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Industry and Science Not Manpower Determine Victory

By JIM HOWARD

Former veteran, with engineering training, contends capacity of nation to create most effective weapons and not conscription or military manpower have led to victory. Says large peacetime military force means stagnation of armed progress and accuses military officers of discouraging voluntary enlistment.

The crediting of military personnel with the major part in this nation's defeat of foreign enemies is a popular fallacy responsible for the reasoning that military officers should dominate our civil government and control manpower and industry even during periods between wars.

In spite of the fact that history records no major world power which practiced conscription in peacetime for long periods that has not been defeated by that nation which avoided conscription as a permanent peacetime method of manpower procurement for its armed services, the American public is being told by contemporary military officials that peacetime draft and even permanent universal military conscription (UMT) are useful for defense.

"It was no accident that the free democracies of the West . . . Great Britain and the United States . . . without a long peacetime period of conscription and well-developed military bureaucracy, were able to assemble a more powerful striking force than the Axis Powers. World War II was a

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Opposing Factors in Business Outlook

By DAVID C. ELLIOTT*

Economist, Cleveland Trust Co.

Mr. Elliott ascribes boom to increased consumer demand and money supply. Says large buying power prevents depression, and notes two conflicting influences, viz: (1) price declines in some commodities and (2) proposed large armament outlay. Concludes, though deficit financing means more inflation, with peace, prosperity can extend into 1950s.

For the last year and a half we have been hearing talk about an impending recession or depression. According to past history, this country's great wars have been followed by a business boom and later by what is termed the "primary postwar depression." In the War of 1812 period, business activity reached its peak at the end of 1815 and then declined, with one temporary interruption, to a state of depression in 1820. The Civil War was a little different in that the peak was reached in the North in 1864 while the war was still on. An irregular downtrend followed, culminating in depression during the latter half of 1865. After World War I there was first a brief drop, and then a period of rising business which continued until the early months of 1920. Thereafter a rapid and severe decline carried us into the postwar depression of 1921.

David C. Elliott

The World War II pattern started out to resemble that after World War I. There was a sharp

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*An address by Mr. Elliott before the National Association of Credit Men, Cleveland, Ohio, May 19, 1948.

The Outlook for Interest Rates

By MURRAY SHIELDS*

Vice-President, Bank of Manhattan Co.

Asserting money markets have a feel of uncertainty, Mr. Shields ventures view stability of interest rates may cease to be overriding objective of government fiscal and banking policies. Says way to deal with public debt is "to grow up with it," and looks for worldwide shortage of capital. Cautions against being lulled into sense of false security in regard to quality of loans and investments. Predicts moderate long-term interest rate rise, and cites poll of experts indicating this view.

Two years ago the long bull market in bonds clearly was nearing its end and we faced a phase of rising interest rates and bond yields. Today the uncertainties are much greater than they were then and the outlook is far less clear. We are in a "twilight zone" when, though we are not actively engaged in war, we are not at peace. We have embarked on a vast but as yet indeterminate program of foreign aid and domestic rearmament. We are near, if not at, the peak of a domestic business boom which has been prolonged only by the application of a series of economic stimulants. And we are approaching an interregnum of political uncertainty as the policies the Nation is to follow for the next four years are decided in the

Murray Shields

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*An address by Mr. Shields before the National Association of Mutual Savings Banks, Atlantic City, N. J., May 25, 1948.

EDITORIAL

As We See It

Some Constructive Suggestions

"We have been pro-Communist and we have been anti-Communist. We have been pro-Zionist and we have been anti-Zionist. There seems to be no underlying principle by which we can judge the question of what our future policy shall be. We in Congress are as uncertain as are the people at large, for the President and the State Department have seldom given us any information which they have not seen fit to make available to the general public."

This general charge by Senator Taft against the foreign policy, if such there really be, of the present Administration in Washington is obviously well warranted. Indeed, the Senator could have continued at much greater length to cite illustrations of inconsistency, fickleness, and uncertainty as to what the Administration really felt or intended to do about international relations. In addition, he could have added a long list of instances of ineptitude in the Administration.

We can not see how any one can doubt that we need to reconsider (or, better perhaps, carefully consider) our

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Federal Reserve Reviews Money Supply Situation

In leading article in "Federal Reserve Bulletin," the Reserve Board, now headed by Thomas B. McCabe, sees need of additional credit curbs should money supply increase. Says present Federal Reserve powers, because of requirement to support government bonds, are ineffective.

The May issue of the "Federal Reserve Bulletin," in the leading article, entitled "Treasury Surplus, Bank Reserves, and the Money Supply" indicates, despite the retirement of Marriner S. Eccles and the appointment of Thomas B. McCabe as Chairman of the Board of Governors of the Federal Reserve System, that the Board remains firm in its request for additional powers to curb credit expansion. The article concludes that in second half of 1948 there is likely to be a rapid deposit expansion, and in view of the commitment of the Reserve Board to support government bond prices, "it seems probable that no significant restraints on monetary expansion can be expected from further cash surplus of the Treasury." Because of its importance as a statement of Federal Reserve policy, the text of the article is published herewith in full:

Thomas B. McCabe

Monetary expansion, which had been at a rapid rate in the last half of 1947, was interrupted in the first quarter of 1948. This was chiefly the result of a seasonally large Treasury cash surplus which drew funds from deposit accounts of individuals and businesses and from bank reserve balances. In addition policies of monetary authorities, together with self-restraint on the part of banks, imposed some restriction on bank credit expansion. Drains on bank reserves from Treasury operations were heavy, and during much of the period banks were obliged to sell U. S. Government securities to meet their reserve needs. Measures taken by the Federal Reserve System to increase the cost of, or the need for, bank reserves supplemented the restrictive effects of Treasury transactions. (Chart I)

As a result of these fiscal and credit developments, total bank deposits and currency in the hands of the public showed a decline of $5.3 billion during the first quarter of this year. This is almost double the decline in the first quarter of 1947 and follows a growth of $8.9 billion during the last nine months of 1947.

Reduction in deposits and currency holdings of individuals and businesses and also in reserves of commercial banks resulted from tax and other cash receipts of the Treasury in excess of cash expenditures. Surplus funds obtained by the Treasury were used to a large extent to retire securities held by Federal Reserve Banks and thus were not returned to the commercial banks, either as deposits or reserves. Borrowing at banks by consumers and real estate owners continued to expand, but business demand for credit was seasonally slack, and bank loans to businesses declined slightly. There was a small net increase in bank loans and the funds created, together with those obtained from an inflow of gold, offset in part the reduction in deposits and currency from Treasury operations.

The contractive effects of the fiscal and monetary factors operative in the first quarter of 1948 are largely transient. Treasury transactions over the remainder of the year will probably not absorb bank deposits and reserves, as they have in recent months, and may be a factor expanding bank reserves. Further gold inflow appears likely, and this will add to the reserves of commercial banks. Any net increase in Reserve Bank holdings of securities, resulting from purchases to maintain orderly conditions in the government securities market, would also supply additional reserve funds to banks. Banks, therefore, may have additional funds available for increasing their loans and investments or could obtain reserves by selling government securities to the Reserve Banks. Sustained demand for credit by consumers and real estate buyers and expansion in loan demands of businesses could thus be readily accommodated by banks. Voluntary restraint on the part of the banks in satisfying such loan demands would make possible an increase in commercial bank holdings of government securities and a decrease in Federal Reserve holdings.

Treasury Cash Surplus

In the first quarter of 1948, as in comparable periods of other recent years, the stream of Treasury cash receipts was swollen by very large corporate and individual income tax payments. Variations in Treasury cash income and outgo by quarters during recent years are shown on Chart II. In addition, net sales of savings bonds by the Treasury were substantial during the first quarter, reflecting purchases by many investors who wished to acquire early the full amount of these issues that is permitted in any one year. The Treasury showed a surplus of cash funds from current fiscal and nonmarketable security operations, before payments for retirement of marketable debt, of $6.7 billion, as is indicated in Table I.

Various dispositions of the cash surplus were made by the Treasury, with differential effects on monetary and banking conditions. A small part—about $400 million—was returned to deposit accounts of individuals and businesses through retirement of maturing government securities offered voluntarily for cash redemption by nonbank investors. An estimated additional $600 million was used to retire maturing securities that commercial bank holders chose to present for cash payment; these funds were returned to bank reserves but not to deposits. About $1.2 billion of the surplus was permitted to accumulate in Treasury accounts at commercial banks, thus reducing private deposits at banks but not total deposits or bank reserves.

The bulk of the surplus funds, about $4.2 billion, were transferred to Treasury account with the Federal Reserve Banks, where they remained on deposit during the quarter or were extinguished as the Treasury retired securities owned by the Reserve Banks. Funds used in this manner were withdrawn from the reserve balances of commercial banks, as well as from private deposits. These withdrawals were much larger than in the first quarter of 1947, when only $1.3 billion were used either to retire securities held by Reserve Banks or to increase Treasury deposits at the Reserve Banks.

Effect on Bank Reserves

The $4.2 billion drain as a result of Treasury operations in the first three months of the year was the major factor that operated to reduce the volume of bank reserves in that period, as shown in Table II. At the same time reserve needs were increased by about $500 million as a result of action by the Board of Governors of the Federal Reserve System increasing the reserves that New York and Chicago banks must hold against net demand deposits. Despite this increase, the total amount of required reserves held by member banks declined over the period because of the substantial decline in deposits.

Banks met part of the drain of funds resulting from the Treasury cash surplus by drawing down their excess reserves, which at the beginning of 1948 were temporarily at a high level of about $1.5 billion—much more than has customarily been held in recent years. These substantial excess reserve balances had been accumulated by banks as a result of the rapid return flow of currency from circulation in the week after Christmas and large net sales of government securities to the Reserve Banks late in the year, by both banks and their depositors.

Large amounts of additional reserve funds obtained by banks from other sources in the first quarter of the year tended to offset in part the restrictive effect on bank reserves of Treasury operations. A seasonal return of over one billion dollars of currency from circulation and a gold inflow of $400 million provided corresponding amounts of bank reserves.

Banks as a group were able to meet, out of excess reserves held at the beginning of 1948 and out of new reserve funds acquired during the first quarter, more than half of the $4.2 billion reserve drain from Treasury operations. The remainder of the reserve needs, amounting to $1.8 billion, was supplied through Reserve Bank purchases of government securities.

Bank sales of government securities to maintain reserves were not continuous throughout the first quarter. In January banks were able to increase slightly their holdings of these issues. This was possible, despite a $2.2 billion loss of reserves from Treasury operations, because of large reserve gains from currency return and gold inflow and from Reserve Bank purchases of government securities from nonbank owners, and because banks could utilize the unusually large excess reserves held at the beginning of the month. In February and March, on the other hand, when reserve losses arising from the Treasury operations were smaller, gains in reserves from other sources were minor and almost the full amount of the drain of funds was met through sales of government securities to the Federal Reserve System.

The impact of Treasury operations on bank credit developments was restrictive in the first quarter of 1948 because Treasury debt retirement operations were directed primarily toward securities held by the Reserve Banks. Such debt retirement did not return to the commercial banking system the reserve funds withdrawn by the cash surplus, and banks needing reserves had to sell government securities in the market.

The restrictive effects of debt retirements in the first quarter of this year contrasts with the corresponding period of 1947 when most of the funds drained from banks by the Treasury surplus were returned to them through Treasury retirement of government securities owned by commercial banks and their depositors. Moreover, such drain as did occur in 1947 was nearly offset

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Is This a Bull Market?

By JAMES J. QUINN and GILBERT M. HAAS
Investment Counsel, Mol & Co.

Market analysts maintain recent break-through of averages does not indicate bull market in usual sense, but merely an extension of former trading range. They emphasize long-pull vulnerability of price structure.

The recent action of the market in decisively penetrating the upper limits of its long trading range has led to the generally adopted view that this is now a bull market with all the traditional implications of broad expansion in production, employment, and profits over an extended period of time. The minimum price goals now looked for by most market technicians range in terms of the Dow-Jones Industrials from 240 to 300. It is our view, on the other hand, that this is not a bull market in the usual sense, but that we are witnessing only an extension of the trading range within which prices have swung since late 1946. Maintenance of security prices near the top part of this expanded range for an indeterminate number of months is not only possible, but even probable. This will depend upon the demands of political expediency as well as the ability of the government to continue to intervene in labor disputes on behalf of industrial management, and at the same time to keep our Russian relationships sufficiently tense in order to justify broad outlays for rearmament, the draft, ERP, hemispheric assistance, and aid to China, Greece, and Turkey. When there is added to the foregoing the need of subsidizing marginal industries and buying up farm surpluses, the degree of skill which the Administration is now and will be compelled in future to display in its juggling act can readily be appreciated. Should any untoward event occur to upset its timing, the repercussions on the economy are likely to be far reaching.

James J. Quinn

Gilbert M. Haas

Growing Limitations on Labor

Politically, the trend toward limiting the power of organized labor has recently gained momentum. Under the aegis of the Taft-Hartley Act, management has been able to achieve notable gains in reducing or stabilizing labor costs in certain key industries, in what is unmistakably a nationwide movement—steel, railroads, electric equipment, and now, perhaps, automobiles. Labor must be "contained" if the declining trend of profit margins is to be arrested or reversed. Two of the three ways of improving earnings per unit of production (increased production and/or increased prices) are no longer available, since production is now at a practical peak and consumer price resistance is mounting. The only recourse left is reduction of costs, and that means, in the final analysis, labor costs. The latest developments in the continuing struggle between management and labor have been going on behind the scenes for some time, with management winning most of the rounds up till now. Consideration should be given, however, to the possibility of a countrywide slowdown in mass-production industries as well as the more distant chance of a general walkout, as labor's reaction to its series of setbacks. To cope with such developments, a nationalizing of labor in some degree may follow. In this connection, the recent proposal of Dr. Vannevar Bush to Congress that a standby law be passed permitting the President to induct into "Government Service" all citizens in the event of an "emergency" is illuminating.

Shoring Up the Economy

We are all familiar with the more visible political steps taken to shore up the economy—ERP, rearmament, the draft, income tax reduction. The alacrity with which these programs have been passing through Congress suggests that something in addition to Europe's needs and the fear of aggression by the Soviet Union may be motivating their passage. Further evidence of the continuing need of international tensions to keep the Rearmament Program at the right fever pitch was seen in the handling of the two recent Russian peace overtures. The government was almost frantic in its denials of an invitation to sit down and negotiate our differences. It would almost seem that we would rather the Russians waged war than that they waged peace.

Economically, the signs of national costiveness are becoming more general. Retail sales on a unit basis have been declining sharply in recent months, resulting in the accumulation of retail inventories at a record pace. The rash of soft goods sales, particularly, testifies to the growing inability to move goods at current prices. Likewise, in the hard goods fields, furniture, tires, refrigerators, washing machines, etc., show signs of being in heavy supply. These developments reflect the steady contraction in consumer purchasing power which in turn flows from the continuance of the downtrend in real wages. More importantly, production has been maintaining a record peacetime pace, assuring further additions to retail inventories over the coming months.

Financially, the accelerating

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Department Store Sales Up But Profit Margins Down

By MALCOLM P. McNAIR*
Professor of Marketing, Harvard Graduate School of Business Administration

Noting increased sales of department stores in 1947 was accompanied by lower profit margins and sharpest advance in operating costs since 1932, Professor McNair sees it as dangerous trend if allowed to continue. Points out consumer purchases fell off numerically, and 6% rise in sales, though a new record, was more than offset by 10% rise in price level, while operating cost per dollar sale advanced 17% for stores having gross sales of $2 million and over.

The year 1947 registered a new peak in department store dollar sales volume but a drop in earnings both in percentage of sales and in dollars. A jump in the cost of doing business, to the extent of 2% of sales, made the major dent in profits and constituted the most significant development of the year.

Prof. M. P. McNair

This was a year also in which "the lines crossed," that is, the trend in the number of sales transactions turned downwards, while the trends in the average size of transaction and the average cost per transaction continued to climb. In other words, consumers made a smaller number of purchases in department stores in 1947 than in 1946; and the moderate financial increase of sales, therefore, was more than accounted for by the rise in the dollar amount of the average transaction, presumably a reflection primarily of the higher retail price level.

As predicted, the gross margin percentage again receded, continuing its downward progression for the fifth year, though the extent of the decline in 1947 was only about one-third as great as in 1946. The impact on gross margin in 1947 of the significantly higher retail reductions, principally markdowns, was softened by a slight advance in initial markon. It was not so much the lower gross margin, however, as it was the higher total expense that did the damage to net profits. Dollars of expense outlay mounted at more than twice the rate at which dollars of sales income were augmented, and the consequent rise of 2% in the ratio of expense to sales was the sharpest advance that has been recorded since the depression year of 1932. Operating profits, therefore, caught by the descending blade of gross margin and the rising blade of total expense, were trimmed down percentagewise for the third year. But, after taxes in 1947, final dollar earnings, though typically 20% lower in total than in 1946, still stood at the second highest point, both in dollars and in percentages of sales, of the 28 years covered by this series of studies.

At the end of 1947, department store inventories occupied a slightly higher position than at the beginning of the year; and the stock-turn rate had sagged for the second successive year, though still remaining measurably above the prewar experience.

The foregoing highlights, together with the other findings in this report, are revealed by the analysis of the operating results of 480 firms carrying on business in 621 department and specialty stores in the United States and Canada, with net sales of over $3.8 billions in 1947. This study was the 28th in a series conducted annually by Harvard's Bureau of Business Research in cooperation with the Controllers' Congress of the National Retail Dry Goods Association.

The chief differences between 1947 and 1946 results for department stores are set forth in the summary. For the most accurate comparison, the figures in this summary are based on the reports of only those 328 identical firms which submitted data for the two consecutive years; hence these figures differ slightly from the comparisons available, which give trends of the general average results for all department stores reporting for each of the 12 years from 1936 through 1947. Another chart offers a graphic portrayal of trends over the past 13 years in dollar net sales, number of transactions, size of the average transaction and total expense per transaction.

Moderate Sales Increase for Department Stores in 1947

The dollar sales income of department stores rose only moderately in 1947, just short of 6% for the stores reporting to the Bureau and 8% for the larger and less restricted number of stores reporting to the Federal Reserve Bank. After the startling sales increase of 25% or more recorded in 1946, it is not surprising that distinctly more moderate advances were characteristic of the subsequent period. Even though disposable personal income in the calendar year 1947 amounted to $175 billion against $158 billion in the preceding 12 months and even though sales of all retail stores climbed from $100 billion to $118 billion, it was not in the cards for department stores to achieve anywhere near so large an increase in sales in 1947 as in 1946. In the earlier year response to the ending of price controls, reduction in the abnormally high wartime saving rate, recourse to accumulated savings, and the gradual increase in the availability of goods resulted in dollar advances in total retail sales that were roughly three times as great as the increase in disposable income. In 1947, the general situation settled back into a much more nearly normal relationship between total retail sales and disposable income.

Relation of Dollar Sales, Number of Transactions, Size of Transaction, and Prices

I have a chart that shows graphically the trends over the 13-year period from 1935 through 1947 in dollar sales, number of sales transactions, dollar value of the average sales transaction, and average expense per transaction. These four series of figures are all based on reports submitted to the Bureau by department stores with sales of $2,000,000 or more. Since changes in retail prices are an integral part of the story portrayed by these trends. The chart also shows, for comparative purposes, for the period from 1938 through 1947, a retail price index based on 1939 as 100. This index is derived from two components of the United States Bureau of Labor Statistics consumer price index for moderate income families in large cities, namely, clothing and house furnishings, weighted, respectively, three and one. The use of this index was continued for 1947 in order to have a series extending back to 1939. The recently published special indexes developed by the same agency for use in connection with the Lifo inventory method are undoubtedly more suitable, but they do not extend further back than 1941. Comparison of these Lifo indexes with the cruder index indicates that the latter overstates the retail price advance in department store merchandise for 1947; instead of the 15% rise shown in the chart, a more nearly correct figure was closer to 10%.

The chart I have presented indicates the rise in sales for these department stores in the classifications above $2,000,000 volume was 6% in 1947. Since the size of the average sale increased 10%, from $3.90 to $4.30, the number of transactions must have declined; and the index shows a drop of 2.5% in the number of customer purchases recorded. The 10% increase in value of the average sale falls short of the rise of 15% in the retail price index given, but coincides almost exactly with the change in the presumably more representative Lifo index referred to above. Change in the retail price level however, is not the only factor influencing the size of the average sale. It could plausibly be argued that consumer resistance to high prices, trading down, and proportionally higher sales increases in basement stores, all might have tended to offset higher unit purchases in hard

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*An address by Professor McNair before Controllers' Congress of the National Retail Dry Goods Association, Chicago, Ill., May 25, 1948.

Looking Forward on Sugar

By GEORGE L. WRIGHT*
Vice-President, Lamborn & Company, Inc.

Discussing sugar situation, particularly in relation to the Sugar Act of 1948, Mr. Wright foresees difficulties and confusion in law regulating distribution and pricing of sugar in next five years. Looks for lower refined sugar prices for balance of year, and holds supplies will be more than adequate.

In many countries, before World War II, there was an old saying, varying with the country, that sugar had become, over the years, a political football.

Today, in the United States, we can elaborate somewhat on that phrase and say that sugar has certainly become a government football. The United States Secretary of Agriculture at Washington is now in position to dominate almost completely the sugar market, both as to supply and price, through the mechanics of the Sugar Act of 1948, approved by President Truman back on Aug. 8, 1947. Sugar, for many reasons, seems to exercise a peculiar fascination for political figures in most countries, and, like a magnet, seemingly draws unto itself governmental control of one kind or another.

George Wright

The United States has proved no exception to this rule. Today we see sugar occupying a unique position as the only staple food commodity in daily use by practically every man, woman and child of our 48 states, which has had passed for its exclusive benefit a Federal law regulating in effect its production, its quantity to be marketed, and, indirectly, its price.

Generally speaking, most manufacturers using sugar as an ingredient in their finished products are interested, first, in its availability and second, its price. Looking down the Avenue of 1948, therefore, let us survey the sugar supply and sugar price situations as they shape up in prospect at the present time in the light of our governmentally dominated situation. In making this survey, it should be understood that our preview goes on the assumption there will be no war between the major powers during the current year. Also, whenever figures are mentioned with respect to tons of sugar, they represent short tons, raw value.

The Sugar Supply Picture for 1948

We have before us this year the prospect of a record-breaking over-all supply of sugar from those sources which customarily supply the United States. The estimated availables from these areas, including the huge Cuban crop now nearing completion, total approximately 10,700,000 tons, after allowing for local consumption in the offshore producing areas. The Secretary of Agriculture originally set up on January 2nd, under the provisions of the Sugar Act of 1948, a United States domestic consumption quota of 7,800,000 tons to be drawn from these areas. On February 26th, this quota, because of abnormally slow demand conditions throughout the country, was cut to 7,500,000 tons.

If we take from the total estimated available supplies of 10,700,000 tons the present United States quota of 7,500,000 tons, there is a balance (concentrated principally in Cuba) of roughly 3,200,000 tons left for foreign nations and for civilian feeding in the areas occupied by our armed forces, principally Japan, Korea and western Germany, as well as a reserve for the United States should some unexpected developments bring about an abnormally active demand for sugar.

Most of the prospective shipments to these foreign areas will come from the tremendous Cuban supply, out of which it is estimated that Cuba has already sold some 2,200,000 tons for movement to shores other than the United States. This leaves a reserve balance still available in that island, for both the United States and foreign nations to drawn upon, of approximately 1,000,000 tons, which bids fair to be more than ample for requirements all around the balance of this year. You may run short on motor cars, steel, oil and so forth this year, but, from all present indications, you certainly won't run short on sugar.

It will probably be the policy of the United States Government to move sugar under the European Recovery Program to foreign nations wherever possible, to provide food supplies on the basis of sugar's great caloric value at a cheap price as compared with other foodstuffs. Remember that sugar is one of the highest basic energy foods in the world, running over 1,800 calories to the pound.

Some people feel that sugar requests from foreign nations under the Economic Cooperation Act (the law legalizing the European Recovery Program) might endanger the supply picture somewhat for the United States. However, there seems to be little ground for fear on this score, inasmuch as there will be a limit to the grants-in-aid and loans made available to foreign nations under ECA, and the countries receiving them will probably in turn put a limit on the total amount of monies which will be expended on sugar alone. In addition, Europe itself, including Russia (the largest single European sugar producing country), given normal weather, is probably going to produce a beet sugar crop this coming campaign which will be approximately 1,000,000 tons greater than the crop of last year. It will probably outturn around 90% of the crop average in the three prewar years of 1936, 1937 and 1938, and will become available next Fall.

All in all, therefore, it would seem that the United States will have ample sugars available for its own use from the Cuban reservoir. As a matter of fact, a tug-of-war is going on right now between the sugar producers sup-

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*An address by Mr. Wright before Flavoring Extract Manufacturers' Association of the United States, New York City, May 25, 1948.

The State of Trade and Industry

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

The picture of industrial production last week revealed that over-all output showed no significant change from its high point prevailing in previous weeks.

Slight increases were noted for the week in output of some manufactured goods, but they were, for the most part, counterbalanced by modest decreases in other lines.

With respect to order backlogs, signs continued to show a tapering-off in some lines, while new orders for most goods, on the other hand, gave evidence of holding up well.

On the labor front the situation could hardly be characterized as being tranquil, notwithstanding the fact that the settlement of strikes in some areas had the effect of moderately increasing payrolls. The termination of the two-month-old meat-packing strike, with one company still to effect an agreement, more or less offset the deadlock which presently obtains in negotiations between the carriers and the railroad workers' unions. However, "Ward's Automotive Reports," commenting on the two-week-old Chrysler strike, stated that it "could be prolonged further than the previously anticipated four weeks." It added: "It is hardly likely that any corporation advances toward reopening negotiations with the CIO United Auto Workers' Union will be made until a clearer view can be had on General Motors and Ford contract developments."

In this connection, it should be noted that the United Automobile Workers' CIO further complicated the labor problems of the automotive industry by filing a ten-day strike notice against the General Motors Corporation on Tuesday of last week. The strike, which was to have taken effect on Friday of the current week, was averted on Tuesday, last, when after close on to 18 hours of continuous bargaining with the union, General Motors agreed to an adjustable 11-cent-an-hour wage increase. Eight of the 11 cents is the cost of living adjustment and the remaining three cents covers the standard of living annual improvement. The eight cents is adjustable either up or down on a quarterly basis, but at no time will it be reduced by more than five cents either in one or a series of cuts. The three cents will not be affected. The foregoing settlement, it was believed, would set a 1948 wage pattern in the 1,000,000-man automotive industry. It was reported on the same day that Chrysler had agreed to reopen wage negotiations with the auto union on Wednesday.

* * * *

On Tuesday of last week, John L. Lewis, United Mine head, once again confounded the nation by stalking out of a wage conference with the bituminous coal operators. This action followed the lifting by Federal Judge Alan T. Goldsborough at the government's request of penalties on the civil conviction of contempt against him and his union.

The step taken by Lewis was prompted by his objection to the presence of Joseph E. Moody, President of the Southern Coal Producers' Association, who made an effort to participate in the discussions. As a result, some concern was expressed lest a new contract fail to be effected by June 30, when the old one terminates. In the meantime, the operators have called for a contract on an industry-wide basis, with all sections of the country represented.

* * * *

There were regional variations in retail trade volume during the week with diversity in the weather largely responsible for spottiness in consumer buying. The response to numerous promotions of seasonal items was favorable and, it was noted, total dollar volume of retail trade slightly exceeded that of both the preceding week and the corresponding week a year ago.

Some early showings of Fall merchandise were well attended with new order volume moderately higher for the week. There were numerous re-orders for seasonal merchandise with medium and low-priced goods in demand. Wholesale dollar volume remained moderately above the level of the similar period of last year.

STEEL OPERATIONS SCHEDULED AT 96.8% OF CAPACITY, HIGHEST SINCE MARCH 15.

Almost three years after the close of the war there is no end in sight for the current strong steel demands. This week there was little chance that steel consumers would see a buyers' market for at least a year or longer, and there was an even chance that a coal strike in July or sooner would lose more steel, states "The Iron Age," national metalworking weekly, in its current summary of the steel trade.

Since the war ended more than 20 million net tons of steel ingots have been lost due to strikes and demand for more steel capacity which has been argued pro and con for two years or more is expected to be spotlighted more strongly now that steel will be harder to get, the trade magazine adds.

In the next two years total steel capacity of the country may approach 97 million tons—only a short distance from the goal demanded at various times by governmental critics of the steel industry. But by that time the face of the steel industry may be so changed because of the basing point controversy and high freight rates that a little matter of capacity will not be too important, according to "The Iron Age."

Two mills in the past week or so have begun selling products on an f.o.b. mill basis. One mill in the Middle West has done so because freight rates make further freight absorption too costly for that company. The other firm has gone to an f.o.b. mill basis on hot-rolled sheets in order to make sure that its sales do not involve the payment of freight charges not actually incurred, but the entire steel industry has not gone to an f.o.b. mill system.

There was little doubt this week that the steel industry is in for major changes in selling practices. Unless Congress should pass laws supporting the multiple basing point system, that method of selling is out in steel, states the trade paper.

But the fight will go to the bitter end because steel people honestly think that the present demands of the FTC on steel

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Observations . . . .

By A. WILFRED MAY

Realism About International Organization

Surely a logical approach to surveying the present status of the United Nations is by itemizing some of the world's crucial issues which are taking place completely outside that body's orbit. This will furnish both appreciation of the decline which has taken place in the fortunes of the Organization since the high hopes of San Francisco and, more important, aid us to conclusions about the future possibilities of achieving some kind of international working body.

A. Wilfred May

Contrasted with some slight worries expressed in 1945 at the California Conference over possible interference with the fundamental purposes of the Charter through its permission of *regional* arrangements, we are now, for example, faced with the whole-hog of a "Western Union." The mere feeler along these lines from Mr. Churchill at Fulton, Mo., two years ago was generally regarded as shocking war-mongering; yet already the concrete working arrangements of our anti-Communist world have barely stopped short of military Lend-Lease reinstatement. As a help to us in the taking of our bearings, let us note how unabashedly and with fish-bowl publicity the Union of the Western Powers now generates such an alliance and neglects even to go through the circumlocution which it was deemed still necessary to employ in promulgating the Truman Doctrine.

As an end result of the Kremlin's ruthless propaganda offensive and overall diplomatic skullduggery, the United States has been forced into the position along with the other Great Powers, of giving lip service to the United Nations, conforming to and using it only when it serves our own purposes, and acting unilaterally outside the Organization whenever we have thought that to be more expedient.

Currently, in the long drawn-out controversies over the settlement of the Ruhr as well as all Germany, over a peace pact for Austria and over Palestine, the UN is being followed neither as to the parties in consultation nor in the manner of negotiation.

Whatever may be the justification or lack of it, today's "Western" policy, based on union through military power combined with economic strength, means nothing less than a recrudescence of traditional balance-of-power strategy. And surely the balance-of-power system is completely contradictory to the principles of the Charter written at Dumbarton Oaks and San Francisco, as enumerated by UN Representative Warren Austin three weeks ago, as follows: (1) removal of the causes of war, (2) substitution of pacific settlement of disputes; and (3) insurance of collective security by peace forces. In contrast, Lend-Lease or no Lend-Lease, excepting for the pouring out of our economic help for "regional" economic defense, our principal hope for peace is pinned on our projected 70-group air force plus our other military preparations.

Clinging to Sovereignty Through Regionalism

European authorities are observing that even within the greatly narrowed orbit of the sixteen beneficiaries of the Marshall Plan and the Western Union-ists, and already during this honeymoon period of incubation, there is little progress toward the abandonment of national sovereignty which must be the prequisite to any kind of international league or society of nations. For the past several weeks, for example, the London "Economist" has been twitting Mr. Bevin for his "academic discussions of sovereignty."

Extremely significant is the agitation for extra-UN action by many of the recognized traditional leaders of internationalism. Thus, even Field Marshall Smuts has this week decisively come out for an association of the British Commonwealth and the United States.

And even Senator Vandenberg (of the internationalist "new look"), although opposing our underwriting of military alliances, early this month issued a strong plea to the democratic nations to join together in a "mutual defense arrangement," the ultimate test for any aid coming from us to be the national security of the United States. While the Senator professes confinement within the Charter, this in spirit at least certainly breaks the bounds of the compromise permitting so-called regional arrangements, as it was adroitly worked out at San Francisco by Anthony Eden. Likewise "anti-Charter" during the "Cold War" between the members of the UN, are all other proposals for conditional military aid and economic subsidies to nations that are democratic, Western, or otherwise defined as friendly. Irrespective of the purity of our intentions, unilateral military action confined to a small sector of the world and combined with unwillingness to relinquish the veto privilege, makes even our actions inconsistent with the existence of a world body in any conceivably effective form.

In addition to the veto obstruction (aggravated this week by Mr. Gromyko's double jump to a score of 25) a main stimulant to

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Carroll Dunham 3rd Dead

Carroll Dunham 3rd, member of Dunham & Fletcher, 65 Broadway, New York City, died of heart attack at the age of 61.

Fabian & Co. Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — Fred C. Lanstrum has been added to the staff of Fabian & Company, 9500 Santa Monica Boulevard.

Corporate Bonds as Savings Bank Investment

By ALLEN NORTHEY JONES*
Partner, Morgan Stanley & Co.
Members, New York Stock Exchange

Noting recent tendency to permit more flexible investment policy for savings banks, prominent investment banker points out trend of high grade corporate bond values has maintained a close differential with long-term government issues. Lists a number of corporate securities, which, he holds, should be made eligible for savings bank investment, and concludes, with change taking place in corporate bond market, favorable opportunity exists to invest in corporate bonds.

Doubtless all will agree that the collection of the savings of the many and the sane channeling of those savings into the hands of American industry, to provide the tools by the aid of which the American worker makes his livelihood, is of tremendous importance to the national economy. It is only by providing our American industry with the necessary capital, or, in other words, tools, that we can make our free competitive system work, and our free competitive enterprise system must work, not only for the good of the people in our country but for the good of people throughout the world. For, if we cannot make the system work here there must be little hope for many millions in other parts of the world.


Allen N. Jones

Your investment in American industry through the purchase of corporate bonds is governed by the laws of the states in which you operate. The restrictions on investment vary from state to state, and there are those who think that some of the laws are too restrictive. There has been a tendency in recent years to permit a more flexible investment policy. Your committees on legislation are much more competent than I to discuss this involved matter and to say what amendments to existing law might be made with safety. To discuss this question would take more time than is at my disposal, and I shall content myself with pointing out some of the things that have happened and that might happen under the laws as they now stand.

In the ten-year period from 1931 to 1941 your investment in mortgage loans, which was then your major investment, declined in amount and in percent of total assets, your investment in United States Government bonds increased from $700 million to $3.5 billion, or 400%, and, what I particularly wish to point out, your investment in corporate bonds declined from $2.3 billion to $1.1 billion, or from 21.4% of your total assets to 9.5% of your total assets. This was occasioned chiefly by a decrease of $900 million in your holdings of railroad bonds, brought about by the difficulties which the railroads were experiencing in the 30's.

At the end of 1947, of your $19.7 billion of assets, approximately $12 billion, or 60%, was in government bonds, 25% was in mortgage loans, and only about $1.3 billion, or 6.5%, was in corporate bonds. The tremendous expansion in percentage and amount of government bonds owned, occasioned by the war, is as it should be, but it is interesting to note that, despite the great expansion of deposits in the past seven years, the amount and percentage of corporate bonds declined each year through 1944, and it is only since that date that a modest net increase of your investment in corporate bonds, amounting to $25 million in 1945, $142 million in 1946, and $250 million in 1947, has occurred. Perhaps this modest increase in investment in corporate bonds (only about 9% of the increase in deposits in the period) was caused in part by the cessation of the sale of long-term government bonds, and the necessity of either bidding up for existing government bonds or of finding new channels of investment. I do hope, however, that the chief reason is that there is a growing realization in your minds that carefully selected corporate bonds do provide an advantageous field for investment, and afford a reasonable rate of return without the assumption of undue risks, and that the purchase of such securities provides American industry with more tools to make our system tick.

I do not think it would be to the point to compare the investments of the assets of the commerical banks with those of the mutual savings banks, for outside of the investment of their time deposits their problems are entirely different. Nor is it feasible to obtain accurate investment

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*An address by Mr. Jones before the 28th Annual Conference of the National Association of Mutual Savings Banks, Atlantic City, N. J., May 25, 1948.

Britain's Crisis At The Outset of Marshall Aid

By G. FINDLAY SHIRRAS
Formerly President, University of Bombay; Dean of Faculty of Economics and Commerce, Exeter; Controller General of Public Revenue and General Finance in Berlin (1946)

Eminent economist declares Britain's battle is not solely for production, but for quality and competitive output. Calls export targets unreal unless properly proportioned to production. States since world economy no longer has room for a pre-1914 Britain dependent on world trade and finance, she must aim for stable national economy. Maintains cuts in American tariffs necessary for ERP success.

ABERDEENSHIRE, SCOTLAND—It was an American, Ralph Waldo Emerson, who in a speech at Manchester in 1847 said that Britain "with a kind of instinct sees a little better on a cloudy day" and "in storm of battle and calamity has a secret vigour." Her great efforts, especially since September, 1947, to adjust her economy so that she could live within her means, have been watched with interest and understanding in the United States, Britain in London, Paris and elsewhere has been working tooth and nail behind the scene to get ERP a working proposition as time is so vital. With the passing of the Economic Cooperation Act by the United States Congress she realizes that Britain's crisis cannot be solved quickly and that an adverse balance of payments is nothing more nor less than living beyond income. Britain must buy from abroad half of all the food consumed and much more than half of the raw materials. How can she match her exports with imports of food and raw materials so that her population can live and work? After two world wars in a generation, is not a reorientation of her industry necessary to meet her declining role in world economy? Lord McGowan, Chairman of Imperial Chemical Industries, recently stated that the battle is a battle not only of output but of quality output, competitive output, and the losses sustained by war can only be canceled by more and more productive power. But, even with Marshall aid, it will not be easy to raise production to a level at which further external aid will no longer be needed. He believes that the hard realities of our position, a precarious position, have been masked from us. This we must examine.


G. Findlay Shirras

Britain's Example Saved Europe

Britain in World War II sacrificed everything to the winning of the war. She saved herself by her exertions and, as Pitt would have said, Europe by her example. Her losses were the equivalent of one-fourth of her prewar national wealth. Destruction on land and sea, internal and external disinvestment, the incurring of debt in the form of sterling balances and the running down of gold and dollar reserves have been officially estimated at not far short of $30 billion. Her fanatical singlemindedness has made her for some years depend on outside help, partly on lend lease and United States and Canadian credits, and now she will be, as the linchpin of European recovery, the largest recipient of Marshall aid. Without Marshall aid the prospect of a decent standard of living would have been delayed for years. Drastic cuts would have had to be made in dollar and gold purchases, bringing wholesale unemployment, distress and dislocation in production. Marshall aid will not mean greater supplies for Britain but it will mean a reduction in the drain on gold and dollar reserves implicit in the current import program. It will mean—and this is very important to recovery—freer trade and freer exchanges within and without Europe and with this increased cooperation there will come the restoration of conditions of multilateral trade.

Balance of Payments Sought

The first aim of British policy is to secure a balance of overseas payments, particularly with dollar countries. This means a great stepping up of British exports and the cutting down of imports to a minimum. Even with Marshall aid there will be in 1948 an adverse balance of £250 million as compared with £70 million in the prewar year, 1938. The problem of the balance of payments is not, be it noted, a temporary one but it will be with us for a generation. To solve it we must be content for quite a number of years with a smaller total of imports than before the war, with, as already noted, a much needed increase in exports to pay for these imports. Imports last year were less than were planned and only 75% of the 1938 volume. Rising prices had a very adverse effect and made the cost £124 million greater than the forecast so that the net result was that less was obtained and more had to be paid for than was anticipated. Now look at the export side of the account. Exports, owing to a series of misfortunes, mainly low coal production and bad weather, were less than planned, but so great was the export drive from the fall of 1947 that the value of exports was only £75 million less than the estimate for the year. Only 11% of exports were shipped to the United States, Canada and Argentina, hard currency markets, and the gap had to be bridged by drawings on gold and dollar reserves. Owing to political uncertainties throughout the world, government expenditure was much beyond the estimate. "Invisibles," notably net shipping earnings and net income from investment, the latter being considerably less than one-third of prewar, were very much below. "Invisibles" in fact were net minus £15 million as against a net plus £248 million in 1938. All these adverse factors are reflected in the drain on gold and dollars which was more than 50% greater than the overall deficit. The gold and dollars lost in 1947 were a new high record—£1,023 million.

The Strategy of Recovery

The broad strategy then of recovery lies in increased production and increased exports. Already industrial production is above prewar level. In February this year industrial production was at its highest since the end of the war. It was 124 (1946=100) as against 109 in 1947 and 120 in the last quarter of 1947. These are remarkable advances. In the third quarter of 1947 industrial production was 9% above prewar (1938). Agricultural production was some 6% above prewar, the

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From Washington Ahead of the News

By CARLISLE BARGERON

The New Dealers are so amazingly successful with their propaganda that it would seem, on the surface, almost impossible ever to get them out of power. They are unmistakably on the way out—this is apparent from the way in which influential figures are running for cover. For example, a Cabinet member, Secretary of Agriculture Clinton Anderson, one of the better ones incidentally, sees the handwriting on the wall and resigns to run for the Senate. Election to that body will give him a job for six years after the New Deal is dead and gone. Similarly, a New Deal Senator, and a respected one, Carl Hatch of New Mexico, figures he had better grab that security which comes with a Federal judgeship.

Carlisle Bargeron

You hear other New Dealers men who cashed in on the so-called Roosevelt revolution, beginning to mock it and saying to you that it was the damndest bologna which was ever fed to men and women, and they knew it was such—so they say with a shrug of the shoulders, all the time—but, you know how it is, they played ball. All over town the New Dealers are in an apologetic mood, apparently trying to escape the social and political ostracism which they figure is coming to them.

When you see these things you know that the New Deal jig is up. But when you contemplate the New Deal propaganda you wonder how it can be so. And in the meantime, this propaganda is costing us plenty of money, not for the pay of the propaganda itself, but its effects.

Take the burning question of Communism and Soviet Russia.

The fact that Stalin is today astride of Eastern Europe and as much of a menace as Hitler ever was, is of New Deal devising. You would think they would be bitterly ashamed of it and that the last thing in the world they would admit is that this is the situation.

Instead, they make a virtue of it. They use it to justify the spending of some $15 billion annually on the military. Rather than going about such an expenditure timidly, they do it boldly. They even put the Republicans in a hole on it.

They capture the Republicans' Senator Vandenberg and make him an ally of their crusade to stop Communism in Europe by the spending of some $6 billion annually in addition to the military outlay. Indeed, they make the Republicans apologetic. Most of them, Taft, for example, like to tell how through Vandenberg, they have pursued a bi-partisan foreign policy. They don't like the way the Administration is pursuing this bi-partisan foreign policy, they say, but they don't tell just where and why.

So beaten are they in this propaganda that they may be forced at Philadelphia to nominate the man who has been an ally of the New Deal on this proposition.

Let's retrace our steps and see how this propaganda has made monkeys of the Republicans, though apparently not enough to save the New Deal in November, but maybe enough to dictate the Republicans' Presidential nominee.

It was the Republicans who first raised the hue and cry about Communism and Communists. They were not talking about the physical military force which Soviet Russia might offer, but the Communist idea that is more powerful and which can't be stopped by armies, atomic bombs or planes. Frankly, they were talking about the Commies in this country, the way in which under New Deal sponsorship, they had infiltrated into places of influence, into labor unions, into the very government itself. They seemed to be going places with their issue.

Then the New Deal under Harry Truman announced that it was even more worried about the Communists than the Republicans were, except that having a broader vision, being more acquainted with world affairs, more acquainted with the way in which the world had "shrunk," having because of its conduct of the war and having traveled abroad and met Pashas and Abdullahs and Emirs and Dictators, etc., its concern about Communism was on a wide and global front.

Long ago, the New Deal, with its multiple tongues, got off Main Street and began to have a delightful time in the Old World salons.

So, from the Republicans' concept of a domestic Commie hunt, the New Dealers made it a bigger and more tremendous enterprise, involving the spending of no little of our good money. They made it an enterprise of spending billions for the military and additional billions for rehabilitation in Greece, Turkey, Europe generally and China. In the meantime, they have done little or nothing about such a trivial matter as getting the Commies out of our own government. Notwithstanding they have given lip service to this Republican demand, they have resisted to the limit of their ability, every serious effort to get them out.

The New Deal is getting away with this because the great majority of the Republicans got badly burned with Pearl Harbor. They were the so-called isolationists who were against just such as happened in Europe, the killing off of Hitler to make room for Stalin, just what they predicted. In those pre-Pearl Harbor days they talked against our becoming involved. They were fighting against it; necessarily they were pooh-poohing the alarms that the interventionists were spreading.

Now they are being charged, amazingly enough, with not having had the vision of the Great Roosevelt who could see coming what he was determined to bring about.

They know, from sad experience, that a clash with Soviet Russia can be brought about any day. So they are not going to gainsay the Military, they are not going to turn down ERP funds to save Western Europe from Communism. They know it is 90% bunk and that continued maintenance of the Military on the basis it is coming to live and hopes to keep on living, and such as ERP squandering, they know this will do to us what Stalin could not hope to do himself, but they intend to do nothing to stop it until they attain the Presidency when there will be an entirely different atmosphere about menaces and crises.

The Departure From Sound Money Threatens Economic Disaster

By J. H. FROST*

Chairman of the Board, Frost National Bank, San Antonio, Texas

Prominent Texas banker, declaring threatened inflation holds possibilities of disaster to our economy, traces departures from stable and sound money principles since enactment of Gold Standard Act of 1900. Contends Glass-Stegall Act of 1932 led to abandonment of sound money set up by Federal Reserve System and has distorted its provisions without accomplishing beneficial results. Says it is Administration's purpose to use Federal Reserve to further "easy money" policy, and that only adequate remedy against insecure currency is a return to old gold standard. Advocates a monetary commission to study currency reform.

I think we can all agree that we are living in a period of great uncertainty. Undoubtedly there is room for disagreement with respect to the relative importance of the various problems with which we are confronted, but it is my opinion that there is no problem before the American people today which holds more possibilities for disaster to our economy than the question of further inflation.

J. H. Frost

It seems to me also that there is no more appropriate forum for the discussion of that particular problem than a Bankers Convention. It would seem that bankers, as the custodians of the people's money, should be more interested than any other class of the population in the maintenance of sound money. Curiously enough, however, the history of most, if not all, of the disastrous inflations of the past indicates that bankers have usually been quite complacent—and often have cooperated in producing monetary inflation. This seems to be largely due to the fact that the liabilities of banks are all monetary and can be discharged by payment in the monetary unit no matter how far the depreciation of its purchasing power may have progressed.

Another contributing cause for the bankers' complacency is that it is almost impossible to make losses during a period of rising prices produced by monetary inflation. The people who suffer from depreciated money are not the bankers or custodians, but the depositors or owners of the money. Somehow, it seems to me that the custodian should feel an implied obligation to at least make an effort to influence events so as to be able to return money of the same intrinsic value and purchasing power as was entrusted to him by the depositor. I don't think that this is too much to ask and expect from the men at the head of American banking, and I believe that, if the bankers of America really understood what has happened and is happening to the people's money, they would arouse themselves and demand and finally effect a return by this country to a sound currency redeemable in gold, with the clear right on the part of any American citizen to own and hold gold the same as any other property. It is almost incredible that this liberty-loving people could have apparently approved its government making it a criminal offense, punishable by confiscation and fine, for an American citizen to own or hold gold in his possession, and this in spite of the many examples of shattered economies, poverty and suffering directly attributable to irredeemable paper money.

How Irredeemable Money Came About

Now I should like to outline certain thoughts which I have with regard to the means which have been employed in bringing about the fantastic increase in the supply of irredeemable money in this country. In order to do this, I think it necessary to go back to the year 1900, when the Gold Standard Act was adopted by Congress as a direct result of the many monetary disturbances and discussions which were more or less continuous in this country from the end of the Civil War until that date. On the one hand, there were during that period the advocates of the "easy money" policy based on an increase in the money supply, with the confident belief that such money would always retain its purchasing power because of the fiat of the government. On the other hand, there were the advocates of the theory that money is not wealth but a medium of exchange for facilitating commercial intercourse, and that, if it is to be the yardstick or measure of value, it should consist of or be readily redeemable in some commodity having a stable value in the markets of the world independent of government fiat—the same line-up which we have today. However in 1900, the advocates of sound money redeemable in gold prevailed, where as today they have been defeated and the advocates of the "easy money" policy and the unlimited issue of dishonored currency, irredeemable in anything, are in power.

Since I am to refer to "sound money" from time to time, I think I had better make clear exactly what I mean. Whenever in this discussion I use the term "sound money," I mean "money made of (or unquestionably redeemable in) a commodity which has a stable value in the markets of the world independent of government fiat. Sound money as applied to coin means money wherein the commercial value of the bullion equals its coinage value. Sound money as applied to paper or token money of any kind means that which is redeemable in money wherein the commercial value of its bullion equals its coinage

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*An address by Mr. Frost before the Annual Meeting of the Texas Bankers Association, San Antonio, Texas, May 25, 1948.

Some Economic Aspects of the Steel Industry

By R. E. ZIMMERMAN*

Vice-President, Research and Technology, United States Steel Corporation of Delaware

Dr. Zimmerman, referring to vast amounts expended by steel industry in last decade to expand facilities, calls attention to risks of over-expansion and difficulties in increasing plant capacity in relation to raw materials and unstable market demands. Points out producers want maximum capacity, and cites criticism of steel industry by Temporary National Economic Committee in 1939 because of over-expansion. Says present high construction costs and consequent larger depreciation charges add to financial risks of over-expansion and would lead to higher steel prices.

Within a few weeks millions of American taxpayers will be indulging in spasms of arithmetic, hoping that their figures, calculations, and estimates may yield answers in harmony with the spirit and letter of a new income tax law. The 1948 Model has arrived.

R. E. Zimmerman

Most, if not all of you, will be members of that happy calculating group. Periodically, through the kindly discipline of the Bureau of Internal Revenue, our citizens devote considerable attention to "refresher courses" in mathematics and accountancy, combined with an intensive review of logic in the interpretation of sundry rules and regulations. In anticipation of the wholesale treat which is thus in store for you, one wonders whether a discussion tonight of certain economic features of the steel industry should be kept on a purely qualitative basis, or whether the doors should be opened wide to the onrush of pertinent statistics. Perhaps on this occasion a few necessary data, if not too many, will serve to whet your appetites for the feast of figures you will finish just prior to June fifteenth.

The steel industry of the United States is a large affair. It must be large to accomplish two important purposes, namely, to fill the requirements of the consuming trade and to stand ready to furnish, without fail, the needs arising from all measures taken in the interest of national security. Last year, operating at an average 93% of rated capacity, the steel industry in the United States produced 84,800,000 tons of ingots, or 63,000,000 tons of finished rolled products. That was between 53% and 54% of the total world production of steel. A thousand customers may rise in their seats to say, "very well, but that was not enough." Many others will join them. The industry knows and readily admits that it was not enough to satisfy all of the existent demands promptly. It was, however, a remarkable peacetime output and, under the conditions, a major accomplishment.

Producer Wants Maximum Production

Parenthetically, in connection with various statements and misstatements which have been made in regard to supply and demand, and particularly with respect to the charge of intentional curtailment of output, let it be known once and for all that the steel producer is unalterably in favor of maximum possible production, and that he is not irked by an insistent demand for larger tonnages, even though they may be beyond his immediate ability to produce. Every feasible effort has been extended in the direction of increasing production, as the figures for 1947 will testify—and the battle of the backlog is still in progress.

Just how large the steel industry should be is a subject of considerable speculation, controversy, and debate. Many who have joined in the discussion during this period of partially satisfied requirements have confused the desire for an immediate increase in the availability of steel with arguments for enlarged capacities, millions of tons beyond the substantial expansion already well under way. Of course we cannot have both at once, that is, immediate increase in availability and tremendous increase in capacity. As steel is diverted from consuming channels and used to build new producing facilities, within the steel industry, that much must be withheld currently from the customers who are in need of it. The construction and equipping of steel plants is a matter which requires large amounts of material and time, many thousand of tons of steel, and time measured in years, if noteworthy additions are to be made.

This debate over size and capacity brings into focus, or should, a number of interesting economic considerations. It likewise raises questions which require, but do not always receive, reasonably definite answers. During the past 10 or 12 years, industrialists, financiers, professional economists and others not so-called have spoken their respective pieces on the subject, and the pieces have not always agreed. There has even been time for some opinions to shift sidewise.

Berated for Over-Expansion

In 1939, when the rated ingot capacity in the United States was between 81,000,000 and 82,000,000 tons per year, the Temporary National Economic Committee berated the steel industry for its alleged over-expansion. Some agencies of the Committee advanced the theory that in such indiscretion lay one of the causes of unemployment and consequently a significant contributing factor to the economic depression.

Within a few years came the War, and the capacity which had elicited criticism was adjudged too small. As rapidly as feasible and with a single objective, it was increased by approximately 14 million tons. Appropriate anterior and finishing facilities were provided to keep operations reasonably well balanced. In the face of grave danger, and with armed conflict raging on every side, ordinary economic rules had to be waived or subordinated to the all-important task of preserving our national existence. Without hesitation when and as the needs developed, the economic rules were waived, and the enormous job was done effectively in record time.

Thus, due to the extraordinary pressures and requirements of a wartime economy, the steel industry of the United States came to have a peak capacity of 95,500,000 ingot tons in 1945, or approximately 14 million tons more than in 1940. Incidentally, 14 million tons is almost the size of the prewar British steel industry and is equal to the alleged prewar steel-making capacity of Japan. Naturally there was some apprehension as to the manner in which the expanded facilities in the United States could be made to fit into the long-term economic picture, after peace had returned.

The short-range outlook was less uncertain. For five years the peacetime trade had been denied its quota of products in which steel was an important item. Inventories were depleted, innumerable projects had been deferred, equipment was wearing or worn out, replacements and all sorts of maintenance work necessarily had to be kept to a minimum, and an enormous reconversion job was to be done on a nationwide basis. Your own anemic washing machine and my neighbor's seven cylinder car could be multiplied by a million and used to illustrate just a small segment of the situation prevailing in 1945, when active hostilities came to an end. There was certainly a nearby market for such a basic material as steel, an abnormally large market, born of years of starvation and enforced denial.

The pent-up demand for its products confronted the steel industry without much delay, and has retained its vigor for more than two years. All at the same time, more people have been pressing for more steel than in any other period within the history of the business. It is as though every outlet valve along the line had been opened at once, and many new outlets added. Industrial activities have been in high gear, attempting the double task of making up deficiencies while catering to current needs.

The producers of steel are more than agreeable to the perpetuation of a high demand for their products from the consuming trade. They are likewise interested in learning, as definitely as possible, what part of the current volume is due to temporary war-begotten shortages, and what might be estimated as a reasonable level of demand for steel, to be produced in the plants of a postwar America. There is an economic side to the steel business, a very critical side. Insofar as economic factors do not conflict with the preservation of the national security, they must be accorded due consideration.

Wars inevitably work profound changes, and we have but recently come through a cataclysm, unparalleled in modern times. The affairs of the world are still badly tangled. One cannot safely place the label of normality upon any of the situations he finds today. Tomorrow the signs may be different. Economic plans must be adjusted from time to time and economic forecasts can be made only with allowance for wide variation. In this interlude of uncertainty, perhaps there is nothing unwholesome about mixing a few teachings from the past with our thinking and projections for the future.

Production Doubled

A look at the statistical record will show that the American Steel Industry, for many years the largest in the world, has not been accustomed to the unusually rich diet of tonnage developed by the recent World War and its aftermath. Last year, as has been mentioned, the industry produced approximately 84,800,000 net tons of ingots and castings, a peacetime high. Prior to 1940, the 20-year average was a little less than 43,000,000 tons, about one half the 1947 production. The top figure reached during the First World

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*An address by Dr. Zimmerman before the New Haven Chapter, American Society for Metals, New Haven, Conn., May 20, 1948.

Dealer-Broker Investment Recommendations and Literature

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

Dividends for More Than a Decade—List of 266 common stock issues dealt in on the New York Curb Exchange on which dividends have been paid in each year for 10 years or more through 1947—New York Curb Exchange, 86 Trinity Place, New York 6, N. Y.

Du Val's Consensus—Advisory service giving total market opinion in a non-technical, one-page report—free copy on request—write to Department P-1100, Du Val's Investment Consensus, 542 Fifth Avenue, New York 19, 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.

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

New Trends in Railroad Bond Financing—Memorandum in "Fortnightly Investment Letter"—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

In the same issue are current data on **Nickel Plate-Wheeling & Lake Erie, Central States Electric Corp.,** and **Ashland Oil & Refining Company.**

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

* * *

American Overseas Airlines—New survey—Schwamm & Co., 50 Broadway, New York 4, N. Y.

American Water Works Co., Inc.—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Anheuser Busch, Inc.—Circular—Stifel, Nicolaus & Co., Inc., 314 North Broadway, St. Louis 2, Mo.

Also available is a memorandum on **Sanger Bros. of Dallas**

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.**

Beatrice Foods Co.—Memorandum—A. G. Becker & Co., 120 South La Salle Street, Chicago 3, Illinois.

Canadian Pacific Railway—Memorandum — Hornblower & Weeks, 40 Wall Street, New York 5, N. Y.

Consolidated Rock Products Co.—Analysis and comment—Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, California.

Delhi Oil Corporation—Memorandum—Kitchen & Murphy, 135 South La Salle Street, Chicago 3, Illinois.

Denver & Rio Grande Railroad Co.—Memorandum — Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Also available are circulars on **"Monon"** and **Northern Pacific Railway Co.**

Distillers Corporation-Seagrams—Memorandum—Stern & Co., 25 Broad Street, New York 4, N. Y.

DuMont Laboratories—Detailed circular—Joseph Mayr & Co., 50 Broad Street, New York 4, N. Y.

El Paso Electric—Data—Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

Also available are data on **Portsmouth Steel Corp., Maryland Dry Dock,** and **Seminole Oil & Gas.**

Ely & Walker Dry Goods Co.—Analysis—Scherck, Richter Co., Landreth Building, St. Louis 2, Missouri.

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.

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

James Manufacturing Co.—Memorandum—John B. Dunbar & Co., 634 South Spring Street, Los Angeles 14, Calif.

Kearney & Treckler Corp.—Opinion and outlook—Riley & Co., First Wisconsin National Bank Building, Milwaukee 2, Wis.

Los Angeles Dept. of Water & Power—Circular—Heller, Bruce & Co., Mills Tower, San Francisco 4, California.

Lynchburg Foundry Company, Inc. — Memorandum — Strader, Taylor & Co., Inc., Peoples National Bank Bldg., Lynchburg, Va.

Manufacturers Trust Company of New York—Analytical summary—Dempsey-Tegeler & Co., 210 West Seventh Street, Los Angeles 14, Calif.

Also available is a summary of **Great American Insurance Co.**

Morgan Engineering Co.—Card memorandum—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

National Bank of Detroit—Analysis—Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y.

Also available is a memorandum on **Security First National Bank of Los Angeles.**

National Steel Corporation—Analysis—First Boston Corp., 100 Broadway, New York 5, N. Y.

National Tile & Manufacturing Co.—Circular—Bond & Goodwin, Inc., 63 Wall Street, New York 5, N. Y.

New York, New Haven & Hartford Railroad—Descriptive leaflet—Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

Ohio Leather Co.—Memorandum—Wm. J. Mericka & Co., Union Commerce Building, Cleveland 14, Ohio

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.

Pathe Industries—Card memorandum—Comstock & Co., 231 South La Salle Street, Chicago 4, Illinois.

Public National Bank & Trust Co.—Analysis—C. E. Unterberg &

(Continued on page 47)

Is British Trade Recession Coming?

By PAUL EINZIG

Dr. Einzig, commenting on end of Britain's inflationary boom, reports falling off in demand of certain consumers' goods. Sees supply of money becoming tighter and public spending reduced, while British exporters are handicapped by lack of sterling in many countries.

LONDON, ENGLAND—There are indications that the inflationary boom that has been going on in Britain since the war, is drawing near its end. Until recently the public appeared to have almost unlimited purchasing power, and almost any kind of goods which became available after having been unobtainable during the war were snatched up in a very short time. In recent months, however, demand has become more selective, and buyers have shown signs of hesitation in face of the high prices. The retail trade is congested with articles such as radio sets, electric fires, etc., and industries producing such goods had to dismiss tens of thousands of employees. Demand for furniture and expensive household goods has also abated.

Dr. Paul Einzig

Evidently, the supply of money available for the public for spending on consumers' goods is becoming tighter. The working classes, which until now have been spending freely on goods hitherto outside their reach, are now less lavish in their expenditure. Wealthier classes, too, had to curtail their spendings. Until recently they were drawing on their capital with comparative equanimity. They had reckoned that taxation would soon become less prohibitive, so that they would be able to live within their incomes once more. But now they are beginning to realize that hopes for taxation cuts are remote, and that the small capital levy introduced in this year's budget is foreshadowing worse things to come. So they have to go slowly with their spending.

The budgetary surplus has contributed towards checking the inflationary trend. But the rising prices themselves have gone a long way towards mopping up surplus purchasing power. If a household of modest means has to buy one single piece of furniture, one carpet, one set of curtains only, at the prevailing prices, it absorbs all the money they can spare out of their current earnings, and very often it necessitates the use of savings. Hence the decline of the demand for all goods except primary necessities. The removal of subsidies from all kinds of essential goods other than food has also gone some way towards reducing the amount of money available for spending on secondary necessities.

In several branches of industry a distinct trade recession has set in. This is due in many instances to the difficulty in finding markets for exports, not only because sellers' markets are giving way to buyers' markets, but also owing to lack of sterling in many countries. Moreover, British exporters are handicapped in the "new" countries by the prevailing corruption in the allocation of import licenses. The well-known integrity of the British civil service is proving a grave handicap in this respect, for British firms are entirely without experience in bribing, and are therefore at a disadvantage in competing for import licenses in many countries.

In addition to the contraction of the demand in the home markets and in the foreign markets, British business is beginning to feel the lack of imported raw materials in many directions. It is feared that in spite of Marshall aid this factor is likely to become the most important single cause in resulting in unemployment. Through the operation of the vicious spiral of contracting purchasing power, such unemployment will tend to create further unemployment. While at the present time employment is still at a very high level, and there is an acute scarcity of labor in many industries, it is widely believed that by the end of the year a fair degree of unemployment will make its appearance.

Possibly this view may be unduly pessimistic. But the formerly implicit faith in the permanancy of full employment has become gravely undermined. It is now realized that neither a liberal credit policy nor a policy of creating employment by means of well-timed public works and capital expenditure program is necessarily capable of preventing large-scale unemployment if the exchange position necessitates a limitation of raw material imports.

Opportunities in Over-Counter Market

By WHITMAN C. HAFF

Mr. Haff, noting many over-the-counter stocks are selling at lowest prices in years despite larger earnings, sees opportunity for dealers and investors in these shares.

One phase of the rise in the securities market has been the failure of the Over-The-Counter market, in general, to follow the price appreciation and volume of listed stocks.

It would certainly seem as if this situation could not last very long for there are many, many Over-The-Counter stocks today selling far below their intrinsic values yet showing large earnings. With the present market in listed stocks in an upward trend, it would certainly seem as if Over-The-Counter stocks cannot remain long in their present price range.

The Over-The-Counter market has to depend, largely, upon traders and retail salesmen for distribution; therefore, securities in this market, more or less, have to be "talked up" and explained to the investor, while this is not quite so much the case in listed stocks. It is also very possible that many people in the Over-The-Counter securities business, who have had an excellent reason for being discouraged during the past two years, cannot overcome this feeling and turn to the optimistic side of the market.

If one will stop and think of the billions of dollars that are about to be spent by this government over the next few years for all kinds of merchandise, food, guns, tanks, planes and ships he is apt to get the "blind staggers." In what other way can all this be reflected but in the securities market? It certainly would seem as if earnings could go up to a point where they will probably be the highest ever seen.

Billions of dollars for preparedness. Billions for European Relief etc. Today we talk in billions of dollars. Some of our large banks have deposits running into billions of dollars. A few years ago a hundred million dollars seemed immense. Today it is passe. With so many Over-The-Counter stocks selling at their lowest prices in years, yet showing, in many cases, the largest earnings in their history, the investor can well say, in the not so far distant future "I certainly missed the boat in the Over-The-Counter market."

Brailsford Co. Adds

(Special to The Financial Chronicle)

CHICAGO, ILL.—Walter J. Lyman has been added to the staff of Brailsford & Co., 208 South La Salle Street, members of the Chicago Stock Exchanges.

With Herrick, Waddell Co.

(Special to The Financial Chronicle)

FT. WAYNE, IND.—Clare A. Johnson is now connected with Herrick, Waddell & Reed, Inc., Merchants Bank Building, Indianapolis.

With Ranson-Davidson Co.

(Special to The Financial Chronicle)

ST. PETERSBURG, FLA.—Charles M. Cyran is with Ranson-Davidson Company, Inc., Florida National Bank Building.

With A. G. Becker & Co.

(Special to The Financial Chronicle)

CHICAGO, ILL. — Henry D. Freedman is now associated with A. G. Becker & Co., Inc., 120 South La Salle Street. He was formerly with Straus & Blosser.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

Two weeks ago this column reported that it was anticipated that the rate on Treasury Certificates to be offered in June and July would be raised from 1⅛ to 1¼%. The subsequent announcement on May 13 by Secretary Snyder that the rate would be maintained at 1⅛% was a complete surprise. Only a few days previously, at the American Bankers Association convention, a "high Treasury official" had plainly intimated that the rate would be increased. Furthermore, the Federal Reserve Board has been urging Congress for many months to tighten credit, while just the day previous to Secretary Snyder's announcement Allan Sproul, President of the Federal Reserve Bank of New York, told the Congressional Joint Economic Committee that it was definitely desirable to increase short-term rates and that this could be done without disturbing the present 2½% long-term rate. It is significant, however, that Secretary Snyder is quoted as having said there might be an appropriate time later to make an adjustment in interest rates.

It is all very puzzling, and appears to substantiate the charge so generally made, to wit: the Government's right hand doesn't know what the Government's left hand is doing. At least, both hands seem all too frequently to work at cross-purposes. Certainly, an easy-money low-interest policy is *inflationary*, whereas a policy of credit restriction and high interest rates is *deflationary*.

So far as the market price of New York City bank stocks are concerned, the disappointment of the bankers was not reflected in the market. On the contrary, the American Bankers Index has moved up 2.0% as follows:

Date	American Bankers Index	Date	American Bankers Index
May 10	40.8	May 17	41.5
11	41.0	18	41.4
12	41.0	19	41.5
13	41.2	20	41.4
14	41.3	21	41.6
15	41.4		

Market prices of individual stocks on May 10 (before the announcement), May 14 (the day after the announcement) and Friday, May 21, are shown in the following table:

	Asked Price May 10	May 14	May 21	% Change from May 10
Bank of Manhattan	25⅞	26⅛	25¾	—0.5%
Bank of N. Y. & 5th Avenue	345	345	340	—1.4
Bankers Trust	42⅜	42½	43¾	+3.2
Central Hanover	94	95	95¼	+1.3
Chase National	38	38⅜	38⅝	+1.6
Chemical Bank & Trust	43½	43½	43¼	—0.6
Commercial Bank & Trust	44¼	46½	45¾	+3.4
Corn Exchange	54	55¾	56¼	+4.2
First National	1,320	1,330	1,360	+3.0
Guaranty Trust	286	288	285	—0.3
Irving Trust	16¾	17	17¼	+3.0
Manufacturers Trust	52⅞	54	53¾	+1.7
National City	43	43⅜	43⅝	+1.5
New York Trust	92	93	92	No Chg.
Public	41½	42½	43	+3.6
U. S. Trust	570	570	570	No Chg.
AVERAGE OF 16				+1.5%

Only four of the 16 stocks were lower on May 21 than on May 10, and these only fractionally, approximately 0.7%. New York Trust and U. S. Trust show no change; Corn shows the maximum gain of 4.2% and Central Hanover the minimum gain of 1.3%. It is an interesting coincidence that the highest priced stock (First National) and the lowest, (Irving Trust) both show a gain of 3.0%.

Holdings of Government securities by the New York Member Banks during May have been moving up moderately, also, loans, as follows:

	April 28, 1948	May 19, 1948
Treasury Bills	$1,058,000,000	$1,278,000,000
Treasury Certificates	880,000,000	891,000,000
Treasury Notes	528,000,000	564,000,000
U. S. Bonds	8,412,000,000	8,358,000,000
Total U. S. Governments	$10,878,000,000	$11,091,000,000
Loans to Brokers	652,000,000	660,000,000
Loans for Securities	232,000,000	231,000,000
Real Estate Loans	123,000,000	132,000,000
Loans to Banks	141,000,000	194,000,000
Commercial and Agricultural	5,030,000,000	5,062,000,000
Other Loans	778,000,000	767,000,000
Total Loans	$6,956,000,000	$7,046,000,000
Total Loans and Investments	$19,023,000,000	$19,230,000,000

In closing this week's column on bank stocks it perhaps is not inappropriate to quote "Moodys Stock Survey" dated May 24, as follows: "Failure to increase the certificate rate may postpone further increases in lending rates. But banks have not yet experienced the full effect of recent rises in interest rates. In view of the improved outlook, and an apparent reversal of the Administration's credit policies, selected bank shares remain suitable for conservative income."

Grimm & Roberts With Eastman, Dillon & Co.

CHICAGO, ILL. — Edgar F. Grimm is now associated with the Chicago office of Eastman, Dillon & Co., 135 South La Salle Street. He has been in the investment business for the past 20 years and formerly was Vice-President of Wheelock & Cummins; prior thereto he was connected with Paine, Webber, Jackson & Curtis, and Kidder, Peabody & Co.

Eastman, Dillon & Co. also announce that Willis L. Roberts has joined the sales organization of the Chicago office. He previously was with Wheelock & Cummins, Inc., and Kidder, Peabody & Co.

Now Long Investment Co.

ABILENE, KANS. — The firm name of Robert J. Long & Co., Long Building, has been changed to the Long Investment Company.

Insurance Profits in the Public Interest

By SHELBY CULLOM DAVIS*

Former Deputy Superintendent of Insurance, State of New York
Partner, Shelby Cullom Davis & Co.

Prominent securities expert and former insurance official cites very bad postwar showing of fire insurance underwriting profits particularly as compared to other businesses. Notes consequent extinction of investor interest in insurance securities, reflected in sharp market discounts from liquidating values. Mr. Davis concludes more adequate profits sorely needed for industry's progress.

My topic is close not only to the hearts but indeed to the very lives of those who look to fire insurance for sustenance. This is a great industry, I need not remind you, one of the oldest and most honorable in America. Depending upon it for livelihood are not only those who work for the companies but those who work for agents and brokers, for adjusters and for all the other myriad services performed in carrying out the appointed tasks. Depending upon it for succor in time of need are those upon whom calamity may strike, the policyholders. And depending upon it for existence is that large and silent body of men and women who have placed their savings in the industry, including university endowments, hospital endowments, pension funds, funds for retired ministers and missionaries and other philanthropic institutions.

Shelby Cullom Davis

All three of these great groups dependent upon fire insurance have one important interest in common. All three thrive on a prosperous fire insurance industry. Conversely all three—worker in insurance, policyholder, investor—suffer when underwriting is not profitable. Necessary salary adjustments come more slowly, pressure is experienced on commissions, complaints are heard about lack of capacity, dividends lag. The root cause of each of these ills, important in the aggregate to millions of persons, is lack of profits.

Now let us take a good hard look at the position of the fire insurance industry today! Amid a sea of high business prosperity, the greatest this country has ever seen, the fire insurance industry is in the trough of depression of profits. I will go further. Relative to other industries, the fire insurance industry is less profitable than at any time since the San Francisco fire. And worst of all, this sad situation has prevailed for four long years.

Is it any wonder that problems exist in this profits depressed industry? Problems multiply in depression just as rats in poverty. Divisions of interest are sharpened, feelings run high, accusations follow upon accusations, all because of one simple fact, there aren't enough profits to go around.

Relative Poverty in Underwriting

Let me illustrate the relative poverty in fire insurance underwriting compared with other industries in America today. Last year the statutory underwriting profit of all stock fire and marine insurance companies was an estimated loss of approximately $84 million. In 1946 it was a lost of $115 million. In 1945 it was a loss of $34 million. And in 1944 a loss of $22 million. On the other hand the average statutory underwriting profit for the five years before the war was approximately $28 million. Or look at fire insurance underwriting from another angle, that of the combined loss and expense ratio (losses incurred to premiums earned and expenses incurred to premiums written). Last year for stock fire insurance companies this ratio was 98.3%, in 1946 98.7%, in 1945 99.6%, and in 1944 98.4%. Indicated profit margins on this basis were, therefore, the grand totals of 1.7% in 1947, 1.3% in 1946, .4% in 1945 and 1.6% in 1944. Since the combined loss and expense ratio averaged 94.3% during 1937-41, the indicated profit margin during those years was 5.7% or nearly five times as great as during the past four years. Actually the indicated profit margin was more than five times as great in prewar because those figures are after taxes compared with before taxes in recent years.

Now what about other corporate profits? As a former associate director of the New York Chapter of the American Statistical Association and for a number of years chairman of the nationwide Capital Markets Committee, I claim some familiarity with the tricks of the statisticians' trade. In computing other corporate profits, however, I am going to bend over backwards to be conservative. I am going to use as my yardstick the Dow-Jones Industrial Average which is composed of 30 of the leading corporations of the country. It is well known that the greatest advances in profits have not been made by the big corporations who have conducted their operations in a glass bowl but by the smaller and more marginal corporations who could charge what the traffic might bear during the boomtimes of recent years without fear or threat for the most part of Congressional investigation or labor union pressure.

Relative Loss of Ground

Even on the basis of this most conservative method of comparison it is apparent that fire insurance companies have lost tremendous ground relatively. If apologists are needed, in the language of the past war, it might be said the fire insurance industry has executed a most successful strategic retreat. For example, in 1945 the earnings on the Dow-Jones Industrial Average were $10.56 per common share, in 1946 $13.63, and last year $18.86. On the other hand in the five years preceding Pearl Harbor average earnings were $9.83. In other words earnings last year were no less than 92% above the prewar average. For fire insurance companies underwriting earnings during the past four years were more than 100% below prewar average on a statutory basis — in fact profits have been non-existant—and nearly 80% below on a combined ratio basis.

Is it any wonder that investors have not been battering down the doors of fire insurance companies in order to invest their funds in this depressed industry?

In fact, the situation is quite the reverse. I myself have been battering against the doors of various of the savings pools in this country and I would like to tell you a few stories about the difficulties in raising money for fire insurance companies at the present time. During the past seven months as investment bankers we have been members of underwriting syndicates engaged in raising new capital for seven insurance companies. Our function has been to "stand by," as the expression goes, and at the end of the offering to stockholders to take for our own account our proportionate share of the underwriting group for all shares unsubscribed by stockholders.

Now this "stand by" sounds relatively simple and as easy as

(Continued on page 28)

*An address by Mr. Davis before the Insurance Accountants Association, New York City, May 12, 1948.

Second List of Requisitioned Dutch Securities

AMSTERDAM (via Aneta News Agency) — The Netherlands Bank has published the second list of foreign securities which residents must offer and transfer to the Bank before June 15, 1948, as mentioned in our news bulletin of May 19. The list follows:

American Telephone & Telegraph Co., 2¾% debentures due 1980, with coupon Aug. 1, 1948.

Associated Electric Co., 4½% gold debentures due 1953, with coupon July 1, 1948.

Atlantic Coast Line Railway Co., 4% first consolidated gold debentures due 1952, with coupon Sept. 1, 1948.

Bush Terminal Co., 5% consolidated gold debentures due 1955, with coupon July 1, 1948.

All Dominion of Canada Government bonds payable in U. S. and/or Canadian dollars.

Canadian National Railway: 4½% gold debentures due 1957, with coupon July 1, 1948; guaranteed gold 5% due 1969, with coupon Oct. 1, 1948; guaranteed gold 5% due 1970, with coupon Aug. 1, 1948; guaranteed gold 4¾% due 1955, with coupon June 1, 1948; guaranteed gold 4½% due 1956, with coupon Aug. 1, 1948; guaranteed gold 4½% due 1951, with coupon Sept. 1, 1948; guaranteed gold 3% due 1953, with coupon Aug. 1, 1948; guaranteed gold 3% due 1952, with coupon Aug. 1, 1948; guaranteed gold 3% due 1959, with coupon July 1, 1948.

Canadian Pacific Railways, perpetual 4% consolidated debentures stock, with coupon July 1, 1948.

Chesapeake & Ohio Railway: general gold 4½%, 1992, with coupon Sept. 1, 1948; ref. and improv. 3½% series D 1996, with coupon Nov. 1, 1948; ref. and improv. 3½% series E 1996, with coupon Aug. 1, 1948.

Chicago, Rock Island & Pacific Railway: general gold 4% 1988, with coupon July 1, 1934; first and ref. gold 4% matured 1934.

Cities Service Company, 3% deb., 1977, with coupon July 1, 1948.

Consumers Power Company, first 2⅞% series, 1975, with coupon Sept. 1, 1948.

Cuba Company, debt. gold 6% 1949, and debentures gold 3% 1949, with coupon July 1, 1948.

Delaware & Hudson Company, first and ref. gold 4%, 1963, with coupon Nov. 1 1948.

Grand Trunk Pacific Railway Company, West Division, first gold sterling 3%, 1962, with coupon July 1, 1948.

Grand Trunk Western Railway Company, first gold 4%, 1950, with coupon July 1, 1948.

Hudson Coal Company, first sinking fund gold 5%, series A 1962, with coupon Dec. 1, 1948.

Illinois Central Railroad, Louisville Division and Terminal first gold 3½%, 1953, with coupon July 1, 1948.

Kansas City, Fort Scott & Memphis Railway Co., 4% ref. mtge. gold 1936.

Lautaro Nitrate Company, Ltd., first mtge. income bonds 1975.

St. Louis-San Francisco Railway Co.: 1st mtge. 4% series A, 1997, with coupon July 1, 1948; second mtge. income 4½% series A 2022, with coupon May 1, 1949.

St. Louis Southwestern Railway Company of Texas, first 4%, 1989, with coupon Nov. 1, 1948.

Missouri - Kansas - Texas Railroad Company: priority lien 5% series A, 1962, with coupon July 1, 1948; priority lien gold 4% series B, 1962, with coupon July 1, 1948.

Missouri - Kansas - Texas Railway Company: first gold 4%, 1990, with coupon Dec. 1, 1948; cumulative adj. mtge. gold 5% series A, 1967, with coupon Oct. 1, 1948.

National Dairy Products Corporation, 2¾% debentures, with coupon June 1, 1948.

New York Central & Hudson River RR., gold 3½%, 1997, with coupon July 1, 1948.

New York City Transit Unification Issue, 3% corp. stock, 1980, with coupon June 1, 1948.

Pennsylvania Railroad: cons. mtge. gold 4½%, 1960, with coupon Aug. 1, 1948; general mtge. gold 4½% series A, 1965, with coupon June 1, 1948; general mtge. gold 5% series B, 1968, with coupon June 1, 1948; general mtge. 4½% series E, 1984, with coupon July 1, 1948; general mtge. 3% series G, 1985, with coupon Nov. 1, 1948; convertible debentures 3¼%, 1952, with coupon Oct. 1, 1948.

Southern Railway, first cons. gold 5%, 1994, with coupon July 1, 1948.

Winston-Salem Southbound Railway Co., first gold 4%, 1960, with coupon July 1, 1948.

PREFERRED SHARES

American Can Co., 7% cum.

American Locomotive Co., 7% cum.

American Smelting & Refining Co., 7% cum.

American Sugar Refining Co., 7% cum.

American Tobacco Co., 6% cum.

Associated Dry Goods Corp.: 6% cum. first; 7% cum. second.

Atchison, Topeka & Santa Fe Railway Co., 5% non-cum.

Bethlehem Steel Corp. (Del.) 7% cum.

Cities Service Co., $6 cum., no par.

Commonwealth & Southern Corp., $6 cum., no par.

Consolidated Edison Co. of New York, Inc., $5 cum., no par.

E. I. duPont de Nemours & Co.: $4.50 cum.; $3.50 pref.

Electric Power & Light Corp.: $7 cum., no par; $6 cum., no par.

General Cigar Co., Inc., 7% cum.

General Motors Corp.: $5 ser. cum.; $3.75 ser.

B. F. Goodrich Co., $5 cum.

Illinois Central, 4% "Leased Line" stock cert., par $100.

Kansas City Southern Railway, 4% non-cum., par $100.

New York, Chicago & St. Louis RR. Co., 6% cum., series A, par $100.

Norfolk & Western Railway Co., 4% adj., par $100.

Pacific Public Service Co., $1.30 cum. first, no par.

Pittsburgh, Fort Wayne & Chicago Ry. Co., 7%, par $100.

Public Service Corp. of New Jersey: 8% cum., par $100; 7% cum., par $100; 6% cum., par $100; $5 cum., no par.

Pure Oil Co., 5% cum., conv.

Republic Steel Corp., 6% cum. conv. priority series A.

Southern Railway Co., 5% non-cum., par $100.

Union Pacific RR. Co., 4% non-cum., par $100.

U. S. Rubber Co., 8% non-cum. first.

U. S. Steel Corp., 7% cum.

West Penn Electric Co., 7% cum., par $100.

T. R. Engle Co. Will Be Formed in NYC June 1

As of June 1, T. R. Engle Co will be formed with offices at 63 Wall Street, New York City, to


Tracy R. Engle


P. J. Steindler

engage in the securities business. Principal of the firm will be Tracy R. Engle, Percival J. Steindler and Raymond A. Kester. Mr. Engle has recently been associated with Buckley Brothers in charge of their New York office. Prior thereto he was President of Engle, Abbot & Co., Inc. Mr. Steindler is head of P. J. Steindler & Co., which it is understood, is being dissolved.

Brooklyn Chapter NACA Elects New Offices

At the annual meeting of Brooklyn Chapter, National Association of Cost Accountants, held on Wednesday evening at Michel's Restaurant, Brooklyn, the following officers and directors were elected to serve for the 1948-49 year:

President, Malcolm B. Varney; Vice-Presidents, Russell C. Flood and Herbert A. Johnson; Treasurer, James E. Caulo; Secretary. R. Barkley Warnken; directors, Franklin L. Bucheit, Emanuel R. deBechevet, Harold H. Hieter, Edward D. Hoffman, Roscoe S. Lathe, Stanley Michelsen, Clinton J. Norris, Edward Talvensaari and Maxwell A. H. Wakely.

The speaker at the meting was Mr. Mason Smith, National President of the National Association of Cost Accountants and a partner of A. T. Kearney & Co., Management Consultants, whose address on "Sound Organization for Profit Control."

At the meeting awards were made to members who were leaders in the annual "Most Valued Member" contest and to other members for their promotion of the Chapter's best interests.

A fountain pen desk set was presented to the retiring President, Raymond C. Morse, in recognition of his outstanding leadership of the Chapter during the past year.

Joins Tifft Bros. Staff

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — Charles N. Hammond has become affiliated with Tifft Bros., 49 Pearl Street, members of the New York and Boston Stock Exchanges. He was previously with Day, Stoddard & Williams, Inc.

National Debt Administration and Savings Banks

By HENRY BRUERE*

Chairman, Committee on Government Bonds and the Public Debt, Nat'l Ass'n of Mutual Savings Banks
President, Bowery Savings Bank, New York City

Leading savings bank executive, holding chief concern of savings banks is no longer outlet for investment funds, but rather to increase earnings, stimulate savings and aid in housing and business expansion, looks for readjustment of savings banks' government bond holdings from longer to shorter maturities, as well as reduction in amount of holdings. Says Public Debt is in strong hands and is intelligently and conservatively administered, steering a middle course between inflation and deflation. Foresees continuation of government bond market support.

A year ago, as managers of savings banks, we were worrying about the insufficient supply of investment opportunities. Some of us urged the Treasury to issue more long-term bonds. The Treasury later acceded to our request, not precisely in the form some had hoped for. Our response was not overwhelmingly enthusiastic. This year we are not important buyers of long-term government bonds and some portfolios are being readjusted for shorter average investments. The reasons are several.


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Henry Bruere

First: Our deposit growth is by no means what it was in 1947. To date in 1948 our deposits have increased only about 64% as much as in the like period of the year before.

Second: We have found new outlets for our funds at better yields than government bonds afford. Particularly, we have made substantial investments in mortgages to furnish funds for urgent housing needs now being increasingly met with new, if high-priced construction. About $400 million have been added to our mortgage account.

Third: We have done some shifting of our government portfolios because we became concerned over the continued support of the government bond market by the central banking authorities.

The report of the Committee on Government Bonds, of which I have the great honor to be Chairman, will furnish you with the general history. For the past year with respect to the National debt and the government bond market, I shall touch on some of the main points covered in the report.

Outlook for Government Bond Holdings

We are today chiefly concerned with the outlook for the immediate future of our government bond holdings. We are fortunate that we shall presently hear from the fountainhead of authoritative information on government debt questions.

The officers of the Association are to be congratulated on having secured the attendance at this convention of the Secretary of the Treasury. It has never happened before. He may answer some of the questions in our minds. (Editors Note: Secretary Snyder's address appears on page 16.) He cannot answer all of them, for several reasons.

First: No man can look far into the future at any time and, especially, now, since so much of the world which affects our own economic course is in flux.

Second: Some of these policies which we ourselves must determine will answer these questions. An example of such policies is the extent that we think it desirable to have riskless securities a permanent part of the banks' portfolios.

Finally: To the degree that an "atmosphere of uncertainty," as it is called, is a desirable medium in which to administer the public debt, important questions must remain unanswered.

Such a question arises continually in our minds in respect of commitment for future investment, particularly in the house construction field. Here a commitment must be made long in advance of the day the mortgage investment is ready because of the time required to build. Investors will be concerned that the market rate for government bonds will justify the mortgage investment at the time the latter is to be made.

Uncertainty has its advantages in keeping speculation in check. But it also causes sleepless nights for prudent investors.

Principal Investment Problems

Today, as opposed to our concern for investment outlets of a year ago, our principal concerns are (a) to increase our earnings and thus to stimulate savings and (b) to help supply funds for necessary business expansion and for building and urgently needed houses in our communities.

Home financing is the historic major role of savings bank investments. Recent experience indicates that we do not intend to abandon this field. On the contrary, never before were we called on to do more in this field than now and never have we been given equal instruments for doing it. This is particularly true in respect to the insurance, planning and inspection provisions of the National Housing Act, or FHA as we call it. In the opinion of many of us, FHA insured loans, whether on small or large multiple units, are the most attractive investment now available to us. This is true despite our anxieties respecting the high cost of construction and the consequently high prices purchasers are paying for houses or rented space. We eagerly wel-

(Continued on page 38)

*An address by Mr. Bruere before the Annual Convention of the National Association of Mutual Savings Banks, Atlantic City, N. J., May 24, 1948.

Railroad Securities

The Monthly Comment on Transportation Statistics of the Bureau of Transport Economics and Statistics of the Interstate Commerce Commission for May carries some interesting, although hardly cheerful, figures on passenger business of the railroads. Preliminary statements for last year show net railway operating income for all Class I carriers from freight service at $1,206.3 million. This net had been topped in only two previous years, 1941 and 1942. The peak was $1,394.4 million in 1942. Passenger and allied services, however, showed a net operating deficit of $426.4 millions. In other words, more than 35% of the net profit realized on the freight service was absorbed by the passenger service losses.

Prior to the war the passenger and allied services had consistently been showing losses. From 1936, when separation of net operating income by class of service was first required by the Commission in the roads' annual reports, through 1941 these passenger service deficits averaged roundly $245 million a year. The largest loss in that period was $262.1 million in 1940 while the smallest was $226.1 million in 1941. There followed four years of profits from passenger and allied services, with the best year, 1943, showing net operating income of $279.8 million. The unfavorable ratio reappeared in 1946, with a net operating loss of $139.7 million. Last year the loss jumped 63% above the previous high (1940). This was in the face of an increase of 93% in revenue passenger miles between the two years.

The Bulletin also compares the performance in 1947 and 1940 of 25 large steam railroads, those with total operating revenues of over $100 million in 1947. These roads last year accounted for about 75% of the freight revenue and 83% of the passenger revenue of all Class I carriers. Among the roads listed only the New Haven reported a passenger operating ratio below 100% in 1940 and only the New Haven and the Texas & New Orleans (part of the Southern Pacific System) were below 100% last year. Chesapeake & Ohio, with ratios of 192.6% last year and 187.3% in 1940, was the highest in both instances.

While almost all of the railroads reported ratios above 100% last year for passenger services, a majority of them had ratios at least somewhat below the 1940 ratios. There were seven in the group, however, where even the ratios increased last year as compared with 1940. Four of these were eastern carriers—Erie, New York Central, New York, New Haven & Hartford, and Pennsylvania. Two, Seaboard Air Line and Southern Railway, operate in the Southern Region, and the seventh, Chesapeake & Ohio, is classified in the Pocahontas Region. Seaboard had the largest increase, 7.87 points, followed by Pennsylvania, 6.11 points, and Chesapeake & Ohio, 5.36 points. The smallest increase was 0.25 points for Southern Railway.

The largest dollar losses in the passenger division were naturally those of the large eastern carriers. Pennsylvania was on top with a net operating deficit of $39,536,000 for passenger and allied services. This was equivalent to more than 55% of net operating income realized from the freight service. New York Central's passenger deficit of $30,114,000 was more than 56% of its freight service net operating income, while Baltimore & Ohio's passenger loss of $26,341,000 was about 48% of its freight service profits.

There were only two roads in the list of 25 that were able to report smaller dollar losses from passenger services in 1947 than in 1940. These were Chicago, Rock Island & Pacific, down to $5,712,000 from $6,645,000, and Texas & New Orleans, down to $1,735,000 from $2,875,000. The entire Southern Pacific system, however, reported a sizable increase in the passenger service deficits between 1940 and 1947.

In general the passenger losses in relation to freight profits were considerably less of a burden for the major western carriers than for the large eastern roads. For example, Union Pacific and its leased lines showed about the same net operating income from freight service as New York Central. However, Union Pacific's passenger loss of $17,092,000 was well below the $30,114,000 reported by Central. Similarly, Atchison, Topeka & Santa Fe and its affiliated companies had a net operating deficit of only $14,815,000 in its passenger and allied services in 1947, compared with net operating income of $69,115,000 from freight service.

Chase National Bank Promotes Wm. Miller

William S. Miller has been appointed a Second Vice-President of the Chase National Bank and will be associated with other members of the Chase staff handling the bank's business in the Middle Atlantic and Southern States.

Prior to his promotion Wednesday, Mr. Miller had been an Assistant Cashier in the Public Utilities Department of the bank. He is a native of New Market, Virginia.

Bond Club of Buffalo To Hold Annual Outing

BUFFALO, N. Y.—The Bond Club of Buffalo will hold its annual outing at Cherry Hill Country Club, Ridgeway, Ontario, on June 4. Charles R. Staples, of Halsey, Stuart & Co., is Chairman of the outing.

Joins Clement Evans Staff

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—Jack J. Spalding has become associated with Clement A. Evans & Co., Inc., First National Bank Building. He was previously with Merrill Lynch, Pierce, Fenner & Beane.

With Braun, Monroe & Co.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, WIS.—Leo E. Cannon is now connected with Braun, Monroe and Company, 735 North Water Street.

With Carter H. Corbrey Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—John A. Smith is now affiliated with Carter H. Corbrey & Co., 650 Spring Street.

Totalitarian Blueprints

By EARL B. SCHWULST*
President, National Association of Mutual Savings Banks
Executive Vice-President, Bowery Savings Bank, New York

Mr. Schwulst reviews policies and propaganda of National Socialism and Communism and, in order to combat them, advises: (1) arousing public opinion at home and in Western Europe on conflict between communism and democracy; (2) building up of our economic and military potential; and (3) notice to nations that further communist control in Europe will be an unfriendly act. Urges more intensive and adequate education of people and provision for more social security.

It was not many years ago that we, as savings bankers, were very much concerned about the economic philosophy then circulating in many quarters that saving was useless and old-fashioned. Indeed, in magazine articles, books, university halls, and even in our legislative chambers, we heard that the source of our then present economic difficulties could be laid at the doorstep of excessive savings. Such a concept was repugnant to us. It was naturally so, because from the standpoint of both individual and national well-being, the savings banking system has constantly preached the virtues of thrift, whether the prevailing economy was deflationary or inflationary.

Earl B. Schwulst

Now, all parts of our economic system are emphasizing the value of thrift and the importance of saving in fighting the inflationary forces that have taken hold of our economy. The Federal Government, through its Security Loan Drive, is currently making an intensive effort to foster the principle upon which the mutual savings banking system was founded and we are only too happy to further the cause and be of assistance.

It was not many years ago that we were also concerned, in a rather vague way, over the turn of world affairs. The proceedings of the Association's conferences during the late 1930's reflected some apprehension over the international situation. But, by and large, emphasis was placed at those meetings on the specific problems of mortgage investment, bond investment, service to the public, business promotion and all the other operations with which we are daily engaged. We are still engaged with those specific problems and our program will, I am sure, be of value in contributing to their solution. However, it seems clear to me that we once again find ourselves in a world situation analogous to that which prevailed in those former years. It likewise seems clear to me that this time we should give a little more thought to the dangers inherent in a situation which could not only completely overshadow the operating problems of our banks, but also change our entire way of life.

Ten years ago, National Socialism was on the march; today, Communism is traveling the same road. I do not pretend to be an analyst or a student of world affairs. But, from the commonsense viewpoint of the "man in the street," I would like to compare briefly the forces at work some 10 years ago, not then taken too seriously, with similar forces, clothed in a different garment, that are working with like fervor and intensity today.

Edgar Allen Poe, in his short story "The Purloined Letter," pointed out that one of the most effective methods of concealment is wide publicity. You will recall that the main character of the story was in possession of a valuable letter he knew would be the object of a very thorough search. As he had anticipated, his apartment was systematically gone over. Chairs were carefully examined to make sure that none of them were hollowed out to provide a hiding place for the document. Desks were scrutinized in search for secret compartments. Walls were sounded and the floors examined inch by inch. But the letter was never found simply because it was made so obvious. The possessor of the letter had merely put it in plain sight in his mail rack on the wall with other letters that had been received through normal channels.

Again, some 20 years ago, Adolf Hitler illustrated this principle when he wrote and published "Mein Kampf." In its pages Hitler announced for the world to read, long before he came into power, his blueprint for world conquest. The book was a failure. During the first year of publication this vitriolic document sold less than 20,000 copies, and those who did read it did not take it seriously because the contents seemed so utterly fantastic. Among Nazi party leaders it was common talk that Hitler was an extraordinary speaker, a great leader, and a political genius but, "it's too bad he had to write that silly book."[1] The story is told that not one British statesman read "Mein Kampf," except for a brief glance at a harmless version first circulated in Great Britain, until some time in 1935. In that year the Russian ambassador in London circulated typewritten excerpts among British statesmen which they reputedly referred to as being "very interesting."[2]

When Hitler's ideas, as outlined in his so-called autobiography, began to be implemented by action, the contents of "Mein Kampf" began to appear, not ridiculous, but quite serious. "Mein Kampf" became a best seller second only to the Bible and it made the author a rich man. He did not plot out step by step how he intended to rule the world. In fact, he said that "in questions of foreign policy I never shall admit that I am tied by anything."[3] Yet, the world was put on notice that National Socialism insisted on war and bloodshed for its development and growth as an international force. In speaking of the Germany of post World War I, Hitler wrote, "World history would have taken a different course and no one can distinguish whether in this way we would not have obtained what so many blinded pacifists today expect to gain by begging, whining, and whimpering: a peace, supported not by the palm branches of tearful, pacifist female mourners, but based on the victorious sword of a master people, putting the world into the service of a higher culture."[4]

In retrospect, it seems amazing that in the face of an avowed publicized program of terror, buttressed by deeds in line with the announced program, the rest of the world sat back so complacently and blindly. When German troops began to occupy the demilitarized Rhineland in March, 1936, thus breaking the Locarno Pact, some prominent American officials applauded the move. One of the members of the Senate Foreign Relations Committee stated that Hitler's speech denouncing the Versailles Treaty "appears to be a tremendously encouraging step forward."[5] Another Senator stated, "Hitler's move will clarify the European situation and must not be regarded by either France or Great Britain as a challenge to war."[6] In Britain there was a kind of insular optimism which refused to believe anybody could really be so wicked as to risk a European war. There were many kind-hearted people who proclaimed their faith in Hitler's peaceful intentions in spite of his oddly military manner of demonstrating them. One correspondent stated that, "One almost had the impression that a large section of Britain was almost ready to congratulate Hitler." Reports from Prague, Belgrade and Bucharest reflected the same attitude.

You are all familiar with the steps Hitler took from then on to make his seemingly fantastic program for world domination not the delusions of a paranoiac but a grim reality.

Attitude Toward Communist Movement

Just as ten years ago we were pondering whether the announced ideology and aims of the National Socialistic movement in Europe should be taken seriously, today we are again pondering how seriously should be taken the ideology and aims of another political and social movement. Once again the ideology and aims are clearly announced. As was the case with the National Socialists, "The Communists disdain to conceal their views and aims. They openly declare that their aims can be attained only by the forcible overthrow of all existing social conditions."[7] These exact words were part of the Communist Manifesto written in 1848 and reiterated again by the Sixth World Congress in 1928 at Moscow.

The writings and declarations of Communist leaders since the days of Karl Marx through the present leaders of the movement now in the Kremlin leave no doubt as to the role the Communist movement is destined to play in the course of world affairs. In fact, the blueprint of Communist world conquest is more pronounced and well-defined than was that of Hitler. Lenin, the father of the present Communist creed, followed a straight line in his dogma from the days of his relative obscurity to his ascendancy as head of a state. In 1900, after leaving Russia for a haven in Munich, he wrote, "We must educate men who devote to the revolution not only their free evenings but their whole lives . . . the struggle for the political police demands special qualifications, professional revolutionaries . . . when we have a detachment of revolutionary workers especially prepared by long training, no police in the world will be able to master them . . . rigorous secrecy, a minutely

(Continued on page 36)

*An address by Mr. Schwulst before the 28th Annual Conference of the National Association of Mutual Savings Banks, Atlantic City, N. J., May 24, 1948.

1 A. Hitler, *Mein Kampf* (Boston: Houghton Mifflin Co., 1943), p. XVIII.
2 O. Tolischus, *They Wanted War* (New York: Reynal & Hitchcock, 1940), p. 259.
3 Op. Cit., p. XX.
4 Ibid., p. 396.

5 N. Y. "Times," March 8, 1936.
6 Ibid., March 13, 1936.
7 Karl Marx, *Capital and Other Writings* (New York: Modern Library, 1932), p. 355.

Enyart, Van Camp Will Merge With First Securities Company

CHICAGO, ILL.—The investment firm of Enyart, Van Camp & Co., Inc., will be consolidated with that of the First Securities Co. of Chicago, 134 South La Salle Street, as of June 1. Charles E. Enyart and Owen V. Van Camp will become Vice-Presidents and J. A. Horacek Assistant Treasurer of the First Securities Co. It is understood that the entire staff of Enyart, Van Camp & Co. will join First Securities.

Charles E. Enyart

Owen V. Van Camp

J. A. Horacek

COMING EVENTS

In Investment Field

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

May 31, 1948 (Dallas, Tex.)
Dallas Bond Club Annual Field Day at Lakewood Country Club.

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

June 4, 1948 (Buffalo, N. Y.)
Bond Club of Buffalo Annual Outing at Cherry Hill Country Club, Ridgeway, Ontario.

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 (Connecticut)
Security Traders Association of Connecticut Outing at Avon 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 Jersey)
Bond Club of New Jersey Annual Field Day at the Montclair Golf Club.

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 15, 1948 (Detroit, Mich.)
Bond Club of Detroit Summer Golf Party at the Plum Hollow Golf 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 23, 1948 (Boston, Mass.)
Boston Security Traders Association Annual Outing at the Woodland Golf Club.

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

June 25, 1948 (New York City)
Municipal Bond Club of New York Annual Meeting at Sleepy Hollow Country Club, Scarborough-on-Hudson, N. Y.

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.

Milton B. Lewis Joins G. E. Jaffe & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Milton B. Lewis has joined the staff of G. E. Jaffe & Co., Union Commerce Bldg., members of the Cleveland Stock Exchange. Mr. Lewis was previously with W. P. Quinn & Co.

With Daniel F. Rice Co.

(Special to THE FINANCIAL CHRONICLE)

FT. LAUDERDALE, FLA.—John W. Haislet has become connected with Daniel F. Rice & Co., Broward Hotel.

Effect of Current Economic Problems on Banking

By ROBERT V. FLEMING*

President and Chairman of the Board, The Riggs National Bank, Washington, D. C.
Chairman, Committee on Government Borrowing, ABA

Prominent banker reviews wartime and postwar economic problems, particularly as regard war financing, credit and inflation. Opposes proposals of President and Federal Reserve Board to further curb credit and to institute special bank reserves, while praising postwar management of Public Debt. Advocates adhering to anti-inflation program of ABA, and concludes any drastic increase in bank reserves would lead to excess deflation and handicapping of banks in aiding national defense or European recovery.

A brief review of our prewar and wartime problems as they affect the economy of the country is, I believe, appropriate. Therefore, may I recall to you that during the thirties, due to the stock market crash of 1929 and the serious depression which followed in 1932 and 1933, our economy at that time was in a state of pronounced deflation. The government sought to raise prices by devaluing the dollar in terms of gold and by borrowing and spending more than it received in taxes. Through deficit financing the government used its efforts to bring about an intentional and then much-desired price inflation, which resulted in a long series of unbalanced budgets up to the Defense period and subsequently throughout World War II. We had to raise $398 billion for supplies and equipment for our armed forces and to meet other expenses incident to the war. We raised taxes as high as we felt they could be raised without destroying our civilian economy during the war period and from this source $176 billion, or 44% of the cost of the war, was realized. The remainder, $222 billion, or 56%, had to be borrowed. It was not possible to borrow this vast sum entirely from non-banking sources; therefore, approximately $90 billion were raised by selling securities to the banking system and the Federal Reserve System.

Robert V. Fleming

Techniques of War Financing

I am sure you all realize that borrowing by the government from the banking system or the Federal Reserve System results in increasing the deposits in the banks by a corresponding amount. It was also necessary to employ other techniques, such as making reserves available to the banking system through the Federal Reserve System in order that these securities could be purchased. In addition, so as to make possible a smooth transfer of the huge sums which had to be raised in the war bond campaigns and to avoid undue unsettlement of the deposit structure of the country, War Loan Deposit Account was used and to encourage use of that account, both the reserves and FDIC assessment thereon. In effect, the banks became the underwriters of each war bond campaign. Then came the close of the war and the flotation of the huge Victory Loan which ended in December, 1945, and left the Treasury possessed of funds far in excess of its needs.

Recognizing the inflationary effect of the huge purchasing power which had been created through the increase in bank deposits, the increase in currency in circulation and the amount of government securities in the hands of the people, the Committee on Government Borrowing of the American Bankers Association, of which I now have the honor of being Chairman, urged upon the then Secretary of the Treasury Vinson the desirability of shrinking bank deposits by retiring bank-held government debt, insofar as this could be done with the surplus funds available. This suggestion was adopted and was a constructive step towards offsetting the inflationary trend. On the other hand, there were those in government and in the Congress who publicly expressed their fear that a period of deflation and depression was imminent. There were numerous forecasts of much unemployment and predictions of great demands upon the government for relief. It was asserted that the reconversion of industry from war to peace would bring about pronounced business distress. Out of these inaccurate assumptions a number of proposals arose, by which several agencies of the government would have undertaken direct financing of business. The bankers of the nation did not feel that these governmental agencies were necessary or desirable and once again rose to the needs of the country's economy and the funds for reconversion were supplied by the banking system. A former President of your Association and of the American Bankers Association, and one of my dearest friends, Mr. Robert M. Hanes, led this movement. No man ever worked harder on more effectively than he did in this cause. He traveled from one end of the country to the other, bringing to

(Continued on page 32)

*An address by Mr. Fleming delivered before the Annual Convention of the North Carolina Bankers Association, Pinehurst, N. C., May 18, 1948.

Mutual Funds

By HENRY HUNT

The Human Equation

Too many investors in individual securities belong to the old school of "Buy 'em and hold 'em." Such investors can always find some reason for not selling a stock. Recently we told a friend of ours he ought to get out of a certain stock because earnings were declining and the dividend was apt to be passed. His reply was that he couldn't afford to sell because he had paid more than its present price. Other investors refuse to sell for the opposite reason: they have such a profit that it would swell their income tax too much.

The human equation of fear and greed also militates against the chances of most investors who ttempt to handle their own funds. In this respect, the average investor is no different from a friend of ours who is one of the most successful short-term traders in the "Street" — with other people's money! But he is the first to admit that when he starts playing the market with his own capital, his judgment is never as good.

As Cameron Reed puts it, "Given equal knowledge and ability, I can do a better job managing **your** money than you can. But by the same token, you can do a better job managing **my** funds than I can."

When an investor purchases a mutual fund for long-term holding, in effect he is saying to the management, "I haven't got the time to do a good job looking after my securities. From now on, it's your responsibility." In the long run, most investors will find that professional full time management obtains far better results than the individual does, partly because the professional approaches his job objectively instead of subjectively.

Boom Industry

Calvin Bullock's May 15 issue of **"Perspective"** discusses the petroleum industry in part as follows:

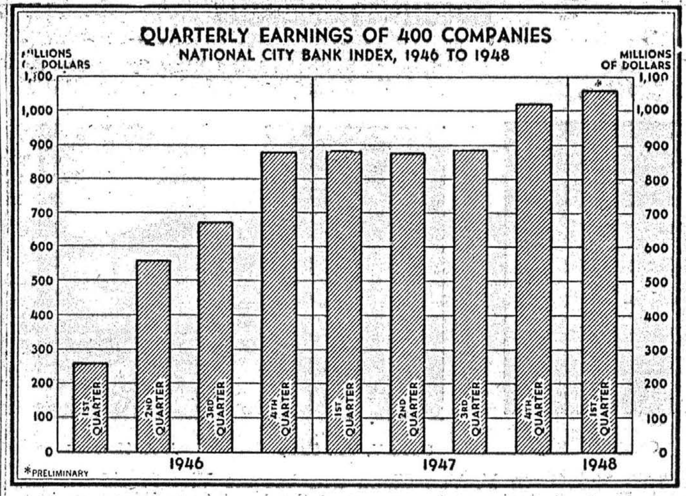
"Operations of the petroleum industry during the past year have been characterized by a feverish attempt to maintain supply in balance with a rapidly growing demand. Despite the tremendous capital investment made during this period to increase crude output, erect new refineries, and to expand distribution facilities, the industry found itself unable fully to meet requirements during the period of seasonally high demand which comes during the heating oil season. Prices of crude and its products have risen sharply in response to this condition of shortage, and the boom prevailing in the industry has recently been reflected by a burst of activity and a sharp advance in the prices of oil equities. During this period of unbridled optimism, it is of interest to review again after a year's lapse since the industry was last discussed in 'Perspective,' events of the past year and to examine future prospects.

"The industry last year was foresighted and alive to the necessity of aggressively increasing the production of crude oil in order to meet prospectively higher demand. Fortunately, with the demise of the OPA, the industry was able to raise the price of crude so as to provide an incentive for drilling. Thus, despite the steel shortage, the industry succeeded in completing 33,000 wells of all types during 1947, or about 13% over the preceding year. Reflecting more intensive exploratory activity, 5,461 of these wells were wildcats, an increase of 21% over 1946. With the exception of 1920, this was the largest number of wells ever drilled by the industry.

"As a result of this drilling program, crude production rose during 1947 to an average of 5,085,000 barrels per day, or 7% above 1946. The rate of gain in crude output was greater than indicated by these average figures, and in December, 1947 was at the rate of 5,337,000 barrels per day or nearly 13% ahead of the like month of 1946. Crude reserves uncovered by exploratory and development drilling during the year amounted to 2,464 million barrels, or a net increase of 614 million barrels after deducting crude produced during the year. This brought estimated crude reserves at the year-end to an all time record high of 21,488 million barrels, but measured in terms of years' supply crude reserves declined from 12.0 years in 1945 to 11.6 years in 1947 because of the even more rapid growth in demand during this period. Thus the basic demand—supply situation became even more acute during the year."

Higher Earnings May Boost Dividends!

"The accompanying chart graphically tells the story of the march of earnings since the strike-bound first quarter of 1946. Note



that overall earnings are higher in the first quarter of this year than they were in any quarter of 1947. This may result in still higher dividend payments in 1948.

"Many stocks have sold at ridiculously low price-earnings ratios in the past year on the fear that earnings could not hold up. These first-quarter figures, when considered with the expected impetus of ERP, the defense program, and tax reduction should dissipate such fears.

"Since the first quarter of 1946, earnings have **increased** 296% while the Dow-Jones Industrial Stock Index has **decreased** 7.3%." (Quoted from National Notes No. 455, issued by **National Securities and Research Corp.**)

Notes

Wellington Fund has published a handy new 32-page booklet covering income, gift and estate taxes. Ask for a copy of "Docketax 1948."

Distributors Group has issued a new folder on its "Low Priced Shares," designed for greater than average profits in a rising stock market.

Broad Street Sales Corporation has revised its "Record of Management" booklets on National Investors, and Broad Street Investing.

Calvin Bullock has a new folder on "Aeronautical Securities."

Changes Firm Names

BOSTON, MASS.—The name of Furst & Co., 1 Court Street, Boston, was changed to Securities Co. of Mass. on April 30. There is no change in personnel.

The name of the World Investment Trust was changed to Investment Trust of Boston on April 15. In addition to being the underwriter and general distributor for Investment Trust of Boston, the Securities Co. of Mass. is also distributor for Republic Investors Fund, Inc., and Sovereign Investors, Inc.

In addition to the Boston office, Securities Co. of Mass. has also opened an office at 15 William Street, New York City.

NSTA Notes

BOSTON SECURITIES TRADERS ASSOCIATION

The Boston Securities Traders Association will hold their annual outing June 22 at the Woodland Golf Club.

SECURITY TRADERS ASSOCIATION OF CONNECTICUT

The Security Traders Association of Connecticut will hold an outing on June 4 at the Avon Country Club.

DALLAS BOND CLUB

The Dallas Bond Club will hold its annual field day at the Lakewood Country Club.

"AD LIBBING"

Your advertising committee while not completed as yet, may resemble the new Studebaker car inasmuch as we are receiving contracts for our 1948 "Chronicle" NSTA Year Book; in fact, our Denver affiliate has done a marvelous job and we understand their commitments are far above any previous year. This indeed is most promising, as our advertising should swell considerably as soon as the committee has been announced and is at work.

* * *

Those of us who have been rather regular in the attendance at conventions will miss the amusing and charming personality of Ralph Bloom, Chicago. We learned he passed away last Sunday.

* * *

We hope our "Ad Libbing" is not like the man who buried the hatchet and left the handle sticking out to trip over.

With Herrick, Waddell in Neb.

OMAHA, NEB.—C. Earl Jenkins of York and John K. McKinney and Arthur E. Emunson of Grand Island have become connected with Herrick, Waddell & Reed, Inc.

With Gordon Macklin Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Bishop P. Holstein has become associated with Gordon Macklin & Co., Union Commerce Building, members of the Cleveland Stock Exchange.

Joins Westheimer Staff

(Special to THE FINANCIAL CHRONICLE)

DAYTON, OHIO—Charles K. Richie is with Westheimer & Co., Third National Bank Building.

Two With King Merritt Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Jerome L. Goldin and Herbert G. Koehne, Jr. are now with King Merritt & Co., Inc., 408 Olive Street.

With Slayton & Co., Inc.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Slayton & Company, Inc., 408 Olive Street, have added Philip J. Vogel to their staff.

Two With Hugh Niven

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—James H. Longshore and Fred A. Stolte have become associated with Hugh Niven, 3510 North Pennsylvania Street.

Expanding World Trade—Primary Objective of Our Foreign Policy

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

Secretary Snyder, after reviewing present distorted world trade, points out U. S. interest in promoting a better balance by a higher level of trade. Holds first requirement is to maintain our economic activity while preserving essential natural resources. Says we must work for world-wide elimination of trade barriers and to expand capacity of other nations to produce and export. Stresses need of private foreign investment, and cites Bogota Agreement as step toward promoting Latin American development.

International trade is mankind's most ancient and most effective way to use the human and the natural resources of the world for the benefit of all nations. The manner in which we develop, employ, and distribute the abundant resources of the earth is the measure of the security we may attain in our lives and civilization.

I am accordingly delighted to have this opportunity to discuss before your forum some of the problems of maintaining and expanding the present levels of international trade.

Let me examine first the world trade picture as it exists today. Of necessity, I shall have to use some figures, but I shall try to keep them to a minimum.

There have been highly significant shifts in the sources and flow of the world's exports. For example, in 1938, only 14% of the world's exports were from the United States. But by 1947, our exports had risen to almost 35% of the world's total figure. It is important to realize, however, that imports into the United States did not increase at anything like the rate of exports. As a matter of fact, during this same period, our share of world imports increased only 3%. Thus, by 1947, the annual trade surplus of the United States with all other countries was 20 times that of 1938.

The shifts in the trade positions of other areas, such as continental Europe and Latin America have been equally dramatic.

The nations taking part in the European Recovery Program accounted for 41% of the world's exports in 1938. But, by the first half of 1947, this figure dropped to 27%. And, whereas these countries obtained 57% of the world's imports in 1938, they obtained only 44% in the first half of 1947. Significantly, therefore, the Western European nations had a trade deficit of approximately $8 billion for 1947 with the world, as compared to $3.5 billion in 1938.

Before the war, the trade deficit of Europe was financed primarily by money received from European investments in other countries, shipping receipts, tourist expenditures and other invisible exports. But as a consequence of the war, these sources of money declined or shrank and the resulting greater European trade deficit has had to be financed in the postwar period by liquidation of capital assets and by various loans and grants from countries in the Western Hemisphere and by the expending of gold and dollar reserves.

At first glance, the trade position of the Latin American Republics appears to be much more favorable than that of Western Europe. In 1938, Latin America had a trade surplus with the world of $229 million. In 1946, that surplus had grown to $1 billion. Latin America did not experience a trade deficit even in 1947, a year during which its imports were greatly expanded.

However, it is important to look more carefully into the composition of Latin America's trade. The United States acquired 32% of Latin America's exports in 1938, as against 42% in 1947, while Latin America obtained 32% of its imports in 1938 from the United States, as compared with over 75% in 1947.

Before the war, the United States normally imported more from Latin America than it exported to that area. Since the war, Latin America has experienced a substantial trade deficit with the United States, that deficit amounting to $1.7 billion in 1947.

In part, Latin America's postwar deficit with the United States has been financed by dollars received in payment for its surplus with other countries. In view of the very limited dollar availabilities of those countries, however, Latin America has found it necessary to accept inconvertible currencies for much of its trade surplus. As a consequence, a very large part of the Latin American deficit with the United States has had to be financed by heavy drawings on the gold and dollar holdings accumulated by Latin America during the war.

A Changed Pattern Essential

It is clear that the pattern of current world trade just summarized, should not, and can not, long be continued. Prevailing circumstances, resulting largely from the war, have made it essential that the United States Government extend loans and, where necessary, grants to Europe, thus aiding that continent to become once more self-sustaining. However, it is neither possible nor desirable for this government to continue indefinitely to finance the world's balance of payments deficit with the United States.

Without any question, it is in the interests of the United States and of every other country that our international trade be brought into a better balance at a high level of trade. How, then, are we to attain this goal?

The first requirement is that we maintain our present high levels of economic activity.

Second, it is important that we preserve essential natural resources as far as possible and that we also import adequate amounts to supplement those stockpile materials in which we are in short supply.

A third important condition is that we and other nations work toward the elimination of artificial barriers to world trade. Since 1934, we have made great strides in this direction through our program of reciprocal trade agreements. The International Monetary Fund has been established as a means of promoting international cooperation aimed toward the removal of restrictive and discriminatory foreign exchange practices. We recently signed an agreement in Havana for the establishment of an International Trade Organization designed to promote equitable and nondiscriminatory treatment in international trade practices. All of these measures are highly important and deserve our wholehearted support.

In addition to the foregoing, it is necessary that measures be taken to expand the capacity of other countries to produce and to export those goods and services for which they are best suited by reason of their particular natural and productive resources.

The Export-Import Bank of Washington has long been a successful instrument through which this government has helped finance worthwhile development projects in other countries. The financial assistance provided under the European Recovery Program is designed primarily to facilitate expansion of the productive capacity of European nations ravaged by the war. The International Bank for Reconstruction and Development was established as an international instrument to promote the reconstruction and economic development of the world.

It is not enough, however, to rely upon governmental or quasi-government loans to expand the productive and export capacity of other countries. It is essential that private investment participate in this economic development to the maximum extent possible.

Private Foreign Investment Desirable

We in the United States consider private foreign investment as a highly desirable medium to promote the economic development of any country. Foreign capital serves the particular purpose of enabling the country into which it flows to obtain more essential imports than it could otherwise buy. And it also provides a channel through which sorely needed technical skills of the highest order are brought into the country.

The participation of foreign capital in the economic development of the United States is a dramatic chapter in our history.

The last half of the 19th century and the early years of the 20th were decades of tremendous economic expansion in the United States. Railroad mileage increased from 9,021 miles in 1850 to 240,831 miles in 1910; steel production increased in the same period from a few thousand tons to 26 million tons; coal production increased from seven million tons to 502 million tons; manufactures increased in value from $1 billion to $20 billion; and the value of farm land and buildings increased from $3.3 billion to $34.8 billion. Concurrently with this expansion, it might be noted our population increased fourfold, to 92 million.

The capital markets of Europe—particularly of Great Britain, France, Switzerland and the Netherlands—made heavy and continuous investment in the industrialization of the United States, and by 1897, there were more than $3 billion of foreign-owned assets. A decade later, the total had increased to $6 billion and on the eve of World War I the figure stood at almost $7 billion. In the terms of today, $7 billion does not seem very large, but let me remind you that from the standpoint of the economy of our country before World War I, this was a very substantial figure.

The diversity of the fields into which this foreign capital went reads like a roster of our leading industries. In agriculture there were numbers of land and cattle companies and cotton plantations. In mining there were investments in well-established companies and scores of ventures were financed in search of gold, silver, copper, iron, petroleum, coal, and so forth. This foreign capital also found its way into the steel mills, refineries, textile mills, insurance companies, mortgages, all types of manufacturing companies and an almost endless list of other investments.

No wonder, in view of its role in our own economic expansion, we in this country very naturally have a healthy respect for the speed and efficiency with which private foreign capital can give vastly important assistance in the economic development of a nation.

There is an interesting angle to foreign investment of which we often lose sight. During their early development, countries are considered to be importers rather than exporters of capital. The truth is, however, that at the very time when the inflow of foreign capital is at its peak, an outflow of capital starts as vigorous enterprises begin looking abroad for investment opportunities. For example, when foreign investments in the United States reached almost $7 billion in 1914, our assets in foreign countries amounted to $3.5 billion. Other countries go through this same experience of exporting venture capital at the very time when their capital market must still seek strong outside aid.

Latin-American Need for Capital

Turning to the Western Hemisphere, the needs for foreign capital investment is particularly apparent. For example, some of the Latin American countries have huge petroleum reserves, some of which resources have been untapped because the capital necessary to develop them has not been available. The same situation is true with other mineral resources.

Furthermore, capital is needed for establishing and expanding a great many basic industries, for transportation and for agricultural developments in certain of the Latin American countries.

This unfortunate condition, the lack of capital for development, is in part due to the financial status of many Latin American countries which in the 1930's were compelled to reduce, and in some cases stop entirely, the service of their external funded debt. Of course, this situation today is considerably improved. However, this financial status of some of the South American countries is not the only reason for the lack of interest on the part of private investors. In many cases there has also been the feeling that outside capital is not wanted.

The flow of foreign private capital into a country is governed almost entirely by the investors' estimate of the prospect for a reasonable return. The average investor is prepared to take normal business risks. But when he turns to the foreign field he is easily discouraged by three special risks: the risk of burdensome restrictions imposed on foreign-owned enterprise; the risk of confiscation; and the risk that foreign-exchange restrictions may prevent him from freely converting the currency he earns on his investment. Any country which hopes to attract foreign capital can easily remove the first two of these risks. To deal with the third is admittedly more difficult. The maintenance by the United States of a high level of imports and exports will tend, however, to eliminate the unbalanced conditions of international payments which in turn give rise to burdensome exchange restrictions. Every country has the right and the obligation, of course, to take such domestic measures as it deems necessary for the welfare of its own nationals. It must, for example, insist that foreign-owned enterprises adhere to its laws on the same basis as those domestically owned. At the same time, assurance of fair treatment is essential before any foreign private capital will invest in a particular country.

The Bogota Agreement

It is highly significant to note the constructive accomplishments of the Ninth International Conference of American States recently concluded at Bogota, Colombia. The Basic Agreement of Inter-American Economic Cooperation which was signed at that conference contains many provisions which should be a useful stimulus to private foreign investment in

(Continued on page 43)

*An address by Secretary Snyder before the Second Annual Foreign Trade Forum, Miami, Fla., May 21, 1948.

Canadian Securities

By WILLIAM J. McKAY

Canadian healthy disregard of political expediency is once more manifested following examination of the recent Federal budget. There are few countries where it would be possible in the face of a record budgetary surplus to defer substantial tax-cuts and to advocate instead a policy of stern retrenchment and debt retirement.

Despite the immediate vociferous criticism of the three opposition parties no substantial arguments could be substained to weaken Finance Minister Abbott's strong case for a sound and farsighted fiscal policy. Few reasonable Canadian citizens moreover will gainsay the fundamental truth of Mr. Abbott's contention that "there will never be a better time to reduce the burden of our national debt."

In addition to the anti-inflationary measures contained in this courageous budget the Dominion government has taken steps to suspend the preferential tariffs on cotton and rayon piece-goods. This course has been adopted in order to assist the British to maintain their position in the Canadian market. In view of the inability of Canadian buyers to pay the currently high British textile prices the previous British export target of 150 million yards of piece-goods had been scaled down to 80 million yards. Without this Canadian assistance there would have been difficulty in attaining even this drastically reduced total. A further indication is thus afforded of the beginning of the end of the export sellers' market and the concomitant increase of the pressures on artificially high exchange rates.

Another interesting budget feature is the lowering of the tariff rates on the importation of mining machinery and equipment. In this instance the Canadian government once more demonstrated its practical vision, and its realization of the tremendous importance in the Dominion economy of the mining industry. The Canadian authorities are not disposed, however, to heed the clamor of the gold-mining interests and give special dispensation to this section of the industry. It is recognized that the base-metals, oil, coal, iron, and precious metals other than gold have even greater claims on government assistance in their exploitation. Special emphasis is given to this viewpoint by the recent significant oil developments in Alberta, the discoveries of lead deposits on the south shore of the Great Slave Lake and in the James' Bay Area, and also the uncovering of radioactive ore near Cochrane, Ontario.

Thus the Canadian administration continues to deal in characteristically farsighted fashion with the problems that affect the Dominion economy and recent developments indicate that the maintenance of the Canadian dollar at its present parity is still an essential part of Canadian official policy. While on the one hand capable control of inflationary factors has a stabilizing influence on the Canadian price-level, on the other hand the Canadian authorities appreciate the undesirability of an undue margin between U. S. and Canadian prices. Consequently in view of this latter consideration the Canadian dollar at par rather than at 10% discount serves to reduce the gap between U. S. and Canadian prices. Looking still farther ahead the Canadian policy of a gradual adjustment of Canadian prices to the U. S. level is a necessary prerequisite for the eventual removal of the restrictions affecting the movement of goods and capital between the two countries.

During the week both the internal and external sections of the bond market continued firm but activity was still on a small scale. The stock markets were not notably affected by the budget announcements although the mining issues including the golds moved farther ahead. The obvious merits of CPR common, which are now commencing to be generally recognized, led to further activity in this stock and profit-taking after the recent steep rise was easily absorbed.

Sheridan, Bogan, Paul Co. to Be Formed

PHILADELPHIA, PA.—Sheridan, Bogan, Paul & Co., Inc., will be formed with offices at 1528 Walnut St. Officers will be Ralph E. Pendergast, Chairman of the Board; Charles Sheridan, President; Charles J. McCue, John C. Bogan, Jr., and William Ward III, Vice-Presidents; and Walter Roe, Treasurer. Mr. Pendergast was formerly with Paul & Co., Inc. Other officers held similar positions with Sheridan, Bogan Co.

Frank Hargear 28 Yrs. With Sutro & Co.

LOS ANGELES, CAL.—Frank F. Hargear, partner in Sutro & Co., Van Nuys Building, is celebrating his 28th year of service with the firm, having started to work in their head office in San Francisco in 1920 following his graduation from the University of California.

Paul & Lynch Formed In Philadelphia

PHILADELPHIA, PA. — Announcement is made of the formation of Paul & Lynch, members of the Philadelphia Stock Exchange, to conduct a general investment and brokerage business with offices at 123 South Broad Street, Philadelphia, Pa.

Clyde L. Paul and Howard J. Lynch were both previously associated with Paul & Co., Inc., which firm was founded by Mr. Paul in 1916.

Snyder Foresees No Debt Reduction Next Year

Treasury Secretary says financial commitments, along with tax reduction and increased expenditures may erase surplus, but adds, by decreasing now bank holdings of government bonds, it is still possible to reduce volume of marketable debt.

Secretary of the Treasury, John W. Snyder, in an address at the 28th annual conference of the National Association of Mutual Savings Banks in Atlantic City, N. J., on May 24, after reviewing the history of the management of the Public Debt since it reached its peak of $280 billion in 1946, expressed the view that in the coming year it was doubtful that a larger reduction than the $28 billion already achieved could be accomplished.

John W. Snyder

"Due to certain United States commitments and possible requirements of the near future," the Secretary said, "the outlook for debt reduction can not now be accurately estimated. The European Recovery Program is just getting under way. Large national defense expenditures will have to be undertaken. The success of these programs is of paramount importance to all of us. Undoubtedly, with a view to sound fiscal management, these expenses should have been financed within a balanced budget. And certainly, if we are to continue to pay off portions of the public debt accumulated during the war, we must do it during a prosperous period such as prevails at the present time."

Commenting on the outlook for further reduction in the Public Debt, the Secretary said:

"Unfortunately, the combination of tax reduction and increased expenditure probably spells the end of debt reduction from budget surplus during the next year. However, even if overall debt reduction comes to a halt during the months ahead, it may still be possible for us to shave somewhat further the volume of the marketable debt. As you know, only a portion of the $252 billion of government indebtedness is in the form of marketable obligations. The remainder is in the form of savings bonds, savings notes, special issues to government trust funds, and other non-marketable obligations. This non-marketable part of the debt may go up by something like $3 billion during the year ahead, thus permitting a reduction in the total of the marketable debt. This is due primarily to the intensity with which we are pressing—and will continue to press—our savings bond campaign. It is also because of the further accumulation of social security money and other government trust fund receipts."

Continuing, Secretary Snyder remarked:

"As bankers I am sure that all of you are familiar with the policy behind the debt pay-off program as it has been conducted. Increasing inflationary pressures in the economy during the past two years have made it imperative that fiscal and monetary policy be directed to combating further increases in price. The very fact that the Treasury was receiving more money in taxes than it was paying out through its expenditures was of major anti-inflationary importance. Hand in hand with this development has been our Treasury policy, during the period, of aiming at a reduction in the Federal security holdings of the commercial banking system. In seeking to achieve this objective, we have found that our wartime program of fitting securities to the needs of the various investors has paid dividends. You will remember that during the war we issued a large volume of short-term bills and certificates to the banking system. As a result, our job of paying off the debt held by banks has been considerably simplified. It is gratifying to us that, since the peak of the debt, nonbank holdings of Federal securities have gone up by about $3 billion, so that the reduction in holdings by commercial and Federal Reserve Banks has actually been greater than the reduction in total public debt. On Feb. 28, 1946, commercial and Federal Reserve Banks held $117 billion of Federal securities. At the present time, they hold $86 billion. This decline of $31 billion represents a reduction of more than 25% in commercial and Federal Reserve Bank portfolios of government securities in just a little over two years. This is a substantial achievement. We could hardly have laid out, and we certainly would not have dared forecast, a program as successful as this when we stood at the threshold of debt pay-offs back in 1946.

"I should like now to touch briefly on your own position with respect to government securities. During most of 1947, it was the policy of the Treasury to liquidate some government trust fund holdings of long-term securities in its program of monetary controls designed to prevent government bond prices from rising too rapidly. We sold a considerable number of long-term bonds to the various investor classes. Mutual savings banks, as a group, were among the larger purchasers. Since then, mutual savings banks have sold some long-term bonds, on balance; but their total holdings of Federal securities are now only about $100 million less than they were at their all-time peak last summer. All in all, you have added $1 billion to your government security portfolios during the last two years—mostly in long-term securities. And, a most interesting fact is that this billion dollar increase in governments has been matched by a billion dollar increase in mortgage loans and other investments. The fact that mutual savings bank assets, as a reflection of deposits, have continued to increase in such volume since the end of the war represents an exceptional expression of public confidence in the services of your institutions. The 1947 increase in mutual savings deposits may seem low as compared with the wartime increases, but it comprises a larger proportion of the total new savings of individuals than was the case during the war. As a matter of record, nearly 10% of new individual savings during 1946 and 1947 flowed into mutual savings banks, as against an average of 4% for the war years, and only a little more than that for the entire period 1935 through 1940.

"Some of you may feel that the Treasury is competing, through the sale of United States savings bonds, for the very same dollars that you are endeavoring to obtain as savings deposits for your banks. When you come right down to it, however, total savings do not have a ceiling figure, with each of us trying to get as much of the total as possible. Savings have been at a high level during 1946 and 1947, particularly in comparison with the prewar years. But, as long as the danger of inflation is with us, we hope that totals for 1948 and 1949 will prove even larger. Our job of selling savings bonds, your job in expanding mutual savings bank deposits and the jobs of our associates in life insurance and other savings fields are really one and the same. Nothing would please us more, for example, than to see the major part of the benefits which taxpayers are receiving from tax reduction invested in increased personal savings, rather than being spent to add fuel to the inflationary fires. We are all keenly aware of our united responsibility of impressing upon the public the need for saving a large share of current income.

"The whole tenor of the United States Security Loan drive is directed towards the encouragement of personal savings in any practical form. We are not acting in competition with other savings institutions. The government's primary purpose in promoting such savings is two-fold. First, we are endeavoring to cut down consumer demand for goods in short supply, and to absorb generally those inflationary dollars which are a potent danger in our economy. Second, we must secure as widespread an ownership in government securities as is possible, in order to facilitate the management of our national debt and insure a strong fiscal position. I therefore have no hesitancy in asking that you bankers continue the fine support which you have rendered the savings bond program in the past—support which I well realize has been many times freely given at considerable inconvenience. The present campaign will undoubtedly prove harder to carry on than those of the war years, and definitely will require greater efforts and activities of people in every field of national endeavor. Here, then, is a challenge—one which you, as savings bankers, are particularly qualified to meet."

Hoffman Appoints ECA Fiscal and Money Aids

Eight-member advisory committee is headed by George L. Harrison, Board Chairman of New York Life Insurance Co.

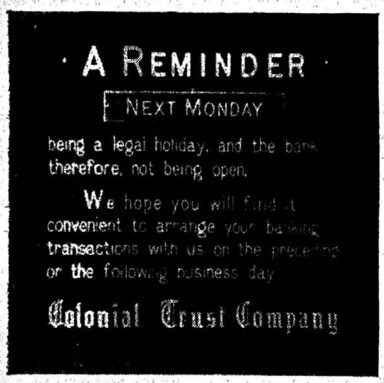
Paul G. Hoffman, Economic Cooperation Administrator, has appointed an eight-member advisory committee on fiscal and monetary problems. The Chairman of the group is George L. Harrison, who is Chairman of the board of the New York Life Insurance Co. The other seven members are E. E. Brown, Chairman of the First National Bank, Chicago; W. Randolph Burgess, Vice-Chairman of the National City Bank, New York; Jay E. Crane, director of the Standard Oil Co. of New Jersey; Joseph M. Dodge, President of the Detroit Bank of Detroit, Mich., and President of the American Bankers Association; Allan Sproul, President of the Federal Reserve Bank of New York; Walter W. Stewart, head of the Institute of Advanced Study at Princeton University, and John Williams, Harvard University Professor of Political Science and economic adviser to the New York Federal Reserve Bank.

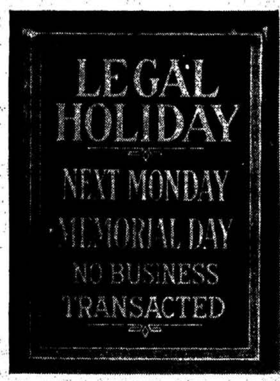
George L. Harrison

The New Look for Bank Holidays

Colonial Trust Eases Closing Announcement

The old conventional bank holiday sign, so worded as to indicate an utter disregard of customers' convenience, has been abandoned by





Colonial Trust Company of New York. In its place, in all the banking rooms of that institution, a new and cordial announcement will make its appearance before the approaching Memorial Day holiday.

It will read: "A Reminder: Next Monday being a legal holiday, and the bank, therefore, not being open, we hope you will find it convenient to arrange your banking transactions with us on the preceding or the following business day.—Colonial Trust Company."

Contrast this with those still used in many banks, which read something like this: "Monday being a legal holiday no business transacted."

"Our new signs will reflect our friendly attitude and our appreciation of our customers," said Arthur S. Kleeman, President of Colonial; "they should also help to dispel the out-dated and unjustified feeling that banks are cold and indifferent to the needs of their clients."

NASD Informs Brokers and Dealers of New York State of Transfer Tax Liability

Frank L. Scheffey, Executive Secretary of District No. 13 Committee of the National Association of Securities Dealers, Inc., which committee comprises the State of New York, New Jersey and Connecticut, in a notice dated May 20, called attention of members to the liability and responsibility of dealers and brokers, under the amendment to the New York Transfer Tax Law of 1945. The notice, together with a ruling of Mortimer M. Kassell, Counsel of the New York State Tax Commission, dated Aug. 26, 1947, follows:

Frank L. Scheffey

"*To Members of the NASD in District No. 13:* Effective as of March 12, 1945, the New York State Stock Transfer Tax Law, Section 270-3, was amended to read as follows: 'It shall be the duty of the persons making or effectuating the sale or transfer, including the person or persons to whom the sale or transfer is made, to pay the tax provided by this article.'

"The effect of this amendment was to extend the liability for payment of tax to persons other than the seller.

"The provisions of this amendment emphasize the importance of establishing before their completion the situs of such transactions.

"Very truly yours,

"NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC., DISTRICT No. 13."

Text of Ruling

"*To Members of the NASD in District No. 13:* The following is a ruling issued by Mortimer M. Kassell, Deputy Commissioner and Counsel for the New York State Tax Commission, under the date of Aug. 26, 1947:

"Kassell, Deputy Commissioner and Counsel: By clause (g) of subdivision 5 of section 270 of the Tax Law, no New York stock transfer tax is imposed upon 'deliveries or transfers by a broker to a customer for whom and upon whose order he has purchased' the stock transferred. In an opinion dated Feb. 19, 1947, the Attorney General has held that this exemption is applicable with respect to a transfer of record ownership made on the books of a corporation or its transfer agent within the State of New York, even though such transfer is made directly into the name of the buying broker's customer from the name in which the stock stood before the broker's purchase, provided such purchase by the broker was consummated entirely outside New York.

"Numerous inquiries indicate that this opinion has been misinterpreted. It appears that many persons, particularly brokers and dealers in securities, have misconstrued the opinion as holding that no transfer made on the books of a corporation in New York is subject to tax unless some other taxable event incidental to the transfer (such as the sale or delivery of the stock certificates) occurs within this State. This is not so. Every transfer of stock made on the books of a corporation in New York is subject to the New York stock transfer tax unless exempt by some specific provision of the Tax Law. No exemption exists with respect to a transfer by the seller or his broker to one who has purchased stock for his own account, whether such purchaser be a broker, a dealer in securities, or any other person. Likewise, no exemption exists with respect to a transfer by the seller or his broker to a broker acting for the buyer. Accordingly, any transfer of either of these types, if made on the books of a corporation within the State of New York, is subject to the tax imposed by section 270 of the Tax Law, regardless of the fact that the sale, agreement to sell, memorandum of sale, and delivery of the stock certificates all occur outside this State.

"NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC., DISTRICT No. 13."

Reversion From Government Paternalism

By HOMER A. VILAS*
President, Association of Stock Exchange Firms
Partner, Cyrus J. Lawrence & Sons, Members of N. Y. S. E.

Commenting on trend toward government paternalism which developed after depression of 1929, Mr. Vilas notes disillusioned American people are beginning to realize this trend is not in keeping with American tradition, thought and action, and are repudiating it. Sees reversion imposing increased responsibility on labor, management and finance to cooperate for greater prosperity. Holds duty of government to give no group advantage over other.

The Board of Governors of the Association of Stock Exchange Firms is happy to be holding one of its quarterly meetings in the City of Detroit, where we are privileged tonight to meet with you—its business leaders—and thus be afforded the opportunity of exchanging ideas and of learning some of the "know how" which characterizes the production and the distribution methods of a young and important segment of the system of free enterprise. You in Detroit are an outstanding example of this system and for your contributions to its success you have won fame and the gratitude of a nation.

Homer A. Vilas

The Association of Stock Exchange Firms is a national voluntary organization of members and member firms of the New York Stock Exchange. It is the trade body of the industry. The purposes and objectives and the justification for its existence are based on the contributions it makes to the efficient functioning and the perpetuity of capital's part in the American economy. The job of our members is primarily to appraise existing conditions from the point of view of investors in the securities of corporations which are listed on the New York Stock Exchange. It is the Association's job to help them do it well.

Throughout American history, labor, management and venture capital have banded together and worked toward a common objective to make this nation the greatest, not from the standpoint of power *per se*, but from the standpoint of creating the highest standards of life for all the people.

The amazing progress which was made in the first three decades of this century could only have been made by a free people of a young, virile nation—a people who knew that only in a system of competitive harmony could such dramatic achievements have been realized. Our industry is proud to have had a share in these accomplishments.

Quite naturally, but nonetheless unfortunately, however, growing pains developed and the awkwardness and apparently permanent inability to coordinate and consolidate the progress and growth caused a set-back—a depression.

With typical American impatience to quickly correct the conditions which resulted from the disruption—rather than await the normal processes by which on previous occasions a disturbed economy righted itself, reestablished its equilibrium and set out again on a path of progress—the country turned to what seemed to be an expedient program of governmental paternalism. Government in the American tradition was practically discarded.

In a few months the government became one by men—not one by law. Control of the nation's economy centered in Washington. This condition has lasted for 16 long years. And government by men has been given every chance to prove that it could do more for more of our people than could the methods by which the country had attained its greatest success. It has failed! Progress has been retarded.

Change From System of Paternalism

Now a disillusioned American people are beginning to realize that this system of governmental paternalism is not in keeping with American tradition and thought and action. They are realizing that its chief successes have been confined to placing a multitude of obstacles in the path of progress. They realize that the greatest accomplishment of this experiment has been to pit the factors of production one against the other.

They realize now that labor, management and venture capital, working together with a minimum of governmental interference, made unbelievable strides in the improvement, the production and the distribution of goods which created in this country the wonderful standards of life which we know.

And they are now coming to further realize that not because of, but in spite of, this paternalistic system, management, labor and capital working together have brought this country to the threshold of the greatest prosperity it has ever known.

The unique qualities of common sense and character of the American people when they arrive at their ultimate perspective will discard this travesty on American tradition for the parasite and failure that it is. Already it has been partially repudiated and it will not be long before repudiation will be complete.

Increased Responsibility of Labor, Management and Finance

Then the responsibility will again be squarely upon the shoulders of labor and management and finance. It will be a happy day but it will be a serious one. Then the traditional leadership of the country's economy will reassume the duties and obligations of their heritage. The first job will be to consolidate the gains of the century, for there is no question that lessons have been learned. I have no fear but that the leaders will rise to the occasion.

There is no question in the minds of right-thinking men that the increased complexities of a modern competitive society, such as ours, will require correspondingly increasing activities on the part of the Federal Government; but also there is no question but that those activities must be in conformance with the American conception of the functions of government. Government cannot assume the obligations and duties

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*Remarks of Mr. Vilas at Dinner Meeting of Board of Governors of the Association of Stock Exchange Firms, Detroit, Mich., May 20, 1948.

Securities Salesman's Corner

By JOHN DUTTON

Professional men, such as doctors and lawyers, who have checked up on where their new patients or clients come from, claim that there is no such thing as a "new account." People who go to a doctor for the first time have usually been to several other doctors and for one reason or another become dissatisfied. This is often true of the legal profession and it is certainly the existing situation in the securities business. In matters of health, the law, or finance people shop around. It is because these vital affairs loom so large in everyone's life that it is only natural for all of us to seek the best possible advice and assistance.

One securities dealer put it this way, "This business is nothing more than keeping people satisfied and happy." In a way he was right, but we would go farther. The building of a substantial clientele in the securities business begins with understanding what your customer needs and MAKING HIM LIKE IT. This does not mean bullying anyone into accepting any preconceived ideas regarding securities. The road to understanding and cooperation between the investor and his dealer or broker is too often hidden behind a fog of indecision and lack of clarity on the part of both the investor and the firm with whom he deals. Before you can map out a course of action for your client you must first impress upon him that it is just as important for him to understand why certain securities are good for him and some are not. It is only once in a while that you will hear of someone telling his architect how to build his house, or his doctor how to cut out his appendix, or his lawyer how to draw up his will. But the fellow who doesn't think he knows more about how to invest his own money than any stock broker or securities dealer is a rare bird. Too often, the salesman in this business takes orders for securities that he knows are not suitable for his client and the reason that he does so is that his customer is in the driver's seat and he is the order taker.

It is not always possible to control every situation or every customer. Everyone knows a certain number of people who will act like cantankerous everyday human beings no matter what he is selling. No matter how tactful, forceful or inspiring you may be there are times when you must take orders instead of give them. But when you have an opportunity to open up and show your customer how important it is to HIM that he has a plan and a definite objective in his investment operations by all means go to it. The customer who has no plan, and no one that is helping him to work that plan, is the customer that shops around. He is never satisfied with his broker. He doesn't know what he is doing or why he is doing it, so when a particular security proves unsatisfactory he looks for someone else who will sell him only the type of investment that will always go up price and increase the income that he receives from it. But if your customers realize that they have a certain percentage of their funds invested in high grade bonds and preferred stocks, or good common stocks, or speculations and that the percentages which are represented by each group are geared to the PREVAILING ECONOMIC AND FINANCIAL SITUATION IN THE NATION AS A WHOLE AND THEIR OWN PARTICULAR INDIVIDUAL REQUIREMENTS AS INVESTORS, then you have eliminated shopping around and have constructed an edifice for every one of your customers that will stand up and prove satisfactory to them.

Investing money today is not a job for amateurs—but the task is less complicated than at any time in our history because today we are able to get the facts. Never before has the concientious investment dealer been able to bring before his clients the vast fund of information which he can command today. Upon sound information good investment judgment rests. It is a wise investor who goes to his investment dealer and says, "Let us sit down together and talk over my investment situation, let us plan a program and watch that program develop as we go along." The only way anyone can do a good job of investing is to know what he needs. The best way to find out is to bring all the facts into the daylight and start from there.

Jacques Forget Heads Montreal Stock Exch.

MONTREAL, QUE., CANADA —Jacques Forget, partner of Forget & Forget, has been elected Chairman of the Montreal Stock Exchange for the year 1948-49. He succeeds Raymond Allan, who will act as Governor and a Trustee of the gratuity fund for a period of three years.

Philip H. Smith Joins Mol & Co. in New Branch

DETROIT, MICH.—Mol & Co., members of the New York Stock Exchange, will open a branch office in the Penobscot Building about June 1st. Associated with the new branch will be Philip H. Smith. Mr. Smith was formerly with Alison & Company as Manager of the syndicate and trading departments.

C. E. Abbett Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Smith B. Davis has been added to the staff of C. E. Abbett & Co., 3277 Wilshire Boulevard.

With Philip T. Williams

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Jack E. Stevens is with Philip T. Williams, Liberty Life Building.

International Lending and World Trade

By W. A. B. ILIFF*

Loan Director, International Bank for Reconstruction & Development

World Bank official, in outlining functions of his institution, points out U. S. is only nation in position to extend foreign loans and it can do this through its participation in international lending institution. Says World Bank will avoid mistakes of past international lending and will insist on supervising expenditure of loan proceeds. Lauds European Recovery Program and is optimistic regarding Western Europe's reconstruction. Concludes U. S. must assume world leadership for generations.

I come among you very much as a stranger in a strange land. It is only four months ago since I landed in the United States. The whole of that four months I have spent in Washington. That short time has been enough to inspire me with an admiration and affection for your beautiful capital city. But it has been enough too to have made me come to realize that Washington, whatever else it may be, is not the United States in the sense that London is England, or Paris is France. This fact has been so continuously and emphatically impressed upon me by my American friends that I can be forgiven if I have come to believe it. I have, therefore, looked forward to my visit to Detroit not only with pleasure but also for the opportunity afforded me of seeing something of the real America. For us Europeans, the very mention of the name of your city raises up in our minds a picture . . . the picture of a pulsating hive of busy efficiency, of hundreds of thousands of working men and women tending tens of thousands of complicated machines in thousands of vast factories, and of the fruits of all this human toil and ingenuity rolling off the assembly lines in quantities only to be measured in astronomical arithmetic. To us, Detroit represents the zenith of North American industrial civilization.


William A. B. Iliff

Right at the start, I have to confess what some of you doubtless have suspected already. This is my very first public appearance in the United States since taking over the position of Loan Director in the International Bank. It is, therefore, with some sense of trepidation and a feeling of uneasiness in the pit of my stomach that I find myself making my American debut before so many distinguished citizens of such a famous city. But I do not hesitate to avail myself of the privileges of a stranger, and of a novice, and to throw myself unreservedly on the mercy of your traditional American hospitality.

I have been asked to address you today on the subject of international lending in its relation to world trade. I would not propose to deal with short-term commercial credits which are the concern of the private banks. Nor shall I discuss those aspects of international lending which make up the stock-in-trade of our sister institution, the International Monetary Fund; these are primarily concerned with temporary disequilibria in the external balance of payments position of our member countries. I propose to confine myself to those medium or long-term operations extending over the 10 to 30 years' period which are the field of the International Bank.

There are a number of principles and a number of facts underlying this type of international lending which are so simple, so self-evident and so well-known that I think we are all inclined to forget them. Indeed, they are so often forgotten that it is well, I believe, to resurrect them and let them see the light of day.

International Loan Procedure

What happens when an international loan is made? A borrower seeks to borrow a currency, let us say dollars, not because he prefers the appearance of a dollar bill to the look of his own currency. Indeed, in a world where new issues of currency notes are being made with almost the same frequency as new issues of postage stamps, it is my experience that the artistic appeal of a currency note tends to vary in inverse ratio with its acceptability. Actually, of course, what happens when a loan is made is this. . . . The lender passes on to the borrower an immediate claim on the goods and services of the lending country equivalent to the amount of the loan. This result comes about whether the loan is subscribed privately in the market in the lending country; whether the loan is a straight transaction between the lending government and the borrowing government; whether the loan is made by a para-statal institution such as—in this country—the Export-Import Bank; or whether the loan is made by an international organization such as the International Bank. $10 million lent to Ruritania means nothing more than this: Ruritania is given the immediate means of buying turbines or agricultural machinery or electrical equipment or some other goods and services which the United States is able to produce.

And what happens when the loan comes to be repaid? A borrowing which has been made in dollars, must be repaid in dollars. But Ruritania can only lay her hands on the dollars necessary for servicing her dollar loan, if she herself is able to sell, for dollars, a quantity of her own goods and services sufficient to meet her installments of principal and payments of interest as they arise. With the best will in the world on the part of a debtor country, an international loan can never be repaid unless the creditor braces himself to accept payment in the goods and services of his debtor. There is no other way.

And now, let us consider for a moment in what circumstances a nation is able to assume the role of a lender. In this respect, a nation is subject to precisely the same limitations as an individual. If any one of us finds himself in the situation where his income just balances with his expenditures—that is to say, where his consumption is equivalent to his production—he is in poor shape to lend even to his best friend. But if any one of us should be in the unhappy situation where his income is less than his expenditures, then he is in no shape at all to lend. When the affairs of an individual, or a nation, have been so ordered that the individual or the nation is able to produce more than it immediately wishes to consume, it is then, and only then, that the individual or the nation can become a lender.

U. S. Alone Can Lend Abroad

In the world of today, with one or two unsubstantial and unimportant exceptions, there is only one nation which finds itself in that situation, and that nation is the United States of America. I need not go into the reasons underlying this state of affairs. I need merely to state the fact. But the reasons are by no means discreditable to the nations concerned, in the great majority of cases anyhow.

It is this circumstance that provides the answer to the question which is so often asked me—why is it that the capital subscription of none of the member states of the International Bank is freely available for lending, except the subscription of the United States?

Bad Lending Policies

And now let me put to you some of the considerations with respect to international lending which arise out of an examination of past operations in this field. In times gone by, there was much bad international borrowing, but there was worse international lending, especially in the period between the two wars. Loans were made to build pretentious presidential palaces in little countries whose basic industries were languishing for want of an injection of needed capital. Loans were made, and indeed sometimes were virtually forced upon borrowing countries, in amounts which were far beyond the reasonable capacity of the country to repay. Loans were made for specific purposes, which were good enough in themselves, but no steps were taken to see that the proceeds of the loans were used to finance the projects in respect of which the loans had been made, and the proceeds were often squandered on unproductive non-essentials.

Such lending policies inevitably led to defaults . . . defaults for which the lender, as much as, and perhaps rather more than, the borrowerer must accept responsibility. Moreover, the effects of this situation were not confined to the financial field. Between nations as between individuals, nothing is more corruptive of friendly relations than dishonored obligations, from whatever cause they arise.

It was with some of these considerations in mind that the architects of Bretton Woods, when they planned the structure of the International Bank laid down certain principles which, under its Articles, the Bank is obliged to follow in making loans. And of these, two of the most important are: First, that in making a loan, the Bank will have regard to the extent to which the loan will serve to benefit the economic system not only of the borrowing country, but of other member states; and secondly, that the Bank in making a loan will have regard to the capacity of the borrower or of the guarantor, if there is one, to undertake the financial obligations of interest and amortization. As a matter of policy, the Bank has introduced procedures under which the disbursement of a loan is subject to close and continuous supervision with the object of ensuring that the proceeds of the loan are expended on the purposes for which the loan was granted, and only on those purposes. Arrangements too are made under which friendly contact is maintained between the Bank on the one hand and the responsible authorities in the borrowing country on the other throughout the life of the loan. The purpose here is to ensure that the Bank may be able to follow the effect of policies from time to time adopted by the borrowing

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*An address by Mr. Iliff before World Trade Week Convention, Detroit, Mich., May 20, 1948.

The New Wall Street

By ROGER W. BABSON

Mr. Babson calls attention to change in policy of Wall Street and says it is no longer trying to exploit but rather to give brotherly help. Holds this change will greatly lessen "boom and bust" history of country and tend to stabilize business, prices and wages.

Wall Street is getting religion! This does not mean that they are becoming interested in any form of theology or some special church denomination. But Wall Street certainly is awakening to Jesus' basic teaching—namely, **helping our brother men.** For over 40 years, I have spent much time on Wall Street. I worked there in 1900 and have had an office there or close by ever since. Certainly, the Wall Streeters have been a self-satisfied group of people living largely—either directly or indirectly—on inherited money. These men felt perfectly safe whatever might happen, believing that New York City with its wealth was fast becoming the financial and ruling center of the world.

Roger Babson

Frankly, the game of old Wall Street was to sell out to the public when prices were high, letting the market drop to low levels until the public was forced to lose their stocks, and then re-buy them and make millions. Until the Securities and Exchange Commission came into being Wall Street could lie, browbeat, steal and get away with it. In short, Wall Street lived on exploiting others, whether Americans, Europeans or Chinese.

New Wall Street

This old complacency has completely gone. Wall Street is now definitely scared. It is scared of the U. S. Department of Justice, it is scared of Congress and it is especially scared of Russian Bombs. Wall Street really believes that if there should be a war with Russia the chances are 50-50 that New York City would be wiped out. This means that their business would be ruined and they would be lucky not to lose their own lives by the bombing. The preaching of the Atomic Bomb by scientists is putting the "Fear of God" into Wall Streeters as the preaching of Hell-Fire by the churches put religion into their rural ancestors.

The new Wall Street is beginning to think about the old Golden Rule. It has already lost faith in armies and battleships; it is not sure that a big air force will save it. Wall Streeters are beginning to believe that Communism can be headed off only by making the peoples of the world healthier, happier and more prosperous. They see that the real fight between Russia and America will consist of proving which system will make the people of Western Europe and Asia better fed, better clothed and better educated. Instead of longer trying to **exploit** people, they have at last concluded that they had better **help** people. This, of course, includes the people of the United States as well as those of England and of Western Europe.

What About Prices?

If Wall Street sticks to this policy it should greatly lessen the "boom and bust" history of our country. It should tend to **stabilize** business, prices and wages. Instead of looking for bigger business, more wages and higher prices, this new policy should tend to flatten out the curves. Any recession should be gradual. The old Area Theory which I have preached for 30 years, which was temporarily suspended by President Roosevelt, should again come into force.

This doesn't mean that the present good times will continue indefinitely. There are many other "streets" in this country which need more religion besides Wall Street. Stockholders, manufacturers, and shopkeepers must be content with smaller profits. Wage workers must do more work for their present wages. (This especially applies to the bricklayers who are a disgrace to the entire labor movement.) Politicians must use the same care about spending the taxpayers' money as they do about spending their own. We all need to observe the Golden Rule.

Conclusion

Usually when I come home from New York City, I am rather blue and pessimistic. The selfish, wasteful and unpatriotic atmosphere found there, not only on Wall Street but along the entire length of Broadway, has made me sad. For the first time in some years I have come back truly optimistic. Why? Because there are real signs of Wall Street getting religion. All we need now is to have this new spirit spread throughout the country to every city, town and farm.

James Vacha Joins Staff of Adams & Co.

CHICAGO, ILL. — James C. Vacha is now associated with the trading department of Adams & Co., 105 West Adams Street, Jefferson K. Hoshor, President, announced. Mr. Vacha was formerly with R. S. Dickson & Co. and Bennett Spanier & Co.

James C. Vacha

Harry Landry Now With Robert C. Jones & Co.

WASHINGTON, D. C.—Harry M. Landry has become associated with Robert C. Jones & Co., Metropolitan Bank Building, members of the New York Stock Exchange. Mr. Landry was formerly Washington Division Manager for Babson's Reports. At one time he was associated with Shields & Co. in their New York office.

F. S. Smithers & Co. to Admit Three Partners

F. S. Smithers & Co., 115 Broadway, New York City, members of the New York Stock Exchange, will admit William H. Burnham and Cleveland S. White to general partnership, and Robert B. Smithers to limited partnership on July 1. Mr. Burnham has been with the firm for some time. Mr. White in the past was with Lazard Freres & Co. and Tucker, Anthony & Co.

The Objectives of Our Foreign Assistance

By PAUL G. HOFFMAN*

Administrator for Economic Cooperation

ERP head lists and analyzes our responsibilities under Foreign Assistance Act. Declares $15 billion will have to be spent annually for defense, along with Marshall aid, for several years ahead. Warns alternatives are too grim to face.

During World War I in one of his columns Will Rogers discussed the submarine menace. He said he had devoted much of his personal time and had engaged in considerable research to find some means to put an end to it. His great effort had not gone unrewarded. He had made a great discovery, namely, that submarines could not operate in boiling water. Therefore, he said, the obvious way to drive the submarines out of the Atlantic was to raise the temperature of the ocean to the boiling point. "If you ask me how that can be done," he added, "my answer is, I've given you the idea, you work out the details."

Paul G. Hoffman

In 1939 I had a great idea. You will recall that in that year we had approximately 8 million unemployed; for the first time in the history of the United States we were finishing a decade with fewer people employed than at its beginning. My idea, both great and simple, was that we should enlist the services of the best brains from our universities and from business and put them to work in solving the problems of how high productive employment could be attained and maintained in a free society.

That idea I gave to Bill Benton and told him to work out the details. In his usual energetic manner he dashed around the country talking to University Presidents professors of economics and business leaders. He was at that time one of the 8 million unemployed, so that he had time to devote to the project. By the Fall of 1941, a group of business leaders and economists had been signed up and the needed finances fairly well arranged. And then came Pearl Harbor. It looked as though our project had been sunk right along with the Pacific Fleet.

Then the Honorable Jesse Jones entered the picture in June of 1942. He had an idea which I rather suspect had been sold him by Marion Folsom of the Business Advisory Council. His idea was that industry should prepare for peace in time of war. He proposed that it should proceed forthwith to develop plans not only for quick reconversion from war to peace time activities, but also for bold expansion, so that peace would not bring mass unemployment. He envisioned a grass roots operation that would encompass all commerce and industry, large and small. I was asked to chairman the project. Immediately I sought Bill Benton. We came to a mutual understanding with Uncle Jesse. We agreed to buy his idea and said if he would buy ours, WE would do our best to work out the details for both. We then proceeded to enlist the services, first of Marion Folsom, later of Walter Fuller to head the Field Development Division, and of Ralph Flanders, the Research Division.

The contributions made by the Field Development Division under Marion Folsom, and Walter Fuller with Scott Fletcher at the helm as Executive Director have been so widely acclaimed that they need only the briefest mention. There is general agreement that the 3,000 committees which were organized and the 70,000 committee members contributed importantly to the attainment of our continuing high postwar employment.

The accomplishments of the Research Division of CED under Ralph Flanders and later under Ray Rubicam, after Ralph fell from grace and became a United States Senator, are likewise well known. Both the monographs written by the scholars employed by CED and the Policy Statements authored by the businessmen are standard classroom material in several hundred leading universities and colleges. They are accepted by economic sections of all church groups as being authoritative. They also are highly regarded by the United States Government, in both the executive and legislative branches. As a matter of fact, when the Senate Foreign Relations Commitee was questioning me to determine my fitness for my new post as Administrator of ECA, they seemed to be most impressed by the fact that I was Chairman of the Board of Trustees of CED. Incidentally, I was struck by their knowledge of our publications.

The important fact about CED research is, of course, its responsibility and high quality. That is not the result alone of the employment by CED of top scholars. All of us, of course, recognize the contribution made by Ted Yntema, Howard Myers and Herb Stein and other members of our staff, as well as the members of our Advisory Board headed by Sumner Slichter. However, it is the fact that these scholars and businessmen have been willing to, and I am quoting a phrase of one of my sons, "beat their brains out days on end," that has given the material unique quality.

The Foreign Aid Program

Now we will leave CED for a moment to discuss the impact of another idea. General Marshall in the commencement address delivered by him at Harvard University last June said in substance that it we wish to protect our free institutions and keep alive the spirit of freedom in Western Europe, we would be well advised if we helped the people of the Western European nations help themselves to economic recovery. Whether Secretary Marshall knew that those words would ring around the world I do not know. I do know that they rang very loudly in my particular case, a few weeks ago, when I found myself facing the rather frightening responsibility of administering the Foreign Aid Program.

The task set by the Congress for the Economic Cooperation Administration has no precedent in history. By the use of American dollars, American food, American steel, coal and other goods, we are to promote the recovery of hundreds of millions of people in many great nations from the disastrous aftermath of the world's most terrible war.

We are to seek above all to have

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*An address by Mr. Hoffman before dinner of Committee for Economic Development, New York City, May 20, 1948.

Foreign Aid on the Economic Horizon

By SIMEON E. LELAND*
Dean, College of Liberal Arts, Northwestern University

Dean Leland maintains prospective appropriations for foreign aid do not add up to much more than various acts of assistance over recent past. Believes (1) prevailing currents still inflationary; (2) rate of upward movement is declining; (3) government will continue or increase current rate of expenditures; (4) relief from high taxes and prices is remote; and (5) business recession this year doubtful.

The most important single factor on the horizon, which even now is shaping the course of the economic, social and political life of the nation, is the current behavior of Russia.

So real is this specter of Russian determination to settle all international matters according to her own dictates that rearmament has been forced upon us. Now we are embarked upon a gigantic remobilization or defense program. Industrial production, the allocation of materials and the diversion of labor from private to public contract work have begun slowly to indicate signs of this change. The talk about the reinstitution of gasoline rationing and the reduction in the manufacture of pleasure automobiles is not merely idle talk. It springs from considerations seeking to maximize again our amazing war potential.


Simeon E. Leland

Another factor with international import is the Marshall Plan for European Recovery. Congress, in April, authorized the extension of $5.3 billions in loans and credits as the first year's contribution toward the economic and physical rebuilding of Europe. This is the first step in a projected four-year plan envisaged to cost about $17 billion.

No Great Increase in Foreign Aid

Great as are the appropriations for foreign assistance, they are not much greater than the assistance extended in various forms during the last few years. The impact of the burden, therefore, on our economy is more likely to fall in the future than in the present. Many of the goods needed have already been produced. Shipments abroad are, therefore, more apt to be felt in continued shortages rather than in additional curtailments. The enforced reductions in supply will tend to hold up prices for many goods for a while and will add a burden to the domestic economy. The force exerted will be on the inflationary side. And for our own good, as well as that of the world, this problem should be kept in hand.

We expect foreign nations which receive assistance to halt inflation, to stabilize currency and exchange rates, to increase production of foodstuffs, livestock, coal, electric power, etc., and to do a number of other things in order to enhance the chances for the success of the program. Large as the total program is, both in the aggregate and from the standpoint of drains on our own economy, it is not large enough to do the job unless substantial cooperation is given by the recipient nations. It is difficult to see how we can ask them to do more in their interest than we are willing to do in our own. The more our own price and cost levels climb, the more illusory are the benefits to us from the international recovery program—and the less the rest of the world will get as well.

With Federal expenditures of $42.5 billion in 1947 and projected expenditures of $38 to $40 billion in fiscal 1948 and 1949 the influence of the activities of the National government on the economy can not be neglected. Is the budget to be increased over the next few years? Are the increased expenditures, if such are contemplated, to be covered by taxes or by increased borrowing? If expenditures are not to be increased, are taxes to be reduced or will debt repayments be stepped up—or will increased military expenditures prohibit further tax reductions, call for future rate increases or be financed by loans? If loans are to be utilized, will citizens or banks supply the funds? . . . These and many more questions can be asked. The point is, so important is the influence of governmental fiscal policy on the level of economic activity that its operations must be taken into account in estimating the course of economic events.

No Decrease in Public Expenditure

It may not be too much to say, therefore, that in the next few years, provided war does not intervene, about one-fifth of the economic activity of the nation will be attributable to the expenditures of governments. The deferred demands of state-local units for streets, highways, sewer systems, public buildings and the like need also to be considered. Any steps toward war or rearmament on a significant scale will enhance the economic impact of public expenditures. It seems doubtful, in view of the gathering war clouds and the international power bluff being played by Russia, if public expenditures are apt to decrease materially in the near future. Even the hacking at the Federal budget by a new political administration will probably not materially reduce the aggregate of expenditures. Congress has demonstrated that this year. This seems to spell gloom for further, or what might be called peacetime, tax reductions.

At present, as at almost every period in history, conflicting forces, some generating inflationary tendencies, others working in the direction of liquidation and deflation, are at work. They must be identified and their relative pull determined. In the time available not all factors can be analyzed, but at least the drift of some of them can, perhaps, be determined.

Among the potent inflationary forces is the sustained flow of personal incomes and the high level of purchasing power widely available throughout the economy. This flow of purchasing power arises not only from continued production but also from enhanced rates of pay. It is a function both of continued productive activity and of rising rates of remuneration.

Credit instruments have followed the same pattern. Bank loans doubled from June 1914 to June 1920, (i.e. from $15.2 to $30.7 billion), because a large share of war-plant expansion carried on for the government was financed via private loans.

Consumer credits which were drastically curtailed during the war jumped markedly between 1945 and 1946. Indeed, the scarcity of consumer's durables was probably more responsible for the decline in consumer's credits than Federal regulations. Recent increases, too, can be largely attributed to the present increased availability of consumer goods, abetted by continually rising prices.

Future Saving Problematical

In addition to using current income and credits to finance purchases, savings have likewise been employed. The redemption of U. S. savings bonds is indicative of this. Increased saving can relieve the pressure on the price level but how much saving will take place in the near future is problematical. In spite of the speed of the reconversion of industry to the manufacture of peacetime products, notable shortages still exist. Among the conspicuous shortages is that of housing. In 1947, it is reported, 1,250,000 new families or households were established. The number of marriages per annum has been running about a half million more than this, indicating a probable demand for future homes of rather large proportions. In contrast with the number of marriages and new families only about 833,000 dwelling units were completed last year. The repeated delays in finishing houses under construction indicates innumerable shortages in building supplies and hardware—all of which are becoming more plentiful with the passage of time. Motor cars are now obtainable with shorter delays than heretofore, but the supply is still not great enough to break the seller's market, or completely eliminate black, dark or gray market practices. Many raw materials and producer's goods are also short in supply. Steel, for example, is scarce. Gasoline and fuel oil, too, although produced in greater quantities than before, are not adequate to meet current demands. These conditions will sooner or later be corrected but so long as shortages exist, an upward pressure is exerted on the price level.

Prices, of course, have been moving steadily higher since 1939 with but few temporary reversals of trend. It matters little whether the change is measured by wholesale or retail prices, by consumers prices, cost of living indexes, by the price of selected commodities or prices paid and received by farmers, the course has been up and up.

Retail prices, too, have advanced faster than sales volumes. This condition needs to be watched carefully, particularly as the number of units purchased declines. Dollar volumes make business appear more healthful than it may be. These rising prices soon become rising costs Sales volumes are affected by demand curtailments as prices mount higher. These declines can be postponed for a time, as purchasing power flows more freely among consumers, but with repeated price increases the situation becomes more precarious—the question is merely "when." (The answer is worth much more than the traditional $64 and some multiples thereof.) These rising costs also move further up the scale the break-even points so important to producers. The higher these break-even points rise, the more susceptible given industries become to losses generated by sudden and unexpected price changes.

That industry can absorb all wage demands without increasing prices is and has been illusory.

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*Excerpts from an address by Dean Leland before Conference on Production of the American Management Association, Chicago, May 13, 1948.

Opposing Factors in Business Outlook

(Continued from first page)

but relatively short reaction in business activity in the last half of 1945, due to the sudden cessation of the huge volume of war orders and to the problems of reconversion. Then followed the strong business recovery, hampered though it was in its early stages by long and costly industrial strife. But the pattern has deviated in that this postwar boom has already outlasted its predecessors, so that purely on a time-lapse basis, the long-advertised postwar depression really is overdue. Two questions are involved here: (1) what has kept this boom going; and (2), is it likely to slide off the edge some time in 1948.

Inflation Background

Before dealing with current trends, some background information may be helpful in showing how we arrived at our present condition of record peacetime output, peak employment, large purchasing power, and high prices and living costs.

The common phenomenon of all these postwar business booms has been inflation. All of our great commodity price inflations have originated in war. They have come about because the supply of money and hence of purchasing power, has grown more rapidly than the supply of civilian goods. Major wars involve the immense production of military goods for destructive purposes But people receive wages for making these things, and thus acquire purchasing power at a time when the available quantity of civilian goods is limited. The process is aggravated by government borrowing for war needs, since governments find it impossible, or at least inexpedient, to finance great wars entirely by taxation. The result is an unbalanced national budget, a rising national debt, and an increase in the money supply which outruns the production of civilian goods. The pressure of excess money on goods sooner or later develops into price inflation.

From July 1, 1941 through June 30, 1946, the government raised the enormous sum of $383 billion. Of that total 44% was obtained by taxation, which incidentally was a better percentage showing than in the three preceding major wars. The remaining 56%, or $214 billion, was raised through borrowing. About $128 billion of this came from sales of securities to non-bank investors. This was the least inflationary type of Treasury borrowing, since it represented mostly the absorption of savings. But non-bank investors did not purchase all of the war issues, so that the remaining $86 billion had to be financed through the banks. Of that total, $64 billion of Treasury securities were sold to commercial banks, and the other $22 billion were bought by the Federa Reserve banks.

These sales of war issues to the banks were at the root of the rise in the money supply which led to inflation. In the narrower sense, "money supply" means demand deposits in banks and currency outside banks. When a bank makes a loan, it ordinarily credits the borrower's checking account. This increases bank deposits, and hence the money supply. Similarly, when the Treasury sold war securities to a commercial bank, the latter credited the Treasury's account. As the Treasury spent the money, it was deposited by the recipients in their banks. The net result was a gain in bank deposits—and perhaps also in cash, if some of the recipients chose to take cash rather than to deposit their government checks. In either case, the money supply was increased accordingly.

The result of this wartime expansion process was a rise in the supply of money from $46 billion on June 30, 1941, to $106 billion on June 30, 1946, or a gain of $60 billion. If the definition of money supply is broadened to include time and government deposits, the increase was $97 billion—that is, from $74 to $171 billion.

From this background, it is apparent that the two most powerful forces behind the postwar business boom were the enormous backlog of consumer demand left over from the war, and the great rise in money supply and hence in purchasing power. After the first few months of readjustment following V-J Day, the question was not whether we would have a boom, but rather, how long would it last. The recovery in 1946 took the Federal Reserve Board's index of industrial production, based on the 1935-1939 average as 100, from 163 in December of 1945 to 182 in December of 1946.

When Will Boom Terminate?

By the beginning of 1947 many, though not all, observers thought that the business uptrend would terminate some time during that year. Most of these felt that the subsequent recession would be mild and of comparatively short duration. Among the reasons frequently mentioned for the coming of recessions were: (1) the pipelines, chiefly in consumers' goods, were gradually filling up, and this along with existing high prices would strengthen consumer resistance and cause a slowing-down in their expenditures; (2) exports would turn down; and (3) the rate of inventory accumulation would decline.

But the 1947 recession failed to materialize—in fact industrial production was higher at the end of the year than at the beginning, and for 1947 as a whole it was 10% larger than for 1946. Exports reached an extraordinary peak during the first half, although they did taper off thereafter. The rate of accumulation of inventories dropped off in the second quarter, but then picked up again. And instead of declining, consumer expenditures actually increased. In addition, some more or less unpredictable factors entered into the 1947 business rise, including very poor crops in Europe which stimulated the demand for American foodstuffs; the further advance in wage rates and earnings; and the marked increase in captal expenditures for new plant and equipment.

The basic reason for such large spending in 1947 was the great strength of the demand for goods, together with enough purchasing power to translate this demand into actual buying in spite of high prices. True, by the end of 1947 the wholesale commodity price index was about 100% above the prewar level, and the retail cost of living index was 67% higher. But the indicators of purchasing power, as compared with pre-war, had advanced even more than prices. Average weekly earnings of factory workers, for example, were 135% higher at the end of 1947 than for the 1935-1939 average. Disposable personal income after taxes was 178% higher; money supply was up 275%, and accumulated personal savings in the form of time deposits and government bonds were up more than 215%. Thus the public as a whole possessed enough funds to buy the goods being produced, even at the prevailing high prices; although persons with fixed incomes, or whose incomes had lagged behind price increases, were already feeling the squeeze.

At the beginning of 1948, business forecasters took another look. This time the feeling was widespread that enough momentum existed to carry business along at about the current rate of activity during the first half of 1948. Opinions differed as to what would happen thereafter, but the concensus seemed to be that the long-expected recession was due to appear some time in the second half of this year. A variety of reasons were advanced for this belief, such as a probable slowing-down in capital expenditures for new plant and equipment; the further cutting down of deferred demand; the doubt that net exports would hold up to the extraordinary level of 1947, even with the Marshall Plan; tighter credit conditions, and the probable deflationary effect of the use of the government budget surplus to reduce the national debt. Perhaps the underlying thought could be expressed in the phrase "This can't go on forever." On the other hand, it was recognized that large backlogs still existed in such leading industries as automobiles and steel, that impending tax reduction would add something to the consumers' spending stream, and that a third round of wage increases, should it occur, would intensify inflationary pressures.

The lot of business prognosticators is not an easy one, but thus far in 1948 most of them can point with pride to their predictions of continued high business activity during the first half. Physical output has gone right along at about the rate existing at the end of 1947. The Federal Reserve Board's index of industrial production, after seasonal adjustment, was 192 in November, 192 in December, 193 in January, and 194 in February. It then dropped to 192 in March because of the coal strike, and will doubtless be down again for April for the same reason. Perhaps we should pay more attention to the plans of Mr. Lewis in making month-to-month forecasts of the production index.

Prospects of Last Half of 1948

As to the prospects for the last half of 1948, two conflicting developments have occurred to plague the forecasters. The first was the truly precipitate drop in grain prices in February, accompanied by weakening in various other prices. In itself, this drop represented the correction of an overextended price level. Much improved prospects for world crops, together with the near-completion of government buying of wheat for the current crop year, knocked grain prices off the dizzy peak to which they had ascended. They have since recovered somewhat, but are unlikely to get back near the top this season unless crop weather should become very bad.

The question immediately arose —would the effects of the agricultural price drop extend further, so that in future years we would point to February, 1948, and say "That was the signal." Certainly there was some reason to suppose that such a sharp price reaction would induce caution, which in turn would strengthen the expectation of a downtrend after mid-year. And an examination of business news during February and the first half of March did indicate a spirit of hesitation, at least in consumers' goods. Here are some of the news items appearing at that time: decline in tire sales and cutback of production; farmers become more careful with their cash; mail order sales slow down; substantial dip in furniture sales; candy makers worried about drop in sales; public is buying fewer shoes due to high prices; less demand for textiles; department store sales compare less favorably with a year ago than was the case earlier; smaller movie attendance; night club business not so good; lower restaurant tips. Even the used car market in automobiles seemed to be slackening. All this indicated that customers were doing a certain amount of retrenching and were willing to wait awhile, at least as to some of their buying, on the theory that prices in general might go down.

Such signs and portents were not enough to bring about an immediate decline in total production, because they were offset by the strong demand still existing for steel products and other important durable goods. But the feeling grew, though it was not unanimous, that the scales would be tipped later on, so that a recession in total business activity would commence before the year was over.

There is much to be said for this viewpoint, and indeed it could prove to be correct. But the whole line of reasoning has been thrown into the realm of uncertainty by the second development—namely, the President's rearmament speech on March 17 which followed the growing tension in our foreign relations. Perhaps I should add the tax reduction law and the enactment of the European Recovery Program, with their implications of increased spending, although I think these were pretty well discounted in advance. But the possibilities in an enlarged armament program have caused a re-appraisal of earlier expectations, partly because of the unknown billions of dollars which such a program might eventually require, and partly because of its psychological aspects.

Effect of Armament Expenditures

It is difficult at this stage to appraise the effects of larger armament expenditures, chiefly because the program itself can change at any time in accordance with world events. Proposals made thus far indicate the boosting of military appropriations from $11 to about $14 billion in the fiscal year 1949. This addition of $3 billion is not very stupendous when compared with our gross national product, now running at the rate of around $240 billion a year. Nevertheless, it will have a very considerable impact on items already in tight supply, notably steel products. And if future events should cause the sights to be raised by another $10 or $15 billion a year, bringing the Federal budget up to say $50 or $55 billion instead of $40 billion, the effect on business activity would undoubtedly be strong, to say nothing of inflationary.

To illustrate the kind of mental gymnastics involved in contemplating the effects of that sort of program, take the single question of the Federal budget. How would the additional revenues be raised to meet a $50 or $55 billion budget —by renewed deficit financing, or jacking up of taxes, or going to a still higher level of prices and wages, or any two of these or even all three? Someone will say, cut non-essential government spending. Certainly this ought to be done, but it could hardly turn the trick alone, assuming $10 or $15 billion added for armaments.

It should be realized, of course, that great business activity supported by orders for armaments does not call for cheers from the purely economic standpoint. That kind of business means the diversion of labor and materials from productive civilian purposes to destructive military purposes. There is no true economic gain from battleships, bombers, and bullets. In the present state of world turmoil and turbulence, the public is willing to support an enlarged armament program as a matter of self-protection and, it is hoped, as a method of preventing another war which would be still more costly. The justification for armament expenditures must be on these grounds, and not on the grounds of conferring any real benefits to the civilian economy.

At the risk of repetition, I should like at this point to summarize the business situation as it stands on May 19, 1948. The nation's industrial plant is turning out goods at a record rate for peacetime, and is operating at or near its present capacity. Labor is virtually fully employed, personal incomes are the highest in history, the population is growing at a faster rate than for many years, and there is still a backlog of demand for numerous articles. Price inflation has cut deeply into the purchasing power of the dollar, but has been more than equaled by the rise in total incomes and the money supply. These things, in brief, spell prosperity. What are the prospects for their continuance?

Conclusion

I think that the opposing factors today are pretty much as they have been for some time, except for the armament question and a possible change in psychology from that existing after the February agricultural price drop. The principal element on the downside is still the piecemeal catching up with deferred demand in a growing number of lines. We have seen it in such consumers' goods as tires, radios, some household appliances, glassware, shoes, clothing, and so forth. Other things being equal, one would expect more and more industries to reach the caught-up stage as time progresses. Another factor on the downside was mentioned earlier—that is, the cumulative effect of high prices on those living on fixed incomes, or whose incomes have lagged. Such persons can perhaps live off their savings for a while, or even borrow; but eventually they will have to cut expenses unless they find some way of augmenting their income. A third factor is that even allowing for the foreign-aid program, net exports in 1948 may decline somewhat from the huge 1947 total—with the qualification that exports to Europe are likely to spurt in the latter part of this year. The rate of inventory accumulation thus far reported in 1948 is a little less than a year ago. Bank credit has been somewhat harder to obtain. And the sizable government surplus for this fiscal year has enabled the Treasury to whittle down the national debt by $6 billion since last June 30, nearly all of which represented a decrease in the debt owned by commercial and Federal Reserve banks.

On the other side of the picture, we are far from being caught up with the demand for such important durables as automobiles, homes, machinery, freight cars, oil pipelines, and public utility equipment. Thus it is unlikely that operations in the steel, automobile, and some other durable goods industries will slow down in the last half of this year. Related to this is the very large volume of capital expenditures for new plant and equipment. According to a survey published in April by the Department of Commerce, planned expenditures for these purposes in 1948 will be 15% higher than in 1947, although plans of course are subject to change. Wage rates are still edging upward; there have been some third-round advances and there may be others, even in the face of stiffening resistance. We may see more strikes, which would temporarily reduce output but which would mean that much more production later to catch up. The recent lowering of Federal income taxes will add something to consumer purchasing power, and will moderately increase the inadequate supply of venture capital.

Finally, after the prospective increase in armaments became known, public psychology seemed to move away to some extent from the spirit of caution evident in February and early March. This sort of thing is intangible and hard to measure, and is notoriously subject to the shifting course of events. Still, when we read of a sudden burst of anxiety to obtain both new and used automobiles, it is worth while to make a mental note. Further concrete evidence of that sort might make quite a difference in the outlook.

These are some of the opposing elements in the business situation, and at the moment they are just about offsetting each other. After trying to strike a balance between all the various factors, I should really like to declaim that "The business outlook for the rest of 1948 is fraught with uncertainty." This bromide sounds impressive and also has the advantage of not saying anything. However, since something more specific is doubtless expected, I will take the plunge and say that I anticipate continued high business activity during the rest of this year, with the industrial production index for the last six months combined being probably not more than 5% different from the first six months. In other words, if there is a reaction it will not be severe.

The reason for this appraisal is simply that the possibilities for enlarged armament, added on to the other elements previously discussed, appear sufficient to postpone once again the long-awaited postwar depression. I would not hazard a guess as to how long it could be postponed after 1948, because future world happenings are unpredictable. So in conclusion, here are one or two observations concerning the more distant future:

Judging from what happened after our past wars, the usual pattern would be for us to have our primary postwar depression and get it over with, and then to enter on a lengthy period of good business. But the pattern will have to be reconsidered if we are going into a prolonged armed truce. That is something new for this country. We are not used to carrying such heavy military burdens in peacetime. If it were not for world uncertainties—or to put it differently, if it works out so that we shall have real peace—the outlook in my judgment is for prosperity in the 1950's. This is particularly so in view of the worldwide need for goods, and the rapid growth in our own population which will require more schools, playgrounds, community centers, houses, home furnishings streets and roads, electric and gas utilities, and many other things.

George F. Gomersall Dead

George F. Gomersall of Toledo died on May 21 of a heart attack while trying to separate his large boxer and a cocker spaniel puppy in a fight. Police had to shoot both dogs in order to give the rescue squad a chance to try to save the dying man's life. Excitement of the dog fight apparently caused the collapse of Mr. Gomersall who had suffered a heart attack two years ago.

Mr. Gomersall was well known in the Ohio territory. In 1940 he became affiliated with Ford R. Weber & Co., a connection he retained, although he also represented the Leffler Corporation in the sale of Axe-Houghton Fund, Inc., and Axe-Houghton Fund B.

E. D. Fox & Co. Forming

E. D. Fox & Co., members of the New York Stock Exchange, will be formed as of June 4. Offices will be located at 2 Wall Street, New York City. Partners will be Elliott D. Fox, member of the Exchange, and Oscar K. Williams, who will acquire the Exchange membership of the late Carroll B. Alker. Mr. Fox has been active as an individual floor broker.

Is This a Bull Market?

(Continued from page 3)

rise in government and municipal bond prices suggests that the recent increase in business loans may be short-lived. Moreover, as contrasted with their action a year ago, the inability of commodity prices to respond to the inflationary implications of recent government pronouncements, intimates that the arrival of this bull market is being taken with some reservations at the business level.

Dow Theory Unrealistic

Our studies of the historical relationship between security prices and earnings measured in terms of unit production reveal that current earnings justify a market level of approximately 180 on the Dow-Jones Industrials averages. Without in any way affecting this estimate, a 10% deviation either side is entirely understandable, and in fact has largely occurred during the last year and a half. In this connection, we feel that the Dow Theory concept has long since been out of touch with economic realities. Nevertheless, its followers are sufficiently numerous to warrant expectations of a material widening of the 1946-48 trading range as attempts are made to capitalize upon investor hopes of a broad upsurge in security values in accordance with traditional stock price behavior patterns.

In view of the foregoing outline of fundamental conditions, for investment accounts we cannot justify other than a high degree of liquidity. While the evidence suggests that the present and prospective trend of profits-per-unit-of-production warrants a security price level not very far above current values, there is not sufficent evidence on hand as yet to permit closing one's mind to a possible lifting of that ceiling at some later date. Experience suggests that following such an uninterrupted rise as the recent upward move, a reaction is in order, perhaps from a somewhat higher level. Despite the extent of any such reaction, signs point to a resumption of the present intermediate uptrend. Short-term investment policy should be tailored to that prospect. The speculative risks, however, created by the extreme vulnerability in the underlying economics, even more now than in the recent past, cannot be overemphasized.

Egerton President of Bank Forum

The Savings Bank Officers' Forum of Group IV comprising 68 savings bank offices in Manhattan, the Bronx and Westchester County announced today the election as president of Edgar C. Egerton, Vice-President and Mortgage Real Estate Officer of the Seaman's Bank for Savings.

Other officers elected were: Vice-President: William McKenna, Treasurer the American Savings Bank; Secretary, Albert Sturcke, Jr., Secretary Union Square Savings Bank; Treasurer, Theodore J. Kegelman, Asst. Vice-Pres., East River Savings Bank.

The savings banks represented in Group IV hold approximately $5 billion in deposits which represents 50% of all deposits held in New York State and 28% of all such savings deposits in the nation.

The Savings Bank Officers' Forum provides an opportunity to savings bank officers for the interchange of information in order to keep abreast of the trends in the savings bank industry.

Taft Committee Attributes Inflation Trend to Government Expenditures and Taxation

Majority Joint Committee on Economic Report, headed by Senator Taft, criticizes President for failing to give weight to impact of government spending. Wants no increase in taxation at this time.

The Report of the majority members of the Joint Committee on the Economic Report, set up by Congress when it passed the Full Employment Act, calls attention to heavy government spending and high taxation as inflationary forces, which the President "wholly fails to give any weight to." According to the Joint Committee:

Robert A. Taft

"It is generally agreed that we still face an inflationary condition, one in which demand, certainly in the world and probably in the United States, exceeds the available supply of goods. Since the issuance of the President's report, there has been a violent break in the prices of agricultural commodities. There are some other indications that the over-all forces of supply and demand are closer to a balance than was formerly supposed, but agricultural prices have recovered somewhat, and there may be some further increase in wage rates this spring.

"The underlying inflationary condition has been produced by a variety of causes. As the President states [in his Economic Report] at page 41: 'The question has been raised as to whether we had inflationary pressure because of large exports, because of the very high rate of business investment, because of the large amount of residential and commercial construction, or because of the high level of consumer spending. The answer is that we had inflationary pressure because the sum total of these combined factors exerted too great a demand on available supplies. No one factor can be singled out as the principal cause.'

"It is interesting to us that both here and throughout the report the President wholly fails to give any weight to the tremendous impact of government spending. On page 47 he says: 'The Federal agencies will have to make cash payments to the public in calendar years 1948 of over $40,000,000,000.' No account is taken anywhere in the report of the inflationary aspect of such expenditures, for the most part made without any direct increase in the production of goods and services.

"The substance of our conclusion is that the inflationary condition is due to our attempt to accomplish more than is possible at our present capacity for production. Just as England has been criticized for proceeding too rapidly with her housing program instead of devoting more time to production for export, so our people and our government, both executive and legislative, may well be criticized for trying to carry on at the same time so many huge programs as those represented in our expansion of business transactions, our expansion of residential housing, our support of veterans' education and rehabilitation, our government public-works program, our huge Military Establishment, and our economic support of free peoples throughout the entire world. Liberal credit policies on the part of private and public agencies alike, and the maintenance of low interest rates have encouraged the expansion of these programs. We do not intend to criticize these programs or question their desirability. We merely point out that the attempt to carry them all on at once, with very little restraint in the field of consumer spending and liberal credit policies, is the basic reason for inflation, which otherwise could hardly coincide with a large government surplus.

"Our first recommendation is that government expenditures be reduced. We quote Marriner Eccles of the Board of Governors of the Federal Reserve System, testifying on a program to prevent inflation:

"'It means rigid government economy. It means deferment of all expenditures—Federal, State or local, to the greatest extent consistent with public obligations at home and abroad. . . . This means the greatest possible economy in all government expenditures.'

"We do not purport to determine the relative importance of different government spending programs. That must be determined primarily by political judgments on the international situation and the urgency of domestic projects. We do insist, however, that every program for government expenditure should be carefully screened and reduced to those items which are clearly essential and of real value. No matter how important may be national defense, there are certainly duplications which can be eliminated and economies effected without loss of efficiency. No matter how important the Marshall plan, it should be possible to eliminate projects of doubtful validity, and concentrate on those which give a clear case for effective assistance against communistic infiltration. No matter how important an increased amount of housing, there is no reason to continue the more extreme forms of credit guarantee which ultimately will probably do the veteran more harm than good. No matter how important public works, this seems to be no time to increase the total public works program from $2,000,000,000 in fiscal 1948 to $2,800,000,000 in fiscal 1949 as proposed in the President's budget.

"Taxes for the ensuing year are estimated at approximately $45,000,000,000. Taken together with State and local taxes of approximately $12,000,000,000, we find a tax burden of $57 billion, with a total national income estimated at $204 billion; approximately 28% of the national income, or 25% of the gross national product. Most of this expenditure does not contribute to the production of goods so that the government activity constitutes a heavy burden on the economic machine to which we look for our standard of living. This burden is expressed at the present time to a large extent in the high price of commodities, because in a seller's market it is possible to pass on to the consumer a considerable part of the corporation net income tax and that part of the income tax which is withheld by employers; to which, of course, must be added the excise taxes which are frankly imposed upon the consumer directly. On a long-range basis, a general reduction of expenditures and taxes would undoubtedly tend toward an increase in take-home pay or a reduction in prices or both.

"This tremendous burden of taxation is also a deterrent to hard work and to increased investment in productive enterprise. It takes from individuals money which might be saved and provide for capital expansion. It decreases the incentive to the additional effort required to increase production, affecting particularly creative artists and corporation executives and experts subject to the high income tax rates after a certain income has been earned in any one year. The question of the necessity for stimulating the accumulation of capital is a question which we feel should be studied far more extensively and to which we shall devote a good deal of the effort of this committee in the future.

"With regard to immediate action relating to taxes, we disagree with the President's recommendation that a cost-of-living tax credit of $40 be given for each taxpayer and each dependent, and to offset this decrease in government revenues corporate taxes be increased sufficiently to yield an equivalent amount on the basis of present figures. Tax receipts in the fiscal year 1948 will be at least $7,000,000,000 higher than estimated government expenditures. The cash surplus, allowing for the payment to government trust funds, will be at least $10,000,000,000. This would be a huge sum to take annually out of the current earnings and the purchasing power of the American people, and could be an extremely deflationary factor. If prices should turn down, it might precipitate a substantial depression. The only doubt about the tax reduction voted by Congress is raised by the possible increase in budget expenditures for the armed forces. It is essential that we retain a balanced budget and make substantial payments on the national debt.

"This appears to be no time, in any event, to adopt any increase in any form of taxation. Corporation taxes at best are only an indirect method of reaching the ultimate individuals who pay the tax, in part the stockholders and in part consumers. Many experts consider that all taxation should be imposed directly on individuals because they have to bear it anyway, and the corporation tax is a deterrent to the expansion of business activity. In any event, we do not feel that the corporation tax should be increased above the present rate of 38% of the net profits. It may be pointed out that if a tax reduction is immediately inflationary the President's plan is also inflationary as far as its immediate effect is concerned because any personal income tax reduction takes effect at once, whereas the corporations' payments on 1948 profits are not made until 1949."

Detroit Bond Club Summer Golf Party

DETROIT, MICH.—H. Russell Hastings, President of the Detroit Bond Club, announces the Summer Golf Party will be held June 15 at Plum Hollow Golf Club. Golf, baseball and various activities will be enjoyed by those in attendance. Guest fee, $10. Douglas H. Campbell, First of Michigan Corporation, Chairman of the Entertainment Committee.

W. D. Williams V.-P. Of Prescott, Hawley

CLEVELAND, O.—Warren D. Williams has become associated with Prescott, Hawley, Shepard & Co., Inc., Union Commerce Building, as Vice-President and Manager of the Municipal Bond Department. Mr. Williams has been with Ryan, Sutherland & Co., of Toledo, where he was in charge of the municipal buying department. Prior thereto for many years he was with the Provident Savings Bank & Trust Co. of Cincinnati.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The Board of Governors of the Federal Reserve System has appointed Robert T. Stevens of Plainfield, N. J., as a class C director of the **Federal Reserve Bank of New York** for the unexpired portion of the term ending Dec. 31, 1950, and has designated him as Chairman and Federal Reserve Agent for the remainder of 1948. Allan Sproul, President of the Reserve Bank in announcing this on May 18, added:

"Mr. Stevens is Chairman of the board of J. P. Stevens & Co., Inc. manufacturers and distributors of textiles, New York, and a director of a number of other corporations. He was a class B director of this Bank from Jan. 1, 1934 until Jan. 8, 1942, when he resigned to enter active service with the United States Army. Prior to his resignation, he had been active in national defense work for some time. He served in the Quartermaster Corps for over three and one-half years, ultimately holding the rank of Colonel, and was awarded the Distinguished Service Medal."

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Primus E. Godridge, Trust Officer, **Bankers Trust Company of New York** was elected President of the New York University Men in Finance Club for 1948-1949, at a luncheon-meeting on May 18 at the Downtown Athletic Club. Mr Godridge, who was graduated from the N. Y. University's School of Commerce, Accounts, and Finance in 1911, succeeds Arthur B. Foye, partner, Haskins & Sells, as President of the Club. Re-elected as Vice-Presidents were Dean G. Rowland Collins, of the Graduate School of Business Administration, John L. McFarland, Secretary and Director, Briggs Schaedle & Co. Inc.; and Howard B. Smith, **Chemical Bank an Trust Company of New York.** Also elected to serve as Vice-President was N. Leonard Jarvis, of Hayden Stone & Co. Melbourne S. Moyer, Manager **Fulton Trust Company of New York**, was re-elected Treasurer and B. A. Ross, Secretary, Alumni Federation of N. Y. U., was re-elected Secretary and Assistant Treasurer. Past President Governors named to serve for year 1948-1949 were: Mr. Foye; David E. Gotlieb, Chairman of the board, J. A. Deknatel & Son; Craig S. Bartlett, Vice-President, **Central Hanover Bank and Trust Company of New York;** John E. Raasch, President, John Wanamaker; and John Gerdes, of Gerdes & Montgomery. The N. Y. U. Men in Finance Club is composed of men engaged in or interested in finance who have been associated with the University in any capacity—as students, faculty members, council members, etc.

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At a meeting of the board of directors of **The Commercial National Bank and Trust Company of New York** held on May 20 James K. Campbell was appointed Assistant Cashier.

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The New York State Banking Department approved on May 18 the change in the location of the branch of the **Irving Trust Company of New York** from 24 West 48th Street, to 23-29 West 51st Street.

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Approval of the change of location of the principal place of business of the **J. Henry Schroder Banking Corporation** from 46 William Street, New York, to 57-61 Broadway, was announced by the State Banking Department on May 18.

The board of trustees of the **Broadway Savings Bank of New York** have recorded the sense of their loss in the death on May 15 of Richard Kelly, who became a trustee on July 11, 1917, and was elected its counsel on June 12, 1918, serving in both capacities until his death.

* * *

Oakleigh Thorne, highly regarded as an outstanding and important figure in New York banking affairs, died on May 23 at Doctor's Hospital, New York, where he had been for a week following a leg fracture suffered as a result of a fall at his estate in Millbrook, N. Y. At the time of his death Mr. Thorne was 81 years of age. He was born in New Hamburg, Dutchess County, N. Y., and came to New York in 1899 as Vice-President of the **International Banking & Trust Company,** of which he shortly after became President. In 1900 the institution merged with the **North American Trust Company,** Mr. Thorne becoming Vice-President of the continuing institution, and later succeeding Alvah Trowbridge as President. In 1904 the North American Trust merged with the **Trust Company of America,** of which latter institution he became President. He retired from the banking field in 1912, when the Trust Company of America was taken over by the **Equitable Trust Company.** In the New York "Herald Tribune" of May 24 it was noted:

"The sale of the bank's stock at $375 a share represented a final financial triumph for Mr. Thorne, who had rescued the institution from near-failure during the 1907 banking panic."

The same account also said: "At the time the Trust Company of America was sold to Equitable Trust, Mr. Thorne announced his purchase of the **Corporation Trust Company of New Jersey,** explaining he did so only to provide jobs for faithful employees who had stood by him during his company's crisis."

In his earlier business activities Mr. Thorne became President of the National Switch & Signal Company of Easton, Pa. When that company was absorbed by the Union Switch & Signal Company, a Westinghouse subsidiary, he became Vice-President of Union.

Although he was an Episcopalian Mr. Thorne gave generously to Catholic organizations. One of his benefactions in 1940 was the transfer of the Chancellor Estate in Millbrook, N. Y., to the Archdiocese of New York as a memorial to his friend, the late Patrick Cardinal Hayes for the establishment of a home for children. Mr. Thorne was a large yearly contributor to St. Francis Hospital in Poughkeepsie in which he took a deep interest. Mr. Thorne will be remembered by his wide host of friends in the financial world and his employees as a frank, friendly humanistic man of personal charm and interest.

* * *

At the annual meeting of the **Kings County Bankers Association,** held on May 18 at the Brooklyn Club in Brooklyn, N. Y., John J. Hayes, an Assistant Vice-President of **Manufacturers Trust Company of New York,** was elected President of the Association for the ensuing year, succeeding Charles Oldenbuttel. Other officers elected were: First Vice-President, Harold F. Klein, Vice-President, **Brooklyn Trust Company;** Second Vice-President, Russell C. Irish, Vice-President,

Chase National Bank of the City of New York; Secretary-Treasurer, Ralph W. Dey, Assistant Vice-President, **National City Bank of New York.**

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The election of Walter Bruchhausen and Donald G. C. Sinclair as Vice-Presidents of the **Kings County Savings Bank of Brooklyn, N. Y.**, was announced on May 21 by Winthrop Taylor, Chairman of the board of trustees. In indicating this the Brooklyn "Eagle" of May 21 stated that Mr. Bruchhausen who is with the law firm of Cadwalader, Wickersham & Taft, has been a trustee of the bank since 1936. He is President of the Brooklyn Bar Association. Mr. Sinclair, trustee of the bank since 1941, is with the brokerage firm of Lawrence Turnure & Company-Blythe & Bonner. He is President of the Caledonian Hospital, Chairman of the Brooklyn Academy of Music, etc.

* * *

The **First National Bank of Port Jefferson, N. Y.**, was placed in voluntary liquidation May 11, having been absorbed April 30 by the **Bank of Port Jefferson**, which has changed its title to the **Bank of Northern Brookhaven, at Port Jefferson.** A previous item as to these changes appeared in our issue of May 13, page 2103.

* * *

The election is announced of Kenneth N. Hill as Trust Officer of the **Providence National Bank of Providence, R. I.** He fills a vacancy resulting from the resignation from that post of H. B. Freeman to become President of the **Phenix National Bank of Providence.**

* * *

The **West Englewood National Bank of West Englewood, N. J.**, is to change its name to the **Garden State National Bank of Teaneck, at Teaneck, N. J.**, effective June 7. The Office of the Comptroller of the Currency reports that no actual change of location is involved.

* * *

Robert O. Wendling has been promoted from the office of Assistant Vice-President to Vice-President of the **National City Bank of Cleveland.** According to the Cleveland "Plain Dealer" of May 18, Mr. Wendling has been with the National City since 1933 in the loan and credit department and was Manager of Credits from 1938 to 1943, when he became a junior officer of the bank. He started his banking career with the **National Commercial Bank of Cleveland** in 1916.

* * *

The purchase of control of the **Delmar Bank of University City, St. Louis, Mo.**, by a syndicate of local business men for $507,360, was reported in the St. Louis "Globe Democrat" of May 12, which further said:

"The group of purchasers is headed by Rolla Wetzel, formerly in the investment business; L. Peter Wetzel, his brother, Vice-President of the **St. Louis County National Bank**; Edwin Schmid, President of the **Mutual Bank and Trust Company**; Alex Cornwell, real estate dealer, and Joseph H. Grand, attorney and general counsel for the group.

"Mr. Grand, who announced the purchase, said 2,240 of the bank's 2,250 shares of stock were bought at $226.50 a share. As of March 31, the bank's capital was $225,000, surplus, $175,000 and undivided profits, $40,174, with about $9,000,000 in deposits Claude Eaton, President of the institution, will continue in that post.

* * *

Donald M. Barnett, Vice-Chairman of the board of directors of the **Barnett National Bank of Jacksonville, Fla.**, died on May 17. He was a son of Bion H. Barnett, Chairman of the board of the Bank. D. M. Barnett was 56 years of age. He joined the bank in 1913, and, the Florida "Times-Union" reports, he advanced progressively through positions of greater responsibility and was promoted to Vice-Chairman of the board in January of this year after having served as Executive Vice-President for a number of years. The same paper states that Mr. Barnett's grandfather, the late W. B. Barnett, founded this city's oldest bank—and now the state's second oldest—on May 7, 1877. The pioneer establishment was known as the Bank of Jacksonville.

* * *

Thurman Crawford, oldest man in point of service with **The National Bank of Commerce of Houston, Texas**, has been promoted from Assistant Cashier to Assistant Vice-President. The promotion was announced on May 12 by A. D. Simpson, President, following a board of directors meeting. Mr. Crawford will remain in charge of the bank's Transit Department. Holder of the bank's No. 1 quarter century pin, Mr. Crawford joined the bank June 25, 1912, during its organization and 20 days before the official opening. Mr. Crawford, a native of Melrose, Texas, is President of the bank's Quarter Century Club. He was attending the Mississippi Bankers Convention at the time of his promotion.

* * *

Richard F. Campbell, Assistant Cashier, **Union Bank & Trust Co. of Los Angeles, Calif.**, was elected President of the Los Angeles chapter, American Institute of Banking at the annual meeting held May 12. Scott O'Leary, 2nd Vice-President, **Bank of America N. T. & S. A.**, was named First Vice-President; W. J. Thomas, Treasurer, Los Angeles branch, **Federal Reserve Bank of San Francisco**, was advanced to Second Vice-President and George Clark, advertising director, **Farmers & Merchants National Bank**, was made Treasurer.

* * *

Two officers of the **Anglo California National Bank of San Francisco**, Andrew W. Anderson and Ernest J. Berges, both Assistant Vice-Presidents, passed away at their homes on May 19. Mr. Berges, who had recently undergone an operation, died suddenly. He entered the Anglo Bank in 1906 and spent practically his entire career in the commercial loan department. He was appointed an Assistant Cashier in 1924 and subsequently an Assistant Vice-President. In 1939 he was placed in supervision of the operations of the commercial loan department at the head office. He was 59 years of age. Mr. Anderson, 45 years of age, died of a heart attack. Born in Minneapolis, Minn., he attended the University of Minnesota and was connected with a financial institution in that state before going to California in 1927, when he joined the Anglo Bank staff at its Mission office. He was successively teller, Pro-Manager, Assistant Manager and in 1945 was appointed Manager, receiving the additional title of Assistant Vice-President in 1946. He was a member of the American Institute of Banking and was active in Mission District organizations.

* * *

Another new banking unit in Portland's (Oregon) business district was opened this month by the **United States National Bank of Portland**, the latest office being its new Metropolitan Branch located in the Public Service Building The completed project, which brought a centrally located branch within five blocks of the bank's head office, forms the 36th unit in the United States National's statewide system. At the same time, President E. C. Sammons announced the appointment of Robert V. Runyon as Assistant Manager of the new branch, under Vice-President John F. Huxtable, whose managership had been announced previous to the opening.

* * *

The National Bank of Commerce of Seattle, Wash., has announced plans for establishment of a new branch in Northgate, 66-acre tract being developed into a $12 million suburban shopping center at the north city limits of Seattle. This will be the 28th office of the bank, which serves 22 other Washington communities outside Seattle. A charter for the Northgate Branch has been issued by the Comptroller of the Currency. Bank officials presently are working with the Suburban Company, sponsor of the Northgate project, on plans for the bank building which is expected to cover approximately 7,500 square feet.

World Bank Sells Swiss Francs Bond Issue

John J. McCloy announces equivalent of $4 million purchased by Bank for International Settlements.

The International Bank for Reconstruction and Development has arranged to sell an issue of 2½% Swiss Franc Serial Bonds, maturing in 1953 and 1954, in the aggregate principal amount of 17,000,000 Francs (equivalent to approximately $4,000,000), according to an announcement by John J. McCloy, president of the International Bank, on May 25.

John J. McCloy

These will be the first bonds issued by the Bank in other than dollar denominations. The entire issue is being purchased for investment by the Bank for International Settlements at Basle, Switzerland, at par and accrued interest.

The proceeds of the issue will be made available to the Kingdom of the Netherlands for the purposes of the $195,000,000 loan granted to it last August.

Through this sale of securities to the Bank for International Settlements the International Bank for Reconstruction and Development will obtain additional working funds in non-dollar currency, and will make that currency available to the Dutch government, which already had received part of its original loan in Belgian francs. With the present transaction, the Dutch will have received their loan proceeds in the currencies of the United States, Belgium and Switzerland.

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 George C. Jennings to William J. Nammack will be considered on June 3. It is understood that Mr. Nammack will act as an individual floor broker.

Transfer of the membership of George A. Loeb to Charles L. Woody, Jr., will be considered by the Exchange on June 3. Mr. Woody will act as a floor broker.

James F. McCormick, Jr., retired from partnership in Mixter & Co. on May 15.

William I. Rosenfeld, Jr., will retire from Herbert E. Stern & Co. on May 30.

B. L. Taylor, III, general partner in B. L. Taylor, III, & Co., became a general and limited partner on May 14.

W. Joseph Hackett will withdraw from Blair S. Williams & Co. on May 31.

Ralph Hall in Long Beach

LONG BEACH, CALIF.—Ralph S. Hall, 1222 Freeman Avenue, is engaging in a securities business.

Reports on Economic Prospects of Japan and Korea

Committee appointed by Secretary of Army and headed by Percy H. Johnston, Chairman of Executive Committee of the Chemical Bank & Trust Company, holds industrial recovery of Japan is necessary to bring about a self-supporting economy. Urges financial aid of U. S. to permit purchase of raw materials.

Secretary of the Army Kenneth C. Royall on May 19 made public the report of the "Johnston Committee" which he recently invited to visit Japan and Korea to study the economic position and prospects of those countries and measures required to improve them.

The summary of the report, as reported by the Committee to the Secretary of the Army, is stated as follows:

Percy H. Johnston

"(1) American leadership during the occupation period has begun to repair the ruin left behind by the war.

"(2) The Japanese people have cooperated with that leadership and have every reason to strive faithfully to become self-supporting and to employ fully any assistance we may furnish.

"(3) Conditions in Japan and elsewhere in the Far East governing the economy of Japan present a situation of serious difficulty. The task that Japan faces of attaining satisfactory self-support will require patient and sustained effort by the Japanese people, American aid to relieve present shortages in raw material and food, and ready cooperation on the parts of the Asiatic and other countries who would participate in the resumption of peaceful trade.

"(4) The program now under consideration in Congress to provide Japan with the means to obtain raw materials will enable it quickly to increase production in many lines and to begin to restore its trade relations, which would be advantageous in the long run not only to Japan but to ourselves and the rest of the world. Revival of the economic life of a disarmed Japan should serve to improve the chance of maintaining peace in the Pacific and elsewhere.

"(5) South Korea will continue to require American food and raw materials to maintain present ration levels and to stimulate economic rehabilitation."

In accepting the report, Secretary Royall expressed his appreciation of the services rendered by the group, members of which are Percy H. Johnston, Chairman of the Executive Committee of the Chemical Bank & Trust Company; Paul G. Hoffman, now Administrator for the European Recovery Program; Robert F. Loree, Chairman, National Foreign Trade Council, formerly Vice-President of the Guaranty Trust Company, and Sidney H. Scheuer, senior partner of Scheuer and Company. The Committee was assisted by Herbert Feis, Special Advisor to the Secretary of the Army; Alexander Lipsman, Treasury Department, and on textile matters by Frederic A. Williams, former President of Cannon Mills Incorporated.

Inflationary Forces Again Dominant: Collins

President of IBA warns deficit financing and consequent inflationary forces may darken economic outlook. Sees efforts to curb credit expansion retarding inflationary influences, but points out rapid deflation may lead to unbalanced economy.

Speaking at a dinner meeting of the New England Group of the Investment Bankers Association in Boston on May 17, Julien H. Collins, President of the Investment Bankers Association, and President of Julien Collins & Co., Chicago, warned that a possible return to deficit financing can cloud the present bright economic outlook.

Julien H. Collins

Inflationary forces, Mr. Collins stated, are again in the ascendance, after a respite, and this notwithstanding the budget surplus and the reduction in the Federal debt during the first nine months of the fiscal year. Developments of recent weeks, he pointed out, may well serve to offset the progress made under the controls that were applied to temper the rising spiral. A deficit for fiscal 1948-49 is a possibility, he warned, and deficit financing might again be the rule.

After reviewing the steps that had been taken to ward off the effects of wartime expansion of production and bank credit, moves which he indicated served as a retarding influence to prosperity, Mr. Collins cited as the effects of this move the sharp rise in short-term interest rates; the advance in the discount rate; higher reserve requirements for central reserve city banks; and price support of government bonds at lower levels.

The impact of these measures, according to Mr. Collins, would have been proven more deflationary than anticipated and would have unbalanced the economy had not other expanding influences counteracted the move. "But now the shoe is on the other foot," Mr. Collins said, "and wages and prices promise to resume the upward trend, and shortages of labor and material may again become a more pressing problem."

The dinner at which Mr. Collins spoke was held at the Hotel Somerset, Boston, and was presided over by the Chairman of the New England Group of the IBA, Mr. Philip M. Stearns of Estabrook & Co.

Hugh Bradford Joins Lynch, Allen & Co.

DALLAS, TEX.—Lynch, Allen & Co., First National Bank Building, announce the opening of a corporate trading department with Hugh Bradford as manager. Mr. Bradford was formerly with Dallas Rupe & Son.

Walter Stokes & Co. to Open N. Y. C. Branch

Walter Stokes & Co., Philadelphia investment house, on June 1 will open a branch office at 40 Exchange Place, New York City, under the management of George Hayman.

Sharp Rise in Bank Deposits

Six-month upturn of $9 billion in individual, partnership, and corporate accounts marks continuing inflationary pressure, Chairman Harl of FDIC reports. Total bank loans reached $43 billion, highest on record. Banks' holdings of governments continued decline from 1945 peak.

"Total deposits of all operating banks in the United States and possessions increased nearly $9 billion during the six months ended Dec. 31, 1947," Chairman Maple T. Harl of the Federal Deposit Insurance Corp. announced May 14. "Nearly all of this increase," Mr. Harl pointed out, "was in individual, partnership, and corporate accounts, thus continuing the inflationary pressure exerted by an expanding money supply. This growth in business and personal deposits was in contrast to the stability of such accounts during the first half of 1947, repeating the pattern of the previous year when deposits advanced sharply after remaining almost constant during the first quarter. Preliminary figures indicate that deposits have shown little change in the early months of 1948. From past experience it would be unwise to regard this as indicative of future developments."

Maple T. Harl

Total deposits of $163 billion at the end of 1947 were nearly $4 billion below the peak reached at the end of 1945. Chairman Harl commented that this decline did not, however, remove the inflationary pressure. The decline was due entirely to the reduction in deposits of the Federal Government which had become largely inactive at the end of the war when government purchases were drastically reduced. Meanwhile, the active deposits of business and individuals expanded during the two years by 15%. Individual, partnership, and corporate accounts constituted 86% of total bank deposits at the end of 1947 as compared with 73% at the end of 1945. United States Government deposits, on the other hand, declined from 15% of the total at the end of 1945 to 1% at the end of 1947.

"At the end of 1947," Chairman Harl said, "total bank loans reached $43 billion, the highest level on record." Loans and discounts constituted 25% of the assets of all banks at the end of 1947, as compared with 17% two years earlier. In the 2-year period since 1945, consumer loans have increased 140%; commercial and industrial loans, 90%; and real estate loans, 60%. All other principal types of loans showed substantial increases with the exception of loans on securities which declined 70%.

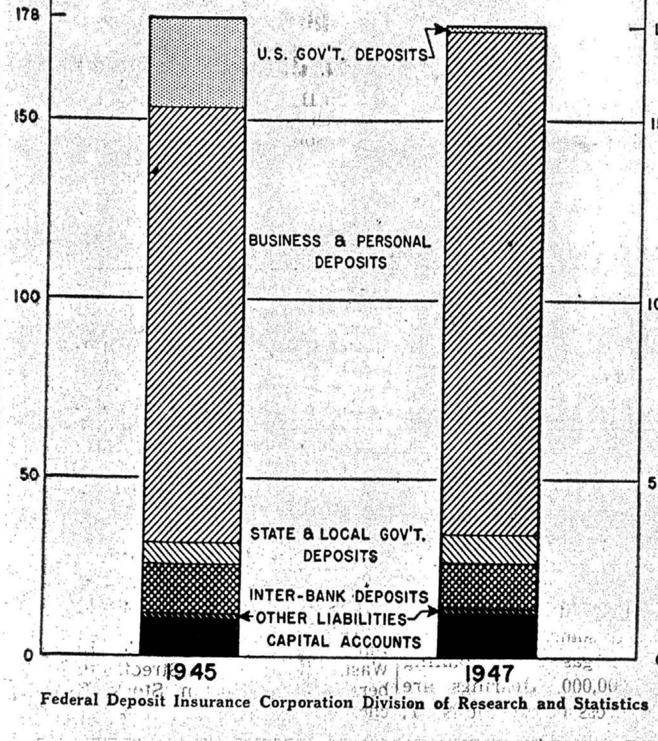
Bank Holdings of Governments Decline

"Bank holdings of U. S. Government obligations," Chairman Harl observed, "continued their decline from the 1945 peak, but still maintained their position as the banks' largest earning asset." Although bank holdings of U. S. Government obligations have been reduced 20% since the end of 1945, the $82 billion total at the end of 1947 still constituted nearly half of all bank assets. "Other securities" held by banks have increased steadily since the war; thus, holdings of nearly $11 billion on Dec. 31, 1947, represented a 26% advance in this type of asset during the last two years.

Total capital accounts increased to almost $12 billion at the end of 1947, about 13% greater than two years earlier. However, Chairman Harl emphasized that the rapid growth in risk assets has neutralized the improvement in the capital cushion. Although the ratio of total capital accounts to total assets advanced from 5.9% at the end of 1945 to 6.8% at the end of 1947, the ratio of capital accounts to assets other than cash and U. S. Government obligations shrunk from 26% to 22% during the same period. Moreover, the ratio of capital accounts to total assets declined during the last half of 1947, in contrast to the increase during the previous 18 months.

"In view of the decline of the capital cushion in relation to risk assets," Chairman Harl concluded, "banks with ratios below the national average should give immediate consideration to increasing their capital structures to a point whereby they will be in line with the other banks throughout the nation."

Liabilities and Capital Accounts of all Banks in the United States and Possessions Dec. 31, 1945 and 1947



Federal Deposit Insurance Corporation Division of Research and Statistics

SUMMARY OF ASSETS AND LIABILITIES OF ALL OPERATING BANKS IN THE UNITED STATES AND POSSESSIONS DECEMBER 31, 1947

(In thousands of dollars)

	All Banks	Commercial and Stock Savings Banks	Mutual Savings Banks	Nondeposit Trust Companies
ASSETS—				
Cash, balances with other banks, and cash items in process of collection—total	**38,559,197**	**37,612,616**	**886,280**	**60,301**
Currency and coin	2,392,862	2,286,763	104,699	1,400
Reserve with Federal Reserve banks	17,796,687	17,795,450	1,124	113
Demand balances with banks in the U. S. (except private banks and Amer. branches of for'gn banks)	10,779,212	10,172,103	552,685	54,424
Other balances with banks in U. S.	278,708	63,327	211,856	3,525
Balances with banks in foreign countries	31,121	31,121	------	------
Cash items in process of collection	7,280,607	7,263,852	15,916	839
Securities—total	**92,383,673**	**78,570,101**	**13,696,206**	**117,366**
U. S. Govt. obligations, direct and Guaranteed	81,623,382	69,559,927	11,978,420	85,035
Obligations of states and political subdivisions	5,361,993	5,283,153	64,816	9,024
Other bonds, notes, and debentures	4,897,998	3,385,862	1,506,576	5,560
Corporate stocks	500,300	336,159	146,394	17,747
Loans, discounts, and overdrafts (including rediscounts)—total	**43,228,562**	**38,260,906**	**4,944,408**	**23,248**
Commercial & industiral loans (including open market paper)	18,299,481	18,268,785	30,314	382
Loans to farmers directly guaranteed by Commodity Credit Corp.	68,168	68,168	------	------
Other loans to farmers (excluding loans on real estate)	1,610,450	1,609,548	714	188
Loans to brokers & dealers in secur.	830,545	830,520	------	25
Other loans for the purpose of purchasing or carrying securities	1,243,966	1,236,344	2,287	5,335
Real estate loans:				
On farm land	850,272	821,982	27,580	710
On residential properties	10,869,869	6,922,368	3,936,557	10,944
On other properties	2,580,684	1,687,002	890,954	2,728
Other loans to individuals	5,791,111	5,743,774	46,169	1,168
Loans to banks	116,154	116,154	------	------
All other loans (includ. overdrafts)	967,862	956,251	9,833	1,768
Miscellaneous assets—total	**1,835,479**	**1,629,351**	**187,051**	**19,077**
Bank premises owned, furn. & fixt.	1,059,571	954,805	92,884	11,882
Real estate owned other than bank premises	34,424	22,856	10,603	965
Investments and other assets indirectly representing bank premises or other real estate	66,512	62,951	3,612	249
Customers' liability to this bank on acceptances outstanding	167,134	167,129	------	5
Other assets	507,538	421,610	79,952	5,976
Total assets	**176,006,911**	**156,072,974**	**19,713,945**	**219,992**
LIABILITIES—				
Deposits—total	**162,712,856**	**144,868,543**	**17,762,806**	**81,507**
Demand deposits of individuals, Partnerships, and corporations	85,301,818	85,210,746	11,225	*79,847
Time deposits of individuals, partnerships, and corporations	52,437,998	34,694,392	17,743,554	52
States and political subdivisions	7,787,973	7,784,150	2,252	1,571
United States Government	1,539,100	1,536,291	2,784	25
Interbank	13,044,914	13,044,289	625	------
Certified and officers' checks, cash letters of credit, etc.	2,601,053	2,598,675	2,366	12
Miscellaneous liabilities—total	**1,298,029**	**1,205,831**	**62,054**	**30,144**
Bills payable and other liabilities for borrowed money	74,614	73,132	163	1,319
Acceptances executed by or for account of this bank & outstanding	191,234	191,229	------	5
Other liabilities	1,032,181	941,470	61,891	28,820
CAPITAL ACCOUNTS—				
Capital accounts—total	**11,996,026**	**9,998,600**	**1,889,085**	**108,341**
Capital stock, notes, and debentures	3,341,740	3,291,665	4,953	45,122
Surplus	5,734,446	4,412,728	1,284,288	37,430
Undivided profits	2,246,289	1,696,108	532,118	18,063
Reserves and retirement account for preferred capital	673,551	598,099	67,726	7,726
Total liabilities and capital accounts	**176,006,911**	**156,072,974**	**19,713,945**	**219,992**
Number of banks	†14,767	†14,159	533	75

*Uninvested trust funds. †Includes 12 banks for which asset and liability data are not available.

Goldman, Sachs Offers Gamble-Skogmo Pfd.

Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Beane, and Piper, Jaffray & Hopwood headed a public offering May 25 of a new issue of 120,000 shares of $50 par 5% cumulative preferred stock at Gamble-Skogmo, Inc. priced at $50 per share.

Each share of preferred stock is convertible, prior to July 31, 1958, into 4 1/10 shares of common stock of the company. A sinking fund, beginning at the end of the conversion period, provides for the retirement for each year of 3% of the new issue. The preferred stock is subject to redemption at $52.50 per share and accrued dividends prior to July 31, 1950, with periodic reductions on such date and thereafter to $50 per share on and after July 31, 1958. The company intends to list both the preferred stock and common stock on the New York Stock Exchange.

Proceeds will be used to reduce short-term bank loans which have been incurred primarily for carrying increased inventories, such additional inventories having arisen because of the substantial increase during the last two years in both the business and the general price level. Sales in 1947 were $145 million, or more than double the $71 million reported for 1945.

Gamble-Skogmo, Inc. operates one of the major merchandising chains, selling durable goods, and to a limited extent soft goods, at retail through over 500 company operated stores and at wholesale to over 1,700 independently owned and operated dealer stores. The stores are located for the most part in towns and small cities in the middle western, northwestern, and far western states, and in Canada.

The Company holds as an investment 143,500 shares—about 19.1%—of the outstanding common stock of Western Auto Supply Co. (Missouri) which is listed on the New York Stock Exchange.

Harold Null Forms Own Investment Co.

WICHITA, KANSAS—Harold Null has formed the Harold Null Investment Co., of which he is President and Treasurer, with offices in the Beacon Building, to act as dealers in municipal bonds. Mr. Null was previously Treasurer of the Rittenoure Investment Co.

J. W. Means Elected Head of IBA Group

ATLANTA, GA.—J. W. Means, Vice-President of the Trust Company of Georgia, has been elected

J. W. Means

Hugh D. Carter, Jr.

Chairman of the Southern Group of the Investment Bankers Association of America. Hugh D. Carter, Jr., Courts & Co., was elected Secretary-Treasurer.

Sulzbacher, Granger Golden Anniversary

Sulzbacher, Granger & Co., 111 Broadway, New York City, founded in 1898 when the Spanish-American War was raging and Greater New York was being consolidated, on May 26 observed its 50th anniversary as a stock exchange house.

Employes of the firm, many of them with more than 20 years' service, will be tendered a dinner by the partners tonight at the Downtown Athletic Club.

The business was started on May 26, 1898, when Joseph H. Sulzbacher, a prominent international woolen merchant, became a member of the New York Stock Exchange through payment of $2,000 initiation fee and $19,500 for a "seat." Shortly thereafter he was joined by Albert Ulmann who remained a partner until his retirement in 1939.

In 1922, Jeffrey S. Granger and Myron I. Granger, both ex-World War I army officers still in their twenties, joined the firm and the name was changed to its present form—Sulzbacher, Granger & Co. After Mr. Sulzbacher's death in 1926, David Granger, Jr. was admitted to the firm and became its Floor Member and the youngest member of the New York Stock Exchange. The only changes since then were the death of Myron I. Granger in 1944, and the second retirement in 1945 of Mr. Ulmann, who had temporarily rejoined the firm during World War II.

Looking back on the firm's early business, Jeffrey S. Granger said today:

"Clients consisted to a large extent of the representative merchants who composed the top of the economy, and who were beginning to accumulate surplus funds which could be employed in the purchase of securities. The surplus funds of these merchants and others were channeled through the firm into investments which were the background of the great industrial expansion which has since taken place."

In addition to its membership in the New York Stock Exchange, the firm also is a member of the New York Curb Exchange, New York Produce Exchange, Chicago Board of Trade, Commodity Exchange, Inc., National Association of Securities Dealers, Inc., and the Association of New York Stock Exchange Firms.

With Baumann Investment

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—A. M. Poynter has been added to the staff of Baumann Investment Co., 226 Carondelet Street.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government securities markets are adjusting to the rate pattern that apparently will be in use unless the inflation spiral should get out of hand. . . . Volume is fairly sizable as holders of Treasury obligations make switches in positions in order to obtain the best possible return in accordance with their individual requirements. . . . The feature of the market has been the strength in the ineligible issues which has taken these obligations to levels that bring them in line with the bank securities. . . . Insurance companies have done no important buying yet of the taps but they have, however, ceased to be sellers. . . . Savings banks and other non-banking institutions have been the principal buyers of the restricted obligations. . . .

Activity in Treasury bonds especially the eligibles has been very selective and spotty at times with interest shifting rapidly from one issue to another. . . . The most sustained demand is in the longest taxable bond, with the interest in this obligation coming from smaller banks mainly, although some buying is in evidence from the larger institutions. . . .

The other market leaders in the bank list such as the taxable 2s, the 2¼s of 1956/59 and the 2½s due 1956/58 are contending with each other for popularity with demand moving from one to the other, depending upon the operation that is under way. . . . Such action is not unusual in a market that is undergoing rather sizable switches, which is what is going on now in this one. . . .

The shift from shorts into longs that is taking place is the reverse of what took place the latter part of last year and the early months of 1948. . . . In the short space of six months there have been some very wild gyrations in the government bond market, with Federal at one time the only buyer. . . . Now it looks as though these same Central Banks may turn out to be the only sellers of Treasury obligations. . . . It could be that these rapid price movements are going to give Federal an opportunity to make a profit on securities that were bought in those "dark days" when almost everyone wanted liquidity and the more liquid one could be, the better it was liked. . . .

If loans do not pick up, the banks must have other sources of income and government obligations certainly fit that bill. . . . Also there must be a lengthening of maturities in order to get the larger return. . . . This brings up the question as to when the authorities are likely to be sizable sellers of longer Treasury obligations, because they will sell securities to keep the market orderly and to prevent it from going up too far. . . . This time they have the securities to supply the market with and do not need to resort to "Open Mouth Operations" as in the past, to keep it in line. . . . Insurance companies may be able to get enough outside investments to meet their needs, but the "safety factor" might bring them back into the government market. . . . Savings banks are already buying eligibles and taps. . . .

Since Nov. 12, 1947 (when the authorities first stepped in and supported the government market) to May 19, 1948, the Federal Reserve Banks bought $5,600,960,000 of Treasury bonds of which $4,653,445,000 had a maturity of more than five years. . . . The first phase of the support was from Nov. 12 to Dec. 23, 1947, and prices paid for issues bought in order to stabilize the market were on the high side. . . . This is shown by the range of quotations of some of the market leaders during these dates. . . .

The 2½s due Sept. 15, 1967/72 were between 104.24 and 103.7; the 2¼s due Sept. 15, 1956/59 between 103.30 and 103.11; the 2½s due March 15, 1956/58, between 105.21 and 105.1; and the 2s due Dec. 15, 1952/54, between 102.1 and 101.27. . . . The ineligible 2½s due Dec. 15, 1967/72 held at about 101 while the 2¼s due Dec. 15, 1959/62 were between 100.16 and 100.13. . . . From Nov. 12 to Dec. 24, the Central Banks acquired $971,903,000 of government bonds of which $895,563,000 were due in more than five years. . . .

The major part of the support of the government market came between Dec. 24, 1947 and March 24, 1948, when $3,943,265,000 were bought with issues due in more than five years aggregating $3,758,882,000. . . . These purchases were at "pegged" prices, such as 101 for the 2½s due Sept. 15, 1967/72, 101.8 for the 2¼s due Sept. 15, 1956/59, 102.24 for the 2½s due March 15, 1956/58, and 101.4 for the 2s due Dec. 15, 1952/54. . . .

However, the longer eligibles were pretty much above support levels after early February, 1948, indicating the Central Banks were probably not too large buyers of these securities after that date. . . . The ineligibles continued at "pegged" prices of 100.8 for the 2½s due Dec. 15, 1967/72 and 100.0 for the 2¼s due Dec. 15, 1959/62, forecasting sizable purchases of tap bonds by the authorities. . . .

After March 24, prices of the longer eligibles and restricted obligations moved away from support levels, which relieved a good part of the burden of the monetary authorities. . . . Although long-term Treasuries were taken out of the market after March 24 by the money managers, these securities went mainly to Government Trust Accounts. . . .

As a matter of record from March 24 to May 19, the Federal Reserve Banks did not acquire any government securities that had a maturity of more than five years, although during this same period they purchased $685,792,000 of Treasury bonds. . . . In fact last week the Central Banks reported a decline of $1,000,000 of bonds due longer than five years. . . . While some of the bonds bought by Federal were at prices above those presently prevailing the bulk of them were taken at levels that give the Central Banks a profit now, especially in the eligible issues. . . .

However, the profit motive will not determine when Federal will dispose of these securities. . . . The deciding factor will be the action of the government securities market and the need to keep it orderly. . . .

The partially-exempts have a good tone, led by the 2¾% due 1960/65 with orders coming mainly from Chicago and mid-western banks. . . . Savings banks are showing a preference for the 2¼s due 1959/62 and the tap 2½s that become eligible in the early 1950s. . . . Pacific Coast banks are reported to be large buyers of the 2s due 1952/54 and the World Bank bonds.

J. Dorsey Brown Renamed by Balt. S. E.

BALTIMORE, MD.—J. Dorsey Brown, Mackubin, Legg and Co., has been nominated for re-election as President of the Baltimore Stock Exchange, by the nominating committee. Also nominated to serve for two years on the Board of Governors were Edward J. Armstrong, Stein Bros. & Boyce; W. Carroll Mead, Mead, Miller & Co.; and Walter M. Weilepp, Walter M. Weilepp & Co. The election is scheduled for June 7.

J. Dorsey Brown

Invest. Women's Club Of Phila. Elects

PHILADELPHIA, PA.—At the annual election dinner held May 17 at Whitman's, Philadelphia, the Investment Women's Club of Philadelphia, reelected Miss Marguerite A. Campbell, of A. C. Wood, Jr., & Co., as President for the 1948-49 season. Other officers chosen were:

Vice-President: Anna M. Barnes, Barnes & Lofland Div., Jenks, Kirkland & Co.

Treasurer: Sara-Jean Wagner, Montgomery, Scott & Co.

Secretary: Jane P. Crispin, Stroud & Co., Inc.

Executive Board: Publicity, Margaret J. Patterson, Montgomery, Scott & Co.; Membership, Florence B. Poehner, Rambo, Close & Kerner, Inc.; Entertainment, Eleanor Tobaben, C. C. Collings & Co., Inc.

Following the dinner after the election and completion of the club's minutes, the traveling reporter, Miss Emma K. Edler, a former President, recounted her impressions of her recent trip to Europe and this proved mighty interesting. For further understanding of the new comers to the investment field of workers, a short motion picture, "Money at Work," produced by the March of Time and sponsored by the New York Stock Exchange, was shown on the screen.

Hettinger Consultant to Security Resources Bd.

WASHINGTON, D. C.—A. J. Hettinger, Jr., partner in Lazard Freres & Co., New York investment firm, has been named a consultant to the National Security Resources Board. He will act as economic adviser to the board's new plans and program division, of which Ralph J. Watkins has just been named director. Mr. Watkins is on loan from Dun & Bradstreet.

Ryan, Hall & Co., Inc., Formed in New York

Formation of Ryan, Hall & Co., Inc., investment securities, with offices at 165 Broadway, New York City, is announced. Principals in the firm are Joseph A. Ryan and Ernest J. Hall.

Both were formerly officers of Herrick, Waddell & Co., Inc.

Public Utility Securities

Reappraising Consolidated Edison

Since last fall Consolidated Edison's earnings have enjoyed a sharp recovery. In the 12 months ended Sept. 30, Consolidated share earnings on the common stock dropped to $1.61, very little being earned in the September quarter. The statement caused apprehension in some quarters over the safety of the $1.60 dividend rate. However, spokesmen for the management pointed to a combination of factors which had temporarily depressed earnings and their predictions of improvement have been borne out. For the calendar year Edison reported $1.90 a share and for the 12 months ended March 31 $2.20 a share.

However, two factors detracted somewhat from this good showing: (1) depreciation charges in the first quarter were only about 7.6% of gross revenue compared with 10% last year; and (2) the management had made no accrual for a possible wage increase as they had last year. The cut in depreciation charges was said to be due to an order of the Public Service Commission in March a year ago, which required the parent company to accrue on a "straight line" basis at the monthly rate of $2,100,000 (plus adjustments). Possibly this figure was related to the Commission's assumption that the depreciation reserve should be substantially increased to make "straight line" retroactive—to which the company has not yet entirely agreed, although a large section of surplus has been earmarked for this and other changes. In any event despite a declining trend in the depreciation ratio for electric companies generally, Edison's present rate of accrual seems to be on the low side as compared with other large companies. If the 10% ratio to gross were continued, earnings would be reduced about 45 cents per share in 1948, it is estimated.

Last year's wage increase which was decided by an arbitration board and was retroactive to Jan. 1, cost the company about $9,000,000 for the calendar year—equivalent to about 50 cents a share after allowance for reduced income taxes. This year's proceedings have also gone to arbitration and it is understood that any increase granted will again be retroactive. However, in view of the present nation-wide resistance to a third round of wage increases, it is possible that this year's allowance will prove less generous.

Another difficulty is the continued upward trend of fuel costs. It was recently estimated that John L. Lewis' maximum demands might raise the average cost of coal for the utilities from $6.50 a ton to $9. It seems very unlikely that all of these demands will be conceded even in the event of another prolonged strike. However, even if half of them are granted, it is estimated that they might cost Edison some $14,000,000 a year, or about 75 cents a share after tax savings. This would of course apply to only the last half of the year, or perhaps only the last quarter, as the company has a stockpile bought at lower prices. Moreover, Edison's electric business is protected by fuel adjustment clauses in the rate structure, though not the gas business. While there would be some lag in the partial recovery of higher fuel costs, nevertheless the electric rate clause is a shock absorber. The loss from higher fuel costs might be quite small in 1948.

On the credit side there is one favorable near-term factor, plus several from the longer-term outlook. Consolidated Edison and Westchester Lighting, its subsidiary, applied some time ago for increases in gas rates totaling about $15,000,000. Hearings are still in progress before the N. Y. Public Service Commission and, considering the volume of testimony, it seems unlikely that any decision will be reached before late this summer. If the entire sum were received, this would amount to $9,300,000 after taxes, or 84 cents per share. On the other hand, the Commission has been investigating electric rates for the past two years and the company seems reconciled to some downward readjustment in these rates, although it is impossible to make any estimate of the effect on revenues. It seems unsafe, however, to figure on an overall net increase of more than 25 cents to 50 cents per share from rate changes ($4,700,000 to $9,400,000 before tax adjustment).

From a longer-term point of view, Edison may benefit by considerable growth of residential business resulting from construction of apartment houses, etc.—although the fact that so many of its customers are apartment dwellers limits the growth of heavy electric appliances such as water-heaters, washers, etc. The gradual decline in the practice of sub-metering should also prove helpful to revenues. The company's big construction program will also permit substantial operating economies over the next two or three years. Transportation of natural gas to the New York area, expected by 1952, will facilitate increased use of gas for apartment heating, air-conditioning, etc. (Natural gas will be used to mix with manufactured gas.)

Edison recently issued some $57,000,000 debenture 3s due in 15 years which are convertible into the common stock of 25 (40 shares per bond). With the stock selling around 24, the conversion privilege is definitely attractive. The bonds are selling around 106½. As a bond without a conversion privilege it might be worth an estimated 103 (about a 2.75% basis), hence the present price indicates an estimated premium of about 3½ points for the conversion privilege. Considering the fact that the stock has sold above $25 in each year since 1924 or earlier, with the exception of 1941-3, the long-pull appreciation possibilities appear worth the "call" of 3½ points.

Forshew Associated With J. W. Thompson

John H. Forshew has joined the research staff of the J. Walter Thompson Co. in New York and will head activities there on the J. Walter Thompson Consumer Panel.

The J. Walter Thompson Consumer Panel was set up in 1939 to develop, on behalf of Thompson clients, a timely check of buying habits and consumer trends. The Panel represents a correct cross-section of the American buying public and by checking its members' day-to-day shopping record is able to give detailed information on: Reasons for brand shifts; frequency of purchase; variation by income, age and location in regard to brands used and amounts consumed.

Charles A. Day Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—John W. Murphy has been added to the staff of Chas. A. Day & Co., Inc., Washington at Court Street, members of the Boston Stock Exchange.

Corporate Bonds as Savings Bank Investment

(Continued from page 6)

statistics on the great host of charitable and educational institutions, trust funds and individuals, as their problems are also different, but it is perhaps interesting to see what investments the life insurance companies have today. The savings collected and being collected by the life insurance companies are tremendous. The Proceedings of the Life Insurance Association of America report that at the end of 1947 the legal reserve life insurance companies operating in the United States had over $51 billion of admitted assets. Of this amount 39% was invested in United States Government bonds, 16% in mortgage loans, and approximately $14.5 billion, or about 28%, was invested in corporate bonds.

While the laws governing the investment of life insurance company assets are more liberal than those governing the investment of the funds for the mutual savings banks, it is to be hoped that the savings banks can increase the amount of their investments and the percentage of their investible funds invested in corporate bonds, so as to take a larger part in strengthening the sinews of American industry.

Questions Considered

Now, of the questions which you have to consider, if you wish to contemplate increasing your investment in corporate bonds, I shall name three:

(1) Is now the time to invest in corporate bonds?

(2) Can an adequate rate of income be obtained from corporate bonds?

(3) Can corporate bonds be purchased without assuming undue risks?

As to timing and rate of return, it is evident to all that the questions of rate of return and timing are closely related to the rate of return on government securities, to the fiscal policy of the government, to the management of the public debt by the Treasury Department, and to the policies pursued by the Federal Reserve. The Secretary of the Treasury spoke to you yesterday concerning government fiscal policy and mangement of the public debt, and Mr. Murray Shields has addressed you this morning on the outlook for interest rates. (Ed. Note: Remarks of Secretary Snyder and Mr. Shields appear elsewhere in this issue.)

Unfortunately a business meeting regarding the sale by General Motors Corporation of some million shares of North American Aviation stock kept me in New York yesterday and deprived me of the pleasure of listening to the Secretary, but I understand he did not announce any reversal of the policy which the Treasury and the Federal Reserve have been pursuing in reference to long term Government bonds, namely of stabilizing prices of the bonds at levels to yield around 2½% or slightly less. While it is always dangerous to prophesy, and while over the longer term one cannot guarantee that the anchor of government bond prices may not slip, or indeed that it may not become expedient for the Treasury and the Federal Reserve to allow some increase in the long term rate, it would appear that for some period it may be reasonable to suppose that the long term government market may continue to be stabilized at around a 2½% level. In April, 1946 the long term government bond market was on about a 2⅛% basis, and in a little over two years has been adjusted to a 2½% level.

With the many economic factors involved, and with the psychological and political imponderables in the situation, it of course would be foolhardy to say that a substantial increase in the long term government rate is impossible, but my judgment would be that a material change would be more likely to occur over a long term than in the short term future.

If, then, we take the premise that we have an anchor of government bond prices that will not slip materially, barring winds of hurricane force, what about the differential between the government rate and the long term corporate rate?

In the winter of 1945-46 our office told the Standard Oil of New Jersey that it could raise 25-year money on approximately the same basis as the United States Government. This was perhaps a unique situation, in that the credit rate of S.O.N.J. was at a peak for industrial credit and that the supply of the highest grade corporate securities was very small. Actually, when Standard Oil did sell $85,000,000 of debentures in May, 1946 they sold an issue of 25-year 2⅜% bonds on a 2.48% basis, which was at about a 15 basis point differential from long term government credit at that time.

May I inject here that, despite the high credit rating of these bonds, they were not put on the list of investments legal for savings banks in the State of New York by the Banking Board because the S.O.N.J. would not, in the indenture relating to the debentures, place restrictions on the borrowing power of its subsidiaries. While the Banking Board has been very helpful in broadening the list of bonds legal for investment in New York, there are still instances of this sort, where it would seem to many that technicalities overbalanced investment merit in the decisions of the Board.

Differential Between Government Bonds and Industrials

But, to get back to the differential between government bond prices and corporate bond prices, it is interesting to note that these S.O.N.J. bonds now sell on about a 2⅝% basis, or only some 15 to 20 basis points away from governments of comparable maturity. As I said before, however, this bond is not a fair example of the differentials which have existed in recent years. In general, it might be said that in the early part of 1946 the differential was in the neighborhood of ¼ of 1%, whereas earlier this year it was about ½ of 1%, and in a number of instances still approaches ½ of 1%.

Here again we have a question to ask ourselves: Is a ½ of 1% differential a reasonable differential? In the light of today's conditions, and barring any tremendous change in the amount of new bonds coming into the market or in the supply of capital being created, it would appear that any substantial widening of this differential would attract enough purchasers of high grade corporate bonds to restore the differential to about ½ of 1%.

And now for a minute we might look to see what have been the prices of high grade bonds over a period of years. I like to simplify it in this manner: by saying that in 1925 the rate was about 4½%; ten years later, in 1935, it was 3½%; ten years later it approached 2½%; and now it is around 3%. In 1955 it might be 3½% again, but we cannot look in the crystal ball and tell, and when we consider the present government level of 2½% and a differential of about ½%, giving a high grade corporate level around 3%, it would appear that we now have a high grade corporate market where the rate is not relatively unremunerative. The possibility that over a period of time the rate may go to 3½%, however, cannot be disregarded, and so it may well be advisable to concentrate purchases on bonds with maturities of 25 years or less, rather than those with longer maturities, unless affected by exceptional circumstances.

Security and Risk

And now let us turn for a few minutes to the security risk. The risk will vary greatly between industries, and between companies in the same industry, but the debts today of most corporations are buttressed by the fact that the debt forms but a very small percentage of the reproduction value of the plants. Our public utilities, railroads and industrials have not been selling their plants to each other or otherwise marking up their values except by the purchase of new increments of plant. While it is to be hoped that present inflated costs for the construction of plant and acquisition of machinery will decline, I think all would agree that in most instances the debts form a relatively small percentage of what may be reproduction cost over a reasonable period of years in the future. This is in contradistinction to the real estate mortgage situation, where the stated values for properties have risen tremendously due to sales and due to the construction of complete new units with mortgage debt representing a far larger proportion of what may turn out to be reproduction costs in the not too distant future. So from a security viewpoint it would appear that on the asset-debt relationship the corporate bond is a sound investment, and stands on a better basis than the real estate mortgage at the present time. There are a number of corporations which over a number of years have earned their charges for interest and amortization by a wide margin, and there are indications that they should continue to earn their charges by a fair margin. In passing, it is interesting to note that the cost of servicing corporate bonds is generally much less than the cost of servicing real estate mortgages. Furthermore, the corporate bond is a readily marketable security and can be quickly turned into cash.

I do not wish to deprecate the investment of money in real estate mortgages or in government bonds, but I do wish to point out that at the present time it is possible to obtain from corporate bonds a remunerative return of about 3% with relatively high grade security. Now, based on the fact that, with the notable exception of the Pennsylvania savings banks, you gentlemen have a relatively small amount of your moneys invested in corporate bonds, let us look to see what bonds you might wish to buy if you were to decide that an investment by you in corporate bonds not only would aid the national economy by providing tools for the worker, but also that such purchases would be a wise investment of a larger part of your funds.

World Bank Bonds

First, let us consider the bonds of the International Bank for Reconstruction and Development. Some might say that the International Bank is not a corporation and that its securities are not corporate bonds. Actually, the Bank is given many of the attributes of a corporation, as our Federal law implementing the Bretton Woods Agreement provides that, for the purpose of any action which may be brought within the United States or its territories or possessions by or against the Bank in accordance with its Articles of Agreement, the Bank shall be deemed to be an inhabitant of the Federal judicial district in which its principal office in the United States is located, and any such action at law or in equity shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of any such action.

The assets behind the International Bank bonds are not only loans approved by the executive directors, including Mr. Eugene Black, and carefully screened by the Bank's capable management, including such men from our country as Mr. McCloy, Mr. Garner and Mr. McLane, but also the commitments of the member countries to provide up to an amount of $8.2 billion when required to meet the Bank's obligations. Some people have felt that what is in effect the guarantee of countries other than the United States cannot in all cases be absolutely counted upon. However, the United States is committed to provide up to $3,175,000,000 if required to meet the Bank's obligations. Until such time as the amount of the securities sold or guaranteed by the Bank exceeds $3,175,000,000, the bonds sold by the Bank or guaranteed by it are fully covered by what is in effect the United States guarantee. The Bank at the present time has outstanding $250 million of bonds, and to date has not guaranteed any issues. There are many who think that the amount of bonds which will be sold or guaranteed by the Bank will never exceed $3 billion. Certainly, as a practical matter, the market will not take in excess of $3 billion of Bank obligations, or obligations guaranteed by the Bank, unless conditions improve so that the obligations of the Bank itself and of other guarantors are such as to command confidence. For the present, anyway, it would seem that the practical limitation on the amount of securities that might be issued or guaranteed by the Bank is about $3 billion, and the existing bonds are well within this limit.

The bonds of the International Bank have been made legal for savings banks in most states. There are now two issues outstanding; one a 2¼% issue due in nine years, selling to yield a little less than 2½%, and one a 3% issue due in 24 years, selling to yield a little over 3%. It would seem that the purchase of these securities or future properly priced issues of the Bank, or of issues guaranteed by the Bank would be a good investment for savings banks, and in the case of future issues would help in the reconstruction of areas torn by the war or lacking capital for development.

Next, I think you should consider the bonds of the Bell Telephone System companies. The pent up and unprecedented demand for service has called for an enormous expansion of plant by the Bell System, and this expansion of plant has necessitated the raising of very large amounts of capital. Part of this capital has been raised through the sale of mortgage bonds and debentures of the regional operating companies, and a part by sale of debentures and convertible debentures of the parent American Telephone and Telegraph Company. In 1946 $550 million principal amount of bonds and debentures were sold, in 1947 $1.1 billion were sold, and in the first half of 1948 $410 million have been sold or are scheduled for sale. This last figure includes $60,000,000 of Illinois Bell Telephone Company mortgage bonds to be sold on June 2, and $90,000,000 New York Telephone Company mortgage bonds to be sold on June 29.

While the preponderance of securities issued in the past two and a half years has been in the form of debt, and proportion of debt to total capital has increased from 31% to approximately 50% in the period, some 20% of the total debt of the system is convertible into stock of the American Company. The effect of conversions is to reduce debt obligations by the amount of the bonds converted, and to increase equity capital by a greater amount due to the cash premiums payable upon conversion. Even in 1947, when the ratio of income available for fixed charges to fixed charges was at its lowest point in the past 10 years, consolidated fixed charges were covered 4½ times before Federal income taxes and 3.4 times after Federal income taxes. Various public utility commissions have permitted rate increases to offset in part increased expenses, so that the earnings picture should become more favorable than it was in 1947.

The crowding of so many issues of telephone securities into the market in such a short time has had an effect on the price of the bonds. In the period immediately preceding the past two and a half years telephone bonds sold as high or higher in price—i.e., with a lower yield—than electric utility bonds. The straight debentures of the American Company and of a number of the operating companies now sell to yield around 3%, or a little more than do electric utility bonds, and would therefore seem to provide an attractive medium of investment.

Let us turn to the electric light and power industry. It is almost impossible to find a yield of 3% on any first grade general market electric light and power bonds. The differential from government bond prices is in my opinion too small. Furthermore, the proportion of debt to total capital is generally high, and in general no large amounts of earnings are being retained, nor in most instances are large stock issues being sold to bolster the equity capital position. On the other hand, the electric light and power industry is growing, and in some instances steps may be taken to provide more equity capital, so that an investor is justified in watching the situation to see whether favorable investment opportunities arise.

In this connection, before turning from the electric light and power industry, I would like to mention one bond which has not as yet been put on the legal list for New York savings banks, and I do not know whether steps are being taken to make it eligible. The bond is the Consolidated Edison 15-year 3% Convertible Debenture, convertible into common stock at $25 a share, or at the rate of 40 shares per $1,000 bond. This bond is presently selling at 106 and a fraction, to yield about 2½%. The maturity and return are such as to make it attractive, and there is a good chance for making a profit to offset losses in other parts of the portfolio which are bound to eventuate, as no one can be 100% perfect in investment management.

Railroad Bonds

I know that the phrase "railroad bond" is anathema to many of you. The falling prices and bankruptcies of the 30's remain all too vivid in your memories. But in the railroad field there were and are good bonds, and if we examine what has happened in the light of hindsight it would appear that at least some of the indiscriminate selling was frightened selling rather than selling based on the intrinsics of the situation. It is true that the railroads have their problems, the chief of which is the labor situation, but all industry has the labor problem to a greater or lesser degree, and over the years the labor problem will have to be solved if American industry is to endure.

Of railroad bonds I shall mention, first, the Chicago Burlington & Quincy 2⅞% bonds, due in 22 years, selling to yield approximately 3%. The head of this railroad, Mr. Ralph Budd, is the dean of railroad presidents. The C. B. & Q. earned its fixed charges in each year during the depression of the 30's; from 1941 to the end of 1947 reduced its debt from $252 million to $182 million, or 28%, and in 1947 earned its fixed charges 5¾ times.

Then I will mention the Central Pacific 3⅝s due in 20 years, and the Texas & New Orleans 3¼s due in 22 years, first mortgages on important portions of the Southern Pacific System, both bonds selling to yield about 3⅜%. While the Southern Pacific was compelled to have recourse to the banks and the R.F.C. in the early 30's and again in 1938, it has since put its house in order, reducing its funded debt from $750 million in 1939 to $540 million at the end of 1947, or by 28%, and its fixed charges from $31 million to $19 million, or 38%. In 1947 it earned its fixed charges 2.7 times, and serving, as it does, the great developing Southwest, provides an attractive medium of investment.

Next I will mention the Great Northern General Mortgage 5% bonds of 1973, selling at 122, a high premium which should not bother you gentlemen as you can amortize the premium and obtain a yield of 3⅝%. While the Great Northern did not earn its fixed charges in all years of the depression of the 30's, it has, through bond purchases, refundings and conversions of debt into stock, effected a reduction in funded debt since 1935 of over $113 million, or 32½%, and cut its fixed charges from about $19.5 million to about $7.5 million at the present time, a truly impressive achievement. In 1947 its fixed charges were earned almost four times.

Under ordinary circumstances I would consider the Chesapeake & Ohio refunding and Improvement mortgage 3½% bonds due in 1996, selling to yield slightly over 3¼%, as having too long a maturity, but by agreement between Mr. C. P. Van Sweringen and our firm the mortgage securing these bonds provides for sinking funds sufficient to retire the entire series by maturity, which sinking fund has an important effect on price, acting as a purchase fund, and in addition serves to shorten the average maturity.

Other bonds which are worth your study are: the Chicago & Erie 5s of 1982; Erie Ohio Division 3¼s of 1971, underlying bonds of the Erie; Pennsylvania RR. consols 4½s of 1960; and of course I should not pass by, if you can stand the long maturity, Atchison General 4s due in 47 years, selling to yield about 3⅛%. Furthermore, while at the peak in 1940 one to ten-year equipment trusts sold on a 1% average basis, with the ten-year maturity on a 1.75 basis, now a good ten-year equipment maturity can be bought between a 2¼ and a 2½ basis, and should not be disregarded as a medium of investment.

Industrial Bonds

And lastly I come to industrial bonds. Here again, as in the case of electric light and power bonds, it is difficult to find securities of the first rank to yield 3%. Perhaps one of the reasons for this is the great amount of industrial issues which have been placed privately with a relatively small number of institutions rather than having been publicly offered. It is to be hoped that some amendments may be made to our security laws so that the machinery of public offering can function more smoothly and so that you may have an opportunity to purchase more industrial bonds.

While it is difficult to find first grade industrial securities yielding 3%, in this field we do have a number of bonds of early maturity that are not unattractive. In the oil industry, bonds maturing in less than 20 years of the Texas Company, Atlantic Refining, Phillips Petroleum, Standard Oil of Calif., Union Oil, yield from 2½% to 2¾%. Bethlehem Steel bonds due in 1970 yield 2¾%, and National Steel 3s due in 1965 yield 2.65%. An issue of National Dairy Products Corp. debentures due in 1970 is scheduled for offering this week, and may be attractive.

These are but a few of the bonds which you savings bankers may wish to consider. In the states where bonds of the types mentioned are not eligible for savings bank investment you may wish through your legislative committees to see what can be done to have such bonds put on the legal list.

With the change which has occurred in the corporate bond market in the past two years you gentlemen now have a more favorable opportunity to invest in corporate bonds. The larger return that you can obtain from them without undue risk may facilitate over a period of time some increase in the rate that you are able to pay on deposits, thus encouraging greater thrift and the accumulation of more savings to provide more capital or tools for American industry.

Some Economic Aspects of the Steel Industry

(Continued from page 8)

War was 50,000,000 and the boom year of 1929, preceding the economic depression, brought forth a peak, up to that time, of 63,000,000 tons. Not until 1940, when the impetus of planning for defense and the heavy European requirements was felt by American industry was that 11-year old record exceeded. The year 1939, practically unaffected by the War, witnessed the production of 52,800,000 tons of steel ingots and castings, 32,000,000 tons less than the industry produced in 1947. In other words, the figures for last year represent an increase of 60% over those for 1939, a thought-arresting comparison. The per capita increase is somewhere between 45 and 50%.

Statistics, it is true, relate mainly to the past. Their implications must be combined with other factors, new influences, and estimated trends, if a picture of the future is to be painted. The figures cited thus far do not project the need for a normal or ordinary peacetime production of almost 85,000,000 tons of ingots in 1947. It is reasonable to conclude, therefore, that the actual results with which we are confronted, and they are very real, have been weighted with extraordinary or unusual requirements, some of which are old, and some new. Patently, there are still deficiencies to be satisfied in the domestic market. At this moment they are at least 20,000,000 tons larger than they should be, because of the loss of that amount of tonnage in the strikes which have occurred since the surrender of Japan.

Looking further, one sees that the regular commercial demands for export are unusually high, the limits being set only by the number of orders the producer is able and willing to accept, within the export regulations of the United States Government. In case the bars were down and the steel available, the tonnage which could be exported would be determined only by the ability of the purchaser to pay. Another factor in weighting the future load on American facilities is the European Relief Plan, with its possible allocation of two to two and a half million tons of steel per fiscal year, intended for rehabilitation projects abroad. In the offing is a new national defense program, the steel requirements for which are not yet definitely known.

Problem of Increased Capacity

More than two years ago the various units of the steel industry, each and severally in accordance with their respective situations and views, were laying plans for their postwar activities. Bearing in mind the lessons learned from the long period of prewar performance, but with the desire to serve the needs of the present and future most effectively, they adopted what has come to be a step by step approach to the problem of increased capacity. Mention has been made of the 95,500,000 peak capacity reached in the year 1945. It was known then that as soon as the military crisis was passed, a part of that capacity would have to be retired from active service. The terrific and sustained drive for maximum output was more than some of the furnaces could stand; the figurative baling wire with which they were being held together through the period of desperation was wearing out. With the necessary retirement of old and inefficient equipment the steel making capacity dropped to approximately 92,000,000 tons in 1946 and 91,000,000 tons in 1947.

Meanwhile, the rehabilitation and expansion programs of the steel companies were under way. Progress was much slower than had been anticipated because of shortages of skilled workmen, labor and materials. No one who has not had a part in any such program can have an adequate conception of the difficulties encountered. By Jan. 1, 1948 however, the total ingot capacity of the industry slightly exceeded 94,200,000 tons, and with the completion of plans now in progress, an additional million tons should be added in each of the years 1948 and 1949. That means a rated steel-making capacity of more than 96 million tons early in 1950.

Who knows, with any degree of certainty, what the demands for steel will be in 1950 and thereafter? At an operating rate of 90%, the 96 million ton capacity can produce more than 86 million tons of ingots, or in an emergency, at a higher rate, something around 92 millions. The prewar tonnages are dwarfed by such figures. With deference to the new factors which have entered the equation since 1939, even 90 million tons of ingots is an immense amount of steel.

Regardless of whether it will prove to be adequte, the industry knows, and you should know, that any larger program of rehabilitation and expansion could not have been handled, physically and perhaps otherwise, in the strenuous period since the cessation of active hostilities. The reasons are definite. Sufficient manpower has not been available. Necessary materials have been in short supply and for long periods unobtainable. The capacities of the industries serving the steel producers have been severely taxed to furnish the supplies and equipment required for the present program, even with the times for deliveries extended by more than 50%. If you wish to test the authenticity of these statements, just start now to build a fully integrated steel plant for the production of a modest half million tons of ingot, and learn something of the obstacles.

Ingots cannot be produced by providing simply open hearth, Bessemer, and electric furnace facilities. There must be something to charge into the furnaces—mainly blast furnace iron and steel-making scrap. The necessary iron can be provided by building more blast furnaces, but they in turn must be fed with ore and coke. Additional ore can be mined if additional mines are developed. There must be additional boats and cars to transport it from the mines to the blast furnaces. More coke, which is in short supply, can be made when enough by-product ovens are built to carbonize or convert the requisite coking coal, which likewise is in short supply and calls for a substantial expansion of mining and transportation facilities.

It is apparent from this rigmarole that the job of providing properly balanced additions to steel-making capacity is not a simple one. Particularly is this true when capacity has been added to capacity and production has been raised to present levels. The problem reaches the whole way back to the mines, and its proper solution is more formidable, complicated, and time-consuming than the uninitiated have supposed.

A while ago, scrap was mentioned as a major ingredient of the steel-making process. The industry requires, or should have for the present volume of production, around 25 to 30 million tons of "outside" or purchased scrap per year. Unfortunately, the supply of scrap is extremely precarious and has been characterized for a long time as "tight." Strenuous efforts on the part of interests directly concerned with the matter have not been effective in relieving this situation, which plays such an important role in setting the limits of economical steel production. The shortage is due mainly to the increasingly heavy export of scrap during the past 15 to 20 years, and the immense quantities of potential scrap shipped abroad in the form of steel used in prosecuting the War. Much, if not all, of that seems to have gone beyond recall. At any rate, the fortunate balance which formerly existed between steel scrap and new production has been badly upset, and no one knows where a supply of scrap is to be obtained to serve the requirements of higher capacities. The alternative is more pig iron, more blast furnaces, an inordinate drain upon our precious raw materials, and a severely distorted economy.

Thus it would appear, at least to a member of the steel industry, that with all of the foregoing factors considered and duly weighed, a very liberal course has been pursued in the strenuous attempt to meet the demands for steel. One can likewise clearly discern the probability that an immediate embarkation on the much larger program of expansion advocated by various sponsors would have availed nothing.

Financial Side of Picture

The financial side of the picture is interesting. It is a well known fact that construction costs have been mounting rapidly in recent years. To provide balanced new capacity in fully integrated steel plant now requires the expenditure of approximately $300 per yearly ton of salable product. In other words, for a new one million ton installation an investment of around $300 million would be involved. That is more than three times the per unit investment value of the facilities which produced American steel just before the second World War. Were the comparison extended to bring in the depreciated book value—a kind of figure dear to the hearts of comptrollers, accountants, and perhaps economists, but a sort of epsilon-iron to metallurgists—the contrast would be startling.

One need not go that far, however, to point up the idea that the amount of capital investment per ton of product plays an important part in the economics of the steel business. Capital itself is worth dollars per year to its supplier; a very definite sum if borrowed, and hopefully a reasonable annual return to investors if it represents the savings risked by the stockholder. Beyond that initial obligation on capital investment, look for a moment at the way in which it affects depreciation charges. Now depreciation, the factor which is intended as an offset to the wearing out of tools and equipment and must provide for their eventual replacement, cannot be dismissed as a fanciful figure of the bookkeeper; it is very definitely a part of the cost of production. No industrial concern, if it is to survive with facilities unimpaired, can avoid adequate depreciation charges.

If, for purposes of illustration, the capital invested per annual ton of steel product is $100—a figure considerably higher than it was several years ago—and the allowable depreciation rate is a moderate 4%, the cost of depreciation per ton of steel is $4. What happens under present conditions when a brand new fully integrated steel-producing venture requires approximately $300 of capital investment per annual ton of finished steel? The depreciation charge against the product produced on the new equipment, at the same 4% rate, becomes $12 per ton. That immediately poses a troublesome economic problem because the average proceeds per ton, from the sale of finished steel at prevailing prices, cannot absorb such a high depreciation charge. There is simply not enough margin between the total of other costs and the selling price to take care of such an added burden. Under current circumstances the new production could not stand on its own feet. For support it must call upon the scant profits earned by the older low-cost equipment operating at a high rate of capacity.

A certain limited amount, but only a certain limited amount, of that kind of support can be accorded before something must give way. Of course, there are some compensating advantages to be realized, costwise, in the operation of new efficient equipment, but not enough to offset the higher depreciation on that part which has been provided at a cost of $300 per ton of annual capacity. Either the addition of very high-cost facilities must be kept within reasonable economic proportions, or higher prices must be secured for the products made and sold. Higher prices, in our present economic situation, do not constitute a preferred or desirable method of procedure if they can be avoided. Even in the case of steel, which by comparison with other commodities is surprisingly low in price, attempts are being made to recede from the levels attained during the past year. As to the relative position of steel prices, it is pertinent to recall that during the period 1940 to 1947 inclusive, the wholesale price of all commodities in the aggregate, according to the Bureau of Labor Statistics, rose 108%, while the average price of steel, based upon commercial records, increased by about 46%.

So the statement that steel prices are surprisingly low is readily defensible. Even so, it is hardly possible that the group of advocates who have been urging publicly that the steel industry proceed forthwith to expand by another 10 million tons beyond its already notable increase in capacity, would be the first to defend or condone the higher prices necessary to defray the added cost imposed by the inordinately expensive new equipment.

For almost eight years the steel industry has been operating at rates which are exceedingly high in comparison with its long-term experience. We hope, and others with us, that this condition may continue long into the future. A peacetime economy requiring near-capacity production of steel would be a good economy for the entire nation. The faith already so substantially expressed by the various steel companies, through the funds dedicated to enlargements and betterments, indicates a determination to serve all genuine requirements as effectively as possible, without doing violence to the principles of orderly procedure. It is fortunate, we think, that in this expression of faith in the future there is an admixture of business sense and regard for economic considerations. When and as additional needs are foreseen, the steel-maker, judging from past performances, will hasten to meet them on a rational basis.

Insurance Profits in the Public Interest

(Continued from page 10)

the proverbial "rolling off a log." Nothing could be further from the truth. The underwriters who merely "stand by" are those who are left holding the bag. A great deal of time and effort has to be spent not only with present holders of insurance stocks on which rights are being issued but with prospective future owners. Many holders simply do not have the necesssary cash to subscribe to additional shares, others may not wish to subscribe for varying reasons such as low dividend return and relatively poor earnings, and others cannot subscribe because of legal prohibitions. In many of the underwritings of the past seven months only 50% or less of the additional capital was subscribed by present stockholders. New stockholders had to make up the difference. In the end about 95% of the stock has been taken up but what is not generally understood is that most of this new stock, in most cases, has been subscribed by brand new stockholders. Hence the importance of cultivating new prospects and endeavoring to convert them into new stockholders to supply capital for the fire insurance industry.

This conversion has not been an easy task. During 1947 and 1948 I crossed the continent many times, not only to the West Coast but the southwest and Gulf Coast, to New England and Canada on such ventures. But before describing the difficulties involved in persuading an investor whether he be an individual or an university endowment or philanthropic institution, to convert a cash balance, a U. S. Government bond, some other high grade bond or high grade stock into funds for the purchase of high grade insurance stocks, let us examine in some detail what was being offered in exchange. If the "package" is relatively unattractive, then naturally more difficulty would exist in interesting investors. And I take attractive to mean its price in relation to liquidating value and dividend return.

Price Discounts From Liquidating Values

The new insurance securities which have been underwritten since Aetna started the parade to the capital markets last July have been priced at heavy discounts from liquidating value. In certain cases the discounts to stockholders have been as high as 45%. Now what does this mean? That the assets of these companies, consisting primarily of U. S. Government bonds, cash, agents' balances, and high grade preferred and common stocks, could be purchased at discounts up to 45% from what these assets would cost if bought in the open market. In other words, instead of paying par or even a premium for Government bonds, such as they are selling for today, one could in effect buy them at discounts up to 45% by purchasing this "package" of assets in which Government bonds in most cases represented more than half the total. The same could be said for other high grade bonds and stocks, preferreds and commons. Or take a high grade common stock like Standard Oil of New Jersey. Instead of paying 80 for this stock in the open market, one could purchase it in effect by paying only 44 which represented a discount of 45%, or 36 points, from the market price of 80, again by purchasing this "package" of assets. Prime agents' balances, which most any bank would be happy to buy at less than 1% discount, could be had in effect at discounts up to 45%. And most absurd of all, good hard American cash, represented by deposits in the leading banks of this country as well as in the companies' offices, could be obtained for as low as 55¢ on the dollar.

"Great Fire Sale"

I hope I have made your mouths water in listing these juicy bargains. Surely they represent the greatest "fire sale" in history! But that was exactly the trouble. That was what was wrong with the "package." That was the joker. Along with these enormous discounts from the market values of U. S. Government bonds, other high grade bonds, preferred and common stocks, agents' balances and cash, the discount on any one of which should have started a kind of 1947-48 version of the Klondike Rush, was thrown in something less palatable, nay even obnoxious to the appetites of prospective buyers. What was this mysterious something which, in a kind of alchemy in reverse, turned this pot of gold marked down 45% into just another pot of porridge that had to be sold, cap in hand, by investment bankers such as ourselves throughout the country?

The mysterious something—the something that has been added—is a fire insurance company. In other words, if you or I had gone down into the safe and taken out all the U. S. Government bonds, other high grade bonds, preferred and common stocks and sold these on the open market, together with any mortgages or real estate, up to nearly 82% more would have been received than the prices at which new fire insurance company stockholders purchased these assets. Prime receivables would have fetched their face amount with a discount of less than 1% instead of up to 45%. And dollar bills could have been exchanged for dollar bills at the U. S. Treasury or the corner grocery store. Taking everything into consideration, certainly 80% more would have been received if the prospective investors had not had to take, along with these high grade assets, the present and potential liability which in their minds constitutes a fire insurance company.

The Business in Low Esteem

That is a measure of the low estate to which the fire insurance business has fallen in the esteem of investors. Apparently the horny-handed savers of this country will not pay one plugged nickel for those assets of a fire insurance company which do not appear on a balance sheet—those which actually represent its know-how and its means of operation in the fire insurance field. Among those assets, priceless to my own way of thinking, are goodwill which takes longer to earn and shorter to lose than almost anything I know — a reputation for fair and honest dealings over many years. Sound underwriting skill in the home offices is another, learned only through dint of much perception and long experience. Other immensely valuable skills lie in the field of accounting as well as in carrying out various other duties of the home office. A fine agency plant is not only invaluable but absolutely necessary. Only after many years and at a cost of many millions of dollars can this be built up.

The non-balance sheet assets of a fire insurance company—those which primarily differentiate a fire insurance company from an investment trust — comprise all these and many more. Altogether they constitute the tools with which a fire insurance company does the business of insurance, which is to insure. Without them a fire insurance company would become an investment trust, with as much knowledge and capacity for the insurance business as an investment trust. Nor do I mean in any way to slight the functions of investment trusts. Indeed a decade ago I was the treasurer of one, sponsored by the duPont interests of Wilmington. But it is certainly not the function of investment trusts to provide insurance facilities for the public.

Truly it is a sad commentary that the tools which make a fire insurance company what it is are valued at zero—in fact at considerably chillier than zero—by the investing public today. On any rational basis a great deal of money should be paid for these tools. It certainly costs a great deal to acquire them. It costs a great deal to build up a good agency plant and to attract to your home office the best qualified officers, including underwriters, accountants and others. It costs a great deal, in fact, simply to start up in business and to qualify in the various states. Let some new company try to do all these things, keep a record of its costs and see what real going concern value is today. Might I suggest that this might be a fertile field for the New York Department to explore once its very able staff has completed its uniform accounting investigation.

Even the War Assets Administration asks something for the tools which it is selling. I have not yet heard of the War Assets Administration paying someone to cart away any of its tools. But that in effect is what the fire insurance companies have been forced to do to obtain new capital. They have had to say in effect—if you will come in as partners with us in our business, we will sell you our U. S. Government bonds, our high grade bonds, our stocks, our agents' balances, cash and other assets at discounts up to 45%. Was there in the history of American business ever any such "come on"?

Yields

In describing the "package" being offered to prospective investors, I have concentrated upon its discount from liquidating value. My comments on yield will be very brief. The new securities, which were priced at discounts up to 45%, have had yields ranging from 4.5% to 5.8%. Most of the new securities have been brought out to yield 5%. This was additional "bait" for the new stockholders inasmuch as the highest grade fire insurance stocks were yielding only 2½% and 3% at the time with others yielding in the neighborhood of 4%. With the yields on the new securities averaging around 5%, an increase in yield of from 25% to in the neighborhood of 70% was being offered as another incentive.

Discounts from liquidating value and yields were, therefore, outstandingly attractive. Why under such circumstances, in my travels from one coast to another, did I not have literally to beat off would-be purchasers with a club in their anxiety to get in on the not even ground but "cellar" floor of these investments? In fact, why did I have to leave home in the first place and go on a kind of fire insurance securities drummer's credit? On my travels, as I suppose any salesman does (and I am here going to drop the high falutin' term of investment banker) I used to dream of an ideal investor in fire insurance company shares. He might be in Dallas, he might be in St. Paul, he might be on the campus of a university as its endowment officer or he might be amid the anasthesias and disinfectants of a hospital as its chief financial secretary. Whoever he was and wherever he was, I was looking for him—to buy up those shares of companies which we were going to underwrite and which I knew at least in part would be disposed of by existing stockholders in the open market. I was looking for a man who could appreciate the enormity of the discounts being offered and the incentives being given in higher than ordinary yields for insurance securities. But I was also looking for a man who, when confronted with the mediocre record of profits of the fire insurance industry during the past few years, could shrug it off and say that either he didn't care particularly or that his investment committee didn't mind.

Underwriting Record

Well, gentlemen, such a man—such men are not easy to find. Of course, they care about the underwriting record, the profits record of the fire insurance companies. They get paid for doing just that by their boards of directors and these hard-headed boards of directors care too. And well they should, for if the fire insurance business, as represented by fire insurance underwriting, is not as profitable as other lines of business, why buy a fire insurance security? Those were the questions which were hurled at me on every side in my travels.

"Standard Oil's yielding more than 7% today and its prospects are bright. Why buy such and such fire insurance stock?"

"U. S. Steel is yielding more than 7% today. Why buy such and such a fire insurance stock?"

"American Telephone, blue chip of blue chips, which maintained the same dividend during the great depression, and which has more stockholders than employees, is yielding 6% today—why buy a fire insurance stock?"

"The Dow-Jones Industrial Average, composed of 30 of the nation's leading corporations including some of the chemicals which traditionally return little, is yielding close to 6% today, why buy a fire insurance stock?" Such are only a few of the questions which confronted me.

These leading American corporations, I might add, for the most part can price their product in accordance with their own costs, leaving a reasonable margin of profit. If the fire insurance companies can't do this—and I had candidly to admit that they could not—then it was asked—why buy a fire insurance stock? Or are fire insurance companies fully protected against the general loosening of morals which seems to occur after wars and which finds physical expression in increased arson fires, burglaries, misappropriations of funds and higher claims generally as the border line between right and wrong becomes less definite in many persons' minds. Of course they are not. And what about another Texas City?

What about the new plants going up all over the country for experimental research on the production of atomic bombs? Over at Patchogue, Long Island, for example, where the world's first atomic plant is being built, such little questions are being asked: How do you shovel out the ashes from a uranium "furnace"? And after you've removed this highly radioactive material by remote control, what do you do with it? Scientists don't yet really know and would feel safer if they could put the waste into a rocket ship and shoot it off into space. Is the fire insurance industry fully protected against all these highly volatile new sources of energy, including the atom bomb? If not, joked the investment officer of a great southern university recently, whose portfolio contains not a single fire insurance security, "I think I stay right where I yam."

Inertia

That is the trouble with fire insurance company financing today. Too many prospective fire insurance investors think that they'll just stay where they "yam" for a little while. Now what is it that is going to convert these investors who "want to think it over a little while yet" to active suppliers of capital to a growing fire insurance industry? Certainly the atomic bomb is not going to be abolished, at least not that we can see now. Certainly the clock can't be turned back on all the other marvelous inventions of science which make living today so much easier than ever before and yet so much more dangerous. Certainly, and unfortunately, the Golden Rule is not suddenly going to be embraced so that the current postwar recklessness of persons and of things can be overcome. In other words we need not look for the millennium because we are not going to get it.

Nor are we going to solve this problem of fire insurance company financing with other pallatives. Financing through issuance of preferred stock can be helpful in certain specific situations but it is certainly no industry-wide solution, in my opinion. Credit for unauthorized reinsurance or for so-called prepaid expenses is no lasting solution either. There is only one real solution to the problem of getting more capital for our fire insurance companies in order that they can provide the capacity and facilities which the public interest requires and that is through greatly increased profits.

How has the oil industry financed and how does it expect to finance its growth during 1948? My friend, Joseph E. Pogue, vice-president of the Chase National Bank, who is probably the leading financial student of the petroleum industry in this country, estimates that 30 leading oil companies will spend $2,100,000,000 in 1948 for capital expenditures. This is almost three times the amount spent for these purposes during the period 1934-45. And yet all of this $2,100,000,000 will come out of cash income from earnings which are estimated this year to be $2,575,000,000 for these 30 oil companies, an increase over the 1934-45 average of no less than 143%. In other words, the oil industry, which is so necessary not only to the well being but to the safety of this country, is being financed through retained earnings from the oil business.

Is the fire insurance business any less vital to millions of Americans? Why should not the fire insurance business be obtaining its funds for expansion, for providing facilities which its millions of policyholders and agents and brokers require, from earnings of the fire insurance business itself? Not only would policyholders and agents and brokers obtain this wanted capacity. Many of the other problems which have been trying the souls of the industry for many years would disappear. Hard pressed university endowments, pensions for retired ministers and missionaries, hospital funds and other philanthropic institutions together with the millions of other small investors who have placed their savings in the fire insurance industry, would receive badly needed increases in dividends. These dividends for the most part have not been raised since before the war, although dividends from other securities have advanced as much as 50% and 100% in some instances above prewar. Surely these worthy institutions and these forgotten investors are entitled to a break when the cost of living has gone up as much as 70% since before the war and the average weekly wages, according to the latest figures of the Bureau of Labor Statistics, have risen in many industries more than 100% since 1941.

Agents and brokers are entitled to a break too. While the profits of companies have been squeezed to the vanishing point, they have naturally had to look around to cut their expenses with a resultant controversial commission situation. Nor could they be as liberal as they might have wished in making necessary salary readjustments in their own home offices.

In sum, the whole fire insurance industry has been living on short rations—the hardtack of mediocre profits—while the rest of the business world has been feasting on the greatest boom America has ever seen.

I am not going to go into all the reasons for this mediocre showing. The problems have been seen clearly by management but they have been beyond its control. It is impossible to control the fires that are taking place every day in every city of this country. It is impossible to control the tornadoes of Oklahoma and Arkansas, Texas and the Middle West. It is impossible to control the hurricanes of the Atlantic seaboard. It is impossible to control holocausts such as Texas City.

But if the costs of this great business cannot be controlled, the selling price can. The selling price of everything which I buy has advanced enormously since the good old days of prewar. My shirts cost more, my coal costs more, my bread costs more, my pork chops cost more. Practically everything that I know of costs nearly twice as much as it did before the war except fire insurance. I cannot go into a dissertation on fire insurance rates here. That is a subject in itself. However, it is evident that the troubles of the industry are due to the fact that its profits, which in the final analysis are dependent upon rates, have been heavily depressed during a boom time period. Satisfactory boom time profits should have been realized not only to attract the capital needed for the expansion of the industry today but also to set aside the reserves for that inevitable day of post-boom reckoning which may occur tomorrow. Even more than that. These profits would have helped the fire insurance industry work together as a team—its three major components, those who work for and with the companies, the policyholders and investors, all pulling together in unison to keep the insurance business of this country the strongest and safest in its long and honorable history. Insurance profits, generous insurance profits, are necessary in the public interest if this country is to maintain a growing and healthy insurance industry.

The age of isolation is past in international affairs. But isolationism still persists as long as insurance is regarded as something apart from other businesses, as long as profits from underwriting are allowed to be microscopic or like Harvey's famous rabbit that wasn't there. The insurance industry cannot continue to attract the capital and the best brains of the country under these conditions. Capital and brains flow into those sectors of our economy which promise the greatest rewards and avoid like the plague those whose profits are meagre. Our industries are not segregated, one from another. This is one country, even more than it is one world.

Stop Chivvying the Cattle!

What positive step can be taken? The following story which I heard down in Texas may be apropos. The sage of Uvalde, known by his Texas friends as "Cactus Jack," when Vice-President, was once asked point blank by the late President Roosevelt, the question: "What can I do to revive business?" Vice-President Garner thought over this question, which used to bother so many of us during the '30's, and then is said to have replied, "You must give the cattle a chance to put on fat." In good Texan metaphor he compared industry to a herd of cattle and complained that the stock was being chivvied about entirely too much by the Administration's cowboys. No sooner was the herd let into a good pasture for grazing, pointed out "Cactus Jack," than they were whooped out into another one. After they settled down to munch in that field, the cowboys began to ride around them in circles, waving their hats and yelling. So the cattle mill, continued "Cactus Jack," and stop eating. That makes them nervous and thin. Being thin and nervous makes them much less able to serve the public interest in the ways nature intended them!

So has it been with fire insurance in many respects during the past few years. Sometimes I wonder whether the Southeastern Underwriter's Case has not been used as a club, to chivvy the industry about so that it has had neither the time nor the opportunity to put on any fat. Some of this chivvying no doubt has been necessary. But may I make this suggestion: That every program of reform for the industry be reexamined right now in a spirit of statesmanship and conciliation to determine whether it is absolutely essential. What I am appealing for is, in a very real sense a "breathing spell" for the fire insurance business, a time for the business not only to get its breath after the many changes that have taken place during the past four years but to put on the necessary fat to make it an attractive industry to work with and for and to invest in. Under such a "breathing spell" all of us, those who work for the companies, agents, brokers, adjusters and others, policyholders, and investors—and insurance commissioners too—might move forward together with a clear understanding that profits and progress in all phases of this great industry are closely allied.

Back in the early days of the New Deal profits was a "bad" word. Stuart Chase, in fact, once wrote a confidential memorandum for the New Deal ghost writers in which he pointed out that certain words have good public connotations and others poor. Savings, he remarked, had a good connotation and people thought of Uncle Abner winding up balls of twine and putting them on a shelf in the family cupboard. Public interest was a good word. Profits was a bad word.

Profits—A Legitimate Need

I believe we have moved far enough away from those early days of the New Deal to have acquired the perspective and the courage to place profits and public interest together. During the '30s and the subsequent years of rearmament and postwar boom it was proved that profits and public interest go hand in hand. Profits are still the mainspring of our economy. Profits are simply the wages of capital, which pay investors for its use, which provide industry with its needed funds for expansion and without which industry cannot progress in its own internal affairs be it salaries or commissions. America has been built on the cornerstone of profits. I appeal to the statesmanship and vision of the present commissioners, to such worthy commissioners with whom I am proud once to have been associated, as Bob Dineen of New York, Ellery Allyn of Connecticut, Frank Harrington of Massachusetts, Chris Gough of New Jersey, George Bowles of Virginia, Bill Hodges of North Carolina, Ed Larson of Florida, Wade Martin of Louisiana, Marvin Hall of Texas, N. P. Parkinson of Illinois, Jim McCormack of Tennessee, Dave Fiorbes of Michigan, Seth Thompson of Oregon, Luke Kavanaugh of Colorado, Billy Sullivan of Washington — and their associates—to help in every way they can to bring profits back to the fire insurance industry.

Gentlemen, I seem to recall an old saying that a "profit" is not without honor save in his own country. Let us resolve, from henceforth, that this shall no longer apply to the business of fire insurance.

World Bank Bonds Legal for Mass. Savings Banks

Legislature passes Act, raising to 17 number of states giving mutual savings bank privilege of investing in the World Bank issues.

A bill has passed both House of the Massachusetts Legislature, and now goes to the Governor for signature, making bonds of the International Bank for Reconstruction and Development legal investments for savings banks within that Commonwealth. There are 190 mutual savings banks in Massachusetts and their aggregate deposits are second only to those of savings banks in New York State. At the end of 1947 such deposits totaled $3,166,824,240 and represented approximately 17.8% of all mutual savings bank deposits in the United States.

The history of savings banks in Massachusetts reaches back to 1816 and the savings institutions in that State have earned a reputation for integrity which is world-wide.

The addition of Massachusetts to the roll will make a total of 11 out of 17 States having mutual savings banks in which International Bank bonds are legal investments.

Wall Street Blood Bank Plan Is Announced

Arrangements have just been completed for establishing one of the largest blood banks in the country. Practically all of the employee organizations in the financial district have joined forces to make available to their members, numbering over 5,000 (and their families) a free supply of blood and plasma. The New York Post Graduate Medical School and Hospital is arranging to send its Mobile Unit to the New York Stock Exchange Medical Department, where voluntary donations of blood will be obtained from members of the various groups. It is hoped to eventually include all Wall Street employees under the plan, according to Andrew W. Shuman of the Association of Customers Brokers and Chairman of the **Committee of Wall Street Associations**, which inaugurated the idea. When sufficient blood and plasma has been accumulated, excess blood credits will be available for charitable and other purposes at the discretion of the Committee.

Others on the Committee and their organizations are:

Harry E. Maigren, Accounting Division, Association of Stock Exchange Firms; John J. Boyen, Cashiers, Inc.; Edward R. Rimmels, Cashiers Section, Association of Stock Exchange Firms; Neil Brady, Corporate Bond Traders; William Reid, Friday Night Bond Club; Glenelg P. Caterer, New York Society of Security Analysts; Michael J. De Marco, Purchase & Sales Division, Association of Stock Exchange Firms; James Fitzgerald, Security Traders Association of New York; Walter Hanratty, Senior Margin Clerks Division, Association of Stock Exchange Firms; David Walsh, Senior Order Clerks Division, Association of Stock Exchange Firms.

Frank Knowlton a Corp.

OAKLAND, CALIF. — Frank Knowlton & Co., Bank of America Building, is now doing business as a corporation. Officers are Eugene V. Flood, President; Charles E. Jank, Horace R. Williams, and Edward S. Goetze, Vice-Presidents; and Dora McClelland, Secretary-Treasurer. All were formerly with the predecessor partnership.

Industry and Science Determine Victory

(Continued from first page)

war of modern machines, and the 'unprepared' western democracies demonstrated a clear superiority in this type of warfare, where military tradition had not prescribed the use of the most modern weapons and methods. We are fully aware of the value of preparedness, but the high rate of obsolescence that flows from the rapid advances in technology added to . . . tendencies toward conservatism, will work to defeat the purpose for which the system is established. It is far better to maintain a highly alert research and development program, an up-to-the-minute aircraft program, and an efficient intelligence service. The day is long since past when a war can be won with mass armies and obsolete weapons."[1]

A military establishment based on permanent universal military service or on peacetime draft will become convinced of the perfection of its methods' and techniques. It would resist change and would rest on past standards of performance.

In 1918, France and Poland, blindly following the demands of their military leaders to whom they mistakenly attributed the winning of World War I, adopted peacetime conscription as their method of military manpower procurement.

Germany, restricted to an army of 100,000 men selected from volunteers whose desire for the military life led to their enlistment, was forced by the Allies to aviod training of large segments of her manpower for military service.

Developing a military strategy based upon small forces equipped with the best and latest weapons, the German army leaders through experimenting in a new war technology emphasizing machines, instead of relying upon hordes of conscripted manpower like the French, amazed the world.

From 1918 until 1936 German industry and productive output, unlike the French and Polish, was not saddled with the tremendous drain resulting when a large part of the manpower is conscripted into unproductive military training. Only 200,000 Germans using tanks and planes were employed against the four million conscript-trained Polish army, which was annihilated in 23 days. Another German force of 300,000 men reduced the French conscript-trained army of over six million men in a few weeks.

The following reprint from an issue of "Time" magazine published before the German attacks of World War II discloses the false confidence in the conscript system and Maginot Line exhibited by top French military strategists:

"The French Army, 800,000 men (with a trained reserve of 5,500,000) for a total male population of 20,000,000, was the big armed force of Europe from 1919 to 1935. Last September General Marie Gustave Gamelin, France's Chief of Staff, assured his government that he could roll his men through the unfinished Siegfried (or Limes) German Line like marmalade. Both the German army and the Limes are stronger now, but as of June, 1939, **the French army is still the strongest all-around fighting machine in Europe."**

"Gamelin extended the conscript period from a year to 18 months, to two years. He has confidence in the army he has built," —"Time" magazine, June 12, 1939.

With the backward-mindedness typical of American military leaders today the French officers had drained their nation of its productive resources of manhours and material to conduct universal conscription during peacetime.

Before America can prepare successfully for survival in future war we must recognize the factors on which military victory depends.

The principal factor of military supremacy is the capacity of a nation to create the most effective weapons before a potential enemy nation's scientists can invent them. This not only means we must attract to America the best foreign scientists but that we must continue in force those elements of scientific freedom which are indispensable to the successful functioning of any creative genius. The military life is dominated by the principle of blind obedience to authority. Extension of the military control invariably destroys the initiative and independence vital to the growth of scientific genius. The scientist, and highly educated elements of a nation, are the first to leave that nation when civil control is replaced by the deadening influence of the military, for the more intelligent a man the more he cherishes individual liberty.

The factor next in importance in achieving victory by one nation over another in warfare is supremacy in industrial capacity. With weapons obsolescing so rapidly they cannot be successfully stockpiled for future use the nation capable of producing the greatest quantity of whatever weapon is most effective at the time a war commences (and of adapting itself to other newer weapons as the war proceeds) holds an element of supremacy second only to the capacity to discover first the best weapon to produce.

American industrial capacity is unsurpassed because it is the product of an unregimented free enterprise capital system the stimulas of which is the profit incentive. The costly machinery of a draft and the even more wasteful expenditures involved in maintaining a larger peacetime army place upon American industry a tax burden capable of forcing it into government operation. Socialized or government-operated production systems are utterly incapable of production comparable to that realized through a free enterprise economy, as is borne out by the experience of Russia and Great Britain.

Obviously, the regimentation recommended by the Forrestal-Truman plans, although proposed in the name of security, are the surest method of destroying American productive capacity, deadening scientific effort and bringing about ultimate military defeat. They have been proposed by professional officers whose primary interest is the development of control over civil government and the perpetuation of the military jobs of a huge surplus of officers still on military payrolls.

Every effort has been employed by the miltary officers to discourage voluntary enlistment and to reduce the present size of our armed forces during the period following the ending of the wartime draft. Setting of new grade requirements to turn away half of the volunteers and to bring about the discharge of large numbers of men already in the service has proven the most effective method of producing a "shortage" supposed to justify enactment of draft legislation. Refusal to support legislation designed to improve military justice and the caste system within the service has been a factor contributing to the lowered popularity of military enlistment, which is the direct responsibility of professional officers. In the face of these acts the employment of large-scale advertising by the army may be recognized not as a bid for more volunteers but as a subsidy to channels of public opinion designed to seek newspaper support of the military programs for conscription.

1 Page 24, Minority Views on Selective Service, Report No. 1881, 80th Congress, Second Session, May 7, 1948.

Federal Reserve Reviews Money Supply Situation

(Continued from page 2)

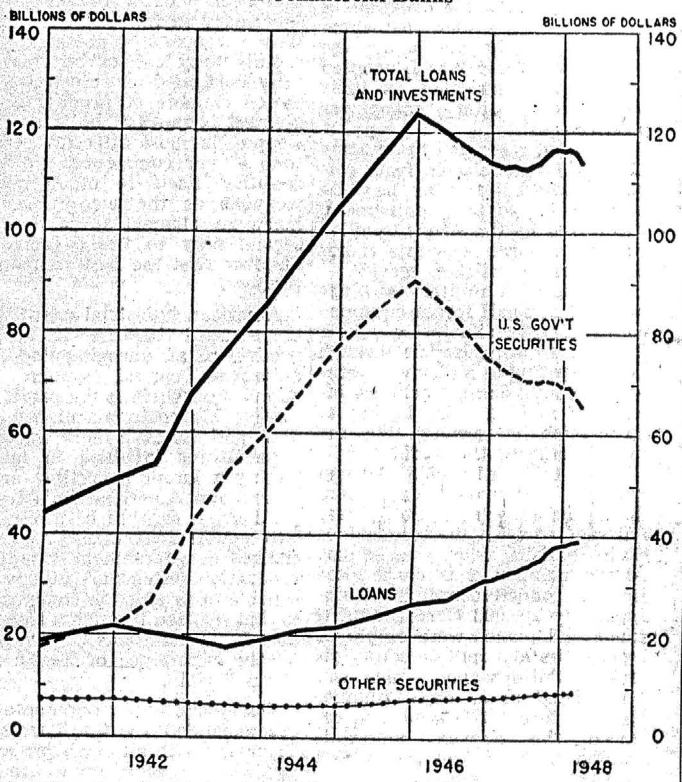
by reserve funds from other sources. Banks as a group were, therefore, under necessity in early 1947 to sell only moderate amounts of securities in the market to meet reserve needs. Many banks were in a position to make loans with funds received from redemption operations.

Changes in Holdings of Government Securities

The volume of government marketable securities outstanding was reduced $4.8 billion as a result of Treasury debt retirement in the first quarter of 1948. As was stated above, the retirement program was focused primarily on securities held by the Reserve Banks, of which $3.9 billion were redeemed for cash. Of the maturing securities held by commercial banks and nonbank investors, only those presented voluntarily for cash redemption—about one billion dollars—were retired. This contrasts with the corresponding period of 1947, as is shown in Table III, when debt retirement operations reduced the holdings of these investors by $4.7 billion, about equally divided between commercial banks and nonbank investors.

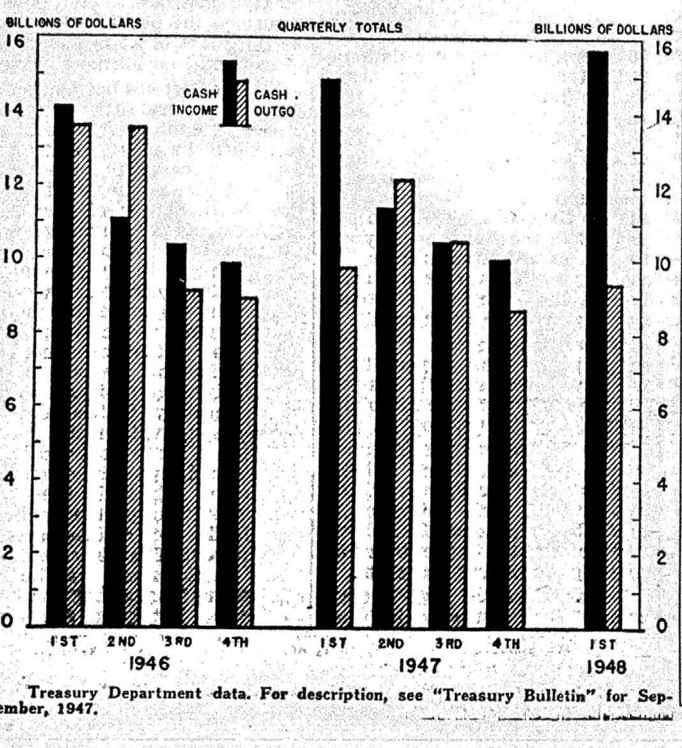
ment in agricultural commodity prices in February. Some run-off in New York bank loans to sales finance companies may reflect a reduced need for funds because of a seasonal decline in their factoring business. Some sales finance companies, furthermore, have obtained additional funds from insurance companies and other sources, which permitted less direct reliance on bank credits. Utility companies probably used part of the proceeds from security financing and from insurance company loans to retire bank loans negotiated earlied as interim financing for expansion programs.

CHART I
LOANS AND INVESTMENTS
All Commercial Banks



Figures are for all commercial banks in the United States. Data are for December, 1940; June and December, 1941-1946; last Wednesday of month, 1947 and 1948. Figures subsequent to June, 1947, are preliminary. Latest figures are for March.

CHART II
TREASURY CASH INCOME AND OUTGO



Treasury Department data. For description, see "Treasury Bulletin" for September, 1947.

Refinancing of bank loans with other lenders may not be accompanied by a reduction in total bank credit if these lenders obtain their funds by selling securities to the banking system. Late in 1947 and early in 1948 institutional lenders, particularly insurance companies, sold government securities on balance to the Reserve Banks. Deposits were created by this process and, as is pointed out in an article elsewhere in this bulletin, insurance company deposit balances were very large at the end of January. To the extent that bank loans in the first quarter of this year were refinanced with insurance companies out of deposits obtained by such security sales, no net reduction in bank credit and the money supply was effected, and bank reserve positions were in fact eased.

Bank loans to others than businesses have continued to grow. mortgage credit or in the expan-Although for a number of months there have been some indications of a tightening in the terms at which mortgage credit is being made available, no important slackening appears to have developed thus far in the demand for sion of mortgage loans at banks. The volume of new mortgages offered has remained large and, despite some reported moderate tightness in the mortgage credit market, banks have added substantial amounts to their mortgage loan portfolios.

Banks also extended additional credit to consumers in the first quarter of 1948, largely in connection with purchases of automobiles and other durable goods on instalment basis. Growth in consumer instalment credit at commercial banks continued at the rate of about $100 million a month shown throughout last year.

Reflecting some uncertainty in the market concerning the future course of interest rates and bond prices, bank portfolios of State and local government and corporate securities did not increase in January and February. Prices of such securities, particularly of tax-exempt municipal securities, had declined during the latter half of 1947. As explained in the March "Bulletin," this decline reflected to a large extent an increase in offerings of new securities relative to the supply of funds available for investment. New security issues by corporations and State and local governments continued in large volume during the first quarter of 1948, but prices were firm around the levels reached toward the end of 1947. As the outlook for stability is interest rates and bond prices improved, banks in March resumed their purchases of these securities.

Decline in Deposits and Currency

Reduction of $5.3 billion in the volume of deposits and currency held by individuals and businesses during the first quarter of 1948 resulted from the large Treasury cash surplus. This compares with a decrease of $2.7 billion in the first quarter of 1947.

About $6 billion were withdrawn by Treasury fiscal and debt management operations from the total stock of deposits and currency held by the public, compared with about $4 billion in the first quarter of 1947, as shown in Table IV. As previously explained, this cash surplus was used primarily to build up Treasury deposit balances and to retire government securities held by the Federal Reserve Banks.

Further expansion in bank loans and a continuation of the gold inflow were factors tending to increase the volume of deposits and currency. The combined effect of these factors, as the table shows, was less than in the first

TABLE I
Treasury Cash Surplus and Its Disposition
[In billions of dollars]

Item—	First Quarter 1948 Jan-uary	Feb-ruary	[1] March	Total
Treasury surplus cash funds				
[2] Cash operating surplus	2.0	1.8	2.5	6.3
Sales of savings bonds and notes, net	0.4	0.2	—0.3	0.3
Total surplus cash funds	2.4	2.1	2.2	6.7
Disposition of surplus cash funds				
Increase or decrease (—) in Treasury deposits at:				
Commercial banks	(3)	0.5	0.7	1.2
Reserve Banks	1.5	—0.8	—0.5	0.3
Retirement of U. S. Govt. marketable securities held by:				
*Nonbank investors	0.1	0.1	0.2	0.4
*Commercial banks	0.1	0.1	0.4	0.6
Federal Reserve Banks	0.7	2.0	1.2	3.9
Market purchases of U. S. Govt. securities for U. S. Govt. trust funds	(3)	0.2	0.1	0.3

*Estimated.
[1] Including figures for week ending April 7, 1948.
[2] Includes net cash receipts of U. S. Government agencies and trust funds.
[3] Less than $50 million.

TABLE II
Factors Affecting Bank Reserves and Federal Reserve Credit
[In billions of dollars]

Factor—	First Quarter 1948 Jan-uary	Feb-ruary	[1] March	Total
Factors decreasing available reserves or increasing reserve needs:				
[2] Treasury cash transactions	2.2	1.2	0.7	4.2
Increase in required reserves	---	0.1	---	---
Other factors, net	---	---	0.4	---
Factors making reserves available or decreasing reserve needs:				
Increase in gold stock	0.2	0.1	0.1	0.4
Return of currency from circulation	0.7	0.1	0.2	1.0
Decrease in required reserves	0.2	---	0.2	0.3
Reduction in excess reserves	0.7	---	---	0.7
Other factors, net	0.3	---	---	---
[3] Federal Reserve purchases of U. S. Govt. securities in the market, net	0.1	1.1	0.6	1.8

[1] Including figures for the week ending April 7, 1948.
[2] Sum of retirement of Federal Reserve held securities and change in Treasury balance at Federal Reserve Banks, shown separately in previous table.
[3] Change in Reserve Bank total holdings after adjustment for retirement of maturing issues held by Reserve Banks.

quarter.

In order to maintain their reserve position, however, commercial banks on balance sold $2 billion of government securities in the market. Purchasers included Reserve Banks and to a relatively small extent government agencies and trust funds. While sales and purchases by other nonbank investors, as indicated below, were in large volume, net market changes in their holdings were very small.

Reduction in the volume of outstanding government marketable securities in the first quarter of 1948 was largely concentrated in a decline in banking system portfolios—Reserve Banks and commercial banks. Investor groups, however, made large adjustments in the composition of their government security portfolios. Commercial banks and nonbank investors, especially institutional holders, sold a substantial amount of Treasury bonds and bought Treasury bills and certificates. These programs of portfolio adjustment were reflected in the security holdings of the Reserve Banks, which in turn purchased bonds and sold short-term issues in the market.

Slackened Growth in Bank Loans

Growth in the volume of bank credit outstanding to businesses, individuals, and State and local governments, which during 1947 had been greater than in any previous year in the history of American banking, slackened in the first quarter of 1948. Total loans of all commercial banks increased in this period by about $800 million. This growth was larger than in the corresponding period of 1946, a year of very large loan expansion, but was somewhat smaller than in 1947.

The pattern of bank loan expansion in 1947 and in 1946 reflected different types of fluctuations in the various kinds of bank credit. Growth in bank credit to consumers and real estate owners, mainly of urban houses, was generally sustained throughout both years. Loans for purchasing and carrying securities declined gradually and irregularly. On the other hand, expansion in bank credit to businesses, particularly to borrowers at the big city banks, showed marked seasonal concentration. In the first half of each of these years only a moderate increase occurred in business loans at city banks; the sharp expansions in these credits occurred in the second half of each year.

Bank lending in the first quarter of 1948 seems to have been in line with a pattern of this type. Slackening in total loan expansion reflected almost entirely a small decline in the volume of loans to businesses. At all weekly reporting banks commercial and industrial loans turned down slightly in early 1948, as is indicated in Chart III. This decline, however, was largely the result of some curtailment in business loans at New York and Chicago banks. At weekly reporting banks outside these centers the volume of business loans was well maintained and outstandings increased slightly. Available evidence indicates little or no decline in business loans at banks outside leading cities. The total volume of business loans by banks continues at a much higher level than a year ago.

Reduction over the first quarter of the year of about $200 million in bank loans outstanding to business at New York City banks appears to have reflected primarily declines in loans to food processors, sales finance companies, and public utilities. Declines in loans to manufacturers in the food processing industries were probably partly seasonal but may also have resulted from the readjustment in the prices... quarter of 1947 and offset a smaller part of the contraction generated by Treasury transactions.

Demand deposits, adjusted to exclude U. S. Government deposits, inter-bank deposits, and items in process of collection, declined from the record high of $87 billion at the end of December 1947 to $82 billion at the end of March, as is shown in Chart IV. The decrease in these deposits, which are owned largely by individuals and businesses, occurred despite the fact that nearly $1 billion of currency was returned to banks for deposit. A large return of currency from circulation is usual in January as the need for currency for transaction purposes is seasonally low in the post-Christmas period. Currency also declined in March, in part as a result of tax payments in this form. Time deposits increased further at about the rate of growth shown in the latter half of 1947.

Total deposits and currency, other than U. S. Government deposits, at the end of March amounted to $164 billion, or $3 billion more than a year earlier. Time deposits increased during the 12-month period by more than $2 billion and demand deposits of over $1 billion, while currency showed a decline.

Measures Restricting Monetary Expansion

Pressure on reserve positions from Treasury cash drains probably had a significant restraining effect on bank credit expansion in the first quarter of the year. Most banks have substantial holdings of government securities that they can sell in order to acquire funds with which to expand further their loan portfolios. Nonetheless, the necessity, because of reserve drains, for very large sales in a short period of time probably induced some hesitancy on the part of banks to sell securities at the same time for the purpose of expanding loans.

TABLE III

Changes in Holdings of United States Government Marketable Securities, by Class of Investor

[In billions of dollars, partly estimated]

Class of investor—	1 First Quarters, 1948: Net Change	Retired for Cash (—)	Market Purchases (+) or Sales (—)	2 First Quarter, 1947: Net Change	Retired for Cash (—)	Market Purchases (+) or Sales (—)
Federal Reserve Banks	—2.1	—3.9	+1.8	—1.1	—1 0	—0.1
Commercial banks	—2.6	—0.6	—2.0	—3.4	—2.5	—0.9
U. S. Govt. agencies and trust funds	+0.3	(3)	+0.3	+0.1	(3)	+0.1
Other nonbank investors	—0.4	—0.4	(3)	—1.3	—2.2	+0.9
All Govt. marketable securities	—4.8	—4.8	----	—5.7	—5.7	----

1 Includes figures for the week ending April 7, 1948.
2 Includes figures for the week ending April 9, 1947.
3 Less than $50 million.

TABLE IV

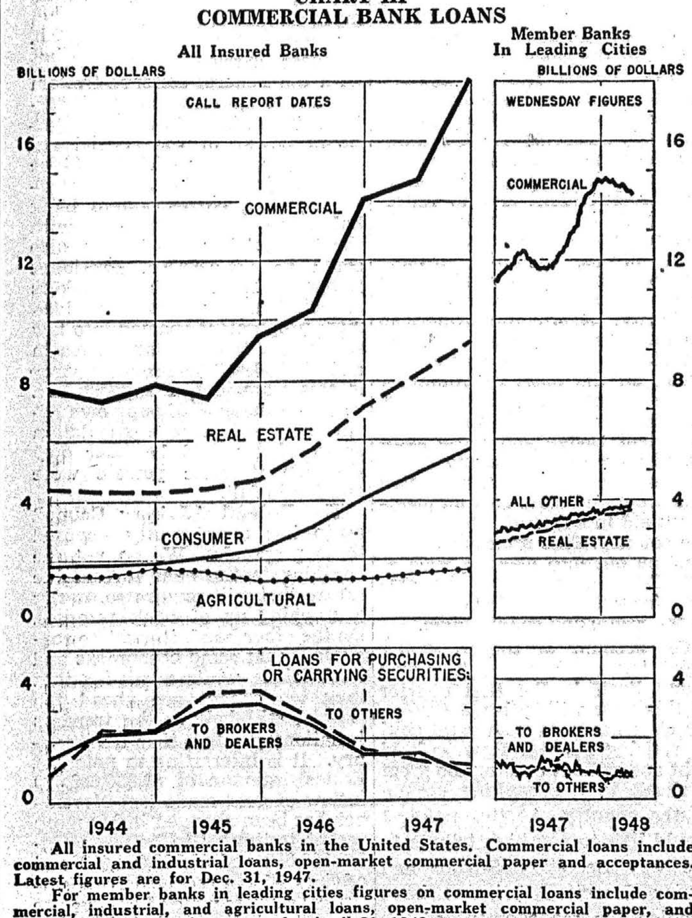
Major Factors Affecting Deposits and Currency

[In billions of dollars, partly estimated]

Factor—	Changes in Amounts Outstanding During First 1Quarter 1948	1947
Contractive factors—		
Treasury cash surplus used to:		
Retire U. S. Govt. securities held by:		
Federal Reserve Banks	3.9	1.0
Commercial banks	0.6	2.5
Increase Treasury deposits	1.5	0.6
Other factors, net	0.5	0.6
Expansive factors—		
Commercial bank loans (increase)	0.8	1.3
Gold inflow	0.4	0.7
Changes in deposits and currency held by individuals and businesses, total	—5.3	—2.7
Demand deposits, adjusted	—4.8	—2.9
Time deposits	+0.4	+0.8
Currency outside banks	—0.9	—0.6

1 Including figures for week ending April 7, 1948, and April 9, 1947.

CHART III
COMMERCIAL BANK LOANS



All insured commercial banks in the United States. Commercial loans include commercial and industrial loans, open-market commercial paper and acceptances. Latest figures are for Dec. 31, 1947.

For member banks in leading cities figures on commercial loans include commercial, industrial, and agricultural loans, open-market commercial paper, and acceptances. Latest figures are for April 21, 1948.

Drains on bank reserves arising from Treasury fiscal and debt retirement operations, and the accompanying necessity for banks to sell securities in the market, were somewhat reinforced in their restrictive effects by measures taken by the Federal Reserve System and the Treasury. These measures, which included action to raise the cost to banks of obtaining reserve funds and to increase bank needs for reserve funds, introduced an element of uncertainty with respect to prospective credit conditions.

During the last half of 1947, the Treasury and the Federal Reserve System acted in cooperation to permit an increase in yields on short-term government securities. As a consequence of this action, discussed in the March "Bulletin," yields on Treasury bills had increased from ⅜ of 1% in mid-1947 to almost 1% in the first quarter of 1948. During the same period, yields on 12-month Treasury certificates increased from ⅞ of 1% to 1⅛%. Accordingly, in order to obtain reserve funds in early 1948 by selling short-term government securities, either to meet reserve drains or to permit loan expansion, banks were obliged to sacrifice higher yielding securities than would have been the case had short-term rates not risen. Early in January, the Reserve Banks increased their discount rates from 1 to 1¼%, thereby raising the cost of borrowed reserve funds above that for funds obtained through the sale of short-term securities in the market.

Increase in the cost of reserve funds was reinforced by downward adjustments on Dec. 24 in Federal Reserve support prices for medium-term and long-term government securities. As a result of this action, it was no longer possible to obtain reserve funds by the sale of longer-term issues at large premium prices. For many banks that acquired such securities at the higher prices previously prevailing, sale of these securities would result in moderate book losses.

On Jan. 23, 1948, the Board of Governors announced that reserve requirements against net demand deposits at central reserve city member banks would be increased from 20 to 22%, effective on Feb. 27. This action increased required reserves at New York and Chicago banks by about $500 million and made it necessary for these banks to sell additional government securities. Like the drains from the Treasury cash surplus, the increase in reserve requirements had the effect of reducing the supply of assets which these banks had available for sale to the Reserve Banks to create reserves for further loan expansion.

Voluntary Restraint on Credit

Encouragement of voluntary restraint in bank lending operations and particularly of restraint in lending that adds strongly to inflationary pressures has come from both public and private sources. In its official publications and in public statements the Board of Governors and the Federal Reserve Banks have repeatedly pointed out the dangers to the economy, as well as to banks and their customers, of excessive bank credit expansion. The President of the United States in his Economic Report to the Congress and the President's Council of Economic Advisors in their reports have also emphasized the urgent need for restraint in further bank lending and investing.

In November 1947 a joint statement was issued by Federal and State bank supervisory authorities calling attention to existing inflationary pressures and to the danger that further expansion in bank credit will make for still higher prices. Bankers were urged to exercise extreme caution in their lending policies and were requested to curtail all loans for speculation, to guard against over-extension of consumer credit, and to confine extension of bank credit to financing that will help production. Early in January a nation-wide educational program to foster voluntary action for bank credit restraint was undertaken by the American Bankers Association.

Many banks were probably also moved to reappraise critically their lending policies, particularly with respect to term loans to businesses, by a growing uncertainty with respect to the future pattern and course of interest rates. Such uncertainty was a result of the slow rise in short-term interest rates, the upward movement in the latter part of 1947 in long-term rates, the lowering of Federal Reserve support prices for government securities near the year-end, and the recent increase in the rediscount rate at the Reserve Banks.

The effects of official and other pleas for voluntary credit restraint by banks are not easily evaluated. The slackening or suspension of the growth in business loans, while partly seasonal, may reflect to some extent a more selective attitude on the part of banks. Loans to consumers and to owners of real estate, on the other hand, have continued to increase.

Outlook for Monetary Expansion

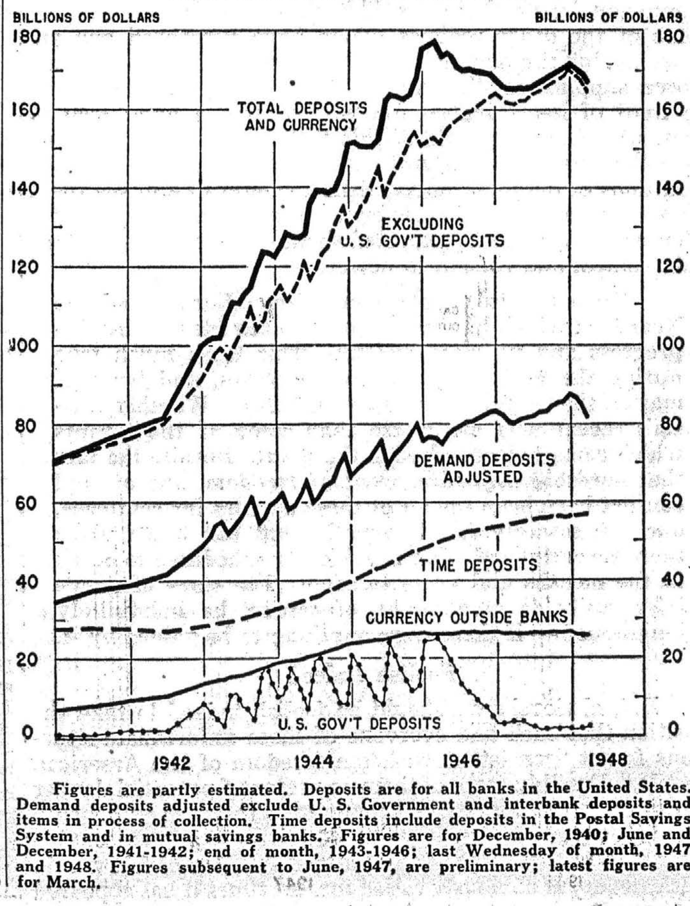
Seasonal developments of the type that tend to make the demand for bank loans, particularly by businesses, somewhat slack in the first quarter of a year normally continue until about mid-summer. Should such a seasonal pattern prevail this year, loan expansion at banks may show little further growth in the next few months. Total deposits and currency held by individuals and businesses accordingly may remain throughout the first half of 1948 at levels below those prevailing at the end of last year.

In the second half of 1948, however, underlying factors may bring about a resumption of rapid deposit expansion. During this period it seems probable that no significant restraints on monetary expansion can be expected from further cash surplus of the Treasury. The effect of recent changes in the fiscal outlook may be to eliminate the Treasury surplus and possibly to bring about a deficit, at least for the balance of this calendar year. If government expenditures for defense purposes should be increased, Treasury operations may tend to expand both deposits and reserves of banks. In addition, bank reserves and bank deposits probably will be increased by further gold inflow.

Future ease in bank reserve positions, which a Treasury cash deficit and a gold inflow would tend to promote, would be a factor encouraging banks to expand their lending on an aggressive basis. If demand for financing by consumers and real estate owners continued large and if there is a resurgence in loan demands by businesses, as is indicated by reports of business expansion plans, there would be a strong market for bank credit. Expansion in the money supply and consequent additions to inflationary pressures could result.

Under conditions of nearly full utilization of productive resources and materials, with demand pressing strongly on supply for a broad group of goods, and with large expenditures for military purposes in prospect, it would be difficult to avoid further increases in prices. Restraint on bank credit expansion would be desirable so that monetary expansion would not add unnecessarily to inflationary pressures. Traditional central banking instruments for limiting such expansion are not fully usable by the Federal Reserve because of the System's responsibilities for maintaining an orderly and relatively stable market for U. S. government securities. In view of this situation the Board of Governors has requested the Congress to provide the System with new authority as a substitute, or partial substitute, for powers which, in substantial degree, have lost their effectiveness as a result of changes in monetary conditions since prewar years. In the absence of additional powers, the authorities would need to impose such restrictions as they can and voluntary restraint on the part of banks would also be essential.

CHART IV
BANK DEPOSITS AND CURRENCY



Figures are partly estimated. Deposits are for all banks in the United States. Demand deposits adjusted exclude U. S. Government and interbank deposits and items in process of collection. Time deposits include deposits in the Postal Savings System and in mutual savings banks. Figures are for December, 1940; June and December, 1941-1942; end of month, 1943-1946; last Wednesday of month, 1947 and 1948. Figures subsequent to June, 1947, are preliminary; latest figures are for March.

As We See It

(Continued from first page)

foreign policies, and likewise to find some way of improving the acumen and skill with which they are given effect.

Senator Taft or any one else does the people of this country a real service in promoting such changes and such reforms. But the Senator is not willing to rest the case there. In the address from which we have already quoted, he undertakes in general terms at least to state what lines he thinks our foreign policies should take. With some of these suggestions we find ourselves in hearty agreement — if we correctly understand what is in the Senator's mind. Here are his four "points":

"First, a determination to preserve peace if consistent with the freedom of the American people.

"Second, consistent opposition to the spread of communism in this country and throughout the world.

"Third, the strengthening of the United Nations by basing it on principles of justice and willingness to abide by and enforce the decisions of an impartial tribunal based upon international law.

"Fourth, a renewal of our faith in liberty, justice and equality as a foundation of free government and a determination to crusade throughout the world for those principles as the Russian Government crusades for communism."

We Hope He Meant It This Way

Now, of course, we are in no position to give precise definition to the ideas which the Senator has here set forth in general terms, but we can say what we hope he means. Take the first ingredient of the Taft prescription — "a determination to preserve peace if consistent with the freedom of the American people." Of course, it is true that few politicians, even those in places of influence in the present Administration, would take open issue with the suggestion as it is now worded. Probably all of them would quickly assert that such is precisely their own purpose and the basis of their own programs.

We hope however that Senator Taft attaches more precise and realistic meaning to these phrases. Certainly, we should be disappointed if he would not place some practical limit upon the words "consistent with the freedom of the American people." To us, it often appears that the Administration — and, we must say, a good many other present-day leaders of thought in this country — construe such terms to exclude almost everything in the world which collides with our ideas, or our prejudices, or otherwise is not to our liking.

Of Vital Import

This is not a mere quibbling about words. The issues involved are real, and far-reaching in their import. One may easily understand why a communist China, for example, would not be much to our liking — possibly less so than some of the other regimes which have succeeded one another during the past half century in that unfortunate land. Korea supplies another very similar example. We should be hard of heart indeed did we not feel a great deal of sympathy for the people of this little country — if it may be called that. It is natural enough that we, with our own traditions of national independence, should like to see these Koreans free to mould their own future as they may see fit. That could scarcely be expected should a Communist regime gain control and remain in power.

Much has taken place in eastern Europe and the Near East which hardly conforms to our ideas of human progress and ultimate welfare. This is as much true during the past decade as in the years, and for that matter, the centuries, which went before. Whether Russia's recent acts are worse than some of the tyrants which came before is beside the point. Despite the fact that hardship, injustice, want of freedom, and eternal conflict have been the lot of these peoples for centuries, one can scarcely fail to regret what has taken place there recently, and what is evidently scheduled to occur in the months and years to come. The story of man's inhumanity to man might, of course, be indefinitely lengthened — if there were anything to be gained by it.

Foolish Indeed

But, obviously we should be foolish indeed to take the position that each and everyone of these unfortunate situations is not "consistent with the freedom of the American people." Possibly some of them do present a potential danger to our liberties of sufficient magnitude to cause us concern and to warrant action of some sort by us, but reasonable discretion in deciding which do and which do not fall within this category is obviously called for. At times it has appeared that the Administration was of the notion that a policy of striking at every head that raised itself, if it were not to our taste, is essential to our future freedom. We ardently hope that Senator Taft was more realistic when he laid down his foreign platform, as it were, and that in future deliverances he will make it clear to the American people that their freedom is today often in more danger from its professed friends than from its enemies.

Whether we could go along with the Senator in his proposal for "consistent opposition to the spread of communism" depends a good deal upon what he has in mind. Certainly we have no faith in communism. We are, naturally, quite convinced that it holds nothing of promise to the people in whose behalf it is supposed to function. We have not the slightest doubt that it is the duty of us all at every opportunity to do what we can to convince our own fellow citizens of these facts — so far as any convincing is necessary. Abroad, circumstances must, of course, govern cases. We, of late, have been rather too inclined to inject ourselves into the domestic affairs of other peoples, or at least so it seems to us. We are rather more than skeptical of "crusades", in any event.

We are solidly behind the Senator when he says that we need a "renewal of our faith in liberty, justice and equality as a foundation of free government." We hope the Senator will take some early occasion to elucidate his stand on these and related questions somewhat more fully.

Effect of Current Economic Problems on Banking

(Continued from page 13)

the attention of bankers the necessity for making loans for reconversion and to assist in every possible way in bringing about a balanced peace-time economy without government subsidies or the creation of additional credit agencies. This was an excellent demonstration of the fact that when bankers have the needs of the country presented to them as clearly and forcefully as Mr. Hanes outlined the situation they are ready and willing to cooperate and will unite to render real service.

Rising Prices

Due to the encouragement from governmental sources for increased wages and the fact that civilian goods still were in short supply, prices began to rise as soon as the wartime controls had been removed, with the result that today our dollar has a very much lower purchasing power and in many respects this distorts comparative figures between 1939 and 1940 and present price levels.

When we take into consideration the production level which is currently running at the rate of $245 billion, and we consider also price and wage levels, and give consideration to the thinness of the securities market for new issues of corporate securities, it is not surprising that bank loans rose rapidly to new and high levels in the last half of 1947. All of us know that it takes a lot more money to do business today than it did prior to the war. Furthermore, not only our own people but also the peoples of the world are in dire need of our great productive abilities.

When we examine the Federal Reserve Bulletin for April, 1948, we find that deposits of all commercial banks as of Dec. 30, 1939, then totalled $57,718,000,000 and loans $17,238,000,000 or approximately 29.8% of the deposits at that time were invested in loans.

Figures are not available for the Comptroller's Call of April 12, 1948, but the latest revised estimates are as of Jan. 28, 1948. These estimates disclose deposits of all commercial banks then totalled $140,350,000,000 and that loans held by all commercial banks then totalled $38,240,000,000, so that while our levels are much higher—in line again with production price and wage levels—it is interesting to note that as of Jan. 28, 1948, 27.2% of deposits of all commercial banks were invested in loans, a lower figure, percentage-wise, than for Dec. 30, 1939, when we were struggling to get our production and economy on higher levels.

Proposed Credit Restrictions

In recent testimony of the former Chairman of the Board of Governors of the Federal Reserve System, I have noted a statement that either way the Federal Reserve System turns it cannot win. The same thing applies to the banking system. Due to the increase in loans, President Truman in his message to the Special Session of the Congress last November recommended legislation to restore consumer credit controls and to restrain bank credit expansion. This was followed in a few days by the request of then Chairman Eccles, speaking on behalf of the Board of Governors of the Federal Reserve System, for authority to establish special reserves in addition to the Statutory reserves. As you know, the Federal Advisory Council, of which I have the honor to be Vice-President and to represent your district, unanimously opposed these proposals and some of us, including myself, testified in opposition to these proposals for granting such authority. Again the American Bankers Association stepped into the picture. An anti-inflation program, on the basis of voluntary self-restraint, was formulated and, like his predecessor Mr. Hanes, President Dodge and those associated with him and many members of the ABA staff, presented this program before 13 pilot meetings held in key cities throughout the country. This program is now fanning out into meeting such as this Convention of your Association and is being carried out down to the group and county level.

On account of the unusually great tax receipts, the Treasury found itself in the first quarter of this year with a large surplus which it has used with great skill in retiring Federal Reserve-held debt and wthout causing too great a shock to the banking system of the country. At this point, I would like to pay high tribute to the way Secretary Snyder and Under Secretary Wiggins have handled the management of the public debt. In my judgment, both in respect to the changes which have taken place in interest rates on government securities and the handling of surplus funds, I believe the debt has been managed as ably as possible. I think we are most fortunate in having in such high and important government positions men possessed of such complete and profound understanding of the problems of debt management. I might also add that in the management of the public debt they have had fine cooperation from the Board of Governors and Open Market Committee of the Federal Reserve System.

Testimony presented in November in favor of the special reserve proposals was based on estimates which have since proven to be erroneous. At that time there was a prediction that the inflow of gold would total $3,000,000,000 and that bank loans would increase $1,300,000,000 in the first quarter of 1948. The fact is that business loans declined about $240,000,000,000 in the first quarter but, due to mortgage lending and installment credit, all loans increased between $600,000,000 and $700,000,000, or about half the amount predicted. I believe that the anti-inflation program of the American Bankers Association had a distinct bearing on this result. On the other hand, I believe the reduction in support prices on long-term government bonds established Dec. 24, 1947, also had a salutary effect as did also the break in commodity prices. Mortgage credit, of course, has been increased by those guaranteed issues of FHA and "GI" loans. Nevertheless, the increase has only been about one-half of the amount predicted. In April, Mr. Eccles, as Acting Chairman of the Board of Governors, again appeared before the Committees of the Congress and requested power to increase the orthodox reserves and also asked, in addition, power to establish special reserves such as requested in November.

Effect of Additional Reserves

The additional power sought on the orthodox or present method of reserves carried with the Federal Reserve Banks would mean an additional $12 billion could be imposed by the Board of Governors. To show you the magnitude of this increase, you must hold in mind that there is a very small amount of excess reserves in the country today and the reserve balances carried by the banks with the Federal Reserve System amount to approximately $17 billion. Then, in addition, the additional power of the special reserves proposed, which would be carried in short-term governments, cash, correspondent bank balances or excess reserves with the Federal Reserve Banks, also could be imposed. President Dodge, of the American Bankers Association, has characterized these proposals if enacted into law as "putting the banking system in a strait-jacket." To prove how true is this statement, I suggest that you take the case of your own institutions and make a calculation as to what would be your own situation if these powers were granted in full.

The Federal Advisory Council again has unanimously opposed these proposals. We do not see anything in the near foreseeable future that will require so drastic a mopping up of bank reserves. On the other hand, it must be recognized that some economists and statisticians, while admitting that they too cannot see ahead too clearly, still believe the trend is inflationary rather than deflationary. It is interesting to note Mr. Eccles' estimate of $3,000,000,000 inflow of gold made last November has been changed in his more recent testimony to between $1,500,000,000 and $2,000,000,000 and advices I have received from statistical sources which I believe are accurate, indicate that but $1,000,000,000 in gold—or one-third of the amount originally predicted—will be coming into this country this year.

While the power sought by the Board of Governors of the Federal Reserve System might not be exercised, once it is on the statute books, we know that bankers are bound to adjust their asset position to such form as will allow them to meet or nearly meet the maximum increase permitted by the broadened powers. For we all know that once such power has been granted, it would not be prudent banking to await the imposition of such reserves. This might cause a contraction which would result in a very unhealthy situation in our country, especially at this time when we cannot see ahead too clearly. For instance, in my judgment, it is very doubtful if expenses for European Recovery Relief, defense or even the recent reduction in taxes will make much impact on our economy before next Fall. Should we get into a situation where we must promptly and rapidly step up defense preparations, or become involved in war, we certainly do not want reserves increased at such a time because reserves would have to be made available to facilitate prompt financing of a war. As bankers, we all know that in order to get production, loans must be made for productive purposes and greatly increasing reserves will certainly not channel loans into productive purposes any more than they will for non-productive purposes but will simply narrow the area in which loans can be made; and whether or not a loan is for productive purposes is a matter which can best be determined at the local level.

Every banker has an obligation to his institution, his community and the nation, to decide wisely upon the economic justification for every loan he is asked to consider. Therefore, in the interest of our own economy, which is the public interest, I urge that the principles laid down in the anti-inflation program of the American Bankers Association be carefully adhered to. We must all recognize that in the final analysis what is in the best interest of the nation is in the best interest of banking. What is in the best interest of the economic well-being of the country is good for banking and, in this period, when we cannot see ahead too clearly, I believe we should formulate our policies accordingly.

Municipal Bond Club Of New York Gets Slate for Election

The annual meeting of the Municipal Bond Club of New York will be held on the evening of Friday, June 25, at the Sleepy Hollow Country Club, Scarborough-on-Hudson, N. Y.

The following slate has been presented: President: Orlando S. Brewer, Phelps, Fenn & Co., Vice-President; Norman S. Downey, Union Securities Corp.; Secretary: William T. Hall, Jr.; Treasurer: R. George LeVind, Blyth & Co., Inc.; Board of Governors: E. J. Altgelt, Jr., Harris Trust & Savings Bank, and E. M. McLaughlin, Paine, Webber, Jackson & Curtis.

The Nominating Committee consisted of Walter H. Steel, Lazard Freres & Co., Chairman; William G. Laemmel, Chemical Bank & Trust Co. of New York, and Reginald M. Schmidt, Blyth & Co., Inc.

Two With Thomson & McKinnon

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA.—Wallace A. Boyd and Howard E. Neville are with Thomson & McKinnon, 340 Central Avenue.

The State of Trade and Industry

(Continued from page 5)

firms are erroneous, lack practical knowledge of the steel industry, are theoretical and are dangerous to the free flow of steel to users throughout the country.

Steel users this week were more confused price-wise than they have ever been in their lives. There was no rhyme or reason to the crazy-quilt of steel prices at major centers. Some prices were lower than others, depending on who the supplier was. In some cases freight was being absorbed on distant hauls—in other cases it wasn't.

Consumers were working overtime studying possible future locations and their relation to adequate and cheap steel. However, "The Iron Age" concludes, the steel consumer was rapidly finding out that his distance from his consuming market played as big a part as his nearness to a steel source.

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 96.8% of capacity for the week beginning May 24, 1948, an increase of 1.4 points, or 1.5%. This compares with 95.4% last week. A month ago the indicated rate was 86.6%.

This week's operating rate is equivalent to 1,744,800 tons of steel ingots and castings as against 1,719,600 tons last week, 1,560,900 tons a month ago, 1,669,400 tons, or 95.4% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

CAR LOADINGS DIP 3.8% BELOW PRECEDING WEEK

Loadings for the week ended May 15, 1948, totaled 847,403 cars, according to the Association of American Railroads. This was a decrease of 33,214 cars or 3.8% below the preceding week. They also represented a decrease of 40,805 cars or 4.6% below the corresponding week in 1947, but an increase of 159,193 cars or 23.1% above the same week in 1946 when coal loadings were reduced by labor troubles.

ELECTRIC PRODUCTION OFF AFTER THREE WEEKS' RISE

The amount of electrical energy distributed by the electric light and power industry for the week ended May 22 was 5,085,412,000 kwh., according to the Edison Electric Institute. This was 23,261,000 kwh. below the output for the preceding week and was the first time since the week ended April 24 that a decrease was recorded when compared with the previous seven days' period. The production for the May 22 week was, however, 422,554,000 kwh., or 9.1%, in excess of that for the week ended May 24, 1947, and was the 20th consecutive week that over 5,000,000,000 kwh. were turned out.

AUTO OUTPUT RISES AS RESULT OF SHARP ADVANCE IN GENERAL MOTORS OPERATIONS

Production of cars and trucks in the United States and Canada rose last week to an estimated 88,641 units from 83,275 (revised) units the previous week, according to "Ward's Automotive Reports."

Output a year ago was 96,651 units and, in the like week of 1941, it was 133,560 units.

This week's output consisted of 57,301 cars and 26,313 trucks made in the United States and 3,040 and 1,987 made in Canada. This brought the year's volume to above the two million mark, with an estimated 2,077,267 vehicles made in both countries since Jan. 1.

BUSINESS FAILURES CONTINUE LOWER TREND

Continuing the downtrend begun in the previous week, commercial and industrial failures in the week ending May 20 fell from 100 to 92, the lowest number since early April, Dun & Bradstreet, Inc. reports.

For the first time this year, concerns failing were less numerous than in the comparable week of 1947 when 102 failed.

The decline occurred in both large and small casualties, with failures involving liabilities of $5,000 or more down from 81 to 78 and those involving losses under $5,000 down from 19 to 14. While mortality among the small concerns exceeded by one the 13 reported last year, larger failures fell short of their 1947 total of 89.

Manufacturing and retailing accounted primarily for the week's decline in mortality. Thirty manufacturers succumbed as compared with 37 in the preceding week, while 29 retailers failed as compared with 32 last week. In both these groups, casualties were less frequent than a year ago.

The only marked rise from the 1947 level appeared in wholesale trade where failures at 17 were almost twice as numerous as in the same week last year.

The Middle Atlantic and Pacific States claimed over one-half the week's failures, with 26 in both these regions. Although casualties in the Pacific States increased from 19 in the preceding week, they fell considerably short of the 38 reported in the comparable week a year ago.

FOOD PRICE INDEX MODERATELY LOWER FOR WEEK

Mixed fluctuations in prices resulted in a two-cent decline to $6.91 in the Dun & Bradstreet wholesale food price index for May 18. While the number of individual price increases was almost double the number of declines, the total rise was more than offset by a sharp drop in the price of butter.

The current figure represents a rise of 16.1% above the $5.95 of a year ago.

Advances for the week included flour, wheat, corn, barley, hams, lard, cheese, cocoa, potatoes, rice, steers, hogs and lambs. There were declines in rye, oats, bellies, butter, cottonseed oil, eggs and currants.

COMMODITY PRICE INDEX EXTENDS ITS GAINS OF PREVIOUS WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., continued its mild uptrend in the week ended May 18, aided by continued strength in cotton and other agricultural products. The index figure closed at 284.84 on May 18, comparing with 283.33 a week earlier and with 254.37 a year ago.

Irregular movements of recent weeks were again visible in leading grain markets in the past week. Wheat was less active but sales of corn and oats increased somewhat on the Chicago Board of Trade.

Milling demand for cash wheat was relatively slow with prices steady to strong despite larger receipts and reports indicating improvement in the outlook for Winter wheat as the result of rains in parts of the West and Southwest. Government purchases of cash wheat were smaller than in recent weeks. In its May 1 report, the Department of Agriculture estimated this year's Winter wheat yield at 845,000,000 bushels, or about 15,000,000 bushels less than its forecast of a month ago. Corn displayed strength throughout the week with shipping demand fair. Domestic flour trade was confined mostly to scattered small lots for immediate or nearby shipment. Some increased activity was noted in the export flour market.

Substantial advances were recorded in the principal livestock markets towards the close of the week as prospects for an early settlement of the strike of packing house workers became evident.

Cotton prices continued strong and higher last week with practically all futures contracts reaching new seasonal highs on the New York Cotton Exchange. Supporting factors included the prospects of early action under the ECA and other foreign aid programs and the reported increase in the daily rate of cotton consumption during April. Buying was also stimulated by strength in financial and other outside markets and the announcement that the Japanese credit agreement had been signed. The New York Cotton Exchange in its report issued on Wednesday of last week indicated an increase in the daily rate of consumption during April, whereas a decline had been generally expected. Total consumption in April was placed at 860,000 bales, or a daily average of 39,100 bales, as compared with 878,000 bales at a daily rate of 38,200 in March. Exports of lint cotton for the current season to date have been running at about one-half the volume of last year, according to the New York Cotton Exchange. Total shipments for this season amounted to 1,409,000 bales, compared with 2,809,000 for the corresponding period last year.

Activity in cotton textiles was only fair with prices showing further easiness in some constructions.

Trading in the Boston raw wool market showed some improvement in the week ended May 18. Competition for available fine and half-blood wools was keen at firm prices. In foreign wools, most activity was reported in medium scoured grades for woolen mill consumption. Knitted mills were also active purchasers of the medium wools.

RETAIL AND WHOLESALE TRADE SLIGHTLY ABOVE PREVIOUS WEEK AND LIKE PERIOD OF 1947

There was a slight increase in the consumer demand for many types of seasonal merchandise during the period ended on Wednesday of last week with retail dollar volume slightly above the level of the corresponding week a year ago, Dun & Bradstreet, Inc., reports in its current summary of trade. Some retailers reported an increase in requests for credit and instalment buying was frequent. Collections in some localities were as prompt as a year ago. Numerous promotional sales stressed quality at reasonable prices.

Cool, rainy weather in some parts of the country stimulated the demand for rainwear and accessories, while in other areas Summer clothing and vacation specialties were sought.

Lingerie, scarves and hosiery sold well with sun-back dresses and beachwear popular. Men's lightweight suits, slacks and sport jackets continued to attract favorable attention and demand for Panama and straw hats increased somewhat. Apparel dollar volume compared favorably with that of the corresponding week a year ago.

Housewives in many areas increased their purchases of fresh vegetables, fruits and fish and continued to seek substitutes for high-priced meats and butter.

Poultry and cheaper meat cuts sold well along with canned and frozen foods. Picnic specialties were popular in some parts of the country, but a slight decline in the demand for bakery products was noted.

Garden equipment, lawn furniture and household hardware were purchased in substantial volume. Many farmers sought tools and equipment with building supplies and paints frequently requested. Sporting goods volume was moderately above the level of a year ago.

Retail volume for the country in the weekly period ended on Wednesday of last week was estimated to be from 5 to 9% above that of the corresponding week a year ago.

Regional estimates exceeded those of a year ago by the following percentages: New England and Middle West 3 to 7, East 4 to 8, South 5 to 9, Northwest 7 to 11, Southwest 6 to 10, and Pacific Coast 2 to 6.

Attracted by early showings of Fall merchandise, buyer attendance at many wholesale centers increased substantially during the week. There was a moderate rise in new order volume. Buyers remained very selective and stressed moderate prices with a preference for well-known brands continuing to be evident. Wholesale dollar volume remained moderately above the level of the corresponding week a year ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended May 15, 1948, increased by 7% from the like period of last year. This compared with an increase of 6% in the preceding week. For the four weeks ended May 15, 1948, sales increased by 8% and for the year to date by 6%.

In New York retail trade the past week was active with sales volume for department stores approximately 5% above that of the like week one year ago.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to May 15, 1948, increased 8% above the same period last year. This compared with an increase of 4% in the preceding week. For the four weeks ended May 15, 1948, sales increased by 7%, and for the year to date by 5%.

The Departure From Sound Money Threatens Economic Disaster

(Continued from page 7)

value." This definition by A. B. Hepburn in 1915 is, of course, contrary to what is considered to be sound money by those in charge of our present monetary policy, and it is not necessary that either they or you accept it into your vocabulary as correct. I am simply giving it for the purpose of having you understand what I mean when I use the term in this discussion.

Now, to get back to my understanding of how we have arrived at our present monetary position, let me say that the Gold Standard Act of 1900 gave us a sound currency redeemable in gold, but there was a very serious defect in our monetary system of that date, which was brought into glaring evidence by the panic of 1907. This was the lack of any legal provision by which the supply of currency would automatically increase and decrease for the purpose of either meeting an emergency or to provide for fluctuations in the monetary requirements of industry, commerce and agriculture. This defect was remedied by the Federal Reserve Act, which became law in 1913. The Federal Reserve Act did not in any way alter the Gold Standard Act of 1900, but it did authorize the issuance of a new kind of money (Federal Reserve notes) which could only come into being by reason of a need for additional money by the country either to meet an emergency or to provide for increased requirements of industry, commerce and agriculture.

Woodrow Wilson, who was then President of the United States, was a "sound money" advocate, and neither he nor Carter Glass nor any of those guiding the legislation through Congress would for a moment have favored the measure if they had dreamed of the possibility that the Federal Reserve System would be so amended and debauched as to become the vehicle for the issuance of a fantastic amount of irredeemable currency, which, if continued, can ultimately only lead to incredible disaster and national bankruptcy. Nor could the Federal Reserve System as originally provided for in the Federal Reserve Act have been so used or abused, since, under the original Act, Federal Reserve Notes were required to be secured by the deposit of eligible paper, which consisted of rediscounted notes, drafts and bills of exchange issued or drawn for industrial, commercial or agricultural purposes; and it required a war-time amendment in 1917 to provide that 15-day notes of member banks when secured by government obligations or eligible paper might be accepted as collateral for Federal Reserve Note issues. It is important in this connection to note that under that amendment government obligations owned by the Federal Reserve Banks, whether bought in the open market or direct from the Treasury, could not be used as collateral for Federal Reserve Notes. Thus it is quite clear that the original concept of the Federal Reserve Note issues was sound, and no Note could be issued unless the need therefor was evidenced by a member bank being willing to rediscount an obligation based on agricultural, industrial or commercial needs, such rediscount costing the rediscounting bank interest and further involving a contingent liability for the payment of the obligation. Even after the amendment of 1917 authorizing the pledging of member bank notes secured by government obligations, there was the same evidence of need, in that the borrowing bank was paying interest and assuming a direct liability for payment in 15 days—a very short maturity. Nothing in any of this could possibly indicate any suggestion of modification of the redemption provisions of the Gold Standard Act of 1900, nor was there inherent in the Federal Reserve Act any reason for our not being able to comply with the requirement of that Act to redeem our currency in gold.

Distortion of Federal Reserve System

Within about 2½ years after the establishment of the Federal Reserve System, the country became involved in the First World War and the System was put to a severe test. However, at the end of the war, we still had a sound currency redeemable in gold, even though it had expanded greatly to meet wartime emergencies and the enlarged requirements of agriculture, industry and commerce. This was due to the fact, previously referred to, that Federal Reserve Notes could not be issued against government obligations as collateral, and to the further fact that the System refrained from purchasing government securities, either in the open market or directly from the Treasury, except for extremely temporary purposes and for comparatively inconsequential amounts. The clearest statement which I have been able to find on that point is the statement made by Dr. W. Randolph Burgess in his book "The Reserve Banks and the Money Markets" (published in 1927), on pages 104-105, where he makes the following statement of the advantages of the extension of credit by Federal Reserve Banks to member banks rather than to the Treasury by the purchase of government securities. To quote in part, he says: "The Treasury, to its everlasting credit, did not borrow directly from the Federal Reserve Banks. To the extent that Federal Reserve Credit was required to finance the war, it was created by borrowing on the part of member banks, with the obligation which that involved for the eventual return of the loan, or it took the form of open market purchases by the Federal Reserve Banks of commercial obligations which were salable in the open market.... The principle that was followed, of not lending directly to the Treasury but lending to banks, resulted in a semi-automatic liquidation of Reserve Bank credit as prices fell and gold was imported. The banks used all surplus funds to pay off their indebtedness, and the volume of Reserve Bank credit was adapted to changes in credit requirements. Such a result would have been most difficult, **if not impossible, if the debt had been owed by the government.**"

Since that time, there has occurred a very basic change in the philosophy of the leaders in the development of our monetary policy, and especially in their ideas as to what are the purposes of the Federal Reserve System. To illustrate, I should like to quote, first, from Dr. Burgess' Revised Edition of the same book, published in 1946, which shows the change in thinking which has occurred in his own case and which I think is typical with regard to a very large segment (if not a majority) of the American people. The quotation is as follows: "It has indeed been necessary to change some ideas formerly held, especially as to the nature of the collateral for note issues. In assuring elasticity, the specific collateral held has proved less important than the mechanism by which notes are issued. Limitations upon inflation or deflation are to be found in the broad credit policy pursued by the bank of issue and not in restrictions as to collateral or even reserves for currency. In fact, Federal Reserve Notes would be just as safe and just as elastic if they were an obligation of the Reserve Banks without specific security but backed by all Federal Reserve assets just as are the deposits."

Undoubtedly we have had clear evidence of the extreme elasticity of the currency under the new philosophy "as to the nature of collateral for note issues." We have seen an expansion of our currency and deposit structure to a far greater degree than would have been possible under the sound provisions of the Federal Reserve Act before the amendments brought about by the advocates of the "easy money" policy. However, elasticity does not only mean "to expand" but "to contract" as well, and the quality of "semi-automatic liquidation of Reserve Bank credit" mentioned in the first quotation of Dr. Burgess' book has been completely lost. Expansion without contraction does not, in my opinion, satisfy a sound definition of elasticity. To my way of thinking, Dr. Burgess' statement is close to a recommendation of pure fiat money, with no legal requirements as to amount or quality other than reliance on the discretion of the Federal Reserve Board, which conceivably could become dominated by and subservient to an Administration imbued with the spending theory of prosperity.

A Basic Change in Currency Philosopohy

In order to illustrate the basic change which has come about in the philosophy of those in charge of the administration of the Federal Reserve System, I should like to refer you to your copy of the Federal Reserve Act, where you will find it to be headed as follows: "An Act to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

Then, I would like to refer you to the very attractive black book published by the Federal Reserve Board in 1947, and sent with the compliments of the Board to every member bank in the System and, I feel sure, to many thousands of other people. The title of that book is: "The Federal Reserve System, its Purposes and Functions." In the foreword of this book, we find in the first paragraph this sentence: "In the United States, the long run objective of the Federal Reserve System is to do its part in fostering monetary and credit conditions favorable to sustained high employment, stable values, and a rising level of consumption." Then, the heading of the first chapter: "The principal purpose of the Federal Reserve is to regulate the supply, availability and cost of money, with a view to contributing to the maintenance of a high level of employment, stable values, and a rising standard of living." Then, the first paragraph, as follows: "On Dec. 23, 1913, President Woodrow Wilson signed the Federal Reserve Act establishing the Federal Reserve System. Its original purposes as conceived by its founders were to give the country an elastic currency, to provide facilities for discounting commercial paper, and to improve the supervision of banking. Over the years the System has developed a broader objective, namely, to help prevent inflations and deflations, and to do its share in creating conditions favorable to sustained high employment, stable values, and a rising leval of consumption." You will observe that the Board seems to point with pride to the great improvement in the purposes of the System as presently operated in comparison to the purposes in mind during the "horse and buggy" days of "sound money" redeemable in gold. Does any sane man believe that the avowed purposes of the Board can be achieved by issues of irredeemable paper money and the creation of irredeemable deposits built on a reserve structure which, in turn, is created by a paper credit on the books of the Federal Reserve Banks in payment for government bonds?

Now, to return again to my narrative with regard to how we have reached our present theories and beliefs with respect to monetary policy. I should like for you to especially remember and note the statement which I have made—and which Dr. Burgess stressed in the 1947 edition of his book as important—that the Federal Reserve System did not buy government obligations but furnished such Federal Reserve Credit as was required to finance the war by loaning to member banks. At the beginning of the war, on April 19, 1917, the Federal Reserve System owned a total of government securities in the amount of $93 million, and at the end of the war, in November, 1918, they owned a total of government securities in the amount of $122 million, which is an increase of a total amount of only $29 million.

Growth in Federal Reserve Bondholdings

After the war was over and the contraction of Federal Reserve credit (so warmly approved by Dr. Burgess) had taken place, the Federal Reserve Banks were left with very few earning assets, and they began, each one independently on its own account, to buy government securities in order to earn expenses and dividends. During the period of 1923 to 1929, several operations of what were then regarded as quite large increases—and correspondingly large decreases—in government holdings were carried out.

From Dec. 13, 1921 to May 31, 1922, a net increase of $369 million took place.

From May 31, 1922 to July 31, 1923, a decrease of $505 million.

From July 31, 1923 to Oct. 31, 1924, an increase of $486 million.

From Oct. 31, 1924 to Oct. 31, 1926, a decrease of $283 million.

From Oct. 31, 1926 to Dec. 31, 1927, an increase of $316 million.

From Dec. 31, 1927 to July 31, 1928, a decrease of $402 million.

While the maximum held by the System at any one time was never much over $600 million, a great deal of experience had been gained and the managers of the Federal Reserve System had learned entirely by accident to appreciate what a powerful weapon for inflation and deflation of currency and deposits had been inadvertently placed under their control. (It was in that period that the term "high powered money" was first applied to Federal Reserve credit.) I say "inadvertently" because there seems to be every reason to believe that the authority for buying and selling government securities as a means of creating reserves for member banks on which a deposit structure of several times the amount could be built was not considered or even thought of as a possibility by the Committees of Congress responsible for framing the Act, and the fact that the members of the Federal Reserve Board and the Governors of the Federal Reserve Banks had never previously used the device seems to justify the presumption that they had not realized its powerful effects. This seems further to be made clear in the statement of Governor Strong, of the Federal Reserve Bank of New York, in the hearing before the House Committee on Banking and Currency in April, 1926. In that statement, Governor Strong traced the origin and development of the Open Market Committee which was first organized in 1923, in order to coordiate the purchases and sales of government securities by the several Federal Reserve Banks so that they might be used as an effective instrument in influencing the money market, the international gold flow and other purposes. Bear in mind, the Federal Reserve System had been in operation at that time for nine years, and the discovery of the potency of the Open Market operations of the System had just been made.

Now, by the time that the Great Depression came along in the early 1930's, the powerful effect of "Open Market operations" was well understood, and the Hoover Administration adopted an "easy money" policy, with the thought in mind that, if the money supply were sufficiently increased, depressed prices would be raised, business activity would be induced, and prosperity (which was "just around the corner") would be achieved.

On Sept. 30, 1929, the System owned a total of $162,000,000 of government securities, and the "easy money" policy adopted by the Hoover Administration resulted in net purchases of government securities by the Federal Reserve System of $1,719,000,000, bringing the total holdings of the System on March 8, 1933, to $1,881,000,000. During the period that these tremendous purchases were taking place, money, of course, was becoming more plentiful and banks were finding it less necessary to have either rediscounts with the Federal Reserve System or borrowings from the System. This meant that the Federal Reserve System was running short of "eligible paper" for collateral against Federal Reserve Notes and was faced with the necessity of either depositing gold as collateral or reversing its inordinate bond purchasing program. Therefore, in February, 1932, the Glass-Stegall Bill was enacted into law, which provided for the authorization of the System to pledge directly owned government obligations as security for Federal Reserve Notes. This, of course, eased the situation completely, although it was well recognized at that time that this was a very close approach to, if not a direct issue of, fiat money—and the authorization was made as an emergency and temporary measure, to continue for a period of one year, at the end of which time the Act was to expire unless extended by a new Act of Congress. The Act was extended by Congress a year or two at a time until on June 12, 1945, it was made permanent. The fact that, when the Glass-Stegall Act was made permanent in 1945, it attracted hardly casual attention on the part of bankers or economists throughout the country, seems to me to be conclusive evidence that the monetary philosophy of the country had completely changed from what it was in 1932 when the emergency measure was passed.

Furthering "Easy Money" Policy

The purposes of the Administration in using the Federal Reserve System to further the "easy money" policy were a dismal failure insofar as inducing a business revival and prosperity was concerned, and many had hoped that the process would be reversed under the Roosevelt Administration which came into power in March, 1933. However, this was not to be, since the new Administration adopted the same "easy money" policy, with the result that by Dec. 31, 1933, the total holdings of government securities by the System amounted to $2,437,000,000, and there were $600,000,000 government bonds pledged to secure Federal Reserve Notes.

Beginning in 1934, the net loss of gold, which was $446,000,000 in 1932 and $173,000,000 in 1933, was reversed and there was a net gain in gold of $1,133,912,000 for 1934, with further similar and larger increases thereafter. This gain in the gold stock, of course, operated to increase reserves of member banks in the same way that the purchases of government bonds by the Federal Reserve System had been operating, and it was believed that these reserves would be used by the member banks not only for the purpose of financing the budgetary deficits of the government but for the purpose of financing an increased business activity to be induced by the "easy money" policy. These hopes were not realized, and increased business activity and the use of bank credit by private enterprise did not take place, so that a period of tremendous excess reserves standing to the credit of member banks with the Federal Reserve System began. The Roosevelt Administration and the Federal Reserve Board came to the conclusion that a further purchase of government securities by the System would only increase excess reserves without bringing about the desired results, and therefore no additional purchases were made, although the holdings of the System were not allowed to run off for fear that the financing of the budgetary deficits might have to be made at higher interest rates than those prevailing under the "easy money" policy. The tremendous excess reserves continued to grow (on Dec. 31, 1940, they stood at $6.600,000,000) without bringing about business recovery and prosperity until the United States undertook the Lend-Lease policy and its own military preparation for entry into the Second World War, which was finally precipitated by the Pearl Harbor attack in December, 1941.

It was foreseen by everyone that the financing of the government during World War II would be a terrific undertaking, and a plan for such financing was worked out by representatives of the Treasury Department, the Federal Reserve System and the American Bankers Association. The plan adopted provided for the financing of the war on a low constant level of interest rates. It was recognized that, in order to accomplish this, it would be necessary to abandon all thought of our "sound money" policy of the past and to discard as impractical the plan used in financing the First World War, which was so warmly praised in the quotation from the 1927 edition of the Burgess book. In other words, the decision to adopt a policy of a fixed low interest rate was made, with a full recognition of the steps which would have to be taken to carry it out. The managers of the Federal Reserve System had already had a sufficient amount of experience in issuing Federal Reserve Notes secured by government bonds bought by the System, and in creating reserves for member banks by the purchase of government obligations in the Open Market, to understand how easy the process would be to increase the money supply to a fantastic degree without people in general appreciating the deterioration in the quality and purchasing power of an unlimited supply of irredeemable currency and deposits. The mechanics are familiar to all of you. The Federal Reserve Banks purchased bonds, thus increasing the reserves of member banks, and member banks in turn bought five or six times as many bonds in order to put those reserves to work. The Government spent the proceeds of these sales of bonds, and the money became additional deposits in the hands of the public. By Dec. 31, 1945, which concludes the period of war financing, the System owned a total of $24,262,000,000 of government securities as compared with $2,484,000,000 on Dec. 31, 1939. Federal Reserve Notes outstanding stood at $24,649,000,000 as compared to $4,958,000,000 on Dec. 31, 1939. Security for these Notes consisted of $10,523,000,000 Gold Certificates, $417,000,000 eligible paper, and $15,420,000,000 of government securities as compared with $5,371,000,000 Gold Certificates, $1,365,000,000 eligible paper, and no government securities at all Dec. 31, 1939.

Postwar Currency Developments

Member banks at the end of 1945 owned $78,338,000,000 of government securities as compared with $13,223,000,000 at the end of 1938, and all banks in the United States (exclusive of the Federal Reserve Banks) held $101,295,000,000 government securities as compared with $17,953,000,000 Dec. 31, 1938. The most casual observer can hardly fail to agree that although possibly justifiably so as an exigency of war our monetary structure by Dec. 31, 1945 had been strained to a dangerous degree. One would think that, in lieu of the **semiautomatic liquidation** of reserve credit inherent in an expansion based on the extension of such credit to banks instead of by means of direct purchases of government securities by the system, the money managers would have substituted a voluntary liquidation of reserve credit in order to bring about contraction of the monetary structure.

However by Dec. 31, 1947, two years after the end of war financing, the System had reduced its holdings of government securities by only $1,700,000,000, while in the same period, the net increase of Gold Certificates held by the System amounted to $3,850,000,000, so that reserves of member banks had increased about $2,000,000,000.

It will be observed from these comparative figures that the Federal Reserve System has not even decreased its bond holdings since Dec. 31, 1945, by a sufficient amount to offset the new reserves created by the net gold imports, which, of course, indicates a continuation of the "easy money" policy without regard to inflationary results and the corresponding deterioration in the purchasing power of the currency.

Also, please bear in mind that this greatly inflated monetary structure could not have been built without the authority for pledging government securities as collateral to Federal Reserve Notes which was provided for in the Glass-Stegall Act of 1932, renewed from year to year by Congress, and finally made a permanent authority on June 12, 1945.

It seems to me that the figures which I have given should satisfy any reasonable person that we have a sufficiently great inflation of our monetary structure, based not upon gold but upon the issuance of irredeemable paper money, to cause all of us to wonder how much farther we may be able to go along that road before a fear of the future purchasing power of our currency may pervade the entire population and cause a flight from money into material things, thus bringing about uncontrollable inflation and economic chaos.

At any rate, we have had evidence of uneasiness with regard to the inflationary spiral of prices and wages, which have come from expressions of the Federal Reserve Board through its Chairman, from the President's Council of Economic Advisers, and from the President of the United States himself, to say nothing of many other important organizations, economists, bankers, etc., throughout the whole country.

I believe that the general consensus of opinion is that something must be done to counteract the inflationary trend, but there is no agreeemnt with regard to the most desirable method by which this should be accomplished. The opinion of the members of the Federal Reserve Board, the President's Council of Economic Advisers, and, in fact, all authorized representatives of the present Administration in Washington, seems to be that interest rates must be kept low at all hazards and that long-term government bonds not be allowed to drop in market price below a 2½% yield basis. In order to maintain that fixed level of interest rates in the market, they take the position that the Federal Reserve Banks must stand ready to buy all government bonds offered at par, and this, of course, enables banks to sell bonds to the Federal Reserve System, thus creating reserves upon which a further deposit structure can be built. In order to offset the inflationary effect of the additional increase in the deposit structure, they recommend the granting of extreme control powers to the Government and the Federal Reserve System. Among other things, these powers would authorize the creation of a new kind of required reserves of member banks to be invested in certain classes of government obligations. The Federal Reserve Board would be authorized to exercise various forms of qualitative credit control. The Administration would be authorized to set price ceilings, to ration all commodities considered to be scarce, and, more importantly still, to set ceilings on wages.

Time does not permit any detailed discussion of these proposals, but it is my thought that the granting of any such powers, and the experiment of attempting to enforce them, can only result in complete failure and economic disaster, just as similar governmental efforts have resulted in every case in history (and there are many of them) in which they have been tried.

On the other hand, there is a group of orthodox economists and a good many bankers, industrialists and insurance executives who believe that there is only one sound way in which the effects of monetary inflation can be counteracted, and that is by a correction of the monetary inflation itself. In other words, this group are of the opinion that the effects on the price structure of large issues of irredeemable paper cannot successfully be opposed by price ceilings which have failed in every great inflation of the past. They believe that, if we are to avoid extreme price inflation, with all of its concomitant suffering, the monetary structure (which, of course, includes deposits and all other forms of money) must be contracted to the point where currency will again become redeemable on demand in a commodity having a stable value in the markets of the world, independent of government fiat, and they believe further that our own experience since the establishment of the Federal Reserve Act and the various amendments thereto, as well as the history of all previous monetary inflations throughout the world, make it quite clear that we are not justified in entrusting to any individual, or Board, or governmental administration, the power to issue money except under very definite legal limitations. These limitations should be of such a character that the outstanding supply of paper money and of bank deposits shall be supported by such securities and shall bear such a ratio to the gold supply of the country that redemption in gold will at all times be feasible and practical. They also believe that such a condition (currency redemption in gold) is incompatible with the theory that any particular interest rate can be permanently maintained, either by the issuance of currency secured by government bonds or by the creation of deposits based on reserves which, in turn, are created by a paper credit for the purchase of government obligations by the Reserve Banks. They believe that it is inevitable that currency issues and deposits thus created will constantly tend to increase to such an extent that their ratio to the supply of gold will reach the point that redemption becomes impractical and impossible.

Gold Standard Advocated

It is my own opinion that the only manner in which we can successfully combat the ravages of uncontrolled inflation would be to institute a monetary policy including a definite required plan or program looking to a resumption of the gold standard in this country, with all forms of money redeemable in gold. It is my further belief that there is no hope of ever achieving that goal without Congress (possibly as the first step), passing legislation to provide for the gradual withdrawal of all government securities held as collateral against Federal Reserve Notes, and, after such collateral has ultimately been withdrawn, the right to deposit such collateral in the future should be discontinued. This need not in any way interfere with the elasticity of the Federal Reserve Note in order to meet either emergencies or the fluctuating need of agriculture, industry and commerce, since currency could still be issued and reserves created in the manner provided for in the Federal Reserve Act before the passage of the Glass-Stegall Act, namely, by rediscounts and loans to member banks.

The suggestion in Dr. Burgess' Revised Edition of "The Reserve Banks and the Money Markets," to the effect that Federal Reserve Notes might well be issued without any form of collateral and without any gold reserve requirement, assumes superhuman wisdom and self-restraint, as well as the loftiest purity of motives.

The American people, in the Constitution adopted in 1789, gave good evidence of wishing to have a government by law rather than by men, and it is my opinion that the power to issue money should be governed by very strict laws, both as to reserves and collateral requirements.

I realize that what I say, or, in fact, what any of us say, with regard to the monetary policy of the country can have only a very insignificant effect on the future development of such policy. However, it has occurred to me that the dangers of a disastrous inflation in the United States are so great, and so generally recognized, that Congress would be justified in creating a committee such as was created in 1908 by the Aldrich-Vreeland Act. That Act created "The National Monetary Commission," which was designed to safeguard the general situation until a comprehensive law could be passed, and it consisted of nine Senators and nine Representatives. The Commission put forth a tremendous amount of study and research in connection with the subject of Banking, Currency and Credit, and it was largely as a result of the educational influence of their published findings that the Federal Reserve Act was made possible. Such a Commission could be of inestimable value to the United States now, and could, in fact, be the instrument by which a disastrous monetary inflation might possibly be avoided.

NASD District 13 to Close Saturdays in Summer

The Executive Offices of the District No. 13 Committee, National Association of Securities Dealers, Inc., will be closed on Saturday, May 29, 1948, and each Saturday thereafter through the months of June, July, August and September, 1948.

Reversion From Govt. Paternalism

(Continued from page 17)

of management, labor or capital. It must simply restrain the elements of production so that one cannot gain a lasting advantage at the expense of the country's welfare or of another of the other elements. Government must be the umpire in our people's endeavors to improve their standards of living by competitive methods in a free society.

A Revision of Laws Needed

The multitude of administrative laws which have been enacted over the past several years must first be carefully reviewed and revised. Some should be repealed. There are few people in the Stock Exchange industry, for example, who believe that the Securities Exchange Act should be repealed. Practically all of us, on the other hand, believe that a review carefully made will indicate the desirability of revisions which will enable the law to accomplish its objectives and at the same time permit industry to perform better its functions in our economy and to make more satisfactory contributions to progress. We certainly, as an industry, have no desire, and definitely recognize the dangers, of going too far in the revisions of this act. The primary need with respect to most of these laws is to provide again a government of laws and not men.

Congress realizes the need for revision of many of these laws. It knows that if our nation is to be strong in this troubled world production factors must be permitted to function with freedom. And Congress needs the support of us all.

There is no question but that management, labor and finance have learned much from the experiences of these last few years, although it has been by an expensive method. We have learned that there is no progress without good human relationships. The actions management, labor and finance have taken to inspire greater admiration and respect between themselves and with the public is in itself encouraging and presages broader understanding and cooperation in the future. It has taken steps to eliminate prejudice and misunderstanding which are almost always the cause of unsatisfactory human relationships.

You, the industrial leaders of Detroit, have shown a wide breadth of approach to the solution of your problems, and your courage in frequently taking the hard way against an easy way because you consider the country's welfare first, is encouraging. Labor and most of labor's leaders are also taking a broad approach and consider what is best for the country. The highly publicized disputes, many conducted by un-American methods, are not typical of the present relations between management and labor.

Such examples of leadership are inspiring. The ingenuity and the ability of our people coupled with such an understanding and such courage shown by our leaders will give us the increased production so necessary to the welfare of this great democracy of ours as well as to the welfare of the world.

New Jersey Bond Club To Hold Field Day

Alexander Siedler, Jr., President of The Bond Club of New Jersey, announces that the Annual Field Day will be held at the Montclair Golf Club, on Friday, June 11. C. Wallace Smith, Chairman of the Committee, has prepared a program which in addition to golf and other sports, will include a number of surprise features.

Totalitarian Blueprints

(Continued from page 12)

careful selection of members and lastly, a complete fraternal confidence among revolutionaries . . . what we need is a military organization."[8]

Again in 1920, after Communism had become a reality in Russia, Lenin continued to justify any means for the attainment of world domination by stating, "It is necessary to use any ruse, cunning, unlawful method, evasion, concealment of truth,"[9] and that he looked forward to wars with non-Communistic states like the United States. He was blunt: "We are living not merely in a state, but in a system of states; and it is inconceivable that the Soviet Republic should continue for a long period side by side with imperialistic states. Ultimately one or the other must conquer. Meanwhile a number of terrible clashes between the Soviet Republic and the bourgeois states is inevitable."[9]

Not only have the objectives of the Communist hierarchy been announced time and time again, but also the means by which the dictatorship is to be spread throughout the world have also been publicized.[10] The various countries of the world, according to the program of the Communist International, may be divided schematically into three main types. In the first group are the countries of highly developed capitalism such as the United States and Great Britain that have centralized production and long established democratic political systems. In such countries the program aims at a direct transition to the dictatorship. The economic demands are: Expropriation of the whole of large-scale industry; organization of a large number of State Soviet farms; and, in contrast to this, a relatively small portion of the land to be transferred to farmers for individual cultivation.

In countries with a moderate development of capitalism such as Spain, Poland, Hungary and the Balkans, the Communist program adopted in 1928 calls for a process of gradual transition. In general, the revolutions in these countries were planned as being primarily agrarian by organizing the peasantry along cooperative lines and, later, by combining them in production.

In colonial and semi-developed countries such as China and India and in South American countries such as Argentina and Brazil, the program varies from a systematic development of agrarian revolution to national uprisings.

Aggressive Tactics

It is maintained in some quarters that the announced ideology and method of world conquest of the Communist party was the philosophy of a group of zealots who found it necessary to go to such extremes in order to solidify the movement in Russia, but that such aims do not now reflect the ideas of present Russian leaders. How does such a view stand up under the light of the words and deeds of these leaders? In one of Stalin's books, "Problems of Leninism," published in 1939, the author not only endorsed Lenin's philosophy, but also implemented it with his own interpretations of the tactics to be used in achieving the ultimate aim of the Communist party. Speaking of the Russian Revolution, Stalin stated that the first stage (1903-1917) had been consummated by the overthrow of the Tsars; and that the second stage (February 1917-October 1917) had likewise been consummated by consolidation of Communist forces within Russia and withdrawal from World War I. The third stage, begun in Oct. 1917 and still going on, aims to consolidate the dictatorship in one country, using it as a point of support for the spread of dictatorship in all countries. Stalin stated, "The revolution extends beyond the borders of one country and the epoch of world revolution has begun."[11]

In speaking of the strategy to be employed, Stalin says, "It changes with the transition of the revolution on the basis of conditions at a specific stage of the revolution, while remaining essentially the same throughout any one given stage."[12]

The Marshall also pointed out that Communists must learn how to retreat, if necessary, in order to gain time to decompose the enemy and to assemble forces so as to take the offensive later. Turning to a more recent date, Stalin again, in a radio broadcast from Moscow, left little doubt as to his adherence to the basic tenets and teachings of the totalitarian philosophy.[13] He attributed the Second World War not to the actions of Hitler, but to the development of world economic and political forces through the inherent workings of capitalism. In the same address, Stalin declared an objective of future planning to be the development of a steel production of 60 million tons a year, or three times the 1940 rate. As William C. Bullitt, United States Ambassador to Russia from 1933 to 1936, has pointed out, it is difficult, at a time when the Soviet Union is in such great need of consumer goods, to reconcile this tremendous increase in steel production with any other policy than that of building up capacity for waging war.

With Russia's actions in the acquisition and control of formerly independent countries of Europe before and since the end of World War II, you are all acquainted. The program since the end of the war began in November, 1945, when King Peter II was dethroned and Premier Tito signed a collaboration pact with Moscow. In December, 1945, the Communist provisional government took over Albania. September, 1946, saw the Communist inspired plebesite dethrone six-year-old King Simeon and the hanging of the anti-Communist leader in Bulgaria. In 1947, three more countries, Poland, Hungary and Romania, were added to the Soviet orbit. In February of this year, Communist usurpation of police power precipitated the government crisis leading to the coup in Czechoslovakia. Last month, Finland became part of the Soviet military block when it capitulated to Stalin's demand for a 10-year "mutual aid" pact. Last month also, the Communist party in Italy made a concerted effort to take over, but, lacking control of the police and key cabinet posts, failed to dominate the elections.

Will Russia Stop?

Where will Russia stop in its present program of land acquisition and ideological expansion? Does the parallel of the pronouncements and deeds of German National Socialism, on the one hand, and the equally publicized aims of Communism and the steps taken thus far to fulfill those aims, on the other hand, have any significance? It seems to me that the facts speak for themselves. Yet, as in the 30's, we are again hearing from presumably well-intentioned people that to thwart announced plans of world conquest by a police state through strong defensive measures is to invite war.

One presidential candidate, Henry Wallace, has stated that a frank, joint discussion of geopolitical power will start us on the road toward peace.[14] Under this concept, the Russians would be told the points beyond which we cannot tolerate their further expansion. Conversely, the Russians would be given the right to tell us the limits beyond which we cannot enter without creating the danger of war.

As far as pacts and agreements with totalitarian states are concerned, we have a wealth of past experience upon which to gauge their effectiveness. At Yalta and Teheran, we learned that Russia signed agreements for the convenience of the moment and with no thought of abiding by them if they should interfere with Communist objectives. At the Teheran meeting, Stalin proclaimed his desire for a good-neighbor policy and emphatically declared that he had no desire for territorial expansion in Europe after the war. He said that Russia was only half populated and would keep Russians busy at home without undertaking any additional territorial responsibilities.

Russian activities since the end of the war are a sad commentary on that country's good faith. In this respect, Russia has again followed the same pattern as Nazi Germany. Since 1939, the Soviet Union has violated twenty-eight international treaties, agreements, and assurances, paralleling twenty-six similar violations by Germany from 1939 through 1941.[15] This illustrates clearly what to expect from international agreements with totalitarian states.

What Are We to Do?

Then, what are we to do? As I see it, there are a number of well-defined things that we must do if our way of life, based upon free enterprise and political and civil liberty, is to be preserved without an early shooting war. As related to time, these things may be classified as short-term and long-term.

The short-term are as follows:

(1) A thorough arousing of public opinion at home and in Western Europe to the nature of the ideological conflict now in full course between communism and democracy. The eighteenth century fervor for individual freedom must again become a religion with with us and all our kind. We must become evangelists for our cause just as the communists are evangelists for their cause.

(2) A carrying forth into the communist countries of a vigorous campaign as to what we stand for, what our system is, and what great strength and resources — economic, spiritual, and military —are available to protect and to propagate it. We need a democratic fifth column, well led and well financed, to counteract the communist fifth column. We should and can show the Kremlin that we know how to fight fire with fire and that propaganda is a sword with two edges.

(3) A building up and maintenance of our economic and military potential, together with that of our friends, in such a measure as to make it plain as day to all communist police states that they can never hope to control the balance of world power.

(4) A plain statement to those states that an attempt through communist inspired revolution or subversion to extend further the communist control of European governments will be considered an unfriendly act and will lead to war. Irresponsible police statism is based upon force and will yield only to force which it knows is superior to its own and which it knows will be used. If we lose Western Europe to communism, we shall have lost not only the cradle of our own way of life but also the source of its inspiration and vitality. And moreover we shall have lost our most important strategic line of defense in the direct shooting war that would certainly follow.

Long Term Strategy

The long-term are as follows:

(1) With all its blessings of respect for the individual and personal freedom, our democratic system has not found the answer to certain problems, and the communists make much of that fact. Our system, if it is to serve society adequately, must depend, politically, upon a well informed and intelligent public opinion guided by competent leaders; and must depend, economically, upon the smooth functioning of the free and open-market price system, readily and quickly responsive to the interplay of the forces of demand and supply.

As evidence of how far we have yet to travel in developing a really intelligent public opinion in this country, I need only refer you to the typical radio and moving picture program which day in and day out insults everyone with the intelligence of a 15 year old child.

The point I am making is that our first long-term requirement is more intensive and more adequate education of our people; an education which will de-emphasize the importance of material wellbeing and power—the twin gods we now worship—and emphasize the importance of the arts, good taste, and a life well rounded in those things cultural and spiritual.

Ignorant men, no matter under what outward form of institutions they may live, are never free. They are and will always remain slaves of the greatest of all tyrannies, their own ignorance. Only the educated man is truly free and he is free only to the degree that he is truly educated.

If our people are educated and are therefore intelligent, leadership will take care of itself, because an intelligent people will be able to recognize and will insist upon intelligent leadership.

(2) The second long-term requirement is that we learn how to provide economic security for all who are able and willing to work in an economy which is based upon individual liberty in an open-market price system. The arts and physical sciences have progressed much faster than the political and social sciences. The former recognizes no national or political boundaries; they are subservient to no pressure groups. The latter are still in large measure where they were a century and a half ago. No wonder our society finds itself periodically strangled, soaring at one moment on the high tide of an inflationary boom with millions of jobs crying for thousands of men and wallowing soon thereafter in the slough of a depression with millions of men crying for thousands of jobs.

It is this boom and bust phenomenon of our democratic system which we must put an end to or it will put an end to our system. And we must put an end to it without destroying our freedom. That is the challenge confronting all free men in this age of the machine, electronics, and atomic fission. That is the challenge confronting those of our people who would export without importing, who would have higher wages without greater production, who would have bigger profits without lower prices. That is the challenge that demands the best we have in political, financial, business and labor statesmanship. I believe we shall meet that challenge. I believe we can and will produce that statesmanship. I believe we shall find a way to harmonize our free enterprise system with economic security for the individual. And I **know** that we **must** find it. That will sound the death knell of communism.

8 *Iskr*—The Spark (Moscow), 1900, as quoted in W. C. Bullitt, *The Great Globe Itself* (New York: Charles Scribner's Sons, 1946), p. 54.

9 *The Infantile Sickness of "Leftism" in Communism*—1920, Chapter 6, as quoted in Bullitt, *The Great Globe Itself*, p. 6.

10 *Blueprint for World Conquest*, The Official Communist Plan (Washington, Chicago: Human Events), p. 209.

11 Stalin, *Problems of Leninism* (Moscow: 1939) as reproduced in Bullitt, *The Great Globe Itself*, Appendix III.

12 Ibid.

13 New York "Times," Feb. 10, 1946.

14 H. A. Wallace, *Toward World Peace* (New York: Reynal & Hitchcock), pp. 68-9.

15 Bullitt, *The Great Globe Itself*, Appendix I.

The Objectives of Our Foreign Assistance

(Continued from page 19)

each of these nations cooperate fully with all the others. We are to help them to help themselves. We are to use our own resources to build up other nations agriculturally, industrially, commercially. We are to exert ourselves to the utmost to strengthen nations which in the past we have regarded as rivals and competitors.

We feel a great sense of urgency in getting on with our work. Mr. Harriman in Paris on May 11 expressed the feeling of all of us when he said: "The United States wants to make Europe self-sustaining and then get out and tend to our own business at home. The sooner we can push this program through and get out, the happier the American people will be."

The breadth and magnitude of the inspiring objectives set for us by the Congress are reflected in the following analysis of our responsibilities under the Foreign Assistance Act of 1948:

Our Responsibilities Under the Law

(1) We must promote agricultural production in 18 nations.

(2) We must promote industrial production in 18 nations.

(3) We must assist in restoring or maintaining the soundness of currencies, budgets, finances, in 18 countries.

(4) We must facilitate and stimulate trade by each of these nations with all the others and with the United States and with the rest of the free peoples of the world.

(5) Where possible, assistance must be extended in the form of loans.

(6) If assistance is extended as a grant, the participating country must place in a special account its own currency in commensurate amounts. Such funds are to be used for recovery purposes within that country.

(7) We are to facilitate and maximize the use of private channels of trade in procurement.

(8) Assets and earnings belonging to citizens of participating countries but situated in United States are to be, as far as possible, put to appropriate use in furtherance of the recovery program.

(9) Participating countries are to facilitate the transfer to the United States on reasonable terms and in reasonable quantities of materials which we may require as result of deficiencies in our own resources.

(10) Increased production of such materials for future delivery may be negotiated.

(11) The Administrator is to encourage the largest possible utilization of manpower within the participating countries.

(12) The Administrator is to request the Secretary of State to obtain the agreement of those countries concerned that capital equipment scheduled for removal as reparations be retained in Germany if such retention will most effectively serve the purposes of the European Recovery Program.

(13) The Administrator is instructed to promote travel by

citizens of the United States to and within participating countries.

(14) To encourage American business to invest and assist in European recovery, the Administrator is authorized in the case of projects approved by him and the participating country to guarantee the exchange of local currencies for dollars to the extent only of the dollar investment in each such project.

(15) With respect to American books, magazines, newspapers and motion pictures distributed in Europe, such guarantees during the first year of operation are limited to fifteen million dollars out of a total contemplated appropriation of $300 millions.

(16) We are to pay ocean freight charges from United States ports to foreign ports on contributions for relief in participating countries donated to or purchased by voluntary non-profit relief agencies recommended by the Advisory Committee on Foreign Aid within Europe.

(17) We are to arrange with the Post Office Department for a reduction of postage paid by individuals in the United States for sending packages of food, clothing, medicine, and so forth to individuals in countries which are receiving assistance in the form of grants. Such reduction is to include payment by ECA of ocean freight and, where possible, payment in local currency of terminal charges in the country of destination.

(18) The Administrator is to refuse delivery to participating countries of commodities for use in the production of other commodities for delivery to any non-participating European country which would be refused an export license by the United States for such commodity in the interest of national security.

(19) The Administrator is enjoined to see that United States commodities shall be exported first to participating countries in preference to countries wholly or partially in Europe which are not members of the Organization for European Economic Cooperation.

(20) The Administrator is to maintain a constant review of the economic situation in each participating country to insure the efficient use of the resources of such countries (including commodities, facilities, and services furnished under ECA) to promote recovery.

(21) The Administrator is to obtain from each participating country, at least every quarter, a full statement of operations under the bilateral agreement.

(22) The Administrator is enjoined to assure that as far as practical at least 50% of the group tonnage of commodities procured within the United States are transported abroad in ocean vessels flying the United States flag.

(23) To the maximum extent, the Administrator is to procure petroleum and petroleum products from sources outside the United States and to see that alternate fuels or sources of power are used wherever practicable.

(24) In carrying out all the foregoing responsibilities and in promoting the recovery of other nations, the Administrator is enjoined to minimize the drain upon our own resources and to avoid impairing the fulfillment of vital needs of the people of the United States. He is particularly and specifically instructed as to how agricultural procurement is to be conducted to protect the domestic economy.

Program Must Succeed

That is quite a list of specific responsibilities, but they must be met, because the recovery program **must succeed.** The alternatives to success are altogether too grim to face. If totalitarian rule should be imposed upon the people of Western Europe, the United States would of necessity have to become a garrison state. We would have guns, but no butter, and, far more importantly, little freedom. The other alternative to success is a third World War. That alternative I refuse to consider. Even if we won, we would face utter disaster. The fruits of victory from World War II are back-breaking burdens.

The financing of the program of European recovery will cost billions of dollars. In addition for several years ahead we will have to continue defense expenditures at an extremely high level, perhaps $15 billion annually, perhaps more. We must do this because the only language dictators understand is the language of force.

As Beardsley Ruml has said, the problems with which we must deal beginning in 1948 are immeasurably more complicated and more difficult than those we faced in 1942. All these billions we must spend are one of the factors that add to the complications. It all adds up to this, that in 1942 we were faced with the problem of combating postwar unemployment. Today the problems we are facing involve our very freedoms.

That the problems we are facing may call for changes in our economic and business structure no one can doubt. We must be sure that no changes are accepted that would put the very freedoms we are trying to defend in jeopardy. We can afford, and I am paraphrasing John Stuart Mill, neither ignorant opposition to change nor ignorant change.

I had hoped that when I left CED the research program we had set for ourselves in 1942 would be largely completed. That hope has not been realized. Certain of our basic studies, such as that on fiscal and monetary policy, are just getting under way. And now you have this whole set of new problems which must be thought through before the time comes when they have to be met. But I am certain that even though, as Beardsley Ruml says, the program of CED must be both broadened and deepened, this can and will be done.

Your new chairman, Mr. Walter Williams, is a terrific and enthusiastic worker. He needs, of course, all the help you can give him. And you are going to have to add new brain power. Again those recruits can be found. The greatness of CED lies not in the past, but in the future.

International Lending And World Trade

(Continued from page 18)

country, and to make representations to the government of the borrowing country, if, in the view of the Bank, those policies are detrimental to the general financial and economic situation of the country, or to the servicing of the Bank's loan in particular.

By observing the principles and by following the procedures, which I have outlined, the Bank hopes to be able to steer clear of some of the pitfalls that have beset the path of international lending in the past.

There Must Be Risk

There is one more general circumstance that I should like to mention, and it is this: there can be no international lending which is entirely without an element of risk. For example, there is the act of God: earthquake, flood, tempest or drought.

Moreover, there is the regrettable prospensity on the part of humanity to indulge in the convulsion of a World War about once in every generation, and it was the effects of World War II which forced default in their external debt services on several European countries whose reputation in this respect had up till then been exemplary.

Or again, take the case of some little country whose staple exported is some raw material. But the march of human science may invent a synthetic substitute, which if developed commercially, may spell that little country's ruin.

These are but some of the intangible and imponderable hazards that lie in wait in the fairway for the international lender. And the Loan Director who could insure against all of them, or, for that matter against any of them, would indeed be an adept crystal-gazer.

The International Bank, as you all know, and as the title of the institution implies, was established to operate in the field of international reconstruction and in the field of international development.

In the field of reconstruction, our operations have so far been confined to Western Europe. Up to now, the Bank has made six loans in all, amounting in total to $513 million. Four of these were to Europe: to France, to The Netherlands, to Denmark and to Luxembourg. All of these loans are earmarked for definitely productive purposes. They have been, or are being, used for the purchase of specific goods, primarily industrial and agricultural machinery, transportation equipment, and basic raw materials, which the borrowing countries need to step up production and which contribute to the reconstruction of Europe as a whole. I think the Bank can claim without undue complacency that these loans have made an important contribution during a vital period of the European economic resurrection.

Western Europe Situation

While I am on the subject of Western Europe, I should like, if I may, to take off my International hat for a few moments, and, as a Western European myself, to make a small excursion on somewhat controversial ground. Since I have been in Washington, I have inevitably found myself engaged in a good deal of discussion, argumentation, and debate on the subject of the European Recovery Program. I have listened patiently and always, I hope, good temperedly, to candid and forceful criticism on the part of my American friends of the approach of Western Europe herself towards the solution of her own problems. Western Europe is effete and decrepit, I am told . . . Western Europe is lazy . . . Western Europe is inefficient. I am not prepared to admit that Western Europe is any of these things. True, in certain fields of human activity and in particular in those fields in which the inhabitants of this city have so justly earned preeminence, we in Europe cannot hope to compete and could profitably learn many lessons from your experience and performance. But I am sure you will not count me immodest if I say that in certain other fields of human activity, which are perhaps no less important, Western Europe has made, is making, and will continue to make, a contribution without which our common civilization would be very much the poorer. I have had to listen also to the criticism that within the past three or four years Western Europe has been too inclined to indulge in political ideologies whose basic philosophies are not those that are the best adapted to the urgent tasks in hand. I may say, I have heard the same criticism advanced with no less force by some of my friends in Britain. But I think that all of these criticisms ignore the simple and obvious reasons which underlie the need of a plan for European Recovery.

Twice in a human generation Western Europe has been a battleground. Over great areas of her surface, armies numbered in millions, have contended backward and forward through her cities, towns and villages and across her countryside. Her industrial centers have had to suffer the havoc wrought by indiscriminate aerial warfare. For five long years her civilian population lived in nightly terror of death from the skies, and on the continent itself her people were ground down under the heel of a relentless invader whose everyday sanctions were forced labor and the concentration camp.

The material destruction of the war was immense, but already it has been in great measure made good. But the psychological effects of these brutal experiences will endure longer. Since V-E Day Western Europe has already made a vigorous recovery. Production has increased to an extent that, without exaggeration, can be described as remarkable. When one considers the battering that Europe and her people have had and what Europe is already doing one is reminded of Dr. Johnson's remark about the women preachers, "The marvel," he said, "to me is not that they do it badly, but that they do it at all." And there I shall leave Western Europe.

The Field of Economic Development

In the other branch of the Bank's activities, namely the field of Development, a host of fascinating if difficult, problems present themselves. The under-developed countries of the world divide themselves conveniently into three regions: the Latin American Continent, Asia and Africa, and the Far East. All three display at least this characteristic in common: they are all highly "development-conscious." Some of these countries, realizing that Pittsburgh and Detroit were not built in a day, are laying plans for development on prudent, orderly, and modest foundations. Other countries, however, are more ambitious; and the demands if they were added up, of all their five-year and ten-year plans that have been received by the Bank within the last 12 months, would in terms of finance, several times eat up the total loanable funds of the Bank, and in terms of capital equipment, would far exceed the production potential of the manufacturing countries of the world.

We are living on a planet which is much smaller than the planet on which our grandfathers lived. In their day, distances were forbidding barriers to intercourse, and communications were slow. Continental, and indeed national isolation imposed upon all but a very few an ignorance of the conditions and mode of life of his neighbor. But today with the coming of the aircraft, the radio and above all of the movie, the Occidental way of life has become known in every corner of the globe . . . to the worker in the Chilean copper mine, to the coolie in the Chinese rice fields, to the peasant in the mountains of Iran. They hear about, and they see, a standard of life far exceeding anything that they themselves have ever known, or believed to exist. They cannot be blamed for imagining that what others have achieved, they themselves can achieve. But it is the difficult task of their leaders to educate them in the hard creed that Occidental standards have come about only through processes of accumulation of capital and of technical skills which must go on not merely over five years or ten years but over generations. It is not by the overnight construction of steel mills or hydraulic plants or by the widespread installation of modern telecommunications or by the erection of the most up-to-date port facilities that the economic stability of a country is to be secured. These things are important, but their importance lies not in their own sake but in the extent to which they necessarily serve the basic economic structure of the country that possesses them. It is only by a slow process of patient and unremitting effort in the less spectacular fields of building-up a country's basic resources that the foundations can be laid for economic security and progress, and for social betterment and contentment. It is against this general background that the International Bank must approach its problems in the sphere of development and formulate and develop its lending policies, keeping in mind always its obligations toward all its member states and not alone to those who are potential borrowers.

Borrower's Attitude

There is one other aspect of International lending that I shall mention, and it is this: For the lender, virtue must be its own reward; let him not expect any gratitude from the borrower! It is a melancholy but well established fact in the story of human relationships that the lender of money has always been regarded as an unloved and unpopular figure. You will remember the repellent picture which Shakespeare paints of the money-lender in the "Merchant of Venice." In Ireland, where I come from, we have a bitter little saying which runs like this, "A banker is the sort of fellow who hands you out an umbrella when the sun is shining and asks for it back as soon as the rain comes on." In Ireland we have much more rain than we have sunshine, so you can imagine in whose custody the umbrella most often is. Doubtless some of you here may know the story that is told of one of your eminent American financiers. He was lunching one day in his club with a friend, when an acquaintance passed by his table, gave him a very cool nod, and hurried on. The financier turned to his friend and said: "I wonder why it is that so-and-so dislikes me so. I can't recollect that we've ever lent him any money."

I am reluctant, however, to finish on this note of cynicism.

After all gratitude is but a soothing syrup; and it is a poor substitute for the mental and spiritual satisfaction that is earned from the sense of a job well done.

For generations to come, perhaps even for centuries to come, the mantle of leadership of world civilization must rest upon the shoulders of the people of the United States. That mantle carries with it heavy responsibilities. Not the least of those responsibilities is the wise use of the vast material resources at your command. In its vigorous support of the International lending institution to which I belong, your government is making a magnificent contribution to world reconstruction and development and in the Economic Cooperation Act, you have not merely displayed a statesmanlike approach to the cure of the economic sickness from which the non-American world is suffering, but you have also given one more manifestation of the warm-hearted generosity of the American people. These are but two of the directions in which, if I may presume to say so, you have proved your capacity and willingness to fulfill the high destiny unto which it has pleased God to call you.

With Dreyfus & Co.

Dreyfus & Co. announce that Miss Miriam Minden is now associated with them as a customers' broker in the firm's Hotel Madison office, New York City.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

New advance indicated by recent action. Time to sell is on strength — not weakness.

* * *

Two weeks ago, in the issue of May 13 to be exact, I wrote ". . . the market (is) working itself into a corner where a violent move can occur." A week later the market stepped out with record breaking volume. It was a week where all the potential buyers who had given the market a jaundiced eye, jumped off the bench and rushed to the order clerk. My metaphors are mixed but I think you get the point.

* * *

During the past week the tempo has slowed down, with the exception of one or two days when volume was still big. Incidentally the increase in volume was welcomed by brokers who showed their glee by being almost unanimously bullish.

* * *

I'm all for optimism. It makes for cheer and good fellowship. But I'm more interested in profits. Boasting to the boys in the next chair in the customers room about how cute I've been in buying some dog at 10 and casually pointing to where it is now—15 — makes for a nice glow. Yet, I'd rather be a hero to the receiving teller in the bank. The glow is a little more permanent.

* * *

In all fairness to the unbounded optimism so prevalent it now must be admitted that just as the market showed a violent move ahead, two weeks ago, so does it show something of the same thing now. In fact its recent move may be dwarfed if the corner it's in now is squeezed any smaller.

* * *

But despite the technical indications of another sharp move I still feel, as I did last week, that the time to take profits is when there are buyers bidding for them. This doesn't mean that you'll get the maximum out of any move, any more than it means that you buy stocks at their lowest point when everybody s selling. If it works out that way it's an accident.

* * *

Up to this writing the airplanes are still acting coy with two, **G. L. Martin** and **Douglas**, performing quite suspiciously. **Douglas**, for instance, has a stop at 61. Chances are that by the time you read this, it will have broken it. If it does, and you sell half you will still have a 9 point profit. You bought it at 52. **G. L. Martin** came in at 15, with a stop at 18½, where half should be sold if broken.

* * *

The rest of the stocks act alright. None of them have gotten to the profit range or the stop point, so the list (with the exception of the airplanes) remains the same.

* * *

For those who didn't see last week's column the stocks and selling prices are repeated. **Anaconda**, bought at 32½, stop at 35 for half, take half profits at 42 or better. **Bethlehem**, bought at 31, sell half at 42 or better, stop half at 33. **Caterpillar**, bought at 55, stop half at 61, take half profits 72 or better. **Dresser** bought at 22, stop 24½. No nearby profit taking point visible, so just hold on.

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.]

Charters Secretary of Stock Exch. Firms Ass'n

Robert Michael Charters has been appointed Secretary of the Association of Stock Exchange Firms to succeed William W. Peake, who has been appointed Secretary Emeritus, it was announced today by Homer A. Vilas, President.

Mr. Charters is a native of Nebraska where he attended public schools and in 1934 he graduated from the University of Nebraska Law School. He is admitted to the practice of law in New York Since his release from the Navy in 1945 as a Lieutenant Commander he has been associated in the New York law offices of Rogers Hoge and Hills.

Longstreet-Abbott & Co.

CLAYTON, MO. — Longstreet-Abbott & Co. are engaging in a securities business from offices at 8135 Forsythe Boulevard. Partners are Roy W. Longstreet, Lester M. Abbott and Craig M. Smith.

With Bailey, Selland Co.

(Special to THE FINANCIAL CHRONICLE)

FRESNO, CALIF.—William E. Drew is now affiliated with Bailey, Selland & Davidson, Fulton Fresno Building, members of the San Francisco Stock Exchange.

Callaway Director

DETROIT, MICH. — David H. Callaway, Jr., Vice-President of the First of Michigan Corporation, Buhl Building, has been elected a director.

National Debt Administration and Savings Banks

(Continued from page 11)

come from time to time evidence of lower costs through more efficient building practices and a better supply of materials. Until the demand for houses is supplied we shall continue to make housing loans, exercising all due care and judgment as to type, price and location.

Depending on the continued demand and the availability of funds from other sources, such as growth of deposits, there will be transfers from our government bond account to our mortgage account. To the extent that we may look forward to reasonable stability in the government bond market we shall tend to restrict our sale of government bonds to our current investment necessities.

We may not disregard the need for attracting savings by paying a better return to savers than a preponderant investment of our funds in governments makes possible. This condition is, in part, the result of competition of the Treasury in the sale of savings and security bonds at an ultimately higher yield than the standard bond rate in which our banks participate. We are also increasingly aware of the growing pulling power of federal savings and loan insured investments, a result to which the government has contributed in an important degree.

Readjustment of Government Bond Holdings

With all these considerations in mind we have been making some changes in our government bond portfolios. This we have done in some cases to shorten our average maturities, partly in response to bank examiners' comments and partly to make ready for possible future increases in the money rate. Despite these shifts, our government bond holdings increased about $900 million during the past two years. A more significant fact, however, is that in the category of public marketable securities, which represent about 97% of savings banks holdings, short-term holdings sharply increased.

Thus, holdings of securities maturing in five years or less increased from 8% to 20% of the total.

What I have been saying describes rather the climate of our thinking respecting National debt administration rather than the thinking itself. We cannot even in self-interest look upon our government portfolios merely as a source of supply for other investment no matter how socially desirable the objects of such investments may be. As holders of $12 billion of the Federal debt we are very much a responsible partner of the Treasury and proportionately custodians of the National fiscal welfare. Even if we should wish to do so we could not find alternative investments for the vast sum of $12 billion that we have invested in governments. Since our attention is more and more being drawn to other forms of investment, it is timely that we should review our thinking with respect to the National debt, and our interest in it as investors and as trustees of the funds of millions of patriotic and useful citizens. Our policies must continue to be formulated against the broad background of the sound management of the public debt.

Public Debt in Strong Hands

The first fact to bear in mind is that the public debt is held in the main in "strong hands."

About 35% or more than a third of the National debt is in nonmarketable issues. Of the remaining $166 billion of marketable securities, $27 billion, or 11%, are held by Treasury trust funds and agencies and the Federal Reserve banks. Thus, approximately 46% of the debt may be said to present no market problem under present conditions. The remaining 54% of the debt, or about $137 billion, is in marketable securities owned by commercial banks, insurance companies, savings banks, corporations, individuals and state and local governments, all of whom represent stability as long-term holders in varying degrees.

There will be a gradual increase in holdings of Treasury agencies These may increase by $2 or $3 billion a year. As commercial loans stibilize or recede commercial banks may seek increased income by adding to their government portfolios. A reasonable reduction by some holders, if our premises are correct, will be compensated for by additional purchases by others.

The long-term prospect is that we of the savings banks shall wish to hold a substantial amount of higher yield governments. We shall have abundant sums still invested in government bonds after we have met the immediate problem of stimulating savings by increased interest rates, supplying homes and adjusting our portfolios according to our investment needs as opposed exclusively as during the war to the necessities of the Treasury.

Intelligent Administration of Debt

The present satisfactory state of the government bond market is due in large part to the intelligent and conservative administration of the debt since the war. The outstanding effect of recent policies has been to reduce the government bond holdings of the commercial banks and the Federal Reserve Banks, thus effecting an important brake on inflationary pressures. In February, 1946, the commercial banks owned $94 billion of governments. At the end of December, 1947, this total had been reduced to $68 billion. Why this is beneficial it may be useful to recall in a word. The ability of the commercial banks readily to increase their reserves by selling their governments to the Federal at the pegged rate made it possible for them to supply virtually unlimited funds to commercial borrowers. Stringency in lending is not a virtue in itself except when such lending readily swells prices by encouraging inventory accumulation or speculation. Under conditions with the controlling power of the Federal Reserve Bank very largely in abeyance, reduction in commercial bank government bond holdings was a prudent, indeed an essential policy for the Treasury to pursue.

The main objective of debt management in recent years has been to steer a middle course between the forces of inflation and deflation. Thus the budget surplus was used to reduce the short-term, bank-held debt. So also were the unexpended proceeds of the Victory Loan. The accumulation of the government funds and agency funds were, in large part, used to stabilize the government bond market when circumstances demanded.

Last year, when the Christmas surprise reduction in the government peg of long bonds occurred a wave of selling of long bonds took place. The Federal Reserve banks stepped in and bought up the excess supply. Simultaneously, they sold short maturities, principally bills and certificates, to meet the demand for replacements of the sellers of the long bonds. Presently the market stabilized itself below present levels due to the action of the Reserve banks and the Treasury agencies in buying and to repeated almost identical assurances from various responsible government authorities on the question of government support of its bonds at about par.

The most authoritative statement on this score was made by the President himself. He said in his Economic Report to the Congress in January, 1948, in discussing the sale of savings bonds: "The new bond buyers and millions of loyal Americans who enabled their country to finance the war are assured that the power which their government possesses to maintain the value of their bonds will be exercised wherever necessary."

And also in the same report the President said, in another connection, "Debt management policies should be so conducted that appropriate restraints on bank credit can be applied without abandoning or impairing the sound principle of government price support of bonds which the people have bought as an expression of their faith in the government's financial security." And elsewhere, he said: "A most important part of our debt management policy has been the program to support the market for government securities."

It has taken courage on the part of the fiscal authorities to maintain this policy. It has been dictated not only as an obligation of honor, as the President suggests, but because the government and the Federal Reserve Board believe lack of support would cause financial demoralization.

They have recognized the paradox of continuing this support and hence relatively easy money rates in the face of inflationary price rises due to an over-abundance of currency and bank deposits and the great demand for both capital and consumer goods. They have made a beginning in the direction of firmer money rates by raising the rates on bills and certificates and by lowering the peg on the long bonds. Powerful voices have repeatedly raised warnings against the continuance of the support policy, crying out that the evil of inflation is so great that the Federal Reserve should have restored to it the power to curb credit which it is difficult for it to do as long as it is called on to maintain the price level of the debt. One well-informed voice urged at the fall conference of this Association in November last, that the prices of government bonds be allowed to seek their own level so as to release the Federal Reserve Board and the Reserve banks to return to their function of regulating the supply of credit. This position has been supported by other influential persons.

Aware of these views, the central bank authorities have nevertheless with courage adhered to their course. The best statement that I have seen of the reasons why they have done so was that made by the President of the Federal Reserve Bank of New York, Mr. Allan Sproul, before the Joint Committee on the Economic Report on May 12 of this year. Said Mr. Sproul: "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 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. . . . 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."

Government Bond Support to Continue

Now, to use a familiar phrase, I think we may say that central bank and Treasury support of the long government market, probably at the present levels, will continue for the "foreseeable future."

Meanwhile, in part due to release of funds by tax reduction, the public is becoming interested in equity investment, perhaps only speculatively, but perhaps also for the long pull. If this is so, there may be opportunity for new equity financing, and if that occurs, the bond market will take care of itself.

But, meanwhile, we must use our opportunity to put our portfolios in order that we may continue and expand our proper function of stimulating savings by more rewarding interest incentives and by assisting in supplying the necessary capital for housing and industrial expansion.

That we have intelligence and courage in the handling of our National debt is a great boon. We would like to feel in the future, as we have in the past, that we may be kept informed of the thinking and programs of the Treasury as far as it is proper and possible for us to be kept informed. We are aware that the policies of debt management cannot be static but must be adjusted to meet the demands of changing circumstances. We are also aware that they are closely linked with our concern over and involvement in the affairs of Europe and Asia. We are aware that they are greatly affected by the budget problems our foreign relations entail as well as by those of our domestic economy. The National debt is not merely an obligation to pay, it is a great instrument of fiscal policy. We have no doubt that it will be paid. We are confident that, with free discussion and the action and intelligent interest of the principal classes of bond owners, we shall cleave to a wise policy of debt management.

I hope that the mutual savings banks will play an ever-increasing part in determining that policy.

In conclusion, let me quote the wise remarks recently made by the Under Secretary of the Treasury. Said Mr. Wiggins: "The task ahead in the administration of sound and effective fiscal policy is not an easy one." To meet the current and the new situations that may develop, we shall need skill and wisdom and courage. We shall need restraint on the part of the business and the banking community, on the part of labor, on the part of government, and on the part of the consuming public. We will need and should seek Divine guidance.

May I add, that if we can assemble all these forces all that remains for us to pray for is that we may have, let me say **continue** to have, in the future a wise, sympathetic, and non-political administration of the United States Treasury.

The Outlook for Interest Rates

(Continued from first page)

party conventions and then in the national elections.

These are curiously confused times. The money markets were disturbed for weeks on end waiting for the decision of the Secretary of the Treasury as to whether he would permit the offering rate on Treasury certificates to rise by a mere 1/8 of 1%. And his refusal to do so against the counsel of the Federal Reserve officials spoke volumes on the relative weight given to economic and political considerations. From high echelons of officialdom we are promised repeatedly that there shall be no sales below par in long-term governments but almost always with the proviso that the guarantees apply to the foreseeable future—whatever period of days, or weeks, or months, or years that may imply. Many of those who in September believed that the big problem was to stop government securities from rising in price were soon taking the view that without substantial support by the Federal Reserve banks the market would collapse. And many of those who took panic and sold their securities on the decline are now re-entering the market.

The money markets have the feel of uncertainty. The government has pegged the 2½s but no one seems to be very comfortable about it. The values on which our investments rest may be such as to warrant use of the word "riskless" but it is now far from certain that this implies absence of fluctuations in prices. We shall have to wait, I am afraid, for many such questions to be clarified before we will be entitled to take a more nearly positive view of the immediate prospect.

Therefore, I shall direct my remarks to the decade ahead instead of to the nearby perplexities. And here, I think, we can say that it will be surprising if over the coming decade we do not witness a reaffirmation of old-fashioned precepts as to interest rates and a calling into question of many of the theories which have played so important a role in government fiscal and monetary policies during the past 15 years. We may witness such profound changes and turbulent fluctuations in business, prices, and finance as to do violence to many of the notions of the day concerning interest rates, the role they play in our economy, the influences which affect them and their relation to government policy. Therefore, I would like first to explore briefly some of the areas in which events of the future may well force a reorientation of our thinking about interest rates.

(1) *We shall probably be more and more disposed in the decade ahead to take the view that the level of interest rates and bond yields is less important to our national welfare than many other factors* such as the soundness of our credit system, the strength of the institutions of savings, the adequacy of savings in relation to the demand for funds in an expanding economy, and the protection of the purchasing power of our money and of our savings. The strength of conviction that these are all more vital than the cost of credit to the Treasury or the prices of its obligations may well be increased and we shall probably recognize that too low interest rates represent an open invitation to the sort of monetary expansion which converts productive prosperity into an inflationary boom. Easy money is expansionary in depression, but it is inflationary in prosperity.

(2) *Stability of interest rates and bond yields may well cease to be the over-riding objective of government fiscal and banking policies.* We probably shall have to learn from hard experience that stable interest rates contribute to instability in business and that fluctuations in the price of credit are essential if the intricate mechanisms of money and credit are to fulfill their proper function within the economy.

(3) *We shall probably decide that the way to deal with a public debt of the magnitude of that we inherited from the depression and the war is to grow up to it.* Nations can take care of a burdensome debt in three ways: they can repudiate it through inflation; they can reduce it rapidly by backbreaking taxes, or they can release the forces making for business expansion and grow up to the debt. The first is an intolerable solution for a nation with high standards of financial integrity. The second is politically difficult if not impossible to accomplish. It is quite possible, therefore, we shall decide that the most practicable method is to match yesterday's rise in the debt with tomorrow's expansion in production and income. While there is much to commend a policy of rapid payoff of the Federal debt we may decide to reduce taxes as a stimulant to business and hope that the revenues will be large enough to enable us to pay the debt down moderately. This we did following World War I, and we again face an opportunity to do so for we are in the pilot plant stage of a revolution in industrial technology so profound as to provide the basis for one of the greatest expansions in production in the world's history. We shall realize such vast potentialities only if we adapt our policies to the necessities of a high investment economy, but that is our tradition and I think we shall not long tolerate policies which hold obviously necessary expansion in check.

(4) *Representations by governmental officials of their intention to control or to set the pattern of interest rates probably will, as the years go by, be taken much less seriously than has been the case of late.* Their record has in fact been less than impressive. At the end of the war governments of most nations were determined to hold interest rates and bond prices at the wartime levels, they labored under the illusion that they could do so, and fiscal and central bank officials issued many statements declaring that no material declines in bond yields or advances in interest rates would be tolerated. But the record is one of rise in bond yields and in fact the past two years may be described as a postwar bear market in government bonds. French obligations are 28 points under where they were early in 1946. British consols are off 23 points in the past year and a half, Belgian bonds have declined about 16 points. Canada dropped the pegs about 5 points recently, Swiss bonds are off about 3 points. In Sweden and the Netherlands the declines have been moderate, but in the former case only at the expense of heroic support by the Central Bank. And our own government securities declined sharply a few months ago, as we all know only too well. Government power to control prices seems never to be quite as effective as officials assume it to be and we are learning that it is just as true of credit as it is of commodities that in the long run price controls are not likely to work very well.

A World-Wide Shortage of Capital

(5) *While interest rates and bond yields will, of course, be responsive to changes in demand as business ebbs and flows, the trend over the longer future is likely to reflect the threat of a world-wide shortage of capital.* Just as wage rates and commodity prices trend upward when workers and supplies are short in relation to demand, a persistent capital shortage would give an upward lift to the trend of the price of money. The shortage of capital is world-wide in scope, for it has its origin in the well-nigh universal socialization of the tax structure which constricts savings in the high savings income brackets. Meanwhile the world is at the beginning of a period of vigorous expansion in industrial capacity occasioned by the rapid expansion in population, the inability of industry to expand in the long years of the depression, the vast destruction during the war, and the technological changes which offer an opportunity to expand capacity and to industrialize the less well-developed areas of the world. And the demand of most of the world for capital expansion converge on this country so that the pressures for new funds should in time find response in our securities markets.

(6) *"Where is the money coming from?" is a problem we shall probably have to face in depression as well as in prosperity.* It is now granted that it will be difficult with a socialized tax structure to generate the vast amounts of equity and debt funds needed by industry in periods of good business. But it is not so generally appreciated that the government may face a very real and possibly no less difficult problem of raising funds in a period of depression. Our government is counted on to spend billions of dollars to shore up the economy in case private business slumps. It is expected to engage in great public works and relief programs in case private employment falls off. It has insured tens of billions of deposits, billions of mortgages and the level of agricultural prices. It will have to supply billions of unemployment insurance funds in case of need. It has tens of billions of demand obligations outstanding which holders may redeem in depression. But where will the government get all these funds? The debt is already a quarter of a trillion dollars, the government is already collecting and spending about $40 billion in taxes per annum, but the "leverage" in our tax system is high and revenue would decline sharply if business slumps. Where will the money come from for the government to use in preventing a slump from developing into a long depression? Perhaps we shall have to search for means of stimulation other than through heavy government outlays. If so, this is a problem our financial statesmen might well be facing up to now, for it will be dangerous to approach a period of business reverses without a sound, realistic and carefully thought out program of action.

Warns Against Indifferent Attitudes on Loans

(7) *The years ahead may well give the nation's financial institutions reason to retain their faith in time-tested standards of financial strength:* The government has been on a 15-year financial binge and this clearly is no time to be lulled into a sense of false security as to the need for real quality in loans and investments, the appropriateness of carefully adjusted maturity positions, and the essentiality of old-fashioned standards of credit worthiness. It is interesting to note that the liabilities of the business failures in the past half decade have aggregated less than half what they were in the single year 1932, and even less than in the average years of the prosperous twenties. Such a condition may not last indefinitely.

(8) *We may have occasion profoundly to recast our thinking about price-earning ratios and bond yields in relation to their "real" level after taxes.* How else can a corporation build its capital than through retained earnings if access to the new issue markets is not readily available? And is not a yield of 8% today no higher than 4% in the years before really back-breaking taxes were levied? It has become the custom in some quarters to assume that wages have to go up whenever necessary to prevent a decline in the purchasing power to take-home pay. Should we not give some allowance for the take-home pay of investors, and are not yields on stocks and bonds likely in time to make the adjustment if the tax authorities do not?

The Outlook

The conclusion to which these considerations point is that despite the many elements of uncertainty which exist there is much to support the view that the long-term trend will be moderately upward for a long while to come. It may well be that the first phase of the postwar readjustment upward in interest rates and bond yields was completed in the early part of this year, and we certainly should make allowance for the probability that the movement of yields and rates may be downward in periods when demand for credit is light and when the government is an active borrower, but these are apt to be temporary interruptions in the longer upward trend.

This view presumably is shared by a number of experts who participated in an informal poll which I conducted recently. I asked 28 of the nation's leading students of investment trends to tell me whether they thought that five years from now yields on long governments, on long high-grade corporates, on mortgages, and on Treasury one-year certificates would be lower about the same, up moderately, or up substantially, and their views are summarized in the following table:

Opinions of 28 Leading Experts on the Level of Interest Rates and Bond Yields Five Years from Now

Yields on long governments—	
Lower	0
About the same	11
Moderately higher	14
Materially higher	3
Yields on long high-grade corporate bonds—	
Lower	0
About the same	4
Moderately higher	14
Materially higher	10
Yields on mortgages—	
Lower	0
About the same	4
Moderately higher	14
Materially higher	10
Yields on Treasury certificates—	
Lower	0
About the same	2
Moderately higher	12
Materially higher	14

The consensus is that a few years from now interest rates and bond yields will be higher than they are today, but the increase from present levels will in general be moderate for government long-term securities. If more than moderate increases in rates occur, they are more likely on mortgages, high-grade corporate bonds and short governments than on long governments.

It should be stated that the above views were subject to many qualifications. For example, it was granted by most of those whose opinions were obtained that were the nation at war, or engaged in a greatly increased armament program, or were the country to be in a depression, interest rates and bond yields might not be higher than they are today and, if so, very moderately indeed. But the preponderance of opinion is that during periods of active business the demand for funds is likely to be so substantial that the pressures will be upward on the whole interest rate structure.

Looking Forward on Sugar

(Continued from page 4)

plying the United States, on the one hand, and certain groups of industrial users of this country on the other, as to whether the Washington Administration should make, in the immediate future, a further cut in the 1948 sugar quota because of the abnormally low distribution since the first of this year. On a percentage basis, it is the lowest in over two decades.

The industrial users naturally want supplies liberal enough to guard against any contingencies, and supplies sufficiently large to bring about a reasonably low price level. The producers, also naturally enough, for their part, want just the opposite—a smaller quota and higher prices.

Obviously, the supply situation will have its bearing on the price picture in 1948. In the next few minutes let us look at the price prospects against the backdrop of the supply picture which has just been portrayed.

The Sugar Price Picture for 1948

It is no secret to any one of us here that we have been in a steadily declining market in sugar in this country since the beginning of the year. Sugar has been feeling the full force and effect in recent months, from a price standpoint, of the top-heavy supply situation and the hoarding spree which the housewives and some industrial users of this country indulged in commencing with the early part of last June and ending in late November. Since Jan. 19, 1948, the price for a hundred pound bag of standard cane refiners' sugar has dropped in the New England, Middle Atlantic and Pacific Coast states 90 points, from \$8.40 to \$7.50, and in the balance of the country a full 100 points to \$7.40, all less the customary 2% cash discount. Beet sugar prices have declined even farther. Even with these declines, the price structure is still in a somewhat shaky condition.

If history repeats, after World War II, the pattern of commodity price trends which prevailed after all previous wars in which the United States has engaged, going back to the Revolution, there will be a general decline sooner or later in the prices of virtually everything from the war and postwar peaks. Just how far these declines will go is a moot question, but many economists of national repute feel that prices will level out finally at an average of some 50 or 60% above the price level which existed in January, 1941. At that time sugar was selling at \$4.40 per 100 pounds in most of the country, and slightly lower in the South.

If we assume that sugar, along with other commodities, will finally be stabilized pricewise around 50 to 60% over the January, 1941 price, you may see the price level flatten out ultimately somewhere between \$6.60 and \$7.00 per 100 pounds, possibly a little lower, if we allow for the swing of the pendulum somewhat farther than estimated. However, it may well take longer than the span of the remaining seven months of 1948 to bring this about.

Reverting to the fact that the United States Government has been given a mandate, under the Sugar Act of 1948, to dominate the sugar market (and this mandate includes price, as well as supply, through the Secretary of Agriculture's authority to regulate consumption quotas) it is entirely possible that the governmental agencies concerned with sugar will take action, one way or another, in the not too distant future, to stem, so far as possible, the price decline which has taken place in sugar values since the beginning of the year.

Many feel that the powers-that-be at Washington, in order to bring this about, may slash the 1948 consumption quota from 7,500,000 tons to 7,300,000 tons, or even as low as 7,000,000 tons. The latter figure would be cutting the quota pretty low, inasmuch as in 1940, the last normal prewar year, we consumed 6,890,000 tons, and since that time we have had a population increase of approximately 10%.

However, in view of the heavy supplies of sugar available for the United States, there is a grave question in the minds of many well-posted sugar observers as to whether even a deep slash in the quota will have more than a temporary psychological effect on the price structure from the standpoint of bringing a permanent halt to the current decline. After all, any quota loses some of its significance for the long pull, if there is an adequate supply of sugar in reserve.

Conclusion

When it comes to the matter of considering both the sugar supply and sugar price pictures as a combined unit, the Secretary of Agriculture, under existing legislation, carries tremendous responsibilities in fulfilling the intent of the Sugar Act of 1948. Poor man! The twelve labors of Hercules were as nothing compared with the labors he must put forth to comply rigidly with the provisions of the Act and its complexities. Just as an example, the Secretary in setting the sugar consumption quota for each year, or any changes in the quota, must, in addition to many other duties under the Act, take the following into consideration:

(1) The amount of sugar that was actually distributed for consumption in the country during the 12 months, ending October 31st, immediately preceding the year for which the new figure is being set;

(2) Deficiencies or surpluses in inventories;

(3) Changes in consumption because of changes in population and demand conditions;

(4) —and this is still a consideration which he must take into account—a consumption figure that will be sufficient to protect the welfare of the consumers and of those engaged in the domestic sugar industry by providing such supply of sugar as will be consumed at prices which will not be excessive to consumers and which will fairly and equitably protect the welfare of those engaged in the domestic sugar industry. In short, the Secretary must, by divination almost, determine an "ideal" consumption figure which will bring an "ideal" price level for everybody;

(5) In addition to all the foregoing, the Act requires that the Secretary take into consideration the relationship between prices for refined sugar that will result from his quota determination and the general cost of living in the United States, as compared with such relationship for prices of refined sugar and the general cost of living in the United States during 1947, prior to the termination of price control—in other words, the first ten months of 1947. The cost of living figure is to be that established by the Bureau of Labor Statistics of the Department of Labor.

Now if the Secretary had carried out to the letter the provision last described, he should have established a quota for 1948 which would have resulted in a refined cane sugar price at the refinery today of around \$8.80 per 100 pounds as against the current price of \$7.50 to \$7.40 per 100 pounds.

Although the Sugar Act of 1948 sets forth in profuse detail just how sugar is to be regulated in this country for the next five years, you can see from the foregoing that it would take the Archangel Gabriel himself to carry out to the letter all of the manifold duties and responsibilities which have been thrust upon the Secretary of Agriculture through the wording of the Act.

Meanwhile, regardless of what moves the government and the Secretary of Agriculture may make under the Sugar Act, it remains probable that the average refined sugar prices, cane and beet, for the balance of this year will be substantially lower than those which prevailed at the beginning of the year and that supplies will be more than adequate throughout the same period, so far as we can see ahead at the present time.

Britain's Crisis At The Outset of Marshall Aid

(Continued from page 6)

three-year average 1935-1938, in the same quarter. The production of coal is averaging over 4 million tons a week—it could still be considerably increased—and steel production in April was at a new high record, an annual rate of 15,283,000 tons.

Exports in the first quarter of this year reached a level of 126 of the 1938 rate and the target for the end of this year is 154% and 125% for the first half of 1948. The rate, therefore, for the first quarter is slightly above the monthly program rate. As far as possible exports are channeled to hard currency markets and to South Africa, which is a source of gold for Britain. The volume of unrequited exports, goods exported without an immediate return, is limited to an amount commensurate with present resources. The generous scale of repayment in the last 16 months cannot and will not be continued. It cannot be an act of wisdom to export goods as unrequited exports or as new investment in colonial development in the hope of a deferred return in any great degree at the present time. The government, however, is pushing ahead with the development of new sources of food and raw materials as in the case of the ground nut scheme in East Africa, grain production and pig farming in Queensland and poultry farming in Eire. Arrangements have also been made with Denmark and Holland by which we can export products which they particularly require and get in return larger supplies of food. Complementary to export policy is an import policy based on three principles—to buy as little as we possibly can from countries to whom we must pay either gold or dollars and to build up alternative sources of imports in non-dollar countries; to buy only the minimum of food to maintain health; and to buy the minimum of raw materials to enable industrial production to be maintained at a high level. Two facts illustrate the decided emphasis on exports. In the first place the numbers engaged on manufacture for export—1,893,000 as compared with 410,000 in mid-1945 and 990,000 in mid-1939. Secondly, after World War II, the volume of exports is 25% above the prewar year 1938; after World War I the volume was only 71 in 1920 and 50 in 1921 (1913=100). These figures strike the eye.

Export Targets Per Se Insufficient

The adoption of a policy of export expansion as a prime object of government policy requires further comment. Is the fixing of export targets alone sufficient? In the Washington loan discussions in the fall of 1945 an overall export target of 175% of the volume in 1938 was fixed. In the early part of 1947 the government set a target for the end of the year of 140%. Owing to the upset caused by the fuel shortage in February, 1947 the expansion of exports slowed down and the volume of exports rose to only 117% of 1938 by the fourth quarter of 1947. The targets of 1945 and early 1947 were determined by the balance of payments position and not by a detailed survey of the possibilities of industrial achievement. It was not until September, 1947 that for the first time targets were arrived at on a more realistic basis. Targets were fixed for individual export groups and individual industries. When this was done the 140% target was postponed to mid-1948 and the end-1948 objective was set at 160%. It has been necessary to revise these projections which were, be it noted, expressly stated to be provisional, and they have been discussed in detail with industry in the light of the availability of raw materials, notably steel, and the import restrictions in foreign markets. In March, the overall target for exports was lowered from 160 to 150% and in April reductions were made in the exports of the main steel-using industries, especially machinery and vehicles, and balanced as far as possible by increases in textile exports. The targets are calculated "as a rate of exports at a moment of time—the end of 1948" according to the Economic Survey for 1948. During the first quarter of 1948 a rate of 126% of 1938 was reached, as we have seen, but can it reach a target of 154% for the end of the year? Progress has so far been chequered. The volume of exports for the first half of 1948 was 125% and for the second half 136% has been fixed. Against these forecasts the actual monthly rate of exports during the first quarter is much more favorable. The second half will be the real testing period. Export targets can be unreal unless very carefully framed with regard to production, the reequipment of industry in view of long-term competition in world markets, and similar factors. The high taxation, for example, of profits impedes incentive as well as reequipment and it is wry satisfaction at the present time to see large exports of machinery. It is folly to starve our industries of reequipment which is essential to the survival of exports when the full blast of competition again occurs.

Declining Export Proportions

My last point is—will it be possible to raise the proportion of exported net output to total net output? We can never again expect to export so large a proportion of production as we did in the golden age of British economic and financial leadership, the quarter of a century which preceded the outbreak of World War I, when our main industries (which offered the best wages and gave the surest profits and at the same time commanded most political influence) were the industries most engaged in exports, such as textiles, coal, engineering and shipbuilding. It was the period, too, when this country depended on cheap imports of food, as we were outstanding among the great countries of the world in the neglect of agriculture. The proportion of industrial production exported was 33% in 1907; 40% in 1912; 27% in 1924; 22% in 1930; 17% in 1935 and 15% in 1938. Calculations made for 1946 and 1948 suggest 12½%, the expansion of exports being the same as the expansion of production. My own view is that it is doubtful if the target for end-1948 can be reached, and manufacturing output could scarcely increase by more than 5% above the current level by the end of the year because of the limitations of the supply of imported raw material and steel. The higher export targets, therefore, if achieved, must mean a higher proportion of output which should at the outside not be more than 15%. If Britain is to maintain her present standard of living, exports will have to be a greater proportion of production than this. As things are it is unlikely that, as there is no possibility of a dramatic increase in total manufacturing output over the next four or five years, our export trade can be increased except by a higher proportion of exports to production, at the very most of 20%. We must realize that World War I brought about a fundamental change in economic development. Countries protected their own industries and fiscal changes led to the overthrow of the gold standard and free trade. World War II has witnessed the continuous shift from external markets to the home market. Industries in future will depend on the home market and exports will contribute a relatively small surplus over domestic consumption. There is no longer room in the world economy of today for a country such as Britain was before 1914, existing on world trade and finance. We have to aim at maintaining a national economy in which there will be full employment, a stable and prosperous economy, coupled with a constructive investment and trade policy abroad. Willard Thorp, the United States Under-Secretary of State for Economic Affairs, has recently emphasized another point. He has told Americans that the way to put other countries on their feet is to buy their goods. Last year over a third of the world's trade flowed outwards from the United States and cuts in American tariffs agreed at Geneva last year are another step of many that will have to be undertaken before the European Recovery Plan is completed.

Brand, Grumet & Tenser To Be Formed June 3

Harry W. Tenser on June 3 will become a partner in Brand, Grumet & Co., 55 Broadway, New York City, members of the New York Stock Exchange, and the firm's name will be changed to Brand, Grumet & Tenser. Mr. Tenser in the past conducted his own investment business in New York.

Women's Bond Club of New York Elects

The following officers were elected at the annual meeting of the Women's Bond Club of New York: President, Miss Isabel H. Benham, R. W. Pressprich & Co.; Vice-President, Miss Dorothy R. Funck, Assistant Vice-President of Irving Trust Company; Secretary-Treasurer, Miss Ruth E. Clayton, Clayton & Wheaton. Newly elected to the Executive Board were Miss Frances B. Rand, American European Securities, and Miss Lucile Tomlinson, investment company consultant. Continuing as members of the board are Miss Jane Baldwin, Irving Trust Company, and Miss Ruth Hoffman, Gamwell & Co.

Hartley Associated With R. H. Johnson Co.

PHILADELPHIA, PA.—R. H. Johnson & Co., 1528 Walnut St., announce that Edmund K. Hartley has joined the firm.

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 30	96.8	95.4	86.6	95.4
Equivalent to—					
Steel ingots and castings produced (net tons)	May 30	1,744,800	1,719,600	1,560,900	1,669,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	May 15	5,422,600	5,412,750	5,390,650	5,008,050
Crude runs to stills—daily average (bbls.)	May 15	5,640,000	5,602,000	5,521,000	4,902,000
Gasoline output (bbls.)	May 15	17,141,000	16,963,000	16,588,000	14,833,000
Kerosine output (bbls.)	May 15	2,253,000	2,144,000	2,390,000	2,220,000
Gas oil and distillate fuel oil output (bbls.)	May 15	6,800,000	7,126,000	7,091,000	5,740,000
Residual fuel oil output (bbls.)	May 15	9,002,000	9,242,000	8,755,000	8,271,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	May 15	108,385,000	109,313,000	110,838,000	99,041,000
Kerosine (bbls.) at	May 15	14,065,000	13,572,000	12,015,000	10,837,000
Gas oil and distillate fuel oil (bbls.) at	May 15	36,267,000	35,117,000	33,985,000	32,109,000
Residual fuel oil (bbls.) at	May 15	52,930,000	51,868,000	49,110,000	44,447,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	May 15	847,403	880,617	785,668	888,208
Revenue freight rec'd from connections (number of cars)	May 15	693,864	*726,086	602,165	702,465
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS-RECORD:					
Total U. S. construction	May 20	$82,728,000	$149,236,000	$136,743,000	$113,164,000
Private construction	May 20	17,747,000	81,067,000	71,656,000	54,617,000
Public construction	May 20	64,981,000	68,169,000	65,087,000	58,547,000
State and municipal	May 20	55,015,000	56,640,000	55,751,000	29,891,000
Federal	May 20	9,966,000	11,529,000	9,336,000	28,656,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	May 15	13,235,000	*12,735,000	7,730,000	12,856,000
Pennsylvania anthracite (tons)	May 15	1,206,000	1,132,000	1,054,000	1,074,000
Beehive coke (tons)	May 15	138,300	*134,600	32,300	138,700
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	May 15	293	330	294	273
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	May 22	5,085,412	5,108,673	5,027,280	4,662,858
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	May 20	92	100	100	102
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	May 18	3.24473c	*3.24473c	3.27585c	2.85664c
Pig iron (per gross ton)	May 18	$40.53	*$40.20	$40.11	$33.15
Scrap steel (per gross ton)	May 18	$40.66	$40.66	$40.33	$29.50
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	May 19	21.200c	21.200c	21.200c	22.625c
Export refinery at	May 19	21.525c	21.675c	21.425c	23.675c
Straits tin (New York) at	May 19	94.000c	94.000c	94.000c	80.000c
Lead (New York) at	May 19	17.500c	17.500c	17.500c	15.000c
Lead (St. Louis) at	May 19	17.300c	17.300c	17.300c	14.800c
Zinc (East St. Louis) at	May 19	12.000c	12.000c	12.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	May 25	101.53	101.29	100.87	104.50
Average corporate	May 25	113.12	112.93	112.37	117.00
Aaa	May 25	118.00	117.80	117.40	112.50
Aa	May 25	116.02	116.02	115.63	120.22
A	May 25	112.37	112.19	111.81	116.22
Baa	May 25	106.74	106.56	105.00	109.60
Railroad Group	May 25	108.70	108.34	107.09	111.62
Public Utilities Group	May 25	114.08	114.08	113.89	118.60
Industrials Group	May 25	116.80	116.80	116.22	120.84
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	May 25	2.39	2.41	2.44	2.20
Average corporate	May 25	3.00	3.01	3.04	2.80
Aaa	May 25	2.75	2.76	2.78	2.53
Aa	May 25	2.85	2.85	2.87	2.64
A	May 25	3.04	3.05	3.07	2.84
Baa	May 25	3.35	3.36	3.45	3.19
Railroad Group	May 25	3.24	3.26	3.33	3.08
Public Utilities Group	May 25	2.95	2.95	2.96	2.72
Industrials Group	May 25	2.81	2.81	2.84	2.61
MOODY'S COMMODITY INDEX	May 25	425.6	420.9	416.2	397.2
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	May 22	237.7	238.3	237.0	212.2
Fats and oils	May 22	301.8	299.4	283.3	205.9
Farm products	May 22	266.1	258.5	257.0	243.8
Cotton	May 22	361.5	360.2	365.1	342.1
Grains	May 22	265.2	269.8	267.6	256.6
Livestock	May 22	256.2	242.7	240.0	227.0
Fuels	May 22	228.6	228.6	228.6	170.4
Miscellaneous commodities	May 22	177.1	176.6	176.1	161.8
Textiles	May 22	215.2	215.0	215.8	215.3
Metals	May 22	165.2	164.2	164.9	149.3
Building materials	May 22	232.8	232.2	227.3	189.7
Chemicals and drugs	May 22	158.6	155.6	155.4	157.4
Fertilizer materials	May 22	136.1	136.1	136.4	127.5
Fertilizers	May 22	143.8	143.8	143.7	134.6
Farm machinery	May 22	139.2	139.2	138.8	125.3
All groups combined	May 22	223.3	221.4	220.4	195.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	May 15	155,789	213,822	160,524	153,869
Production (tons)	May 15	188,745	191,787	186,438	179,155
Percentage of activity	May 15	100	101	100	102
Unfilled orders (tons) at	May 15	385,907	418,994	403,008	532,231
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	May 21	146.8	146.6	146.5	147.2
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	May 15	163.5	161.9	162.9	147.0
Farm products	May 15	187.9	184.0	189.2	176.9
Foods	May 15	178.9	174.8	178.8	161.1
Hides and leather products	May 15	189.0	188.2	187.2	166.4
Textile products	May 15	148.1	148.2	145.9	138.5
Fuel and lighting materials	May 15	133.4	133.0	131.9	104.1
Metal and metal products	May 15	156.5	156.8	157.1	141.8
Building materials	May 15	195.9	195.9	194.9	177.4
Chemicals and allied products	May 15	134.4	133.4	136.8	125.9
Housefurnishings goods	May 15	144.7	144.6	144.7	129.4
Miscellaneous commodities	May 15	121.2	121.3	121.5	115.9
Special groups—					
Raw materials	May 15	177.7	175.1	178.0	160.2
Semi-manufactured articles	May 15	152.5	153.3	153.6	143.2
Manufactured products	May 15	159.0	157.6	157.8	142.2
All commodities other than farm products	May 15	158.0	156.9	157.1	140.5
All commodities other than farm products and foods	May 15	149.0	148.9	148.3	132.1

*Revised figure.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES)			
Production of primary aluminum in the U. S. (in short tons)—Month of March	51,874	45,699	53,032
Stocks of aluminum—short tons (end of Mar.)	8,423	9,354	Not avail.
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FED. RESERVE BANK OF NEW YORK — As of April 30			
Imports	$143,159,000	$150,959,000	$139,828,000
Exports	54,065,000	48,328,000	42,035,000
Domestic shipments	10,121,000	12,261,000	12,191,000
Domestic warehouse credits	8,833,000	10,547,000	13,259,000
Dollar exchange	3,798,000	1,639,000	101,000
Based on goods stored and shipped between foreign countries	22,081,000	17,461,000	7,686,000
Total	$242,057,000	$241,195,000	$215,100,000
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of April (in millions):			
New construction	$1,269	*$1,166	$928
Private construction	990	*941	713
Residential building (nonfarm)	500	*475	310
Nonresidential building (nonfarm)	263	*267	238
Industrial	115	*120	142
Commercial	88	*89	53
All other	60	*58	43
Farm construction	37	23	30
Public utilities	190	*176	135
Public construction	279	*225	215
Residential building	7	*5	16
Nonresidential building (except military naval facilities)	74	*65	40
Industrial	1	1	4
All other	73	*64	36
Military and naval facilities	19	*16	15
Highways	80	*52	76
Sewer and water	38	33	26
Conservation and development	39	35	25
All other public	22	*19	17
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC. — 215 CITIES Month of April:			
New England	$18,839,410	$13,632,673	$14,267,213
Middle Atlantic	64,982,146	69,345,082	44,459,264
South Atlantic	45,750,375	25,099,432	24,860,503
East Central	72,955,559	58,152,603	51,948,412
South Central	49,051,107	62,828,452	31,032,491
West Central	22,797,913	17,895,915	13,739,977
Mountain	11,303,521	9,221,686	5,217,573
Pacific	78,773,714	80,910,187	42,647,149
Total United States	$364,453,745	$337,086,030	$228,172,582
New York City	34,559,626	40,756,373	22,659,071
Outside of New York City	329,894,119	296,329,657	205,513,511
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK— As of April 30	$275,000,000	$311,000,000	$256,000,000
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. 1935-39 AVERAGE =100—Month of April:			
Sales (average monthly), unadjusted	242	248	228
Sales (average daily), unadjusted	237	234	223
Sales (average daily), seasonally adjusted	255	229	235
Stocks, unadjusted as of April 30	251	254	232
Stocks seasonally adjusted as of April 30	249	255	230
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—Month of March:			
All manufacturing	12,829,000	*12,756,000	12,614,000
Durable goods	6,614,000	*6,524,000	6,532,000
Non-durable goods	6,215,000	*6,232,000	6,082,000
Employment indexes—			
All manufacturing	156.6	*155.7	154.0
Durable goods	183.2	*180.7	180.9
Non-durable goods	135.7	136.0	132.8
Payroll indexes—			
All manufacturing	348.9	*344.7	314.1
Durable goods	389.5	*380.7	349.9
Non-durable goods	309.1	*309.6	279.2
Estimated number of employees in manufacturing industries—			
All manufacturing	15,875,000	*15,785,000	15,510,000
Durable goods	7,829,000	*7,846,000	7,840,000
Non-durable goods	1,396,000	*1,390,000	1,376,000
GRAY IRON CASTINGS (DEPT. OF COMMERCE)—Month of March:			
Shipments (short tons)	1,169,085	1,024,450	1,089,828
For sale (short tons)	659,821	571,406	633,844
For producers' own use (short tons)	509,264	453,044	455,984
Unfilled orders for sale at end of month (short tons)	2,726,415	2,769,408	2,979,326
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of March			
Shipments (in pounds)	460,000	413,000	538,000
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE)—Month of March:			
Shipments (short tons)	86,767	75,194	76,602
For sale (short tons)	50,017	42,582	43,488
For producers' own use (short tons)	36,750	32,612	33,114
Orders booked, less cancellation for sale (short tons)	43,921	46,270	50,194
Unfilled orders, end of month, for sale (short tons)	203,351	209,447	280,724
NEW YORK STOCK EXCHANGE— As of April 30 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$572,335	$549,973	$552,533
Credit extended to customers	66,192	61,664	61,922
Cash on hand and in banks in U. S.	382,998	375,741	416,700
Total of customers' free credit balances	614,000	591,930	664,915
Market value of listed shares	70,261,691	67,756,696	64,520,000
Market value of listed bonds	134,546,325	134,166,852	140,833,000
Stock price index, 12-21-24=100	-----	75.5%	75.7%
Member borrowings on U. S. Govt. issues	$95,176	$68,502	$81,000
Member borrowings on other collateral	215,383	203,814	196,000
NON-FERROUS CASTINGS (DEPT. OF COMMERCE)—Shipments, Month of March:			
Aluminum (thousands of pounds)	41,794	37,963	42,266
Copper (thousands of pounds)	96,344	87,169	94,530
Magnesium (thousands of pounds)	704	655	717
Zinc (thousands of pounds)	41,521	37,682	41,343
Lead die (thousands of pounds)	1,482	1,079	1,234
PORTLAND CEMENT (BUREAU OF MINES)— Month of March:			
Production (bbls.)	14,502,000	13,347,000	14,205,000
Shipments from mills (bbls.)	13,957,000	8,338,000	12,133,000
Stocks (at end of month) (bbls.)	20,885,000	*20,340,000	22,178,000
Capacity used	71%	70%	71%
TRUCK TRAILERS (DEPT. OF COMMERCE)—Month of March:			
Production (number of units)	4,221	*3,671	5,910
Shipments (number of units)	4,701	*4,004	6,744
Shipments (value in dollars)	$13,352,654	*$11,358,450	$15,861,787

*Revised figure.

Department Store Sales Up But Profit Margins Down

(Continued from page 4)

goods to an extent that would explain a smaller advance in the average sale than in the price level.

The sharpest rise of any of the five factors enumerated was registered in the total expense per transaction, up 17% over 1946. When the number of transactions turn downward and when the rise in cost per transaction outstrips the advance in the average size of transaction by so wide a margin, it requires no forecasting skill to predict the effect that these trends will have on the general health and well-being of the department store business if they continue unabated.

Gross Margin

The typical gross margin rate dropped from 35.9% in 1946 to 35.3% in 1947. Although this was a substantially smaller decline than was registered in the preceding year, it is to be remarked that, from the high point of 38.7% reached in 1942, gross margin has now slipped back by 3.4% of sales, almost the equivalent of the final net earnings figure in many recent years.

In all but one volume classification for which figures were available, the initial markon percentage advanced slightly in 1947, the weighted average increase being close to ½% of retail. Markdowns, on the other hand, were consistently higher, typically by about ¾% of sales. The net effect of the two opposite tendencies on gross margin was adverse, but not so much so as in 1946, when both the initial markon and the markdown factors pulled adversely.

Cash discounts on purchases, the subject of heated controversy in 1946 and 1947, dropped from 2.9% of sales in 1946 to 2.7% of sales in 1947, on a weighted average basis. Presumably pressure from manufacturers brought about this result. Although the highest figure, 2.9%, appeared for the top volume group, and the lowest figure, 2.4%, for the bottom volume group, their differences was not great enough to indicate that large stores enjoy any special advantages in the form of higher cash discounts.

Stock-Turn

The rapidity of stock turnover diminished moderately in 1947, with a decrease in the weighted average from 5.25 times to 4.85 times, based on 12 monthly inventories. The slowing up of the stock-turn rate in 1947 was apparently common to all volume categories.

Earnings and Federal Taxes

Net profit, in the narrow sense, (i.e., the pure merchandise operating profit over and above a total expense figure including an imputed interest charge) fell off by more than 2½% of sales in 1947, from 7.8% to 5.2%. Thus three years of decline in this ratio have carried it down to a point less than half as high as the wartime peak figure of 10.5% in 1944.

Net other income (including the credit for imputed interest) increased somewhat in 1947. Thus, net gain before Federal taxes on income (i.e., the ordinary business profit before taxes) diminished by not quite 2½% of sales, dropping from 9.6% to 7.2%, a decline to the extent of more than 5% of sales from the 1944 peak. In dollars of profit before taxes, the decline was approximately 20% from the peak reached in the preceding year, 1946.

With these lower dollar earnings, Federal taxes typically required only 2.7% of sales as against 3.7% in 1946, and against the peak figure of 8.7% in 1944. This was the smallest percentage of sales required to cover Federal taxes in any year since 1940.

Final net gain after taxes receded to 4.5% of sales from the record figure of 5.9% in 1946. With Federal tax rates on corporate incomes essentially unchanged, final dollar earnings ran parallel to net gain before taxes, with an estimated total decline of 20% over the previous year. Even after this notable drop, the 1947 result was still more than 3½ times as great as the typical dollar figure for 1939.

With respect to profits as a percentage of sales, small and moderately large department stores fared better than the very large establishments. Above the $10,000,000 mark, net gain before taxes typically was 6.8% and 6.9%, as against figures ranging from 8.1% to 9.6% for the several groups of stores below that volume. The final net earnings after taxes showed less variation, but the figure of 4.3% which appeared for all three of the top volume groups was the lowest common figure recorded.

In terms of cents per transaction, net gain before taxes dropped from 33 cents to 28 cents. Since Federal taxes dropped from 12.5 cents to 10.5 cents, the final earnings represented 17.5 cents out of each sales transaction in comparison with the 1946 figure of 20.5 cents. Figures for both 1945 and 1946, however, were very substantially above the 1939 figure of 6.5 cents. All these figures are for large department stores only.

Sharp Jump in Total Expense

In the preceding year, 1946, dangerous expense tendencies were to a large extent concealed by the very substantial increase in dollar sales volume. With a much smaller sales increase in 1947, these tendencies came into the open; and the total cost of doing business jumped by 2% of sales. As already remarked, this is the most significant development in the 1947 department store situation. It is characteristic of inflationary forces that they always work unevenly, and in the department store business such forces are now affecting expenses far more strongly than they are sales.

Perhaps the next most significant fact about the 1947 expense picture is that, in sharp contrast to 1946, payroll expense alone was no longer predominantly responsible for the increased dollars of expense outlay. The sum total of all the nonpayroll items amounted to more than half the rise in the cost of doing business between the two years. A third significant fact, however, is that the rise in payroll to the extent of nearly 1% of sales was one of the sharpest advances recorded for any single year for this series of studies.

The total payroll percentage moved up smartly from 15.9% in 1946 to 16.85% in 1947; real estate costs were only slightly higher at 2.2%; but advertising, at 2.45%, registered an increase to approximately the 1943 level; and the sum total of all the other natural divisions went up from 7.8% to 8.6% of sales. Expense divisions which contributed prominently to this higher percentage total were interest, supplies, and service purchased; traveling was the only natural division in 1947 to display a tendency to decrease percentagewise.

Total dollars of expense outlay for 328 identical firms ran 12.6% ahead for the year. For these same firms, payroll dollars climbed 11.2%, while all other expense dollars mounted 14.4%. No longer can the rising cost of doing business be ascribed to payroll advances alone.

Probably the most significant measure of expense increase in 1947 was the dollar cost per transaction, which for department stores with sales of $2,000,000 or more rose from $1.01 to $1.18, an advance as great as that recorded in 1946.

The normal pattern of low expense rates in small stores and higher expense rates in large stores, was maintained in 1947 with a range in common figures from 22% of sales in the under $250,000 group to 30.8% in the $20,000,000 to $50,000,000 group. For 1947, reporting firms fell into three reasonably distinct groupings; stores with sales under $500,000, having expense rates of 22% or 23%; stores with sales of $1,000,000 to $10,000,000, having expense rates in the vicinity of 28%; and stores with sales over $10,000,000, having expense rates of 30% to nearly 31%.

Other Conclusions for Department Stores

The dollar compensation of individual executives was more than 10 times as great in the largest reporting stores as it was in the very small stores, and there were, of course, more executives in large stores than in small stores. In percentage of sales volume, however, almost exactly the opposite comparison appeared: the smallest stores typically required over six times as great a percentage of sales to cover executive remuneration as did the largest stores providing this information.

There was apparently a very slight rise in the average per capital sales output, that is, the dollar net sales divided by the average total number of employees. This slight rise was entirely a consequence of higher prices, since there was no clear evidence of any increase in the number of transactions per capita. The typical number of transactions per man-hour apparently was in the vicinity of 1.6, with a typical sales value per man-hour ranging from $5.40 to $5.90.

Indexes of man-hour productivity, in terms of sales transactions, prepared for 13 identical large firms over the period since 1939, failed to reveal a consistent increase in productivity. Although productivity climbed during the war years, the 1946 and 1947 indexes fell well below the 1945 peak.

Sales per square foot of total space ranged slightly higher than in 1946, again because of higher prices, since there was no evidence of an increase in transactions per square foot.

Real estate costs per square foot of total space appear to have advanced slightly in 1947 for the majority of volume groups.

As in previous years, size of city was a more potent cause of variations in expense ratios than was volume of sales, and it continued to be true that among the moderate-size and large stores the lowest expense rates and the best profits were characteristically found in the smaller cities.

The rise in the proportion of credit sales to total sales was accompanied by a slowing up in the turnover of accounts receivable with the result that a higher imputed interest cost was incurred for the working capital needed to carry this credit business. Nevertheless, the ratio of accounts receivable outstanding to net credit sales was still substantially below its prewar level.

For 76 department stores with sales of $10,000,000 or more, current assets assumed a less liquid character on Jan. 31, 1948, than they had exhibited a year earlier, with a decrease in the ratio of cash and government securities to total current assets from 22% to 18%. At the year-end net working capital was 20% of net sales, a slight increase over the opening figure. In view of the fact that prewar norms have not yet been reached with respect to any one of the three factors—rate of stock-turn, ratio of credit sales to total sales, and ratio of overage accounts receivable to total credit sales—there is a strong presumption that working capital in relation to sales volume will have to increase still further.

Specialty Stores

The Bureau received reports from 97 firms operating 155 specialty stores in 1947. Specialty stores characteristically concentrate in the sale of women's wearing apparel and ready-to-wear accessories, and as a rule, carry neither yard goods nor home furnishings. The wide range in the size of specialty stores, the somewhat greater individuality, the frequent location of small stores in large cities, and the small number of reports available make it difficult to develop reliable common figures by volume groups.

With this limitation in mind, the principal conclusions with respect to specialty stores in 1947 may be summarized as follows:

In 1947, specialty stores as a group barely equalled their dollar sales volume for the preceding year and apparently suffered a decline in the number of transactions amounting to as much as 10% in the largest stores. Three factors contributed to this development: (1) consumer resistance to high apparel prices; (2) sluggish acceptance of radically new fashions, and (3) reaction from the unusually high volume of soft goods business during the war years when other merchandise was not available.

Gross margin, always typicallly higher for specialty stores than for department stores, registered a drop in 1947 similar to that in the department store figure. Total expense in specialty stores likewise scored a substantial increase, amounting to 1.9% of sales based on aggregate results for 75 identical firms. Thus the specialty store expense rate continued to exceed that of department stores by approximately 2% of sales, the difference residing principally in higher real estate costs and higher advertising outlays. The expense advantage of department stores, however, was much more marked in the lower than in the higher volume ranges.

As in the case of small department stores, small specialty stores reported lower total expense rates and gross margins in 1947 than did the larger stores. Since the differences in total expense were greater than the difference in gross margins, higher percentage earnings were reported by the smaller stores in both classifications.

In relation to sales specialty store earnings before taxes were down for the third consecutive year. Again the change from 1946 in the earnings rate corresponded to the results experienced by the department stores. Because of the lag in sales volume, however, dollar earnings of specialty stores were cut more severely than were those of department stores. Although drastically reduced from the extreme levels of 1943-1945, the specialty store earnings rate, before taxes, of approximately 6½% of net sales was still double the prewar normal.

Approaches to the Expense Problem

The expense problem is the one uppermost in the minds of most department store executives today. The substantial advance in dollar expense outlays, the jump in the expense percentages in 1947, and the growing rigidity of various types of expense, notably payroll, are making many department store operators apprehensive about high break-even points. Some reflections possibly are in order, therefore, with respect to ways in which the expense problem can be approached.

In the first place, since wage advances, together with changes in the working hours, are clearly one of the most significant causes of rising expense ratios, the function of negotiation assumes greater importance than ever before. Department stores need to have thoroughly qualified executives well schooled in this particular task. But in the long run, even more important than negotiation is a program of increasing the productivity of personnel — that is, obtaining greater output per man-hour. This is an objective which needs to be approached by more than one avenue. Improvements in the design and operation of plant, equipment, and systems are a prime necessity in order to convert store plants into more efficient "machines" for selling; and here opens up a wide field for the application of engineering and production techniques. Surely there cannot be permitted a complete failure of parallelism between manufacturing establishments and distributing establishments with respect to the part played by plant, equipment, and system in producing higher output per worker. But this alone is not enough. It is equally important to tackle the productivity problem from the angle of personnel selection and training and employee relations and morale. No matter what developments are accomplished in plant, equipment, and system, it is not possible to achieve the best productivity unless people themselves, right from the grass roots up, are interested in accomplishing more and doing things better. That is why, in a number of stores today, encouraging progress is being made with the so-called "work simplification" program.

All this requires more attention to the personnel side of the department store job, and it probably requires, initially at least greater expenditures on personnel work. In fact, most of the suggestions that may be advanced for coping with those expense problems that stem initially from wage increases probably involve at the outset the expenditure of more money. It will be necessary to take a long-run point of view and spend more now on engineering, designing, and personnel management in order to have substantial savings later.

In the second place, rising operating costs flow to a considerable degree from price and rate advances covering such things as supplies, fuel, transportation and services. To cope with such increases there is need for a more effective purchasing function in department stores. Since the procurement of supplies and services consumed in operations has always been so greatly overshadowed by the job of purchasing goods for resale, there are grounds for surmising that department store purchasing agents and purchasing systems are not generally on a par with those of manufacturing concerns.

In the third place, all the jobs that are done or the tasks and functions that are performed in a department store cost money. It is incumbent on top management, particularly at the present juncture, to scrutinize and weigh carefully all these jobs, tasks and functions. Perhaps a majority and certainly the most important, of the functions performed are for consumers; it is, of course, the performance of these functions that gives a store its reason for existence. But management must be on guard against purely competitive multiplication of consumer services; and it must also give thought to the fact that in some other types of retail distribution from time to time notable advances in efficiency have been scored through reduction in consumer services and even by transfer of some of the retail distribution functions to consumers themselves—as, for instance, in supermarkets. Another group of functions performed in department stores is undertaken on behalf of the employees. In view of the considerations mentioned above in connection with productivity problems, this is perhaps not the time to cut down on services to employees. Top management must, however, carefully weigh the values of all such services against their costs. Then there exists a sizable group of functions undertaken in stores on behalf of management. These are for the most part jobs of gathering facts and information for the use or satisfaction of management, and it is a prime duty of management to devote particular attention to this group of functions to make sure that unnecessary costs are not being incurred merely to satisfy curiosity or a thirst for information without any commensurate benefits to efficiency of operation. But whatever the type of job or function involved, top management must not shirk its responsibility for weighing carefully the necessity of continuing it.

A fourth approach is from the standpoint of expense budgeting and control. Good expense performance is impossible without effective planning, authorizing, checking and follow-up. Organization for these tasks too often fails to be sufficiently clear-cut, especially where relations are involved between the control and operating pyramids of the store organization. Expense-budgeting methods also warrant review. Too few stores are budgeting personnel requirements in terms of transaction output per man-hour, and too few stores are making sufficient application of what many manufacturers have learned about the use of variable expense budget geared to several different prospective levels of activity. Expense-budgeting tools in most department stores are not sharp enough.

Fifth, it goes without saying that to achieve good expense control, a general cost consciousness must pervade the entire organization. In periods of inflationary excitement this objective is difficult to obtain, but that is all the more reason why management must bend particular effort to the creation of such awareness of costs at the present time.

Finally, it is of particular importance for approaching the expense problem that every sizable department store should have one or more executives who can keep their desks sufficiently clear of current operating details to be able to think radically, to strip problems down to basic essentials, to find out what are the significant questions to ask, and to think in a straight line from premises to conclusion.

Foreign Aid on the Economic Horizon

(Continued from page 20)

Wage advances have been paid for, on the whole, by consumers in the form of higher prices. Each hike increases the danger and probability of decline at some future date. Some of this danger would be offset if the productivity per worker increased as wages advanced, but so far labor has refused to be greatly concerned over its own productivity and has taken refuge in the fact that overall productivity has advanced. This is due, in large part, to the increased use of machinery. The higher wages become the greater the incentive and the more important it is for producers to shift from labor to the use of machinery. So far mechanical ingenuity has been of real help—technical progress has been ahead of wage demands, but there are limits. One of them is the general lack of an understanding of many of the principles of elementary economies by those responsible for labor union policies. Long run rather than short run gains need to be considered and certainly both the facts of demand and of production need to be looked into by union leaders.

On labor's side, of course, is the fact that, for the individual, the purchasing power of his dollar has continued to decline. This can be measured in various ways and by several indices. If the purchasing power of the dollar in the years 1935-39 is taken as 100, the index of purchasing power in January 1948 measured by wholesale prices has declined to 48.6; as measured by retail food prices it has declined to 47.7; as measured by consumers prices, or a more general cost of living index, it is 59.2.

The break in farm prices in February 1948 seemed to be a signal as to what is ahead in farm income and production. Prices on the stock market and in some goods in retail stores also declined. The reduction in the supply of livestock on farms and the feed shortage during the past year indicate both reduced marketing of livestock and high meat prices for some time.

The Great Relative Increase in Farm Products

The price of food, moreover, is an important factor in the labor situation. Since 1939 no prices for broad groups of commodities have increased as much as farm products. The wholesale price index of farm products in December, 1947, was 201% over 1939. Wholesale food prices in the same period were up to 153%; hides and leather were up 112%. No other commodities in the Bureau of Labor Wholesale price index had increased as much. The index for all commodities had risen only 111.5%. Among increases in cost of living items, food prices have continued to advance most and to exact the largest toll from consumers, but fortunately during the past year the rate of increase seems to have slowed down somewhat.

The increased mechanization of farm operation requires larger capital than in former years, thus closing farm ownership to many, while at the same time it increases the debts of other classes of farmers. It also makes both groups more vulnerable to the liquidations accompanying depressions. The shortage of farm labor has been one of the factors contributing to the encouragement of mechanization. Increased productivity has been another. Industrial depression will augment the consequences from both. If farms are highly mechanized when industrial depression becomes acute, factory workers may experience more economic difficulty than heretofore (say after 1929), in going back to farms to escape unemployment. Such depression, too, will reduce the market for food stuffs and if farm production with its mechanical tools does not curb its supply of products, agricultural products can, apart from government intervention, be expected to drop precipitately. The ever narrowing margin, as at present, between gross and net farm income stands as a veritable barometer for the prediction of appeals for political intervention for the preservation of the economic position of the farmer. It has operated in that manner in the past. It may be confidently expected that the heat generated by the agricultural block be turned on Congress whenever the present favorable economic position of the American farmer is threatened. No small part of the cause for industrial strife—raising wages to keep up with the cost of food—rests with the pressure groups of American farmers.

A number of forces are at work which may offset some of the inflationary pressure we have been considering. The increased availability of goods with the gradual elimination of production bottlenecks and shortages will take much pressure off of the market for goods. The end of the seller's market will be a favorable sign. We have already mentioned this in connection with radios, refrigerators, and motor cars. Inventories are at their peak and while this improves the ready availability of goods, it also makes firms more vlunerable to the consequence of price and trade declines. If price changes are considered, inventory policies were more conservative in 1947 than in 1946. It is reported also that the liquid assets of business firms have decreased markedly and that many concerns are depending upon banks to carry their inventories and to supply increased amounts of working capital. This condition enhances the opportunity for a "squeeze play" by the bankers as uncertainty as to the future increases. This predicament for the borrowers is a measure of insurance against continued expansion in this field.

Already there has been an increase in business failures. The rate is not serious and has been concentrated in small firms. There has also been a decline in the number of new firms started. Fewer concerns have currently been taking advantage of prompt-payment discounts. Cash sales have been decreasing, trade credits have been rising and slower collections have been experienced on accounts receivable. Consumer buying on the whole has been more cautious than sometime ago. The dollar volume of retail trade continues to rise but it is not clear that the physical volume is also up.

Weakness on Price Front

Even on the price front, signs of weakness have appeared. The break in farm prices in February softened the price of foods, hides, leather, print cloth and some industrial raw materials. These declines reduced the all-commodities price index four points below its mid-January high. Steel companies which earlier announced price advances have advertised recent reductions. The stock market also declined sympathetically. Reductions in wholesale prices of women's shoes for next fall have also been announced. Increased doubts as to the course of economic trends made both business and consumers more cautious early in the year than they seem to be today—but they are still cautious. In fact, the caution of consumers and businesses, whose memories of previous events have not completely dimmed, accounts for the fact that conditions are no worse today than they are. Consumers were expected to speculate and buy more freely than they did. They deserve credit for considerable restraint.

In the monetary field the banks and control authorities have been existing some restraining influences toward expansion. For some time the Federal Reserve authorities have been interested in raising interest rates both on government issues and on other loans.

The Treasury in reducing the public debt from its war-time peak has followed the policy of maximizing payments to commercial and reserve banks, hoping thereby to ease inflationary pressures. The American Bankers Association has also been conducting a voluntary campaign among its members to avoid the extension of inflationary credits. How effective these control measures may be, only time will determine. They are straws in the wind. Also should be mentioned the feeble efforts to meet the problem both by Congress and the Executive branch of government. The simile of straws can be applied to these efforts.

If a balance is struck and the pulls in each direction are guessed at—and understand no precision is attempted—it appears that the prevailing currents are still inflationary. The rate of movement upward seems to have declined somewhat. Business and consumers approach the future with caution. The government seems likely to continue if not to increase current expenditures, so long as Russia applies its intermittent power pressures on the international scene. Relief from high taxes and high prices seem remote. Business recession in this year seems doubtful.

Expanding World Trade—Primary Objective of Our Foreign Policy

(Continued from page 15)

Latin America. The American States agreed, for example, that foreign capital shall receive equitable treatment. They agreed that they would not take unjustified, unreasonable or discriminatory measures which would injure the legally acquired rights or interests of nationals of other countries in the enterprises, skills, capital, arts or technology which they have supplied. They agreed that they would impose no unjustifiable restrictions upon the withdrawal of the earnings on foreign investments or the repatriation of those investments. They agreed to provide just and equitable treatment for all personnel, national and foreign, employed in foreign-owned enterprises and to permit the employment of a reasonable number of technicians and administrative personnel, regardless of nationality.

The American States agreed further that they would individually seek, within the framework of their respective constitutions, to liberalize their tax laws as they apply to income from foreign sources and to avoid discriminatory or unduly burdensome taxation. In this connection, the United States Government is prepared to consider various possible revisions in its tax laws in order to facilitate the flow of international investment capital. The Treasury continues to look with favor toward the negotiation of bilateral tax treaties to reduce international double taxation of incomes. Our government is prepared to discuss such treaties with other government and is hopeful that much progress can be made in such negotiations.

Our Latin American neighbors may be confident that we are sincerely determined to take whatever reasonable and practical measures are within our power in order to promote economic development and rising standards of living in that area. We only ask that they, for their part, also do what is reasonable and practical for the same objective.

I should like to mention one further agreement reached at Bogota, namely, that pertaining to the expropriation of foreign-owned investments. It was generally agreed at Bogota that no American State will deprive foreign enterprises or capital of legally acquired rights or property for reasons, or under conditions different from those which the constitutions and laws of the respective States provide for the expropriation of nationally-owned enterprises or capital. Furthermore, any expropriation must be accompanied by payments to the owners in a prompt, adequate and effective form.

Thus, briefly, we have summarized some of the more significant problems confronting world trade today and we have considered some of the steps necessary to surmount these problems. The conclusion is clear-cut. It is vital to the United States and to the world that international trade be maintained at the highest possible level. It is essential to the economic and political welfare of every country. The prevalence of large export markets make it possible to achieve maximum productive efficiency in many lines of activity in the United States, with high levels of employment and income. The ability to obtain from other countries goods and services which they can produce at relatively low costs or which can supplement goods and services unavailable in the United States will enhance the productive efficiency of our industries and will improve the standards of living of us all.

It has been, and is, the desire of the United States to help deserving countries. But we must emphasize that our resources have a definite limitation. Moreover, we have incurred an enormous debt in helping to prosecute the recent war. We have exhausted a substantial part of some of our natural resources in the defeat of forces of domination and destruction. We are continuing to assume huge obligations in order to promote world economic recovery and to put a stop to aggression, whether direct or indirect. In all these efforts, we know that we are acting in concert with those nations which are making a willing and common contribution to the development, strength and protection of free countries everywhere.

The patterns of growth of those nations must necessarily vary greatly. But the democratic principles which basically guide that growth remain the same. We firmly believe in the essential dignity and freedom of man. And we must be sufficiently practical to subordinate any immediate differences to the preservation of these beliefs. I am convinced that the cooperation which has conspicuously marked our international relations will prove to the world how sensible and how profitable it is for nations to live in an atmosphere of friendship and interdependent well-being.

Justin Jacobs Is With Strauss Bros., Inc.

Justin Jacobs, Certified Public Accountant, is now manager of the

Justin Jacobs

investment research department of Strauss Bros, Inc., 32 Broadway, New York City. Mr. Jacobs formerly syndicated "Highlights of Wall Street" for J. F. Reilly & Co. and the "Wall Street Searchlight" for Luckhurst & Co.

Ditch & Bashford Formed

(Special to THE FINANCIAL CHRONICLE)

MASSILLON, OHIO—Grant F. Ditch and O. D. Bashford have formed the firm of Ditch and Bashford, to engage in a securities business.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● **All-American Drinks Corp., New York**
May 24 (letter of notification) 30,000 shares of common stock (par $1). **Price**—$2.50 each. **Underwriting**—None. Corporate purposes.

● **All-American Drinks Corp., New York**
May 24 (letter of notification) 100,000 shares of common stock (par $1). **Price**—$1.50 **Underwriting**—None. Corporate purposes.

● **Basin Oil Corp., Fort Worth, Texas**
May 17 (letter of notification) 50,000 shares ($2 par) common stock. Price, par. To purchase oil and gas leases in Pecos County, Texas. No underwriting.

● **Bitter Root Corp.**
May 19 (letter of notification) 1,000 shares ($50 par) non-assessable common stock. **Underwriters**—August R. Kurtz and Clarence J. Brown, Hamilton, Mont. To manufacture and distribute Bitter Root spark plugs.

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.

California Electric Power Co. (6/2)
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. **Bids**—Bids for purchase of the bonds will be received at Bankers Trust Co., 16 Wall Street, New York, up to 10:30 a.m. (EDT) June 2.

● **Cannon Shoe Co., Baltimore**
May 21 (letter of notification) 2,373 shares of common stock. **Price**—$9. Sold by William Wallace Lanahan, Baltimore. **Underwriter**—Baker, Watts & Co., Baltimore.

Central Vermont Public Service Corp.
March 30 filed $1,500,000 Series E first mortgage bonds and an undetermined number of common shares (no par). **Underwriters** of common—Coffin & Burr. Bonds to be placed privately. Common stock will be offered to common stockholders through subscription rights and to common and preferred stockholders through subscription privileges. **Proceeds**—For a construction program and repair of flood damages.

● **Cincinnati Gas & Electric Co., Cincinnati**
May 21 filed $15,000,000 first mortgage bonds, due 1978. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; W. C. Langley & Co.; Blyth & Co., Inc. and The First Boston Corp. (jointly); Union Securities Corp.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Glore, Forgan & Co. and White, Weld & Co. (jointly). **Proceeds**—Construction program.

Consolidated Edison Co. of N. Y., Inc. (6/9)
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 are given the right under a firm subscription to subscribe for the stock at rate of one new share for each share held at $9 per share. Rights expire June 14. In addition 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 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.

● **Davis Plywood Corp., Cleveland**
May 19 (letter of notification) 2,000 shares of Class B common stock (no par). **Price**—$60. For working capital and operating expenses. No underwriting.

● **Dayton Consolidated Mines Co., Virginia City, Nevada**
May 14 (letter of notification) $100,000 first lien sinking fund convertible 5% bonds due 1953 and 300,000 common shares reserved for conversion of bonds. **Price**—$1,000 per bond with 1,000 common shares. **Underwriter**—S. K. Cunningham & Co., Pittsburgh. To receive current obligations, working capital, etc.

● **Detroit Harvester Corp.**
May 20 (letter of notification) 22,500 shares of common stock, to be sold to employees at market price (not less than $9). For working capital. No underwriting.

● **Dungeness Oil & Gas Inc., Port Angeles, Wash.**
May 20 (letter of notification) 50,000 shares ($1 par) common stock. Price, par. To acquire additional oil and gas leases.

● **Eastern Cooperatives Inc., New York**
May 18 (letter of notification) 30,000 shares of capital stock (par $5). **Price**—$5. **Underwriting**—None. Working capital.

● **Elder (Paul) & Co., San Francisco**
May 18 (letter of notification) 500 shares 6% cumulative redeemable convertible non-voting prior preference stock ($100 par). Price, par. To remodel new store. No underwriting.

● **Ellenburger Exploration Enterprises, Inc., Fort Worth, Texas**
May 20 (letter of notification) 99,000 shares ($1 par) common stock. Price, par. To drill a test well in Erath County, Texas. No underwriting.

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.

● **Exchange Buffet Corp., New York**
May 19 (letter of notification) 500 shares of capital stock (par $2.50). **Price**—$7. **Underwriter**—Delafield & Delafield, New York. Proceeds to selling stockholder.

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.

● **Gateway Gold & Copper Co., Inc., Boise, Idaho**
May 14 (letter of notification) 500,000 shares (10c par) capital stock. **Price**—20 cents. To develop properties at the Dewey Mines, Valley County, Idaho. No underwriting.

● **Holister Coil Spring Mfg. Co., Los Angeles**
May 20 (letter of notification) 14,225 shares ($1 par) non-assessable common stock. **Price**—$1.35. **Underwriter**—Gordon E. Steinberger, Los Angeles. For general corporate purposes.

● **Huntington (W. Va.) Chair Corp.**
May 18 (letter of notification) 2,500 shares of 5% first preferred cumulative stock ($100 par). Working capital. 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.

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. **Bids**—Bids for the purchase of the bonds will be received at Room 2315, 195 Broadway, New York, N. Y., up to 11:30 a.m. (EDT), on June 2.

● **Interstate Telephone Co. (6/8)**
May 20 filed 9,238 shares of cumulative preferred stock (no par). **Underwriters** — Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp., New York; Murphy Favre, Inc. and Paine-Rice & Co., Spokane. Price, by amendment. **Proceeds**—To pay a demand note to General Telephone Corp. (parent); repay a $100,000 bank loan, and reimburse the treasury for capital expenditures.

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.

Lamston (M. H.), Inc., New York
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. Statement may be withdrawn.

● **Langsenkamp (F. H.) Co., Indianapolis, Ind.**
May 19 (letter of notification) $250,000 of 5% sinking fund debentures, due 1950. **Price**—$100. **Underwriter**—City Securities Corp., Indianapolis. To pay bank loans and increase working capital.

● **Lewis (John H.) Fund, Inc., New York City**
May 20 filed 200,000 shares of capital stock. **Management** Lewis Management Co., New York. **Price**—$5 for each of the first 20,000 shares; net asset value plus 2½% for the remainder. **Proceeds** — To begin business, when net worth is $100,000. **Business** — Open-end investment company.

● **Liberty Loan Corp., Chicago**
May 24 (letter of notification) 10,800 shares of 75c cumulative convertible preferred stock ($10 par). **Price**—$15; also 10,000 shares of class A ($5 par) common stock, to be reserved for conversion of the preferred. For working capital. **Underwriter**—Max Nedwick, Chicago.

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 24 of Textron, Inc., at rate of one new share for each one held. Rights expire about June 10. 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**—$3 per share. **Proceeds**—To be applied to the purchase price for an existing textile firm known as Lonsdale Co., a Textron subsidiary.

● **McFadden Stores, Inc., Glendale, Calif.**
May 17 (letter of notification) 23,717 shares of Class A 6% cumulative shares, to be sold to stockholders at $1.25. To build and equip new grocery stores in Los Angeles County, Calif. No underwriting.

● **Mid-Continent Airlines, Inc., Kansas City, Mo.**
May 19 (letter of notification) 6,000 shares of common stock ($1 par). **Price**—Market ($8 to $9). **Underwriters**—Kitchen & Murphy, Chicago. For working capital.

● **Minder (J. W.) Chain & Gear Co., Los Angeles**
May 19 (letter of notification) 1,500 shares Class A (no par) stock and 1,500 shares Class B (no par) common.

NEW ISSUE CALENDAR

June 1, 1948

Chicago Milwaukee St. Paul & Pacific RR., 11:30 a.m. (CDT)__Equip. Trust Ctfs.
Narragansett Electric Co., noon (EDT)______Bonds
New York State Electric & Gas Corp. Noon (EDT)______Preferred
Segal Lock & Hardware Co.______Debentures

June 2, 1948

California Electric Power Co. 10:30 a.m. (EDT)______Bonds
Illinois Bell Telephone Co. 11:30 a.m. (EDT)______Bonds
Interstate Telephone Co.______Preferred

June 3, 1948

North American Aviation, Inc.______Capital Stock

June 8, 1948

Equitable Gas Co.______Bonds
Florida Power & Light Co.______Bonds
Kansas City Southern Ry.______Bonds

June 9, 1948

Consolidated Edison Co. of N. Y., Inc.__Debentures
Pennsylvania RR., noon (EDT)__Equip. Trust Ctfs.

June 10, 1948

Chicago Rock Island & Pacific RR. 11:30 a.m. (CDT)______Equip. Trust Ctfs.

June 14, 1948

Kansas City Power & Light Co.___Bonds and Pref.
Montana-Dakota Utilities Co.______Common

To be offered to officers, directors and stockholders only. To buy new building, parking lot and facilities in Portland, Ore. No underwriting.

Montana-Dakota Utilities Co. (6/14-18)
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.

● **Motor Truck Equipment Co., Cleveland, Ohio**
May 18 (letter of notification) 1,500 shares ($100 par) preferred stock, to be offered at par, and 300 shares (no par) common stock. For operating capital. No underwriting.

Narragansett Electric Co. (6/1)
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. **Bids**—Bids for the purchase of the bonds will be received at the office of the President of the company, Room 512, 49 Westminster St., Providence, R. I., up to noon (EDT), on June 1.

● **National Iron Works, San Diego, Calif.**
May 17 (letter of notification) 30,000 shares of 6% cumulative preferred stock, non-assessable. **Price**—$10. For general corporate purposes, indebtedness, and working capital. No underwriting.

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. **Bids**—Bids for the purchase of the stock will be received by the company, at Room 2601, 61 Broadway, New York, N. Y., up to noon (EDT), June 1.

North American Aviation, Inc. (6/3)
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.

● **Opekasit-Ohio, Inc., Hamilton, Ohio**
May 13 (letter of notification) 4,692 shares ($5 par) Class B common stock. Price, par. For working capital. No underwriting.

● **Pacific Western Oil Corp., Los Angeles**
May 21 filed 450,227 shares ($10 par) capital stock. **Underwriting**—None. **Offering**—To be offered by the owner, J. Paul Getty, President of the Company, from time to time on the floor of the New York Stock Exchange, or "to specific persons, firms or corporations," in sales outside the Exchange.

● **Penn Allen Broadcasting Co., Allentown, Pa.**
May 13 (letter of notification) 12,000 shares of class A common (par $10) and 2,000 shares of common stock (par $10). **Underwriter**—Converse, Pokorny & Co., Allentown, Pa. **Offering**—In units of six class A shares and one common, at $70 per unit. Building television station, etc.

● **Pic-Art, Inc., Long Beach, Calif.**
May 19 (letter of notification) 94,274 shares ($1 par) stock. Price, par. For equipment, labor and materials. No underwriting.

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.

● **Raritan (N. J.) Mills**
May 20 (letter of notification) $300,000 mortgage participation certificates. Price, par. **Underwriting**—None. Expansion, etc.

● **Reliance Homes, Inc., Philadelphia**
May 20 (letter of notification) 1,385 shares 6% noncumulative preferred stock (par $100); 11,385 shares of class A voting common stock (par 10¢); 56,922 shares of class B non-voting stock (par 10¢). Price, par for each class. **Underwriting**—None. General corporate purposes.

● **Reliance Homes, Inc., Philadelphia**
May 21 (letter of notification) 1,495 shares of 6% noncumulative preferred stock (par $100); 8,615 shares of class A voting common (par 10c); 23,078 shares of class B non-voting common (par 10c). Price, par for each class. **Underwriting**—None. General corporate purposes.

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. On May 15 company asked California P. U. Commission for a 60-day extension of time in which to issue the securities due to a possible revision of the amount of bonds to be issued.

● **South American Gold & Platinum Co., N. Y.**
May 19 (letter of notification) 22,000 shares of capital stock. Price, market (about $4.50). To be offered on New York Stock Exchange through G. H. Walker & Co. Proceeds to General Development Co.

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.

● **Squankum Feed & Supply Co., Inc. Farmingdale, N. J.**
May 24 (letter of notification) 1,000 shares $5.50 cumulative preferred stock (par $100). Price, par. **Underwriter**—Fidelity Securities & Investment Co., Inc., Asbury Park, N. J. Working capital.

● **Stage Publications, Inc., New York**
May 21 (letter of notification) 2,500 shares 4½% preferred stock (par $50) and 10,000 shares common stock (par 10c). **Price**—$50.20 per unit of one preferred and two common shares. **Underwriting**—None. Corporate purposes.

● **Standard Lumber Co., Winona, Minn.**
May 20 (letter of notification) 2,000 shares ($100 par) of common stock. Price, par. For working capital. No underwriting.

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.

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.

● **Upson Co., Lockport, N. Y.**
May 24 (letter of notification) 250 common shares (par $10). **Price**—$16.50 per share. **Underwriter**—J. W. Gould & Co., New York. Proceeds to selling stockholder.

● **Van Norman Co., Springfield, Mass.**
May 24 (letter of notification) 10,000 shares ($2.50 par) common stock, to be delivered along with $30,000 cash to purchase the Fitchburg Grinding Machine Corp. No underwriting.

● **Wichita (Kan.) Building Material Co., Inc.**
May 19 (letter of notification) 1,050 shares of 6% preferred stock ($100 par) to be offered at par, and 2,605 shares ($20 par) common stock to be offered at $25. **Underwriter**—Prescott, Wright, Snider Co., Kansas City, Mo. For working capital.

Prospective Offerings

● **American Bosch Corp.**
June 2 stockholders will vote on changing present 750,000 shares of capital stock (par $1), of which 692,644 shares outstanding, into 750,000 class A common stock (par $1) and also create a new issue of 750,000 shares of class B common stock (par $1). The Attorney General of the United States, who holds 77% of the presently outstanding stock, has indicated, that he intends to sell this stock in the near future. Shares held by the Attorney General will be converted into class B, in order to distinguish between shares subject to restrictions as to ownership and those which are not. Probable bidders for government held (535,000) shares: Glore, Forgan & Co. and Lehman Brothers (jointly); Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane (jointly).

● **Chicago & Eastern Illinois RR.**
May 24 reported in market for sale of $2,460,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co., and Lehman Brothers (jointly).

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. (6/10)**
Bids for the purchase of $4,590,000 equipment trust certificates, dated July 1, 1948, due semi-annually Jan. 1, 1949-July 1, 1963, will be received up to 11:30 a.m. (CDT) June 10, at office of company, Room 1136, La Salle Street Station, Chicago. 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.); Harriman Ripley & Co., and Lehman Brothers (jointly).

● **Commonwealth Edison Co.**
May 25 company is planning sale of mortgage bonds this year to raise additional funds, Charles Freeman, Chairman, said. At the annual stockholders meeting, Mr. Freeman estimated the company would need as much as $175,000,000 new capital for a construction program running through 1952. He said: "It is likely that the first portion of the new funds required will be obtained through the sale of mortgage bonds. Halsey, Stuart & Co. Inc. organized the underwriting syndicate when company marketed the last bond issue in 1944.

● **Indiana Associated Telephone Co.**
The 1947 annual report states that company contemplates liquidating $1,800,000 note indebtedness through permanent financing, consisting of bonds and capital stock, but as yet no definite plans have been made. Traditional underwriters: Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp.

Kansas City Southern Ry. (6/8)
May 6 reported company expects soon to offer, at competitive bidding, $14,000,000 of new first mortgage bonds to refund a like amount of promissory notes of Louisiana & Arkansas Ry. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co. Expected June 8.

● **Lexington Telephone Co.**
The 1947 annual report states that company contemplates liquidating note indebtedness of $2,000,000 through permanent financing, consisting of sale of bonds and stock, but as yet no definite plans have been made. Financing may be made privately.

● **Long Island RR.**
May 24 reported company probably will be in the market during the near future with a new bond issue designed to provide for retirement of its $32,000,000 refunding mortgage 4% bonds due March 1, 1949. New offering will be for approximately $30,000,000 and will be guaranteed by Pennsylvania RR. as to both principal and interest. Probable bidders: Kuhn, Loeb & Co.; Halsey, Stuart & Co. Inc.

● **Michigan Bell Telephone Co.**
On May 25 company requested permission from the Michigan P. S. Commission to issue $75,000,000 in bonds to retire demand notes held by the American Telephone & Telegraph Co. The proposed debentures would be dated Oct. 15, 1948, and would mature in not more than 40 years. Interest rate would be determined by sale at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Harris, Hall & Co. (Inc.).

● **Milwaukee Foundry Equipment Co.**
May 24 reported that an early filing of 100,000 shares of stock for the account of selling stockholders, with Canton, Fitzgerald & Co. as underwriters.

(Continued on page 46)

(Continued from page 45)

● **New Jersey Power & Light Co.**

May 19 company asked SEC permission to issue and sell $6,000,000 of first mortgage bonds due 1978. Proceeds will be used to finance company's construction program. 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 Dock Co.**

April 27 stockholders authorized the execution at any time on or before Aug. 1, 1951 (when company's $10,985,000 first mortgage 4% bonds mature) a new first mortgage, the initial series to be limited to $12,000,000 at an interest rate not to exceed 4%. Probable underwriters: Hayden, Stone & Co.; Halsey, Stuart & Co. Inc.

● **Pacific Car & Foundry Co.**

Reported company considering the issuance of additional common or preferred stock, the proceeds to be used to increase working capital.

● **Pacific Telephone & Telegraph Co.**

May 18 the California P. U. Commission authorized company to sell 601,262 common shares of stock to shareholders at $100 a share. Subscription rights will be issued to common and preferred shareholders of record probably 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.

● **Pennsylvania RR. (6/9)**

Company will receive bids up to noon (EDT) June 9 at office of Geo. H. Pabst, Vice-President, Room 1811 Broad Street Station, Philadelphia, for the purchase of $11,055,000 equipment trust certificates, series U, to be dated July 1, 1948, and to mature $737,000 annually July 1, 1949-1963. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. and Lehman Bros. (jointly).

● **Virginia Electric & Power Co.**

May 19 stockholders approved proposals to increase to $100,000,000 the amount of the first and refunding mortgage bonds which may be at any one time outstanding; also increased the authorized common stock from 4,000,000 shares to 6,000,000 shares and reclassified the common stock from shares without par value to $10 par value.

General Motors Grants Wage Increase

Strike averted by agreement to raise wages 11c per hour, to be later adjusted by changes in cost of living index.

It was announced on May 25, that General Motors Corporation and the United Auto Workers CIO have come to an agreement regarding wages during the next two years, whereby the workers are to receive an immediate rise of 11¢ per hour, to be further adjusted quarterly in accordance with the Bureau of Labor's cost-of-living index.

In a statement issued by General Motors Corp. announcing the agreement, the wage formula adopted is explained as follows:

"Under this formula the immediate increase for all employes eligible will be 11 cents per hour, of which 3 cents represents the annual improvement factor and 8 cents a cost-of-living adjustment. The improvement factor calls for an additional 3 cents per hour which will be added to the base pay of all eligible employes starting May 29, 1949.

"It is hoped that the cost of living will come down. It has been agreed that only 5 cents of the 8 cents will be subject to reduction so that if a sufficient decline in cost of living occurs the workmen will immediately enjoy a better standard of living. Such an improvement would be in addition to the 3 cents an hour annual improvement underwritten by the company.

"The first quarterly cost of living readjustment will be made in the first pay period starting after Sept. 1, 1948, and will be based on the July consumers price index published by the Federal Bureau of Labor Statistics, which is expected to be released late in August.

"As an example of how this plan works, if an employe under this agreement is now earning $1.50 per hour, his wages will be increased immediately by 11 cents per hour to $1.61 per hour, of which 8 cents is cost-of-living adjustment and 3 cents the beginning of the annual improvement factor."

Tellier & Co. Offers Playboy Motor Car Stk.

Tellier & Co. is offering today as a speculation, 20,000,000 shares of common stock of Playboy Motor Car Corp. The price to the public is $1 per share.

Proceeds of the offering are to be used by the company for payment of the initial and second instalments on the plant; rearranging and reconditioning the plant; equipment (press room, steam plant, welding equipment, dies, tools, etc.); outside tooling, product and production engineering; development, pilot operation, preproduction and "starting-up" expense, and working capital.

Production of Playboy cars to date, has been limited to pilot or demonstration models. The corporation was formed in 1946 to develop, produce, distribute and sell automobiles. As of May 4, 1948 the company had completed 41 pilot cars which are being used for test and exhibition purposes.

Initially only one model is planned—a 4-cylinder, 2-door, 1-seat, 3-passenger, convertible coupe with a 90-inch wheel base and an overall weight of about 2,035 pounds made to sell in the $1,000 class. The convertible top will be all-steel. The Playboy is intended for sale as a low-priced auto and also is expected to appeal to persons interested in acquiring a companion or second car.

The War Assets Administration has accepted the company's bid for the plant, which the firm presently occupies at Tonawanda, New York. Manufacturing area of the plant is about 414,000 square feet. Estimated capacity of the plant, when equipped according to company plans, will be 100,000 cars a year on a one-shift basis, with two shifts in the press room.

More than 70% of the total cost of production, the company estimates, will be represented by the cost of fabricated parts and equipment purchased from outside sources. The company plans to produce the basic body and frame and related fittings and parts such as doors, trim, hood, rear lid, top, fenders, bumpers, gas tank, and miscellaneous brackets and parts. It plans to purchase from outside manufacturers necessary standard operating parts such as engine and engine accessories (starter, generator, distributor, carburetor, etc.) clutch, transmission, universal joints, drive shaft and rear axle, brakes and brake drums, fittings and linings, wheels, tires, electric systems and lights, interior trim and instruments, radiator, battery, steering column, gear shift, and similar and related items.

As of March 31, 1948 there were in effect approximately 220 car distribution franchises granted by the company to dealers and approximately 15 to distributors. The company will attempt to sell between 800 and 900 dealer franchises.

Outstanding capitalization of the company upon completion of this financing will consist of 25,000,000 shares of common stock.

Russell Nominated to Head Municipal Forum Of New York

Paris Scott Russell, Jr., Glore, Forgan & Co., has been nominated for the presidency of the Municipal Forum of New York. Other nominations were Robert T. Veit, Shields & Co., for Vice-President; George T. Ragsdale and Rudolph J. Harper were named for re-election as Secretary and Treasurer respectively.

Paris S. Russell, Jr.

James Kase Joins Staff Of First Cleveland Corp.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—James Kase has become associated with First Cleveland Corp., National City Bank Building, members of the Cleveland Stock Exchange. Mr. Kase was formerly resident manager for J. A. White & Co. Prior thereto he was with Prescott & Co. and headed the investment firm of Johnson, Kase & Co.

James Kase

Goldman, Sachs Offers Dairy Products Debs.

Goldman, Sachs & Co. and Lehman Brothers head a group of 111 underwriters which is offering publicly today $30,000,000 National Dairy Products Corp. 3% debentures due 1970 at 102% and accrued interest.

Net proceeds will be used in connection with the corporation's program of replacements and additions to plan and equipment. Tentative plans now under consideration would require the expenditure by subsidiaries of the corporation of approximately $90,000,000 during the years 1948 through 1950.

The new debentures will be entitled to a sinking fund providing for the retirement of not less than 2% nor more than 4% of the debentures for each of the years 1950 through 1954; not less than 3% nor more than 6% for each of the years 1955 through 1959; and not less than 4% nor more than 8% for each of the years 1960 through 1969. They are redeemable otherwise than by operation of the sinking fund at prices scaled from 104¾% to 100% in the last year. If redeemed by operation of the sinking fund, prices are scaled from 102% beginning in 1950 to 100% in the last year.

National Dairy Products Corp. was incorporated in Delaware in 1923. Through its operating subsidiaries it buys, manufactures or processes, and distributes diversified lines of food products. In 1947, consolidated net sales consisted 30% of fluid milk and cream; 22%, cheese; 17%, ice cream; 8%, butter; and the remaining 23% a wide variety of miscellaneous products. Milk, cream and ice cream are distributed largely east of the Mississippi River. Kraft Foods Company, a subsidiary, distributes cheese, salad dressings, margarine, and other food products.

Schram Again Attacks 75% Margin

In Detroit address, President of the New York Stock Exchange says it is hampering functions of capital market. Suggests required margin be lowered to 50%.

Reiterating his previous protests against the Federal Reserve Board rule, requiring a cash margin of 75% on stock exchange transactions, Emil Schram, President of the New York Stock Exchange, told the Spring Meeting of the Board of Governors of the Association of Stock Exchange Firms in Detroit, Mich. on May 20 that the regulation was "thoroughly unsound" and indicated a "lack of understanding" of the capital markets by the Board. He suggested that 50% be substituted as the minimum margin requirement.

Emil Schram

"For the life of me," Mr. Schram stated, "I cannot understand why it isn't better practice to have several thousands of persons, in fact, maybe several hundred thousands, owing the banks a $1 billion, secured by $2 billion of common stock or ownership in American industry. Instead, industry is driven to borrow from insurance companies or banks. In one case you have distributed risk, while the other is bound to be more concentrated."

Mr. Schram also advocated a reduction of the capital gains tax from 25% to 12½%. He also reiterated his belief (as recorded in the "Chronicle" of May 13) that a period of stability exists in economic conditions.

Officers Are Elected by La Salle Street Women

CHICAGO, ILL.—At the annual meeting of La Salle Street Women held on May 13, at the Cordon Club, Chicago, the following officers were elected for the fiscal year 1948-49: President, Miss Colina Clow with Dr. Melchior Palyi; Vice-President, Miss Edith Jiencke, Gofen & Glossberg; Recording Secretary, Miss Grace Zern, Nelson L. Buck; Corresponding Secretary, Mrs. Dorothy Petrie, Harriman, Ripley & Co., Inc.; Treasurer, Miss Lillian Birkholz, Ketcham & Nongard.

Observations

(Continued from page 5)

this veering from the UN, are the difficulties blocking the possible amending of the original Charter. Initially inserted during the trying days of San Francisco's compromising, it is provided that an amendment be adopted by a two-thirds vote of the General Assembly, then ratified by two-thirds of the UN members, and, above all, subject to veto by any of the Big Five nations in the Security Council. As an additional cause of UN insufficiency, it must be remembered that the General Assembly is merely a debating society with no power other than to make recommendations which the individual members are free to adopt or not as they please. And in many ways the UN is intrinsically less effective than was the old League of Nations. This has been evidenced in the continued paralysis of the Security Council, the latest impairment of which is extended to the nth degree in the series of Palestine crises.

The Palestine Phase

The latest and most striking example of the UN's "negativizing" is embodied in the Palestine events. This writer does not profess to know the degree to which Mr. Truman's volatile behavior was motivated by domestic political considerations, but it should be realized that home politics in the various democratic countries must always inject an additional obstacle to smooth-working international cooperation. In any event, when the President saw fit to recognize the Jewish provisional government twenty minutes after the mandate's end, and after his previous double-reversal on partition and the "temporary trusteeship" scheme, the United States was consequently placed in the position of making a gesture of mockery at the Security Council. And, of equal importance, unaccompanied by the definition of frontiers, our recognition pronouncement incited both sides to making warfare inevitable. The condition in which the world finds itself regarding Palestine is made up of the alternatives of (1) military occupation by the United States or Soviet Russia, (2) continuing or recurrent fighting between the Jews and Arabs, or (3) a settlement made directly or indirectly through bi-national agreement between Britain and the United States (despite Secretary Marshall's luncheon conference at the Waldorf-Astoria Hotel on Tuesday). Any of these eventualities, of course, represent a very far cry from the peaceful settlement of disputes through an international organization!

* * *

The solution for this situation is, of course, the $64 dollar question, which is over-large for this space. But, irrespective of whether today's world is ready for an impartial legal body to administer the law of nations—veto-lessly and overcoming the sovereignty obstacle—it is an all-important requisite for the citizenry realistically to comprehend the present sorry status of international organization, including the democracies' forced contribution thereto.

Our Reporter's Report

The pendulum in the new issue market took a full swing back toward debt securities this week after a fortnight in which equities had held the center of the stage pretty much. In fact, all things considered, it was a relatively quiet period in the corporate capital market.

Largest single issue slated for public offering was that of the National Dairy Products Corp., involving the flotation of $30,000,000 of 23-year debentures, due 1970.

Due on the market today, this issue, it was expected in dealer circles, would find quick absorption judging by the pre-offering inquiry experienced almost since the debentures were placed in registration two weeks ago.

A negotiated undertaking, the issue carries a 3% coupon and a price tag of 102, giving the purchaser an indicated yield of around 2.88% to maturity.

Though the calculated return falls a bit short of the 3% minimum which institutions have set for themselves, this fact appeared more than offset by consideration of the high credit rating which the issuer enjoys and by the opportunity afforded portfolio men for a bit of diversification.

Proceeds will be used for general corporate purposes, chiefly to finance a plant and equipment replacement program for the company and its constituents.

Union Electric of Missouri

Competition was rather keen for Union Electric Co. of Missouri's $25,000,000 of 20-year debentures put up for bids on Tuesday. Six banking groups sought the issue.

The majority stipulated a 3% coupon with two of their number bidding for the issue as a 3⅛% loan. But in both instances, observers noted, it was indicated that bidders were shooting for a reoffering basis of just under 3%.

The successful group bid 100.2799 for a 3% rate and proceeded with reoffering at a price of 100.75 to return the buyer a yield of around 2.95%. Inquiry was reported substantial although it was expected several days would be required for complete placement.

Raising the Ante

Only a short time ago when the corporation made public its annual report, Commonwealth Edison Co. calculated that its financing for new construction contemplated through 1952 would run around $100 millions.

But, at the annual meeting this week, Charles Y. Freeman, Chairman, informed stockholders that plans have been revised so that it has been necessary to increase projected borrowing to $175 million.

The big Chicago utility plans to spend upward of $300 million on its program, and despite its strong cash position, it was indicated that some of the borrowing may be done this year.

Looking Well Ahead

Bell System companies, as has been shown before, believe in planning their financing well in advance of prospective issue dates. Latest to project such an undertaking is Michigan Bell Telephone Co., which has applied to the State Public Service Commission for authority to float a new issue.

This would consist of $75,000,000 of debentures with a maturity of not less than 40 years, the interest rate to be set by the bidders at the time of sale.

Proceeds, it was stated, would be used to retire demand notes held by American Telephone & Telegraph Co., (parent). It is estimated that such accruals will reach the foregoing figure around Oct. 15 next, the date projected for the new issue.

Pipe Line Financing

Spurred by the enormous growth in demand for their product, natural gas pipe line firms are contemplating widespread expansion of their carrying and distributing facilities.

Southern Natural Gas Co. plans to issue $28,000,000 of sinking fund bonds of 20 years maturity and has filed the necessary registration with the SEC. Proceeds would meet notes incurred in financing construction and for further new facilities.

Moving under the Holding Company Act, the firm also seeks to sell $11,550,000 of 2½% serial notes to refinance a similar amount of 2s now outstanding.

With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, MASS.—George W. Rice has joined the staff of Herrick, Waddell & Reed, Inc., Third National Bank Building.

Joins G. A. McDowell Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Geo. A. McDowell & Co., Buhl Building, members of the Detroit Stock Exchange, have added Helen A. Storch to their staff.

HELP WANTED

SITUATIONS WANTED

Broker-Dealer Recommendations

(Continued from page 8)

Co., 61 Broadway, New York 6, N. Y.

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

Ed. Schuster & Co.—Circular—Loewi & Co., 225 East Maston Street, Milwaukee 2, Wis.

Shepard Niles Crane & Hoist Corp.—Resume—J. Roy Prosser & Co., 52 William Street, New York 5, N. Y.

Tidelands Oil Corporation—Circular — Goodbody & Co., 115 Broadway, New York 6, N. Y.

Toklan Royalty Corp.—Data—S. R. Melven & Co., 125 Cedar Street, New York 6, N. Y.

Webster Chicago Corporation—Current memorandum—Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

With Gross, Rogers & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Paul C. Buetow has joined the staff of Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with William Walters Securities Co.

With Charles A. Parcells

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Frank C. Pundt is with Charles A. Parcells & Co., Penobscot Building, members of the Detroit Stock Exchange.

DIVIDEND NOTICES

AMERICAN POWER & LIGHT COMPANY

Two Rector Street, New York, N. Y.

PREFERRED STOCK DIVIDEND

A dividend of $1.50 per share on the Preferred Stock ($6) and a dividend of $1.25 per share on the $5 Preferred Stock of American Power & Light Company were declared on May 26, 1948, for payment July 1, 1948, to stockholders of record at the close of business June 8, 1948.

D. W. JACK, Secretary and Treasurer.

Allied Chemical & Dye Corporation

61 Broadway, New York

May 25, 1948

Allied Chemical & Dye Corporation has declared quarterly dividend No. 109 of One Dollar and Fifty Cents ($1.50) per share on the Common Stock of the Company, payable June 19, 1948, to common stockholders of record at the close of business June 4, 1948.

W. C. KING, Secretary

DUPONT **E. I. DU PONT DE NEMOURS & COMPANY**

WILMINGTON, DELAWARE: *May 17, 1948*

The Board of Directors has declared this day regular quarterly dividends of $1.12½ a share on the outstanding Preferred Stock—$4.50 Series and 87½¢ a share on the outstanding Preferred Stock—$3.50 Series, both payable July 24, 1948, to stockholders of record at the close of business on July 9, 1948; also $2.00 a share, as the second interim dividend for 1948, on the outstanding Common Stock, payable June 14, 1948, to stockholders of record at the close of business on May 24, 1948.

L. duP. COPELAND, *Secretary*

BRIGGS & STRATTON

BRIGGS & STRATTON CORPORATION

85th DIVIDEND

The Board of Directors has declared a dividend of twenty-five cents (25c) per share and an extra dividend of fifteen cents (15c) per share, less 2.75 per cent Wisconsin privilege dividend tax, on the capital stock (without par value) of the Corporation, payable June 15, 1948 to stockholders of record June 1, 1948.

L. G. REGNER, Secretary

May 18, 1948

DIVIDEND NOTICES

KENNECOTT COPPER CORPORATION

120 Broadway, New York 5, N. Y.

May 21, 1948

A cash distribution of twenty-five cents (25c) a share and a special cash distribution of fifty cents (50c) a share have today been declared by Kennecott Copper Corporation, payable on June 30, 1948 to stockholders of record at the close of business on June 1, 1948.

A. S. CHEROUNY, *Secretary*.

CONSOL

The Board of Directors of

PITTSBURGH CONSOLIDATION COAL COMPANY

at a meeting held today, declared a quarterly dividend of 50 cents per share on the Common Stock of the Company, payable on June 12, 1948, to shareholders of record at the close of business on June 3, 1948. Checks will be mailed.

CHARLES E. BEACHLEY, *Secretary-Treasurer*

May 24, 1948

INTERNATIONAL SALT COMPANY

DIVIDEND NO. 136

A dividend of SEVENTY-FIVE CENTS a share has been declared on the capital stock of this Company, payable July 1, 1948, to stockholders of record at the close of business on June 15, 1948. The stock transfer books of the Company will not be closed.

HERVEY J. OSBORN, *Secretary*

CSC

COMMERCIAL SOLVENTS *Corporation*

DIVIDEND No. 54

A dividend of thirty-seven and one-half cents (37½c) per share has today been declared on the outstanding common stock of this Corporation, payable on June 30, 1948, to stockholders of record at the close of business on June 9, 1948.

A. R. BERGEN, *Secretary*.

May 26, 1948.

ELECTRIC POWER & LIGHT CORPORATION

DIVIDEND NOTICE

The Board of Directors has this day declared a dividend of $1.50 per share on the $6 Preferred Stock and a dividend of $1.75 per share on the $7 Preferred Stock of this Corporation, payable July 1, 1948, to stockholders of record at the close of business June 10, 1948.

H. F. SANDERS, *Treasurer*.

May 26, 1948

Progress through Chemistry

The Board of Directors of The Davison Chemical Corporation has declared a quarterly dividend of Twenty-five cents ($.25) per share on its capital stock, payable June 30, 1948, to stockholders of record at the close of business June 10, 1948.

M. C. ROOP, *Secretary*

Baltimore 3, Md.

May 20, 1948

THE DAVISON CHEMICAL CORPORATION

DIVIDEND NOTICES

WICHITA RIVER OIL CORPORATION

Dividend No. 9

A dividend of Twenty-five cents (25¢) per share will be paid July 15, 1948 on the Common Stock of the Corporation, to stockholders of record at the close of business June 30, 1948.

JOSEPH L. MARTIN, *Treasurer*

May 26, 1948.

SOUTHERN PACIFIC COMPANY

DIVIDEND NO. 122

A QUARTERLY DIVIDEND of One Dollar ($1.00) per share on the Common Stock of this Company has been declared payable at the Treasurer's Office, No. 165 Broadway, New York 6, N. Y., on Monday, June 21, 1948, to stockholders of record at three o'clock P. M., on Tuesday, June 1, 1948. The stock transfer books will not be closed for the payment of this dividend.

J. A. SIMPSON, Treasurer.

New York, N. Y., May 20, 1948.

TEXAS GULF SULPHUR COMPANY

The Board of Directors has declared a dividend of 50 cents per share and an additional dividend of 75c per share on the Company's capital stock, payable June 15, 1948, to stockholders of record at the close of business May 28, 1948.

RICHARD T. FLEMING, *Secretary*.

TC TENNESSEE CORPORATION

TENNESSEE CORPORATION

A dividend of 30c per share has been declared, payable June 30, 1948, to stockholders of record at the close of business June 10, 1948.

61 Broadway
New York 6, N. Y.
May 18, 1948

J. B. MCGEE, *Treasurer*.

UNITED GAS CORPORATION

SHREVEPORT, LOUISIANA

Dividend Notice

The Board of Directors has this day declared a dividend of twenty-five cents (25¢) per share on the Common Stock of the Corporation, payable July 1, 1948, to stockholders of record at the close of business on June 10, 1948.

J. H. MIRACLE, *Secretary*

May 26, 1948

OTIS ELEVATOR COMPANY

PREFERRED DIVIDEND No. 198

A quarterly dividend of **$1.50** per share on the Preferred Stock has been declared payable June 21, 1948, to stockholders of record at the close of business on June 7, 1948.

Checks will be mailed.

C. A. SANFORD, *Treasurer*

New York, May 19, 1948.

Edison

SOUTHERN CALIFORNIA EDISON COMPANY

Preferred Dividends

The Board of Directors has authorized the payment of the following quarterly dividends:

37½ cents per share on Original Preferred Stock, payable June 30, 1948, to stockholders of record on June 5, 1948.

27 cents per share on Cumulative Preferred Stock, 4.32% Series, payable on June 30, 1948, to stockholders of record on June 5, 1948.

O. V. SHOWERS, Secretary

May 21, 1948

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Congress begins the process of lightening ship. It is customary under these circumstances, when there is an early adjournment deadline. Capitol Hill is about ready to throw program after program over the side in the desperate drive to make the port of an early preconvention adjournment before being swamped by too heavy a load of business.

Little progress has been made up to now in finishing a tremendous back-log of business, including regular appropriations, actual money allowances for ERP, tax revision (if any), social security, displaced persons, housing, the draft and/or Universal Military Training. Add to these the fact that Congress has got to engage in or avoid a knock-down and drag-out fight on civil rights, and the same on the draft issue.

Contrarily enough, however, Congress, by unanimous consent, will pass scores upon scores of non-controversial bills. They cover about every conceivable subject. The sad truth is that although there are innumerable bills of this character, the committees just don't quite get around to taking them up and polishing them off until just about the last minute. The last minute rush is on. Thousands of industries and people affected by these little special pieces of legislation will not discover, unless they have paid observers or researchers, that these bills have passed until perhaps months after they become law.

* * *

Congress' early deadline is one of the peculiar features of the 1946 Legislative Reorganization Act. It provided that Congress shall get out by July. This time the act is not needed, because of the desire of the gentlemen to go home and electioneer. The theory of the early adjournement was that Congress, knowing it couldn't hang around all year, would plan its work. It hasn't worked out that way. Maybe, though, early adjournment may result in a total net diminished volume of legislation. But this advantage may be offset by more half-baked consideration of truly important issues.

* * *

One of the other peculiar phases of the Legislative Reorganization Act is the so-called "legislative budget" whereby Congress is required by Feb. 15 of each year to establish a so-called ceiling on the session's prospective expenditures to suit the volume of revenues. Congress can't possibly guess accurately that early in the game what it will spend.

Attempts have been made to fix up this provision. It was hoped to delay the date of the legislative budget to some time later in the session, when Congress would know better what it was doing. It was hoped to reduce the budget committee to a small working group, instead of to a group comprising about a fifth of the Congress, and hence unwieldy.

Finally, Senators Butler of Nebraska and Byrd of Virginia proposed that Congress at least should bring in a single budget, with all supply items in one appropriation act. Such a proposal was favorably reported to the Senate. When the Chairman of the House Appropriations committee and the ranking minority member turned down this idea, it killed all chance to promote even the beginning of an actual legislative budget in fact to replace the theoretical one.

So Congress probably, despite a $40 billion government, next February again will go through the process—to avoid criticism for evading the reorganization act if it did not—of setting a fictitious budget.

* * *

If there is to be any government reform directed at achieving economy, it will come from the Hoover Commission on reorganization of the government. This commission will do a real job. It will propose a shake-up in government organization such as never before has terrified the bureaucrats. This commission is not concerned with merely altering the bureaucrats' nice flow charts of organization, or of knocking pins down in one alley and setting them up in another.

The Hoover Commission has power to examine into governmental functions as well as organization. It can and will suggest elimination of entire functions. It is likely to end the competition or propose to end the competition of bureaus to serve the same special favored classes of voting customers.

You will hear very little concrete about the Hoover Commission, however. The former President has enlisted some of the best brains of the country to do this job. He has also sworn them to silence. The idea is to keep the vested bureaucracies from finding out before the election whom the Hoover Commission would hurt in the interests of substantial economy.

This commission is ordered to report its findings as soon as the new President has adorned the Executive Offices with his own special pictures and the President's desk with his own doodads. Of course there is no knowing whether that President and the new Congress will swallow the bitter Hoover pill—for it will mean that many tax eaters will have to become taxpayers.

* * *

There are a couple of these "little" bills, the kind which if they pass at all will pass by unanimous consent.

One of these bills sets up an "industrial reserve" of government-built war plants not presently saleable to industry under the "security clause." By this clause the government has been selling a limited number of government-owned war plants on condition that they may be returned in an emergency to war production. Industry would not bid for from 200 to 250 of these plants, didn't find them worth while if they were subject to recapture for government use.

So War Assets otherwise would have had to sell them on a basis where they would be broken up for the bricks and mortar, as it were. The new bill provides that these plants shall be transferred to the Public Works Agency for safe-keeping, maintenance, or a new try at leasing or sale under the security clause. This means that a substantial nucleus of vital war production capacity, probably costing originally more than $2 billion and requiring from 18 to 24 frantic months to build, can be retained for an emergency—and to avoid a part of the headache of the next emergency, if any.

* * *

It is beginning to look like Jesse Wolcott, the Chairman of the House Banking Committee, rates the blue ribbon for opposing the most powerful special interest lobby before the second session of the 80th Congress. Wolcott is sitting on the omnibus housing bill with its many inflationary features, and Wolcott is not light in more than one sense of the word.

No bill has had such a terrific pressure built up behind it as has been mobilized for the omnibus housing bill. All the lefties are for it. Many veterans favor it. With Administration blessing a terrific lobby has been built up on its behalf. Not the least of the elements of this lobby was the support of numerous mayors of cities.

Wolcott actually is holding extensive hearings on the bill. The hearings probably will not end before June 10—unless the House GOP leadership runs out on Wolcott and in a scare fears it must pass the bill. After June 10 comes executive meetings. In the last two days of the session then remaining, the public housers will have to fight the shortage of time. It is too early to say that the public housing bill is dead, but some of its supporters are beginning to write diatribes against those whom they consider to be its murderers.

* * *

There is a great deal of mystery, tinged with perhaps amusement, over the heat generated by the Administration advocates about the form in which the Congressional majority will extend the reciprocal trade agreements program.

President Truman will not have time to negotiate a single new agreement from no on, even should Congress give him an unmodified extension of the present act. Hence, any future operations under the act depend entirely upon the President in office next January. If he opposes reciprocal trade agreements, then the broadest authority of law could not compel him to negotiate a single new agreement. If he favors such agreements, he probably can persuade the next Congress to give him the power he wants for this purpose.

So all the "one year extension" does is continue the form of the law for purposes of political argument, until the next President decides what he wants.

* * *

There is an interesting background to be gleaned from a careful reading of the Joint Economic Committee report even discounting the fact that it is purely advice and not proposed legislation. Many of the newspaper boys, looking for the spot news, overlooked this substance.

A few ideas—Social legislation should be outside the sphere of the full employment act planning. Government expenditures must be reduced. Inflation is due "to our attempt to accomplish more than is possible at our present capacity for production." In other words, there isn't just one villain and one set of cures. JEC next year is determined to go into the effect of taxation in retarding investment. FHA's Title VI is inflationary and should not be continued. Should be a further study of the areas of managed prices. Practically frozen wage rates militate against long-range increase in production and the maintenance of free competitive enterprise.

BUSINESS BUZZ

"Oh, it isn't an old war wound—just doing some bidding again!"

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