Trade unions criticize the recent rise in profits without realizing that under present conditions union wage policies have helped to push up profits. Likewise, businessmen criticize union wage policies without realizing that these wage policies under present conditions have helped industry make more money.

(4) Another feature of the last two and a half years has been the contrast between the real and the apparent bargaining power of trade unions. The period has been one of full employment and acute labor shortages; hence, trade unions have **apparently** been in a strong bargaining position. They could tie up plants effectively and they could win strikes. And yet wages have failed to keep pace with prices. The fact that employment was full and that there was a hugh backlog of unsatisfied demand made it easy for employers to follow each round of wage increases with a new round of price increases; hence, union **really** had much less bargaining power than they **seemed** to possess.

IV

The large increase in profits during the last year is being used by unions as a basis for demanding a third round of wage increases. Unions argue that employers can afford to raise wages without raising prices. The union demand and supporting argument raise several important questions such as: (1) are profits excessive; (2) would basing wage increases in different industries upon profits be in the public interest; and (3) can unions under present conditions raise the general wage level without producing offsetting increases in prices?

(1) Profits in a few industries have been very large but profits in industry as a whole have not been excessive. The test of the adequacy of profits must always be the practical test of the market: are profits large enough to permit industry to attract adequate amounts of equity capital? In attracting equity capital, inventory profits do not count—the prospective investor wishes to know what operating profits the enterprise can earn. Nor is he interested in what rates present profits yield on plant and equipment bought at prewar prices. He wishes to know what return present prices and costs make possible on new and up-to-date plant constructed at present prices. Measured by this test present profits in most industries are too small—they do not permit enterprises to attract venture capital. As a result, two-thirds of the funds used by industry to expand its capital in 1947 came from plowed-back earnings. Additional money was obtained by borrowing from commercial banks. If the wage increases of 1948 encroach upon profits, industry will have to reduce the present rate of net private domestic capital formation, which is not high (less than 10% of the net national product), or resort to inflationary methods of financing it. Hence it is important in most industries for enterprises to maintain their ital. As a result, two-thirds of the funds used by industry to expand its capital in 1947 came from plowed-back earnings. Addiability to plow back earnings by raising prices (if demand permits) to offset wage increases. Price advances to offset wage increases are particularly important in the steel industry, which needs to make large new capital investments and which has only limited ability to attract capital from the outside.

(2) Basing wage increases in different industries upon the increase in profits in those industries would not necessarily be in the public interest. A large rise in profits ordinarily indicates a high demand for the product of the industry and need to expand the capacity of the industry. Some increase in wages may be required to attract additional workers into the expanding industry. If wages were raised to absorb the **entire** increase in profits, however, expansion of the industry would be checked, partly because the ability of the industry both to attract outside capital and to plow back earnings would be limited and partly because the advance in costs would keep the price of the product high and limit sales. The response of wages to increases in profits in expanding industries determines to what extent the gains of technological progress are distributed in the form of higher money wages and to what extent in the form of lower prices. I shall not discuss this issue here.

(3) Can unions under present conditions raise wages without producing offsetting increases in prices? Probably not. If wage increases occurred only more or less at the expense of other incomes, unions could, of course, raise wages more than prices. Present conditions, however, are unusual. Industry has huge accumulated needs for plant and equipment. Hence a rise in wages under present conditions will not produce a drop in investment expenditures. Consequently, a general advance in wages is almost certain to increase the profits of the consumer goods industries. Expenditures on consumer goods will rise by the total amount of wage increases less the increased tax payments and the increased savings of wage-earners, but the costs of the consumer goods industries will advance only by their own share of the general wage increase. So long as wage payments in the capital goods industries rise by more than the increased taxes and increased savings of all wage-earners, the profits of the consumer goods industries will rise. The advance in the profits of the consumer goods industries will stimulate the demand for capital goods.

Another difficulty arises from the fact that prices are still low in relation to bank deposits and cash. So long as this situation exists there is a tendency for each round of expenditures to be higher than the previous one. Under present conditions wage increases probably accentuate the tendency for individuals to spend more than their incomes. So long as this is true, employees cannot expect to catch up with the rising cost of living by obtaining wage increases. Eventually, of course, prices will become so high relative to holdings of cash and bank deposits that individuals will be unwilling to make each round of expenditures a little higher than their previous incomes When this occurs, trade unions will be able to put up wages faster than the cost of living—but they may do so, of course, at the cost of producing some unemployment.

V

Some time within the next few years there may be a sharp rise in the propensity to save. This increase would be a natural result of catching up on the needs for consumer goods which accumulated during the war and early postwar years. After people have neglected for several years to provide for their future security, they may suddenly become quite interested in increasing their savings. About the same time that individuals raise their disposition to save, the demand by business for investment-seeking funds may drop because enterprises will have met a good part of their accumulated needs. The increased propensity of individuals to save will be offset in large part by a drop in corporate saving which is now very large, but the offset may not be complete.

A substantial rise in the propensity of individuals to save coinciding with a drop in the demand for investment-seeking funds by corporations could produce a substantial contraction in output and employment. If trade unions were to push up wage rates during the early period of the contraction (as they did in the building industry and the printing industry for a year or two after the break in 1929), the downward spiral would be made more severe. A rise in wages relative to prices extinguishes all investment opportunities before it stops all saving. Hence, as costs approach close to prices, the investment function shifts more than the saving function.

VI

What about the immediate outlook for wages and prices? Some time within the next year the danger of a disorderly rise in prices is likely to become quite acute. The reason is three-fold. In the first place, bad relations with Russia and the demands of the nations of western Europe for military assurances are about to compel the United States to increase substantially its expenditures on armaments. It is impossible to forecast the size of the increase, but it is likely to be as much as $5 billion a year and possibly much larger. In the second place, the increase in expenditures comes when the economy is already producing at capacity and when the backlog of demand which accumulated during the war has been far from satisfied. In the third place, the country is tired of direct controls of materials, wages, and prices and is not prepared to support them. The possible indirect controls are weak and the public is not even prepared to give strong support to their use.

One way of visualizing the effect of an additional outlay of $5 billion on armaments is to ask what would have happened in 1947 if the Federal Government had stepped up its expenditures by $5 billion. The problem of preventing a disorderly rise in wages and prices, however, must be considered in terms of present conditions. Fortunately, there are several important favorable factors. One is that the capacity of the economy to produce is greater than a year ago. During 1947 business spent $15.7 billion on new plant and equipment—a fairly large amount by prewar standards. These large expenditures should help raise output per manhour. Unfortunately, only limited progress has been made in reducing some of the most serious bottlenecks, such as steel capacity. It looks, however, as if the country were able to produce about 4% more steel ingots than a year ago. A second favorable factor is the rise in productive capacity abroad. Each month sees imports into the United States larger than imports of the same month last year. Unless contemplated expenditures under the Marshall Plan are raised, this excess of exports over imports will be $2 billion or $3 billion less than last year. A third favorable factor is that some progress has been made during the last two years in meeting the huge demand that accumulated during the war. A fourth favorable factor is that the rate of saving, though apparently still declining, has become so low that much additional drop is unlikely. A fifth favorable factor is that the third round of wage increases of this year seems to be running slightly smaller than the second round of last year. This, however, may not continue to be true.

Some of the favorable factors which I have mentioned are of limited importance. For example, although backlogs of demand have been reduced, the accumulated needs of individuals and business concerns are enormous. Likewise, there is little comfort in the fact that the third round of wage increases may be slightly smaller than the second. The unfavorable factors are formidable. To begin with, the economy is already producing at capacity and this ca-

1 I omit a fourth case—the supply price of labor falling while the demand for labor is rising. As I have indicated above, this relationship seems to prevail only for a brief period in the beginning of recovery from depression.

2 A faster rise of wages would discourage the expansion of credit by impairing the credit standing of enterprises; a slower rise in wages would discourage credit expansion by making enterprises better able to plow back earnings or to obtain funds by the sale of securities to individuals.

3 By six months' periods the percentage rise in hourly earnings of factory workers and prices was as follows:

	Hourly earnings of factory workers	Consumer prices	Retail prices	All-non-farm and non-food wholesale prices	All wholesale prices
Jan.-June 1946	8.0	2.6	3.2	4.8	5.4
June-Dec. 1946	5.9	15.0	16.9	18.1	24.8
Dec. 1946-June 1947	6.8	2.5	3.5	5.4	4.8
June 1947-Dec. 1947	4.2	6.3	5.4	10.1	10.3

pacity can be enlarged only slowly. For example, the civilian labor force in February 1948 was about 1.6 million larger than a year ago. This means that the prospect of enlarging production by inducing more people to enter the labor force is much less favorable than a year ago. In the second place, the economy has lost a control which may be much needed this year—namely, control over the use of consumer credit. Credit used to finance consumption is extremely inflationary. As the output of automobiles and other durable consumer goods rises, this use of credit is likely to increase. In the third place, the cash budget surplus, on the basis of the President's budget proposals, would be somewhat smaller than last year—perhaps about $6 billion in comparison with $7.8 billion last year. This estimate assumes that cash receipts are $3 billion above the President's estimates and it takes account of the recent tax reduction and of the proposed Federal expenditures under the Marshall Plan. It does not, however, allow for any increase in military expenditures beyond those recommended by the President. Hence a rise of $5 billion in military expenditures would almost wipe out the cash surplus.

What should be done? Let us be frank. A large rearmament program, started from full employment, really requires many direct controls. Can the automobile industry, for example, expect to make cars without limit when the country is acutely short of steel and gasoline? Honesty, however compels one to concede that the people of the United States are not prepared for the reimposition of direct controls. If the country pursues a large rearmament program for any period of time, direct controls will undoubtedly be necessary. It would be a mistake, however, to impose them before the need has become clear. For the time being, therefore, the country must do the best it can with indirect controls and let experience slowly demonstrate the necessity for additional steps. What indirect controls are available?

(1) Increase production as rapidly as possible. The steel industry added nearly 3 million tons of ingot capacity during 1948. It also reduced two bottlenecks by adding 1.7 million tons of blast furnace capacity and 2.2 million tons of coke capacity. Even larger increases in blast furnace and coke oven capacity are planned for 1948, but additions to ingot capacity will be only about one million tons. Industrial production as a whole may average between 7% and 8% above 1947.

(2) Arrange to obtain considerably more steel output from the Ruhr. Present plans contemplate restoring production to only about two-thirds of prewar levels. Output should be restored to prewar levels and Ruhr steel should be used to help meet the needs of the United States. Not only could steel and steel products from the Ruhr help rearm the United States but they would reduce Europe's trade deficit with this country and help to cut the cost of the Marshall Plan. Immediate restoration of Ruhr output to prewar levels is not practicable but within two years Ruhr production would make a substantial contribution to meeting the needs of the United States.

(3) Restrict the use of inflationary methods of financing production and consumption. More output does not cure inflation if it is financed by inflationary methods. Particularly inflationary, of course, is the use of credit in financing consumption. One of the immediate steps called for is restoration of the control of the Federal Reserve Banks over consumer credit. Important also is tighter control of lending for housing construction. Finally, the expansion of private bank credit needs to be vigorously combatted by Federal Reserve and Treasury policies so long as industry is operating at capacity. Every specific suggestion meets vigorous objection from within the Reserve System. Consequently, I think that the time has come for the public simply to make plain that it expects private bank credit to be prevented from expanding faster than production and to let the Reserve authorities decide how to carry out this mandate. The public should make plain also that it expects other kinds of inflationary operations, such as sales of government bonds by insurance companies and others to the Reserve Banks, to be offset.

(4) Make every effort to keep wage increases down to moderate amounts. Many union leaders privately admit that wage increases under present conditions merely help to maintain inflationary pressures. Since Congress has just made an inflationary reduction in taxes, it will not be easy to insist that unions act in a far-sighted and statesmanlike manner. If unions push up wages, is it practicable to insist that private bank credit shall not be expanded faster than production? The answer to this question depends upon what is done to encourage personal and corporate saving.

(5) Develop a well-planned program to increase the volume of savings in the community. The need for more saving has been obvious for some time. Industry is grievously short of plant and equipment. Nevertheless, the large increase in incomes which occurred during the last year has been accompanied by a drop rather than a rise in saving. The stiff progressive income tax has gradually reduced the willingness and ability of individuals to save—especially the individuals who can best afford to take chances. As a result of the low rate of saving about two-thirds of the new money which went into corporate industry in 1947 came from plowed-back earnings. Additional amounts were obtained by borrowing from the banks. Effective checks on the expansion of private bank credit can hardly be maintained unless there is a substantial rise in savings.

The government might well adopt as a target raising personal savings to 10% of disposable income. This was the rate which prevailed in the second quarter of 1946. In the year 1941, personal savings were 10.7% of disposable income. In the last quarter of 1947, however, personal savings were only 6% of disposable income. A rise to 10% would increase the annual rate of saving by about $7 billion.

Efforts to increase savings should take two principal forms. One is larger sales of government savings bonds. The record of savings bond sales during the past two years has been surprisingly good. Nevertheless, a difficult problem confronts the Treasury because persons who bought government bonds during the war, and even as late as the early part of 1946, have suffered a heavy loss in the purchasing power of their principal. People may properly be asked to buy government savings bonds as a patriotic duty—on the ground that they are making a much smaller sacrifice than the thousands of young men who are required in a period of emergency to serve in the armed forces. After the government's demonstrated incapacity to control prices, however, the Treasury cannot properly represent the present type of government savings bonds as a suitable investment for persons who need to conserve the purchasing power of their principal. The time has probably come for the Treasury to offer a savings bond which is payable in a fixed amount of purchasing power. In order to protect the savings banks, the individual purchases of the new type of bond should probably be limited, say, to $2,000 a year.

The second part of the savings program should be permission for individuals to claim a substantial rebate (say one-third) in the income tax on that part of their incomes which they save. Such an arrangement is particularly important because of the adverse effect of the stiff progressive income tax upon savings and upon the willingness of investors to take chances. Under present conditions, however, an unqualified reduction in the income tax would be inflationary because the accumulated demand for consumer goods is still enormous.

(6) Adopt a moderate forced saving levy. This may not be necessary until next fall—the time will be determined by the rate at which armament orders are placed (not the rate at which the goods are paid for). A forced saving levy is preferable to increased taxes on corporations. Since corporations are heavily dependent upon plowed-back earnings for financing the purchase of capital goods, heavier corporation taxes would aggravate the difficulties of controlling the expansion of bank credit. Since income taxes, even after the recent reduction, are still high, a forced saving levy is preferable to higher income tax rates. The forced saving levy should take the form of non-negotiable savings bonds running for three years. Since the levy is a forced one, the interest yield should be high, say 6% and tax exempt.

(7) Adopt the policy that government deficits which may result from rearmament and aid to Europe shall be financed by sales of government securities to non-bank buyers. This policy also requires that the government give relief in the form of a tax rebate on part of incomes which are saved.

VII

What about the long-run movements of wages and prices and the relationship between them? The rise of collective bargaining and of powerful trade unions may be expected to produce a slow upward movement of prices. The consequences of this have been quite generally overlooked but they will be tremendous.

During the last hundred years the movement of prices has been more or less horizontal. The index of wholesale prices rose slightly, but the real price level undoubtedly fell by a moderate amount.[4] The long-run movement of the price of labor, as measured by hourly earnings, has been sharply upward. In 1940, the hourly earnings of non-agricultural workers in the United States were about eight times as large as in 1840. This rapid rise in hourly earnings occurred during a period when unions, on the whole, were small and weak. Today, two-thirds of the workers in manufacturing, four-fifths in transporation, four-fifths in construction, and four-fifths in mining are organized. The rise of unions has created a new type of economy—an economy in which the supply price of labor responds far more rapidly than ever before to increases in the demand for labor and in which, indeed, the supply price of labor may rise quite independently of the demand for labor.

Experience indicates that the engineers and managers are not likely to raise output per man-hour faster than 3 or 4% a year. People who do not expect the long-term movement of prices to be upward are compelled to argue that unions will be content not to increase wages faster than the engineers and managers advance output per man-hour. That, in my judgment, is an unrealistic assumption. Unions are far more likely to force up wages faster than the engineers and managers raise output per man-hour—perhaps 2% or 3% a year faster, perhaps even more.

The difference between the rise in money wages and the rise in output per man-hour will have to be compensated by an advance in prices. For example, if output rises by 3% a year and money wages by 5% a year, prices will need to rise by about 2% a year. Otherwise, there will be a creeping increase in unemployment until the unions are no longer able to raise wages faster than the engineers and managers can raise output. Perhaps the necessary rise in prices will occur without stimulation by public policy. If it does not, the government will be compelled either to check the rise in money wages or to encourage a rise in prices. The first policy of the government, one may safely assert, would be to encourage an advance in prices.

A rise in prices of 2% a year seems small, but it would make a profund difference in the course of a generation. Pensions or life insurance, which men started to buy on entering the labor force at about the age of twenty or twenty-five would have lost more than half of their purchasing power by the time the workers had reached the age of sixty-five or seventy. And with prices rising 2% or 3% a year, who would wish to own government bonds yielding 2½%? All fixed income securities would have to sell at yields which discounted the expected drop in the purchasing power of the principal. What would happen to life insurance or pensions is difficult to say. Certainly it is doubtful whether private companies could offer the kind of life insurance and pensions which would be attractive in an economy of steadily rising prices. Since the demand for life insurance and pensions is strong, perhaps the government would have to assume the responsibility of providing life insurance and pensions.

VIII

When I say that prices would need to rise fast enough to offset the tendency for money wages to rise faster than output per man-hour, I am asserting that the unions are likely to become the real makers of credit policy and possibly, in large part, of fiscal policy as well. No government will assume the responsibility of creating unemployment in order to limit the bargaining power of unions. That raises this basic question: will the community permit the movement of wages and prices to be determined by tens of thousands of bargains between unions and employers or will it adopt a national wage policy and require that collective bargains conform to it?

This question is faced today in one form or other by Britain, Sweden, Norway, France, and other countries where collective bargaining has become fairly universal and where the wage policies of unions threaten to defeat the efforts of the government to control prices. In these four countries the conflict between free trade unionism and national planning has become plain. In Norway free trade unionism has been rather easily reconciled with national policy-making. Two conditions have helped bring about this result: (1) the Labor Party is in power and (2) the trade union movement has a strong tradition of centralization. For these reasons the unions do not feel that they were giving up much when they subordinated their wage policies to a national plan.[5] In England, the problem has been more difficult. Although the Labor Party is in power, the trade union movement has strong traditions of autonomy for the individual unions. Nevertheless, the necessities of the country are so compelling that national planning seems slowly to be winning over free trade unionism. In France, the government is weak and fails to command the support of a large part of labor. Hence the trade unions have been unwilling to accept the policies of the government and have thus far been fairly successful in imposing their will on the government.

The United States is not yet prepared to recognize that there may be important conflicts between national policy making and free collective bargaining. And yet the United States is gradually going through experiences which raise again and again the same question: to what extent can the country permit the structure of wages and the movement of wages to be set by the method of thousands of bargains between unions and employers? Does this method of wage-fixing take sufficient account of national interests so that the community can tolerate it only within the framework of a national policy?

Recent experience with the effect of union wage policies on prices illustrates the issue. The matter will be even plainer after 15 or 20 years of collective bargaining. Tens of millions of people are likely then to see rising prices slowly reducing the value of their savings, pensions, bonds, life insurance, and mortgages. Hence, the community may endeavor to make wages the subject of a national policy. The stronger unions will resist this development and they will be aided by the tradition of the labor movement which has always strongly opposed government interference with union activities. The stronger unions will probably be assisted in their opposition by a considerable part of the business community which would prefer to make concessions to unions rather than be regulated by the government.

Two conditions will increase the probability that a national wage policy will be developed to guide the operation of collective bargaining. One is the possibility that a national wage policy will be supported by the weaker unions. When collective bargaining is more or less universal, the real bargains are not between unions on the one hand and employers on the other, but between unions in the various industries and occupations. Naturally, the stronger unions are able to raise their standard of living at the expense of the weaker unions. A national wage policy would tend to protect the weaker unions from the stronger. The second condition that will increase the probability of a national wage policy is the fact that over three out of four workers are employees. Hence, the government will be increasingly sympathetic to labor, and the influence of labor in politics will steadily increase. Experience shows that governments which command the confidence of labor are most effective in regulating the activities of trade unions.

Great changes in the distribution of power cannot occur without changing people's ideas about rights, duties and public policies. Certainly the spread of collective bargaining and the shift of power between employers and unions will bring about changes in the ideas of the community about the rights and duties of employers and unions and the way in which collective bargaining should be conducted. Hence, the very spread of collective bargaining means that the country stands on the threshold of major developments in its economic institutions and public policies. One cannot predict with precision what these changes will be, but one is safe in asserting that thinking about industrial relations will place less and less emphasis on the rights of small groups of employers and workers and more and more emphasis on the problem of protecting the interests of the community as a whole.

4 The index has an upward bias because it does not promptly give representation to new articles and does not take full account of improvements in quality.

5 The experience of Norway is discussed at length in a forthcoming book on industrial relations in Norway by Walter Galenson of Harvard University.

What to Do About Advancing Prices!

(Continued from page 2)

"expand the currency as trade demanded and to contract it when no longer needed."

Nothing seemed to happen immediately but as our aforementioned data and chart show; while for 50 years prior to 1917 wage rates in the building trades had advanced no more than 50% within about 13 years after that date they advanced 200%. Furthermore, the tempo was, and still is, increasing.

Wages in building trades are sort of a barometer or forerunner of what is going on in all union labor trades, some of which are slower to act. Building trades workers set the pattern. Wage rates in the building trades have now advanced to 400 to 500% of the 1907 level, and they never were going up faster than recently, nor than prospectively during the coming year. The question we must soon face is, are we going to let wages go on up to 1000%, then 2000%, and so on? Of course such advances merely spell a depreciating monetary unit. Furthermore, the forces that pushed prices up the first 500% are fully capable of booming them on to the bursting point with a quickening tempo and decreasing stability, as cheapening of the monetary unit destroys confidence in it. Money unworthy of confidence has no rival as a breeder of stagnation and poverty.

Such increases in wage rates are of benefit to no one, since they merely reflect the undermining of the unit in which they are paid. If carried to their legitimate goal, they can but rob everyone, who saves at all, of whatever he has accumulated, except such savings as have been invested in real estate or equivalent equities. It is not an accident that housing is scarcer than anything else.

Dr. Bradford B. Smith, Economist for the United State Steel Corporation, recently delivered an address entitled, "Roots and Fruits of Boom," of which we distributed some 2,000 copies. In this article, Dr. Smith advocates a return to "honest" money, but considers that little is necessary

Index of Union Wage Rates in All Building Trades 1907-1946
Source: Bureau of Labor Statistics—Dept. of Labor
Index—1907=100%

Year	Rate %	Percent of Advance Over 1907	Percent of Yearly Change
1907	100	---	--
1908	106	6	6
1909	111	11	5
1910	116	16	5
1911	118	18	2
1912	120	20	2
1913	123	23	3
1914	126	26	3
1915	127	27	1
1916	131	31	4
1917	139	39	8
1918	154	54	15
1919	177	77	23
1920	239	139	62
1921	243	143	4
1922	228	128	—15
1923	252	152	24
1924	272	172	20
1925	283	183	11
1926	301	201	18
1927	311	211	10
1928	313	213	2
1929	317	217	4
1930	331	231	14
1931	332	232	1
1932	283	183	—49
1933	276	176	—7
1934	277	177	1
1935	281	181	4
1936	291	191	10
1937	311	211	20
1938	339	239	28
1939	341	241	2
1940	346	246	5
1941	359	259	13
1942	382	282	23
1943	384	284	2
1944	387	287	3
1945	396	296	9
1946	441	341	45

to accomplish this except a directive from the Congress to the Federal Reserve Board. Some of our correspondents are asking for a more specific proposition, considering that in thus dismissing the matter, Dr. Smith has left it too much up in the air.

The Remedy

Here is what seems to us the minimum necessary to bring our country back to measurements in terms of gold:

1. Discontinue the current issuance of additional currency against debt, or promises or anything except 100% of its face value of impounded gold, for redeeming any additions to the currency supply.

2. Set a date a few years ahead upon and after which all currency will be exchangeable for gold at an agreed-upon weight of fine gold to the dollar.

3. Authorize and proceed to market an issue of long-time bonds, sweetened in comparison with presently outstanding issues to where the new bonds will enlist enough hoarded money, idle bank deposits and other savings to refund our national debt, whether monetized or otherwise financed; all currency and intangible assets to be cancelled as exchanged, said refunding process to continue until bank deposits are nearly normal and the currency outstanding is just sufficient for pocket and till with a margin for contingencies. All outstanding bonds having three or more years to run will also have to be exchangeable, at par, for the new long-time bonds on any interest-payment date, the old bonds being cancelled as received.

The exact amount of currency and bank deposits at any given time are not of prime importance, since private credit ordinarily multiplies the capacity of the monetary setup by about 10; which figure may, however, be 8 or 12, depending upon many factors, such as the dependability of the price structure, and the confidence thereby inspired. What must be avoided, at any cost, is the dilution of the monetary and credit setup with government funds or credit while in operation; thereby disrupting the generation of supply and demand prices in terms of the monetary unit; owing to government interference.

The above paragraphs outline what it will take to reinstate the sort of a setup we operated under, prior to 1914. Such a setup builds prices in terms of the gold in the monetary unit, and can but relegate to a minor role an organization empowered to expand the currency in accordance with its judgment, since under this plan the currency can be expanded only as gold is coined, or 100% impounded for redeeming any current additions to the currency supply.

A setup of the sort outlined will compel the realignment of prices for goods and services to whatever standard of value (number of grains of gold in the dollar) may be agreed upon. This can but hit a good many a hard blow as did the return to specie payments after the Civil War. Well do I recall hearing, "We paid $1,000 (more or less) for that machine and we still owe half the price. We can buy a new one for less than we owe on the old one." However, with our greater wealth, I believe this movement toward sound money would inspire confidence enough to go a long way toward offsetting the price readjustment losses that inevitably accompany manipulation of the currency. This will be especially true if the gold content of the new dollar, is selected to give it, as nearly as possible its purchasing power current at the time of the changeover; in lieu of trying to push prices around more than is necessary.

France is going through an experience with depreciated money similar to ours, but further along. In lieu of resuming specie payments, she opened up a free gold market early in February where one can lawfully buy gold with francs. The theory was that this would give the franc stability. So far it seems to be working in reverse. The 20-franc gold coin that at first sold for 3,400 francs has recently sold for 4,400. It would seem that paper currency where there is no other monetary unit available, gets value from that fact. When gold is available as an alternative, it would look as though the paper might lose what value it has. The above price is 1/220th of the original value of the franc.

Conclusion

Note that we have pointed at two ways of getting back to measurements in terms of gold. The first is, by simply reinstating a definite weight of fine gold back of the currency and making it good. The second is by establishing a free gold market and encouraging the people to go to it, and work out the problem for themselves. It would seem that while our money still has substantial purchasing power, it would be poor policy to abandon it to the wolves as France is doing with the franc. Nevertheless, something must be done promptly or we will be in the fix France is in, before we realize it.

One reason why we give our products to foreign governments in lieu of selling them to their subjects is that world trade has gone dead. Partly on account of war but largely because of too much paper money. After the Napoleonic wars, similar conditions existed. At that time, Britain with her gold coin, and dependable exchange came to the rescue. The result was to put Britain where she led in the financial operations of the world for a century. Out of indescribable poverty, she brought prosperity and wealth such as the world had not before known.

An opportunity to do for the world, on a broader plane, what Britain did for it during the early decades of the last century is open to U. S. A. There are those who think a given monetary setup will build the same prices whether the currency is backed by gold or by government promises. We question that, but even if true, paper money could only function within narrow limits.

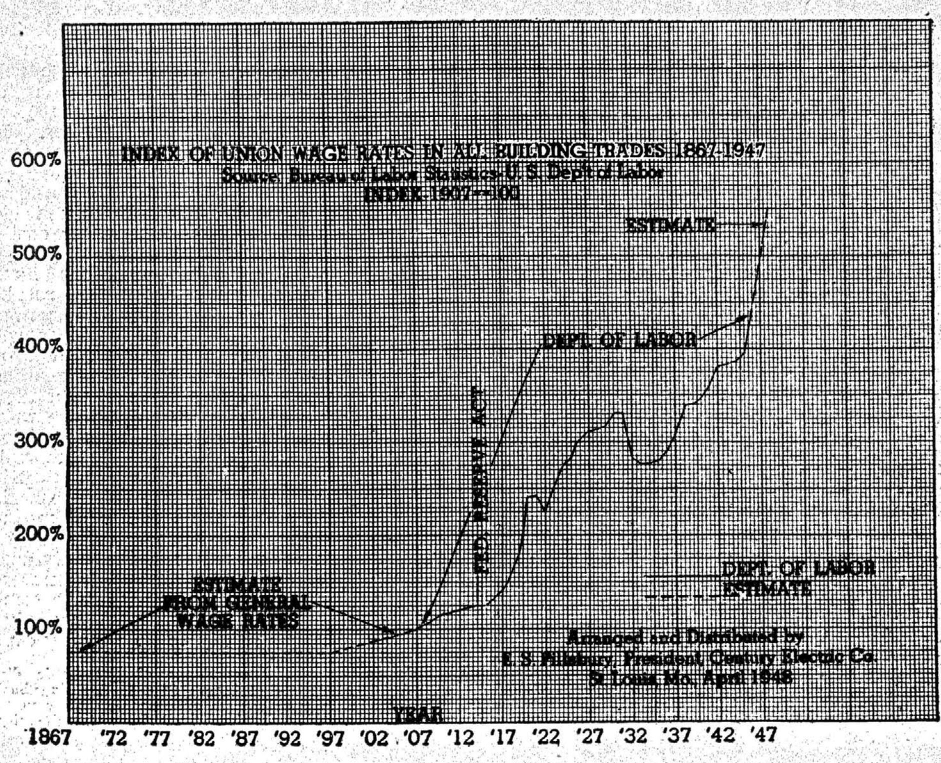
It could do little, if anything, for most of the 87 trading countries of the world. Gold provides the only trading unit capable of serving as a common denominator of value, for all nations. We need to get back to measurements in terms of gold to straighten out our own finances, but no less urgently to help other nations to get back into shape where they can buy and sell and take advantage of the advancement being made in the standard of living.

It is evident that a common denominator that can be depended upon to build supply and demand prices is a necessity for doing business between nations. Such a unit of value is scarcely less necessary if business is to be conducted with general satisfaction, within a nation. Where wage rates, for example, are expressed in terms of gold, confidence is inspired, and a degree of stability attained that is a source of good will and satisfaction, unattainable with fiat currency, no matter how honestly managed.

This study is a contribution toward an effort to save our country from the experience that France is going through. Financial conditions here are similar to those that existed in France, after World War I. At that time the franc was worth from ¼ to ½ of the prewar value. Likewise, as in the case of our dollar at this time, the purchasing power was unstable. France tried to peg the buying power and exchange value of the franc time after time but never with success; however, she did not try tying it up to an honest commodity, like gold.

As we have already mentioned, she has now opened up a market where gold can be lawfully bought with paper francs. This may be a step toward returning to gold measurements, but just what it will do to the paper currency remains to be seen. In any event, when a currency has lost 90%, to say nothing about 99½% of its original value, the damage has already been done, and it is of no great concern whether it is rehabilitated or abandoned for a new issue. France has been on short rations because its farmers can ill afford to raise grain and sell it for money of doubtful (if any) value.

If our country goes on with its limitless supply of promise currency, it can but arrive, in due course, where France is. However, as already pointed out, it is not too late to save the dollar if we are willing to take the sort of punishment our forebears went through after the Civil War. The boy said, "A lie is an abomination unto the Lord, but an ever present help in time of trouble." That is the way it is with fiat currency. The Hebrew prophet finds the people putting their savings into a bag with holes in it. That is just what U. S. A. is supplying for its citizens when it provides unstable currency. If we are to avoid prostrating our nation as the French have done theirs, it is high time to get back to real money.



Wertheim & Co. Offers Bristol-Myers Debs.

A new issue of $10,000,000 3% debentures of Bristol-Myers Co. was offered May 14 to the public by a group of underwriters headed by Wertheim & Co. The debentures, due April 1, 1968, and priced at 100½ were oversubscribed. A sinking fund is provided sufficient to retire 70% of the issue prior to maturity.

The offering represents new-money financing by the company. The proceeds will be applied to the extent of $2,500,000 to pay off in full outstanding short-term bank loans; the balance will be used to improve the working capital position of the company and its subsidiaries and to provide funds for future development and growth of the business. In recent years the company has followed a program of expansion and development in new fields of operation, and from 1945 through 1947 expended approximately $6,269,000 for construction and purchase of additional buildings and manufacturing equipment in its ethical drug operations, known as Bristol Laboratories Inc.

The principal business of Bristol-Myers is the manufacture and sale of such leading and well known products as Ipana, Sal Hepatica, Vitalis, Mum, Trushay, Minit-Rub, Rubberset Brushes, among others. Net sales of the company and its subsidiaries in 1947 amounted to $44,654,979.

Upon completion of the present financing outstanding capitalization of Bristol-Myers will consist of the new issues of $10,000,000 3% debentures, 70,500 shares of 3¾% cumulative preferred stock of $100 par value, and 1,381,182 shares of common stock.

The company has a record of uninterrupted dividend payments on its common stock since the date of its incorporation in August 1933, and prior to the organization of the present company its predecessors had an uninterrupted dividend record on their capital shares for over 25 years.

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War II, these bad policies go much further back in origin.

During World War II, when virtually all the nations of the world were burning up and wearing out their accumulated capital in the form of stocks of goods, rolling stock and road beds of railways, shipping, highways, factories and equipment, reserves of oil and of metals, soil fertility and so on, we had in the United States the incredible phenomenon of the lowest interest rates in history. And today, in a world which is still trying to consume more than it produces, we continue to have interest rates absurdly low.

The Sources of Capital

The rate of interest, as explained by the classical economists, was primarily a matter of supply of and demand for savings. Capital grew out of the excess of production over immediate consumption. The individual could spend his income on hats and ice cream, or he could use part of it for tools and machinery, factories and railroads. This conception of the sources of capital should be broadened to include first, consumer thrift, and second, business thrift and especially corporate thrift, where only part of the net income is taken from a business by its owners and part is left for business growth. The classical case of capital growing in this way is the great Ford automobile industry, where it once was estimated that roughly $15,000,000,000 had passed through the hands of the company as receipts from the sales of its cars, $14,000,000,000 had gone out in payment of wages and other expenses of production, but where $1,000,000,000 had remained invested in enlargement of plant, increasing supplies of raw materials and in other ways including cash reserve for emergencies.

The third source of capital, tremendously important in the United States down to 1931, was governmental thrift. Our Federal Government did not borrow for post offices or post roads. It built them out of fiscal surpluses. Its river and harbor improvements were similarly paid for. All its public buildings were thus paid for. We borrowed for wars, but we promptly began to pay down the public debt when the war was over.

A fourth important source of capital, particularly important in agriculture, is direct capitalization. The farmer uses his spare time in building fences and barns and putting in subsoil drainage, or the farmer lets his flocks and herds increase instead of selling off the whole of the annual increase.

These four sources of capital are all normal and wholesome and no country has ever gone astray in employing them.

There is, however, a fifth source of capital, which employed in moderation is very helpful, and that is new bank credit for capital purposes. A business gives its note to the bank and the bank gives the business in exchange a deposit credit. Armed with this new bank credit the business buys new machinery and equipment. If this comes at a time when there is full employment and no industrial slack, it means a shifting of labor and resources from the production of hats and shoes and ice cream to the production of machinery and equipment. It forces an involuntary thrift upon the consuming public. But it creates new capital. If it comes at a time when industry is slack it may lead to the increase of productive equipment without a diminution of consumers' goods.

It is to be noted that business thrift, direct capitalization and governmental thrift lead to the creation of new capital without the creation of debt. Individual thrift may do so. But when bank credit is employed as a source of capital, there is a parallel, dollar for dollar, increase of capital and of debt. Now this may be, and often is, wise policy, but it surely suggests caution, particularly when enthusiasm is widespread and prices and costs are mounting.

Bank Credit in War Finance

When the problem of war financing comes, the danger of bank credit as a substitute for taxes and as a substitute for the savings of the people is obviously great. Expanding bank credit, matched by the production of physical plant and equipment that would not otherwise exist, is one thing, but expanding bank credit for the production of things that are to be destroyed in war is another. The validity of such credit obviously depends, not on productive wealth currently created, but on the future taxing power of the government. It is one of the least desirable forms of financing war expenditure. It divorces the growth of bank credit from the growth of the physical wealth of the country.

The best methods of war finance are taxation and selling long-term bonds to the people. Taxation restricts the ability of the people to buy in competition with the government. An all-tax war policy would mean that at the end of the war the war would be paid for. Such a policy would be more stringent than would be efficient, because it would force too many of the peacetime industries into bankruptcy. Some borrowing to ease the strain of the transition from peace time to war time activities is necessary. The most desirable form of borrowing is long-term bonds placed with the people and with investment institutions. But here again mediation of a certain measure of short time bank credit is desirable.

Bank Credit in Financing World War I

In World War I the government borrowed first on short-term from the banks, then four times during the war and once, after the war was over, it placed great funding loans with the people—the four Liberty Loans and the Victory Loan—with the proceeds of which it paid back the banks, reducing the volume of bank expansion. Woodrow Wilson knew very well the dangers of an excessive expansion of bank credit. We financed World War I primarily out of taxes and the savings of the people.

The Federal Reserve Banks in World War I played a passive but a very impressive role. They did not buy government securities except four times, just before a great public loan was to be placed. They then bought and held government securities, chiefly short paper, for a few days, giving additional credit to the money market while the loan was being placed, and easing the tension. When the loan was placed, they promptly sold their government securities again. The amounts of these purchases were small, usually $100,000,000 for a few days, though with the Fourth Liberty Loan of $7,000,000,000 the purchases rose by something over $200,000,000, promptly dropping off again when the loan was over.

At the peak of the public debt growing out of the first World War, in August, 1919, when the public debt was $26,500,000,000, the banks held only $6,500,000,000 of government debt in the form either of direct ownership of government securities or of loans against government securities. The people held the rest, owned outright.

The Government of the United States in World War I paid adequate interest on its bonds. The First Liberty Loan was a 3½% loan, fully tax exempt. The second was a 4% loan. The fourth was a 4¼% loan, the last three Liberty Loans being partially tax exempt. These were rates which investors could trust for the long pull, even though many recognized that there might be an intermediate period when their bonds would go below par. But they were good bonds, and an organized community sentiment in almost every community in the United States supporting the sale of these bonds, compelled even reluctant individuals to buy them. They were placed with the people.

When the World War I was over and the post war boom came, the Federal Reserve System, after the Victory Loan had been placed, was no longer tied down by the necessity of protecting the Treasury. The Treasury had protected itself by placing long-term bonds with the people. And, as the post war boom grew to dangerous proportions late in 1919, the Federal Reserve authorities could move with decision in raising their rates, tightening the money market and holding down the expansion of bank credit. We handled the boom in 1920 and the crisis of 1920-21 from the standpoint of money market policy, uncomplicated by the necessity of protecting the price of government bonds.

Bank Credit in Financing World War II

In financing World War II, however, with the greatest destruction of capital that the world has ever seen, we substituted bank credit for taxes and for the savings of the people on an incredible scale, at rates of interest fantastically low. We could do this only by selling government securities to the Federal Reserve Banks, the commercial banks, and other financial institutions such as insurance companies and mutual savings banks. Investors did not want them and would not take them. Rates of 2% on a 10-year bond and 2½% on a 20-year bond had no attraction for an investor who knew how to consult a bond table, and who could, looking at back records, see the yield of government bonds running as high as 5½% in 1920 and remaining above 5% through much of 1921. No matter how patriotic he was, he preferred to lend his money to the government on short-term or to buy the United States savings bonds—unfunded debt, which became, in effect, demand deposits after the passage of a short time.

Bank credit filled the gap, the growth of bank credit being paralleled by the growth of the public debt. Demand deposits plus government deposits in the commercial banks of the United States stood at $28,695,000,000 in 1939 and at $106,000,000,000 on Dec. 31, 1945, after the last war loan. Between the same dates the government security holdings of the commercial banks had risen from something over $15,000,000,000 when the war broke out in 1939 to $90,800,000,000 on Dec. 31, 1945, after the last war loan.

In the last war loan the government very greatly over-borrowed and it began repaying part of what it had borrowed from the commercial banks out of its deposits with them. Bank deposits and bank government security holdings dropped rapidly together. Subsequently the government has repaid still more of its debt to the banks out of fiscal surpluses. The public debt dropped from its approximate peak at the end of 1945 of $276,000,000,000 to $254,000,000,000, as of December, 1947, while the part held by the commercial banks dropped from $90,800,000,000 to $68,600,000,000.

Two Postwar Booms

But the decline in government securities in the banks since the end of the war in 1945 has been, in considerable part, offset by a tremendous and unparalleled expansion of bank loans for commercial, industrial and agricultural purposes. The volume of bank credit remains ominously high. Interest rates at which bank credit is being supplied remain fantastically low. We have been caught in a great postwar boom.

This boom, like the boom of 1919-20, has been based first of all on a vast excess of exports over imports which has drained our markets of goods and has forced commodity prices to very high levels. The boom of 1919-20, however, was financed, after the middle of 1919, by private credits granted to Europe by both American banks and American businesses. The businesses had, however, to come to the banks to replenish their working capital tied up in these advances. We held strictly to the gold standard, and our interest rates mounted steadily until good customers were paying 7% and 8% to our great city banks. This time the excess of exports has gone out largely on the basis of U. S. Government gifts or nominal loans to the outside world, and Treasury and Federal Reserve policy has been directed toward keeping rates of interest very low.

Federal Reserve Nibbling At Credit Control

The Federal Reserve authorities, however, have been alarmed and they have nibbled at the problem of interest rates. They have abandoned the war time policy of making discounts secured by short government paper at ½ of 1% instead of the regular 1% discount rate, and in January of 1948, they raised the regular rate to 1¼%. They have abandoned the ⅜ of 1% rate on government 3 month bills, which rose in February, 1948 to .996%. They have raised the reserve requirements of Central Reserve City banks from 20% to 22% against demand deposits (effective Feb. 27, 1948). The open market prime commercial paper rate, which stood at .75% in 1945 rose to 1.38% in February, 1948. The discount rate on prime bankers' acceptances which stood at .44% in 1945, stood at 1.06% in February 1948. Municipal bonds, which stood at 1.64% in 1946, stood at 2.55% in February of 1948. Corporate bonds and high grade preferred stocks have had sharp rises in their yields. A rather striking move has come in all these rates beginning with November of 1947.

Contradictory Policies

The Treasury and the Federal Reserve authorities are apprehensive of rising rates of interest, lest they disturb the market for Federal Government bonds. They seem particularly determined to peg long-term government bonds at 2½%. It should be obvious that a policy based on the desire (a) to tighten credit in the effort to restrain a boom and (b) to keep interest rates low in the effort to protect the government bond market represents a contradiction.

The most recent nibbling at the interest rate structure began apparently at the end of October and early November, 1947. Government securities in Federal Reserve banks stood at $22,119,000,000 on Nov. 5, 1947 and have dropped since that time to $20,447,000,000 on April 7, 1948. During this period reserve requirements in New York and Chicago were raised from 20% to 22%. This definitely tightened money rates, as we have seen.

Ominous Shifting of Long-Term Bonds to Federal Reserve Banks

But the pegging of the price of long-term government bonds at 2.50% which accompanied this tightening of the money market has led to heavy unloading of long-term government bonds by the commercial banks, and their transfer in large degree to the Federal Reserve banks. On Nov. 19, 1947 the Federal Reserve banks held $791,000,000 of bonds, but by April 7 of 1948 this had risen to $5,747,000,000. Simultaneously the Federal Reserve banks have allowed their holdings of short government paper to run down, from $13,504,000,000 on Nov. 5, 1947 to $8,472,000,000 on April 7, 1948.

This movement is ominous. The Federal Reserve banks ought to be the most liquid financial institutions in the country. Their holdings of government securities, as of all other paper, ought to have short maturities. They ought to be able to dispose of them freely when they judge that the money market requires drastic tightening in the interests of the business situation.

Divorcing Treasury Policy and Federal Reserve Policy

We must divorce Treasury policy and Federal Reserve policy. How is this to be done? We must fund the public debt, and we must get it out of the banks and the Federal Reserve banks on a big enough scale to make it possible for the Federal Reserve banks to move in regulating the money market without concern for the Treasury's position. In this process we shall shrink the present inflated volume of money in circulation, which has risen from $7,000,000,000 in 1939 to $28,000,000,000 in 1948, and we shall shrink the swollen volume of bank deposits.

At What Rates of Interest Can We Fund the Debt?

Funding the debt is to be done by offering to the people long-term government bonds at rates of interest that will really attract them. Precisely what those rates should be will depend on a great deal of consultation between the Treasury, and the financial institutions of the country. I think that they can be intermediate between the existing rates on long government bonds and the rates that the government paid on its long-term bonds in World War I. This view rests on the conviction that the effort to raise interest rates, both on government securities and in the general money market, would set into operation powerful counterforces tending to hold rates of interest down. These counterforces are:

(1) An adequate rate of interest on savings deposits would bring in from the people a great deal of their hoarded cash. The existing rates on savings deposits are so low that, to many people, they do not make savings deposits worth while. This cash, deposited by the savings banks in commercial banks, and by them deposited in the Federal Reserve Banks, would replenish commercial bank reserves, and tend to hold down interest rates. With commercial paper and customers' loans at higher rates of interest, and with bank reserves going down as the Federal Reserve Banks sold government securities, the commercial banks would have a real incentive for making small checking accounts welcome, by reducing or eliminating service charges. They would need their cash. This would pull into the reserves of the banks another large part of the $28 billion of money in circulation, thus tending to hold interest rates down.

(2) As the government sells long-term bonds to the people and the people pay for them with checks drawn on the commercial banks, and the government uses the funds thus obtained in buying back its securities now held by the commercial banks, we should see bank deposits going down rapidly. This would mean that the legal reserve requirements of the commercial banks would be reduced, and this would tend to hold interest rates down.

There is so much slack in the existing volume of bank deposits and of money in circulation that a refunding operation, in the course

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of which the Treasury and the Federal Reserve System carefully cooperate, could go far without raising interest rates high. It is still possible to fund the vast floating debt of the government at moderate rates of interest.

Protecting the Banks When Government Bond Yields Rise

There are two main objections to the policy which I propose: (1) that it would involve dangers to the capital structures of those banks which are now too heavily loaded with long-term government securities; (2) that it would increase the tax money required to meet the debt service on the government's enormous debt.

Let me say with respect to both these points that the problems grow progressively worse the longer we refrain from facing them.

To protect the banks in this change of policy, I have proposed that the banks holding long-term government bonds be allowed to exchange them for new issues at the higher rates of interest, at a discount of, say 2% as compared with cash subscribers, leaving them with some loss but not with losses that would ruin their depositors. The Federal Deposit Insurance Corporation, whose solvency and liquidity are of highest importance, should have the same protection as the banks. Both banks and Federal Deposit Insurance Corporation should be expected to take shorter maturities in making these exchanges.

With respect to the interest burden on the government debt, let me say that this problem becomes progressively worse if we delay it. We can now fund the government debt at moderate rates of interest, as above indicated. If, however, we wait for wild inflation with distrust of the dollar to come, interest rates will rise rapidly and the Secretary of the Treasury will sweat blood as Treasury bills and certificates fall due, as people cash in their war savings bonds, and as he has to borrow money on a rapidly rising money market — or else print, which would not help the inflation.

Economy in government is surely needed when men fear the interest burden of the public debt!

The Fear of Depression

There is a third fear on the part of men overimpressed with the importance of interest rates in making prosperity and under the influence of the Keynesian philosophy, that a policy of this kind might lead to business reaction and, it is sometimes added, that this would jeopardize our efficiency for war. It must be observed first that interest rates far higher than those now prevailing are entirely consistent with business prosperity. Interest rates are only one part of the cost of doing business and a very minor part. Wages are vastly more important, and there are many other elements of business costs. Prosperity is a question of business profits, and business profits depend on the relation of the total receipts and total costs.

But we must recognize that there is no financial device which can gently level off a dangerous boom into tranquil prosperity. Reaction we shall have in any case. The degree of its violence depends on how long we defer it, and on how flexible our price and wage system is when it comes.

Depressions we wish to avoid, but a depression is not necessarily a source of weakness if a war comes. We were in deep depression in 1939, with over nine million workers unemployed, yet we fought a great war successfully and we poured out a tremendous volume of aid to our Allies in every part of the world. It may even be said that the great slack in our industrial capacity in the depression of 1939 facilitated our war efforts.

We could not have done this, however, in anything like so effective a way if we had had currency disorders and if there had been distrust of the Treasury. To be strong abroad we must be financially strong at home. Our dollar was a very effective weapon in both World Wars. The English pound sterling, tremendously useful in World War I, was a very ineffective weapon in World War II. The growing concern regarding the maintenance of peace makes it all the more imperative that we move with promptness and decision in getting our currency and banking figures under control, and in funding our public debt.

Tax Avoidance

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there are probably few law offices in the country that are not rewriting or considering the rewriting of their clients' wills in order to take advantage of the "marital deduction" afforded by the Revenue Act of 1948.

II
Definition

It seems advisable at the outset to attempt a definition of the subject we are talking about. Just what do we mean by tax avoidance? In arriving at a definition, I do not propose to enter into the subtleties involved in distinguishing between tax avoidance and tax evasion. This distinction has been cynically, but realistically, expressed in the statement that avoidance is what succeeds, and evasion is what fails. In other words, if your attempt to escape tax proves successful, you have been clever enough to avoid tax. If your attempt results in failure, you have been foolish enough to evade it. Put evasion through a sterilizer, and it becomes avoidance. Dip avoidance in the tar barrel and it becomes evasion. For the purpose of tonight's discussion, I am going to use a definition which I formulated many years ago in an article I wrote on the legal aspects of income tax avoidance. I there defined avoidance as every conscious attempt, successful or unsuccessful, to prevent or reduce income tax liability by taking advantage of some provision or lack of provision in the law. This definition, which excludes fraud or concealment, presupposes the existence of alternatives, one of which will result in lesser tax than the other, or at least so it is hoped. The definition which I have just given you is both subjective and objective. Its dual character may be brought out by a few examples. Suppose a writer, who is a United States citizen, and who receives, let us say, so much per word for his writing, moves to Nassau in the Bahama Islands and does his writing there. He could do his writing just as well in this country, but the move to Nassau is motivated by a desire to avoid Federal income tax on the compensation for his services. He is, within my definition, an avoider. On the other hand, if he were required to go to Nassau, say for his health, and the move were not motivated by tax considerations, he would not be an avoider.

Marry and "Avoid"

Suppose a man or woman marries, not for love, but solely in order to obtain an income tax saving by taking advantage of the income splitting allowed to married couples throughout the nation by the 1948 Revenue Act. He would be an avoider. Incidentally, it is reasonable to believe that the new law will increase the marriage rate among the wealthier classes, although like so many other actions which are motivated solely by tax avoidance the ultimate cost of the plunge into matrimony may far exceed the tax saving. Returning to our definition, if this individual had no tax saving in mind when he (or she) married, if wedlock was desirable to him, let the chips fall where they may, he would not be an avoider.

Let me give you some further examples: Suppose a corporation has preferred stock outstanding and that it calls its preferred for redemption and issues instead debentures. If its reason for this transaction is to save taxes—the interest on the debentures will be deductible, whereas the dividends on the preferred stock are not—it has avoided tax. On the other hand, if it would have made the change regardless of tax consequences, it is not an avoider. Suppose an individual has purchased 200 shares of stock of the Telephone Company, represented by two certificates, A and B. He paid $100 per share for certificate A and $150 per share for certificate B. If he sells 100 shares and delivers certificate B, thus obtaining a higher cost basis and a lower profit or a greater loss, he has avoided tax. Suppose a corporation dissolves and the stockholders thereafter do business as a co-partnership and that the purpose of disincorporating was to save taxes; that is avoidance.

I am not saying that any of these people have done anything reprehensible or even that in the long run they will have saved money. For instance, it is quite conceivable that the stockholders who dissolved their corporation and became partners may ultimately find that they would have been better off—even taxwise—if they had remained incorporated. So much for this definition. Now let us pass to the policy questions implicit in tax avoidance.

III
The Ethics of Tax Avoidance

First, let us consider the morals or ethics of tax avoidance. Macaulay said of Byron's poetry that it embodied a system of ethics in which the first two commandments were "Hate your neighbor and love your neighbor's wife." The average tax avoider or would-be avoider has a somewhat analogous philosophy. He loves his country but he dislikes its tax collectors. He comes to you and says, "I want to pay my just tax. The government needs money and I want the government to get every dollar I owe it, but at the same time I have to look out for myself, and if there is any legal way in which I can cut down my tax bill, I want to take advantage of it." When he comes to the deduction side of his tax return, he is like a "striptease artist"; he wants to take off everything. He is a patriot, but a canny one. A former Chairman of the House Ways and Means Committee has observed that "Americans as a nation are always inclined to insist on all the technicalities of the law if anything can possibly be gained thereby," and he observes further that "when it comes to tax avoidance the American under the guidance of skillful lawyers is a past master."

The loss of revenue from tax avoidance is only superficial. The government has to exist and it will have to raise a certain amount of money to do so, so that the aggregate tax is not cut down by any particular act of avoidance. If one taxpayer pays less than his share, the deficit will be made up by higher rates or in some other way and it will be spread lightly among the rest of the taxpaying population. Right or wrong, it seems to me to be true that the average individual taxpayer, large or small, would prefer to pay higher tax rates and preserve his right to escape from tax if the law contains a loophole permitting him to do so. The quantity of literature that goes out to taxpayers advising them of the methods, real or spurious, of reducing tax liability, and the avidity with which such literature is gobbled up, are convincing evidence that the average taxpayer does not have any sanctimonious attitude toward tax avoidance.

The Moral Issue

I have been troubled many times by the question of how far a man is morally entitled to go to cut down his income tax liability, but I have finally reached the conclusion that when Congress consciously condones, nay encourages, tax avoidance, the taxpayer has every right, moral as well as legal, to avail himself of the Congressional bounty. I do not say he is a fool if he does not take advantage of the opportunity, but I do say that he is not to be censured if he does so. The burden of criticism must be left at the doorstep of the legislature. Where Congress does not knowingly condone avoidance, the problem becomes more subtle and more difficult. Suppose a taxpayer believes that the fiscal and economic policies of the present Administration are bringing the country to ruin. Suppose he thinks the government will unwisely spend, say in "boondoggling," the tax which he would otherwise pay. Suppose he feels that the government has treated him unfairly or that the law is unjust. Do any of these factors justify his avoidance of tax? For example, suppose a taxpayer wishes to sell his business to his brother. The sale will result in a real loss to the taxpayer, but the statute will bar the loss even though the transaction is free from any tax avoidance taint. Is he not justified in making the sale to his brother's wife? In such situations the problem becomes almost entirely subjective, and in seeking for an answer it is fairer to ask "What would you do if you were in his shoes?" rather than "What should he do?"

Tax Exempt Bonds

If the Congress chooses specifically to exempt from tax the interest on state and municipal bonds, an immunity for which I can see very little justification, at least as to bonds issued after a change in the law, the rich man does not play the rogue by investing in such bonds. Rather, it is the legislature which plays the fool. Despite the fact that a municipal bond may now produce for the taxpayer an effective yield far beyond any rate which he anticipated when he purchased the bond, I see no reason why he is under any moral compulsion to rid himself of the exempt bonds and invest in a bond the interest from which will be taxable. If a corporation, owning a warehouse for which it paid an inflated price, sells the property in a bona fide sale at a loss and then leases it back under a bona fide lease, the primary purpose of the transaction being to cut down the income tax which the corporation must currently pay, are the directors of the corporation to be adversely criticized? They are performing their duty to their stockholders, namely they are producing for their stockholders the maximum return legally permissible on the investment of the stockholders. That is what they are being paid for. Should they be taken to task for it?

Suppose a man by a bona fide gift transfers a portion of his property to his son, his motive being to save income taxes. Is this reprehensible if Congress encourages it? The law permits the use of pension trusts as a means of shifting income of employees from years of high income to years of low income pay, thus transferring it from high to low brackets. Is it wrong to take advantage of such a provision? Suppose it will be advantageous to adopt a fiscal year, rather than a calendar year. Is it morally wrong to do so? Suppose an individual who has decided to make a contribution to a charitable institution makes it in property which has enhanced in value, rather than in cash, and thus escapes tax on the enhancement. Is he to be censured? Suppose an executor or a trustee who has discretion as to when income is to be distributed to the beneficiaries makes the distribution in such a way as to achieve the minimum aggregate tax. Is he to be subjected to censure? The answers to some, but not all, of these questions seem reasonably clear. In general, it seems to me that there is nothing ethically wrong in avoiding tax when the legislature with its eyes open has offered the means of such avoidance. But where the offer is unintentional, the justification for avoidance is not so easily found, nor is the attempt often successful. Where the avoidance is occasioned by an endeavor to overcome an inequitable statute, one which is unduly harsh, the avoidance is easily vindicated, but where there are no such extenuating circumstances, exculpation becomes difficult.

IV
The Attitude of the Treasury Toward Avoidance

The attitude of the Treasury toward tax avoidance has varied, of course, with each Administration, but in general it may be stated that the Treasury has been apathetic when rates have been low and the Treasury's pockets have been bulging, but when, as today, the rates are high and especially when there is a prospect of a budgetary deficit, the Treasury's back stiffens. In fact, it often goes to the other extreme, that is, it not merely acts to prevent avoidance, but goes beyond the intention of Congress and asserts the letter of the law, even when that produces injustice and hardship. This, to my mind, is a mistake. The taxpayer often rationalizes his circumvention of the law by the argument that the Treasury nearly always interprets the law so as to produce tax, even if inequity results. The Treasury's answer that it does not make the law but merely administers it, is a rather lame excuse. If the government's fiscal officers may expand the letter of the law to secure their just due, there is no reason why they should blindly follow that letter if to do so would produce injustice. I think the Treasury can contribute to the elimination of questionable avoidance by adopting a more equitable and reasonable attitude toward non-avoiding taxpayers.

V
The Attitude of the Courts

Whenever the Congress has made an effort toward blocking avoidance, it has found a faithful ally in the Supreme Court. This is shown by the fact that no provision designed to block income tax avoidance has ever been declared unconstitutional, unless you count as an income tax avoidance case *Eisner v. Macomber*, in which by a majority of five to four the Court held that a stock dividend of common on common was constitutionally immune.

When Congress enacted a provision requiring the donee of a gift to use the donor's cost basis for computing gain on sale of the gift property, even Justice Mc-

Reynolds, who wrote the opinion, upheld it as a provision necessary and appropriate to prevent avoidance. When Congress made the income of a revocable trust taxable to the grantor, it took little more than a page for the Court to declare it valid. In fact, the Court intimated, and a lower Court later held, that the grantor would have been properly taxable even without a specific provision in the law. When Congress made trust income which was used to pay insurance premiums on the life of the grantor taxable to the grantor, even though he had completely parted with all ownership in the policies, the Court again sustained the validity of the legislation. And it sustained the constitutionality of what is now Section 102 of the Internal Revenue Code which imposes a penalty surtax on corporations which purposely and needlessly accumulated their surplus earnings to save their shareholders from surtax.

The Court has been almost as staunch an ally to the Treasury as it has to Congress. Except for the fact that the Court refused the Treasury the right to tax the husband in the community property states on his entire earnings—the Court having ruled that half must be taxed to the wife—(incidentally, that is the reason why we now have nation-wide optional splitting of income between husband and wife)—the Treasury has been quite successful in cases involving attempted avoidance. Thus the Court, even in the absence of a statutory provision forbidding it, refused to allow a loss on the sale of stock from an individual to his wholly owned corporation; it upheld the Treasury in taxing the assignor of income where the income was used to discharge the assignor's obligations or even the satisfaction of his desires; it refused to follow the literal language of the statute in cases where a literal interpretation would have resulted in tax avoidance; it expanded the concept of ownership beyond the point of legal measurement to the speculative limits of economic advantage. In these cases there may be discovered a tendency to follow the *policy* of the law rather than its letter; the Court usually stating that tax consequences flow from the substance rather than the form of a transaction. In cases involving avoidance, the letter of the law is no longer a reliable guide. Certainly, it cannot be said that the Court during the last 15 years has been a barrier against the elimination of tax avoidance.

VI
The Attitude of the Congress

The posture of Congress toward tax avoidance has been a laggard one. Perhaps this is a reflection of the mores of the legislators' constituents, as I indicated earlier this evening. The courts for a long time also shared the view that tax avoidance is a legitimate sport. Way back in 1873 the Supreme Court decided a stamp tax case. *Isham* v. *United States*, in which the question of liability was held to turn on the form of the instrument, rather than its substance. In this case, the Court condoned the following practice: The Stamp Act of 1862 imposed a duty of two cents upon a bank check when drawn for an amount of $20 or more. "A careful (these are the Court's words) individual, having the amount of $20 to pay, pays the same by handing to his creditor two checks of $11 each. He thus draws checks in payment of his debt to the amount of $20, and yet pays no stamp duty. This practice and this system he pursues habitually and persistently. While his operations deprive the government of the duties it might reasonably expect to receive, it is not perceived that the practice is open to the charge of fraud. He resorts to devices to avoid the payment of duties, but they are not illegal. He has the legal right to split up his evidences of payment, and thus to avoid the tax."

Today, of course, this is an outmoded philosophy so far as the Treasury and the Courts are concerned, but it probably still prevails, to some extent at least, in Congress. Had the current judicial philosophy prevailed in the early days of our modern income tax, tax avoidance would probably not have become as rife as it did. The provisions of the early laws were vague and general. The vagueness of a statute probably acts as a brake on avoidance since general terms give the Treasury and the Courts ample room for constructions which will prevent or discourage circumvention. Particularization, on the other hand, narrows the space for construction and thus encourages avoidance. The Revenue Act of 1913 consisted of only about two dozen pages, whereas today's income tax provisions consume at least 10 times as much space, and at least half of the substantive provisions contained in the statute were enacted to prevent avoidance. Mr. Justice Cardozo once remarked: "One can read in the revisions of the Revenue Act the record of the government's endeavor to keep pace with the fertility of invention whereby taxpayers had continued to keep the larger benefits of ownership and be relieved of the attendant burdens." Today general provisions, such as the elastic definition of gross income in Section 22 (a) of the Internal Revenue Code, would be sufficient to deter avoidance, but in a judicial atmosphere surcharged with the doctrine of the *Isham* case particularization was probably necessary.

Sometimes Congress found that in stopping up one avenue of escape, it had unwittingly opened up another. For example, prior to 1921 the revenue acts contained no specific provision with respect to the basis (for computing gain or loss or sale) of property acquired by gift. The Treasury Department ruled that the proper basis for property so acquired was its fair market value at the time of acquisition. As a consequence, the door to the avoidance of tax on capital gains was opened wide. Suppose a taxpayer had an asset worth $100,000 which cost him $10,000. If he sold it for the former amount, he would incur liability for tax on the gain of $90,000, but if he gave it to his wife or someone else near to him, the donee could sell it without paying any tax. The gain of $90,000 escaped tax completely. To block this method of avoidance, Congress in the 1921 Act provided that the basis of property acquired by gift should be the same as it would be in the hands of the donor. It then took the legislators 13 years to discover that in successfully blocking this loophole they had unintentionally opened another. The 1921 amendment required that the basis to the donee for computing gain or loss should be the same as it would be in the hands of the donor. This permitted the transfer of losses from one person with a small income to another with a large income. For example, suppose a taxpayer had property costing $100,000 which was worth only $5,000. Suppose, further, that he had no income against which to offset the loss on the sale of this property. In such a case he could give the property to a relative or a close friend with a large income. The latter would sell the property, and using as his basis the cost to the donor, could offset the loss against his income. The 1934 Act effectively stopped this practice, by providing that for determining loss the basis to the donee should be either the donor's basis or the value at the time of the gift, whichever is lower.

Another example of how an avoidance provision sometimes breeds more avoidance can be found in the history of the taxation of revocable trusts. Congress in 1924 enacted a provision making the grantor of a trust taxable on the trust income if the grantor at any time *during the taxable year* had power to revest in himself title to the trust corpus. Taxpayers immediately seized upon the phrase "during the taxable year" and set up trusts which could be revoked by the grantor only by the grantor's giving more than a year's advance notice of revocation. It was therefore argued, and with success, that there was no power to revest *during the taxable year*. Congress was thereupon forced to delete the words "during the taxable year."

The Congress, despite constant prodding by the Treasury, has not acted with too much alacrity in closing up loopholes. Thus it was not until 1924, 11 years after the first income tax act of the modern era, that the unlimited reduction of tax on account of capital losses was eliminated and that the income from revocable trusts was made taxable to the grantor; or that trust income, which was accumulated for the benefit of the grantor or used to pay life insurance premiums on policies insuring his life, was made taxable to the grantor; and that the deduction for interest on loans incurred to purchase or carry tax exempt securities was eliminated. These reforms, strange as it may seem, were made at a time when the Secretary of the Treasury (Mellon) had reported a Treasury surplus and in a bill which reduced rates substantially not only for future years, but for the past year as well.

It took 10 years more for Congress to make another broadside attack on avoidance. In the 1934 Act provisions were enacted which for the first time were aimed at personal holding companies—"incorporated pocketbooks" as they were called; the interest portion of annuities became taxable for the first time; losses on intra-family sales or sales to controlled corporations were disallowed for the first time; income accrued to the date of death of the decedent, which income had previously escaped tax, became taxable, and a number of other reforms were accomplished.

In 1937, the entire Revenue Act was devoted to prevention of tax avoidance. In fact, the 1937 Act was familiarly known as the "Loophole Law." Among other reforms, it tightened up the personal holding company provisions and prevented the use of incorporated yachts, incorporated talents and incorporated country estates as devices for reducing tax. It also prevented escape from tax through the use of foreign personal holding companies and prevented the use of multiple trusts as a tax avoiding device to shift income from higher to lower brackets, etc.

VII
Some Remaining Loopholes

Despite these efforts of Congress there still remain some methods of avoiding tax which are openly encouraged. The two most glaring are: (1) Failure to tax the income from state and municipal bonds; and (2) the allowance of percentage depletion. As to the first, whatever reasons originally existed for granting immunity to interest on state and municipal bonds, these reasons, in the face of a huge Federal tax structure, the impact of which is felt by virtually the entire population, no longer prevail and the continuance of the exemption, at least as to future issues of such bonds is, in my opinion, inexcusable. As to the second major loophole, i.e., percentage depletion, some of you perhaps do not even know what it means, but it is of vital importance in the oil-producing states. Percentage depletion is also allowed with respect to other minerals, but the rate of depletion allowed is smaller, and the question as to such other minerals is not of such general importance. Under the percentage depletion allowance contained in the statute the recipient of income from an oil or gas well is allowed to deduct 27½% of the income—subject to certain limitations which are not generally applicable; and he is allowed to do this year after year even after he has had allowed to him by way of such deductions the entire cost of the property. It is one thing to allow a taxpayer to recoup his capital, but to allow him to escape tax on millions of dollars in excess of his capital is something else. If you invest in any other kind of property and you receive for it more than you have paid, you are taxed on the excess. Why a different rule should apply to oil and gas interests, I do not know, except that the Senators and Representatives from the oil-producing states have by political sagacity—to use a polite term—been completely successful in preventing elimination of this loophole.

In addition to the two major avoidance methods, which I have mentioned—major in the sense that they involve substantial losses of revenue—there are a number of commonly availed-of methods of minimizing taxes, none of which by itself results in any consequentive loss of revenue. Among these may be mentioned the practice of converting what is really a short-term capital gain (subject to tax at ordinary rates of tax) into a long-term capital gain (entitled to a preferential rate) by the device known as selling short against the box. Thus, assume the taxpayer is holding in his account with broker A 1000 shares of Burlington Mills common which he purchased on Jan. 2, 1948 at $15 per share and which is now selling $20 per share. He desires to take his profit now but does not wish to pay more than the long-term capital gains tax rate of 25% on that profit. He can accomplish his aim by selling short, preferably through broker B, 1000 shares of Burlington Mills common. On July 2, 1948, if Burlington Mills has gone up in the meantime, he covers his short sale with broker B and sells the stock in his long account with broker A. If the stock has gone down in the meantime, he simply has broker A deliver his long stock to broker B thus closing out his short sale. In either case, the gain is taxed at long-term capital gain rates. Incidentally, if you plan to take advantage of this loophole you had better do it fairly quickly because I think this is the last year in which it will remain available.

The privilege of choosing a fiscal year for a new enterprise sometimes offers an opportunity for cutting down tax liability, as does also the privilege of filing consolidated returns. But the judicious exercise of options such as these requires careful consideration, not only of immediate tax consequences but of possible future consequences. This, of course, involves prognostication. Incidentally, if you are one of those, and the number is growing, who believe that taxes are going to be higher next year, your policy should, of course, be to accelerate income and get it into the year 1948 and postpone deductions until 1949. As a practical matter, there are, of course, limits to what can be done along these lines, but within these limits a certain amount of manipulation is usually possible.

The election to use the last-in-first-out (known as "lifo") method of pricing inventories, that is, of considering for inventory purposes that the goods last sold came out of the latest purchases, saves tax money when prices and tax rates are rising and tends to increase tax liability when prices and tax rates move in the opposite direction. The "lifo" method tends to iron out the curve of profits over the years producing fewer and shallower valleys and peaks than does the first-in-first-out (fifo) method.

Another tax avoidance procedure—one which seems to be growing in favor—results from the fact that the American income tax law does not tax the income of a foreign corporation from sources outside the United States, even though the foreign corporation is completely owned by American individuals or corporations. For example, you may have read that subsidiaries of several of the large oil companies have accumulated tens of millions of dollars of profits from oil operations outside the United States; and until these foreign subsidiaries declare their profits out in dividends to the American parent company no U. S. tax is payable with respect to such profits. (Usually the profits are realized in a country which imposes little or no tax.) I have read that a textile company and a candy manufacturing company contemplate the erection by foreign subsidiaries of manufacturing plants in Puerto Rico, the products of which will be exported to countries other than the United States. The profits from these operations will not be subject to United States income taxes, and under special arrangements with Puerto Rico, they will not be subject to income taxes in the latter country for many years. I have also heard that a perfume company contemplates establishing a production plant in Venezuela with the same end in view.

I could go on for a while mentioning other features of the tax law which can be employed to lower tax liability but, as I stated earlier, it is not my purpose to offer you such a list but simply to emphasize the point that tax liability is, within limits, flexible and that the area of maneuverability, while circumscribed, is in some cases fairly broad.

From the viewpoint of taxes the business community may be divided into three categories: (1) Those who pay no attention to taxes at all—this class is fast disappearing; (2) those who spend too much time worrying about taxes; and (3) those who know about taxes and take them into account in determining their business policies but do not lose their sense of perspective.

The first group, those who say "damn the tax torpedoes, full steam ahead," are likely, unless they are very lucky, to be hit by one of the heavier torpedoes and suffer severe damage thereby. Those in the second group spend so much time dodging the torpedoes that they forget about their primary object of conducting business successively. Those in the third group, which includes most successful businessmen, do not try to squeeze the last dollar out of tax avoidance; their first concern is over-all business judgment and business policy, and while taxes are, of course, taken into account, they are considered as only one factor—not the controlling one. Furthermore this last group takes the long view. The attraction of the short view frequently turns out to be only temporary and worsens as the horizon recedes.

To conclude, it seems to me that the judicious course to be pursued in connection with tax avoidance is a middle-of-the-road one. Taxpayers who are completely blind to the possibilities of avoidance—even those who are astigmatic towards it — do themselves little service. Those who make a fetish of avoidance do their fellowmen, and frequently themselves, a disservice. In this field as in so many other endeavors of life, the axiom about "everything in moderation" is very apt.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Maintenance of the 1⅛% certificate rate had the expected effect upon the government securities markets. . . . Demand increased and prices rose sharply especially in the longer end of the list, as investors either put idle funds to work or shifted from shorts to longs in order to improve income. . . . Continuation of the 1⅛% rate for one year maturities caught the market pretty much off guard, although sizable buying by the large banks of intermediate and long eligibles was in evidence a few days before the announcement was made last Thursday by Secretary of the Treasury Snyder. . . .

TREASURY THE VICTOR

The monetary authorities as well as the market itself had been in disagreement over what was going to happen to the certificate rate. . . . However, as has been the case in the past the Treasury won out, and this branch of the government had been maintaining all along that the 1⅛% rate would be kept, although other money managers and the market refused to go along with the idea. . . .

Evidently the Treasury is going to see what can be done to contain the forces of inflation other than through the raising of interest rates. . . . Likewise, it is being pointed out that deflationary forces are also at work so that the picture is not all one-sided. . . . Financing of working capital needs of corporations for defense purposes could have been an important consideration in the decision to hold rates at present levels. . . .

MARKET REACTION

What has taken place in the government market with the continuance of the 1⅛% certificate rate? . . . Buying has come into the entire list with the short bonds showing minor advances to compensate for the depressing of prices of these issues, by those who sold them because they believed a 1¼% rate was inevitable. . . . The intermediate maturities have gone ahead between ⅜ and ¾ of a point with the longer maturities up close to a point. . . . Selling by Central Banks has been reported in the eligible issues and there is no reason to believe this will not continue because the market must be kept orderly on the up side as well as on the down side. . . .

Government bond market management is just as important on the way up as on the way down. . . . Therefore it is not believed that the market will be allowed to get out of hand on the up side. . . . Federal has the securities to supply the market with and indications are they have been doing some selling and will no doubt continue to do so, probably on a larger scale as prices advance. . . . It is not conceivable that the authorities would allow quotations to run up sharply and at some future date raise interest rates and then have to support the market in order to prevent it from falling out of bed because of a too sharp price advance now. . . . There is a ceiling to the government market as well as a floor. . . .

HOW FAR UP?

How far are buyers of government bonds going to chase prices up, and is there the likelihood of selling by those that bought before this last rise? . . . Investors that have been acquiring needed Treasury bonds at quotations that were recently prevailing are not too concerned yet with the price advance since most of their buying was done at levels that give them a good cushion. . . . However, they could be tempted to take profits on further strength. . . .

The fast moving brigade, that is the traders and dealers, are not in a position to supply the market with very many securities because they were caught largely on the sidelines. . . . What purchases that were made by this group were at advancing prices and these will be dropped like "hot potatoes" if the market shows signs of a reaction. . . . Some new funds are coming into the market, but most of the money that is going into longs is being supplied by switching operations from bills and certificates. . . . Selling by the money managers would be the force that could keep the market from getting out of hand. . . .

As to how far the market will advance from here on is anyone's guess, although the supposedly "shrewd traders" are inclined to believe that another ⅛ to ⅜ of a point up depending upon the maturity of the issue will find selling by investors as well as dealers and traders. . . . In other words between 103 and 103¼ for the longest bank-eligible is about the best that is expected by most informed followers of the money markets. . . . Owners of Treasuries that want to make adjustments in their portfolio positions are being advised to do it with continued strength in the list. . . .

AFTER SEPTEMBER?

The 1⅛% certificate rate is here until September but after that, what? . . . Whether there is an upping of the certificate rate in the future or not will depend upon the volume of loans, commercial, consumers and real estate. . . . Also the level of commodity prices must be given full consideration. . . . If loans level off or decline and commodity prices are stable, then the 1⅛% rate will be continued. . . .

On the other hand, if loans advance especially consumers and real estate, and commodity prices go marching ahead, the Treasury will beyond doubt go along with Federal and push the certificate and discount rates up, in an attempt to combat the inflationary forces. . . . This would not be all, because it is believed that reserve requirements of banks in New York City and Chicago would also be raised. . . .

Likewise, the chances for new legislation to give the Federal Reserve Board greater power over reserve requirements of member banks would be enhanced if the inflation spiral should get out of hand. . . . However, 1948 is an election year, so little, if any, changes of importance are looked for in money rates until after the fall voting is over.

The Post-War War

(Continued from first page)

It alone forces every nation within her potential radius behind foreign exchange barbed wires with which neighbors help mutually to destroy the credit of each other's currencies. That everything else is overshadowed by the fear of Russia, is indicated by the developments since the Bolsheviks took over Prague: currencies deteriorating and international restrictions tightening—in the face of the Marshall bonanza and the onset of American armaments.

Since early April, the amount a Britisher can take with him when migrating from his country has been reduced to four annual installments of $4,000 each, an obvious answer to the large number of capitalists who try to escape legally. The pound sterling has been falling to new lows on the free markets of the world, while the Labor Government reduced its export goal from 160% of the 1938 level, which it was supposed to reach at last year-end, to 150% to be reached next December, and proceeds to strait-jacket the purchase by Britishers of South African gold stocks, thereby closing a most popular avenue for flight out of the pound. Simultaneously, in Paris the price of dollars and of gold coins spiraled to new heights, which is the Frenchman's way of saying that he wants to get rid of his francs in spite of all its buttressing at our cost. All hopes to dislodge the gold hoards by devaluing the franc and legalizing the "parallel" market are shattered. Incidentally, both Britain and France have reached postwar record export levels in the first quarter of this year—and record import surpluses as well.

Or take the case of Greece: the obstacle to her recovery is not so much guerillas and political corruption as rather the fact that the citizenry uses every means available to secure for itself a gold or dollar cushion, preferably abroad. All over Europe, new tricks of capital flight emerge, and exporters develop new techniques to hide overseas part of their foreign exchange proceeds, withholding them from utilization by the respective national economies.

Financially, Europe is like a sieve through which dollars flow without improving the balances of payments or stopping the decay of the respective currencies. The run for gold has forced even Switzerland into suspending its sale to the public. The foremost reason is, to repeat, the perilous peace under which the Old World smarts. What we call market economy — rational capitalism — can prosper only under legal security that presupposes not merely formal armistice, but a real Freedom from Fear. In lands threatened with a devastating war and its collectivist implications—and the Old World feels threatened in a tangible fashion which remote Americans scarcely can visualize—only black market capitalism prospers, the kind that lives on extravagant profit margins from in-and-out operations. Sound business and long-range enterprise are unattractive under such conditions which call for subsidies and bureaucratic controls instead, in turn depleting what is left of entrepreneurial vitality. The predominating "cold" bolshevistic practices—a direct consequence of Soviet spiritual influence—do the rest.

II.

Italy is a conspicuous illustration of Europe's inability to recover under the shadow of the hammer and sickle, lavish on her what we may. The outcome of her elections was hailed in the Occident as a great victory. Moral and political victory it was, indeed. But what we gained in material terms is less than nothing.

There, as elsewhere, all pouring in of dollars is useless from the long-term point of view, because of the capital flight caused by the Russian threat. The truth is moreover, that the Communists did not lose a single vote. Percentagewise, they polled more than they ever did anywhere in a free election. That they could not grab the power should not be surprising in view of the fact that we keep the "marginal" Italians alive and have threatened to withdraw that vital support. Even so, the Bolsheviks drew more votes than in the first postwar election when Washington still was honeymooning with the Kremlin. Presently, all our bribery and propaganda, political and economic, produced no more than an irrelevant group to represent free enterprise. The principles of the Christian Democrats and moderate Socialists, who between them rule the Italian parliament, are a far cry from our ideals. They believe in managed economies surrounded by exchange restrictions, with price fixing and profit limitations, controlled business, etc. In other words, the best we might expect is the British type of national-socialism which in Italy may be run not so much for the benefit of the labor unions as rather for the small farmers and the middle classes. It will be poles apart from anything we stand for, except that it is anti-Russian. And even that, perhaps, for national rather than ideological reasons the conflict over Trieste may have brought many wavering Italians on our side.

Nor did we win in a military fashion. Italy has few resources, and that handful may be blocked by communist Fifth Columns. Instead, we have incurred by our Pyrrhic victory at the Italian polls an unprecedented obligation. **From here on, we have to support Italy,** and not just for humanitarian reasons. We have promoted her to an important item in our international security picture; we have made promises implicity or worse; and we have to prove that prosperity is around the corner for the good peoples who voted on behalf of America. We cannot let them down any more, and will have to pay accordingly.

The bill will be around a billion dollars per annum for an unlimited number of years. Italy is in a catastrophic condition. Per capita, she has been just about the poorest nation in Europe, a country famous for great monuments and an inordinate number of beggars. Now, it is overpopulated, with little or no birth control interfering with the increase of numbers. It has to import most of the essentials of life and can pay for the import surplus only by attracting tourists and by exporting emigrants. On these two "invisable" industries, Italy's very existence depends. Both are bankrupt. Tourists cannot come in numbers from hardly any European country; the some 70,000 Americans who supposedly are going to the continent this summer could not substitute for the European visitors if all were sailing to Italy. And, needless to say, the door virtually is shut to Italian emigration on any major scale. Exchange restrictions and barriers to immigration finish Italy's recovery chances, with or without Marshall Plan.

Had the Russians gained the elections, they would have exploited Italy as they exploit the satellites, while relieving her population problem by dumping millions of Italians in the wastelands of Siberia.

But the Soviets win in any case. They need not resort to force, but merely to change their tactics, as they often did before. With a substantial minority of Italians following its order Moscow can, and undoubtedly will, annul all our efforts toward reconstruction even if the Italians will not do so by their own home-brewed anti-capitalism. Maintaining the constant terror of war or revolution will help. In addition, every opportunity will be used to incite industrial strife. Machines and raw materials do not restore economic equilibrium if the improvement in technical productivity is offset by disproportionately rising labor costs or by reduced labor efforts. That is exactly what communist agitation is able to bring about and not only in Italy.

Moreover, the communist demagogy compels the "moderate" groups to concessions along collectivist lines. The result will be in Italy, as it is in England, France and Scandinavia, that the opponents of bolshevism themselves force the water into the bolshevik mills. They bid for labor support in competition with Moscow's radical propaganda, and do so by undermining the system's resistance against radicalism.

III.

Italy will be a permanent ward of the United States, as her Premier has announced already in almost as many words. So will Austria, China, Korea, Japan, and of course, Germany. It is plainly naive to assume that with a few billion dollars spent on her, Germany could recover while half of her territory is in the hands of Russia, including her main agricultural surplus areas, and a major part of her coal and potash resources. It will take many years, and many billions of dollars, to make one-half of an integrated industrial system operate after separation from the other half, to say nothing of restoring the appalling war damages to physical plant and population. But even the nations of Western Europe — and those throughout the world that depend on Europe for their markets — will remain wards.

A fundamental fallacy of our international policy is the assumption that financial aid can restore distressed economies, notwithstanding the external drain under which they labor—thanks to Russia—and the waste by which they operate internally. To maintain Social Security Utopias and artificial Full Employments is possible only by way of piling inflations, confiscatory taxations, and bureaucratic controls on top of each other. The sum total of this mixture of Marxian anti-capitalism and Keynesian money-tinkering, with hopelessly confused attempts at adjustment (called "planning"), is the **elimination of incentives** for the worker as well as for the saver — replacing the incentive to produce for export by that to hoard, to gamble, and to play politics, the latter being the main source of jobs and of subventions. The outcome is more deterioration of the balances of payments, further weakening of national currencies, and more appeal for dollar aid.

Another fallacy of our international finance is the assumption, basic for the Marshall Plan, **that** world market **prices will remain constant** or actually will fall. But with rearmament under way, with the American production apparatus strained to full capacity, and inflation rampant world-wide, prices are definitely upward bound. Our national expenditure, already around $22 billion a year for armament and foreign spending, is due to approach $30 billion in 1949, with more to come at higher prices. Given our program as announced by Marshall on March 11, that this country should be "for at least the next five or ten years in a position appropriate to its leadership," given forthcoming appropriations for a selective service-draft combination, for international bases and a renewed lend-lease—**within 10 years it will cost us more than $300 billions** to "contain" Russia, about as much as it has cost us to defeat the Axis. If so, the national debt must rise by at least another $100 billion, perilously enhancing the unwieldy money potential. The unavoidable decline of the dollar's purchasing power will call for renewed shots-in-the-arm, ultimately endangering the entire foreign aid program.

IV.

Nothing could be more effective in weakening these United States than unleashing a run-away inflation and all the destructive forces it implies, which is exactly what the program of wholesale spending at home and abroad promises to bring about.

In a few years of "Mobilization for Peace," we will have armed ourselves and our allies to the teeth, kept an uneasy peace, and held Russia within her Sphere. We will have raised living standards abroad (for a while) and provided equipment of one kind or another, at the price of invigorated scarcities, bottlenecks, taxes, controls, and tensions at home. We may underwrite money pools, alliances, and chimeric unions in Europe, trying to obscure the fact that she has reached the end of her "clearing" ropes. (Who would suggest a Pan American Union to solve Canada's and Brazil's dollar shortage?) We may complete the division of the globe into two Blocs, make and break agreements with Russia, chase Communists around the lamp posts, and subsidize bigger and better booms. But we will literally deplete our own resources, burn up 15% of the annual output in unproductive use, and another large slice in over-inflated domestic consumption.

Bigger inflation and "better" taxation will be rampant long before a decade is over. That implies the ultimate lowering of living standards: fewer homes and other good things for the average American and for our friends abroad. It means recurrent industrial strife and softening of the nation's moral fibre. In spite of vastly increased armaments we then may be less capable or willing to resist Soviet expansion than we are at today's "unprepared" state.

In the meantime, Russia's position will grow stronger and stronger. Continued economic blood-letting of the West strengthens her hand, raising her prestige and influence. Our growing military prowess will mean little—since we are not using it aggressively, and she will avoid becoming an aggressor. The Italian case has illustrated once more the point, as do the clashes in Berlin and Vienna, which this writer emphasized previously ("Chronicle" of April 1, 1948, pp. 1 and 32)—that **the Soviets avoid war by all means.** They create crisis after crisis, and each time call the bluff on the brink of the breaking point. It served their objective to frighten the West with rumors of armed intervention in Italy, as it did to turn the heat on Sweden or Finland or Trieste one day, Greece, Turkey, Iran or Korea the next. Week for week, the scare uproots normal economic ties, slows down and unbalances the capitalistic process.

The method is akin to Hitler's before late 1938. So is the trick to propose peace from time to time, and to postpone the showdown. Russia does not undertake physical agression—not yet—if it threatens to embroil her in a major war. She cannot and need not undertake such risk.

Time works for her. The longer the twilight of war-threat lasts, and the further the Occident's inflationary boom is boosted, the closer the Doom's Day of capitalism. The Great Bust, on which the Marxists and Keynesians count religiously, may not even be needed. Run-away inflation in America may accomplish their dream: **to get us out of Eurasia.**

The Marshall Plan serves Russia's interests directly, too, by way of "East-West trading." The ERP countries need Eastern Europe's surplus raw materials, and have to buy them with our aid. Thus, the Czech Skoda works are still fed with German scrap from the American zone, and American oil equipment, absolutely vital to Russia's armaments, may have to pay for Polish coal to Sweden or France, or for Hungarian grain to Austria. The American machinery, the export of which to Yugoslavia is embargoed, is sold to Tito by the Swiss and the Italians. For a while, the Cominform may lie low so as to get American wares even for Russia direct. Soviet policy can use every trick in the Machiavellian dictionary.

The crypto-peace permits the rebuilding of Russia's industries, extending her influence "peacefully" (such as by civil wars in the Orient and in Latin America) and consolidating collectivism in the satellite countries, which are being rapidly integrated into the Soviet system. While we spend ourselves dry, Russia presses goods and services out of her subdued neighbors to the tune of an annual $3 billion, at least. The worst of it is that **time and "peace" work for the Kremlin** even **in terms of power-balance.**

V.

The relative power position of U. S. vs. Russia is determined by a few essentials. Our industrial capacity is estimated competently to be four times that of Russia and satellites combined, not counting our actual or potential allies. In manpower, too, the Western Bloc (even excluding Germany and most of the colored races) is far superior to the Eastern, and even more so in terms of technical skill. True, Russia has ground forces available in a near-mobilized status which may be larger than anything the West could put on war footing within a matter of months. But she has no navy to speak of, and the advance of her armies would be hamstrung by the British, Swedish, plus American, air forces on hand. They are sufficiently strong to delay a "Blitzkreig," if not to stop it altogether.

Be that as it may, the decisive facts are:

(1) The A-bomb, of course, and other "gadgets," not to mention Russia's shortcomings in heavy bombers.

(2) There are no planes as yet which effectively can cross the Atlantic or the Pacific and return on their own power. What that spells should be obvious: the Russians could not attack our cities (except perhaps by suicide planes) while from Leningrad to Vladivostok every significant production and communication center would be open to the most vicious bombing, originating from our carriers and preferably from solid bases—from Iceland to Japan.

(3) No guided missiles exist as yet which could reach effectively across the oceans. In this vital respect, again, we still are "immune," while all major Russian centers are accessible targets.

Today, Soviet explosives could not reach the continental U. S., while the Soviet lands were at our mercy. No such supremacy of one power over the rest has ever existed before. But it cannot last for long.

Tomorrow, guided missiles and long-range bombers may reach practical perfection. Also, sooner or later, Russia is bound to master the atom.

Today, war would spell suicide to Russia, the end of her Noble Experiment. She might destroy much of Europe and of Japan (which is one reason for our Europe-minded Administration's doddering diplomacy). But she would lose the faster, since peoples in the rear of her armies, Russians as well as satellites, would rise as soon as her communication system ceased to function under devastating aerial attacks. Even her armies, constantly punctured by desertion as they are, may dissolve themselves under the same fire.

Tomorrow, we still may maintain the technological lead. But the domestic situation will be very different once run-away prices herald the end of free markets and of high living standards. What is more, Russia's ability to retaliate would then make a war so expensive to us as to be prohibitive.

Fascinated by the Hitler precedent, we are acting as in deadly fear that Russia might start shooting any minute. (That is the latest of nonsensical scares: that she might "act" before we are ready.) In reality, Hitler could get away with murder, or thought he could in 1939, while Stalin could not in 1948. Germany then had a formidable aerial lead, in addition to the military; America was a negligible quantity; Italy, Japan, and even the Soviets were on her side. Russia, today, is totally isolated, limping technically, and in a most vulnerable position. That explains her strategy of endless bluffing but anxious sidestepping of a serious conflict.

Instead of ruining itself by war, the Soviet is willing to permit America and its friends to ruin themselves financially. In effect, it offers us a long rope—and we grab it with enthusiasm.

VI.

The comic opera note-exchange incident (Who was trying to fool Whom?) between Messrs. Bedell Smith and Molotov has confirmed again, if it needed confirmation, the respective policies of the two great powers. All the Russians want is to postpone the showdown for which they strain all nerves, get as much advantage out of the "peace" as possible, consolidate their conquests and position, in the meantime keeping the other side in jitters and letting it spend itself into bankruptcy. Our policy on the other hand, consists in preparing the defense against a Russian aggression that is not in the offing (not until and unless Russia is militarily superior to us. In the meantime, we proceed to bankrupt ourselves through overinflated military expenditures, plus an utterly inadequate and mismanaged global spending, while trying to avoid the unavoidable conflict by—continued appeasement.

Notwithstanding all assurances and appearances to the contrary, we are still appeasing Russia. Prague was a classical sample: **face-saving protestation of moral indignation combined with prompt recognition of the new gangster government, and side-stepping the issue** (brought up by Chile in the U. N.), of Russia's role in that vicious **coup d'etat.** We still operate on the totally naive, and equally unethical, assumption that one can reform a professional arsonist by letting him put the torch to his nearest neighbors' houses "only."

American diplomacy is still anchored in the unclean waters of the Roosevelt-Churchill appeasement deals which gave Stalin virtual free hand in his Security Sphere. The exact limits of "permissable" Soviet aggrandizement are still secret. The lines of our real resistance (each time fully respected by Moscow) against Russian incursion into Germany, Austria, Italy, Greece, Turkey, Iran, etc., indicate where the new **limes** of western civilization are to be established. Vice versa, by failing to offer resistance against the ruthless rule of Russia over the satellites, their absorption by the Soviets is conceded not only **de facto,** but also by such left-handed appeasement gestures as the Bedell Smith note. What else falls beyond the "boundaries essential to American security," using State Department semantics, is anyone's guess. According to the well-informed "Wall Street Journal," Finland and even Sweden (?) are to be thrown to the wolves as "indefensible," while an inspired column of the N. Y. "Herald Tribune" rationalized lately that our "settlement" of a "natural" division of the world amounts to **maintaining the status quo,** and praised in this context what it called the Vandenberg policy of "restoration of health and strength in the remaining area of freedom."

The trouble, apparently not appreciated either by the Administration or by Congress, is that the Remaining Area of Freedom cannot be restored to health and strength—or its freedom maintained—by stopping Russia at some border (which never is "natural" since no people on earth are Bolshevik by nature). The status quo means that, spend as we may, she will get what she wants without war, just by not agreeing to peace. At the end, after having avoided war for five or 10 years, or longer, during which we grow much weaker economically and socially, we may have to appease Russia or face war anyway, under infinitely more hazardous conditions than at present. Such is the gamble on which we are embarking: tails, we lose; heads, Russia wins. It is the same defensive-mindedness that brought disaster upon France. She, too, relied on a hold-the-line philosophy, spent recklessly on defenses and smaller allies, let herself be dragged from one international conference to the other, and permitted Hitler to grow strong. That is almost the exact pattern of the American attitude toward Stalin—with the cost of the Maginot Line multiplied hundredfold.

Have we no alternative to the present course of being worn down until we either revert to our isolationist shell or resort to a war which then may mean mutual annihilation? Must we accept the otherwise clear-sighted Virgil Jordan's pessimism: that there is nothing we can do any more but to head into financial chaos and collectivist economy? In reality, it is not too late to change our international policy right now, or after a short preparation for the change. Within a matter of months, if not at once, we should be able to make the Kremlin understand that we are able and willing to fight a preventative war—in which case we need not fight it. The one thing Russia presently cannot tolerate is war, and she will have to accept the conditions imposed as alternatives, conditions which need not interfere with the Bolshevik system within Russia. Step by step, beginning with minor questions, we could turn the tables on Russia and give her the war jitters with the aid of ultimatums demanding a minor concession each time, but adding up to the major results: to re-establish democracy in the areas Russia has conquered since 1939, just as we re-establish democracy in the areas which we have liberated; and to compel and supervise disarmament of the Soviets on the same terms on which we are willing to accept disarmament and its supervision.

But should Russia prefer to fight, contrary to all rational expectations, with the virtual certainty of being vanquished militarily and the prospect of suffering the extermination of Bolshevism, her only effective weapon would be the threat of laying waste to much of Europe. That is the chance we have to take, an extremely short one, compared with the long chance of losing Europe to the Soviets, and possibly America as well. In all probability, a forthright and forceful diplomacy could push back the Soviets step by step, destroy their prestige, undermine their aggressive power, and eliminate the war danger altogether, all that without bloodshed. After that, we could proceed to a realistic reconstruction of the world, not just to hopeless relief and wasteful experimentations.

Pasadena Bond Club Sponsors Inv. Course

PASADENA, CALIF.—At the beginning of the year, the Pasadena Board of Education decided to give a course in the "Principles of Investment" at Pasadena City College for adults and requested Harry W. Hurry, Bingham, Walter & Hurry, to give the course. The course is now in its 15th week and has been received so enthusiastically that the Board of Education desires to continue the course every six months. At Mr. Hurry's suggestion and recommendation, the Pasadena Bond Club (an organization founded in 1920) has agreed to sponsor the course, publicize it, and select the instructor from its members for each semester.

Harry W. Hurry

The course is designed to present the fundamentals of securities and to provide a practical approach to the problems of investment from the standpoint of the average investor. As is indicated by the following outline of the course, emphasis is placed on the basic fundamentals of the business as opposed to discussing the merits or demerits of particular securities or in any way attempting to prophesy market action.

1. Introduction to course and history of investment.
2. Various types of investment—bonds, preferred stocks, common stocks; rights of investors.
3. The corporation and its financial structure.
4. Investment and speculation defined.
5. The function of the underwriter, investment counselor, investment dealer, broker defined.
6. Insurance stocks.
7. Aviation stocks.
8. Industrial, utility and railroad securities.
9. Investment trusts.
10. Impact of business cycles on securities.
11. Small vs. big business—New vs. seasoned industry.
12. Function of a stock exchange.
13. Wartime and postwar changes—their effects on securities.
14. Sources of information and how to read financial publications.
15. Markets—listed, unlisted.
16. What the investor should look for—favorable signs, danger signals.
17. General review.

As a text for the course, Mr. Hurry has used, for the most part, "The Fundamentals of Investment Banking," published by the Education Committee of the Investment Bankers Association of America in 1947.

In sponsoring the course, the Pasadena Bond Club felt that it not only was offering the public an opportunity to understand the investment business but that we also had the opportunity of presenting the investment industry and its functions to the public. In other words, here was a fine opportunity for the investment business to do a good job of public relations.

Congress Should Reject ITO Charter

(Continued from page 19)

points and will, in addition, try to answer such questions as you may wish to ask. For those of you who wish to pursue the matter further, and I hope that includes all of you, I shall be glad to make available copies of my comparison of Havana and Geneva drafts in detail. This includes many comments, as well as a reference to guide you to the particular points criticized. And you should have a copy of the Havana Charter, which can be obtained from the United Nations headquarters.

The Charter Outlined

The Charter consists of nine Chapters and a number of Annexes.

CHAPTER I
Purposes and Objectives

There is little criticism from any quarter of the objectives of such an international organization, particularly if it adheres more closely to the original idea of a consultative and advisory body. In fact, it seems that much study, consultation and advice should precede the setting up of a formal organization, which is another way of saying that the present attempt may be premature. Certainly, that is one of the conclusions to be drawn when one examines the extraordinary number of exceptions to the rules which are thought necessary.

Thus, I think the last objective stated should really be the first. This reads: "To facilitate through the promotion of mutual understanding, consultation and cooperation the solution of problems relating to international trade in the fields of employment, economic development, commercial policy, business practices and commodity policy."

The third objective is one of the ambiguities in which the Charter abounds. It reads: "To further the enjoyment by all countries, on equal terms, of access to the markets, products and productive facilities which are needed for their economic prosperity and development." Interpreted literally it may mean things to which we in the United States do not agree at all.

CHAPTER II
Employment and Economic Activity

In this chapter an effort was made by the Advisor furnished by the American Federation of Labor, to include a principle declaring against directed or forced labor of any kind. This was successfully opposed by the United Kingdom, who themselves use such measures.

CHAPTER III
Economic Development and Reconstruction

This is expanded tremendously over what it was and my guess is that it will be productive of headaches in the future. The ITO is to arrange for surveys of natural resources and the economic potentialities of members and assist in plans for their development. Moreover, there are obligations that members shall cooperate in providing such facilities *within the limit of their power.* And the so-called undeveloped countries think the power of the United States is limitless.

In this chapter there is a provision that ITO may make recommendations and promote agreements to facilitate equitable distribution of skills, arts, technology, materials and equipment with due regard to the needs of members. Members are governments. What is an equitable distribution? ITO apparently will decide and the United States has one vote against the field.

Investment provisions have been referred to previously. They will not encourage but rather discourage it. The Charter speaks of "public and private investment." When it was suggested that most investment will come from private sources and that "public and private" might be deleted, speaking only of investment, there was great protest that the word "public" certainly must be retained because private investment might not be forthcoming. They did not need to mention that perhaps the obtaining of so-called public money might be easier and the requirements for servicing and repayment less burdensome. Moreover, lending of what are called public funds can quickly become political lending. In essence, it is foreign investments or loans forced on our own citizens through the government's power to tax.

Reconstruction Covered

When we consider these provisions of the Charter, it must be remembered that while originally written to provide such investments for economic development, Havana extended this to cover reconstruction also. In fact, while ITO originally contemplated establishing fair rules of trade, it is now said that reconstruction is an essential condition for the realization of the purposes.

In the same Chapter, Article 15 provides for an increase in preferential tariff systems. British preferential tariffs provided an object lesson for other countries seeking new and permissible methods of discrimination. Their demands were met, at least partially, in Article 15.

CHAPTER IV
Commercial Policy

The longest Chapter, sometimes called the heart of the Charter. It is based on the idea that multilateralism in trade is all good and bilateralism is bad. It stems directly from Mr. Hull's belief that reducing United States tariffs was a panacea for the world's ills.

You have listened to an able discussion of tariff, therefore, I will only make one observation.

One of the great purposes of the Trade Agreement obsession was to restore a balance between United States imports and the constantly increasing volume and value of exports. But apparently two important points were overlooked. First, the fact that exports only have value to the extent they pay for imports and that exports beyond the value of imports are gifts instead of trade; and, second, the fact that the United States could easily produce and export a much greater value than it could possibly import.

We can only import commodities or services. Increasing imports of the latter would help to balance the accounts. Curiously, it is the purveyors of services that seem to shout the loudest for low or no tariffs on commodities.

But in the main, the United States export manufactures and imports raw materials. Obviously, the values do not balance. So we find a curious function added in the ITO Charter. You can speculate for yourselves what this may mean. It reads: "in such collaboration with the Economic and Social Council of the United Nations and with other intergovernmental organizations as may be appropriate to undertake studies on the relationship between world prices of primary commodities and manufactured products, to consider and, where appropriate, to recommend international agreement on, measures designed to reduce progressively an unwarranted disparity in those prices."

I shall merely mention several other provisions of this Chapter which should interest you.

One provides that if a Member fails to join the Group, known as Contracting Parties, within two years from the coming into force of ITO, Member shall cease to enjoy the tariff concessions made at Geneva by the 23 nations known as Contracting Parties. But if they enjoy them for two years, it will be exceedingly difficult and perhaps politically impossible to withdraw them. They will then look for new concessions in return for any they make.

Another provides that binding a low tariff shall be considered a concession equivalent to the substantial reduction of a high tariff.

Still another provides that in negotiations a Member may, in granting concessions, undertake not to raise a tariff above a specified higher level.

CHAPTER V
Restrictive Business Practices

This is a condemnation and a series of Articles for the control or regulation of private monopolies. Unfortunately, we find the inevitable provisions excepting State Trading and Intergovernmental Cartels.

Under the requirements of the Charter for judging whether a monopoly is harmful, it is an interesting speculation whether many will be so adjudged—remembering again that the United States has one vote and that monopolies are looked on with more favor in other countries than in the United States.

CHAPTER VI
Inter-Governmental Commodity Agreements

Starting with the creation of complete cartels controlling production, price, markets, etc., on primary commodities in burdensome surplus, this Charter is a foundation for the extension of government planning and control. Provision is made for including other than primary commodities. Obviously, international controls will require domestic controls, for one without the other will not work. And, one product like cotton, under such control can soon lead to controls on other fibers which, if free, would upset the cotton controls. Moreover, it introduces a socialistic concept that consumers shall have a voice equal to that of producers in establishing prices and other terms of the cartel.

Whatever may be objectionable in monopolies in private hands will inevitably be worse in the hands of government bureaus. And, in the hands of an international bureaucracy, worse still. I do not accept the idea that some chosen few in such a group will be endowed with integrity and wisdom of a superior order. It has been suggested that absence of any selfish profit urge would enable the agency to plan and administer with even-handed justice. I wonder.

These planners and administrators could be men of little or no practical experience. Yet included in the provisions of the Charter is the idea of shifting resources, both of materials and manpower, from one line of production to another where the resources could be employed more efficiently.

In the limited number of cases where international agreements of some sort are really required, it would seem that, besides using every effort to limit their number, only the government concerned should negotiate a treaty. Setting up a permanent bureaucracy means expansion in the whole field of planned economy.

CHAPTER VII
The International Trade Organization

This sets up the structure and functions, voting procedure and powers and duties.

Here are found the provisions granting one vote to each Member.

Contributions are to be apportioned from time to time, following the principles applied in United Nations. An attempt to limit the contribution of the United States to one-third of the budget was defeated.

And in case someone thinks the development provisions of Article 10 are simply entertaining words, the function of carrying those functions is specifically included.

CHAPTER VIII
Settlement of Differences

This contains the provisions for consultation, arbitration, review or reference to the International Court of Justice.

CHAPTER IX
General Provisions

Here provision is made for a general review of the Charter in five years. This is an improvement over the ten years prescribed in the Geneva draft.

The Charter is to come into force 60 days after a majority of the signers at Havana have accepted it or, if at the end of a year after the Final Act of Havana it has not so come into force, then when it has been accepted by twenty. Otherwise there are provisions to bring it into force by other means.

Meantime, by Resolution, an Interim Commission of ITO has been created without benefit of legislative approval. This interim body has been given certain duties to perform during the period before formal ratification of the Charter.

Moreover, it must be remembered that many of the Charter provisions are reproduced in the General Agreement on Tariffs and Trade concluded at Geneva. Parts I and III of this have been proclaimed by the President as in effect as of January 1 last, and Part II, to the extent its provisions are not inconsistent with our laws. That means that until successfully challenged, someone may interpret it as not being in conflict. Some of the provisions of Part III tie in very closely with ITO also.

It is a situation that bears watching.

Conclusions

Major criticisms and suggestions made in connection with the Geneva draft were largely ignored at Havana. Further deterioration far outweighed the few improvements made. Language susceptible of several interpretations is continued. One delegate said in reference to this that he was beginning to understand that the references to full employment probably meant full employment for lawyers.

The Charter may be premature for, despite the many exceptions in the Geneva draft, delegates at Havana were seeking new ones. Hence, bad practices were not eliminated but are preserved by exceptions designed for that purpose. Principles binding on the United States are not applicable for the present to many other countries.

Charter Should Be Rejected

My conclusion is that the Havana Charter is unacceptable to the United States and should be rejected by Congress and a renegotiation demanded. Moreover, I firmly believe that a greatly superior Charter could be negotiated if we made an aggressive effort.

When that proposal is made, the objections are:

(a) **that the group of countries could not be brought together again;**

(b) **that failure to agree now would result in chaotic conditions in international trade and finance.**

As to (a), experience of the past denies its validity. A smaller group of countries met in London and again in Geneva for six months last summer on the same subject. These same nations, plus a much larger number, met again in Havana only a couple of months after the Conference at Geneva was ended. Moreover, Havana was the first time most nations had studied and debated the subject.

But there is a more important point involved. Is ITO more important to the United States than to the other nations? I think exactly the opposite is the case. If I am correct, then the United States should not exhibit such anxiety to get a Charter.

As to (b), it is nonsense, to say we **would have** chaos. That is what we have and it is what the Charter recognizes. The multiplicity of exceptions provide for indefinite continuance of the conditions the ITO was supposed to rid us.

I think the effect would be salutary if the United States would take the action I have already indicated. I think the other nations would be the ones to take second thought. They would be the ones to ask for a new Conference and a new attempt. In that way, perhaps, a good Charter, but certainly a better one, could be written, with rules in it that would have more general application. Wherever there had to be exceptions, they could be limited in number and provided with a definite date of termination.

New Negotiators Needed

It is my belief that an entirely new group of negotiators would be necessary, for there is presently far too much acceptance of the philosophy of government planned economy and controls by the State.

There is no noticeable appreciation of the fundamental weaknesses of government versus private enterprise but rather a belief that government bureaucracy can do everything better, with even the idea that private enterprise, being selfish, is necessarily on a lower moral plane. Very importantly, business and industry in the United States should be invited to help write a preliminary draft before it is submitted to other nations. It is an empty gesture to consult them after the fact.

Congress Should Offer Alternative Pattern

In the interest of amity and to forestall misunderstanding or misinterpretation by the other nations, it would be well if the Congress, in rejecting the Havana Charter, would at the same time declare the pattern of what it would accept.

Intelligently handled, this could be an act of constructive leadership by the United States in which other nations could be clearly informed as to the direction in which the United States would cooperate with them, as well as the direction in which it would be less interested.

It would not mean trying to force our system on them. It would mean that, in so far as the conduct of international trade and financial relations is concerned, the United States wants to create an organization in which:

(1) **Sound principles would be clearly and unequivocally stated.**

(2) **These would apply in international trade, regardless of the particular internal systems used by individual nations.**

(3) **Rules which would apply to all uniformly would be clearly stated, without exceptions.**

(4) **Rules regarded by all as future desirable goals not immediately attainable could be stated and a date set when nations would agree to comply with them.**

(5) **Recognizing a transition period, a separate section could set out the steps to-**

ward achievement of the desired goal, **again including date of termination of any necessary transitional measures.**

With no assertion of completeness, this listing is an attempt to indicate a constructive approach rather than write a complete program, aiming always at gradual reaching of a declared goal, contrasted with the present more negative approach in which the chief anxiety is to provide for indefinite continuance of every possible device for avoiding the rules.

Without laboring this point further, it remains to say that if this is thought to be a better approach, there is a possible way in which it can be brought about. It will be done if the weight of informed opinion in the United States is clearly and firmly put before the Congress by the appropriate Organizations of industry, agriculture, business and finance and by interested individual citizens, not neglecting maximum publicity through all available channels.

It is extremely dangerous and most unlikely to increase international amity, for the United States to accept the Charter as it emerged from Havana, on the fuzzy notion that the mere fact of having an Organization will progressively lead to better relations with our neighbors.

Your chances for altering the terms of an important contract are best **before you sign it.**

The Economic Cooperation Administration will have a dominant influence in world economic relations for the next several years. Through its aid it may be possible to develop more universally acceptable standards with fewer exceptions.

A present propaganda line is to the effect that rejection of ITO or failure to renew the Trade Agreements Act will be interpreted abroad as a renewed intention of the United States to return to isolationism. Perhaps the best answer to this is to quote from the London "Economist" of April 10, 1948, as follows:

"Search back as one may . . . there is no record of a comparable act of inspired and generous diplomacy . . . It will be difficult, after this demonstration of international solidarity, to go on repeating the old gibes about American isolationism, the old complacent references to American political immaturity. In recent months, the American public . . . is rapidly qualifying for the title of the least isolationist and self-absorbed of peoples."

Curb Seat Sells for $23,000

Arrangements have been made for the sale of a regular membership on the New York Curb Exchange at a price of $23,000, up $3,000 from the last previous sale on May 17, 1948.

This represents the highest price paid for a Curb membership since Jan. 29, 1947 when a membership sold for $25,000.

The market for the Curb Exchange memberships is currently quoted at $12,000 bid, $24,500 asked.

James M. Leopold to Admit

James M. Leopold & Co., 527 Fifth Avenue, New York City, members of the New York Stock Exchange, will admit Edward L. Irving to general partnership and Frederick A. Flatto to limited partnership on June 1.

Merrill & Co. to Admit

HARTFORD, CONN.—Merrill & Co., 36 Pearl Street, members of the New York Stock Exchange, will admit Charles W. Redlund and John W. Hamilton to partnership on June 1. Both have been associated with the firm for some time.

The State of Trade and Industry

(Continued from page 5)

Lewis' periodic mine shutdowns. More than 20,000,000 tons of ingots have been lost since the end of the war due to coal strikes, a steel strike, and bad weather.

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 95.4% of capacity for the week beginning May 17, 1948, an increase of 1.1 point, or 1.2%. This compares with 94.3% last week. A month ago the indicated rate was 80%.

This week's operating rate is equivalent to 1,719,600 tons of steel ingots and castings as against 1,699,700 tons last week, 1,442,000 tons a month ago, 1,681,700 tons, or 93.1% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

CAR LOADINGS SHOW MODEST DECLINE FOR WEEK

Loadings for the week ended May 8, 1948, totaled 880,617 cars, according to the Association of American Railroads. This was a decrease of 11,021 cars, or 1.2% below the preceding week. They also represented a decrease of 3,625 cars, or 0.4% below the corresponding week in 1947, but an increase of 195,675 cars, or 28.6%, above the same week in 1946 when coal loadings were reduced by labor troubles.

ELECTRIC PRODUCTION CONTINUES TO INCREASE

The amount of electrical energy distributed by the electric light and power industry for the week ended May 15 was 5,108,673,000 kwh., according to the Edison Electric Institute. This was the third consecutive week that an increase was shown over the previous week, and represented a gain of 21,409,000 kwh. over the week ended May 8, 1948, and exceeded the 4,615,983,000 kwh. produced in the week ended May 17, 1947 by 492,690,000 kwh. The production for the May 15 week was also the highest for any week since the week of March 20, 1948 and was the 19th consecutive week that over 5,000,000,000 kwh. were turned out. The peak was reached in week of Jan. 24, 1948 when 5,436,430,000 kwh. were produced.

AUTO OUTPUT SLIGHTLY LOWER IN WEEK DESPITE STRIKE AT CHRYSLER

Production of cars and trucks in the United States and Canada dropped last week to an estimated 83,175 units from 84 684 (revised) units the previous week, according to "Ward's Automotive Reports."

Output a year ago was 82,881 units and, in the like week of 1941, it was 127,255 units.

A drop of approximately 9,000 units by Chrysler because of its strike was nearly offset by gains of 6,000 and 1,000, respectively, by General Motors and Ford.

This week's total is made up of 51,630 cars and 26,825 trucks for the U. S. and 2 795 cars and 1,925 trucks for Canada.

The fact that the plants of the Chrysler Corp. are out of operation due to the auto strike will not mean more steel for other auto makers, "The Iron Age," national metalworking weekly, notes this week, since steel is moving for Chrysler to warehouses where it will be stored and used when the strike ends. This policy, the trade paper states, was used by General Motors Corporation when their plants were struck a few years ago.

BUSINESS FAILURES TURN DOWNWARD

After a two-week increase, commercial and industrial failures fell to 100 in the week ending May 13, from 108 in the preceding week, but exceeded the 88 which occurred in the comparable week of 1947, Dun & Bradstreet, Inc., reports. More businesses succumbed than in the corresponding week of any of the last five years, but they were still far below the prewar level of 289 in the comparable week of 1939.

Casualties involving liabilities of $5,000 or more declined from 89 to 81 last week, while small failures with losses under 5,000 remained at 19. In both size groups, concerns failing were more numerous than last year with the larger failures up from 73 and the small up from 15.

Manufacturing and construction failures increased contrary to a general downtrend in other industry and trade groups. Manufacturers failing rose from 30 to 37, outnumbering retail failures which fell off from 46 to 32. Mortality in both manufacturing and retailing continued at the same level as in 1947. The only increases appeared in wholesale trade and construction where casualties numbered 16 and 10 respectively, twice as many as a year ago in either of these lines.

One-third of the week's failures were concentrated in the Middle Atlantic States with 32, increasing from 28 the previous week. In the Pacific States casualties dropped from 25 to 19. The East North Central States with 18 and the New England with 11 were the only other areas with more than 10 failures.

FOOD PRICE INDEX UP MODERATELY IN LATEST WEEK

A further general uptrend in food prices boosted the Dun & Bradstreet wholesale food price index 5 cents to $6.93 for May 11. While this increase was less than 1%, it raised the index to the highest level since February 3, when it registered $7.14. It was 15.5% above the $6.00 a year ago.

COMMODITY PRICE INDEX EDGES HIGHER IN LATEST WEEK

Although moving in a narrow range, the daily wholesale commodity price index, compiled by Dun and Bradstreet, Inc., continued to edge higher the past week. The index figure closed at 283.33 on May 11, as against 283.00 a week earlier. On the corresponding date of last year the index registered 252.86.

Fluctuations in leading grains were narrow during the past week. Wheat and corn were firm and finished about unchanged from a week ago while oats displayed a mildly upward trend.

Government buying of cash wheat and flour continued in substantial volume with purchases for the week estimated to equal around 10,000,000 bushels of wheat, including flour, which composed a large percentage of the total. Trading in grain futures declined rather sharply last week as the result of uncertainty over the threatened railroad strike. Corn planting was becoming more active and operations thus far are said to be well ahead of the same period a year ago. Flour buying continued in a cautious way aside from substantial purchases by a large chain baker for June shipment.

Livestock markets showed considerable strength in the latter part of the week with cattle prices reaching the highest levels since last February.

Lambs rose about $2 per hundredweight and hogs closed $1 higher after touching new low levels since OPA days in 1946.

Lard prices averaged somewhat higher in sympathy with the marked strength in cottonseed oil which has advanced over 10 cents per pound during the past month.

Cotton markets were very irregular during the week as traders continued to await the start of export buying both from the Orient and from the nations involved in ECA.

In the closing sessions, prices spurted sharply upward under the influence of speculative buying and professional covering. Inquiries in spot markets were fair but mill buying continued slow.

Reported sales in the ten spot markets showed a further decline, totaling only 41,200 bales for the week, compared with 64,500 the previous week and 77,400 in the same week a year ago. Weather conditions were reported generally favorable for soil preparation and planting. Final returns for the 1947 crop showed total ginnings were 11,551,738 running bales, or about 36% larger than for 1946. Repossessions of 1947 loan cotton continued in good volume, amounting to 17,070 bales in the week ended April 30, as against 17,155 a week previous. Net stocks still in the hands of the CCC were reported at 109,405 bales. Trading in carded gray cotton goods was dull. Some print cloth construction were weaker as the result of the building up of large stocks of spot goods at the mill level.

Transactions in the Boston raw wool market remained at a low level as broad demand for fine and half-blood staple wools continued to meet with few offerings. Imports of foreign apparel wools received at Boston, New York, and Philadelphia during the week ending April 30 represented 3,409,400 clean pounds, as compared with 4,376,800 in the week previous. Bulk of wools again originated in South America.

RETAIL AND WHOLESALE TRADE MODESTLY HIGHER FOR LATEST WEEK AND LIKE PERIOD OF 1947

Consumer buying increased moderately during the period ended on Wednesday of last week and continued to compare favorably with that of the corresponding week a year ago, according to Dun & Bradstreet, Inc., in its current report on trade.

Mother's Day gift buying, seasonal promotions and generally favorable weather were among the factors reported to have stimulated consumer demand.

Medium-priced merchandise of good quality continued to be sought.

Among the more popular gifts of apparel for Mothers' Day were lingerie, hosiery and inexpensive handbags and gloves. Moderately priced cotton, linen and silk print dresses were sought with clearance sales of jewelry and furs attracting little attention. Purchases by home sewers of substantial yardages of piece goods and trimmings continued without abatement. There was a moderate increase in the demand for men's light-weight tropical worsted and garbardine suits. Seersucker suits and slacks sold well.

Pre-Mother's Day buying of confectionery was substantial. Pork was among the more frequently requested meats with meat and butter substitutes continuing to be heavily purchased. Fresh fruits and vegetables were plentiful and moderately priced and canned and frozen foods were in large demand. The buying of fresh fish and poultry was steady at a high level.

Many florists reported a considerable increase in the demand for cut flowers and plants for delivery on Mother's Day.

Garden tools and equipment were requested along with seeds and plant bulbs. Fishing tackle and other sporting goods sold well with hardware and automobile accessories continuing in large demand.

Retail volume for the country in the period ended on Wednesday of the past week was estimated to be from 6 to 10% above that of the corresponding week a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England 4 to 8, East and Middle West 6 to 10, South 5 to 9, Northwest 8 to 12, Southwest 10 to 14 and Pacific Coast 3 to 7.

While buyer attendance at the wholesale markets decreased slightly during the week, total wholesale volume was sustained at a high level. Although some retailers were heavily stock in some lines, inventories were not excessive. Buyers continued to concentrate on current needs and total dollar volume of orders was moderately above the level of the corresponding week a year ago.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended May 8, 1948, increased by 6% from the like period of last year. This compared with an increase of 7% (revised) in the preceding week. For the four weeks ended May 8, 1948, sales increased by 8% and for the year to date by 6%.

Here in New York last week, retail trade subject to the whims of the weather suffered some unfavorable reaction, but notwithstanding this, continued to show a gain over the preceding year.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to May 8, 1948, increased 4% above the same period last year. This compared with an increase of 7% (revised) in the preceding week. For the four weeks ended May 8, 1948, sales increased by 7%, and for the year to date by 5%.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of the late H. Herbert Oltman to William G. Welsh will be considered on May 27. It is understood that Mr. Welsh will act as an individual floor broker.

Otto Abraham, Abraham & Co., member of the Exchange, died on May 8.

Arthur F. Broderick, Bache & Co., member of the Exchange, died on May 12.

Neuberger & Berman Partners

Neuberger & Berman, 160 Broadway, New York City, members of the New York Stock Exchange, will admit Wentworth P. Johnson, H. Ralph Levy, and Philip A. Straus to partnership on June 1. Mr. Levy in the past was a partner in Long & Co.

Newhard, Cook to Admit

ST. LOUIS, MO. — Newhard, Cook & Co., Fourth & Olive Streets, members of the New York and St. Louis Stock Exchanges, will admit Ira E. Wight, Jr., to partnership on June 1.

What's Ahead For Business?

(Continued from page 20)

away or give away a large share of our production. I am relying primarily on the purchases of the 60 million people (more or less) gainfully employed here at home as the backbone and most of the substance of continued prosperity. But I think that the meeting of needs elsewhere will be so managed as to take up slack if and when it is needed to keep the economy at a fairly even keel.

About this I could be entirely mistaken. We live in extremely volatile times. One reason is that more people are continuously being brought within the range of mass communication and hence the range of mass hysteria. I still count Orson Welles' demonstration that a large part of the population can be driven nuts by a single dramatic radio broadcast about an invasion from Mars one of the most significant events of this century.

The Psychological Factor

The significance of this emotional instability is increased, of course, as the country gets further and further away from a bare subsistence level of operation. We are so far above the subsistence level in the United States that a large part of the consumption at any given time can be postponed without any dire effects on the people postponing it. Herbert Hoover recently estimated that the postponable part runs as high as 40%. Whether or not it is postponed, and thus wrecks the economy, depends in large part on the degree of confidence, jitters or general confusion at the moment. That partly is a matter of economics but it also is a matter of mass psychology, on which I make no pretense of being an authority.

However, insofar as I can glimpse it in terms of the economic elements involved, it is my expectation that we shall have a high level of business activity in the months ahead. In that expectation I have a great deal of confidence. In my expectations for the longer pull I neither have nor expect you to have any very profound confidence. If we have a war, everything I've anticipated will be knocked into a cocked hat. I personally don't think we will have a war in the next decade, but I'm no authority on that either. What I've said could also be drastically modified by the weather and the consequent effect on crops. And I'm not a long-distance weather forecaster.

Government Will Limit Depression

There is one longer range forecast, however, about which I feel very certain. That is that if we get well headed into a deep depression the Federal Government won't stand by long and watch developments. It will move in and apply a large variety of controls to stop the slide. I wouldn't expect them to work very well, but one thing they certainly will do is to transfer a large share of the management of industry from its present management to the government. I personally would hate to see that happen, but it clearly is in the cards if business starts to sag in a big way.

Last week I had a talk with an eminent business consultant who told me his clients are not much interested in general economic conditions, and that the reason is that they feel that they can't do much of anything about them, one way or the other. It is easy to understand that point of view, but it is as obsolete as the dodo bird. You've not only got to be interested in general economics, you've got to see that things go well or the Federal Government will move right in on your job with you. And, in my judgment, it won't make any difference who is in the White House.

As We See It

(Continued from first page)

voking words. They are startling ideas. We are much afraid that they are well warranted by the facts, and that the American people, unless they somehow arouse themselves from their day-dreaming or their lethargy, will have good cause for regretting the existence of conditions which give justification for such conclusions.

Evidence Plentiful

Certainly Professor Slichter can cite much in the current flow of news to support his allegations. Take the packing house situation. For a good many weeks past the unions which have gained very considerable strength in this field have been on strike. We can not pretend to be familiar with all the ins and outs of the issues involved in this dispute. We have no doubt that they boil down, as virtually all of these situations do nowadays, to demands for higher wages for less work, but however that may be, it has become apparent that the strike could be maintained, even in this time of labor scarcity, only by brute force and violence quite obviously contrary to law. Certainly union members themselves in some important centers appear to have come to such a conclusion, since they took the law into their own hands and did open and defiant violence to individuals who chose to work despite the strike and to the private property of the employers.

To the everlasting credit of the Governor of Minnesota, troops were called out to keep the peace, enforce in some degree at least the laws of the land, and protect the persons and the property of those who had offended the unions. The patience and forbearance of the soldiers on duty appear to have reached a point where it ceased to be a virtue before they were obliged to go to work, as they should have done at once, and clear the neighborhood of all "pickets" illegally there. But, perhaps, most significant of all these strange goings-on are what some of these pickets are said to have demanded of the Governor — demanded, apparently, with the full backing of their companions.

The Record

Let us take a look at the record as reported in the daily press. The Governor had received these lawbreakers and with patience far exceeding that of Job had explained that he had no intention of using troops or of permitting the use of troops to "break" the strike or to crush the union — that his intentions for the future were only to enforce the terms of a court order which had been issued in due course.

To all this the visiting delegation is said to have listened in stony silence, and when the Governor was through he was informed, amid applause, of what the pickets demanded. They were not satisfied to request that the troops be withdrawn to permit these lawbreakers to do their will upon any and all who entered the plant and upon the plant itself. No, they wanted only "two things" of the Governor: First, that he use these troops to close down the plants and keep them closed until such time as the union agreed to permit them to open, and, second, to "bring pressure" upon the employers to have all court orders and the like lifted. The unions and the pickets must be "free" and protected in their "freedom." In the event that the Governor acceded to the demands made upon him, there would be no more violence — as if there could be unless the pickets fell to fighting among themselves, or possibly decided that in their freedom they would go into the plant and wreck what they left the last time!

All too Typical

Now to a good American familiar with the history and the traditions of his country, and just returning from a 20-year visit to Mars, all this might appear merely an exceptional episode, which however unfortunate could scarcely have any national significance as to the trend of popular thinking. To those of us, however, who have remained on the surface of this planet, and who have willingly or otherwise been obliged to read and see and hear about the goings-on in what is euphoniously termed "the labor movement" during the past decade or two, this episode which we have just described in some detail appears out of the ordinary in these days and times chiefly, if not solely, by reason of the relatively greater courage shown by the public authorities in the State of Minnesota.

It is obvious enough that labor leaders and many of the rank and file union membership have a point of view of their own, that they have a set of values all their own, that they in their own rather crude way have a conception of an acceptable jurisprudence radically different from any that has ever set foot upon American soil before. Whether all this, or any of it, is really distinguishable from a mere determination to get what can be got — the public be damned — and a willingness to employ the organized political manpower of their membership in whatever way seems at the moment likely to bring success, it would be hard to say. Without doubt, union membership has responded to the reiterated teaching of professional labor leaders, reformers and crackpots that this is "labor's century," and that they would be worse than foolish not to get what they can while the getting is good.

Continental Ideology

Nor is there any reason to doubt that what may be called European, or better still, Continental ideology has had a lush growth in the "labor movement" in this country. In many of the industrial unions, many of the most influential leaders have European backgrounds, and usually backgrounds in countries whose ideas are at the greatest variance to traditional American thought. Many, if not most of those who have been most active in promoting all these "reforms" have either come into this country from abroad or sat at the feet of others who did. These influences are obviously at the present moment being greatly enhanced by the influx of refugees from Europe. History will without question find the mark of this migration upon American thought and policy plainly to be seen.

This is not to say that nothing has been or will be gained from the influence of these newcomers. This influence at many points is, however, unfortunate and will in time lead to an abandonment of Americanism if not checked or restrained.

After Effects of the Marshall Plan

(Continued from page 13)

plan, began to change color and was presented to the world as an element in the economic warfare between the United States and Russia.

I imagine that we are all agreed that it would be to our advantage and to the advantage of all the world if the slow and steady advance of Russian influence in Europe and in Asia could be halted. I am sure that we are all in agreement that the most effective way to stop the spread of Communism, and probably even the only way, is to give people jobs, food, and the hope for a brighter future. Our material aid may then prove a very efficient way to prevent social upheaval in the countries abroad.

To hope for this desirable result is one thing; to announce to the world that our major purpose in giving assistance is to fight Russia is quite another matter. This is not the right kind of bedside manner. Congress was persuaded to approve of our foreign aid plan largely because it was announced that through the Marshall Plan, the foundations would be laid for the formation of a Western European bloc to stop Communism.

This undue emphasis upon the plan as a part of our economic war with Russia has stirred up an undercurrent of misgivings among the peoples abroad and has given a nice bit of ammunition to the Communist propaganda. The governments abroad make no official statements about it but large groups among the peoples are saying, "We want peace, we want work, we do not want war, why get us involved in a struggle between the United States and Soviet Russia. When it comes to a fight the fighting will be done not in the United States but in our own already war-damaged country."

And what an opportunity for the Communist propaganda! This is the way it runs now: "Don't you see this Marshall Plan is not a plan to aid Western Europe but a plan to get Western Europe to fight for the United States? It is a plan to make the countries of Western Europe the beach head for an American armed invasion." Now we know that this is not the plan we have in mind, but this fear is destroying a good portion of the psychological effect we had hoped the plan would have upon the common people, the little men of Europe. It is not making friends for us. How deeply the common people long for peace—how greatly they fear being involved in the quarrel between Russia and the United States, a quarrel in the solution of which they cannot play a part—is clearly illustrated by the wave of joy, almost hysteria, that swept over Western Europe when the premature news came out last Tuesday that the United States and Russia were attempting to find a way of composing their differences.

Getting Middle-of-Road Conference

There is more. If our aid is to prevent the spread of Communist propaganda among the peoples of Western Europe, then it is essential that we do not only gain the support of the conservatives. We have that already. We need the support and confidence of that large group of middle-of-the-road people, the liberals who may swing either to the right or to the left. Now we are not gaining their support; we are, in fact, losing it.

The ill-considered proposal of Congress to include Spain in the group of nations to be benefited by the Marshall Plan has had a very bad effect upon public opinion abroad. To be sure, it was voted down in the end, but the harm had been done. The impression was created that the United States, the champion of Democracy, a country that had repeatedly officially condemned the Franco regime and was largely responsible for Spain being excluded from membership in the United Nations, was now willing to come to the assistance of that country, the last important stronghold of Fascism in Europe.

The question was asked: "Is the United States on the side of the reactionaries?" Now that is very important, for in Western Europe, people have not forgotten what the Nazis and the Italian Fascists did to them. They have not forgotten that Spain, throughout the war, was sympathetic with the Axis nor that Franco sent a cable of congratulations to the Emperor of Japan after the treacherous attack on Pearl Harbor. They fear the reactionaries. We have lost friends through this ill-advised action of Congress.

The people abroad are also watching what is being done in Germany. They see how we are planning to make large gifts to that country; 14% of our 1948 dollars will go to aid that country while 14 other countries, most of them our former allies, are to divide only 30% among themselves, and this information disturbs them. Not that they do not want Germany to revive. They more than ever realize that a Germany in economic chaos does not contribute to the general economic revival of Europe; but they also fear a revived Germany, and they have good reason for that fear. Again and again Germany has attacked its neighbors. In the last 70 years that country attacked its weaker European neighbors three times: in 1870, 1914 and 1939.

Question of Aid to Germany

The fact that Germany is to receive very substantial support from the United States in the form of outright gifts is causing considerable concern in Western Europe. It is remembered there, how, after the first World War, millions of dollars flowed into Germany and contributed to the modernization of German industry and to enable that country to prepare for the second World War. The fact that the level of industrial activity in Germany announced shortly after the end of the war has now been raised, adds to these understandable fears.

Here in the United States the rapid revival of Germany was at first spoken of as a necessary step in the direction of a general European revival. More recently Germany's revival is spoken of as a necessary step in the direction of building a powerful Western European bloc as a defense against Russia.

Our entire foreign policy today is dominated by the fear of Russia. Now Western Europe shares this fear, although to a lesser degree. There is a general conviction that Russia, for some time to come, will be in no position to wage a major war, for physical and strategic reasons as well as for reasons of domestic politics. But although Western Europe shares our fears, it is not generally believed that a strong Germany will prove an asset in any future military emergency. Those who know Germany and are aware of the present attitude of the people know that the Germans are fully conscious of having lost the war, but they have by no means abandoned the hope that at some not far distant date they may stage a comeback and realize their ambition for European and world domination. Put yourselves in their place. Suppose you were Germans, would you take the crushing defeat lying down, would you accept it as final? Would you consider it to the advantage of your country to place yourselves at the side of the weakened Western powers, of a Great Britain that has slipped from the position of a first rate world power to that of a second rate European country? Would you willingly make your country a bulwark against Russia to protect your traditional enemies, to protect France, Great Britain, or the United States, the one country you hold primarily responsible for your defeat? Would you not take the position many Germans are taking, that instead of making common cause with the west, your future would lie in making common cause with the largest country of the world, with Russia?

Germany, so you might well reason, has the brains, the organizing ability and the military genius. Russia has the natural resources and the manpower—an unbeatable combination. By making common cause with Russia. Germany could deal a crushing blow to her western enemies. There are many in Germany who are reasoning along this line.

No wonder the peoples in Western Europe look with apprehension upon the determination of the United States to use the Marshall Plan funds to build a strong, industrial Germany. Past experience has demonstrated that no outside supervision or control can effectively prevent such industrial strength being used once again to build military strength. By building up Germany in the belief that a strong ally against Russia may thus be created, we may well build a Trojan horse within the western defense line.

The fears that are being stirred up in Western Europe would be greatly lessened if there were an unmistakable faith in the capacity of the United States for leadership; if we had followed a consistent policy and could be expected to have a consistent policy in the future. This faith has been seriously undermined by recent happenings. The most disturbing of these is the reversal of our position with respect to the settlement of the Palestine tangle. For months we had been advising Great Britain what should be done in Palestine, without, however, our assuming any responsibility. Finally, we forced our solution of partitioning through the United Nations only to reverse our position a few weeks later. Now we expect the nations of the world to make an about face and to accept a plan for a trusteeship control. France, Great Britain and others with experience in the Near East are convinced the plan will not work and hesitate to come to our new position. Does anyone in or out of the State Department know what solution we will next attempt to railroad through the United Nations? In other parts of the world we have shown similar indecision and inconsistency. With this experience in mind, there are many in Western Europe who are wondering what changes in policy with respect to Germany the future may bring.

Problem of Balanced Trade

But they are not only concerned about the changes in our diplomatic policies. They are also worried about the possible changes in our economic policy. If the nations to whom we are giving assistance are to be able to pay us back the funds we supply on credit and for the goods we make available on a lend-lease basis, they must have the opportunity to create adequate foreign balances. That means that they must be able to export far greater quantities of their products than before the war. They must produce balances adequate for their current import requirements, and these will be larger than before the war since their populations have increased in the last ten years. They must also produce the necessary balances in addition to enable them to make payments on the loans.

Their means of establishing foreign balances have shrunk. The liquidation of their foreign holdings has reduced to almost nothing that income in foreign exchange that in the past paid for a substantial part of their necessary imports. They are rapidly rebuilding their merchant marines. The Netherlands started after the war with a merchant fleet less than one-half of the prewar fleet. Today the Netherlands merchant marine is up to 85% of that of 1938 and within the next year it is expected that the fleet will be larger than that of 1938. Great Britain, France, Norway, all the important shipping nations of Europe, are staging similar comebacks.

But the earnings of the merchant marine depend upon the volume of cargo space world trade requires. World trade is as yet at a low level and this smaller volume must now be divided over a larger number of vessels. As the European merchant marines increase in size, competition for cargo will grow keener and into this situation is injected the additional problem of the greatly increased American fleet. Our shipyards at present have a building capacity large enough to turn out every year a tonnage equal to that of our prewar merchant marine. Before the war our merchant marine tonnage represented about 15% of the world tonnage. In 1946 this had increased to 60% of the world tonnage. The earning capacity of the merchant fleets of the debtor nations will definitely be determined by the merchant marine policy finally adopted by the United States. Now that we have embarked upon a gigantic armament program, it is unlikely that our merchant marine will be allowed to decline to prewar proportions.

All this means that the debtor countries will depend far more than ever before upon exports in order to build foreign trade balances. But, as the need for exports has increased, the opportunities have decreased. During the war we gave financial and technical assistance to the Latin American republics in the building of industries that had never existed there. Refugees from Europe supplied much of the needed technical knowledge with the result that today many of the goods formerly imported by Latin America can be produced locally. As the prices of the products Latin America exports have declined, and will continue to decline, more emphasis will be placed upon local production of goods these countries now can not afford to import.

By means of high import duties and import controls, these industries are now protected against foreign competition. The recent international conference in Geneva has made an important contribution to the solution of the international financial problems. As a result, many countries have reduced, to some extent, the import restrictions that were an important obstacle in the way of a revival of world trade. The conference was a success because we set the example. Acting under the authority of the Hull Reciprocal Trade Agreement Act, the United States made agreements with 15 foreign countries on the basis of which they, as well as we, reduced substantially the import duties on a long list of items.

Thus we have cleared the way, enabling the debtor nations to make larger transfers to this and to other countries. Transfers to this country in the future will probably be increasingly in the form of raw materials. As a result of the war, we have made the disturbing discovery that as far as raw materials are concerned, the United States is rapidly becoming a poor nation. Like all industrial nations, we have begun to depend more and more upon the importation of scarce raw materials. Tin, nickel, manganese, tungsten and many other raw materials without which modern industry cannot produce are either not found at all in this country or were never available in adequate quantities.

The Bottom of the Barrel For Raw Materials

But recently we have also begun to see the bottom of the barrel with respect to raw materials of which we thought at one time that we had an inexhaustible supply. Copper, lead, petroleum and even high-grade iron ore are running low. Our large steel plants depended thus far upon the high-grade ore of the Great Lakes region. It is estimated now that in another 25 years they may have to begin to use low-grade ore or move to the Gulf States where they can be supplied with high-grade ore from South America.

This increased need for raw material imports will enable the debtor nations to pay us in goods we need desperately. To be sure, the European countries do not themselves possess most of these raw materials, but in their colonies in Africa and Asia they can produce almost all of them, and the development of the resources of those sections of the world is being speeded up.

But a substantial portion of the imports will have to be in the form of manufactured products. Our trade agreements have opened the gates, but the Trade Agreement Act expires next June. No one knows whether it will be extended and even if it is, no one knows what will be the fate of this Act if a Republican Administration should take over after the elections. Should importation once again be made more difficult, it will mean, of course, that payments will not flow into this country in the required amounts. Debts will not be paid and our exports will decline.

American Foreign Investment

But such a development would have other even more serious consequences. Funds that cannot be transferred will back up like water behind a dam. They will find their way into industrial enterprises and public utilities. If our private investors act upon the suggestion of our government and pour additional private funds into Europe, the funds so invested will be greatly increased. There is a definite fear abroad that these American funds will carry with them American control over the industries abroad. I heard that fear expressed when I travelled in Western Europe two years ago, and a few months earlier when I visited Latin American countries. This fear for what they called American financial penetration was voiced not by Communists but by bankers and business leaders, friends of the United States. It is not a new fear. Similar fears were felt when, after the first World War, huge sums flowed into Western Europe. The Germans had a name for it. They called in "das Ueberfremdungs gefahr." But in Belguim, in France, and even in Great Britain, this same concern was felt.

Now it is easy to dismiss this by saying: "They have no basis for such fears." The fact remains that the fear of losing control over their national enterprises exists and that any excessive obstacles in the way of transfers of funds to the United States will make these fears more general. Thus we may find that grateful friends may gradually change into suspicious near-enemies, and the after effect of the Marshall Plan may be that we have not made friends as we are hoping to make.

Gifts or Loans?

There is another feature to the plan that may have disturbing after effects if not carefully handled. Of the $5,300,000,000 authorized by Congress for the first 12 months, 20%, or at least $1 billion, must be granted on credit terms. The remainder may be in the form of grants, to be paid, if at all, on a kind of lend-lease basis. The gifts will largely go to Italy, Greece, Austria and Germany, while Sweden, Norway Denmark, Belgium and Holland are among the nations which will get the major portion of the loan money.

Now seen from here, that is reasonable and sound financial policy. There is no use fooling ourselves and to give loans to countries obviously unable to repay within a reasonable time We may as well face the facts and call them gifts from the very beginning. But, seen from abroad, this policy assumes a somewhat different aspect. Not only will the gifts go largely to our former enemies, while those who fought on our side will be getting assistance on the basis of loans, but a certain amount of hard feeling is clearly being created by another consideration. The loans will go to countries that have made the most progress in recovery and are now able to secure by their own efforts a reasonably fair supply of dollars. You would say: "That is sound reasoning." But some voices are being raised in disagreement. This means, so they say, that you not only are more generous and less exacting with your former enemies than with your friends; but it also means that countries that have sat back—have failed to take the necessary domestic measures to speed up recovery, have, in fact, been sitting, waiting for hand-outs—are going to get gifts, while countries that have used drastic measures of self-discipline and have made great sacrifices to stage a comeback by their own efforts, will get practically no gifts, but will be receiving loans to be repaid. These countries do not ask for gifts, but they ask, nevertheless, whether this system does not penalize the countries that practiced self-help and are pulling themselves out of the mire by their own bootstraps.

This feeling of resentment against what appears to them unfair discrimination is found also in Latin America. When Marshall, in the recent Bogota conference, made what seemed to us a very generous offer to lend large sums to the Latin American republics, the announcement was received without enthusiasm. Unofficially, the question was asked: "Why expect us to pay back when Germany and other former enemies are securing outright gifts?"

Financial transactions of the magnitude contemplated under the Marshall Plan thus will inevitably create certain undercurrents of fear, resentment and misunderstanding. There is no help for it. Our policy is politically and financially wise. The administration is in the hands of one of the ablest and most straight-shooting businessmen this country has produced. Economically, there is every reason to believe that the plan will have the desired results. If successful, a constructive contribution will have been made to the social and political stability of the world.

But it is well for us to realize that the way toward success will not be easy. More is involved than merely giving aid to those that need it. It is to be hoped that those who will direct the flow of our aid will bear in mind the psychological effects upon the common people abroad of the way in which the help is administered. We cannot impose democracy on any nation, nor would it be wise to do so if it were possible. We can hope to strengthen the forces of democracy only by impressing the world with confidence in our capacity for leadership and in the honesty of our purpose. We should at all cost avoid supplying the Communists with ammunition to be used against us, in a real war and in the psychological war. We should clearly realize the possible after-effects of our Marshall Plan in a world where misinterpretation of our motives is one of the most powerful weapons of the propaganda of our opponents.

Northwestern Finance Co.

(Special to THE FINANCIAL CHRONICLE)

NORTH WELKSBORO, N. C.—Northwestern Finance Co. has been formed to engage in the securities business. Officers are C. A. Lowe, president; Kyle Hayes, Vice-President and Edwin Duncan, Secretary.

Raym'd P. Sherwood Dead

Raymond Phillips Sherwood, retired, formely a Yonkers bank official and district manager in Westchester County for Redmond & Co., died at the age of sixty-two.

Inflation Is a State of Mind

(Continued from page 12)

ployment and prices at lower levels in the coming years. I am a firm believer in the rights and advantages of ownership on the part of all of our citizens, whether they be well off or of moderate means. There is a certain something by way of better citizenship, that accrues to the nation from the privilege of ownership. That is why it is the duty and responsibility of every public official and of the Congress to safeguard and protect property rights and the rights of ownership if enterprise as we know it is to endure. The reward is in the pleasure of living in freedom and liberty. I heartily endorse Government planning and assistance in the field of small and mass housing throughout the nation.

Self-Criticism Overdone

It is a healthy sign for a nation to be critical of itself, but I sometimes think that we have overdone criticism of our performance since the end of the war. On the one hand, 60 million employees were regarded by government economists as a goal to be reached in the fifties and by many business economists as an example of wishful thinking, to the discredit of neither view. The fact remains that practically 60 million have been employed and production has been rolling for months. According to the most widely used index of production, that published by the Federal Reserve Board, industrial production in January and February of this year was at the rate of 192 and 194% of the 1935-39 average and in March was back to 192 only because of the coal strike. As a matter of fact, in no month since last September has this index been under 190. This is a record of which both labor and business management should be proud. The consuming public, too, has exercised discrimination. I am told that merchandise which moves today has to have appeal both with reference to quality and price. The large volume of liquid savings accumulated mainly during the war period seems to be either dedicated to specific purposes such as the purchase of a home or automobile or to some other special need. I do not believe there is any evidence to support the idea that a large percentage of the accumulations will suddenly appear as a broad-scale demand for commodities. If this has not already happened in the face of all sorts of inflationary scares, I am inclined to dismiss it as a future source of concern. Two important bits of economic evidence are:

(1) The continued decline in money in circulation which now amounts to approximately $27.7 billion, a reduction of $400 million since the comparable date a year ago. The total is now about the smallest since August, 1945.

(2) The annual rate of turnover of demand desposits outside of New York City is almost exactly the same as in 1941 prior to our entry into the war. In my judgment, this is strong proof of intelligence on the part of the public in refusing to become panicky or to be stampeded into a rash, indiscriminate preference for goods over money.

The timely price reduction recently announced by United States Steel Corp., General Electric Co. and Westinghouse Electric Corp. signal wise business statesmanship. Undoubtedly the $21 billion which will have been spent in the years 1946 through 1948 by manufacturing companies on new plant and equipment are also beginning to show up in cost sheets, and if a third round of wage increases is of minor proportions, additional price cuts will herald the return of a competitive era.

The Charm of Credit Control

Credit controls, I admit, have charm. I can well recall when all of us, including the Federal Reserve System, were much younger and thought the Federal Reserve authorities could regulate the business cycle in the same way that an engineer regulates the speed of a train. No one would be happier than I if the matter were that simple.

In a study by Dr. Charles O. Hardy, economic adviser to your Committee, entitled "Credit Policies of the Federal Reserve System," the author set forth the theory of central bank control of the business cycle. Abbreviating this lucid description somewhat, the basic idea is that commercial banks cannot afford to hold surplus or excess reserves, and the public cannot afford to hold surplus cash and bank balances. Dr. Hardy then wrote this commentary on the various methods of pursuing a liberal central bank policy which, according to theory, willy-nilly translates itself into increased willingness and ability to buy on the part of the public, and so stimulates business revival. He stated:

"The difficulty with this program is in the assumption that the response of the banks and that of the public to easy money in times of depression will be the same as it would be in times of prosperity. Depression physchology is ignored. But this is to ignore the central element in the problem. A depression exists precisely because there is a general preference for cash, and for safe short time investments expressed in cash terms, over commodities and securities. To increase the supply does no good unless the preference decreases."

More recently, the experience of 1936-37 is illuminating. Federal Reserve authorities disclaim responsibility for the precipitate decline in business—the decline in industrial production between September, 1937 and June, 1938 was one-third and employment in manufacturing industries fell almost 25%—and are inclined to point to the drop in net government contribution to income following upon the collection of new Social Security taxes. It cannot be questioned that the Federal Reserve was aware of this fact and would not have taken its series of steps to cut excess reserves by raising reserve requirements had the subsequent decline in business been envisaged. Even after the three increases between August, 1936 and May, 1937 had doubled reserve requirements to 26% for central reserve city banks, 20% for reserve city banks and 14% for country banks, excess reserves amounted to some $770 million. As I see it, this case illustrates the danger of a restrictive policy and the rapidity with which psychology can change, for business expenditures dwindled and in retrospect psychology probably had more to do with the change than actual stringency in the money market.

Abolish Iron Curtain

Frankly, I do not want to pose as a monetary expert and feel much closer to the capital markets. From this vantage point, I am astonished at the continued attempt to draw an iron curtain around the separate parts of the capital and money markets, all of which are inseparably interwoven. The April 15 issue of the Cleveland Trust Company's economic bulletin contains a chart of common stock yields and the return on bonds which is so striking that I have attached a copy to my remarks.

The present margin requirements are clearly discriminatory in the one market that is non-inflated. As I stated in my testimony before the Senate Finance Committee a few months ago, this is a matter that transcends Wall Street and La Salle Street. It reaches into every town, mining district and rural area—wherever America is engaged in wealth creating activities. I am convinced that a healthy, dynamic stock market would also help the bond market, especially government bonds. This may seem contradictory. Yet, it follows that a considerable part of the financing consummated last year through bank loans, term loans and long term debt issues went to the insurance companies and banks because the companies issuing securities could not finance through the sale of equity securities. The economic bulletins have noted the fact that weakness in government bonds and the sales by financial institutions which brought pegging operations to the forefront coincided with the expansion of the corporate investments of these institutions. An improved stock market as a result of a reduction in margin requirements and capital gains taxes would have a twofold result:

(1) Financial institutions could replace with government bonds the loans paid off through stock financing;

(2) And stocks which are not sold because of the onerous tax burden would in many cases be liquidated and the proceeds put into government obligations, assisting in the private placement of the government debt.

Since the end of the war, the Revenue Acts of 1945 and 1948 have been steps in the right direction, renewing the flow of risk savings, made impossible under the burden of wartime taxation. The return flow of risk savings must be accompanied by incentives putting capital to work, as an integral part of our production and employment mechanism. The relief I have called for will enable the capital accumulating groups whose function it is to take the risks of ownership to perform their proper office. The larger body of small savers whose savings are channeled into institutions, principally life insurance companies, savings banks, building and loan associations, who invest solely or largely in debt securities, would continue to contribute to the national savings, undisturbed by the ups and downs in risk investment. I might add that I would prefer to have it this way, and would advocate a policy encouraging our life insurance companies to provide risk capital through the purchase of common stocks only after careful study.

When the economic historian sets forth the financial development since V-J Day, he will have to explain how it was that interest rates were kept at unprecedentedly low levels while the national debt and deficit were soaring and how it came about that almost simultaneously with the end of defict financing and the beginning of debt retirement, substantial changes took place in the bond market. It would seem that as the supply of government securities declined their value also declined. The explanation is that the government bond market which now dominates the interest rate pattern of the country has become a managed market, and probably must continue so, but we should not permit monetary policy that has turned out to be mistaken to place us in an economic strait-jacket determined by the past. Even a 2½% long-term rate may be subject to change without the catastrophic effects feared by some. The country's economic and financial system has adapted itself in the last twenty years to more fundamental changes. To insist on a 2½% rate and at the same time express deep concern over alleged inflationary tendencies. to say the least, is inconsistent.

Leaving the narrower field of the government bond market for the broader concepts of central bank policy, what is the object of the renewed efforts of credit control? If it is in effect to hold down prices, I point out that the Federal Reserve Board itself in the past has turned down any mandate that it use commodity prices as the guide for its policies. It did this in the twenties and again in the prewar period. With a $40 billion budget and a $250 billion debt, it is folly to expect a return to the prewar price level. As yet no Federal Reserve or Treasury official has expressed his opinion on where the price level should be — we may ask what is the happy price level? Until that question is answered, I would hesitate about giving the Federal Reserve Board additional powers. The means of bringing about the natural answer is to permit the forces of supply and demand to work themselves out through budgetary controls so as to avoid a renewal of deficit financing, and by making saving more attractive. An economy operating at almost 200% of the prewar level cannot exist on a prewar credit diet. Practically every severe period of business depression and unemployment has been preceded by a contraction of the monetary supply. Consequently, it seems reasonable to ask that other methods be used first and the need for such drastic action be established beyond a reasonable doubt. I must say that we seem to be obsessed with the monetary side of the price equation and seem to have forgotten that there is another side—the supply of goods and commodities. For this reason, I find the observations of the Federal Reserve Bank of New York in its current annual report of special interest. In the section on Federal Reserve credit and credit policy, it is stated:

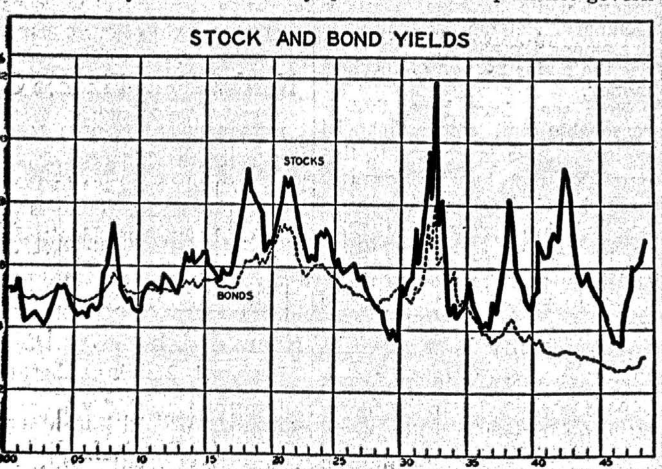
"The growth in the money supply in the form of demand deposits and currency amounted during 1947 to about 3%. This was, no doubt, a contributing influence in the rise of commodity prices, but that rise was induced primarily by other factors, such as crop failures in Europe, rising costs of industrial production in this country, and the existing excessive money supply, a heritage of the war and its financing. It is doubtful whether, in the circumstances of the year 1947, credit expansion could have been prevented entirely (it is even more doubtful that purchasing power placed in the hands of the public during the war could have been substantially reduced), **except by such drastic measures as would have interfered seriously with production — production urgently needed to meet domestic and foreign demands.**"

I am glad that we are again thinking about production, supply, and costs rather than in exclusively monetary and fiscal terms.

In conclusion, I believe that if we have our eye on the big fundamentals, like the football player who always follows the ball, we shall be doing our best job. I keep my eye on employment, and underlying all my views is the goal of continued high employment, the great challenge to our society.

The times call for acute thinking and appraisal of the basic forces in the economic process rather than snap judgment. My thinking is along lines of stability. Provided we keep our heads, I do not fear runaway inflation nor do I look for the great depression whose failure to appear has so chagrined the Marxian economists and statesmen. We cannot hope to attain absolute stibility—it is not part of a dynamic economy. However, if we do not depress business psychology unnecessarily, and adopt voluntary restraints such as the American Bankers Association has advocated, I see no reason why a large volume of goods and services cannot continue to be produced and taken off the market. Over the longer term, a return of the upward trend of greater productivity per man hour will enable us to resume the improvement in living standards that is the most noteworthy feature of the romance of American economic history.

We have emerged from the period of shortages and unless the Congress permits the budget to become unbalanced again, I firmly believe we have already entered the postwar period of stabilization.



The Cleveland Trust Company

Daniel J. Shaper With Peter Morgan & Co.

Peter Morgan & Co., 31 Nassau Street, New York City, announce that Daniel J. Shaper, formerly with Paine, Webber, Jackson & Curtis, is now Manager of the firm's trading department.

J. Earle Jardine, Jr. on Trip

J. Earl Jardine, Jr., Vice-President of William R. Staats Co., 640 South Spring Street, Los Angeles, left on a TWA plane for Chicago on May 12; following his stay in Chicago he will visit in New York City for one week from May 16 to May 23, and will then attend the Investment Bankers Association meeting to be held at White Sulphur Springs. He will return to his desk in Los Angeles on June 1.

C. Newton Kidd, Director

C. Newton Kidd, partner in the investment banking firm of Stein Bros. & Boyce, Baltimore, Md., was elected Chairman of the executive committee of Norfolk Southern Railway Company. He also was elected a director of Norfolk Southern Bus Corporation, a subsidiary of the railway.

Boylan Opposes Reducing NYSE Membership

(Continued from page 19)

Messrs. Sprague, Chairman; Lamborn, Vice-Chairman; Bacon, Bohen, Harris, Irle and Marks, all of whom devoted a great deal of time to this very important problem.

(Signed) ROBERT P. BOYLAN."

Text of Report

The following is the full text of of the Report of the Special Committee dated April 28, to the Board of Governors of the New York Stock Exchange:

The Special Committee appointed by the President on Jan. 9, 1948, to explore the advisability and practicability of adopting a plan for the retirement of memberships has held meetings regularly since Jan. 23, 1948, and reports as follows:

Resume of Appearances

There appeared before the Committee 93 members and two allied members of the Exchange of whom 81 favored a plan for retirement of memberships, 11 were opposed to any plan and three expressed no opinion. In this group of members there were 38 partners of Commission Houses, 31 Specialists, 22 $2 Brokers, two Associate Odd Lot Brokers, one partner of an Odd Lot Firm, and one inactive member.

The opinion of a very large majority of the appearances was that the problem concerned only active memberships on the Floor of the Exchange; that between 100 and 275 seats should be retired at a maximum price of $40,000 to $50,000; that any plan provide for the permanent retirement of memberships although some favored having the Exchange hold the memberships in escrow for resale, if necessary; that there be no increase in dues; that any plan be financed by the outright allocation of a portion of the surplus or reserve funds of the Exchange, although in a number of instances use of initiation fees, various forms of transaction taxes, the creation of associate memberships etc., were suggested as means of financing a plan; and that no assessment be levied on the membership to defray the cost of any plan.

In general the basic philosophy of the proponents of plans for the retirement of memberships was that the number of memberships should not have been increased in 1929; that as a result of the improvements made in the mechanical and physical setup on the Floor of the Exchange there are too many memberships for the present or foreseeable volume of business; that a lesser number of memberships would bring to each individual member a larger proportion of the available business; and that the operation of a seat retirement plan would maintain membership prices at higher levels as well as prevent severe declines in membership prices.

In general those who were not in favor of any seat retirement plan feel that the problem was based primarily on lack of volume brought about by taxes, margin and other regulations; that with a reduction in taxes and the lowering of margin requirements the Exchange may have use for all of the 1,375 memberships; that any plan which may be proposed would not accomplish the purposes desired by the proponents; that any plan in one way or another would result in an increased cost of maintaining a membership; that even if 275 seats were retired the business of each remaining member would not increase proportionately because of the present channels through which business is directed to the Floor of the Exchange; and that instead of retiring seats efforts be made to get new blood into the business by interesting reputable nonmember firms in the acquisition of membership.

Letters and Petitions

Letters were received from 38 New York members and 20 out of town members of whom 50 were in favor and eight opposed to any seat retirement plan. Their comments ran along the same lines as outlined in the appearances mentioned above.

In addition the Committee received a number of petitions favoring a plan being formulated and submitted to the membership. These petitions were signed by 250 members of the Exchange of whom 173 were partners in firms and 77 were individual members.

Summary

The Committee has had a response from 403 members of whom 381 favored the submission of a seat retirement plan, 19 were opposed, and three expressed no definite opinion.

The Committee has carefully considered all suggestions and recommendations presented by the membership. It has also, with the assistance of the Treasurer of the Exchange, examined the present finances of the Exchange to ascertain the availability as well as the advisability of using any portion of such funds for financing a seat retirement plan.

Conclusions

As a result of its study the Committee has reached the following conclusions:

(1) That there is a very definite interest on the part of a sizable portion of the membership for the submission by the Board of Governors of some type of seat retirement plan.

(2) That no definite proof has been offered and the Committee is unable to determine that any proposed plan for the retirement of memberships would accomplish the desired results, i.e., an equal proportionate increase in the business of all remaining members, the maintaining of higher prices for memberships and the stabilization of membership prices.

(3) That under no circumstances should any portion of the existing reserve funds of the Exchange be allocated to a seat retirement fund.

(This decision has already been given to the members of the Exchange who signed the petition to the Board of Governors requesting the appointment of a Committee to study the matter of Retirement of Memberships, so that the petitioners could formulate any other plans for financing a seat retirement program and submit them to the Committee for consideration.)

(4) That the method of financing any plan should provide for equal participation of all members of the Exchange regardless of the nature of their business and should not be restricted to any particular group.

Recommendations

In the considered opinion of the Committee the following recommendations, although not unanimously agreed upon in all instances, are presented for the consideration of the Board:

(1) That while the Committee is unwilling to make any recommendation with regard to the desirability of a seat retirement plan nevertheless because of the large number of members who have expressed a desire to see some type of plan presented the Committee believes that it is desirable for the Board to follow this feeling through to a conclusion.

(In this connection some members of the Committee feel that all indications point to broader markets in the future; that in addition to increased volume, the greatest demand is for new blood in the business; that a free market in memberships subject to the law of supply and demand is desirable at all times; and that no controls or restrictions should interfere with the purchase of memberships by individuals who intend to actively engage in the securities business.)

(2) That any plan for financing a seat retirement program provide that the funds be accumulated in advance. (Some members of the Committee feel that if an assessment on the membership was necessary the plan should provide: (a) that the membership make a choice by ballot between an optional payment arrangement on an annual basis of some fixed amount, or (b) by payment of a definite amount to reach membership retired at the time of retirement. Also, that because of the possibility that a retirement plan, if adopted, may never become effective the accumulation of funds which could not be used for any purpose other than the retirement of memberships, would be undesirable.)

(3) That any plan which may be proposed provide for the retirement of at least 75 memberships but not more than 100 memberships.

(4) That any seat retirement plan which may be proposed provide for a maximum price at which memberships should be retired.

Suggested Plans

The Committee does not feel that it is required by the Board of Govenors to submit any definite plan or plans for seat retirement. Nevertheless, the following suggested plans seem to cover the suggestions and recommendations made by the membership and are submitted for the information of the Board in its further study of the matter:

Plan A

100 memberships to be retired permanently over a period of years, at a maximum price of $36,000 scaled down to average a price of $28,000 to $25,000.

Establishment of a fund of $2,500,000 over a period of five years, said fund to be created on an annual basis as follows:

$225,000—Initiation fees based upon the approximate annual average number of transfers of memberships.

$137,500—Contributions either from reserve funds of the Exchange or from current income during any year in which the Exchange operated at a profit of an equivalent amount, said contributions to continue until the sum of $687,500 has been contributed.

$137,500—From the membership on the basis of an assessment of $100 annually for 5 years or at the rate of an approximate average of $6 per retired membership, it being optional with the members as to whether they wish to pay this assessment annually or as seats are retired.

A Committee or group of Trustees be elected by the membership to handle the fund under some specific formula governing its operation when memberships sell at or below the set maximum price. (Some members of the Committee feel that any seat retirement plan should, of necessity require payment in advance and not place an additional assessment on the membership at a time when the volume of business was low and the prices of memberships were declining to the point of making the plan operative).

Plan B

Retire 75 memberships, said memberships to be held in escrow by the Exchange for resale, when necessary.

The fund of approximately $2,500,000 to be raised over a five year period on the following annual basis:

$225,000 — From initiation fees based on the average annual number of transfers of memberships.

$137,500—Based upon an annual assessment of $100, payable quarterly, by the membership.

$137,500 — Contributions from the current income of the Exchange provided the Exchange operated at a profit of an equivalent amount.

A maximum price of $30,000 scaled down to average a price of $25,000-$22,000 for retirement of memberships under this plan would be in close relationship to the book value plus some additional consideration to cover the benefits of the Gratuity Fund.

Plan C

100 memberships to be retired.

Funds would be raised by the accumulation of initiation fees over a five year period. A Committee of five members of the Exchange be elected by the membership for a term of three years to supervise the seat retirement fund.

Memberships would be purchased at a maximum price of $25,000. On each transaction ½ of the purchase price would be contributed from the fund and the remaining half assessed prorata on the membership.

Any memberships so retired should be held in escrow by the Exchange for resale should conditions require. The proceeds of any resales to be applied to the fund for future operations.

Plan D

Retire 75 to 100 memberships.

Establish a fund of $2,500,000 over a five year period, the fund to be obtained through the contribution by the Exchange of all initiation fees received during such five year period, estimated at $225,000 annually, plus a similar amount contributed by the membership, assessed pro-rata over the five year period, estimated at $165 annually, payable quarterly.

The fund should be managed by either the Trustees of the Gratuity Fund or by a Trusteeship constituted along similar lines which would have complete discretion over the operation of any seat retirement plan and fund.

Any memberships retired should be purchased at the most favorable price possible in the best interest of the members of the Exchange, with a maximum price being set at $30,000.

Respectfully submitted,
RAYMOND SPRAGUE, Chairman,
ARTHUR H. LAMBORN, Vice-Chairman,
W. T. BACON,
WILLIAM B. BOHEN,
HENRY UPHAM HARRIS,
WILLARD S. IRLE,
LAURENCE M. MARKS.

NYSE Board of Govs. Re-elects Wm. Beckers

William K. Beckers was reelected Vice-Chairman at the organization meeting of the Board of Governors of the New York Stock Exchange, following the annual election held on Monday, May 10.

Mr. Beckers is a partner of Spencer Trask & Co. and has been a member of the Exchange since July, 1927. He has twice been a Governor of the Exchange, serving from 1938 to 1942, and since May, 1944. He was elected Vice-Chairman in 1947.

The Board re-elected as Governors of the Exchange representing the public, John Q. Adams and C. Robert Palmer. Mr. Adams is a Director of the Continental Illinois National Bank & Trust Co. of Chicago, and Mr. Palmer is President of Cluett, Peabody & Co., Inc.

Business Man's Bookshelf

Keys to Prosperity, The—Willford I. King—Committee for Constitutional Government, Inc., Bartholomew Building, New York 17, N. Y.—cloth—$4.00.

Live Long And Like It—Dr. C. Ward Crampton — Public Affairs Committee, Inc., 22 East 38th Street, New York 16, N. Y.—paper —20c.

Marketing of Surplus War Property, The — Comprehensive study of Government Liquidation policies and programs—James Allan Cook—Public Affairs Press, 2153 Florida Avenue, Washington 8, D. C.—paper—$3.25.

New York Laws Affecting Business Corporations (revised to April 13, 1948)—29th Edition—United States Corporation Company, 160 Broadway, New York 7, N. Y.—paper—$2.50.

Review of Railway Operations in 1947, A—Julius H. Parmelee—Association of American Railroads, Washington, D. C.—paper.

Chicago Stock Exch. Gets Nominations

CHICAGO, ILL. — Homer P. Hargrave, partner of Merrill Lynch, Pierce, Fenner & Beane, has been renominated to serve his second term as Chairman of the Board of Governors of the Chicago Stock Exchange, it was announced by the Nominating Committee which posted its nominees for offices to be filled at the annual election of the Exchange, to be held June 7 next.

The following were nominated to serve three years as members of the Board of Governors:

Andrew M. Baird, A. G. Becker & Co.; John R. Burdick, Robert A. Gardner, Mitchell, Hutchins & Co.; Chapin S. Newhard, Newhard, Cook & Co., St. Louis, Missouri; George F. Noyes, the Illinois Co.; Sampson Rogers, Jr., McMaster, Hutchinson & Co.; William H. Sills, Sills, Minton & Co., Inc.; Reuben Thorson, Paine, Webber, Jackson & Curtis.

The following were nominated to serve one year as members of the Board of Governors: Chancellor Dougall, John J. Griffin, Leonard J. Paidar, Goodbody & Co.

Of the eleven nominees for the Board of Governors, four were renominated: Robert A. Gardner, George F. Noyes, Reuben Thorson and John Griffin.

The Nominating Committee which presented today's report consists of Arthur M. Betts, Betts, Borland & Co., Chairman; Clyde H. Bidgood; Julien H. Collins, Julien H. Collins & Co.; Robert J. Fischer, Fahnestock & Co.; A. I. Jablonski.

B. Higbie, Jr. With C. G. McDonald & Co.

DETROIT, MICH. — Bradley Higbie, Jr. has become associated with C. G. McDonald & Company, Guardian Building, members of the Detroit Stock Exchange. Mr. Higbie was formerly President of Alison & Co., which is being dissolved.

It is understood that a new firm Higbie, McDonald & Company is to be formed in Detroit about July 1.

The Outlook for Business and Government Bonds

(Continued from page 17)

The actual cost may be much larger than is now envisaged. Such a program will undoubtedly accentuate the shortages in many lines and, if carried to an extent larger than now expected, could easily lead to a curtailment in the output of some commodities still in short supply.

(6) Employment is satisfactory, modest increases in wages have been granted and others in all likelihood will be granted in the near future.

When in addition to these factors it is noted that industry, for example petroleum and utilities, is still spending large sums to enlarge and modernize its plants and equipment, one can easily reach the conclusion that the year 1948 will be marked by high industrial output and national income and that no sharp break in commodity prices will take place.

Inflation Versus Readjustment

The most important question at the moment is whether the next 12 months will witness an acceleration of the forces of inflation or a modest readjustment in business activity and commodity prices. As stated before, forces of both inflation and deflation are at work in the economy of the country and an analysis of these forces should enable us to draw certain conclusions.

The factors which tend to intensify the forces of inflation may briefly be summarized as follows:

(1) Increased military expenditures: Even if the increased military expenditures are maintained at \$3 to \$4 billion, the cost of security to the United States during the next fiscal year will be about \$14 or \$15 billion. There is a possibility, however, that this cost may be further increased.

(2) The reduction in taxes which will place an added \$4.8 billion at the disposal of the people. When a reduction of taxes is accompanied by a decrease in expenditures by the government, such a measure is not inflationary. Since taxes were reduced, however, at a time when government expenditures are bound to increase, the reduction in taxes may definitely be considered inflationary in character.

(3) The large buying by the government for foreign account, which prevents any material decline in prices of food and farm products.

(4) The constant rise in wages, which leads to increases in the cost of production and in commodity prices. This situation is further aggravated by labor unrest, which has curtailed production of certain commodities. This has been true of the coal industry, for example, where the strike affected a number of other industries as well.

These factors combined, and particularly if the rearmament program should be accelerated and cost more than is at present anticipated, could definitely bring about an acceleration of the spiral between wages and prices and lead to a rather serious inflationary situation.

The Deflationary Forces

To a considerable extent, however, the forces of inflation are being counteracted by a number of delationary forces which may be briefly summarized as follows:

(1) Commodity prices are high and many people are unable to meet their needs. In spite of the high wages and high level of employment, many people have to incur debts in order to make ends meet.

(2) The cost of living, notably of food, is very high. Since a considerable proportion of the average American family's income has to be spent on food and an increasing amount on rent, less and less becomes available to purchase other commodities.

(3) Pipelines have to a considerable extent been filled and inventories on the whole are large. Hence, whereas during 1946 and 1947 industry produced not merely to meet the current demand but also to fill pipelines and inventories, at present the output of industry goes directly into consumption.

(4) The productive capacity of the country has increased because during 1946 and 1947 large amounts of capital were spent to install modern machinery and equipment.

(5) Finally, money markets have become tighter than they were several months ago and it is not as easy to obtain credit at present as it was a year ago. This applies not only to short-term but to long-term credit as well, particularly mortgages.

These factors combined are definitely anti-inflationary in character. If the forces of inflation and deflation are weighed, and particularly if it is assumed that the Congress will not permit the Federal Government to again show a large deficit and that new military expenditures during the fiscal year 1948-49 will be kept within the limit of the proposed \$3-\$4 billion, it may be concluded that the inflationary pressures will merely counteract some of the deflationary forces and that on the whole business activity and commodity prices will remain on an even keel. One should be openminded, however, and always bear in mind that a change in policies as regards rearmament or the conversion of the present surplus of the Treasury into a substantial deficit could create a situation in which the inflationary forces will more than outweigh the deflationary factors. To a considerable extent, therefore, the outlook for business depends on the wisdom of our legislators and upon the extent to which the government feels military expenditures will have to be increased in order to maintain the security of the nation.

The Outlook for Money Rates and Government Bond Prices

Although it is fairly certain that the policies of the monetary authorities will to a large extent be determined by business activity and the movement of commodity prices, and even though the outlook is highly uncertain, one may draw certain tentative conclusions: No drastic credit restrictive measures are to be expected, and certainly a repetition of what happened in the money market during 1920 is out of the question. At present the monetary authorities cannot adopt drastic credit restrictive measures because such a policy would greatly interfere with the huge refunding operations of the Treasury and further increase the public debt service. Moreover, there is a wide realization that the government bond market is the cornerstone of the bond market in general and that a sharp increase in interest rates, accompanied, as it would be, by a corresponding decline in prices of high-grade bonds, could have a pronounced effect on business activity. It may also be almost taken for granted that during the remainder of the present year the 2½% rate on long-term government obligations will be maintained. If this is so, then the pattern for all other rates is more or less set. The only change that may take place in the money market picture is a moderate increase in short-term rates accompanied by an increase in the discount rate and a moderate firming of the over-the-counter rate.

The prime question confronting the money market and the banks at the present time is whether the Reserve authorities will maintain the peg on government bonds indefinitely. The answer to this question depends on the following factors:

(1) The attitude of the commercial banks. If the banks were to sell long-term government obligations to the Federal Reserve Banks and utilize the newly created reserve balances for the purpose of creating new loans and making new investments, thereby creating new deposits, obviously the Federal Reserve authorities would find themselves in a rather difficult position. However, the banks themselves have adopted a rather conservative attitude as regards loans and investments and there seems to be no danger at present that the banks will sell long-terms in order to create new reserve balances for the purpose of making new loans and investments. The American Bankers Association has done an outstanding piece of work in educating the banks in this respect.

(2) The movement of commodity prices: If the spiral of wages and prices should be accelerated and the forces of inflation intensified, obviously the present policy of the Reserve authorities may be jeopardized.

(3) Finally, the policies of the monetary authorities will depend on the fiscal position of the government. So long as the Treasury has a surplus and it is utilized for the purpose of reducing the holdings of government obligations of the Federal Reserve Banks, thereby reducing the reserve balances of the member banks, the Reserve authorities are in a position to keep the government bond market orderly and at the same time prevent an increase in the volume of Reserve Bank credit. If the present surplus of the government is converted into a deficit, however, then the Treasury will not have at its disposal more funds with which to redeem government obligations held by the Reserve Banks and the present policy of the Reserve authorities may become untenable. So long as the Treasury is operating with a surplus, and particularly so long as the commercial banks are utilizing great care in the extension of credit and in their investment policies, the present policies of the Reserve authorities will be maintained indefinitely. Should the surplus be converted into a substantial deficit, however, then the following situation may arise:

The Congress may pass legislation increasing taxes, thereby preventing a deficit from developing. Even if the budget of the Federal Government is only balanced, without any surplus, the Treasury will have \$3 or \$4 billion from the agency accounts with which to redeem maturing obligations held by the Reserve Banks, to which should be added any excess of sales over redemptions of Series E, F and G bonds.

If the Congress should refuse to impose new tax burdens on the country, then it will either pass legislation giving the government increased powers over prices, wages and rationing or it will grant the Federal Reserve Board the power to further increase the reserve requirements of the member banks. If the Congress should pass legislation similar in character to that advocated by Mr. Eccles, the former Chairman of the Board of Governors of the Federal Reserve System, then the Reserve Banks will be in a position to buy large amounts of government securities and at the same time counteract the increase in reserve balances by converting the newly created excess reserves into required reserves. After taking into account all the factors involved one may reach the conclusion that before the monetary authorities give up the power to keep the government bond market orderly, they will first endeavor to obtain new controls over the market, if this should become necessary.

Investment Policies

In view of the great uncertainties that exist, a final question arises: "What policy should a bank follow?" The following suggestions may be of some help: (1) Each bank should ascertain the need for its liquidity and make the proper provisions. (2) At present only high-grade bonds should be bought. Where a bank finds it advisable to buy high-grade corporate obligations or tax-exempt securities, it should make sure that it is compensated for the greater risk and for the decreased marketability as compared with government obligations. (3) Now definitely is not the time to buy obligations of medium quality which fluctuate with business activity. (4) And finally, the utmost care is indicated in the granting of new mortgage loans.

Conclusion

While it is extremely difficult to predict what business conditions may be during the remainder of the year, it is already fairly certain that a depression or a serious recession is not in the making. There are both inflationary and deflationary forces in operation in our economy. Unless the rearmament expenditures should become much larger than are now envisaged, the inflationary forces should be balanced by the deflationary factors and the economy of the country for the rest of the year should remain on an even keel. The policies of the monetary authorities will depend on the trend of business, commodity prices, the volume of bank loans, and particularly the fiscal position of the Treasury. If the present surplus of the Treasury should be converted into a large deficit and if the Congress should refuse to impose new taxes, there is a chance that the Reserve authorities will be granted the power to further increase reserve requirements. The 2½% rate on long-term government obligations may be taken for granted in the immediate future. Any change in interest rates that may take place will be primarily in the short-term sector. Because of the great uncertainties at home and abroad, a cautious lending and investing policy on the part of the banks is indicated.

Aims and Accomplishments of Republican Party

(Continued from page 8)

of the New Deal, told us high taxes would stop inflationary trends. They were the same economists who preached the doctrine of stifling production by killing little pigs, plowing under cotton, and keeping our economy under air-tight controls. They have been discredited on all counts by the record.

There is, in fact, ample evidence and an A-number One exhibit in the world to disprove these phony economists. It is Soviet Russia, the economic heaven so many of our New Dealers seem to yearn for. They yearn for it, but they stay here. In no nation does the government have more despotic control over its people, their lives and their activities. The super-New Dealers who rule Russia have had control for decades. And with what result? Russia has prices many times higher, in terms of purchasing power of labor than has the United States. Russia's inflation drove prices for its helpless populace constantly upward. The Masters of the Kremlin finally resorted to a capital levy of 90% to pay for their own inefficiency and corruption. Out of every ten dollars a citizen had, the Rulers took nine dollars. But did that stop inflation? Not by a long shot. No government can stop runaway inflation by runaway rule. A stable currency is based on a stable government. And you can't have a stable government run by unstable people. The Russians could not stop inflation by iron-clad controls and we shall never be able to do it. A Republican Administration will meet inflation by encouraging cooperation, production, work, thrift, saving, economy and efficiency. No country ever economized itself into bankruptcy and no people ever were led to prosperity along the road of extravagance.

Burdensome Taxes

We Republicans know—as most Americans now know—that high taxes are a terrific drag on production. They are a millstone about the necks of consumers. They cause the worker to demand higher wages, thus driving still higher the prices his own wife must pay. Housewives now have to pay a dollar for 77 cents worth of food and clothing. The other 23 cents goes for taxes. Taxes strike everywhere. They must be kept at the lowest practical point.

We did not give empty promises of relief to those in the lower income brackets. We knew they had to have action, for they were bearing the most painful brunt of the high prices. They were feeling most of the 23 cents of hidden taxes in every dollar spent for food and clothing. The new tax law relieves 7,400,000 of these lower income citizens from paying any taxes at all on their incomes. This, my fellow Republicans, is a prime example — the first example in 16 years — of a political party keeping faith with its people on its promises. We have made good on our promise to balance the budget. We have made good on our promise to reduce taxes.

We are striving mightily to gain all our goals. But until we get control of the Executive Branch, it will be difficult for us. The people understand. They are going to help us remedy it.

A joint Congressional Commission already is at work to determine how and where we can further cut back the powers the Federal Government has usurped. We intend to return those powers to their proper levels — to the State and local governments. That Commission will report to the Congress next year. Several Republican Congressional Committees are hard at work — right now — studying ways and means of overhauling the whole New Deal taxing and spending structure so that next year we can do a major renovation job on the monstrosity we have inherited. The very first necessity of good government is an intelligent, comprehensive, constructive application of economy in both taxing and spending. So much talk of billions blunts our sense of humble dollars. But save enough of the dollars and they will amount to billions.

Struggle Against Depreciation

Insofar as we can, we are maintaining our pledge to retain the value of the American dollar. We intend to work always to prevent more depreciation of our currency. We have begun to make regular payments on the national debt. But we won't try to pay off the debt so fast as to wreck opportunity, thrift and progress of our younger citizens.

Our veterans and other young people, to whom we owe a debt we can never repay, must have every encouragement. They must have every chance to get ahead—to establish homes, to raise happy families, to save against the contingencies of the future. We must protect them from repressive governmental policies — from having their pockets picked at every turn by the tax-gatherer.

Now, let me look at this Fifth Column danger a moment. We promised the American people that when the Reppublicans came to power, we would drive the Communists out of government and replace them with men and women who believe in our American system. We have carried out that pledge, insofar as we in Congress can do so. Let the record show clearly that the New Deal Executive Branch has placed in our path every type of obstruction imaginable. They have thrown every roadblock they could. They have exploded every kind of hand-mine they could heave from the bushes. They have tried to plant every kind of booby trap they think might work.

With the New Deal, there came to Washington a strange assortment of outright Reds and Parlor Pinks. They infiltrated into important government posts. They used their influence to obtain important assignments outside the Federal establishment for friends and fellow-travelers. From these posts of vantage, they have worked unceasingly to undermine our representative government. They have carried on a determined, clever, devilish campaign to destroy the Congress by destroying the faith of our people in their elected representatives. We can thank Providence tonight they have not succeeded. The foundations of our Government still stand firmly.

Next year, with a Republican in the White House, we intend to clean every last one of these Commies out of the government. We intend to replace them with Americans who are imbued with a love of liberty, who have faith in government of the people, by the people, and for the people.

Events in Europe

I am vastly encouraged by the trend of recent events in Europe. The elections in Italy gave us all new hope that we can stop Communism with moral weapons. I feel particular pride in the Italian victory. I helped launch the campaign to get our foreign-born groups to write to their friends in Europe, to tell of how America really lives, and what representative government really means for all the people. Those letters have borne wonderful fruit. They must be continued to every country in the world.

Congress, as you know, has created a joint Commission to watch the Administration of foreign aid. We intend to see that the vast sums, which must come out of the soil and mines and factories of America, shall be spent with the greatest possible efficiency and economy in helping the liberty-loving peoples abroad get back on their feet.

If Congress had not insisted on aid for China, the Administration would have overlooked the need in the Far East, and would have left the Chinese for the Communist wolves to devour.

The Republican Party always has been able to face facts with courage. We face the fact today that we must be ready for the worst, while we hope, and pray, for the best. We must be capable of meeting any potential aggressor with a swift defense and a sure offense. In short, we must have adequate air power for an air age. To that end, we have, over the political objections of the Administration, voted funds for a 70-Group Air Force. The Administration tried to oppose us. But we had the people on our side. We could not be beaten.

We want peace in the world. All the world must have peace. We Republicans — once we have control of the White House—will drive toward America's goal of a just and lasting peace. The New Dealers can't do it. They just don't know how. The secrets of the conference tables of the past are still there to haunt them.

By moving to increase production through reducing taxes, to lower prices by increasing production, and to build an adequate defense by concentrating on Air Power, we Republicans are following a considered integrated policy. We are not following a haphazard, catch-as-catch-can political game of trying to be all things to all men, as the New Dealers have done so long. We are following principles because we still abide by principles in practice.

As we arm for peace, we intend to make strong the spiritual influence of our Government. Integrity in our words, and straightforwardness in our dealings with the people will be the keystones of our Administration. Only a profound devotion to the spiritual values — to the principles of honesty and justice—upon which our forefathers founded this Nation, will enable us to prosper and to progress. We must stand upon such a foundation, sustained by a profound faith in God. Standing so, we shall be able to carry through the tremendous job of rescuing the world from the wreckage of its own follies, and to bind up our Nation's wounds.

The people are calling for a Republican Administration. The times cry out for it. America and the world will benefit by it.

I can say with confidence that our Grand Old Party once more is on the victory march. Once more, we Americans can be filled with hope for the future. After every war, the people have called on the Republicans to lead them into paths of peace. Our fathers and forefathers have never faltered; they have never failed. We shall not fail. Our victory at the polls next November is sure, if we fight the good fight, if we keep the faith. God give us strength to do the right as we see it.

Sees Inflation Increasing Reserve Bondholdings

(Continued from page 17)

therefore be stated that there is practically no limit to the amount of government securities that the Federal Reserve Banks can buy in order to support the government bond market. In addition, the agencies of the government are also in a position to absorb considerable amounts of government securities."

In discussing the question whether the Federal Reserve authorities will continue to maintain the present support price indefinitely, the bulletin remarks that this will depend on the following factors: "(1) the movement of commodity prices and employment; (2) the volume of commercial loans and the policies adopted by the commercial banks; (3) the attitude of institutional investors and individuals holding large amounts of long-term government obligations; (4) the fiscal status of the Treasury.

"If business activity should turn downward, accompanied by a moderate decline in prices of commodities and an increase in unemployment, the demand for capital and bank credit would tend to decrease. Under these circumstances, the commercial banks, in order to increase their earnings, might convert some of their recently acquired short-term government obligations into medium and long-term obligations. In that case the demand for such securities might exceed offerings, and prices of government obligations would sell above the pegged price. Moreover, with a decline in business activity, a reversal of the present credit restrictive policies of the Federal Reserve authorities might also be expected.

"Even if business should continue on the current high level, there is no reason why the Reserve authorities should change their present policy so long as the commercial banks do not sell medium and long-term government obligations to the Reserve Banks in order to acquire additional reserve balances to be used as a foundation for new loans and investments. The commercial banks are currently selling these securities to the Reserve Banks partly to meet their reserve requirements, depleted by the utilization of the budgetary surplus for redemption of government securities held by the Federal Reserve Banks, and partly to increase their liquidity. Institutional investors and individuals have been selling long-term government obligations in order to invest in other securities and in mortgages offering a higher return. A decline in business activity, however, would automatically reduce the demand for capital and thus make it difficult for institutional investors and individuals to find suitable outlets for their funds. Their sales of long-term government obligations thus not only might come to an end but they also might have to reverse their present policy and again become buyers of government obligations.

"An entirely different situation would prevail if the spiral of inflation were to be accelerated, with prices and the cost of living continuing their upward movement. Such a development would lead to an increased demand for credit and capital. Under these circumstances not only would the sale of government obligations to the Federal Reserve Banks increase but the latter, in order to prevent the inflationary forces from assuming dangerous proportions, would be forced to change their policies."

In analyzing the fiscal position of the Treasury as a factor in the government bond market, the bulletin states: "The ability of the Reserve authorities to reduce the volume of reserve balances without abandoning the support of the government bond market has been based primarily on the Treasury surplus. The reduction of income taxes by $4,800 million, the re-armament program, which may add an additional $3 to $4 billion to the expenditures of the government, and the European Recovery Program may easily convert the Treasury surplus into a deficit in the fiscal year 1948-1949. Should this happen the monetary authorities will find themselves in a difficult position. If they should continue the present policy of supporting the government bond market, the member banks will be in a position to create new reserve balances and increase their deposits through lending and investing. The monetary authorities will not be able to reduce reserve balances through redemption of maturing government obligations. Under such conditions the authorities may be confronted with the choice of either discontinuing the support of the government bond market or endeavoring to obtain additional powers over the money market.

"The chances are that before the policy of supporting the government bond market is given up the Reserve authorities will request Congress to give them additional controls, such as the power to increase the reserve requirements of all commercial banks, to change the present system of reserve requirements from a geographical to some other principle, and additional qualitative credit control powers. It is also possible that should the inflationary forces become more pronounced and the surplus of the government be converted into a deficit, Congress will not only increase tax rates but also enact direct measures to control the forces of inflation. Since the stability of the government bond market is considered an important cornerstone of the country's economy, it is not likely that the support policy will be abandoned before all other possible measures have first been tried."

In discussing the criticism directed at the credit policies of the monetary authorities, the bulletin states: "The policy of the Reserve authorities has been criticized on the ground that it refused to recognize that the inflation was at least to a considerable extent due to the oversupply of credit and that curbing the forces of inflation was more important than preventing prices of government bonds from going below par. It cannot be denied that the huge increase in the volume of deposits and of currency in circulation has played an important role in the inflationary process that started after the abandonment of price controls. The volume of currency outside the banks and of demand deposits adjusted of all banks rose from $78,231 million at the end of 1941 to a monthly peak of $177,300 million in February 1946, declining to $168,900 million (preliminary figure) on Feb. 25, 1948. The volume of bank loans during 1946 and 1947 rose by $12,628 million. Clearly, only through a drastic reduction in the means of payment and the adoption of credit restrictive measures could a material decrease in the supply of purchasing power be brought about.

"It has been pointed out, also, that the low money rate policy followed by the monetary authorities throughout 1946 and 1947 led to a considerable expansion of capital expenditures, which were stimulated by the ease with which long-term funds could be borrowed at low rates. The monetary authorities took the view, however, that the low money rate policy, adopted in part by the necessity for supporting government obligations, was not the primary reason for the sharp increase in the volume of loans. They asserted that the policy of the government toward mortgage loans was an important contributory factor in the inflationary process since the GI Bill of Rights and the FHA insured mortgages made it possible for individuals to buy houses with mortgage money and with a small investment or even without equity capital. The increase in the volume of commercial loans, they contended, was not the cause but rather the result of the sharp increase in prices of commodities and of the cost of doing business. High money rates, they stated, would not have prevented an increase in wages, nor would credit restrictive measures have relieved the acute shortages of goods and housing that prevailed in the country or deterred spending of the high current income as well as part of the accumulated large savings. Despite these circumstances, it may be expected that, just as the monetary authorities were criticized in 1920 for having taken the measures which broke the inflationary spiral, they will be criticized in the future for not having instituted effective anti-inflationary measures at the end of World War II."

American Broadcasting Stock Offered by Dillon, Read Group

Dillon, Read & Co. Inc. headed group of investment bankers that offered publicly, May 17, 500,000 shares of American Broadcasting Co., Inc., Common Stock, at $9 per share. Proceeds from the sale of the Common Stock, together with funds to be received from the simultaneous sale of $5,000,000 in 4% promissory notes due May 1, 1960, will be applied by the company to prepayment of $4,000,000 of 2½% notes, due Oct. 14, 1949. The balance of approximately $4,901,000 together with the net proceeds of approximately $807,500 from the sale of station WOOD, Grand Rapids, Mich will be added to the company's general funds and will be available for capital expenditures, working capital and other corporate purposes.

The Company now has a tentative capital expenditure program which contemplates expenditures of approximately $5,325,000 for facilities initially required for television operations in New York, Los Angeles, Chicago, San Francisco and Detroit. The company holds construction permits for television stations in these cities and expects all five television stations to be on the air by the end of the year.

After the financing, the company's outstanding capitalization will consist of $5,000,000 in 4% promissory notes, due May 1, 1960 and 1,689,017 shares of common stock.

The company, incorporated in Delaware in March, 1943 under the name of American Broadcasting System, Inc., changed its name to American Broadcasting Co., Inc., its present title, in October, 1944. It operates one of the four nationwide networks of affiliated standard radio broadcast stations, having acquired in October, 1943, all of the outstanding capital stock of Blue Network Co., Inc. The Blue Network was organized originally by National Broadcasting Co., Inc., in 1927, but Radio Corp. of America had to dispose of it because of regulations later adopted by the Federal Communications Commission in effect prohibiting ownership by one person of more than one network.

American Broadcasting Co. holds licenses for and operates standard and frequency modulation stations WJZ New York, WENR Chicago, KECA Los Angeles, WXYZ Detroit and KGO San Francisco. In addition, the network included as of Dec. 31, 1947 a total of 252 affiliated stations.

For the year ended Dec. 31, 1947, the company's consolidated net sales after discounts and rebates were $35,955,004 compared with $32,828,575 in 1946, while net income totaled $1,520,756 against $1,242,177 in the previous year.

Whiting, Weeks & Stubbs to Join NYSE

BOSTON, MASS. — Whiting, Weeks & Stubbs, 53 State Street, members of the Boston Stock Exchange, will also become members of the New York Stock Exchange, on May 27th when John O. Stubbs acquires the membership of Emanuel H. Loeb. Partners in the firm are Max O. Whiting, Robert S. Weeks, Mr. Stubbs, who also holds the firm's membership on the Boston Exchange, Warren D. Arnold, W. Ellery Bright, Jr., Henry B. Rising, Howard M. Biscoe, Jr. and Chester C. Spring.

Congressional Committee Reports on High Prices Of Consumer Goods

(Continued from page 19)

mestic prices may be unduly increased by demand from abroad.

(5) *Public Works:* Federal, state, and local public works in general should be deferred wherever feasible unless they are productive of food and other commodities in short supply.

(6) *Credit Controls:* The problem of credit controls has been reviewed to some extent in previous hearings of the Joint Economic Committee. We recommend that further exploration of this problem should be made as promptly as possible in order that appropriate action may be taken in time to avoid further serious expansion of credit.

(7) We recommend further study of the need for compulsory controls pending the outcome of actions taken under the so-called Anti-Inflation Act, Public Law 395, enacted by the 80th Congress. By this Act the President is authorized to negotiate with industrial managements for the establishment of voluntary cooperative allocation of scarce materials, and to report to the Congress cases in which negotiations for the establishment of needed controls have been unsuccessful. Pending the receipt of information as to the status of efforts which may have been initiated to secure voluntary agreements for scarce materials, we do not believe Congress should change the allocation policy embodied in the Anti-Inflation Act.

(8) *Increased Fertilizer Production:* Every effort should be bent to increase the total production of fertilizer so that the present rate of application, already high, may be further increased.

Most of the added output should be sent to food-deficit countries, because the increased production of food abroad will lessen demands on our own supplies, and on shipping facilities, and hasten the restoration of a self-supporting economy abroad.

(9) *Aid to Foreign Food Production:* The Anti-Inflation Act authorizes the Department of Agriculture to encourage the production of food in non-European countries. The subcommittee endorses this program and expresses the hope that the Department of Agriculture will efficiently promote its activities in this field.

(10) *Victory Gardens:* There should be a revival of emphasis on victory gardens and on the preserving of food grown in them to relieve pressure on market supplies.

(11) *Conservation of Grain:* The Department of Agriculture should continue and intensify its efforts to promote the conservation and efficient feeding of grain. The Extension Service should push vigorously its regular program of educating farmers in more efficient production methods.

(12) *Consumer Actions:* To mitigate the effect of high prices, the committee feels consumer action and assistance are absolutely necessary, including—

(a) More intelligent consumer shopping, use of substitutes, cooperation in food-saving measures.

(b) Greater funds for Bureau of Human Nutrition and Home Economics to make more consumer information and assistance available and to promote education on nutrition, meal planning, food substitution, etc.

(c) Encouragement of farmers' markets and other marketing methods which reduce the cost of distribution, especially perishable food products.

(13) *Increased Production:* In order to promote increase in the production of consumer goods which have been and continue to be in short supply relative to demand, the subcommittee urges the following:

(a) Mutual efforts by management and labor to avoid any curtailment of production through labor disputes.

(b) Allocation of scarce raw materials to favor most urgent consumer goods demands.

(c) Extension of the working week, wherever feasible, by collective bargaining agreement between management and workers as to terms and conditions for overtime work. In the absence of such voluntary agreement, no suggestion is made in this recommendation to modify the time-and-one-half overtime provision of the basic 40-hour week.

(d) Removal of monopolistic restrictions on production wherever they exist.

(14) The Congress provide adequate means and support to the Bureau of Internal Revenue for thorough enforcement of income tax collection programs to minimize fraud or evasion of individual income tax liabilities.

(15) Every effort should be made to encourage thrift and the purchase of government bonds and insurance, and the increase of savings accounts so that funds will be available when the supply of goods becomes greater and prices stabilized.

(16) In connection with any proposals for government action, the importance of labor and business policies needs strong emphasis. If the private decisions as to wages and prices are not made in the public interest, actions by government alone will be largely nullified. Therefore, to end the cost-of-living, wage, and cost-of-production spiral, business can and should adopt moderate price and profits policies, and labor adopt reasonable wage and productivity attitudes, thus achieving price reductions wherever possible.

Revokes Broker's License

The SEC on May 19, revoked the broker-dealer license of James E. Scott & Co., New York City, who have already discontinued business, for fraudulent conversion of customers' securities and cash. The firm, a partnership of James E. Scott and his wife, Helen A. Scott, had sought withdrawal of its registration, but this was denied by the Commission. It is alleged that from Jan. 6, 1948, the firm appropriated $32,000 in cash and securities belonging to customers.

Joins King Merritt Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Edwin P. Melrose has become affiliated with King Merritt & Co., Inc., Chamber of Commerce Building. He was formerly with Slayton & Co., Inc.

With Witherspoon Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Marion W. Giddings, formerly with Fairman & Co., is now affiliated with Witherspoon & Co., Inc., 215 West Seventh Street.

With Capital Securities Co.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF.—George J. Schwab, Jr. has been added to the staff of Capital Securities Co., 2038 Broadway.

With Blyth & Co., Inc.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF.—Hugh D. Purcell is now with Blyth & Co., Inc., 234 East Colorado Street.

Profits of the Oil Industry

(Continued from page 4)

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

Table II

U. S. Consumption, 1941-1946-1947

Products—	Thousands of Barrels per Day			1947 %Increase Over	
	1941	1946	1947	1946	1941
Gasoline	1,829	2,015	2,178	8.1	19.1
Kerosene	190	244	281	15.2	47.9
Distillate	473	665	817	22.9	72.7
Residual Fuel	1,050	1,315	1,420	8.0	35.2
Crude Runs to Stills	3,861	4,740	5,075	7.1	31.4

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

Now what of the future outlook? As to prospective supplies, the industry and other agencies are in very close agreement. Barring serious strikes or catastrophes, and assuming that the governmental estimates of imports and exports are correct, we can anticipate domestic crude runs in 1948 to be between 7 and 8% in excess of those in 1947. This represents an increase of 17% above the wartime peak and 44% above 1941, the prewar peak—an amazing achievement in view of the shortages of steel and other materials which have held back our expansion program.

However, this 7 or 8% increase over 1947 will not handle comfortably an increase in consumption of more than 5%, as we need to increase stocks on hand by about 2% of our annual production if we are to avoid local shortages due to fluctuations in weather conditions and allow for other factors affecting demand and transportation.

Will Supply Be Sufficient

Will this 5% increase in supplies available for domestic consumption satisfy the probable demand? Had we not seen the staggering increase in demand for kerosene and distillate fuels which took place in 1947, we might assume that 5% more products would take care of the situation. A 5% increase on top of last year is a big step ahead, but I doubt if it will prove to be quite enough. **If** new oil burner installations return to the relatively low prewar level, and **if** consumers continue to cooperate in conservation of both gasoline and oil, and **if** we have a moderate winter, and **if** there are no serious strikes in our or other basic industries, we should be able to get by without serious difficulty—but don't forget those "ifs." On the other hand, if I should prophesy that we will get by, and the public, relying on such predictions, should reduce its efforts to conserve oil and gasoline, and step up its oil burner installations to even approach those of last year, we would undoubtedly have a shortage much worse than that of last year. So the role of the prophet this year is not only difficult but hazardous. Whatever our pride in the oil industry's prospective accomplishments, in the words of Max Ball, "Let's not cheer too soon."

To help us keep in mind some of the adverse things which have happened or can happen, just review the past month. The coal strike increased the demand for oil and substantially reduced the output of steel on which we must rely to make even a 7 or 8% increase in supply. The refinery at Haifa, running about 88,000 barrels per day, has been shut down by the Arab-Jewish difficulties, and the two pipelines from the Near East to the Mediterranean are also shut down. The loss of these products for the European market is irreparable and will doubtless tend to reduce our imports and increase needed exports. The pipe line shutdown can be offset to a substantial extent by tanker hauls, but this requires the use of much more bunker fuel and cuts into the tanker supply needed for other uses. Another coal strike or a rail strike, even if short, will again increase oil consumption and cut steel production, which will further delay the completion of many wells, pipelines, and refineries. Just about everything that can happen is bad. Labor leaders should realize the terrific responsibility that their great power imposes on them — power which today surpasses that of industry, and often appears to surpass that of government.

So much for the "ph" prophet. What is the role of profit with an "f" in this picture? To state it briefly, profit is the primary factor in determining how soon we will be able to return to the situation of "plenty of oil to meet demand" which our industry has habitually supplied. Recent supply difficulties were the outgrowth of wartime restrictions on construction, plus price control which held oil prices down and let coal prices rise, thus stimulating the demand for heating oils to an unprecedented extent.

How rapidly these supply difficulties are overcome depends mainly on three things: First, how rapidly can the Middle-East take up the main burden of supplying Europe, leaving Western Hemisphere oil to supply Western Hemisphere needs? It is an interesting commentary on the vigor of our industry and our free enterprise system that although the known reserves of oil in the Eastern Hemisphere exceed those of the Western, and although their wells are enormously higher in productivity than the average in the country, the Western Hemisphere is still producing over 80% of the world's oil and is still supplying Europe with over half its needs. Further, the great bulk of the discovery and development of the oil reserves of the Middle-East has been carried out by American companies and American capital.

High Construction Costs

The second factor in determining the rate at which we will solve our oil supply problem is the shortage of materials, and particularly steel. Industry estimates of its requirements of tubular goods for the next 15 months are more than double the present manufacturing capacity. Granting that these estimates may be a bit on the high side, there is no question but that many thousand more wells would be drilled, and hundreds of miles of pipe line would be built this year if enough steel were available.

But there is another scarcity of material which has been tending to retard expansion. I refer to money. The costs of new construction have skyrocketed to unprecedented heights. Our bottlenecks have practically all been eliminated, and further increases in crude runs require expansion all along the line—exploration, drilling, pipeline, and refinery construction, etc. Most companies, in an effort to keep up with demand, have not only used their depreciation reserves and plowed back 60 or 70% of their total earnings, but have also borrowed heavily. Total new investment by the industry in 1946, 1947, and 1948 has been and will be far in excess of total earnings, and such a situation cannot continue indefinitely. Some companies have floated new stock issues, but with most oil stocks still selling below their book values, and far below replacement costs, such action seems to many to be unfair to stockholders. On account of present tax rates many stockholders are not in a position to exercise their rights to subscribe to additional stock, and the marketing of additional stock simply dilutes their equity.

Higher Profits Needed

This leaves the industry sorely in need of good current earnings to finance both extensions and improvements of facilities and replacements of crude reserves. The profit dollar is a 50-cent dollar when it comes to financing current expansion of properties, the construction of equipment, or the discovery of new oil reserves.

Fundamentally, higher profits in 1948 and 1949 than in 1947 are the only means by which the industry can hope to continue a rate of expansion that will satisfy demand. Such profits must not only furnish cash, but also expand borrowing power and make a market for possible new stock issues if the money supply is to be adequate for the task. Elimination of the double taxation of corporation dividends is another way in which the equity market could be improved. Such improvement is needed so that issuance of fixed obligations can be held within reasonable limits.

Nobody likes inflation, nobody likes to see prices going up. However, the prices of petroleum products, after all increases, remain below the average for commodities in general. At present levels they are the public's best assurance that supply problems will be met in the shortest possible time.

Both prophets and profits assure us that these problems must and will be solved as part of the progress of a continually expanding American economy.

Anderson With Flynn Levitt

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Clarence F. Anderson has become associated with the staff of Flynn & Levitt, 411 West Seventh Street. He was formerly with Carter H. Corbrey & Co. and Fewel & Co.

E. F. Hutton Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Elwood B. White has been added to the staff of E. F. Hutton & Co., 623 South Spring Street.

Economic Stabilization in a Troubled World

(Continued from page 7)

their first real test. Unless we as a nation show an ability to impose restraints upon ourselves and to utilize the machinery of our representative government to devise well-considered regulatory measures, we stand in great danger that runaway prices, overextended credit, and unbalanced developments will lead to an economic recession."

As an analytical economist, I am profoundly interested in watching as objectively as possible the trend of economic behavior in this great land of private enterprise and democratic government. We have evolved to a state of gigantic corporations and massive labor unions. We have acquired a tremendous national debt through steps which were probably unavoidable and which certainly cannot be retraced. And we have created for ourselves "big government" which, if you will examine the figures, is predominantly military. It therefore becomes a fascinating question whether we have enough economic "savvy" and powers of discipline or forebearance by power groups to make it possible to curb orgies of heedless speculation or to rally from sinking spells of paralyzing disillusionment and fear. In other words, can our free society manifest a healthy social adjustment, or will a manic-depressive psychosis become chronic as we pass from adolescence to maturity?

Ground for Optimism

If we look calmly at the rather hectic developments of this first quarter of 1948 and take some backward glances at 1947, there is a good deal which could give ground for optimism. Industrial managements, labor leadership, banking organizations, and the government have all expressed a sense of responsibility for doing something in their respective spheres to check the process of inflation which could involve us in a common disaster if everyone simply decided to "get while the getting is good" and no one was willing to sacrifice immediate gain or convenience for longer-run security.

The head of a large corporation declared last January:

"It is obvious that we are in a painful inflationary spiral. And it is also obvious that every industry, every company, every individual, must do all in their power not only to stop this spiral, *but to reverse it*. For this reason, we are reducing the prices on a wide range of products. We estimate that these reductions will make possible a saving to the public of close to $50 million during the coming year. The reductions range from 3% to 10%. . . . We earnestly hope that others will join with us in this effort. If they do, materials and components purchased by us will also be reduced in price, and then even further reductions in the prices of our products may be made possible."

Later, the President of the acknowledged leader in a basic industry announced:

"In an endeavor to aid in halting further advances in living costs, (our) corporation will shortly announce decreases, effective May 1, 1948, in their prices for a wide variety of products of their manufacture. These price changes are estimated to add up to a total price reduction of about $25 million a year based on last year's shipments of the products affected. . . . So far as possible, the price reductions will be made applicable to products which have a more or less direct bearing upon the cost of living. . . . We believe that costs and prices in general are too high today for the good of the nation. We are firmly of the conviction that American industry and labor should cooperatively do everything in their power to avoid further increases in costs, which, if permitted to occur, must result in higher prices for almost everything we buy. Certainly the best interests of all of our people will not be served by a further lowering in the purchasing power of the dollar."

Nor has management been alone in this desire to discover its proper role of responsibility in a free society. Faced by disappointment and with discontent rumbling in his ranks, a labor leader promptly asserted that their two-year contract with a non-strike clause would be honored in letter and spirit. In other key industries, the majority of labor leaders and rank and file complied in orderly fashion with the awards of fact-finding boards that severely sliced demands which they regarded as equitable and capable of fulfillment. Where the intransigence of some leaders resulted in a different course, the Executive Branch of the government and the vigorous action of Federal courts prevented or terminated work stoppages and protected the orderly process of negotiating economic settlements on the basis of facts rather than force.

Over-Extension of Credit

A characteristic feature of a runaway boom is the over-extension of credit on over-valued assets. In January of this year, the American Bankers Association put on a systematic campaign of education, nationwide and reaching the smallest country banker. Its purpose was not to impose any rigid clamping down on credit through a scheme of remote control but to enunciate sound criteria of credit extension and to reexamine the proposals of individual borrowers across the desk with the individual banker, presumably the best informed as to local conditions but having a more than local view of the general economic and financial situation.

I am not trying to paint a fancy picture of economic bliss in the midst of a period when we all are harassed in our current operations and apprehensive as to the future outlook. I submit, however, that we have done a tremendous job of economic reconversion without any great amount of internal strife or more than minor sabotage. We have maintained a high level of national production, simultaneously raising the standard of living of the working population and investing tens of billions of dollars in the plant which will make their labor efficient in the future. All this was done, moreover, while we were sending unprecedented exports abroad to relieve devastated countries and reconstruct the world economy.

That achievement should give us courage for the undertakings which still lie ahead. And such courage is based not merely on the demonstration of our power of technical production, but also on the fact that we could get this high rate and efficient plane of national effort under a process of relaxed government controls.

Problem of a Troubled World

But, at the same time that we take courage, we must recognize that we had not yet come to the time when the momentum of reconversion was spent and we had shown that we could maintain stabilized prosperity in a normal peacetime world. Now 1948 confronts us with a new problem of how much our economic stabilization may be disturbed by the prospect of having to live in a troubled world—even though its disturbance is "short of war." The time has come to measure the extent to which or the rate at which the rosy dreams of the postwar world can be realized. In a word, this brings us to consider the broad issue which seems to me to be raised by the superimposing of our defense program on foreign aid commitments already made.

The European Recovery Program does not call upon us to supply an excess of exports over imports in 1948 any greater than that of 1947 or even up to the peak reached in that year. Furthermore, what we forego by way of domestic consumption or capital formation in this connection will, I believe, be diverted with such practical business wisdom by its four top administrators, Paul Hoffman, Averill Harriman, Howard Bruce, and William Foster, that it is properly to be classed as an investment in future trade as well as security. It is even possible that, in the absence of this subsidized market, supplies might have caught up with demand so fast this year that we would not have been able to make adjustments in prices and costs fast enough to sustain full volume of employment and plant operation. In that event, we might have had waste of resources equivalent to all or a large part of what we are now giving in foreign aid. To that extent, our investment is liquidated without waiting for future trade or security dividends.

The defense program raises somewhat different issues. Military outlays as such are essentially unproductive and potentially destructive. Nevertheless, some billions withdrawn from civilian uses during the next few years to produce a convincing show of military strength may prevent actual destruction of our wealth at a later time. In that case, these sums too can be regarded as an investment or at least as a necessary protective outlay which will contribute to the maximizing of consumer real income in the long run. This we may assume to be the case so long as we keep to a moderate defense program, such as the President has been advocating. If this program is rejected by the Congress and if military plans are expanded into the war machine proposed in some quarters, then thoughtful persons see inflationary pressures developing in 1949 and thereafter, with grim possibilities of deficit financing, mounting taxation, and extensive economic controls.

Even short of these most dire consequences, we cannot assume that the more moderate defense program could be carried through without significant modification of the program of production and purchasing power that we would hope to achieve otherwise. We can't eat our cake and have it too. $5, $10, or $15 billions' worth of goods and services a year cannot be withdrawn from our economy during the next few years and still leave the real income of consumers as high as it would otherwise be during this period.

We find many people today who are quite cavalier about raising and again raising the authorizations for air force, for navy, for army, for stockpiling, and for shipbuilding as though there were some inexhaustible or costless source from which such outlays flow. At the same time, they have argued that cutting tax rates would, even in a fully employed economy, enlarge government revenues. Or in a logical corner, instead of crying "Uncle," they assert that budgetary balance can be achieved by cutting out extravagant expenditures for public works.

As to the arithmetic of the matter, the total expenditures in the budget for the fiscal year 1949 are $2.6 billion in comparison with $4.8 billion as the estimated amount of the recent tax cut and somewhere between $14 and $15 billion dollars as the probable size of the military budget. As to the dispensability of public works expenditures, we may query how we are to provide adequate transportation even for defense industry, or waterpower to furnish electricity for aluminum to make military airplanes, to show the basic importance of these outlays. Or one may ask how we are to keep up the quality of our working force and keep up our traditional standards of education if we do not soon make up the undermaintenance of our public school plant and expand it in step with population growth.

It is evident that states and municipalities as well as Federal agencies will have to defer or scale down the expenditures which they otherwise would be making for raising the productivity, convenience, health, and beauty of their communities, just as the private consumer will have to forego the raising of his real purchasing power or standard of living which we had all been looking forward to. The problem which all of us must face is how the enlarged burden of defense can be distributed most equitably and with least danger of interference with the efficiency of production.

In the closing paragraphs of the first quarter memorandum of the Council of Economic Advisers to the President, it was said:

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

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

Smith Carpet Preferred Placed on Market

Morgan Stanley & Co. and Dominick & Dominick jointly headed an underwriting group that offered publicly May 19 50,000 shares of Alexander Smith & Sons Carpet Co. 4.20% cumulative preferred stock (par $100) at $102.50 a share and accrued dividends.

Net proceeds will be used by the company for general corporate purposes including further expansion and betterment of plants and facilities. Its subsidiary, Sloane-Blabon Corp., expects to complete in 1948 the major portion of an expansion program which will result in greatly increasing its production capacity of hard surface floor covering products. The company has already loaned $2,000,000 to Sloane-Blabon against demand notes and intends to advance approximately $4,000,000 additional to the subsidiary during 1948 and 1949 towards completing its present construction program.

The new preferred stock will be redeemable at $107 a share if redeemed on or before March 1, 1953 and thereafter at $104.50 a share. It is also redeemable through operation of the sinking fund at $104.50 a share.

The company's capitalization following the financing will comprise 47,620 shares of 3½% cumulative preferred stock; the 50,000 shares of new preferred stock; and 937,925 shares of common stock, $20 par value.

As of March 31, 1948 there were 4,952 shares of 6% class A preferred stock, par value $100, and 913 shares of common stock, no par value, of Sloane-Blabon Corp. held by others than the company. On that date, the company owned 19,256 shares of 6% class A preferred and 274,931 common shares of Sloane-Blabon.

Successor to a business founded by Alexander Smith in 1845 in West Farms, N. Y., the company now maintains its principal plant and executive offices in Yonkers, N. Y. It is engaged principally in the business of manufacturing and selling wool pile rugs and carpets, which are of Axminster and plain and printed velvet weaves, manufactured in standard widths ranging from 27 inches up to 18 feet. While the company's rugs and carpets cover a wide price range, it manufactures primarily for the medium price field. It also acts as selling agent for wool pile rugs and carpets in Wilton and plain and printed velvet weaves, cotton rugs and wool face felt rugs, manufactured by C. H. Masland & Sons. In addition, it buys and sells related products manufactured by others.

Sloane-Blabon manufactures in its own plants linoleum, felt-base products and asphalt tile. These products are sold independently of the company through distributors. A broad coverage of the floor covering field is thus obtained to an extent unique in this industry.

During 1947 sales of soft surface floor coverings by the company, including those sold by it as sales agent, exceeded the sales of similar products by any other domestic company. Such sales, together with sales by Sloane-Blabon of hard surface floor coverings, exceeded the sales of floor covering products of any other company in the United States.

Jos. F. Donadio With Greenfield, Lax Co.

Joseph Donadio has become associated with Greenfield, Lax &

Joseph F. Donadio

Co., Inc., 40 Exchange Place, New York City, in the firm's trading department.

He was formerly with Gilbert J. Postley & Co. and Strauss Bros., Inc.

Wenman With Merrill Lynch

Byrd W. Wenman, Jr. is associated with Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York City, members of the New York Stock Exchange and other exchanges. Mr. Wenman in the past was a partner in Parrish & Co. and did business as an individual floor broker on the New York Stock Exchange.

Malmin and McLellan Are With Buckley Brothers

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Philip L. Malmin and Donald L. McLellan have become associated with Buckley Brothers, 530 West Sixth Street. Mr. Malmin was formerly with Paine, Webber, Jackson & Curtis and E. F. Hutton & Co.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Record trading, tape behind market, makes bulls of everybody. Don't let profits dull your caution. Money is made through selling on strength.

* * *

You hardly had a chance to read last week's column when the market went into one of those here-we-go-again things. The difference was that this time it was accompanied by volume, late tape, and hundreds of wires (maybe thousands) from advisory services telling their subscribers to buy.

* * *

It was all very exciting, with the public stepping on each others' heels to get in before the parade passed them by. Oddly enough, it wasn't the cats and dogs that whooped it up as much as it was the old line blue chip issues it takes real money to buy.

* * *

That a violent move was in the cards was indicated as early as last Monday, May 10, when the previous column was written. I commented on it by writing, " . . . I can see the market working itself into a corner where a violent move can occur . . . . " That, plus a couple of sentences at the beginning of last week's column should make me out some kind of a genius.

* * *

The only trouble is that in the same column I threw my hands up and said " . . . it (the market) doesn't show anything." Those few words make me out a bum. You see, I don't go around boasting how good I am. Of course if readers insist on writing and (I get a postcard every now and then) congratulating me, I'll accept their praise with restrained modesty. Any letters I get telling me to get a new crystal ball, I promise to carefully file in the nearest waste paper basket.

* * *

Now that every average has confirmed a bull market and everybody is sure that "God's in his heaven; all's well with the world," (I probably misquoted this — ho-hum) I'll have to point out that profits are made by selling when everybody wants them, assuming of course you bought them when nobody wanted them. This leads me into one of these I-told-you-so things. For way back in March when things looked plenty blue you were given a list of stocks to buy.

* * *

To get back to selling when everybody wants them. For the last few weeks you were advised to stop half your stocks at certain prices. Now I suggest using the reverse method. Sell half on strength at still other prices.

* * *

Anaconda, bought at 32½, has a stop at 35 for half. On strength dispose of half (if it hasn't broken its stop in the meantime) at 42 or better.

Avco, bought at 4½, is too low priced to permit trading for points. Percentagewise, however, it is doing alright. It's now about 7, which amounts to about a 60% rise. The only thing to do with it, is either resign yourself to a pull position, or take part profits at 7½ or better.

Bethlehem, bought at 31, has an old stop at 32 for half your lot. On strength, sell half across 42 or better.

Caterpillar, bought at 55, now about 68, has an old stop for half at 61. On further strength take half profits at 72 or better.

Dresser, bought at 22, now about 29, has an old stop at 24½. There doesn't seem to be much stock ahead I can see, so just hold the full position.

* * *

I missed out on the airplanes. We bought them low enough but held them too long. The current strength seems to have passed them by entirely. Non-participation in a new rally isn't too much to worry about. It is participation in a decline that has to be watched. On the next reaction the airplanes should go off less than the market, or even advance across the averages. If they don't we will have to reconsider the whole group. Meanwhile hold them but remember the stops — **Douglas** 61; **Lockheed** 21; **G. L. Martin** 18½ and **United Aircraft** at 27½ — still apply.

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.]

World Trade in a Time of Crisis

(Continued from page 16)

trade. With the aid of consulates and trade commissioners abroad, he sought out markets for U. S. businessmen in all parts of the world. Partly as a result of his efforts, our export trade grew fast and reached a volume undreamed of before the twenties. Today it is still our duty in the Department of Commerce to promote trade. But we have another duty that complicates our lives and gives us less time than we need to foster and promote the foreign commerce of the United States. I am speaking, of course, of export controls.

In the last six months I have done a great deal of talking in public about export controls. And when I talk with businessmen in my office it is, I am sorry to say, too often exclusively about export controls. It is not a particularly entertaining subject, either for me or the exporter, and when I say goodbye to an exporter I find myself shaking my head in sympathy with him, while he shakes my hand and, when he is really an understanding fellow, offers his condolence. Today I do not intend to spend all my time in talking about export controls. But I believe there are a few things I ought to say to those of you in this area who are exporters. You have shown in word and action that you are more than mildly interested in the subject, and I don't want to disappoint you by avoiding the topic entirely.

In my talks on export controls two or three months ago, my main purpose was to make clear the difference between the two new licensing policies that were put into effect after the first of the year. Many people were confusing the two entirely different policies, both of which were announced within a period of a little over two weeks. By now I believe the differences are clearly understood by everyone interested in export controls, but I am going to follow my practice of discussing the two policies separately. I want to talk first about the controls on shipments to Europe, known generally as the "R" procedure, or as Current Export Bulletin 434.

When we announced on Jan. 15 that individual export licenses would be required for all commercial shipments to Europe, there was naturally a great deal of concern, if not consternation, among exporters. Events since that time have shown that there were good reasons for imposing this drastic control. We knew that we had to have a means of screening, and controlling shipments of goods that might contribute to the war potential of the U.S.S.R. and its satellites. And we had to be prepared to back up the European Cooperation Administration in controlling the flow of goods of all kinds to the countries of Western Europe. Three months ago we were being criticized severely because this control was considered too sweeping or even unnecessary. Yet, during the past two months we have been criticized with even more severity because some commodities that were on their way to port or in warehouses awaiting shipment on March 1 were allowed to proceed to destinations in Eastern Europe after that date. Before we put the control into effect many people said we would not be able to handle in anything approaching a reasonable time the volume of license applications that would be sent to us. I am glad to be able to say that we now hear very little criticism on this score. Licenses covering shipments to destinations in Western Europe are now being mailed out of the Department within not to exceed ten days of the time we receive the applications, and many in a much shorter time.

Our main concern on the "R" procedure now is to establish a clear policy with regard to what kinds of goods may in the interest of security be licensed for shipment to the USSR and it satellites. As a means of establishing this policy, we have set up a special subcommittee of the Advisory Committee on the Second Decontrol Act. Represented on this subcommittee are the Departments of Commerce, State, Interior, Agriculture, the National Military Establishment, the Atomic Energy Commission, and the National Security Resources Board. The first result of the work of this subcommittee is the list of goods announced on April 30 for which no licenses are required regardless of destination. In a very short time we expect to be able to announce further policy decisions, so that exporters and manufacturers who do business with Eastern Europe will know how to lay their plans. As both the Secretaries of State and Commerce have stated, it is not our government's policy to shut the door against trade with the countries of Eastern Europe. We know that those countries have products needed by us and by the countries of Western Europe with which we are cooperating. We desire trade with Eastern Europe based on a *quid pro quo* exchange. At the same time, we cannot afford to ship those things that might endanger the peace of the world.

I want to turn now to the other major change in our export licensing policy—the so-called "price criteria" or "non-historical basis" policy, as first announced in Current Export Bulletin 431. For two or three months after this policy was announced, exporters believed that we were going to install a highly precise calculator of some kind in the Office of International Trade by means of which we would sort license applications according to the prices stated by the applicants. We would then grant licenses first to the applicants showing the lowest prices and continue on up the scale of prices until the quotas were used up. There was some justification for placing this interpretation on the policy as it was stated in the Bulletin. Actually, we never intended, and we believe the Congress never intended us to discriminate so precisely among applications on the basis of the prices stated. In practice we have ruled out those applications that carried exorbitant price quotations. And after rejecting such applications, we have used other criteria for determining which exporters should get licenses when the applications far exceed the allocations. Among these criteria are such things as the relative importance of end-use to which the commodity will be put when it reaches its destination. We also take into consideration, to a limited extent, the historical position of the exporter in his trade, and in some cases the importers in foreign countries to whom the goods are consigned. I hope that in the very near future we shall publish a revised version of this bulletin that will state our policy more clearly and accurately.

Differing Problems for Each Commodity

In working under this new policy we have discovered different problems in the licensing of each commodity. Those problems are extremely complex and demand an intimate knowledge of the nature of the commodities and of trade customs and practices. As a means of obtaining this highly specialized trade information we have set up 11 panels of consultants, from which we draw different advisory committees from time to time as we encounter special licensing problems. Many more panels are now being drawn up. Let me give you an example of what I mean by a difficult licensing problem. Our export quotas for flour to Brazil for the month of March was 240,000 sacks. We received license applications for the shipment of 41 million sacks! There was very little variation in the prices quoted on the applications. Obviously, we couldn't make everybody happy. However, we called in a Flour Advisory Committee representing large and small mills and large and small merchant exporters, spread geographically from coast to coast. After working with them for two days, we came up with a solution that appeared at least to be workable, and admittedly as satisfactory as could be achieved.

These advisory committees are proving helpful in many ways. Besides providing us with specialized information on a trade in a commodity, they are proving to be a useful link with the business community. They return to their own offices with an increased awareness of the difficulties under which we work and with an understanding that we are trying to administer the export controls in a way that will interfere as little as possible with the natural flow of export trade.

Reasons for Export Controls

Finally, on this subject of export controls, I find generally throughout the country a more complete understanding of the reasons behind and for the controls than there was even six months ago. More and more businessmen now accept the fact that we are living in a time of worldwide economic and political crisis. They realize that export controls are necessary in a world that is faced with universal shortages of certain critical materials, and a nearly universal shortage of dollar exchange. Certainly the Congress has recognized the need for export controls, to protect the U. S. economy and has, fortunately, given us more money to do a better and faster job. Ever since the end of the war, export control has had a precarious existence. We never knew how long the export control function would last, or how much money we would have to do the job. It was difficult to keep our experienced help, and even more difficult to hire new people. Now we are settling down. We sincerely hope that export controls are not here to stay indefinitely, but we do know—as experienced exporters know—that they will stay as long as the present troubled international conditions exist.

One of our most important jobs just now is to work with the Economic Cooperation Administration toward the economic recovery of Europe, because we know that European recovery and general world recovery will hasten the end of export controls. A great deal has been said and written about the European Recovery Program. But with all the publicity that has been given to the program, there is still one question that is asked again and again. That question is, "How does the private exporter do business under the ERP?" The answer is that exporters will continue to do business in the same way as in the past. The ERP is not another Lend-Lease, with the Federal Government buying all the goods and shipping them to Europe. The ECA has stated that only a few commodities, such as bulk foods and medical supplies, will be purchased by the Department of Agriculture and the Bureau of Federal Supply and sent by those agencies direct to Europe. The rest will be ordered by the importer in Europe and supplied by the exporter in this country. All arrangements for the soliciting of orders, the requesting of export and import licenses and exchange permits, the shipping and storing of goods, and the payment for individual shipments will be initiated and carried through in private channels of trade. In some cases, of course, the European importer may be a government purchasing mission rather than a private firm, but the amount of buying done by such missions is expected to be relatively small.

Exporters Should Continue to Solicit Business

Exporters who have been doing business with Europe in the past should continue to solicit business through their regular agents and distributors abroad. The European importer will consult with his government regarding the need for a particular product as part of the recovery program. Then the European government will consult with the ECA and other agencies of the U. S. Government and decide which commodities can be paid for with funds made available by the United States for the recovery of Europe. The European importer will obtain permission from his government to exchange his own francs, or kroner, or lira for U. S. dollars that have been furnished by ECA to his government for buying goods from the United States under the recovery program. The important thing to remember is that whatever system of accounting and disbursement of funds is worked out, the European importer—not the U. S. exporter—will initiate the first action in requesting permission to use recovery dollars to pay for a shipment.

ERP to Help Private Importers

The European Recovery Program is more than a plan for building up the factories and farms and transportation systems of Europe. It aims also to rehabilitate the distribution and merchandising network of private importers, dealers and distributors that largely disappeared after 1939. The necessity of rebuilding this intricate and in some ways intangible system is too often lost sight of because so much attention has been concentrated on the rebuilding of the physical facilities for increasing production. International trade can be rebuilt only if private businessmen in each country learn once again to do business with one another and with their conterparts abroad. The one sure way to delay the rebuilding of the structure of trade would be to place all the ERP business in the hands of the participating governments. Fortunately, the Congress carefully avoided making this mistake, and the legislation clearly calls for the use of "private channels of trade" to the greatest extent possible. I can assure you, we in OIT will constantly push for carrying out this provision and we will combat any trend toward government procurement. Government procurement sometimes appears to be the easy and efficient way to carry on a grant-in-aid or a loan program, and for that reason it is insidiously tempting. We will avoid the mistake if we remember the central objective of the program —economic recovery, not only for Europe but for the rest of the world. And we cannot have world-wide economic recovery without a rebuilt and revitalized world trade.

While we are cooperating in the economic recovery of Western Europe, we cannot afford to forget the needs of the other areas of the world. We in the Office of International Trade will be responsible to a great extent for safeguarding the interests of the countries that are not participating in the recovery program. When export quotas are set up for the export of critically scarce commodities, we shall be claimants for the needs of all these other countries. And in preparing and presenting these claims, we shall keep in mind the importance of balanced recovery throughout the world.

The urgent problems connected with export controls and European recovery occupy so much of our attention these days, that we have far too little time to think about the promotion of exports and imports. Yet this is the basic statutory function of the Office of International Trade, and a function that in normal times takes most of our attention. We continue to publish "Foreign Commerce Weekly," which is devoted largely to trade leads and information on changes in government regulations—at home and abroad —affecting the international trader. Our other published services include the "International Reference Service," "World Trade Directory Reports," "World Trade in Commodities," and a series of reference handbooks. Our commodity specialists continue to follow world markets closely and to provide information on request to businessmen who write to us or visit our field offices throughout the country.

However, if we are to be of real service to the community of international traders, we must be alert to foresee changes in world trade conditions and to shift our approach and our emphasis accordingly. The upheaval in world economic conditions during the past few years has caused us to make a basic change in the pattern of our trade promotion activities. We no longer place our strongest emphasis on exports and export opportunities. When we talk about trade promotion today we must perforce talk chiefly about imports. Surely, in the present state of the world, it would be naive for us to carry on a "bally-hoo" promotional campaign exhorting our foreign traders to export. The world is hungry for American food. It needs American textiles. And it must have American machines. The only apparent limit to what other countries will buy from us is the number of dollars in their pockets or in their banks. Available dollar exchange is a ceiling that automatically limits our exports. Last year we sold $19.6 billions worth of goods and services to other countries. We bought $8.3 billions worth from them. This means that our foreign customers had to dip into their reserves of dollars in 1947 for $11.3 billions to pay for what they bought from us. All over the world, with the exception of only two or three countries, dollar balances have been shrinking steadily for several years. Even Canada has had to prevent its people from buying many American products, ranging from lettuce to automobiles, in order to slow down the rapid decline in her dollar reserves. The British Loan of 1946 and the European Recovery Program are, in essence, measures to cope with the world-wide dollar shortage.

Naturally, we continue to furnish information on market conditions abroad. By reading our publications and by inquiring at our field offices, the exporter can become informed on trade restrictions in various countries and on various commodities. We are particularly interested in letting our businessmen know about especially good export and foreign investment opportunities. On the whole, our export promotion is selective rather than general; we are using a rifle rather than a shotgun.

We face a simple choice in developing a policy for the promotion of world trade. We can go on indefinitely extending grants and loans to other countries to make up the difference between what we sell to them and what we buy from them; or we can take the necessary steps to make it possible for them to sell us as much as they buy. The choice is clear. We must make it easier for other countries to sell to us. There is only one possible alternative, and that is to cut our exports down to the level of our imports. To take this way out would result in the lowering of the general level of production and employment in the United States, to say nothing of the serious delay it would cause in world recovery. Few Americans would deliberately make a choice that meant less production and fewer jobs. It is our policy in the Office of International Trade to encourage imports; we believe that this is the only sound way to cope with the world-wide dollar shortage.

We are trying in many ways to increase the volume of imports into the United States. For the first time in history, the import trade opportunities listed in "Foreign Commerce Weekly" are regularly taking more space than the export opportunities. Early in 1947 we sent general instructions to the U. S. Foreign Service Officers that they give as much attention to imports as to exports. Late in 1947 we sent two of our men on an extended trip through 11 countries of Western Europe for the principal purpose of assisting the diplomatic missions and consulates to intensify the promotion of imports from European countries into the United States. These men found that European businessmen are hesitant, and almost afraid, to attempt selling their goods in the U. S. market. They lack knowledge of American tastes and American methods of distribution, and they have a tendency to continue selling only in those sections of the U. S. market with which they are well acquainted. They frequently make the mistake of signing exclusive marketing contracts for the entire U. S. with American business houses that have limited distribution outlets, when they could easily make limited area contracts with many firms so as to give their goods a much wider market. Foreign governments are being urged to conduct surveys of the U. S. market for the products of their countries, and to educate their own businessmen in American marketing techniques. Just before I left Washington, I learned that one of the governments of Europe has appropriated money for such a survey.

One of the most effective ways to increase imports of the products of other countries is to encourage the exhibition of goods at international trade fairs. OIT has an expert on international fairs and exhibits who is working with the representatives of other countries to use this medium of trade promotion effectively.

Another effective way to correct the foreign dollar shortage is to encourage Americans to travel abroad. Dollars spent by Americans in another country become part of that country's dollar balance, and give it additional dollar funds with which to buy our exports. In cooperation with other countries we are doing everything possible to make travel abroad easier and more convenient.

One of the most encouraging signs of an awakened interest among American businessmen in imports is the increasing use that is being made by private exporters of their agencies and dealers abroad for the promotion of imports. Since the end of the war several large manufacturing firms with well developed distributing agencies abroad have begun to realize that they can use their selling channels in reverse by getting their agents interested in finding markets in the United States for the goods produced by their foreign customers. The immediate result of this relatively new and still somewhat experimental method of import promotion is goodwill for the American exporting firms. The long range result is more dollars in the bank for the foreign customers, and more sales for the American firms. We need more statesmanship like this among our exporters. The government can point the way and assist in promoting imports, but businessmen have a better knowledge of markets and the necessary trade contacts to carry the policy into effect.

We need to know more about the raw materials and the processed goods that are available for our use in other countries. We have already discovered the usefulness of certain exotic hard woods in the manufacture of furniture and the finishing of home exteriors. U. S. imports of mahogany, rosewood, teak, satinwood and other foreign hardwoods have been increasing steadily, and would undoubtedly increase faster with more vigorous promotion. We need more imports of the basic industrial minerals, such as tin, copper, lead, and zinc; and we need more of certain alloying minerals, such as vanadium, antimony, chomium, manganese, nickel, and tungsten. If we are to continue selling to the rest of the world we must search with energy and imagination for new markets in the United States for the goods other countries can ship to us. Only in this way can they pay for our exports.

Our Protective Tariff Laws

Until 1934 the United States did very little to encourage imports from the rest of the world. A long series of protective tariff laws had been enacted for the announced purpose of protecting American business against competition from abroad. On June 12, 1934, the Congress passed the Trade Agreements Act. It was renewed in 1937, 1940, 1943 and 1945. This law was based on the idea that we might be able to persuade other countries to lower their tariff barriers if we offered to lower ours. In the 14 years since this law has been in effect, 42 separate trade agreements have been negotiated, and tariffs have been reduced on thousands of commodities. Despite warnings that the lowering of barriers would injure our own industries, only two claims have been presented to the government by industries who said they were hurt by the agreement. In both cases, the government reversed its action by use of the clause in the law that permits an agreement to be revoked if it can be shown to have injured one of our own industries. In the years since the Trade Agreements Program was started, our foreign trade has increased steadily. I do not claim that this increase was a direct result of the Trade Agreements Program. I mention it merely to show that the Program has at least not hurt our foreign trade.

On June 12, 1948, the Trade Agreements Act expires. The Congress must extend its life before that time if the reciprocal trade agreements program is to continue. I believe the great majority of businessmen feel that the Act has proved its usefulness, and that it should be renewed for another three years without amendment. We have become the leading nation of the world in the development of liberal policies of international trade. Our leadership in the formation of the International Bank, the International Monetary Fund, the International Trade Organization, and the European Recovery Program has given us a preeminent place of influence among the nations of the world. The reciprocal trade agreements program was also our idea, and it was the first major attempt in recent history to break down the barriers of trade between nations. To forfeit our leadership in the program at this time would be to jeopardize seriously the progress we have made and to place in great danger the success of our efforts to establish an International Trade Organization. Moreover, the program is highly important to the recovery of Europe. The more Europe can export to us, the more dollars it will earn. We want Europe to earn its dollars, not continue to borrow them from us. If the European Recovery Program is to be a permanent success, we must make it possible eventually for the participating nations to pay their own way. And they will have a better chance to pay their own way if we can allow them to sell their goods in the U. S. market without having to pay excessive tariff. I should mention that whenever these reciprocal tariff reductions are negotiated, businessmen in the United States who believe they would be hurt by the reductions are given a chance to present their case before the change in the tariff becomes effective.

I have been talking about the various ways in which the world crisis has affected the economic policies of the Federal Government generally, and specifically the policies of the Office of International Trade. Continued shortages of materials at home and abroad and new economic and political developments in Europe have required the extension and modification of export controls to protect the domestic economy and to insure an equitable distribution of scarce commodities to other countries. World-wide shortages of dollars have brought about a new emphasis on the need for an increased volume of imports and for the lowering of trade barriers. The wholesale destruction of the physical facilities of production in Europe during the war and the near destruction of the network of international trade have made necessary the European Recovery Program; and this program is based in part on the belief that the use of private channels of trade for the purchase of recovery goods is important in the rebuilding of world trade generally. All of these policies are indications that the United States is awake to its international responsibilities.

In this time of crisis, the world will gain to the extent that we continue to use our economic leadership wisely. We have the greatest productive power in the world; and we have the greatest market for the goods of other nations. Both can be used to build confidence, well-being, and a real and lasting peace. We as citizens must be vigilant to see that our leadership is used to advance the world toward those ends.

Norman F. Dacey Joins Staff Of Edward E. Mathews Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Norman F. Dacey has become associated with Edward E. Mathews Co., 53 State Street. Mr. Dacey in the past was an officer of Trust Funds, Inc.

Three With Craig Hallum, Inc.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN. — Robert E. Hanson, Richard C. Lucas and Jean Simonetti have become associated with Craig Hallum, Inc., Baker Building.

Two With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Walter S. Rosenbaum and George Schweitzer have become associated with Herrick, Waddell & Reed, Inc., 332 South Michigan Avenue.

A. E. Weltner & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—A. E. Weltner & Co., Inc., 21 West Tenth Street, have added William E. Cloonan to their staff.

Herrick Waddell Adds

(Special to THE FINANCIAL CHRONICLE)

GRAND ISLAND, NEB.—Yale F. LaMoore is with Herrick, Waddell & Reed, Inc., 55 Liberty Street, New York City.

Observations

(Continued from page 5)

day's market." But bearing in mind that the Webster definition of "crystalize" is "to become settled and definite in form," even this compromise is stretching the true account of events. What really has happened is that the market's performance has "crystalized" the public's speculative appetite. Such orthodox matters as earnings, industrial activity, war or peace threats, inflation or deflation, etc., etc., are apparently completely irrelevant.

Market Imagery

It should be realized that Dow and other penetration-point theory accounts for only one of many channels which the rapidly rising tide of market-pictorializing has taken. A few of the many popular images to which the investment community is now likening the market are:

(1) A medical patient with successive waves of deteriorating and reviving health (ex., "the bear market is dying," "the bull market was made healthy by yesterday's reaction").

(2) A war theater with military advances, retreats, and bloody skirmishes between bulls and bears, dramatic Battles of the Bulge, etc.

(3) A mathematical entity with multitudinous variations, whose understanding presupposes knowledge of higher calculus and even the Theory of Relativity.

(4) A thermometer (not barometer) of the confidence, embraced by others, whose prompt readability provides the key to success.

The Market As a Steeple-Chase Run

In lieu of these fantasies, what the market community really seems to be doing is considering the course of prices as a steeplechase run, where the horses after scaling one barrier can be safely assumed to keep running forward at least until they reach the next jump. No concern whatever about what happens to the horses between the barriers!

The realistic objection against which this concept becomes disillusioned, is the difficulty of knowing how far ahead the next jump is, how many refusals the jockey should allow the horse before dismounting and abandoning him, and what actually is the decisive force enabling the animal to clear the barrier when he does so.

To cite a similar analogy, appropriate in this fine spring weather, the chart is being put before the horse.

Chasing the Magic Trend

Underlying practically all "technical" endeavor is the discovery of *the trend*, while it still has some distance to go, and knowledge of when to abandon it. The great difficulty facing all attempts to follow-the-crowd lies in the necessity of anticipating instead of following the behavior of the community of individuals composing that crowd, in estimating its size and degree of its gregariousness, and hence in knowing how long to remain with it.

At this writing one callous writer on the charts confidently reassures his bull readers that "whether this is the third phase of the bull market which started in 1942 or whether this is to be regarded as the initial leg of a new bull market, in my opinion, makes very little difference. I think that the 1946 highs will be substantially surpassed." But some of his more timid confreres have disturbing qualms. Already after the relatively tiny rise above the 187 resistance point where the Dow-defined bull market supposedly has only begun to breathe, other Street chartists are beginning to wonder whether the non-Dow sophisticates should perhaps shrewdly take advantage of the Johnny-come-lately behavior of the Dow Theory addicts, and ruthlessly unload on them as suckers. This phase of the market process denotes investment as a game of musical chairs with the unfortunate left-over player penalized with a big bag to be held as the mark of his dunce-ship.

This booby prize of holding-the-bag is not as easy to avoid as may at first appear!

Reasons for Popularity of the "Technical" Approach

Let us reflect on the reasons for Wall Street's evident unscientific and illogical behavior. Pursuance of these above-described foibles by the otherwise intelligent community seems to follow from honest disillusionment arising from previous attempts at interpreting market action based on seemingly relevant external factors. In the first place such causes never stood up as the proper explanation, and in the second place this has been made clear to the public now since it is seen that the factors of inflation, government spending, business activity, profits, politics, etc., were not appreciably different last week than they were in mid-March before the stock price average advanced by 15%.

More important than such honest abandonment of the former after-the-event rationalization is the motive of *psychological escapism* which the prevalent mental gymnastics provide. Charts and pictorialization in general provide a welcome relief from the repeated rebuffs suffered from abortive reasoning about facts. Subjective fantasy, which can be altered at will, does not harbor anywhere near the same danger to one's professional record.

Another advantage of the technical approach is that it permits the widest latitude in subjective definitions of events that are essentially so difficult to define. What an advantage, having a market, whatever you choose to call it! The ordinary difficulties in reaching such conclusions are exemplified by a current editorial appearing in this week's issue of the London "Economist," asking the question "Still a Bear Market?" The London market's advance of 16% in the face of adverse external factors during the past eight months has left the author in a complete quandary, which he feels it necessary to solve by tacking on a completely superfluous and irrelevant conclusion that the "bear market" has not ended. How much more satisfying to that author would be our technique of setting our definition of the market's past, present and future by precise mathematical rules!

What Role in Capital Financing?

The breaking-down of the American equity market as the means of financing the country's urgent capital requirements is recognized as a matter of the greatest concern. There is little doubt that government policies, as in the tax field, are hindering the Stock Exchange from conveying the savings of investors to constructive use by industry. But . . . our above-cited behavior of that investment community forces the conclusion that, even with those outside hindrances removed, it must "grow up" considerably before it can fulfill that function. However great the faults of the banks and and insurance companies in the furnishing of capital, their behavior is almost statesmanlike compared to the all-or-none manic-depressive behavior increasingly evidenced by our community of individual risk-bearers!

Fund Transactions Exceed $600 Million

The International Monetary Fund reports that during April, it sold $3.4 million to Denmark and $2.5 million to Norway. This brings total sales of exchange to these two members of the Fund to $10.2 million and $5 million respectively.

Total transactions of the Fund for the 14 months of operation have amounted to the equivalent of $606,045 000.

The details of the transactions are shown in the accompanying table:

INTERNATIONAL MONETARY FUND
SUMMARY OF TRANSACTIONS

	—Month of April, 1948—		14 Months Ended Apr. 30, 1948	
Exchange Transactions	Amount in Currency	U. S. Dollar Equivalent	Amount in Currency	U. S. Dollar Equivalent
Currency Sold:				
U. S. Dollars	5,900,000.00	5,900,000.00	600,000,000.00	600,000,000.00
Pounds Sterling	--------	--------	1,500,000.00	6,045,000.00
		5,900,000.00		606,045,000.00
Currency Bought:				
Belgian Francs	--------	--------	1,446,303,913.00	33,000,000.00
Chilean Pesos	--------	--------	272,800,000.00	8,800,000.00
Danish Kroner	16,316,599.99	3,400,000.00	48,949,799.97	10,200,000.00
French Francs	--------	--------	14,888 375,000.00	*125,000,000.00
Indian Rupees	--------	--------	92,638,544-4-0	28,000,000.00
Mexican Pesos	--------	--------	109,237,500.00	22,500,000.00
Netherlands Guilders	--------	--------	181,839,626.94	[illegible]
Norwegian Kroner	12,403,950.00	2,500,000.00	24,813,900.00	5,000,000.00
Turkish Liras	--------	--------	14,000,000.00	5,000,000.00
Pounds Sterling	--------	--------	74,441,687-7-1	300,000,000.00
		5.900.000.00		606,045,000.00

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

EDITOR'S NOTE—No gold transactions were effected by the Fund during April 1948. For the 14 months ended April 30, 1948, however, the Fund sold U. S. dollars against gold (690.415 ounces) at $35 per fine ounce, the dollar equivalent being $24,164.52.

Nat'l Advisory Council Reports on Fund and Bank

(Continued from page 16)

ber countries were to carry on their international trade without considerable external assistance. It considers that some adjustments must be made in the future, particularly in conjunction with American assistance under the European Recovery Program. The Fund provides a most satisfactory means of dealing with this problem and the Council has outlined to Congress, previously, its proposal for dealing with it.

The Council has also consistently opposed the view that the member countries have an automatic right to the use of the Fund's resources. It has approved the Fund's efforts to strike a balance between the extreme of conserving its resources entirely for the post-transitional period and the use of its resources at this time to deal with the pressing exchange needs of the members.

With regard to the Bank the Council reports that it has made a significant contribution toward world recovery through the extension of loans aggregating more than a half billion dollars to member countries. The Council has approved the use of the United States subscription to the Bank for making loans, but to enable the Bank to carry on its operations, additional funds must be raised in the American capital market, since the United States is practically the only country now in a position to provide substantial amounts of finance for foreign investment. The Council has, therefore, approved the issue of securities by the Bank in the American market. It has assisted the Bank in securing rulings under existing law which would facilitate its financing operations. In this connection the Council has recommended to the Congress legislation which it believes will be conducive to the successful flotation of additional securities by the Bank.

During the first two years of its operations, the Bank's loans were made principally to European countries to enable them to carry out part of their reconstruction programs. The Council anticipates that in the future the Bank will make additional loans to European countries but will also devote a larger portion of its resources to loans for the development of non-European countries.

The principal function of the National Advisory Council is to formulate the general policies of the United States in the field of international finance. It advises the United States representatives on the Fund and the Bank of the policies of this government and coordinates their activities with those of all agencies of the government engaged in international loan, monetary or foreign exchange operations. The Council is also charged with important responsibilities in connection with the European Recovery Program and other aid programs.

The Council consists of the Secretary of the Treasury as Chairman, the Secretary of State and the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Board of Directors of the Export-Import Bank of Washington, and the Administrator for Economic Cooperation for the term of that program. The Council has given continual study to the financial program of the government, meeting weekly, and more often when necessary, to deal with problems of immediate urgency.

William F. Phipps With Shields in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—William F. Phipps has become associated with Shields & Co., 135 South La Salle Street, members of the leading stock exchanges. Mr. Phipps was formerly an officer of Thompson, Davis & Phipps, Inc. in Chicago.

With Weil & Co. Inc.

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—Paul C. Boudousquie, Jr. has joined the staff of Weil & Co., Inc., 830 Union Street.

With King Merritt Co.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Olaf L. Hanson is with King Merritt & Co., Pence Building.

Michigan Brevities

(Continued from page 10)

sidiary, WXYZ, Inc., licenses and operates station WXYZ (Detroit). Net income after charges and taxes of the company and its subsidiaries for the year ended Dec. 31, 1947 totaled $1,520,756, compared with $1,242,177 in 1946 and $213,439 in 1945.

* * *

Muskegon Piston Ring Co., Muskegon, at Dec. 31, 1947 had current assets of $1,658,766, as against current liabilities of $422,827. Net profit after charges and taxes amounted to $846,325 in 1947.

* * *

White, Noble & Co. of Grand Rapids and Detroit, and Clair S. Hall & Co. of Cincinnati, Ohio, recently offered 30,000 shares of Sperti Foods, Inc., cumulative convertible 5% preferred stock at par ($10 per share). Approximately $150,000 of the net proceeds will be used to provide for the operations of the pharmaceutical division; and the balance for working capital and general corporate purposes.

* * *

Following the expiration of the rights on May 3 to the common stockholders of record April 17, 1948, of Lake Superior District Power Co. to subscribe for 52,800 shares of 5% cumulative convertible second preferred stock, par $20, at $20.75 per share, an investment banking syndicate headed by the Wisconsin Co., Milwaukee, Wis., publicly offered the unsubscribed 32,834 shares at the same price. The net proceeds from the sale of this issue, together with the proceeds of $1,200,000 serial notes proposed to be issued in June, 1948 and a portion of the cash on hand will be applied to the cost of additions, extensions and improvements.

The common stockholders of the utility company had been offered the second preferred stock on the basis of one share of second preferred for each 2½ shares of common stock held. The initial quarterly dividend of 25 cents on the second preferred will be paid on June 1 to holders of record May 20, 1948.

* * *

First of Michigan Corp., also was among the list of 46 investment firms which have underwritten an offering to the common stockholders of National Gypsum Co. of record May 10 of 422,467 additional shares of common stock at $13.50 per share. The rights will expire on May 24.

* * *

Sales of International Detrola Corp., Detroit, and its subsidiaries for the year ended Oct. 31, 1947 rose to $71,682,180, compared to $40,810,028 in the previous year. Net profit, after taxes on income, was $1,379,139, equal to $1.13 per share on 1,221,881.55 shares of common stock outstanding on Oct. 31, 1947, as against $1,012,124, or 84 cents per share on 1,200,010.45 shares at Oct. 31, 1946. Sales and profits for the 1947 year include nine months sales and profits of Universal Cooler Co. of Canada, Ltd., which were not included in the figures for the previous year, and sales and profits of the Newport Rolling Mill Division, which was acquired by the company on Aug. 10, 1946. C. Russell Feldmann, President, disclosed that additions being made to International's steel-making capacity involve outlays of $6,000,000.

Keenan & Clarey Adds

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Richard E. Mertz has become affiliated with Keenan & Clarey, Inc., National Building.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	May 23	95.4	94.3	80.0	93.1
Equivalent to—					
Steel ingots and castings produced (net tons)	May 23	1,719,600	1,699,700	1,442,000	1,681,700
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	May 8	5,412,750	5,413,450	5,377,400	5,004,600
Crude runs to stills—daily average (bbls.)	May 8	5,602,000	5,570,000	5,568,000	4,843,000
Gasoline output (bbls.)	May 8	16,963,000	16,681,000	16,569,000	14,579,000
Kerosine output (bbls.)	May 8	2,144,000	2,236,000	2,472,000	2,002,000
Gas oil and distillate fuel oil output (bbls.)	May 8	7,126,000	6,932,000	7,419,000	5,553,000
Residual fuel oil output (bbls.)	May 8	9,242,000	9,343,000	9,168,000	8,226,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	May 8	109,313,000	111,632,000	111,589,000	99,593,000
Kerosine (bbls.) at	May 8	13,572,000	13,394,000	11,438,000	10,292,000
Gas oil and distillate fuel oil (bbls.) at	May 8	35,117,000	35,224,000	33,121,000	31,529,000
Residual fuel oil (bbls.) at	May 8	51,868,000	50,829,000	49,228,000	42,676,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	May 8	880,617	891,638	683,852	884,242
Revenue freight rec'd from connections (number of cars)	May 8	726,056	722,781	586,289	701,781
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS-RECORD:					
Total U. S. construction	May 13	$149,236,000	$113,317,000	$114,579,000	$131,313,000
Private construction	May 13	81,067,000	48,691,000	89,036,000	92,226,000
Public construction	May 13	68,169,000	64,626,000	55,493,000	39,087,000
State and municipal	May 13	56,640,000	41,353,000	42,944,000	32,662,000
Federal	May 13	11,529,000	23,273,000	12,549,000	6,425,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	May 8	12,684,000	*13,870,000	2,435,000	13,060,000
Pennsylvania anthracite (tons)	May 8	1,132,000	1,128,000	850,000	1,057,000
Beehive coke (tons)	May 8	124,300	*91,300	11,800	137,200
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	May 8	330	*300	298	311
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	May 15	5,108,673	5,087,264	5,086,826	4,615,983
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	May 13	100	108	101	88
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	May 11	3.20798c	*3.20798c	3.23940c	2.85664c
Pig iron (per gross ton)	May 11	$40.24	$40.11	$40.11	$33.15
Scrap steel (per gross ton)	May 11	$40.66	$40.42	$40.33	$29.58
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	May 12	21.200c	21.200c	21.200c	22.475c
Export refinery at	May 12	21.675c	21.425c	21.525c	23.675c
Straits tin (New York) at	May 12	94.000c	94.000c	94.000c	80.000c
Lead (New York) at	May 12	17.500c	17.500c	17.500c	15.000c
Lead (St. Louis) at	May 12	17.300c	17.300c	17.300c	14.800c
Zinc (East St. Louis) at	May 12	12.000c	12.000c	12.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	May 18	101.29	100.88	100.89	104.48
Average corporate	May 18	112.93	112.56	112.19	117.20
Aaa	May 18	117.80	117.80	117.60	122.50
Aa	May 18	116.02	115.82	115.63	120.43
A	May 18	112.19	111.81	111.81	116.41
Baa	May 18	106.56	105.69	104.66	109.97
Railroad Group	May 18	108.34	107.80	106.92	112.00
Public Utilities Group	May 18	114.08	113.89	113.89	118.80
Industrials Group	May 18	116.80	116.41	116.22	121.04
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	May 18	2.41	2.44	2.44	2.20
Average corporate	May 18	3.01	3.03	3.05	2.79
Aaa	May 18	2.76	2.76	2.77	2.53
Aa	May 18	2.85	2.86	2.87	2.63
A	May 18	3.05	3.07	3.07	2.83
Baa	May 18	3.36	3.41	3.47	3.17
Railroad Group	May 18	3.26	3.29	3.34	3.06
Public Utilities Group	May 18	2.95	2.96	2.96	2.71
Industrials Group	May 18	2.81	2.83	2.84	2.60
MOODY'S COMMODITY INDEX	May 18	420.9	416.0	420.7	400.6
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	May 15	238.2	236.4	236.6	213.8
Fats and oils	May 15	299.4	290.7	276.3	225.0
Farm products	May 15	258.5	254.9	258.5	245.4
Cotton	May 15	360.2	349.4	357.4	342.1
Grains	May 15	269.8	266.6	275.7	253.4
Livestock	May 15	242.7	240.4	241.8	230.4
Fuels	May 15	228.6	228.6	228.6	170.4
Miscellaneous commodities	May 15	176.6	175.2	174.8	160.5
Textiles	May 15	215.0	213.5	214.1	215.8
Metals	May 15	164.2	163.5	164.9	149.3
Building materials	May 15	232.2	232.2	227.3	198.3
Chemicals and drugs	May 15	155.6	155.6	156.7	157.4
Fertilizer materials	May 15	136.1	136.3	137.2	127.5
Fertilizers	May 15	143.8	143.7	143.7	134.6
Farm machinery	May 15	139.2	139.2	138.8	125.5
All groups combined	May 15	221.4	219.9	220.5	196.6
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	May 8	213,822	201,340	163,880	159,888
Production (tons)	May 8	191,787	192,731	193,572	179,059
Percentage of activity	May 8	101	102	103	101
Unfilled orders (tons) at	May 8	418,994	397,407	434,430	560,526
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	May 14	146.6	146.7	146.6	145.8
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	May 8	161.9	162.6	160.6	146.7
Farm products	May 8	184.0	186.9	183.1	176.3
Foods	May 8	174.8	177.5	174.5	161.1
Hides and leather products	May 8	188.2	188.0	186.2	166.7
Textile products	May 8	148.2	148.1	145.5	138.0
Fuel and lighting materials	May 8	133.0	132.6	131.8	104.0
Metal and metal products	May 8	156.8	157.2	157.1	140.7
Building materials	May 8	195.9	195.2	193.4	178.6
Chemicals and allied products	May 8	133.4	133.7	136.8	127.2
Housefurnishings goods	May 8	144.6	144.4	144.7	128.6
Miscellaneous commodities	May 8	121.3	121.3	120.7	114.9
Special groups—					
Raw materials	May 8	175.1	176.8	174.1	160.1
Semi-manufactured articles	May 8	153.3	153.7	153.6	142.0
Manufactured products	May 8	157.6	157.9	156.0	141.9
All commodities other than farm products	May 8	156.9	157.2	155.6	140.2
All commodities other than farm products and foods	May 8	148.9	148.7	147.9	131.7

*Revised figure.

	Latest Month	Previous Month	Year Ago
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE) — Month of March:			
Total shipments (thousands of pounds)	159,109	*135,955	116,454
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of April	6,229,762	*7,608,135	7,042,697
AMERICAN TRUCKING ASSOCIATION—			
Month of March:			
Number of motor carriers reporting	284	*284	284
Volume of freight transported (tons)	2,709,473	*2,415,743	2,343,357
AMERICAN ZINC INSTITUTE, INC.—Month of April:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	70,330	73,209	73,891
Shipments (tons of 2,000 lbs.)	72,649	76,241	72,243
Stock at end of period (tons)	42,910	45,229	163,697
Unfilled orders at end of period (tons)	71,691	61,610	53,184
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of April (in thousands)	$102,354,000	$107,621,000	$87,771,000
CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS—U. S. DEPT. OF COMMERCE—Month of April	$456,000,000	$595,500,000	$398,800,000
COMMERCIAL STEEL FORGINGS (DEPT. OF COMMERCE)—Month of March:			
Shipments (short tons)	131,111	116,676	115,456
Unfilled orders at end of month (short tons)	641,110	630,860	717,428
COPPER INSTITUTE—For Month of April:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	88,235	*83,909	39,093
Refined (tons of 2,000 lbs.)	104,044	*110,886	104,598
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	116,475	122,988	117,557
Refined copper stocks at end of period (tons of 2,000 lbs.)	67,257	68,582	86,496
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of February (000's omitted)	19,903,528	20,267,417	17,783,262
Revenue from ultimate customers—month of February	$357,697,800	$362,162,700	$320,173,600
Number of ultimate customers at Feb. 29	38,747,519	38,599,687	36,424,565
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of April (1935-39 Average=100)	†125.4	†132.3	134.0
METAL OUTPUT (BUREAU OF MINES) — Month of March:			
Mine production of recoverable metals in the U. S.			
Copper (in short tons)	73,509	*68,876	74,570
Gold (in fine ounces)	149,909	*146,259	142,738
Lead (in short tons)	35,534	*32,337	32,134
Silver (in fine ounces)	3,372,949	*2,971,193	2,771,805
Zinc (in short tons)	53,824	*47,612	55,295
NEW CAPITAL ISSUES IN GREAT BRITAIN—			
Midland Bank, Ltd.—Month of April	£2,544,000	£11,200,000	£9,758,000
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission) Month of February:			
Net railway operating income	$39,425,294	$41,297,149	$43,820,930
Other income	19,739,001	19,089,249	16,036,514
Total income	59,164,295	60,386,398	59,857,444
Miscellaneous deductions from income	3,441,779	3,845,208	3,044,522
Income available for fixed charges	55,722,516	56,541,190	56,812,922
Income after fixed charges	21,108,376	22,292,126	20,059,841
Other deductions	3,310,744	3,584,665	2,833,365
Net income	17,797,632	18,707,461	17,226,476
Depreciation (way & structures & equip.)	30,178,996	30,111,771	28,822,533
Amortization of defense projects	1,685,277	1,368,598	1,334,383
Federal income taxes	22,323,963	23,863,324	20,737,663
Dividend appropriations:			
On common stock	26,081,447	3,158,609	19,401,271
On preferred stock	4,268,196	2,325,748	2,764,928
Ratio of income to fixed charges	1.61	1.65	1.55
SOFTWOOD PLYWOOD (DEPT. OF COMMERCE)—Month of March:			
Production (M sq. ft. ⅜-in. equivalent)	185,716	*156,666	139,670
Shipments and consumption (M sq. ft., ⅜-in. equivalent)	184,443	*155,878	140,253
Stocks (M sq. ft., ⅜-in. equivalent) at end of month	39,879	*39,323	32,146
Consumption of logs (M ft., log scale)	77,543	*69,597	62,174
Stocks (M ft., log scale) at end of month	150,190	*171,906	119,468
STEEL CASTINGS (DEPT. OF COMMERCE)—Month of March:			
Shipments (short tons)	162,891	142,434	134,909
For sale (short tons)	125,550	107,762	99,701
For producers' own use (short tons)	37,341	34,672	35,208
Unfilled orders for sale at end of month (short tons)	508,822	497,097	434,865
TRAILER COACHES—HOUSING TYPES ONLY (DEPT. OF COMMERCE)—Month of Mar.:			
Production (number of units)	4,925	*4,164	4,903
Shipments (number of units)	4,858	3,963	4,819
Shipments (value of)	$8,471,691	$6,851,148	$7,664,976
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of April:			
Net sales	$12,100,000	______	$61,285,000
Net purchases	______	$106,764,000	______
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS—Month of March: (000's omitted)			
Exports	$1,141,000	$1,086,400	______
Commercial	952,000	927,400	______
U. S. Govt. foreign aid & relief shipments	189,000	159,000	______
Imports	666,200	582,000	______
U. S. GOVT. STATUTORY DEBT LIMITATION—As of April 30 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	252,239,912	252,989,915	257,701,000
Guaranteed obligations not owned by the Treasury	75,418	78,154	179,000
Total gross public debt and guaranteed obligations	$252,315,331	$253,068,069	$257,880,000
Deduct—Other outstanding public debt obligations not subject to debt limitation	832,390	837,250	898,000
Grand total outstanding	$251,482,940	$252,230,819	$256,982,000
Balance face amount of obligations issuable under above authority	$23,517,059	$22,769,180	$18,018,000

*Revised figure. †Preliminary figure.

The Foreign Assistance Act

(Continued from first page)

million to the International Children's Emergency Fund of the United Nations.

While expenditures are authorized for only one year, the Act envisages the recovery program as continuing until June 30, 1952. Funds are to be appropriated annually in order that subsequent sessions of Congress may review the success of the program. According to estimates of the State Department, the cost of the European Recovery Program to the United States Government may aggregate about $17 billion between April 1, 1948 and June 30, 1952. The exact amount will, of course, depend on many contingencies which cannot now be foreseen or appraised.

Aid to Western Europe is to be granted to the nations participating in the recovery program. These include the 16 nations, together with their dependent areas, which signed the report of the Committee of European Economic Cooperation at Paris on Sept. 22, 1947 and, in addition, any other country, wholly or partly in Europe (including the zones of occupation in Germany and the Free Territory of Trieste), which chooses to adhere to a joint program for European recovery. Thus the door is left open for any European nation, not now participating, to cooperate in the program.

The aid extended by the United States will help finance purchases by Western Europe of goods and services in the Western Hemisphere. Such purchases will, of course, greatly exceed the amount of aid provided by the United States, and the balance will be financed from exports of goods and services by Western Europe, from aid extended by other nations in the Western Hemisphere and from the use by Western European nations of their nationals' holdings of dollar assets and of their own gold reserves.[2]

Relation to United Nations

The Act authorizes the President to request the cooperation and use of the facilities of the United Nations, its organs and specialized agencies. The President is to transmit to the Secretary General of the United Nations copies of reports to Congress on the operations of the Act and, subject to certain qualifications, copies of agreements concluded between the United States and participating countries or groups of such countries.

Background of Legislation

The Act is full recognition by the people of the United States of their position of world leadership and responsibility and was foreshadowed in Secretary Marshall's address at Harvard University on June 5, 1947. On that occasion Secretary Marshall invited all of Europe to join in working out a recovery program. His proposal for united action was rejected by Russia. The world became divided; Eastern Europe fell under totalitarian darkness, and Western Europe joined in a cooperative effort to improve its economic position and to defend its heritage of freedom, tolerance and respect for the rights of man.

Few pieces of legislation in this country have had the background of analysis and study comparable to that given to the Foreign Assistance Act. Committees of the Congress not only held extensive hearings but sought first-hand information in Europe itself. The report of the Committee of European Economic Cooperation was subjected to searching analysis by the State Department. The impact of a foreign aid program upon the American economy was reviewed by the Harriman and Krug Committees and by the President's Council of Economic Advisers. The Act is the result of a vast amount of preliminary study and documentation.

Previous Aid

The aid authorized by the Foreign Assistance Act is of course in addition to that already provided by the United States. Since the end of the war the United States has extended about $12 billion in aid to Western Europe, $8 billion in the form of loans and property credits and $4 billion in the form of grants. The assistance which this country has extended has been supplemented by aid from Canada and from some South American countries and by loans from the International Monetary Fund and the International Bank for Reconstruction and Development.

The help given Western Europe has prevented mass starvation, social and economic chaos, and has been of indispensable economic assistance. On the basis of this aid, the Western European nations have, on the whole, made substantial economic recovery. Only in Italy, Austria and Germany is production still far below pre-war totals.

A Western European Program

While economic recovery, viewed against conditions at the end of the war, has been substantial, it has not yet reached levels which enable Western Europe to be self-supporting. In part, this situation is due to the lack of a concerted program for European recovery—aid has been geared to the requirements of particular nations rather than to Western Europe as a whole.

One of the great advantages of the present program, therefore, is that the needs of all Western Europe are to be appraised and coordinated. Never before have the advantages of economic union been so clear, and never before has the situation been so favorable for joint action. A united Western Europe, including its dependent areas, could provide a huge market, develop a powerful industrial system, produce efficiently and at low cost. The salvation of Western Europe lies in cooperative action. Economic fragmentation must give way to economic union.

Europeans themselves are fully aware of the interrelationships of their economic systems and the need for close economic cooperation. To this end the 16 nations have joined in the establishment of an Organization for European Economic Cooperation. The contracting parties have agreed to make the most effective use of American aid, to promote with vigor the expansion of production in their own countries and dependent territories, to cooperate in developing the maximum possible interchange of goods and services, and to take such steps as lie within their power to achieve or to maintain currency stability and sound rates of exchange. The function of the Organization for European Economic Cooperation is to implement the program for joint recovery, to insure its execution, and to enter into appropriate agreements with the United States Government. It is the Western European counterpart of the Economic Cooperation Administration of the United States.

Aid Largely in Form of Grants

The present program frankly recognizes the fact that a large part of the aid to be extended by the United States must be in the form of grants rather than dollar loans, and that to burden the nations of Western Europe with loans which they cannot repay promotes neither the cause of recovery nor good international relations. Whether assistance will be given through grants, upon payment of cash, upon credit terms or other methods of payment is to be decided by the Administrator for Economic Cooperation, in consultation with the National Advisory Council. The decision in each case will be based upon the character and purpose of the assistance and the capacity of the recipient nations to make repayment. Whenever assistance takes the form of dollar loans, the loans are to be extended by the Export-Import Bank with funds provided by the Administrator. The Act apparently envisages that during the first year of the recovery program dollar loans will total about $1 billion and grants and other forms of aid, about $4.3 billion. To the fullest extent practicable, loans probably will be used to finance imports of capital equipment and grants will be used to finance imports of food, fuel, fertilizer and raw materials not used for capital development.

Supervision Over Aid

Still another advantage of the current program over previous methods of assistance is the supervision which will be exercised over the use of the funds. This supervision will take many forms. The Administrator, himself, is to review and appraise the requirements of the participating countries, to formulate programs for United States assistance, to provide for the efficient execution of such programs and to terminate provision of assistance. The Administrator is to consult on general or basic policy matters with a Public Advisory Board of not more than twelve members, appointed by the President with the advice and consent of the Senate. The Administrator is to be represented abroad by a special representative who will coordinate the work of the economic missions to be sent to each participating country, and who will be the chief representative of the United States Government to any organization of participating countries which may be established by such countries to further a joint program for European recovery.

The Secretary of State, after consultation with the Administrator, is authorized to conclude agreements in furtherance of the purposes of the Act with individual participating countries, or with any number of such countries or with an organization representing all participating countries. These agreements will pledge the participating countries to fullest possible individual and joint action in achieving economic recovery. The Administrator is directed to terminate assistance whenever he finds that a participating country is not adhering to its agreement or that assistance is no longer consistent with the national interests of the United States.

In order that Congress may follow the execution of the program, a Joint Committee on Foreign Economic Cooperation has been established, consisting of five Senators and five Representatives. In addition, the President is to transmit to Congress at least once a quarter a report of all operations under the Act.

In being geared to the needs of all Western Europe, in frankly facing the obvious truth that much of the aid must take the form of grants, and in providing what is thought to be adequate supervisory machinery, the Marshall program, as translated into law, has decided advantages over previous methods of granting assistance to Western Europe. These advantages will contribute greatly to its probable success.

The Role of Private Enterprise

The Foreign Assistance Act directs the Administrator for Economic Cooperation to utilize private channels of trade to the maximum extent consistent with the accomplishment of its purposes. That this be done is extremely vital not only as a stimulant to private enterprise but also as a means of maintaining and encouraging private institutions and organizations which will have the responsibility of financing foreign trade at the conclusion of the European Recovery Program. Private enterprise in foreign trade must not be permitted to atrophy.

Three methods of handling payments for the procurement programs are provided for in the Act. First, the participating country may expend its own dollars and then apply to the Administrator for subsequent reimbursement. Second, the Administrator may issue to the American supplier or seller of goods a "Letter of Commitment," under the terms of which the Administrator will agree to pay the supplier for the procured goods when these goods have been delivered to the participating country. Third, the Administrator may issue a "Letter of Commitment" directly to a commercial bank in the United States, on which the commercial bank will issue commercial letters of credit to the supplier or suppliers selected by the participating country or by the person, corporation or other organization in the participating country for whom the procurement is authorized.

A Recovery Program

The success of the European Recovery Program will be measured by Europe's ability to become self-supporting by June 30, 1952. In aiming at this goal, the program lays emphasis on recovery rather than relief and differs in that respect from interim relief measures. In the early stages of the program, relief aid will, of necessity, exceed recovery aid. Thus the State Department estimates that during the first 15 months, $4.5 billion of aid probably will take the form of relief-type goods and $2.3 billion, of recovery-type goods. As the program gets under way, the amount of relief-type goods will decline and the amount of recovery-type goods will increase.

Relation to Fund and Bank

Quite recently the Executive Directors of the International Monetary Fund decided that the nations of Western Europe participating in the Recovery Program are only to request dollars in exceptional and unforeseen circumstances. The resources of the Fund will thus be maintained at a safe and reasonable level during the existence of the European Recovery Program, in order that these resources will be available for constructive use at the end of the period. This decision is in full recognition of the fact that the Fund cannot function successfully in the transition period between the end of hostilities and the resumption of normal exchange and trading relationships among nations. Although its credit operations will be held in abeyance, the Fund, along with the Bank for International Settlements, will be able to render constructive aid in helping to formulate plans for monetary reform throughout Western Europe.

The International Bank for Reconstruction and Development, on the other hand, can play an active financial role in the reconstruction of Western Europe. Long-term loans by the Bank can supplement advances by the Economic Cooperation Administration. At the present time the Bank is considering a joint loan to several Western European nations to enable them to obtain lumber from Eastern Europe. If, as a result of such credit operations, trade develops between Western and Eastern Europe, the Bank will have performed a constructive service. Western Europe will be able to obtain grains, lumber and coal from Eastern Europe and to that extent will be less dependent upon the Western Hemisphere.

Prerequisites for Success

The chances for the success of the European Recovery Program depend upon several important contingencies. These include the adoption of necessary monetary and fiscal reforms, the economic revival of Western Germany, the relaxation of European trade barriers and the growth of trade with the Western Hemisphere.

Need for Monetary Reform

The urgent need for monetary reform in Western Europe is a theme encountered again and again in all of the reports on the Recovery Program. In the convention establishing the Organization for European Economic Cooperation, the 16 nations pledged that they would take steps to achieve or maintain currency stability, sound rates of exchange and confidence in their monetary systems. Open and suppressed inflation, unbalanced budgets, artificially low interest rates and unrealistic rates of exchange have, to a considerable extent, been responsible for the absence of production incentives and for dollar shortages. Currencies must be made convertible so that the surplus goods of the participating nations may be readily exchanged.[3] Monetary reform must be directed not only toward the balancing of governmental budgets but also toward an actual reduction in the volume of liquid assets swollen by war and postwar deficits. Exchange rates must be adjusted to reflect differences in the purchasing power of currencies, and interest rates must be allowed to reflect shortages in capital.

It will be recalled that the Foreign Assistance Act provides, subject to certain qualifications, that each nation receiving aid on a grant basis must place in a special account a commensurate deposit in local currency to be used under such terms and conditions as may be agreed upon between that country and the United States. These local currency deposits can be a weapon of great importance in checking inflation and in bringing about deflation. They can be used in such a way as to immobilize local currency, to retire national debt, to stimulate productive activity and, in particular, to encourage the production of raw materials in short supply in the United States, etc. The amount of such deposits in terms of the total money supply will vary greatly from nation to nation, and the particular uses made of such deposits will show correspondingly wide variations. If used wisely, these special deposits can be of great value in restoring health to the currencies of Europe.

Recovery of Germany

As the Committee on Foreign Relations of the United States Senate pointed out in its report on the Recovery Program, Europe cannot be vigorous and healthy as long as Germany remains an economic slum. Production in the Western zones of Germany is about 40% of the 1938 level, lagging far behind that of the rest of Europe. This situation results in part from the devastation of the war and in part from our delay in evolving a constructive policy for Germany. Our de-

2 The State Department estimates that the participating nations will purchase 13 billion dollars of goods and services in the Western Hemisphere from April 1, 1948 to July 1, 1949. Of this amount, 6.8 billion dollars is to be financed by the Recovery Program, 5 billion dollars by exports from Western Europe, and the balance, 1.2 billion dollars, from miscellaneous sources. Under the terms of the Foreign Assistance Act, the President is directed to take appropriate steps to induce other nations in the Western Hemisphere to share in the program.

3 Quite recently the Finance Ministers of the Brussels Pact Powers (Great Britain, France, Belgium, Netherlands and Luxembourg) agreed, in principle, on a method for the settlement of their mutual indebtedness.

lay in this respect is due to our original punitive attitude and also to our inability to reach agreement with the Soviet Union. In retarding general recovery, the economic paralysis of Germany has increased the dependence of Western Europe upon the United States.

In particular, the coal, iron and steel, and chemical industries must be stimulated, and Germany's important prewar trade revived with Scandinavia, Benelux and Switzerland. This can be accomplished only if the heavy hand of bureaucracy is lifted from the German economy. In order to free Germany from debilitating controls, the price system in Western Germany, as indeed throughout all of Western Europe, must become functional in character. Monetary reform must be directed towards providing a necessary basis for a free system of prices, wages, rent and interest in order to restore incentive to the economy and to promote industry and thrift. Only then can Western Germany make a significant contribution to European recovery. In the promotion of Germany's industrial recovery it is assumed, of course, that safeguards will be taken to prevent Germany from again embarking on a war of aggression.

Relaxation of Trade Barriers

From the time that Secretary Marshall, in his now famous address, gave initial inspiration to a new approach to Europe's economic problems, the urgent need of a freer movement of goods and services between the participating nations has received constant emphasis. In fact, the Recovery Program will have little chance for success unless quantitative trade restrictions and foreign exchange controls on current account are progressively eliminated, unless tariffs are reduced and progress made towards the establishment of regional customs unions and eventually of a Western European customs union.

Each of the participating nations pledges its cooperation in facilitating and stimulating an increasing interchange of goods and services, in reducing barriers to trade with other nations and in achieving as soon as possible a multilateral system of payments.[4] In entering into these commitments, the nations of Western Europe have shown great courage. The road back to economic liberalism will not prove easy. The relaxation of controls over import and export trade will necessitate internal industrial adjustments and force the elimination of internal economic controls. Yet the relaxation of such controls is essential if the consuming market is to be enlarged, if economic resources, including the labor supply, are to be used most effectively and if uneconomic enterprises are to be eliminated.

It is to be hoped that a customs union, including all of the Western European nations and their colonial dependencies, may eventually be organized. Good progress has been made towards the establishment of regional customs unions. The accomplishments of Belgium, the Netherlands and Luxembourg in this respect provide real inspiration. Conversations are proceeding between France and Italy, between Greece and Turkey and between Denmark, Norway, Sweden and Iceland. Perhaps, eventually, the United States and Canada may add their strength to a Western European customs union.

Need for Greater Trade with Western Hemisphere

In addition to an increase in trade among themselves, the nations of Western Europe must sell a larger volume of their products to the Western Hemisphere. This redirection of Europe's trade will occur if Europe produces at competitive prices the goods the Americas desire, and if the Western Hemisphere nations themselves are ready to relax trade restrictions.

Among Western Hemisphere nations the United States has taken the lead in sponsoring the principles of multilateral trade. Under the reciprocal trade agreements program, trade accords with 23 nations were reached in October, 1947. These agreements included tariff reductions on about 50% of total world imports and on about 55% of our dutiable imports. This program has enabled the United States Government to exert considerable influence in reversing the trend towards economic nationalism. As you know, the authority under which reciprocal trade agreements have been negotiated expires on the 12th of June, and a Joint Resolution[5] has been introduced into the Congress providing for a three-year extension. I trust that this Resolution will be adopted, in order that this country may again give tangible evidence of its desire to promote multilateral trade and freer trade, which are essential for the maintenance of private enterprise in international transactions.

Private Investment

The Foreign Assistance Act recognizes the desirability of encouraging United States investors to invest directly in projects in a participating country approved by the Administrator as furthering the purposes of the Act. Under the terms of the Act, he is empowered to guarantee the transfer into United States dollars of the foreign currency income from the approved investment or the foreign currency received from the sale of the investment. This guarantee does not include the guarantee of the business risks involved in the investment, and the guarantee of the transferability of funds is limited by the Act to the amount of dollars invested. The Act further provides that the aggregate amount of the guarantees shall not exceed $300,000,000, not more than $15,000,000 of which may be issued by the Administrator in the first year of the operation of the Act. In addition, the funds available for loans by the Export-Import Bank on the authority of the Administrator are to be reduced to the extent that such guarantees are outstanding.

Tourism and Private Aid

Other sources of dollars for Western Europe are tourism and private aid. The Administrator is directed to facilitate and encourage foreign travel by American citizens to the participating countries. He is also instructed to use, insofar as practicable, funds made available to him to pay ocean freight charges on relief packages and to arrange with foreign governments for the use of the deposits of local currency to pay foreign transportation costs.

Evaluation of Present Program

The goal of the present program is to assist in making Europe self-supporting by June 30, 1952. This goal can be realized if Europe's monetary and fiscal problems are resolved, if German production revives, if trade barriers in Western Europe are relaxed, if the Western Hemisphere stands ready to receive the manufacturers of the participating nations, and if private investment and tourism are encouraged. To list the prerequisites for success is to state the problem and to emphasize its difficulties. These difficulties are not insurmountable. With courage and determination, with wisdom and statesmanship, they can be overcome and the economic life of Europe given new vitality.

Each one of us must be fully aware of the nature of the problem and be ready to cooperate to the fullest extent in its solution. To this end we must be prepared to advocate and support the economic measures necessary for its success. We must be prepared to lend every assistance we can to the Administrator for Economic Cooperation and to lighten in every conceivable fashion his heavy burdens. It is he who must allocate the funds, who must decide between loans and grants, who must supervise the whole program and who must determine whether it should be terminated.

The nations of Western Europe and the United States have embarked together on a great experiment in international cooperative endeavor. It will succeed if the good of all is placed above advantage to the few, if constructive internationalism supersedes destructive nationalism, and if the spirit of man rises above the narrow confines of his own immediate interests. The success of the Marshall program will provide the healthy economic basis essential to the maintenance of liberty and independence in the free nations of the world.

4 Resolutions of the Committee of European Economic Cooperation.

5 H. J. Res. 335.

Prices and Profits

(Continued from page 11)

no case on record where a country has experienced wild inflation so long as those conditions have prevailed. So I should like to dismiss the view, held by some alarmists, that we are in danger of hyper-inflation or of financial collapse. This is not to say, however, that further price increases are out of the question.

International Situation and Future Prices

The question of prices, production and profits, is intimately connected with the whole complex fabric of economic and political affairs, both at home and abroad. In our present disturbed and distraught world, economic affairs are so inextricably interwoven with political affairs, and, in fact, so dominated by them, that the usual calculations and techniques of economic analysis are inadequate and superficial. The plain fact is that the future of prices in this country depends much more on the course of political events in Moscow, Paris, London, Manchuria, Buenos Aires and Washington than it does upon mere changes in the relation of domestic demand and supply.

I venture the opinion that we may have reached the end of inflation in this country, provided we are not called upon to undertake a large-scale rearmament. I can cite at least eight reasons for this opinion:

(1) Prices have not been rising significantly for nearly six months, and some important price reductions have occurred. For example, several of our largest industrial companies have been reducing prices and at the same time resisting further wage increases.

(2) The stage of building up inventories and filling pipelines is apparently about completed. In fact, much of the inventory increase during the past year was due to rising prices rather than to an increasing physical volume of goods.

(3) The money supply has not been increasing for some time. Money in circulation has remained about constant since the end of 1945 and bank deposits are about at the same level as at the end of 1946. Also, there is good evidence that an adjustment between the money supply and the price level has been attained.

(4) The money market is perceptibly tighter. It is harder to get loans, and interest rates are higher. For example, the average rate charged customers by New York banks has increased from 1.17% in Sept., 1947, to 2.09% in March of this year. In seven Northern and Eastern cities surveyed by the Federal Reserve Board, the increase was from 2.25 in Sept., 1947, to 2.52% in March of this year. You are, of course, familiar with the increased yields on the various classes of Federal securities.

(5) The Federal budget contains a substantial surplus. Although the formal bookkeeping surplus is only a few billions, and even this may disappear as expenditures mount, the actual cash surplus of income over outgo will nevertheless be substantial if the trust accounts of the Treasury, as well as the so-called general and special accounts, are included. In other words, the Treasury is and will be taking more from the American people than it pays out in expenditures, and the net effect of its operations will be deflationary.

(6) The crop outlook, both here and abroad, is excellent and lower food prices are expected both by the Department of Agriculture and private experts in this field. Of course, it is too early to be sure of good crops, though the winter wheat crop in this country is far enough along to make reasonably good estimates.

(7) The capacity of American industry to produce consumer goods has increased tremendously. Over $30 billion's worth of new capital equipment has been set in place in the past two years. The recent McGraw-Hill Survey of Capital Expansion indicates that when the postwar expansion program is complete, the productive capacity of American manufacturing industries will be 52% greater than in 1939. This increasing flow of goods will undoubtedly have a decisive influence on prices.

(8) The largest single factor in the current inflation—namely, the expenditures of business for new capital equipment—is tending to level out. The Department of Commerce reports "There is . . . definite indication of the levelling out of . . . capital outlays, which contrasts with the rapid upward surge of expenditures since the end of the war. In fact, the volume of capital expansion planned by business for 1948 may in physical terms be somewhat below the rate in the closing months of last year." In the same vein, the McGraw-Hill Survey shows that "American manufacturing companies had completed on the whole 64% of their postwar expansion programs at the end of 1947. By the end of 1948, they expect to have 85% complete." These indications are of great significance because the capital expenditures of business are perhaps the major inflationary force in the American economy today.

Over the Inflationary Hump?

On the basis of these considerations, it seems reasonable to suppose that we would be over the inflationary hump if the new international developments had not occurred. Let us see what these may mean to the domestic economy.

First, the Marshall Plan. Even with the enactment of the ECA, our total net exports will probably not be greater than those of last year. Last year's exports were financed from the British loan, from credits of the Export-Import Bank and of the International Monetary Fund, and by drawing down large dollar balances that had been accumulated by various foreign countries. The ECA will be a replacement program to prevent what would otherwise inevitably have been a sharp curtailment of exports. The net effect of the ECA can hardly be regarded as a new inflationary factor. Rather, it is a counter-deflationary factor.

The new rearmament program is a second factor. This program, as now officially proposed, including the 70-group air force, would add about $3 billion to government expenditures during the next fiscal year ending June 30, 1949. An expenditure of this magnitude by itself could hardly have a major inflationary impact upon the total economy, though it might place additional pressure on certain scarce materials.

Third, the tax reduction may add more than $5 billion per year to the expendable funds of the American people. Rearmament and tax reduction together total $8 billion. This represents the aggregate inflationary influence during the next year of recent political developments. It amounts to about 3% of our total national product and hardly seems large enough, taking other bearish factors into consideration, to precipitate a new major wave of inflation.

It seems obvious, then, that the future of prices and production in this country will depend largely upon the character of our foreign and military policies. Current forecasts of continued high activity and of further inflation are clearly based upon the assumption that our own future foreign policy will require increasing expenditures for armaments. Many able observers take the view that there is no way to stop Russia except by overwhelming military power. This view clearly suggests that all-out rearmament will be necessary.

On the other hand, some thoughtful persons are arguing that there has been an element of hysteria and unreasonable apprehension in our recent attitudes toward the Russian problem. They say that in the war of nerves, Russia has found there are definite limits to the extent she can advance without reprisals, or even war. They argue that it is most improbable that Russia would deliberately seek a war now or in the future.

If our relations with Russia deteriorate further, so that we are called upon for all-out rearmament, then prices will almost surely rise and government controls will be necessary. If we follow that road, the problems of conversion will be inestimably more difficult than they were at the beginning of the recent war. Today we have no slack in the form of unemployed people, surplus plant capacity and supplies of raw materials, so every dollar's worth of wartime production will be at the expense of peacetime production.

Solmssen Retires From SEC

Kurt A. Solmssen, analyst for the Securities and Exchange Commission is leaving the Commission to become Executive Assistant to the President of the Smith, Kline & French Inter-American Corp. Before joining the SEC he was President of the Wilmington (Del.) Chemical Corp. and Vice-President of the Synvar Corp. of Wilmington, manufacturer of synthetic resins. Since 1943 he has been a foreign investment expert with the SEC and a member of the executive staff.

R. H. Johnson & Co. Adds Five to Sales Staff

R. H. Johnson & Co. announces that five new men have been added to its sales staff. John Hanway, John J. Daly and George Goodwyn have joined the New York office, 64 Wall Street, Guy H. Campbell the Washington office, Shoreham Building, and Edmond Kearsley Hartley the Philadelphia office, 1528 Walnut Street.

Carroll in Schenectady

SCHENECTADY, N. Y.—John A. Carroll is engaging in a securities business from offices at 1055 Wendell Avenue.

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.

● Alaskan Southern Airlines, Inc., Seattle
May 12 (letter of notification) 5,000 shares ($10 par) common stock. **Price**—$10. To buy and rent planes and for operating costs. No underwriting.

American Coach & Body Co., Cleveland
May 7 (letter of notification) 10,112 shares ($5 par) common stock. To be sold at $12 each to Robert W. Hadley, President of the company, and Harold F. Smith, Treasurer, for working capital. No underwriting.

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.

● Andale Co., Philadelphia
May 17 (letter of notification) 1,500 shares of 5% preferred stock (par $100). Price, par. Underwriting, none. Company also proposes to offer to holders of 7% first preferred stock (par $100) the opportunity to exchange their shares for new 5% preferred on the basis of 1.07 shares of 5% preferred for each share of 7% preferred. This will require 802½ shares of new preferred. **Proceeds**—For corporate purposes.

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.

● Associated Metals, Inc., Seattle, Wash.
May 5 (letter of notification) 200,000 shares of common stock. **Price**—50 cents. To explore, develop and equip mining property in Amador County and Downieville, Cal. No underwriting.

● August Oil Co., Los Angeles
May 12 (letter of notification) 50,000 shares of common stock, to be offered by O. L. Johnson, President of the company, to security brokers Greenfield Lax & Co., New York, and Robert Cass, Los Angeles.

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.

● Bettinger Enamel Corp., Waltham, Mass.
May 12 (letter of notification) $47,600 of 7% cumulative preferred stock ($100 par). Price, par. For working capital and equipment. No underwriting.

● Big Horn-Powder River Corp., Denver
May 14 (letter of notification) 100,000 shares ($1 par) common stock. **Price**—Par. To explore, develop and produce from oil properties. No underwriting.

● Botany Mills, Inc., Passaic, N. J.
May 10 (letter of notification) 2,000 shares of common stock. **Price**—$16 per share. To be sold through Greene, Ellis & Anderson, New York, for the account of Louis H. Hall.

● Brass & Copper Sales Co., St. Louis, Mo.
May 11 (letter of notification) 4,621 shares of 5% cumulative preferred stock ($20 par) and 541 shares of ($10 par) common stock. Preferred will be sold at par and common at $27 per share. Common is to be offered only to present stockholders. To increase working capital. No underwriting.

California Electric Power Co. (6/1-4)
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.; Kidder, Peabody & Co.; Harriman, Ripley & Co. **Proceeds**—To retire bank notes and for construction. Expected first week in June.

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.
March 30 filed $1,500,000 Series E first mortgage bonds and 360,000 shares (no par) common stock. **Underwriters** of common by amendment (probably Coffin & Burr). Bonds to be placed privately. **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.

● Channel Wing Aircraft Corp., Wisconsin Rapids, Wis.
May 12 (letter of notification) 30,000 shares ($10 par) common stock. Price, par. To develop patents and get into production. No underwriting.

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. Statement may be withdrawn as company has obtained funds through bank loans.

Clinton (Mich.) Machine Co.
April 15 (letter of notification) 10,000 shares of stock to be sold at $5⅛ each (market price), for selling stockholder. **Underwriter**—Charles E. Bailey & Co., Detroit.

● Coastal Plywood & Timber Co., Cloverdale, California
May 14 (letter of notification) 50 shares of class A stock ($2,500 par). Price—$3,500. For timber contracts and general corporate purposes. No underwriting.

● Coca-Cola Bottling Co. of St. Louis, Mo.
May 14 (letter of notification) 1,365 shares ($1 par) common stock. To be offered to employees at $32.50. For corporate funds. No underwriting.

● Colorado Fuel & Iron Corp.
May 13 (letter of notification) 6,000 shares of common stock. **Price**—Market (about $15.37). To be sold for a New York brokerage firm. **Underwriters** — A. L. Stamm & Co., E. F. Hutton & Co., Ungerleider & Co., Hamerschlag, Borg & Co., Thomson & McKinnon, all of New York.

● Columbia Television, Inc.
May 18 (letter of notification) 100,000 shares of preferred stock and 100,000 shares of common stock. **Price**—$3 per unit of one share of each. **Underwriter**—H. B. Burr & Co. is exclusive selling agent. The selling agreement requires Burr to sell 40,000 units within 90 days, an additional 30,000 units 180 days thereafter and a further 30,000 units within 210 days thereafter. **Proceeds**—Will be used to manufacture television sets, purchase test and production equipment for plant.

Consolidated Edison Co. of N. Y., Inc.
March 1 filed $57,382,600 of 3% convertible debentures, due 1963. Convertible into common stock at $25. **Offering**—Common stockholders of record May 20 are given right to subscribe for debentures in ratio of $5 of debentures for each share held. Rights expire June 8. **Underwriters** — Unsubscribed debentures underwritten by Halsey, Stuart & Co. Inc. and associates. The issue was awarded May 18, the underwriters paying $1,000 the underwriting privilege. **Proceeds**—To redeem 273,566 shares of outstanding $5 cumulative preferred stock and to reimburse treasury for expansion expenditures, &c.

Consolidated Vultee Aircraft Corp.
May 5 filed 1,159,849 shares ($1 par) common stock. **Offering**—Stockholders of record May 28 will be given the right under a firm subscription to subscribe for the stock at the rate of one new share for each share held. In addition the stockholders will be given the right to make contingent subscriptions for any shares not subscribed for by exercise of firm subscription, subject to allotment. 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.

● Consumers Power Co., Jackson, Mich.
May 18 filed 200,000 shares of cumulative (no par) preferred stock. **Underwriters** — To be determined under competitive bidding. Probable bidders: Harriman Ripley & Co. and The First Boston Corp. (jointly); Morgan Stanley & Co.; White, Weld & Co. and Shields & Co. (jointly). **Proceeds**—To acquire property, construct and expand facilities.

● Cook (E. K.) & Co., Inc., Washington, D. C.
May 14 (letter of notification) 60 shares (no par) stock. **Price**—$10 . To buy inventory of pharmaceutical supplies and for general corporate purposes. No underwriting.

Crampton Manufacturing Co. (5/24-28)
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. Price, par.

● Denver Icedrome, Inc., Denver
May 14 (letter of notification) 112,500 shares of common stock, to be offered at $1, and $11,250 5% 15-year debenture notes to be issued at $10. To promote and build an ice rink. No underwriting.

Dixie Fasteners, Inc., Chattanooga, Tenn.
April 14 (letter of notification) 75,000 shares of class B common stock (no par) of which 45,000 will be offered to the public at $1 each. For additional working capital, machinery and equipment.

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.

Equitable Gas Co., Pittsburgh, Pa. (6/8)
May 6 filed $14,000,000 first mortgage bonds, due 1973. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; The First Boston Corp.; Kuhn, Loeb & Co. and Smith, Barney & Co. (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Harriman Ripley & Co.; White, Weld & Co. **Proceeds**—$14,000,000 of proceeds, plus 563,000 shares of new common stock, will be delivered to the Philadelphia Co. in exchange for natural gas properties now under lease, outstanding capital stock of Equitable, notes and other claims owed to the Philadelphia Co. and to the Pittsburgh and West Virginia Gas Co. Expected about June 8.

● Fairview Lead Silver Mining Co., San Francisco
May 14 (letter of notification) $100,000 non-interest bearing 10-year notes and 50,000 shares ($1 par) nonassessable common stock. Price, to be offered in units of one $2 note and one share of stock for $2. To develop and equip mining property. No underwriting.

● Falls Creek Mining Co., Seward, Alaska
May 13 (letter of notification) 500,000 shares (10c par) common stock. Price—Par. For machinery, equipment and working capital. No underwriting.

NEW ISSUE CALENDAR

May 21, 1948

Reading Co., noon (EDT)	Equip. Trust Ctfs.

May 24, 1948

Crampton Manufacturing Co.	Bonds
M. H. Lamston, Inc.	Preferred

May 25, 1948

Gamble-Skogmo, Inc.	Preferred
National Gypsum Co.	Common
Union Electric Co. of Mo. Noon (EDT)	Debentures

May 26, 1948

South Carolina Electric & Gas Corp.	Pref. & Com.

May 27, 1948

National Dairy Products Corp.	Debentures

June 1, 1948

California Electric Power Co.	Bonds
N. Y. State Electric & Gas Corp.	Preferred
Playboy Motor Car Corp.	Common
Segal Lock & Hardware Co.	Debentures

June 2, 1948

Illinois Bell Telephone Co.	Bonds

June 8, 1948

Equitable Gas Light Co.	Bonds
Florida Power & Light Co.	Bonds

June 14, 1948

Kansas City Power & Light Co.	Bonds and Pfd.

Federal Industries, Inc., Detroit
May 6 (letter of notification) 10,000 shares ($1 par) common stock. **Price**—$1 each. To be sold by Drew C. Haneline, President of the company. **Underwriter**—C. G. McDonald & Co., Detroit.

● **Films for the Family, Inc., New York**
May 14 (letter of notification) 3,000 profit participating certificates. **Price**—Per unit, $25. Underwriting, none. Corporate purposes.

Fission Mines Ltd., Toronto, Canada
April 16 filed 200,000 shares of treasury stock. **Underwriter**—Mark Daniels & Co., Toronto. **Price**—$1 a share. **Proceeds**—For mining and business costs.

Fitzsimmons Stores, Ltd., Los Angeles, Calif.
Feb. 2 filed 10,000 shares of 6% cumulative first preferred stock ($100 par). **Underwriting**—Officers, directors and employees of the company will offer the stock to friends and associates. **Price**—$100 per share. **Proceeds**—To retire 7% preferred stock. Business: "Super Markets" in Los Angeles, Riverside, Colton and San Bernardino County.

Florida Power & Light Co. (6/8)
May 6 filed $11,000,000 first mortgage bonds, due 1978. **Underwriters**—Name to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Lehman Brothers; Drexel & Co. **Proceeds**—To pay off $4,000,000 in indebtedness owing to the Central Hanover Bank & Trust Co., New York, and to meet construction costs. Expected about June 8.

Flotill Products, Inc., Stockton, Calif.
March 6 filed 385,000 shares of 60 cent convertible preferred stock (par $5) and 325,000 shares of common stock (par $1). **Underwriter** — Floyd D. Cerf Co., Chicago. **Price**—preferred $10; common $6. **Proceeds** — Stockholders will sell 260,000 preferred shares and 250,000 common shares and company 125,000 preferred shares and 75,000 common shares. Company's proceeds will be used for general corporate purposes. Effective May 5.

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 (5/25)
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 by amendment. **Proceeds**—To reduce short-term bank loans totaling $13,-350,000.

● **Gas-Oil Products, Inc., Oxford, Pa.**
May 13 (letter of notification) 36,574 shares of preferred stock (par $1). Company is offering (a) to holders of its common stock the right to exchange prior to 3 p.m. (EDT) on June 3 shares of common stock of company for shares of preferred now offered on basis of one preferred for four common (or less than four shares of common plus cash at rate of $1 per share of common); (b) to holders of preferred stock (including holders of preferred now offered in exchange for common) and to employees of company and its subsidiaries and of approximately 20 affiliated companies, owned, managed or controlled by John H. Ware, 3rd, President of company, the right to subscribe, at $4 per share, prior to 3 p.m. (EDT) on June 10, on an unlimited basis for shares of preferred now offered. The foregoing offers are limited to stockholders and eligible employees who are residents of Delaware, Florida, Maryland, New Jersey and Pennsylvania. **Underwriter**—All shares of preferred not issued in exchange or subscribed for prior to 3 p.m. (EDT) June 10, will be offered to the public in the State of Florida at $4.15 per share through Gordon, Graves & Co., Miami, Fla. Proceeds will be used to reduce bank loans.

● **General Cap & Container Corp., East Orange, N. J.**
May 12 (letter of notification) 2,500 shares (par $10) 5% non-cumulative preferred stock and 2,500 shares of common stock (par $1), the latter shares being donated by two stockholders. **Price**—$10 per unit of one share of each. **Underwriting**—None. To defray development expenses, &c.

● **Gray Manufacturing Co.**
May 13 (letter of notification) 4,500 shares of capital stock (par $5). **Price**—$12½ (approximately). Walter E. Ditmars, President, will purchase the stock from the company for $39,375, in accordance with stock option provisions of an employment agreement with the company. Mr. Ditmars will sell the stock through registered brokers on the New York Curb Exchange. Working capital.

● **House of Huston, Inc., Coral Gables, Fla.**
May 11 (letter of notification) 500 shares of 5½% ($25 par) cumulative preferred stock and 18,000 shares ($5 par) common stock. Price, par. For expansion and inventory purposes. No underwriting.

● **Idaho-Montana Pulp & Paper Co., Polson, Mont.**
May 17 filed 100,000 shares of 4% cumulative preferred stock ($100 par) and 500,000 shares ($10 par) common stock. **Underwriter** — Tom G. Taylor & Co., Missoula, Mont. **Price**—$300 per unit, consisting of two shares of preferred and 10 shares of common stock. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity. **Business**—Pulp and paper.

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.
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.

● **Kansas City (Mo.) Power & Light Co. (6/14)**
May 14 filed $12,000,000 first mortgage bonds due 1978 and 80,000 shares of cumulative preferred stock (par $100). **Underwriters** — Names will be determined by competitive bidding. 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); Shields & Co., White, Weld & Co. and Central Republic Co. (jointly). **Proceeds** — To acquire and construct additional property and retire $3,860,000 of 1¾% notes issued for interim financing. Bids are expected to be opened June 14.

● **Kold-Hold Manufacturing Co., Lansing, Mich.**
May 10 (letter of notification) $100,000 5% convertible debentures, due 1953, convertible into 66,666 shares of ($1 par) common stock, sold to H. Barkley Johnson and James J. McQuaid. Also, 30,000 shares ($1 par) common stock to be sold for Messrs. Johnson and McQuaid. **Underwriters**—Buckley Brothers, Los Angeles. The debentures were sold for working capital. The two men have already sold the 30,000 shares to Buckley Brothers, who in turn has offered them at market prices of from 1⅝ to 2. The 30,000 shares were attained through conversion of $45,000 of the debentures.

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.

● **Kuehmann Foods, Inc., Toledo**
May 14 (letter of notification) 1,600 shares of class A common stock. Price—$100. For working capital. No underwriting.

Lakeside Laboratories, Inc., Milwaukee, Wis.
May 7 (letter of notification) 1,000 shares ($1 par) common stock. **Price**—$6.50 each. **Underwriter**—Loewi & Co., Milwaukee. For working capital.

● **Lamston (M. H.), Inc., New York (5/24-28)**
May 17 (letter of notification) 7,060 shares of 6% cumulative preferred stock (par $25) and 7,060 common stock purchase warrants. **Price**—$25 per unit of one preferred share and one warrant. **Underwriters**—Childs, Jeffries & Thorndike, Inc., Aetna Securities Corp. and Syle & Co., New York. Business expansion.

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.

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.

● **Linthium Corp. of America, Inc., Minneapolis**
May 17 (letter of notification) 100,000 shares of common stock. To be offered warrant holders at $3. For working capital. No underwriting.

Lonsdale Co., Providence, R. I.
April 26 filed 1,192,631 shares ($1 par) common stock. **Offering**—Offered to holders of common stock of record May 21 of Textron, Inc., at rate of one new share for each one held. Rights expire about June 6. 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 Textron subsidiary.

● **Montana-Dakota Utilities Co., Minneapolis, Minnesota**
May 18 filed 150,000 shares ($5 par) common stock. **Underwriters**—Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane, New York. Price, by amendment. **Proceeds**—To be used in expanding electric and gas utility property. **Business**—Utility.

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.

National Dairy Products Corp. (5/27)
May 12 filed $30,000,000 of debentures, due 1970. **Underwriters**—Goldman, Sachs & Co. and Lehman Brothers, New York. Price and interest rate to be filed by amendment. **Proceeds**—To be added to general funds for a plant and equipment replacement program for the company and subsidiaries.

National Gypsum Co., Buffalo, N. Y. (5/25)
April 20 filed 422,467 shares ($1 par) common stock. **Underwriters**—W. E. Hutton & Co. and Blyth & Co., Inc., New York. **Price**—$13.50. **Offering**—Offered stockholders of record 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 American Aviation, Inc., Los Angeles**
May 14 filed 1,000,061 shares of capital stock (par $1). **Underwriter**—Morgan Stanley & Co., New York. **Proceeds**—Proceeds will go to General Motors Corp., owner of the shares.

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.

Nuera Products Co., Denver, Colo.
May 10 filed 100,000 shares ($10 par) preferred stock, and 20,000 shares ($1 par) common stock. **Underwriting**—None named. **Price**—10 shares of preferred and two of common will be sold for $100. **Proceeds**—To build, furnish and tool a factory and apply close to $500,-000 to working capital.

Ocean Downs Racing Association, Inc., Berlin, Md.
Nov. 28 filed 55,900 shares ($10 par) common. No underwriting. **Price** — $10 a share. **Proceeds**—To build trotting and pacing race track near Ocean City, Md.

● **Old Colony Finance Corp., Mt. Rainier, Md.**
May 17 (letter of notification) $75,000 6% 10-year debentures. Price, par. For working capital. No underwriting.

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. (6/1-4)
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.

Reiter-Foster Oil Corp., New York
Jan. 16 (letter of notification) 180,000 shares (50c par) common stock. **Price**—80 cents. **Underwriter**—Frank W. Bennett & Co. For working capital.

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(Continued from page 57)

● **Powder River Oil Co., Denver, Colo.**
May 11 (letter of notification) 400,000 shares (10¢ par) common stock. **Price**—25 cents. **Underwriter** — R. L. Hughes and Co., Denver. For working capital.

● **Reed-Prentice Corp., Worcester, Mass.**
May 13 (letter of notification) 6,000 shares ($2.50 par) common stock, to be sold by Charles S. Payson of New York at the market price of from 10¾ to 11. **Underwriter**—Tucker, Anthony & Co.

Rulane Gas Co., Charlotte, N. C.
May 7 filed 15,000 shares ($50 par) 5½% cumulative convertible preferred stock. **Underwriter**—R. S. Dickson & Co., Charlotte, N. C. **Price**—$50 a share. **Proceeds** — Repay note, purchase of additional equipment, erect bulk storage plant near Wilson, N. C., and office buildings and display rooms at Portsmouth, Va., and Winston-Salem, N. C.

● **San Jacinto Insurance Co., Houston**
May 14 (letter of notification) 500 shares ($100 par) common stock. Price—$200. **Underwriter**—Julian E. Fruit, Houston. To provide surplus.

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. (6/1)
March 24 filed $2,000,000 15-year 6% convertible sinking fund debentures, due 1963. **Underwriter**—Floyd D. Cerf Co., Inc. **Price**—95 (flat). **Offering**—Offered to stockholders of record May 4 on basis of one $100 debenture for each 100 shares held. Rights expire May 28. **Proceeds**—For repayment of two notes and general corporate purposes.

Sierra Pacific Power Co.
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 early in June.

● **Soss Manufacturing Co., Detroit**
May 12 (letter of notification) 8,432 shares ($1 par) common stock, to be sold by Henry Soss and his wife, Ethel, at $8. **Underwriter**—Ames, Emerich & Co., Inc., Chicago.

South Carolina Electric & Gas Co. (5/26)
Dec. 2 filed 80,858 shares (50 par) 5½% cumulative convertible preferred and 404,293 shares ($4.50 par) common. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Offered for subscription by company's common stockholders of record May 11, the preferred at $50 per share on a 1-for-10 basis and the common at $6.50 per share on a 1-for-2 basis. Unsubscribed shares will be offered publicly. **Proceeds**—Proceeds together with other funds will be used to purchase all of the outstanding common of South Carolina Power Co. from the Commonwealth & Southern Corp.

● **Southern Frigid-Dough, Inc., Birmingham, Ala.**
May 14 (letter of notification) 50,000 shares of common stock. Price—$3.50. **Underwriter**—Marx & Co., Birmingham. To construct test kitchen, for inventory loans, equipment and working capital.

● **Southern Natural Gas Co., Birmingham, Ala.**
May 19 filed $28,000,000 first mortgage pipe line sinking fund bonds. Due 1968. **Underwriting**—Names to be determined by competitive bidding. Probable bidders include: Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Halsey, Stuart & Co. Inc.; The First Boston Corp. **Proceeds**—$14,000,000 will be applied to the payment (exclusive of accrued interest) of 1¾% notes due 1956; balance for construction purposes. **Business**—Natural gas pipe line system.

Standard Oil Co. (New Jersey)
May 11 filed 1,265,255 shares ($25 par) capital stock. **Offering**—To be offered holders of no par value common stock of International Petroleum Co., Ltd., at the rate of three Standard shares for 20 International shares. **Underwriting**—None. **Purpose**—To gain control of International, a Canadian corporation.

● **Standard Tube Co., Detroit**
May 14 filed 136,667 shares of Class B common stock (par $1). **Underwriting**—None. **Offering** — To be offered to Class B common shareholders of record June 10, in the ratio of one share of new stock for each three shares held. **Price**—$3 per share. Fort Industry Co., owner of 122,757 shares of Standard Tube stock, expects to buy $250,000 of the new stock, with the purchase price to be credited against the $250,000 loan previously made by Fort Industry to Standard.

Steak 'n Shake, Inc., Bloomington, Ill.
Feb. 2 filed 40,000 shares of 50c cumulative convertible participating preferred stock, ($1 par) and 160,000 shares (50c par) common stock, of which 40,000 will be sold and the remainder reserved for conversion. **Underwriter**—White & Co., St. Louis, Mo. **Price**—$8 for the preferred stock and $2.50 for the common. This stock is being offered by stockholders who are members of the Belt family.

Stearns (F. C.) Hardware, Inc., Hot Springs, Arkansas
March 26 (letter of notification) 2,000 shares of 6% cumulative preferred stock ($100 par). **Price**—Par. **Underwriter**—Southern Securities Corp., Little Rock, Ark. To retire $65,000 of loans and for general working purposes.

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.

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.

Uintah Minerals Corp., Denver
May 5 (letter of notification) 50,000 shares of non-assessable common stock (par 10¢) half at 25 cents and half at 40 cents. **Underwriter**—Forbes and Co., Denver. To drill mining claims.

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. **Bids**—Bids for the purchase of the debentures will be received at Room 2004, 60 Broadway, New York up to noon (EDT) 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. **Underwriting**—None. **Proceeds**—To provide capital for the purchase and operation of a plant with an annual productive capacity of 4,000,000 pounds of viscose filament rayon and 8,000,000 pounds of viscose staple fiber.

● **Western Metalcraft, Inc., Olympia, Wash.**
May 10 (letter of notification) 50,000 shares ($1 par) common stock. Price, par. **Underwriter**—Grande & Co., Inc., Seattle. For working capital.

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.

● **Western World Industries, Inc., Salt Lake City**
May 13 (letter of notification) 35,000 shares of non-assessable common stock (20c par) of which 25,000 shares will be offered at 50c each and 10,000 shares at $1 each to make a loan to Compagnia Exploradora De Minas Dos Cabezas, S. A. For working capital, machinery and salaries. No underwriting.

● **White Rock Bottling Co. of San Francisco, Inc.**
May 14 (letter of notification) 3,290 shares of preferred stock to be offered at $25 and 10,250 shares of common stock to be offered at $1. For equipment, supplies and capital to open bottling plant. No underwriting.

● **Willcox & Gibbs Sewing Machine Co., N. Y.**
May 14 (letter of notification) 6,000 shares of 5% cumulative preferred stock, series A (par $50). Price, par. **Underwriting**—None. Finance factory expansion.

Winter Park Telephone Co., Winter Park, Fla.
May 6 (letter of notification) 1,600 shares of 5% cumulative preferred stock ($100 par). Price, par. **Underwriters** — Leedy, Wheeler, and Alleman, Orlando, Fla. To retire outstanding preferred stock and to complete a new office building.

Yeakley Oil Co., Alamosa, Colo.
April 30 filed 10,000 shares of common stock (par $10). **Underwriting**—None. **Price**—$10 per share. **Proceeds**—Mainly for development.

Prospective Offerings

● **Chicago Milwaukee St. Paul & Pacific RR. (6/1)**
Company will receive bids up to noon (CDT) June 1, at office of J. W. Severs, Vice-President, Room 744, Union Station Bldg., Chicago, for the purchase of $7,120,000 equipment trust certificates, series "DD." Certificates will mature $356,000 semi-annually Dec. 1, 1948-June 1, 1958. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); L. F. Rothschild & Co. and Gregory & Son, Inc. (jointly); Phelps, Fenn & Co.; Kidder, Peabody & Co. and Dick & Merle-Smith (jointly).

● **Chicago Rock Island & Pacific RR.**
May 11 company asked ICC authority to issue $4,590,000 equipment trust certificates. Proceeds will be used in connection with the purchase of equipment to cost $5,733,220. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.)

● **Columbus & Southern Ohio Electric Co.**
May 13 company asked the Ohio Utilities Commission for permission to issue $10,000,000 3% first mortgage bonds to be sold privately. The Commission informed Otis & Co., Cleveland, of the application. Should Otis & Co. want the bonds sold at competitive bidding, a hearing will be held by the Commission.

● **Consolidated Edison Co. of New York, Inc.**
April 17 in discussing company's financing at the annual meeting Ralph H. Tapscott told stockholders that "it is not unlikely that later this year we shall undertake the sale of another issue of our mortgage bonds of at least sufficient size to fund our bank loans then outstanding." Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp.

● **Duesenberg, Inc., Indianapolis, Ind.**
May 14 the Indiana Securities Commission approved the sale of $249,900 in stock to finance development work on the projected new Duesenberg automobile. The stock will be participating preferred and will be sold by Duesenberg, Inc., headed by Marshall Merkes, former Chicago manufacturer. Mr. Merkes recently purchased the old Duesenberg plant at Indianapolis.

Mr. Merkes said the projected automobile, a custom-built vehicle, would cost more than $30,000. He asserted the car would have an eight-cylinder engine and that bodies would be custom designed.

The stock offering consists of 2,499 shares of preferred ($100 par). The stock will be sold at $100 a share and sales will be confined to not less than 10 shares a purchaser.

Fleet Oil Corp.
An offering of 296,000 shares of common stock is expected shortly. Proceeds will be used for the purpose of further development of oil producing properties and exploration of wild-cat acreage. Underwriter will be Aetna Securities Corp.

● **Indiana & Michigan Electric Co.**
May 19 reported company plans the sale of $25,000,000 of bonds shortly after Labor Day. Proceeds will provide the company with funds for new construction and other purposes. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Lehman Brothers; Dillon, Read & Co. Inc.; Harriman Ripley & Co.

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. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Kidder, Peabody & Co. (jointly); Lehman Brothers; Harriman Ripley & Co.; W. C. Langley & Co. and Glore, Forgan & Co. (jointly).

New York Telephone Co.
March 11 company announced its plan to apply to the New York P. S. Commission for authority to issue $90,000,000 of refunding mortgage 33-year bonds and offer them at competitive sale in July. Proceeds of the issue will be used to reimburse the treasury for capital expenditures already made, to retire bank loans incurred in plant expansion and to finance future construction. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. Expected early in July.

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 Gas & Electric Co.**
The company filed an application with the California Public Utilities Commission for authority to issue and sell 1,000,000 shares of first preferred stock, with an aggregate par value of $25,000,000. The proceeds will be used to finance in part the company's large construction program, which has been under way for two and one-half years.

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.

Reading Company (5/21)
Company requests bids for the purchase of the entire $4,800,000 equipment trust certificates, series O, dated June 1, 1948, to mature serially in 20 semi-annually instalments of $240,000 each on Dec. 1, 1948-1958. Bids will be received at office of R. W. Brown, President, Room 423, Reading Terminal, Philadelphia, Pa., at or before 12 o'clock noon (EDT) May 21.

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.

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.

Our Reporter's Report

Conditions set up by the Public Service Commission of New York in authorizing Consolidated Edison Co. of New York, Inc. to sell $57,382,000 new debentures, made the bidding for that issue the high spot in underwriting activities this week.

Originally three banking groups had been organized to bid for the debentures. But because of the conditions set by the State agency two of these withdrew and disbanded leaving the field to the surviving syndicate.

The latter paid the company $1,000 for the privilege of underwriting any unsubscribed portion of the issue which is to be offered first to common stockholders of record today with subscription "rights" expiring June 8.

In short, the banking group which was awarded the underwriting privilege is gambling that a sufficient number of common stockholders will forego their "rights" to make the project profitable. Some market observers recalled that the bankers who head the group made out well on a somewhat similar deal a while back.

The new debentures are being quoted currently on a "when-issued" basis at 106½ bid and 106⅝ offered against the offering price of par to common holders.

The only hope of the group for a profit on the deal is that sufficient debentures will become available to them, by default of holders' rights, to more than cover cost. And such profits must be shared with the issuer, according to terms set in the agreement.

Bond Business Slow

Those who make the bond market their business are finding things a bit slow for the moment with trading emphasis having shifted for the time being to the equity field.

But they report that "off-the-street" demand is good, that is institutions are showing considerable interest in high grades, and orders are substantial.

The only "catch," and it's a big one, is that dealers find it increasingly difficult to get the type of material which potential buyers are seeking.

Hewing to the Line

Evidently institutional buyers are in no mood to capitulate on their ideas as to what constitutes a satisfactory yield basis for new issues.

At any rate that appears to be the case insofar as the recently offered $15,000,000 of 3¼% first mortgage, 25-year bonds of Southern California Gas Co. are concerned.

Brought out a fortnight ago, dealers report that the bonds are still around in apparently good supply suggesting that the yield of about 2.97% afforded at the price of 104.92 has been a trifle too "rich" for portfolio buyers who have been holding doggedly to their 3% minimum ideas.

Going After Business

Time was when listed securities were considered pretty much the sacred preserve of member firms as far as buying and selling orders in such issue were concerned.

But according to well-founded reports there is a growing tendency to break with this tradition and some non-member houses are now said to be seeking business in securities listed on the New York Stock and Curb Exchanges.

Such business, of course, is chiefly of substantial proportions and done for institutions such as investing companies and trusts. Non-members evidently feel that they can offer such traders relatively attractive terms on a "net price" basis compared with costs accruing under member firms' commission rates.

Two Big Issues

Two major new financing undertakings now ahead are those of Union Electric Co. of Mo. (subsidiary of North American Co.) and of National Dairy Products Corp.

The former has called for bids May 25 on $25,000,000 of 30-year debentures to provide part of funds needed for construction purposes.

Meanwhile National Dairy Products has in registration $30,000,000 of 22-year debentures, due 1970 which will be handled as a negotiated deal by bankers and should reach market May 27. Funds will be used to finance new facilities and equipment.

S. Korner in New York City

Solomon Korner is engaging in a securities business from offices at 65 Central Park West.

With Geo. D. B. Bonbright

ROCHESTER, N. Y.—Robert A. Wirth is with George D. B. Bonbright & Co., Powers Building.

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MEETING NOTICE

The New York Central Railroad Company

Albany, N. Y., April 17, 1948.

The Annual Meeting of the Stockholders of The New York Central Railroad Company, for the election of Directors and of three Inspectors of Election and the transaction of such other business as may be lawfully brought before the meeting, will be held at the principal office of the Company, Room 20, Union Depot, in the City of Albany, N. Y., on Wednesday, May 26, 1948, at 12 o'clock Noon.

Stockholders of record at 3 o'clock P. M., on April 23, 1948, will be entitled to vote at the meeting.

JOSEPH M. O'MAHONEY, Secretary.

Frank Ginberg Forms Own Company in N. Y.

Frank Ginberg has formed Frank Ginberg & Co. with offices

Frank Ginberg

at 30 Broad Street, New York City, to engage in the securities business. Mr. Ginberg was formerly an officer of Strauss Bros., Inc., with which he had been associated for many years.

With R. S. Dickson Co.

CHARLOTTE, N. C.—Edward H. Kennedy has joined the staff of R. S. Dickson & Co., Inc., Wilder Building.

DIVIDEND NOTICES

THE ALABAMA GREAT SOUTHERN RAILROAD COMPANY

New York, N. Y., May 18, 1948.

A dividend of $4.00 per share on the Preferred Stock of The Alabama Great Southern Railroad Company has been declared payable June 26, 1948, to stockholders of record at the close of business May 26, 1948.

A dividend of $4.00 per share on the Ordinary Stock has been declared payable June 26, 1948, to stockholders of record at the close of business May 26, 1948.

J. J. MAHER, Secretary.

AMERICAN CYANAMID COMPANY

PREFERRED DIVIDEND

The Board of Directors of American Cyanamid Company on May 18, 1948, declared a quarterly dividend of eighty-seven and one-half cents ($.875) per share on the outstanding shares of the Company's 3½% Cumulative Preferred Stock, Series A, payable July 1, 1948, to the holders of such stock of record at the close of business June 4, 1948.

COMMON DIVIDEND

The Board of Directors of American Cyanamid Company on May 18, 1948, declared a quarterly dividend of twenty-five cents ($.25) per share on the outstanding shares of the Common Stock of the Company, payable July 1, 1948, to the holders of such stock of record at the close of business June 4, 1948.

W. P. STURTEVANT, *Secretary*

AMERICAN WOOLEN COMPANY INCORPORATED

"THE GREATEST NAME IN WOOLENS"

At the meeting of the Board of Directors of American Woolen Company, held today, the following dividends were declared:

A regular quarterly dividend of $1.00 per share on the $4 Cumulative Convertible Prior Preference Stock payable June 15, 1948 to stockholders of record June 1, 1948.

A regular quarterly dividend of $1.75 per share on the 7% Cumulative Preferred Stock payable July 15, 1948 to stockholders of record July 1, 1948.

A quarterly dividend of $1.50 per share on the Common Stock payable June 15, 1948 to stockholders of record June 1, 1948.

Transfer books will not be closed. Dividend checks will be mailed by the Guaranty Trust Company of New York.

F. S. CONNETT, *Treasurer.*

May 19, 1948

Russell Dean Assoc'ted With O'Connell & Co.

BOSTON, MASS.—O'Connell & Co., 50 State Street, members of the New York Stock Exchange, announce that Russell Dean is now associated with their firm as a registered representative. Mr. Dean has recently been Manager of Edward E. Mathews Co. and was with F. L. Putnam & Co. Prior to the war he was President of the investment firm of Russell Dean & Co., Inc.

Russell Dean

DIVIDEND NOTICES

Johns-Manville Corporation

DIVIDEND

The Board of Directors declared a dividend of 35¢ per share on the Common Stock payable June 10, 1948, to holders of record June 1, 1948.

ROGER HACKNEY, *Treasurer*

Magma Copper Company

Dividend No. 103

On May 12, 1948, a dividend of Twenty-five Cents (25c) per share was declared on the Capital Stock of MAGMA COPPER COMPANY, payable June 15, 1948, to stockholders of record at the close of business May 28, 1948.

H. E. DODGE, *Treasurer.*

Newmont Mining Corporation

Dividend No. 79

On May 18, 1948, a dividend of SEVENTY-FIVE CENTS (75¢) per share was declared on the Capital Stock of NEWMONT MINING CORPORATION, payable June 15, 1948, to stockholders of record at the close of business May 28, 1948.

WILLIAM T. SMITH, *Ass't Treasurer.*

NAUMKEAG

Steam Cotton Company

SALEM, MASSACHUSETTS

DIVIDEND No. 220

April 28, 1948

The Board of Directors of Naumkeag Steam Cotton Company at a meeting held on April 28, 1948 declared a dividend of Fifty Cents (50c) a share, payable on May 29, 1948 to holders of record at the close of business May 21, 1948.

RUDOLPH C. DICK
President and Treasurer

PEQUOT SHEETS & PILLOW CASES - *pay daily dividends of luxurious and restful sleep.*

"The Nation Sleeps on PEQUOT SHEETS"

Bayuk Cigars Inc.

A dividend of thirty-seven and one-half cents (37½c) per share on the Common Stock of this Corporation was declared payable June 16, 1948, to stockholders of record June 1, 1948.

Checks will be mailed.

John A. Snyder
TREASURER

Philadelphia, Pa.
May 14, 1948

PHILLIES

America's Nº1 cigar

With Shuman, Agnew Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—James L. Osborne, Jr., has been added to the staff of Shuman, Agnew & Co., 155 Sansome Street, members of the New York and San Francisco Stock Exchanges.

DIVIDEND NOTICES

OFFICE OF NORTHERN STATES POWER COMPANY (WISCONSIN)

The Board of Directors of Northern States Power Company (Wisconsin), at a meeting held on May 10, 1948, declared a dividend of one and one-quarter per cent (1¼%) on the Preferred Stock of the Company, payable by check June 1, 1948, to stockholders of record as of the close of business May 20, 1948, for the quarter ending May 31, 1948.

N. H. BUCKSTAFF, Treasurer.

SOUTH PORTO RICO SUGAR COMPANY

May 18, 1948.

The Board of Directors has this day declared a quarterly dividend of 50c per share on the $25.00 par value 8% Preferred Stock outstanding; and a dividend of Two Dollars per share on the outstanding Common Stock; all payable on July 1, 1948 to stockholders of record at the close of business on June 15, 1948.

F. M. SCHALL, Treasurer.

The United Corporation

$3 Cumulative Preference Stock

The Board of Directors of The United Corporation has declared the regular quarterly dividend of 75¢ per share upon the outstanding $3 Cumulative Preference Stock, payable July 1, 1948 to the holders of record at the close of business June 22, 1948.

THOMAS H. STACY, *Secretary.*

May 19, 1948
Wilmington, Delaware

O'okiep Copper Company Limited

Dividend No. 6

The Board of Directors today declared a dividend of two shillings six pence per share on the Ordinary Shares of the Company payable on June 10, 1948 to the holders of record of Ordinary Shares of the Company at the close of business May 28, 1948.

The Directors authorized the distribution of the said dividend on the same date to the holders of American Shares issued under the terms of the Deposit Agreement dated June 24, 1946. The net distribution after deduction of the South African non-resident shareholders tax will amount to 46¼ cents per share.

By order of the Board of Directors.

H. E. DODGE, *Secretary.*

New York, N. Y., May 19, 1948.

Reeves

REEVES BROTHERS, INC.

DIVIDEND NOTICE

A quarterly dividend of 25c per share and an extra dividend of 25c per share have been declared, payable July 1, 1948, to stockholders of record at the close of business June 3, 1948. The transfer books of the Company will not be closed.

J. M. REEVES, *Treasurer*

May 17, 1948

WARD BAKING COMPANY

Preferred Dividend

The Board of Directors has declared the quarterly dividend of $1.37½ a share on the Preferred Stock payable July 1, 1948 to holders of record June 16, 1948.

Common Dividend

The Board of Directors has declared a dividend of 15 cents a share on the Common Stock payable July 1, 1948 to holders of record June 16, 1948.

L. T. MELLY, *Treasurer*

WARDS TIP-TOP BREAD — 475 Fifth Ave. New York 17, N. Y. — WARDS TIP-TOP CAKES

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Scratch one point from the President's anti-inflation program. That leaves nine points. Point No. 1, the proposed control over bank credit, is now in the ash can.

Between them, Treasury Secretary Snyder and President Truman have junked credit control. That has been made abundantly clear in the last several days. The most eloquent evidence was Mr. Snyder's refusal to put the government short-term interest rate up another notch. The three-time refusal of President Truman, in three different press conferences, to state that he would designate Marriner S. Eccles as Vice-Chairman of the Federal Reserve Board, was almost equally potent testimony to the end of credit control.

* * *

The raising of the Treasury certificate rate to 1¼% from the 1⅛% was one of the last steps to be taken to limit bank credit or discourage bank credit, under available powers. It was expected to be accompanied by a further rise in commercial loan rates. This was intended to have a further slight dampening influence on the extension of bank credit.

Raising of the certificate rate and also the other two "notches" of 2% each to required reserves in New York and Chicago were strategically important to legislation to further dampen bank credit extension. That importance was that Congress would not go for any further legislation until the monetary managers had used all available powers. The Administration is at present foregoing the balance of its authority to discourage lending.

There was an especial importance to the decision to sit tight on the 1⅛ rate, at least until the September maturities. It testifies as loudly as any direct statement could, to the new official outlook on the economic situation. That outlook is for mixed prospects, with deflationary as well as inflationary forces at work. If the Treasury had foreseen the prospect of a continuation of inflation, it would have been likely to have boosted the certificate rate as almost every one, including the Federal Reserve, anticipated.

So the Treasury in effect has vetoed both the Federal Reserve Board and the Council of Economic Advisers, who only a little more than a month ago, called for legislation to restrict the volume of commercial bank lending.

* * *

If this were only the Treasury's doing, it might not be conclusive. At this point Mr. Truman's slap at Mr. Eccles has a most relevent bearing. Even though he was avowedly speaking on behalf of the entire Federal Reserve Board (before Mr. McCabe was seated as Chairman) when last month he called for legislation to increase authorized legal reserves and the special or secondary reserve for use in contingencies, Mr. Eccles personally has become identified as the top front man for bank credit restriction.

By thrice indicating he was giving no consideration to the designation of Mr. Eccles as Vice-Chairman of the Board, Mr. Truman has served practical if inferential notice that he agrees with the Treasury in its opposition to credit control legislation this year.

* * *

There is another significance to the slap at Mr. Eccles, and it is far from incidental. Last January the President demoted Mr. Eccles from the chairmanship of the Reserve Board, by refusing him the designation of another four-year term as Chairman. At the time Mr. Truman asked Eccles to stay on and serve as Vice-Chairman under Thomas B. McCabe, the incoming Chairman. Mr. Truman furthermore specifically invited Mr. Eccles to take second place for the explicit purpose of championing the Board's legislative program (of which credit control was the outstanding feature) before Congress.

By refusing to designate Mr. Eccles to the second place as he promised, the President has taken an attitude which no doubt will be interpreted by Mr. Eccles as more than the throwing down of credit control. Mr. Eccles could be expected to take this breaking of the Truman promise as an invitation to himself to leave the Federal Reserve Board.

Mr. Eccles, however, is legally a member of the Board until 1958. Hence he cannot be unseated before that year. The naming of a Chairman and a Vice-Chairman is made by the President alone from among the membership of the Board. The passing by of Mr. Eccles does not shorten his tenure. It is only seen as an inferential invitation to get out.

* * *

If Mr. Eccles would leave peaceably, then a modicum of harmony might be expected within the Board. There are as yet no signs, however, that Mr. Eccles will leave. It is being reported that with each fresh indication that Mr. Truman doesn't want him as Vice-Chairman, Mr. Eccles becomes more determined to remain in the marble Federal Reserve palace. Unless he changes his mind, Mr. Eccles has no immediate plans for leaving.

Eccles is probably angry, and at this juncture the former Chairman packs a clear majority of the Board. Their sympathy with M. Eccles has been heightened by the slap the latter has got from the President.

This means that unless Mr. McCabe is a super saleman and diplomat, there is altogether likely to be serious dissension within the Federal Reserve Board.

* * *

If any banker is worried for fear the proposed uniform bank reserve plan will require his institution to put up additional reserves, he can forget about it for a long time. This plan was put forward by a committee of the staffs of the Federal Reserve Banks. It is hence only a staff study and not yet a Reserve Board program. Plans do not yet call for it being sent out to the Reserve banks for comment for some considerable time. It has not been given even informal approval by the Board, and it was not discussed this week by the Reserve bank presidents in their meeting in Washington. The plan has to be approved sufficiently to be sent around for comment, then refurbished, then approved by the Reserve Board, and finally, it would have to be approved by Congress. Any percentage reserve figures "are highly premature" at this time.

* * *

This is man bites dog news. The Congress actually is giving some serious attention to President Truman's recommendation of last week that it enact this year a "permanent" revision of the farm laws, particularly the farm price supports.

From the beginning of the session the farm leaders of Congress have wanted to enact a long-range revision of the farm laws this year. They wanted to do it this year for fear that if they waited until a depression appeared, the total commitment of the government for the guarantee of farm prosperity might be greater than now. The basic objective of almost all in revision (though they differ in details and in degree) is a flexible farm price support program which would diminish the level of supports as prospective surpluses of farm crops increased.

While the Hill's farm pets wanted to revise now, they began to question the feasibility of revision this year in advance of a national and presidential election. They figured they would have less chance of reasoned action this year than next.

They all figured that way, however, except a subcommittee of Republican "liberals" within the Senate Committee on Agriculture, headed by Senator Aiken of Vermont. Aiken's group has insisted upon reporting out a permanent revision, even in the face of some open and some more private advice of farm organization leaders that they had better skip it until next year.

Now what the boys who doubted the feasibility of revision now are going to do is to give the thing a whirl if the Senate eager-beavers can get their bill passed in the Senate. Then they will give the House a crack at it, and see what goes over.

There is no predicting the outcome. There is far from general agreement among the subscribing farm lobbies as to what they want in the way of a permanent revision.

What is a mystery is Mr. Truman's politics. Any revision now is bound to displease hundreds of thousands of growers of this and that commodity, which doesn't come out quite right. The best politics is a straight extension, perhaps with a little modification, of the present supports.

One thing which seems probable: Congress will ignore in whatever bill it passes this year, the inferential suggestion of the President that it revive some variation of the food stamp plan for giving away government-acquired surpluses of foods. That will be one for next year, perhaps.

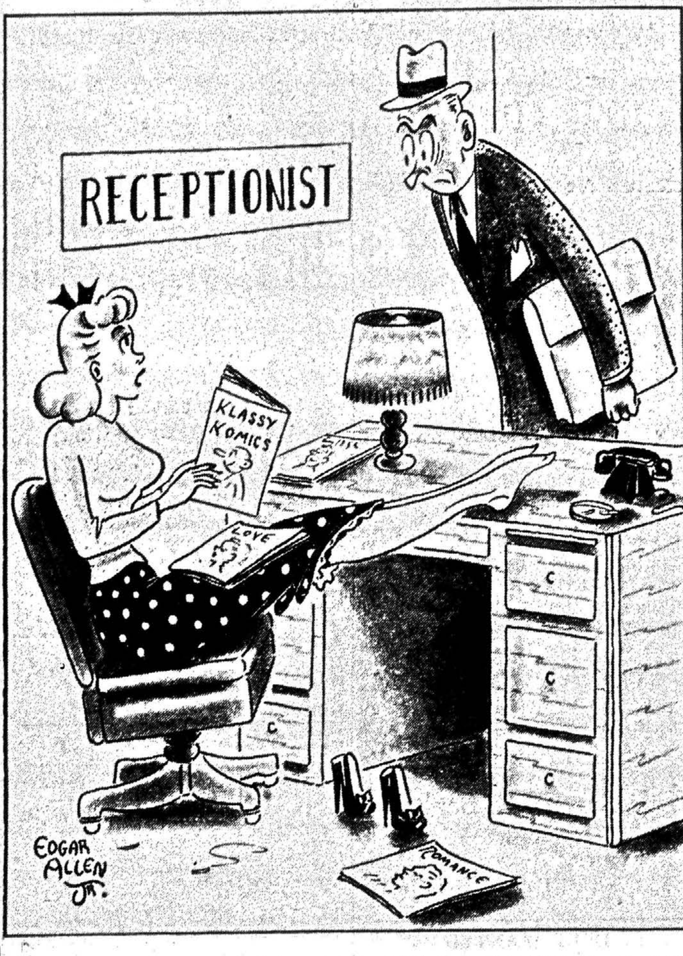
* * *

Despite the outlook for pretty good grain crops this year and a substantial cut in foreign acquisitions of grains, farm prosperity is not expected to slide much in 1948. Gross income of farmers is expected to hit around $28.5 billion this year, versus $30 billion last year, according to the latest estimates. Farmers' net probably will run to something over $16 billion, versus $18 billion in 1947. Notwithstanding this small drop, officials are not hopeful that farm real estate values, on a national average, have reached their peak. In March they hit the previous peak of 170% of 1912-14.

* * *

Congress has kept the RFC and Congress has not crimped that agency much beyond its powers as they have existed for a year. Last year the Congress cut off, like dead tissue, hundreds of miscellaneous powers given by law or Executive order over the years since 1932. Many of these powers were shorn off with the approval of RFC. The new four-to-six-year extension maintains RFC practically intact as it was a year ago.

BUSINESS BUZZ



"Why, yes, the boss IS out of town—how did you know that?"