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Peacetime Draft Is Threat to Individual Liberty and Our Free Enterprise System

By JIM HOWARD

Veteran of Overseas War Service and Opponent of Communism and Militarism, traces steps in military program for regimentation of America. Holds draft enacted in peacetime is major defeat in struggle for freedom waged by English-speaking peoples for past five hundred years.

I

The tremendous pressure for enactment by Congress of peacetime conscription exerted by President Truman, through his military secretaries and certain members of Congress, is not motivated by international affairs. It is the result of careful planning started years before the end of World War II by professional military officers.

Mindful of the loss of income and prestige attendant upon the curtailment of wartime officer appointments on the resumption of a peacetime economy, many World War II officers decided to avoid a return to the rigorous activity of civilian productive enterprise by perpetuating their comfortable positions in the armed services.

After World War I, officer demobilization proceeded at the

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See PICTORIAL SECTION for PICTURES taken at Bond Club of New Jersey Outing, and S. F. Stock Exchange tour of Pacific Northwest industries.

Banking Economics and The Inflationary Boom

By RAYMOND RODGERS*

Professor of Banking, New York University

Noting changes in character of banking, Dr. Rodgers reviews effects of world developments and domestic fiscal policies on present day banking system. Asserts rearmament and relief expenditures may force Federal Reserve to change credit restriction policies, but does not look for much political action to reduce expansion of credit. Hints phenomena associated with credit point to end of boom, and holds weakest link in economic chain is sustained present high price level. Predicts moderate decline in business acitvity unless armament expenses increase sharply or war comes.

Banking is no longer local in character; and the banker is no longer a free agent. Bankers have become the indispensable part of a great credit mechanism on which nations as well as individuals rely. Whether you like it or not, banking decisions have to be made in the light of world developments and what Washington will do about them.

Raymond Rodgers

Modern banking is indeed far removed from the simple, direct and confidential personal financial transactions of forty years ago. Credit control on a national basis entered the banking scene with the Federal Reserve System in 1913. Government bond purchases, which became important in banking in World War I, developed until government financing became the dominant factor in banking in

(Continued on page 32)

*An address by Dr. Rodgers before 47th Annual Meeting of the Colorado Bankers Association, Glenwood Springs, Colo., June 11, 1948.

Postwar Changes in Commercial Bank Portfolios

By WINTHROP W. ALDRICH*

Chairman of the Board,
The Chase National Bank of the City of New York

Mr. Aldrich lists as principal postwar changes in commercial banks' portfolios: (1) rapid increase in business loans; (2) decline in loans on securities; (3) increase in residential mortgage credit; and (4) rapid expansion of consumer credit. Says banks are stressing quality of loans, but warns of rise in ratio of loans to capital. Favors decline of bank holdings of public debt, and asserts current inflation makes clear need for constructive action in monetary and banking legislation. Supports proposal for monetary commission.

Since the end of the war very important changes have occurred in commercial bank portfolios. Loans have experienced a rapid increase; and investments, a sharp decline. The economic implications of these changes are of great importance and warrant careful consideration.

W. W. Aldrich

During the war the increase in bank credit, which was of huge proportions, took the form of purchases of and loans against the public debt. Tax revenues and the sale of government obligations to non-commercial bank buyers did not cover the rapidly rising expenditures of the government and credit

(Continued on page 26)

*An address by Mr. Aldrich before 52nd Annual Convention of the New York State Bankers Association, Bretton Woods, N. H., June 14, 1948.

EDITORIAL

As We See It

The Worst Yet?

The President in his "non-political" tour through the country has been busily engaged in laying the groundwork for his coming election campaign. If he had any real doubt about obtaining the Democratic nomination, he doubtless is also fortifying his position as respects this contest, but in any event he is laying out the broad outlines of the campaign he fully expects to conduct this autumn to win another term in the White House. He, evidently, has chosen Congress as his "issue." Obviously enough it is not merely Congress that he is shooting at, but the Republican party which controls Congress.

If he can convince the voters that this Congress has proved to be the "worst" either since the beginning—or even in his memory (as he at one time appeared to qualify his broader statement)—he will have plainly succeeded in pillorying the Republican party. In discrediting that party, he will more or less discredit any candidate it may select at Philadelphia. This is partic-

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Savings and Debt

By JOSEPH M. DODGE*
President, American Bankers Association
President, The Detroit Bank

ABA President stresses need of more savings to maintain and expand industrial growth and warns heavy private, together with government spending, is threatening serious inflation. Attacks inconsistency of promoting easy credit, on one hand, through government guarantees and the like, and proposing, on the other hand, restrictions and controls on private credit. Says tax structure inhibits risk capital and is forcing retention of corporate earnings. Foresees likelihood of further deficit financing, with more taxes and inflation, and criticizes extravagant housing program.

As you know, two points of the American Bankers Association Credit Control Program had to do with savings—to save regularly in a savings account and to invest regularly in Government Savings Bonds. Many of you took part, as I did, in getting under way the Treasury's National Security Campaign for the sale of Government Savings Bonds, and you have given it your complete support. For sound economic reasons, we must keep the pressure on savings accumulation.

Joseph M. Dodge

The reports for the year 1947 show that consumers spent more on goods and services than ever before in our history. In 1947 personal consumption spending increased $21 billion over 1946 and increased in every quarter of the year. Savings did not, and the year ended with $4 billion less personal saving than in 1946. Actually consumers spent more than the increase in their personal incomes, less tax and other payments. This added substantially to the inflationary pressures. Some way must be found, short of forced saving, to slow down this spending which is forcing up prices and reducing the rate of the savings accumulations of the people.

Factor of Savings

We should remember that traditionally the savings accumulations of the citizens of the United States have been the source of their individual security and at the same time a direct contribution to our progressively higher standard of living. The use of these savings in investment has steadily increased the physical plant and equipment behind every worker and has multiplied the expansion of his output. Their use by the individual has permitted him to continue to expand his own investments in the personally-owned properties and equipment which have added to the comfort of his living.

In this country progress and security continue to need large quantities of savings funds, which, at the moment, are particularly important as an offset to inflation and serve to help multiply the resources available for an expansion of production. In the form of the purchase of Government Savings Bonds these savings permit the retirement of bank-held government debt, redistribute it into the hands of individual holders, and reduce the money means pressing on prices.

As everyone knows, the banks have been the principal instrument for the distribution of United States Savings Bonds during the war and since the war. They will continue to make their facilities and services available and back them with their best efforts. They will do this to the extent of selling deposits out of their banks at a time when deposits or reserves may not be increasing or are actually declining.

However, it would be unrealistic to fail to recognize a trend of circumstances fundamentally opposed to the idea of thrift, economy and savings. And that, if this trend continues, it may have drastically adverse effects on the future status of our economy.

It is generally recognized that a high rate of capital accumulation is essential to a progressively expanding economy and its principal source is from savings and their investment. It was from this we built what we have today. But, unfortunately, public policy has brought disadvantages instead of advantages to savings. While the need for thrift is recognized and advocated, our public policies have progressively served to put it at a lower and lower discount. Certainly there are few general conditions and no public atmosphere which can be pointed out as especially encouraging to the development of savings and thrift.

And, unless I miss my guess, the decline in the rate of savings accumulation sooner or later will be publicly and officially attributed to everything or anything but its real causes. It will become the people's fault or the fault of the banks, and will have nothing to do with the inflation, high prices, high taxes, low interest rates, lack of incentive, the depreciating purchasing power of the dollar, or any other of the factors beyond the direct control of the individual.

As an example, recently I saw a newspaper headline—"One in every four United States families is likely to overspend this year." This article publicized a study indicating that at least 25% of our families will overspend their incomes, and that the general financial status of consumers, while still strong developed the first signs of weakness in 1947. I suggest that this is not an encouraging forecast for savings.

Not long ago I read a wryly humorous quip which exaggerated but illustrated the problem, it went like this—"We should have saved more during the depression so we could really enjoy this inflation." The difficulties of increasing savings under the conditions of either deflation or inflation need little elaboration.

Inflationary Effects of Government Spending

It is apparent that the inflationary effect of additional billions in government expenditures for foreign aid and the military establishment are not being offset by any substantial reduction of expenditures for other purposes, and the elimination of other inflationary practices. What has become of the economies and reductions so freely promised a year ago? Even if we leave out the new foreign aid and defense costs, where are they? Proposals for appropriations are on the increase, not decrease. We hear of little but new programs calling for mounting expenditures, for a variety of purposes, and for an indefinite future. We do not know the final cost of foreign aid or an enlarged defense program. State and municipal expenditures, debt and taxes are rising. Within the last few weeks we entered the third round of wage increases and the wage-price spiral has been given another upward push.

Where do we find any general determination to resist and eliminate or postpone avoidable public expenditure, or tax or debt increases One day we hear expressions of alarm and emergency about inflation and demands for more controls over business and individual affairs as a corrective. The next day we hear of new or continuing acts of a nature to magnify the evil which causes the alarm.

But, even if you agree with this, do not pass all the blame over to the public officials of city, state, or National Government. Whoever and wherever they are, they represent us, individually and collectively. They only reflect our mass carelessness and indifference to debt, taxes, prices, costs, and economy. On the one hand government officials receive little pressure from the many most affected by their acts, and who should be most interested in the purchasing power of their dollars, and the trends of our economy. On the other, they are hard pressed by highly organized groups, representing interests which work for greater public expenditures, purchases, subsidies, price supports, and easy-term guaranteed credit, all out of your taxes. And, everyone seems to be suffering from the delusion that the public revenues can be tapped indefinitely and without limit, at no price or penalty, either now or later.

We speak loudly and vigorously about the need to maintain our

(Continued on page 33)

*An address by Mr. Dodge at Meeting of the New York State Bankers Association, Bretton Woods, N. H., June 14, 1948.

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Grounds For Bullish Optimism

By ERNEST JELLINEK

Partner, Jacquin, Bliss & Stanley
Members of the New York Stock Exchange

Mr. Jellinek, in answering question, "how long will the bull market last?", gives seven reasons for continuation of upswing. Sees stocks as "almost only values which have not yet been hit by inflation."

The prevailing bearish sentiment held by investors and traders for nearly two years has given way to a general optimism. Even skeptical technicians have been convinced by the upside penetration of the Dow-Jones Industrial Averages. The "bull market" has finally received "official" recognition.

Ernest Jellinek

We are now confronted with a new situation which must be evaluated. First, the question arises, how long will the bull market last? Secondly, are the basic economic factors which created the rise in the stock market still acting to push prices upward? Historical precedent reveals that in the last five bull markets (with the exception of the 1929 period) the appreciation of stocks, after the Dow-Jones bull market signal, was as large as the rise prior to the Dow-Jones confirmation. In this bull market, the distance between the confirmation point and the previous low amounted to about 26 points (161 to 187). Therefore, a rise to 213 in the Dow-Jones averages may be expected from a technical standpoint.

From the economist's point of view, all data indicate that the upswing is continuing. Trade and financial reports of this spring show that our economy is still expanding and that these growth trends will continue for some time. Most noteworthy are the factors enumerated below:

(1) Production is being geared to its fullest potentialities. While the desired number of postwar jobs was 60 million, the number of employed in the United States has now reached about 65 million; consequently consumer buying power is at an unprecedented level and has been increased by the little observed buying and equipping that is being done by transients entering the United States from all parts of the world.

(2) Building activity, this spring, has increased 40% over last year and contracts are continuing to rise. Capital expenditures of heavy industry are expected to reach about $20 billion in 1948 as compared with $16 billion in 1947, and only $5 billion in 1939.

(3) Money in circulation is more than three times larger than it was before the war and savings of spendable income this spring were again on the rise according to Department of Commerce reports.

(4) Figures released by the Federal Reserve Board for the period Jan. 1, 1943, to May 15, 1948, show an increase of 6% in retail sales over the same period of 1947, while manufacturers' sales were 9% above 1947 for the first quarter of 1948.

(5) The Marshall Plan for the recovery of Europe acts as a long-term support to our heavy industry and agriculture. Similarly, the recent cutting of taxes by $5 billion has increased individual incomes, and will act as a cushion to retail trade.

(6) With the issuance of new short-term Treasury bonds at 1⅛%, the government has returned to inflationary deficit financing. As a matter of fact, the Administration seems to be determined to use all powers at its disposal to prevent deflation of any kind before the fall elections.

(7) Prosperity and full employment have brought a continuous growth of population in the United States. From April 1, 1940, to Jan. 1, 1948, our population rose by about 14 million people. In 1947, the increase reached an all-time record of 2,700,000. This important fact in the life of our nation is paramount in appraising the economic outlook. The continuous growth of the United States population necessitates further expansion of our production facilities. Charles F. Kettering, Vice-President of General Motors, recently warned members of the American Iron & Steel Institute "not to fall into the mental attitude of looking for a leveling-off or letdown in demand. This could lead to a reluctance to expand facilities in line with the growing nation." New plants and products are needed to supply the constantly growing number of United States consumers, apart from the vast demands of the projected armament program.

The recently concluded two-year wage contract between General Motors and the largest union in the industry has initiated an entirely new and constructive approach to labor relations in which, eventually, the whole of United States industry will participate. The broad implication of this wage settlement cannot be fully assessed at this time. The beneficial effects of this precedent will continue to influence labor relations for years to come.

At a time when corporate bonds yield around 3%, a yield of 6% is obtainable on an average blue chip common stock (many good stocks yield much more) and the prospects of uninterrupted prosperity over the next few years are seemingly almost guaranteed. A rising market is only beginning to adjust the relationship between dividends and stock prices *to a level considered normal* by investment appraisals. All observations reveal that common stocks are almost the only values of our economy which have not yet been

(Continued on page 5)

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Management's Responsibilities to Stockholders

By HARRY A. BULLIS*
Chairman of the Board, General Mills, Inc.

Prominent industrialist reviews responsibilities of management to stockholders, employees and public, and indicates complications of their interrelatonships. Cites General Mills activities in bringing stockholders in closer relationship with the company and in interesting stockholders in company's products. Decries public impression large corporations are under one-man control, and discusses reforms in corporation reports to stockholders as well as in annual meetings.

During the early years of this century, expansion and production, almost exclusively, occupied the country's best business brains.

The years between the two World Wars were characterized by tremendous emphasis on selling and merchandising.

Harry A. Bullis

I hope and believe that the second half of our century will be marked by inspiring progress in the field of human relations. I am confident that, through determined effort and the exercise of tolerance and human understanding, the many intricate group relationships of our modern world can and will be harmonized.

The developments of our postwar economy have brought into sharp focus the interdependence of the four major groups in our free competitive system: management, labor, stockholder, and consumer. More and more the leaders of these groups are coming to realize the need for sound thinking and sincere cooperation if all are to enjoy to the full the benefits of our way of life. We are gradually learning that each group has duties and responsibilities as well as rights, and that we all stand to gain more through cooperation than through controversy. It is indicative of the trend of American thought that this meeting is being devoted to a discussion of the social responsibilities of business.

Under our freely competitive economy — our "people's capitalism" as Harold Stassen calls it—management acts as a balance wheel for the interests of employees, stockholders, and the consuming public. It is in a position of trusteeship for each of these groups. Management has the duty of seeing that no one group gains unreasonable advantage at the expense of the others.

If sound management can maintain the proper balance, all groups prosper. But if one group gains an unreasonable advantage at the expense of the others, there is danger of business failure and consequent hardship to all.

These interrelationships have been greatly complicated by the tremendous growth of American industry. Seventy-five or a 100 years ago, the average business was small, and it was usually owned by one man or by a partnership of two or three. The office was probably a corner of the shop or mill. The business was managed by the owner, and he knew personally the men who worked for him — knew their faults, their special abilities, and the members of their families. Thus the proprietor combined in his own person the function of management and ownership, and he was closely identified with labor also. Such were the conditions which existed when in the year 1866 when Governor C. C. Washburn built his first flour mill in Minneapolis on the Falls of St. Anthony.

Today, we who manage the company which evolved from Governor Washburn's early initiative face a very different situation. The company—General Mills—is owned by over 12,000 shareholders living in every State of the Union, and it has 12,500 employees. Management has emerged as an entity separate from ownership and labor, yet its obligations to both, and to the public, are more important than ever.

Stockholder Relationships

During the next few minutes I shall discuss one of these responsibilities of management—that of stockholder relations. First of all, what does the progressive and independent stockholder want and expect of management?

"Above all he wants to be treated as an owner and a partner in the enterprise and not merely as a name on a stock ledger." So says Mr. Lewis Gilbert of New York, unquestionably the country's most ardent campaigner for the rights of small stockholders.

That is how the stockholder ought to feel. It is how progressive management wants him to feel. But unfortunately, in a great many cases, stockholders are apathetic. They stay away from annual meetings in droves. Few ever visit their companies or write letters to the officers. It becomes, therefore, the responsibility of management to stimulate this interest on the part of its stockholders, to try to awaken them to the responsibilities of ownership.

We believe that the way to arouse the interest of stockholders is by friendly personal contact. Much can be accomplished by annual reports, dividend inserts, and stockholder magazines, but printed matter can never take the place of personal contact.

Any publication is, at best, a one-way avenue, and the essence of sound relations between owner and manager is frank and unimpeded two-way communication.

This was the reasoning that led our founder and former Board Chairman, James F. Bell, in 1938 to pioneer informal regional meetings with stockholders throughout the country. At these gatherings we meet personally about 25% of our owners. These meetings were discontinued during the war, but were resumed in the Autumn of 1946.

The practice of holding such informal meetings is being followed by a growing number of companies interested in improving stockholder relations. The informal meeting offers wide possibilities. It gives owners and managers and opportunity to become acquainted and to learn from each other, and results in the establishment of confidence and mutual respect.

It has been the custom for the chairman to greet each stockholder personally at the door as he or she arrives for the meeting. We have avoided the use of a stage or platform of any kind, in order to be free to move among the audience in a friendly and informal manner. This has been particularly effective during the period of questions-and-answers with which we conclude each meeting.

With this approach it has been possible, in a tactful way, to emphasize the stockholders' responsibility to management—the need, as Mr. Bell puts it, for each owner to "get behind the company morally and spiritually as well as fiancially." We have, therefore made the personal approach the keystone of our whole stockholder relations program.

Our purpose is to establish the "we" relationship. When an owner writes to me and suggests that "we"—rather than "you" or "they"—should do this or that, then I know that we have been making real progress in our stockholders' program.

Our personal relations with a new stockholder commence the moment we receive his name on the purchase records. It does not end until he has sold his stock, and even then reluctantly and with the hope of future reunion!

Initial contact with a stockholder is a personal letter addressed to him by the President of the company welcoming him into "the General Mills family." This letter also offers the new stockholder, as a gift, a box of our assorted grocery products, to be mailed to him or to whomever he

(Continued on page 35)

*An address by Mr. Bullis at the Annual Conference of the Harvard Business School Alumni Association, Boston, Mass., June 12, 1948.

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Continued European Planning Would Sabotage ERP

By DR. J. VAN GALEN
Editor, "Algemeen Handelsblad," Amsterdam

Dutch publicist maintains European governments in their current attempts at planning have become hopelessly enmeshed in complications, and lost all control of situation. Asserts real stabilization of free currencies is prerequisite to healthy restoration of international commerce, and hence to ERP success.

AMSTERDAM — Cooperation between the five powers of the Brussels Pact can be fruitful only if it rests upon sound economic policy leading to the raising of foreign currency restrictions and the creation of a free, exchangeable currency. The most the financial discussions in Brussels could do was afford temporary relief; they did not go to the root of the evil.

Dr. J. Van Galen

On March 16 Britain, France and the Benelux countries concluded the Western Union Pact, which has very wide ramifications. Actually, this pact does not merely mean a pact of mutual assistance against renewed German aggression, like the Dunkirk Pact between Britain and France of March 4, 1947, but is also aimed at military, economic and cultural cooperation between the five partner countries.

The pact, as yet, is nothing more than a "pactum de contrahendo," an expression of the will of these countries to cooperate in the spheres named. Its real content depends on how it is worked out.

In a certain sense it was put to the economic test at the recent financial and monetary talks in Brussels. Unfortunately, it has been weighed and—for the time being at any rate—found wanting. These talks have at least shown how difficult it is, under the present circumstances, to arrive at a common arrangement acceptable to all parties and providing a reasonable guarantee that the conditions will be created for a healthy and natural balance, without the tension or friction now occurring in both the national and the international commerce of the five countries.

Difficulty of Economic Cooperation

This is a matter of extreme importance, worth while pausing to consider. It is a demonstration of how difficult it will be to bring about economic cooperation in the present disjointed condition of Europe.

It is clear that, so long as the present monetary relationships in Europe continue to exist—each country isolated from the other by currency regulations and without a free, stable, internationally valid currency—a healthy reconstruction of international trade is impossible and that this can only be built up by an exchange of goods and services on the basis of the smallest economic costs. To compare those costs a fixed standard of exchange is necessary. The only currency at present eligible for this role is the U. S. dollar, hence the increasing use being made of it in international commerce as a basis of value and a currency for international settlement.

Effects of Currency Restrictions of International Trade

Currency restrictions lead to a decline in foreign trade; this became clear after 1931 when foreign currency restrictions were introduced in Germany "to protect the Reichsmark."

In reality, this system serves to enable the governments to pursue a certain policy since, it is believed that it is possible to eliminate the "troublesome" elements in foreign influences by excluding those influences.

As all Western European states—with the exception of Switzerland—have pursued such a policy since the war (Sweden since July, 1947) the result is that, notwithstanding all the lip service that has been paid to the expansion of international trade, and in spite of all "export drives," the results have been extremely disappointing.

This is perfectly explicable to anybody with economic insight. Commerce is thrust into a bilateral strait jacket which has made the idea "foreign trade" even more of a farce.

The economically cheaper imports from the hard currency countries are excluded while the more expensive imports from the soft currency countries, are admitted and this results a bilateral settlement. How can a healthy European economy ever be created in this way? It gradually isolates countries more and more from a genuinely sound economic traffic; currency difficulties, the demand for genuinely international means of payment will therefore become ever more acute. If Europe does not break out of this vicious circle ERP will fail.

Balances of Payment Between the W. European Countries

The extent to which these difficulties are piling up is shown clearly by the balances of payment between the five Western Union Powers.

Belgium, less devastated by the war than her neighbors, has granted credits totalling 15 billion francs to those countries, 13 million francs of which were loaned in one year. These credits were granted as a result of and corollary to the monetary agreements which Belgium concluded with those countries and the settling of a maximum for mutual credits. These monetary agreements are necessary because of the bilateral trade agreements for payments by means of bilateral clearing. In practice the granting of credits was not mutual: the four other countries have made full use of those Belgian credits but Belgium does not need that credit lines in those countries, but needs dollars (needless to say that the other countries need them too!). Belgium believes—probably quite rightly—that it cannot go on with the issue of these credits via the Banque Nationale de Belgique without endangering its own monetary equilibrium.

Wrong System of International Credits

Here again, we meet with a policy which handicaps the restoration of a sound and natural equilibrium. These credits are issued by the national banks. They therefore have a direct influence on national currency without involving the automatism which existed, for example, under the gold standard and guaranteed the restoration of equilibrium. This management, which counter-

(Continued on page 47)

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The State of Trade and Industry

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

As has been true of many past weeks, industrial production for the country as a whole, in the previous week, continued to hold to a high level. While slight declines occurred in the output of some goods, they were offset by moderate increases in other lines.

A steady flow of raw materials was maintained in the week and plants for the most part were able to obtain an adequate supply. This made for steady and high employment and payrolls. Labor-management relations, too, were in the main generally favorable.

However, the dispute between the bituminous coal operators and the miners continued last week to drag on without any material progress in the form of a new work contract for the soft coal miners.

Instead, both the operators and John L. Lewis reopened negotiations on Friday last. If the talks gave evidence of being long-drawn out, it was predicted by some Washington sources that by mid-week the Federal Mediation Director would be forced to recommend to the President that he set up an emergency fact-finding board. This would be preliminary to obtaining an injunction against a strike, under the provisions of the Taft-Hartley Law. The present contract terminates on June 30, next.

* * *

Nearly 20,000,000 tons of raw steel has been lost as a result of major strikes since the beginning of 1946, according to the latest available figures, the American Iron and Steel Institute reports. In terms of finished products, that amount is nearly equivalent to all the steel supplied to the automobile industry in both 1946 and 1947.

More than 42% of the loss this spring occurred after the miners had agreed to return to work. First, coal had to be loaded at the mines and transported to coke ovens. Then many other steps had to be taken, all of which required additional time before the operations of blast furnaces, open hearth furnaces and other facilities could be restored.

* * *

In the face of growing reports of fresh wage increases in many industries to meet the high cost of living, it is significant to note that during April, wage and salary payments declined for the third consecutive month, reaching the lowest level since last November, the Commerce Department points out.

Centered in manufacturing, this decline according to the department, resulted in part from labor disputes and material shortages which curtailed hours worked.

At the same time, total personal income, of which wage and salary payments are a part, increased to an annual rate of $209,100,000,000 in April, $1,400,000,000 above the previous month. Most of the overall increase resulted from increased farm income, as both price and marketings of farm products rose.

The department also noted that factory payrolls declined in April for the fourth consecutive month, dropping below the November, 1947, level. Retail-trade payrolls also declined after seasonal adjustment, as employment failed to show the usual April upturn.

* * *

Numerous promotional sales of seasonal merchandise helped to stimulate consumer buying during the past week. Retail dollar volume rose slightly and moderately exceeded that of the corresponding week a year ago.

There was a large increase in the demand for graduation and wedding gifts, though many consumers continued to shun luxury items.

Wholesale dollar volume increased slightly in the week and was somewhat above the level of the like week of 1947. Buyers evidenced some caution in placing large orders for fall merchandise and insisted on early deliveries. Re-orders for most types of seasonal merchandise remained substantial.

STEEL OPERATIONS SCHEDULED AT SLIGHTLY LOWER CAPACITY FOR CURRENT WEEK

The Federal Trade Commission is determined to change the selling practices in the steel industry. The cease and desist order calling for drastic changes has been drawn up and is being studied by FTC members. Little or no changes are expected in the form, it is believed, and the industry may find the order issued upon it early next year, if not sooner, according to "The Iron Age," national metalworking weekly, in its current summary of the steel trade.

The order, "The Iron Age" has learned, calls upon the steel industry to (1) to establish a plant price for steel at every mill; (2) sell f.o.b. mill when requested, and (3) cease the compilation and dissemination of freight rate information.

Such an order, while it does not specifically outlaw the basing point system, would so drastically change the relationship between steel buyer and seller as to produce an f.o.b. mill system with little or no freight absorption. At least that is the opinion at this time, the magazine states.

Steelmakers are convinced to a man that legislation is the only answer to the FTC. Yet it would be foolhardy to rule out the remote chance that some steel firms might suddenly go to an f.o.b. mill system before the order is promulgated and before the steel basing point case reaches the Supreme Court, as it likely will.

Neither foreign scrap arguments, nor anxiety over a pending change in steel selling practices have had any effect on total steel demand. Steel sales officials have finally thrown up their hands in amazement at the continual stream of orders. Stark proof of the state of things, this week, says this trade authority, is the widening of promises for stainless steel and alloy steel items. In most cases promises for these products were this week two or three times as long as at the first of the year.

As to regular carbon steel products, the auto shutdowns are mute evidence that there has been no change there. As predicted, the auto shutdowns occurred as an aftermath of the coal strike. A new coal strike could be expected to eventually have the same effect.

Current heavy demand is setting a pattern which supports the view that by the time the Marshall Plan and the defense

(Continued on page 31)

Observations . . . .

By A. WILFRED MAY

That Enigmatic Stock Market

Our space this week is being devoted to a newly-published book on security price movement (**"THE STOCK MARKET—Basic Guide for Investors," by Joseph Mindell, 305 pages. B. C. Forbes & Sons, $5**) because of its wide implications on today's investor and speculator.

A. Wilfred May

The book is authored by a security analyst who is a partner in a Wall Street brokerage firm, and who uniquely combines this practical experience with a theoretical background and the ability to write. Impelled by an honest intellectual search for the truth and free of predetermined dogmatic conclusions, this work is as important for its abstentions as it is for the conclusions which it does contain. The omissions as of a usually-fostered pet investing system, as well as the inclusion of much de-bunking, might ordinarily be thought of as short-comings, but—arising from the author's intellectual honesty—they really highlight the great difficulties obstructing the management of capital. As a result we are led to the inescapable conclusion that investment today is far from being an art or science.

Some Realistic De-Bunking

Among the good services rendered by Mr. Mindell is his pointing out of the fallacy of emphasizing the error of single-cause reasoning in market as well as general economic analysis. For example, the constant past variations in the stock market's valuation of the cross-section of American industry as represented in the Dow-Jones Industrial Average, lead him to conclude that "the variation is so great that we must concede that there is no dependable relation between earnings and stock prices." Mr. Mindell convincingly undermines the popular proclivity to relate stock market movements to commodity prices, to the interest rate, to bank credit, or to inventories. He shows the fallacy of trying to emulate the market action of investment trusts and other important "they's." He constructively points out the pitfalls in over-relying on growth stocks, as well as the basic shortcomings of the Dow theory.

The result (and apparently not the cause) of Mr. Mindell's disillusionment with tools of the "intrinsic investment value" kind for appraising stock prices or market levels, is his embracing of "internal market evidence," more commonly known as *technical* forecasting of the market. The all-too-ready and too-credulous embracing of technical gadgets by as intelligent an observer as Mr. Mindell seems to reflect a common "escapism" from difficulties which are realized, to nostrums whose weaknesses are inherent but unrealized. Ironically enough, Mr. Mindell catches this "escapism" as embraced by the Dow theorist, when he says "The great popularity of the Dow Theory in financial circles reveals the pathetic human hunger for a mechanical gadget that will do our thinking and make our judgments for us." But he does not realize that he himself may also be thus psychologically victimized in other directions.

A Too Readily-Accepted Tool

It is this columnist's opinion that, as with many other technicians, if Mr. Mindell applied as great quantity and quality of scrutiny to his favored investment tools as he does to those about which he is dubious, he would be skeptical about the former also. An example of this is his strong approval of stock price ratio lines. Briefly stated, *ratio technique* is based on the premise that future action of a stock or group of stocks can be deduced from notation that its past behavior is as good as, poorer than, or better than, that of the general market. In capturing that magic *trend* it is assumed that an issue "acting better than the market" has established an uptrend, and vice-versa. (Thus Mr. Mindell concludes: "It is best to play the long side only of those issues that are in persistent ratio line uptrends, and to sell short only those in persistent downtrends.") But it seems to this writer that the converse conclusion could just as likely, if not even more likely, be valid. Particularly to a buyer looking for real value from an investment approach, an issue's moving higher-than-the-market (the ratioist's bull signal) could just as logically mean that the particular issue is over- rather than under-valued. At some point of its divergence from the market, ranging between its price and zero, the ratioist's reasoning that the lower a stock goes the worse it is, must be reduced to absurdity.

The "Escape" to "That Trend"

It seems to me that Mr. Mindell again "escapes" to too-ready adoption of a new theory as a "way out" after justified disillusionment with old ones, in his confidence in the detectability of market trend. Enthusiasm over the indispensability of this technical phenomenon has prompted full chapters on "The Major Trend of the

(Continued on page 43)

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Grounds For Bullish Optimism

(Continued from page 3)

hit by the inflation which is so obvious in our daily life.

In view of the fact that stock prices still have not moved beyond the reach of a prudent investor, I would recommend the purchase of issues of leading companies. Commitments in oils, steels, coppers, the coal industry, the natural gas industry, paper, heavy machinery, wool, rayon, shipping and railroad industries will prove to be both secure and profitable. Stock prices must eventually reflect the tremendous growth of the United States in this decade, and investors still have an excellent opportunity to participate in the expected advance of the stock market.

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More Investment Needed to Increase Real Incomes

By FRANK D. NEWBURY*
Consultant, Westinghouse Electric Corporation

Analyzing investment-expenditure-income relationships, prominent industrial economist combats theory increased spending can create permanent prosperity. Points out relief money given to maintain spending accumulates in idle bank deposits, while additional funds saved for investment adds to working capital and, by increasing production, furnishes additional employment and income. Points out U. S. industrial progress has come about through savings and capital investment, and contends one dollar of new investment produces a dollar of new income. Stresses need of increasing savings and profits.

The subject I have been asked to discuss is not a simple one, but is obviously important to every one of us. Unfortunately, and in spite of its importance, there is no general agreement concerning the "fundamental factors" that are responsible for the state of business. Left-wing Democrats have one set of ideas and answers. Right-wing Republicans and more conservative citizens generally have a different set. Organized labor has its own philosophy and program to improve the economic situation of its members; management as a group has a different philosophy and program of its own. Then the difficulty of reaching a common solution is immensely increased by the wide split between the radical and liberal economists on one side, and more conservative experts on the other. When the experts cannot agree, it is difficult for the ordinary citizen to determine the truth. In this field that affects the lives of all of us, few people are disinterested, and few have failed to make up their minds, with or without the facts.

F. D. Newbury

So, within the short time allotted to me I cannot expect to give you complete and final answers to this controversial question, which, in very simple language is this: What program will make business good and keep it good? How can we come closest to maintaining a high level of prosperity and avoid falling into depression? But I shall try to discuss the question within the bounds of fact and logic, and throw some light on the principles involved. Needless to say, my long experience in management leads me to approach this question from the conservative side, but I hope I can keep any bias I may have out of the discussion, and give you sound reasons for my conclusions.

The difference of approach that I have just mentioned, that, ideologically, can be described as the positions of the right and the left, also can be described in economic terms.

Stated very simply and very bluntly, the controversy arises between those good people who sincerely believe that the way to achieve better average incomes, more plentiful production, and more continuously sustained employment is by doing everything possible to increase **consumption**; and those people who, we can agree, are equally good and equally sincere, who believe that these same desirable goals will be reached most surely by doing everything possible to increase **investment**.

It will help to lower the temperature — the degree of heat generated in the argument — if we keep in mind that both groups are trying to reach the same goal of economic progress and stability; let us agree that neither group is more selfish, nor less kindly, nor less generously disposed toward their fellow men than the other. We are discussing methods, not ends or motives.

The differences of method and program exist, therefore, between those who would place **consumption** first and those who would place **investment** first. Consumption and investment are academic words that I will have to define later on; at this point I can underline the practical nature and importance of this division if I merely mention some of the intermediate objectives and programs of the group that places consumption first.

The "Increased Consumption Theory"

Those who favor increasing consumption as the way to better business production and employment, believe in maintaining purchasing power at all costs, and especially the purchasing power of those receiving the lower range of incomes; they believe in government price control to keep the prices of necessities low; they believe in the "ability to pay" principle of using all but a minimum level of profits to pay higher wages, and without price increases; they believe in a high wage policy generally, and especially directed to raising the minimum wage floor; they believe in government subsidies of various kinds to increase consumption of food and for education, medical, hospital and maternity care; they believe in steeply progressive personal income taxes and high corporation income taxes to provide for these various forms of assistance to low income groups. Their negative program includes opposition to profits beyond a minimum level; they believe profits in excess of this minimum

(Continued on page 28)

*An address by Mr. Newbury at the 24th Industrial Conference of the Pennsylvania State College School of Engineering, State College, Pa., June 9, 1948.

Effects of Rearmament And ERP on Business

By CHARLES CORTEZ ABBOTT*
Professor of Business Economics,
Harvard Graduate School of Business Administration

Professor Abbott, after analyzing present and prospective economic developments in the light of proposed armament expenditure and foreign aid concludes no extreme effects on profits or corporate working capital will be produced unless radical price advances are precipitated. Holds, in view of present full use of operating capacity, plant and equipment expenditures cannot be driven much above level of 1947 and inventory accumulation will not be much above $4-5 billion, as against actual figure of $6.7 billion in 1947.

I have been asked to speak regarding the effect of rearmament expenditure and European aid on business profits and industry's needs for working capital. Anyone who examines this subject—and there are a number of persons here today whom I know have examined this matter—will, I believe, reach the conclusion that it is as yet too soon to speak with any certainty on this topic. There are still too many unknown variables to permit precise thinking or dogmatic declarations. All we can do is examine the broad forces presently at work and consider the implications of the pattern into which these forces fall.

Charles C. Abbott

As I see the picture, the salient facts are three: First, since V-J Day we have had a high-level economy. National income, employment and profits have all exceeded previous peacetime records. Second, the amount of spending which rearmament and European aid will require is large, but even approximately accurate figures cannot as yet be determined. Third, the period of time during which these sums will be spent, and the rate at which they will be spent, are not yet known. In short, the problem confronting us is to estimate the effect of injecting, at an unknown rate, some billions of dollars into an economy that is already running close to capacity. Each of these three points deserves some elaboration.

A high-level economy such as we have had since the end of the war is by definition a vulnerable economy. At one and the same time, it is vulnerable either to inflation or deflation. Most people who have observed the course of economic and business thinking the last two or three years will agree that two fears have been continuously present. On the one hand, we have been fearful that the rise of business activity would continue and thereby, presumably, intensify the subsequent recession when and as it came. On the other hand, we have been fearful that the bust was already upon us. Yet we should not underestimate our blessings. Except for the rise of prices, by any test with which I am familiar we have had an enormously successful economy since V-J Day. Employment has been rising; the standard of living has been rising; capital investment has been increasing; business profits have been large; the budget, recently, has been balanced; taxation this year has been reduced; some government debt has been retired. All of the earmarks of a healthy and expanding economy that are mentioned in the textbooks have been present, except stability of prices.

What Rearmament and European Relief Calls For

I am sure you are all aware of the difficulty of getting a picture of the magnitude of expenditure involved in rearmament and European aid. The President's budget of last January included $11 billion in fiscal 1949 for national defense. Since then, additional preparations have been made for the 70-group air force and for other purposes and still further appropriations are urged. Estimates of the probable increase in armament expenditure over the January budget range from $3 billion to $7 billion.

The President's budget included $4 billion for the European Recovery Program, excluding $1¼ billion to be spent during the spring of 1948 and excluding Army expenditures in occupied areas during fiscal 1949 of $1¼ billion. Since then the Economic Cooperation Act has authorized the appropriation of $5.3 billion for use during the next 12 months, plus the unobligated balances of the Foreign Aid Act of 1947. Of the $5.3 billion, $3 billion is to be charged to the surplus in fiscal 1948. The National City Bank in its April Bulletin estimated that over-all United States relief and rehabilitation grants and loans available during calendar 1948 amounted to $7.2 billion. As a very rough approximation I suppose that what we are talking about here today is the effect during the next 10 to 12 months of injecting into our economy—which is presently generating a gross national product of $250 billion or a little more—some $10

(Continued on page 39)

*Remarks by Professor Abbott at a Round Table Conference of the National Industrial Conference Board, New York City, May 26, 1948.

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From Washington Ahead of the News

By CARLISLE BARGERON

The discussion and speculation in recent months over the possible Republican Presidential nominees have reflected an amazing ignorance of this country's governmental set-up and its political system. There have been statements which one hears frequently in gatherings, particularly in Washington, and there have been solemn editorials and polls to the effect that the Republicans could win with this man, not with that one. And there has been a lot of irresponsible stuff, spoken and printed, that the Democrats can't win with Truman but could win with Eisenhower.

Carlisle Bargeron

This is an example of what the great Roosevelt personality has done to this country. In his long reign, people got to thinking in terms of personalities and they can't get over it. Under him, it ceased to be the government by the people and for the people, but government by him. He came to be looked to for the solution of all our ills.

The plain facts are, of course, that even this great personality could never have won by himself. He had the greatest organization behind him that this country has ever known. It is a fact that with the billions which he gave away, he was a salable product for this organization. But nevertheless, the organization had to be there.

It is also a fact that the constituent organizations which made up the overall one, such as the Hagues, the Kellys, the CIO, the Communists, the various State governors and mayors, could not have sold him, with all of their combined strength, in 1944 except that a sufficient margin of people, Republicans and Democrats alike, with sons in the war, figured reluctantly that a change of horses at that time might mean a prolongation of the war. It is understandable that they thought so.

When you think of the great Roosevelt personality you should consider the powerful machine and propaganda that made him this. Many a young columnist or celebrity in another field, having had a tremendous build-up, forgets the people who gave him that build-up and suddenly learns that the tremendous standing he has attained has collapsed. He has mistaken the build-up for sheer brilliancy on his part.

Now in the year of 1948 A. D. our commentators and pundits when thinking in terms of Presidential personalities, are overlooking the nature of our political set-up, the fact that it is made up of two great political parties. They are overlooking that in certain times and conditions the organization of one falls to pieces as the other rises to great heights. These political parties are made up of workers, office-holders and patronage dispensers all over the country. The fact that there are more office-holders and patronage dispensers of one of the two parties in office at a given time is due to the political trend being in their direction.

The political trend is now obviously towards the Republicans—not towards Dewey, Taft, Stassen, Vandenberg, Joe Martin or any particular candidate, but towards the Republicans. This means they have more State officials, more mayors, better local organizations than the Democrats. That they have so many candidates for the Presidency is evidence of their certainty of victory.

I have my serious doubts that the great Roosevelt, were he living and running, would be the great Roosevelt today. Undoubtedly he would be the same Roosevelt with the same ability to say "labuh" instead of labor. But his personality alone would not be sufficient to get him to first base. There would not be the billions at his command to spend, there would not be the fire in the countless organizations around the country which he commanded.

The likelihood is that he would be making the same "mistakes" in his speeches, that there would be the same bungling in the handling of his trips, that are now constituting the hard luck of Truman.

Wendell Willkie in his great opportunity, made a worse showing that he otherwise would have made, because he got the impression that Presidential campaigns are great personality contests. Looking upon himself as a towering personality, as was not unnatural considering the amazing way in which he got the nomination, he kissed off the Republican organizations in many States. In a country so big and unwieldly as ours, he thought, apparently, that 140 million people, in effect, after hearing him on the radio and after having heard Roosevelt, would choose him.

He would, of course, have been amazed at the number of people who never once heard him on the radio. Other politicians would be amazed to know, at times when they are "talking to the country," how many millions of people are doing something else or at least not listening to them. My impression is, though I don't know much about such things, that a very high Hooper rating is around 7%.

Electric Utility Financing

By HAROLD H. SCAFF*

Vice-President, Ebasco Services Incorporated

Noting relative decline of appeal of electric utility stocks to investors, Mr. Scaff ascribes it to erroneous apprehension about adverse effects of projected new construction, together with rising building and operating costs. Says misunderstanding exists regarding these factors, and points out solid financial position of utilities and expanding markets for services. Lays down formula for future construction financing, requiring 50% debt and 50% in preferred and common stocks and surplus, and predicts increased net earnings arising from new facilities and economies. Sees favorable attitude toward higher rates.

Stock market prices in recent months indicate that electric utility companies' common stocks temporarily have lost some of their appeal to investors. A comparison of the common stock prices of utility operating companies with industrials for the years 1946 and 1947, and the four months ended April, 1948, shows that the market prices of both groups of stocks moved generally in unison during 1946 and the first half of 1947. Beginning in the latter half of 1947, however, utility operating company stock prices moved downward more sharply and, to date, have not regained their relative position.

Harold H. Scaff

In December, 1945 the industrial stock price index of Standard & Poor's was 142.2 as against 123.3 for utility operating companies. Using these figures to represent a base of 100%, we find that at the end of April, 1948, the industrial stock price stood at 92% and the utilities at 79%.

A study which we made recently shows that high grade electric utility operating company common stocks are now selling at an average of about 14 times earnings, whereas, in mid-1926, the high point of the market in that year, these same stocks were selling at an average of about 21 times. Medium grade electric utility operating company common stocks are now selling at an average of about 9 times earnings, whereas in mid-1946 they were selling over 15 times earnings.

Adverse Factors

Because of our great interest at this time in the market for utility capital, particularly equity capital, in view of the large amount of financing that confronts these companies in the future, we undertook to determine generally the factors that might be causing the relatively adverse market action of electric utility common stocks. We reviewed numerous articles on the subject and talked to a number of men who, from their business experience and connections, would be in a position to express sound opinions as to the reasons why this condition had come about. Almost without exception we found that two factors were thought to be mainly responsible for the condition; one was the apprehension about the adverse effect of the projected construction program of the privately owned electric utility companies on the net earnings of these companies; the other was the effect of rising operating costs on net earnings.

We knew from our knowledge of the economics of the electric utility business and numerous studies which we had made that these two factors should not affect net earnings in such a way and to such an extent that the market price of the stocks should be depressed thereby. It became apparent to us that considerable misunderstanding existed regarding these items and that some effort should be made to clarify these points for the benefit of the investing public and others.

Bearing in mind this objective, and that the investing public might be placing undue stress upon what it considers adverse factors and not enough stress on the inherent earnings growth and stability of the electric industry and the soundness and strength of its credit position, we in Ebasco decided on the preparation of a booklet which we hope will clarify these points and will bring forcibly to the attention of the investing public the story of the future prospects of the industry in light of its expanding business.

I had hoped up until a week or two ago that copies of our booklet would be available for this meeting, but due to the magnitude of the job and the difficulties of getting it printed in so short a time, it was impossible to meet such a schedule. I intend, however, to use some of the material that we have developed as a basis for my discussion this morning, and when we have completed the book, I will see that a copy is sent to each one of you.

Solid Foundation of Industry

Our approach to the problem covers briefly the operating and financial history of the electric industry, to show the solid foundation upon which the industry has been built and the growth of earning power that it has experienced; also that it has great stability of earning power which is so essential to attracting capital.

There is little need of burdening this group with any of the details of the past history of the industry. Most of you have been brought up in the industry and know its history from first-hand contact.

I will therefore devote the remainder of my time to a discussion of the future of the industry as we see it, which we hope will contribute toward dispelling any doubt which may exist as to its future strength and stability.

The rate of growth of electric energy has over any lengthy period of time been considerably in excess of the general economic growth of the country. The history of our economy shows the growing dependence of industry generally on central station power, and the increasing amount of energy available per industrial worker. It can, therefore, be said

(Continued on page 36)

*An address by Mr. Scaff before the Accounting Section of Edison Electric Institute, Atlantic City, N. J., June 1, 1948.

We take pleasure in announcing that

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has been elected

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New Tax Law and Speculation

By J. K. LASSER*
Chairman, Committee on Federal Taxation,
New York State Society of Certified Public Accountants

Mr. Lasser points out applying principle of community property to capital gains taxation has encouraged more speculation and quick turnover in securities. Says tax rate of 25% does not begin to apply until family income exceeds $44,000 a year, and lays part of increased stock market activity to prospects of larger dividend payments.

A major, neglected factor in current stock market price increases is the new tax law. It has encouraged speculation and quick turnovers in stocks. That comes by reason of its materially lowering the rate applied to gains on securities held for a short period by married people.

J. K. Lasser

Treasury statistics for years have proved that the rich taxpayers have waited for long periods before selling their securities. The low bracket people have always taken their gains or losses quickly. The reason was the favorable tax rate that applied to long-term gains. They were never taxed over 25%, if the securities were held for more than six months. The wealthy taxpayer always held his securities for the full six months or longer periods. That gave him the lower tax. The effect, naturally, was to slow down the turnover of securities in the open market.

Economists have long pleaded that a low tax rate on capital transactions would speed the marketing of securities. And thereby the government tax revenues from the sales would be enhanced. Despite that, our laws — before 1948 — assessed very high tax rates on any transactions completed within a six month period. Experience in the 1920's always established that low tax rates on the capital deals produced more sales and more tax to the government. Congress, however, was unmoved by any pleas for alteration of the tax system until this year.

Even then, we got our 1948 aid to speculation and quick turnovers in a most indirect manner. The principle of community property income taxation was first applied this year to all married couples. That automatically cut the basic tax rate applied to couples so that the capital gains rate of 25% does not begin to apply until the family income exceeds $44,000. Under the old law, in order to get 25% tax rate, the security had to be held for six months or more. Now the family tax rate gives us very favorable rates on capital gains, even if the buy and sell orders are only a day apart.

*An address by Mr. Lasser at the 15th Annual Conference of the New York State Society of Certified Public Accountants, Saranac Lake, N. Y., June 8, 1948.

The effect on mass selling is interesting. Experience proves that people will sell with a low tax rate but hold on to property with high taxes. Now the distinction is wiped out for nearly all of the market traders. The result is that the buying and selling is no longer a matter of expert tax advice. We have returned the stock market to investors and speculators, removing it from the province of expert accountants. Up to this year, they have constantly had to advise as to when the sale should occur.

Dividend Policies

Another factor — the prospect of larger dividends this year — naturally encourages the buying into the more likely companies. As an indirect result of the sizeable income tax reductions in the upper brackets, the fall of this year may see a terrific surge of corporate dividend payments. A prediction of unusual dividend increases is based on the amount of income large stockholders can keep after taxes.

Dividend payments of a corporation may be directly predicated on how much the major stockholders will have left over after taxes. When personal income tax rates are high, controlling stockholders prefer to have possible dividends plowed back into the development of the company. But when income tax rates drop, high dividend payments become more natural.

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

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

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

Another point to remember in deciding a corporation's dividend policy is the strong possibility of increased tax rates for 1949. Paying out this year certainly is going to cost the stockholders much less than previous years. And it may be at a lower cost than next year. Watch for developments in taxes during 1948.

Effect on Reorganizations

Another result of the income tax reductions will be the conversion of a large number of small, closely held corporations to the partnership or proprietorship form of operation.

In the last six or seven years, numerous small companies changed from the proprietor to corporate form because corporate taxes for them were lower than personal income taxes. Under the new income tax law, the reverse is bound to be true.

A sole proprietorship earning $55,000 a year, for instance, in which the proprietor is married and has two dependents, will pay a tax no greater than that on a corporation earning $5,000 less. The proprietorship would have this tax advantage up to earnings of just under $70,000.

A similar and even greater advantage is held by the partnership. Any small, family-held corporation should therefore look into the possibilities of conversion. I have prepared the accompanying table to compare the taxes due under this law for both the corporation and the sole proprietor. A study of it will indicate that changes are highly desirable.

Family Divisions

Family partnerships, gifts of stock between spouses, trusts for the wife's benefit, and similar steps taken by the husband to reduce the married couple's tax burden are now obsolete. Splitting income now gives you all the old advantages. But this is limited between a husband and wife. You can still make these arrangements with your children. That can still give you substantial tax savings for the family group. That means continued emphasis on:

Joint ventures with children and relatives; Lease arrangements with the members of the family; Assignments within the family; and a great many steps with similar objectives.

TAXES UNDER THE 1948 ACT

With an Income of	Separate Entities Tax: Corporation Pays	Separate Entities Tax: *Proprietor †Pays	*Total Tax Due by Combination of Corporation and Stockholder: As Deductible Salaries to Stockholder	‡Half of the Earnings Are Paid as Dividends: But No Deductible Salaries Are Paid to Stockholder	‡Half of the Earnings Are Paid as Dividends: and Half of Earnings Are Deductible as Salaries to Stockholder	‡70% of the Earnings Are Paid as Dividends: But There Are No Deductible Salaries Paid to Stockholder	‡70% of the Earnings Are Paid as Dividends: 50% of Earnings Are Deductible Salaries Paid to Stockholder
$20,000	$4,500	$3,589	$3,367	$5,275	$4,210	$5,832	$4,569
30,000	8,400	6,928	5,612	9,722	7,186	10,690	7,883
40,000	13,700	11,152	8,089	15,539	10,576	16,848	11,749
50,000	19,000	16,059	10,891	21,380	14,541	23,098	16,215
70,000	26,600	26,897	19,997	30,698	25,549	33,672	28,025
100,000	38,000	45,009	35,059	45,306	43,373	50,738	46,869
160,000	60,800	85,924	63,038	76,651	78,487	87,376	85,034
200,000	76,000	115,840	83,009	98,463	103,580	112,767	112,091

*Assuming proprietor or stockholder is represented by a married couple with two dependents and no income other than that stated here.

†Note the following points at which the tax on proprietorship incomes would equal the corporate tax:

If a Corporation Earns	A Proprietor Pays the Same Tax If Earnings Are	If a Corporation Earns	A Proprietor Pays the Same Tax If Earnings Are	If a Corporation Earns	A Proprietor Pays the Same Tax If Earnings Are
$10,000	$14,729	$40,000	$45,353	$100,000	$88,831
20,000	23,044	50,000	55,652	160,000	124,036
30,000	33,679	70,000	69,481	200,000	146,078

‡Earnings follow the normal definition of net profits. To get earnings for dividends we used net income after salaries and after taxes. Earnings subject to salaries are before taxes.

Dealer-Broker Investment Recommendations and Literature

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

Anthracite Coal Industry — Analysis of outlook with special reference to **Philadelphia & Reading Coal & Iron Company** and **Lehigh Valley Coal Corp.**—Eastman, Dillion & Co., 15 Broad Street, New York 5, N. Y.

Market Opinion—Discussion of outlook in current issue of "Geared to the News"—Strauss Bros., Inc., 32 Broadway, New York 4, N. Y.

In the same issue are comments and conclusions on **American Furniture; Gisholt Machine Co.; Nathan Straus-Duparquet, Inc.;** and **Shepard Niles Crane & Hoist Corp.**

Physical Measurements and Product Evaluation—Bulletin describing consultant service of Foster D. Snell, Inc., 29 West 15th Street, New York 11, N. Y.

Public Utility Common Stocks—Selected stocks discussed—A. G. Becker & Co., Inc., 120 South La Salle Street, Chicago 3, Ill.

Also available are memoranda on **Commercial Solvents Corporation, Haloid Company National Tea Company,** and **Taylor Instrument Companies.**

Public Utility Stock Guide — June issue containing comparative figures on public utility preferred and common stocks—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Questions for Corporation Executives—Description of tested methods used by many leading companies who can answer yes to questions: "Do you know your stockholders?" and "Do your stockholders know you?" Write on your letterhead for booklet C—Georgeson & Co., 52 Wall Street, New York 5, N. Y.

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

Television Industry — Report and summary—Mitchell-Hoffman & Co., Inc., 1424 K Street, N. W., Washington 5, D. C.

• • •

Aetna Insurance Company—Summary and Analysis—Dempsey-Tegeler & Co., 210 West Seventh Street, Los Angeles 14, Calif.

Also available is a summary and analysis of the **Chase National Bank of New York** and **Bank of The Manhattan Company.**

American Maricaibo — Discussion of interesting situation—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Also available is a memorandum on **Richfield Oil Corporation,** and an analysis of **Market Outlook.**

Arkansas Western Gas Co.—Memorandum — Rauscher, Pierce & Co., Inc., Mercantile Bank Building, Dallas 1, Tex.

Bank of Manhattan Company—Circular—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Berkshire Fine Spinning Associates, Inc.—Summary and analysis—Hill Richards & Co., 621 South Spring Street, Los Angeles 14, Calif.

Also available are analyses of **Dan River Mills, Inc., Ducommun Metals & Supply Co., and West Point Manufacturing.**

Berkshire Fine Spinning Associates — Card memorandum—Scherck, Richter Company, Landreth Building, St. Louis 2, Mo.

Broadway Barclay, Inc.—Memorandum — Seligman, Lubetkin & Co., 41 Broad Street, New York 4, N. Y.

Also available are circulars on **Hotel Drake Corp., Hotel Windemere Trust,** and **Wall and Beaver St. Corp.**

Bloomington Limestone Corp.—Description—George Birkins Co., 40 Exchange Place, New York 5, N. Y.

Butterfly Hosiery Co. — Memorandum—Fairbanks, Kirby & Co., 360 St. James Street, Montreal, Que., Canada.

Also available is a memorandum on **Sicks Breweries Limited.**

Camden Forge Company—Analysis — Fitzgerald & Company, Inc., 40 Wall Street, New York 5, N. Y.

Champion Paper & Fibre Company—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Curtis Publishing Company—Circular—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Dominion Magnesium Limited—Circular—McLeod, Young, Weir & Co., Limited, Metropolitan Building, Toronto, Ont., Canada.

Dow Chemical Company—Summary and opinion—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Estate Planning and Retirement Income—Study—M. A. Manley & Co., Buhl Building, Detroit 26, Michigan.

Firemen's Insurance Co. of Newark — Memorandum — First Boston Corp., 100 Broadway, New York 6, N. Y.

Fleet Oil Corporation—Data—Aetna Securities Corporation, 111 Broadway, New York 6, N. Y.

General Electric Co.—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

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

Lehigh Valley Bonds—Discussion of position—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are circulars on **Quemont Mining Corporation and U. S. Fire Insurance Co.**

Marine Midland Corporation—Analytical study—Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y.

Massey-Harris Co. Limited—Memorandum—Bongard & Co., 80 King Street, West, Toronto, Ont., Canada.

Metal Forming Corporation — Current bulletin — First Colony Corporation, 52 Wall Street, New York 5, N. Y.

Mississippi Glass Co. — Memorandum—Kneeland & Co., Board of Trade Building, Chicago 4, Ill.

Mountain Fuel Supply Co.—Memorandum—Edward L. Burton & Co., 160 Main Street, Salt Lake City 1, Utah.

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Former Empire Steel Officials Form New Co.

A group of former officers of the Empire Steel Corporation, headed by Joseph B. Montgomery, Jr., of Mansfield, O., and Samuel E. Magid, of New York, June 15 announced formation of the Penn-Ohio Steel Corporation and the leasing of the Naval Industrial Reserve Plant at Birdsboro, Pa.

Samuel E. Magid

Mr. Montgomery, formerly Chairman of the board and President of the Empire Steel Corporation, which was sold recently to the Studebaker Corporation, is President of the new company. Mr. Magid, formerly Chairman of Empire Steel's executive committee, has been elected Chairman of the board of Penn-Ohio Steel. He also is Vice-President of Hill, Thompson & Co., New York investment firm.

Other officers of the new company include: William Lake, Vice-President in charge of production, and Roy I. Mitchell, Vice-President and Comptroller. Both held similar positions with Empire Steel. J. G. Baker, President of General Steel Corporation, will be Chairman of the Executive Committee.

Whitney and Davison Resign as Directors Of Montgomery, Ward

H. P. Davison and George Whitney have resigned from the Board of Directors of Montgomery Ward & Co., according to a statement issued by Mr. Whitney on June 16 and from which we quote as follows:

"Mr. Davison has been a director since 1929, except for an interval during the War, and I have served since 1942. Mr. Davison was one of the directors instrumental in obtaining the services of Mr. Avery as Chairman of the board of the company in 1931. Mr. Davison and I wish to record our appreciation of the services rendered by Mr. Avery to the company in the past. To him is largely due the splendid present financial condition of the company and we hope that the company will continue for many years to have the benefit of his advice, knowledge and judgment.

"Certain differences of opinion, however, have arisen between us as to matters of policy, largely involving the internal organization of the company. Mr. Davison and I have felt that in view of these differences, which we have been unable to compose, our usefulness as directors has been impaired and therefore we have resigned."

Thomas G. Campbell With Bruns, Nordeman

Bruns, Nordeman & Co., 60 Beaver Street, New York City, members of the New York Stock Exchange, announce that Thomas G. Campbell, railroad economist, is now with the firm in charge of its Railroad Research Department. Mr. Campbell has been associated with several New York investment firms during the past 35 years and is the author of many studies on railroads, some of which have received national recognition.

COMING EVENTS
In Investment Field

June 17, 1948 (St. Louis, Mo.)
St. Louis Municipal Dealers Annual Outing at the Norwood Hills Country Club.

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

June 18, 1948 (Columbus, Ohio)
Columbus Stock & Bond Club Golf Party at Columbus Country Club.

June 18, 1948 (Philadelphia, Pa.)
Philadelphia Securities Association annual outing at Llanerch Country Club, Llanerch, Pa.

June 21, 1948 (Omaha, Neb.)
Nebraska Investment Bankers Association annual frolic and Field Day at the Omaha Country Club.

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

June 23, 1948 (New York City)
Investment Association of New York second annual outing at the Montclair Golf Club, Montclair, N. J.

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

June 25, 1948 (Milwaukee, Wis.)
Milwaukee Bond Club Outing at Merrill Hills Country Club, Waukesha.

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 (Cleveland, Ohio)
Cleveland Security Traders Association summer outing.

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

July 9, 1948 (Philadelphia, Pa.)
Golf Tournament for STANY Cup at Philadelphia

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.

Dec. 5-10, 1948 (Hollywood, Fla.)
Investment Bankers Association 1948 convention at the Hollywood Beach Hotel.

General Foods presents to its stockholders

. . . Frances Barton

FRANCES BARTON is a friendly, symbolic personality who will henceforth represent to the consuming public the knowledge, experience, and spirit of helpfulness in the General Foods Consumer Service Department.

By identifying the many consumer services of General Foods with this personality, we hope to build an asset of ever-increasing value.

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Connecticut Brevities

Veeder-Root, Inc., has sold its hinge and stamping division, located in Bristol, to Homer D. Bronson Company of Beacon Falls. Veeder had previously announced plans of closing its Bristol plant and moving its operations to the new plant under construction in Hartford. The Root Company, one of the original units in the 1928 consolidation, produced continuous or piano hinges. While the manufacture of hinges and metal stampings has been continued at the Bristol plant since the merger, the company's counter and computer business has become the dominating part of the business and Veeder-Root has decided to concentrate on this field.

* * *

United States Finishing Company on May 26 elected 11 new directors and reelected three directors. The election of the new board practically eliminated the former directors and ends a stockholders' proxy fight which has been in progress since early April. At the organization meeting of the new board Mr. MacClathie, the President, and most of his associate officers were reelected. At the annual meeting Mr. MacClathie told the stockholders that business and earnings for the first four months of the current year greatly exceeded the corresponding period a year ago. He also said that the business outlook is bright.

* * *

The Electric Boat Company has reported that consolidated unfilled orders as of Jan. 1, 1948 were $31,369,000 compared to $4,541,000 a year earlier. Included in the 1948 backlog are $5,842,000 for submarine conversion and new submarine construction and $21,703,000 for Canadian transport aircraft.

* * *

Manning, Maxwell & Moore has announced the acquisition in April, 1948 of the hydraulics division of Airex Manufacturing Co., Long Island City, N. Y. Manning, Maxwell & Moore plans to move the business to its Jersey City plant.

* * *

Everett B. Hurlburt, President of the J. B. Williams Company, Glastonbury, announced on May 27 that the company had purchased the Skol business from Gallowhur Chemical Corporation of New York. The principal Skol product is a sun tan lotion, which is claimed to be the largest selling sun tan lotion in the country. During the past 10 years J. B. Williams has been exclusive selling agent for Skol in the United States.

* * *

A group including Max A. Geller, a director, and clients of Reynolds & Co. and G. H. Walker & Co. have acquired the common stock holdings of Paul V. Eisner, Chairman, and Max Taussig, Director, in New Haven Clock & Watch Co. Mr. Eisner and Mr. Taussig have resigned from the management and James Hertzman has been elected president.

* * *

United Aircraft Corporation's first quarter report for 1948 showed sales of $55,077,296 compared to $41,405,729, in 1947 and net per share common earnings of $1.10 against $0.42. The backlog of orders on March 31, 1948 was reported as approximately $240,000,000.

* * *

The Hartford Electric Light Company has announced in a letter to stockholders the receipt of $2,667,533 in payment of its claim for a federal tax refund for the years 1940-1944. The money will be used to help finance the large construction program commenced the latter part of 1946 and now well under way.

* * *

Jenkins Bros. on April 12 completed arrangements with the government for the purchase of the industrial plant and facilities adjoining its Bridgeport works. The company's annual report for the year ending Dec. 31, 1947 shows a net profit for the year of $6.39 per common share compared to $4.02 for the previous year.

* * *

Bridgeport Gas Light Company has sold privately $2,250,000 general and refunding mortgage 3¼% bonds series A due 1973. The proceeds have been used to redeem $768,000 outstanding bonds, discharge $450,000 notes and defray costs of additions.

* * *

Stanley Works announced that 4,154 of the 4,982 shares of common stock offered to employees had been subscribed for before the offer expired on May 15. The stock was offered at $60.21 per share.

Rodney Brown To Be Admitted by Whiting

BOSTON, MASS.—Rodney W. Brown will become a partner in Whiting, Weeks & Stubbs, 53 State Street, members of the New York and Boston Stock Exchanges, on July 1. Mr. Brown has been in charge of the Boston office of Clark, Dodge & Co. Prior thereto he was with Smith, Barney & Co. and was a partner in Edward B. Smith & Co.

R. W. Brown

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—C. H. Reeves is with Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

Michigan Brevities

C. G. McDonald & Co., Detroit, on May 20 offered to the public 120,000 shares of Anchor Steel & Conveyor Co. common stock (par $1) at $2.50 per share, of which 20,000 shares were for the account of Frank J. Shude, President and General Manager of the Anchor company, and 100,000 shares were for the account of the company. The net proceeds to be received by Anchor will be used in the transaction of its ordinary business affairs in conjunction with other working capital. It is engaged in the designing, manufacture, fabrication and erection of mechanical conveyor systems.

* * *

The Detroit Stock Exchange reports that trading volume in May totaled 432,735 shares, with a dollar value of $5,966,402, topping all trading since September, 1946 when 467,856 shares changed hands. This also compares with 369,567 shares valued at $4,710,410 in April, 1948, and with 240,847 shares valued at $2,956,900 in March, 1948.

The 10 most active stocks during May were: Detroit Edison Co., Electromaster, Inc., Gerity-Michigan Corp., Gar Wood Industries, Inc., McClanahan Oil Co., Packard Motor Car Co., Avco Manufacturing Corp., Curtiss-Wright Corp., Sinclair Oil Co. and Warner Aircraft Corp. A total of 171 issues were traded in out of a total of 190.

* * *

Beginning today (June 17) definitive engraved coupon bonds in the denomination of $1,000 each of the $200,000,000 1½% Veterans bond issue dated March 15, 1947 of the State of Michigan, with Sept. 15, 1948 and all subsequent coupons attached, are available for exchange for temporary bonds of said issue at the Bankers Trust Co., exchange agent, 16 Wall St., New York, N. Y.

* * *

Briggs Manufacturing Co., Detroit, will become a major supplier of Willys-Overland Motors, Inc., Toledo, O., with the production of station wagon bodies and body stampings and parts for trucks and other vehicles. Shipments are expected to begin Aug. 1 from the Briggs Meldrum plant. This new contract will reestablish a relationship that goes back more than 20 years. Beginning in 1925, Briggs manufactured body parts and bodies for Willys-Overland at intervals until World War II stopped production early in 1942.

* * *

Kelsey-Hayes Wheel Co., Detroit, has sold an additional $2,500,000 of first mortgage bonds to The Equitable Life Assurance Society of the United States under a supplemental indenture dated Feb. 1, 1948. The balance of $7,500,000 bonds issued in 1947 are also held by the insurance firm. The interest rate was increased from 3¼% to 3½%.

* * *

Gerity-Michigan Corp. has booked almost $19 million in orders for the current fiscal year (ending June 30, 1949), according to James Gerity, Jr., its President. Of this total, slightly more than $14 million was said to represent automotive orders. The balance included a substantial volume of new contracts received from the electrical, home appliance, radio and plumbing industries.

* * *

The 1,000,061 sares of North American Aviation, Inc. capital stock (par $1 per share), which had been owned by General Motors Corp., were offered to the public on June 3 at $12.75 per share through a group of underwriters headed by Morgan Stanley & Co. of New York. Participating were the following Detroit bankers: First of Michigan Corp., Wm. C. Roney & Co., Watling, Lerchen & Co. and McDonald-Moore & Co.

* * *

The earnings of Gar Wood Industries, Inc. for the six months ended April 30, 1948 amounted to $2,201,145, before provision for income taxes, and $1,335,145 after estimated provision for such taxes. Sales for the period totaled $17,929,567 as compared to sales of $16,891,162 for the corresponding period of 1947. A new plant has been leased at Richmond, Calif., to increase the company's facilities.

* * *

Watling, Lerchen & Co. and First of Michigan Corp. on May 27 participated in the public offering, at 102 and interest, of $30 million 3% debentures due 1970 of National Dairy Products Corp., which owns the Detroit Creamery Co. operating in Detroit and certain other Michigan communities.

* * *

Edgar F. Kaiser, Vice-President and General Manager of Kaiser-Frazer Corp., on June 16 announced that the corporation will produce its 250,000th automobile next week, just two years after production started at the Willow Run plant with the manufacture of seven automobiles in June of 1946. He added that K-F's scheduled output of 21,000 units this month represents a new monthly production peak in the history of the company. The previous high was 20,667 cars in January, when output was on a two-shift basis. Currently, the Willow plant is producing at the rate of 800 units per day on one shift. Mr. Kaiser added that retail sales are continuing at a record high.

* * *

Stockholders of Masco Screw Products Co. of record May 22, 1948 are being issued warrants to subscribe for one additional share at $1.75 per share for each 2½ shares held. The rights will expire July 10. The stock was quoted "ex-rights" on the Detroit Stock Exchange at the opening of business Tuesday (June 15).

* * *

An issue of $400,000 Crampton Manufacturing Co. first mortgage 5½% sinking fund bonds due Aug. 1, 1966 (with warrants to purchase 40,000 shares of common stock) were offered to the public on June 2 at 100 and interest by P. W. Brooks & Co. of New York. The net proceeds are to be used to retire mortgage and other indebtedness and for additional working capital.

The warrants are detachable at any time and entitle the holder to purchase one share of common stock for each $10 principal amount of the bond to which such warrant shall be attached at the following prices: $2.50 per share on or before July 31, 1949; or $3.50 per share thereafter and on or before Jan. 31, 1951; or $5 per share after Jan. 31, 1951 and on or before Jan. 31, 1953, when this privilege will expire.

NYSE Reminds Members on Off-Board Transactions in Listed Stock

Frank J. Coyle, Director of the Department of Member Firms of the New York Stock Exchange, addressed on June 11 the following circular letter to members and member firms:

To Members and Member Firms:

From time to time questions are raised concerning the application of the provisions of Section 8 of Article XIV of the Constitution to transactions in listed stocks other than on a national securities exchange. The particular Section reads as follows:

"Whenever the Board of Governors, by the affirmative vote of a majority of the Governors then in office, shall determine that a member or allied member is connected, either through a partner or otherwise, with another Exchange or similar organization in the City of New York which permits dealings in any securities dealt in on the Exchange, or deals directly or indirectly upon such other Exchange or organization, or deals publicly outside the Exchange in securities dealt in on the Exchange, such member or allied member may be suspended or expelled as the Board may determine; *provided, however, that nothing herein contained shall be construed to prohibit any member, allied member or member firm from, or to penalize any such firm for, acting as an odd-lot dealer or specialist or otherwise publicly dealing for his or its own account (directly or indirectly through a joint account or other arrangement) on another Exchange located outside the City of New York (of which such member, allied member or member firm is a member) in securities listed or traded on such other Exchange.

Under this provision a member should first obtain the approval of the Exchange before effecting a transaction in a listed stock except on a national securities exchange.

*Proviso added by order, as amended, of the Securities and Exchange Commission, dated Oct. 4, 1941, effective Oct. 6, 1941.

Connecticut Securities

PRIMARY MARKETS

Statistical Information

CHAS. W. SCRANTON & CO.

MEMBERS NEW YORK STOCK EXCHANGE

New Haven 6-0171

New London 2-4301 | Hartford 7-2669 | New York Canal 6-3662 | Teletype NH 194 | Waterbury 3-3166 | Danbury 5600

TIFFT BROTHERS

Members New York and Boston Stock Exchanges

Associate Members New York Curb Exchange

Primary Markets in

Hartford and Connecticut Securities

Hartford 7-3191

New York: BArclay 7-3542

Bell System Teletype: HF 365

Charles A. Parcells & Co.

Established 1919

Members Detroit Stock Exchange

Michigan Markets

639 Penobscot Building

DETROIT 26, MICH.

Telephone Randolph 5625 | Teletype DE 206

KELLOGG CO.

New Analysis Available Upon Request

Moreland & Co.

Member Detroit Stock Exchange

1051 Penobscot Building

DETROIT 26, MICH.

Bay City — Lansing — Muskegon

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NSTA Notes

GEORGIA SECURITY DEALERS ASSOCIATION

The Georgia Security Dealers Association has elected officers for the year beginning July 1st next. These are as follows:

President—Jack F. Glenn, Courts & Company, Atlanta; Vice-Presidents — Waldo Mallory, Clement A. Evans & Co., Atlanta, and Lex Jolley, Johnson, Lane, Space & Co., Atlanta; Secretary-Treasurer—Alexander Yearley, The Robinson-Humphrey Co., Atlanta.

Jack F. Glenn

Lex Jolley

The following were elected to serve with the officers on the Executive Committee:

J. W. Means, Trust Company of Georgia, Atlanta; Julian A. Space, Jr., Johnson, Lane, Space & Co., Savannah; T. R. Waggoner, Wyatt, Neal & Waggoner, Atlanta; F. D. Willis, Merrill Lynch, Pierce, Fenner and Beane, Atlanta.

AD LIBBING

We like to feel that we profit today on yesterday's good will and experience. This is proven by the fact that we are now over $5,000 gross for our coming "Chronicle" NSTA Convention Year Book. It should not take much imagination to realize what volume we can achieve when our complete committee is in full operation.

* * *

Last week's suggestion for outside advertising has not as yet taken hold and we are most anxious that some of our members undertake solicitation of this form of advertising.

"K. I. M. YOUR NSTA"—"BUY ADVERTISING"

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

Crouse & Co. to Admit Currie and Hastings

DETROIT, MICH. — Effective July 1, Gilbert S. Currie and H. Russell Hastings will be admitted

Gilbert S. Currie H. Russell Hastings

to partnership in Crouse & Co., Penobscot Building, members of the Detroit Stock Exchange. Mr. Currie has been with the firm for some time in the trading department. Mr. Hastings had been in business for himself in Detroit.

Hunter Cockrell With C. F. Cassell & Co.

CHARLOTTESVILLE, VA.—Hunter G. Cockrell, former Director of Finance of Albemarle County, has joined the firm of C. F. Cassell & Co., Inc., 112 Second Street, N. E., as of June 15. Mr. Cockrell will be identified with the Sales Department of the firm.

Murray Barysh on Vacation

Murray L. Barysh of Ernst & Co., 120 Broadway, New York City, members of the New York Stock Exchange is vacationing in the Adirondacks for the next three weeks.

Aetna Securities Corp. Offers Fleet Oil Issue

Aetna Securities Corp. publicly offered, June 15, at $1 per share 296,000 shares of common stock of Fleet Oil Corp. which was recently organized to engage in crude oil production in Oklahoma.

The parent company and principal stockholder is the Fleet Drilling & Producing Co. of Ada, Okla., which owns 800,000 of the 1,096,000 shares of Fleet Oil Corp. common stock to be outstanding after completion of the distribution of the shares in this offering.

Fleet Oil Corp.'s ownership includes ½ of a ⅞ working interest in approximately 560 acres in Pawnee County, Okla., on which two producing wells are located. It is contemplated that at least 7 additional wells, and perhaps as many as 30 in all, will be drilled on this property.

Interests in four groups of wildcat blocks covering a substantial amount of acreage are owned by the company, which may be explored at some near future time.

The proceeds from the sale of the 296,000 shares of Fleet Oil Corp. common stock, will be used by the company to meet its share of the cost of drilling and equipping additional wells on the Pawnee County acreage. The balance of the proceeds will be used by the company to meet its share of the rentals and the cost of drilling test wells on its wildcat, or undeveloped properties.

A. J. Burke Now Incorporated

BUFFALO, N. Y.—A. J. Burke & Co., Ellicott Square Building, is now doing business as a corporation. Officers are A. J. Burke, Sr., President and Treasurer; M. H. Burke, Vice-President; and Albert J. Burke, Jr., Secretary.

Missouri Brevities

A. G. Edwards & Sons, Reinholdt & Gardner and Eckhardt-Petersen & Co., Inc. of St. Louis, Bankers Bond & Securities Co. of Hannibal, and H. O. Peet & Co. of Kansas City, on May 27 participated in the public offering of $25,000,000 of Union Electric Co. of Missouri 3% debentures due May 1, 1968 at 100.75 and interest, the net proceeds to be applied toward the cost of the construction program of the utility company's system.

On May 7, 1948, Union Electric Co. entered into an agreement with the North American Co., parent, under which that company has agreed, subject to approval of governmental authorities, to purchase on or before June 30, 1949, 105,000 additional shares of Union Electric common stock for an aggregate consideration of $5,000,000. The net proceeds will be applied toward defraying the costs of the large construction program of Union and its subsidiary, Union Electric Power Co. In March, 1948, the North American purchased 100,000 shares of Union Electric common stock for $5,000,000.

Gross operating revenues for the company and its subsidiaries continued upward and amounted to $61,000,292 for the 12 months ended March 31, 1948, an increase of $6,043,502 over the previous 12 months' period. There was, however, a more rapid advance in operating costs. As a result, net income was $367,293 lower than for the previous 12 months' period.

* * *

An investment banking group headed by Glore, Forgan & Co. and W. C. Langley & Co., are publicly offering 80,000 shares of Kansas City Power & Light Co. 4% cumulative preferred stock (par $100). There are also being offered by Lehman Brothers and Bear, Stearns & Co. and associates $12,000,000 of first mortgage 2⅞% bonds of the same utility company. The net proceeds from both of these will be used in connection with plans for construction and acquisition of additional property and the retirement of $3,860,000 of bank loans.

Kansas City Power & Light Co. reports for the 12 months ended March 31, 1948 an operating revenue of $26,540,525, compared with $24,088,150 for the preceding 12 months' period. Net income after charges and taxes totaled $4,124,459, as against $3,949,946 for the 12 months ended March 31, 1947.

* * *

Dempsey-Tegler & Co., Newhard, Cook & Co., Stern Bros. & Co., Metropolitan St. Louis Co., Reinholdt & Gardner and Stifel, Nicolaus & Co., Inc., on May 27, were among those offering, at 102 and interest, $30,000,000 of 3% debentures due 1970 of National Dairy Products Corp., which owns the St. Louis Dairy Co., operating in St. Louis and vicinity.

* * *

Consolidated net sales of the May Department Stores Co., St. Louis, and subsidiaries for the year ended Jan. 31, 1948, were the largest in the company's history, amounting to $358,013,576, an increase of $27,681,708 over the previous peak volume of $330,331,868 for the preceding fiscal year. Consolidated net profit after taxes was $17,231,481, equal after payment of preferred dividends to $5.94 per share on the average number of shares of common stock outstanding during the year ended Jan. 31, 1948, compared with $18,653,570, or $7.05 per share for the preceding year. A new branch store is now under construction in the St. Louis area which is expected to be open for business late this year. The Strouss-Hirshberg Co., acquisition in Youngstown, Ohio, was completed on May 10, 1948.

* * *

An issue of $14,000,000 Kansas City Southern Ry. Co. first mortgage 3¾% bonds, series B, due June 1, 1968, was publicly offered on June 9 at 100.35 and interest, the net proceeds to be used to acquire $14,000,000 of Louisiana & Arkansas Ry. Co. first mortgage 4% bonds, series D, due May 1, 1969, which secure a like amount of 1¾% promissory notes, due May 28, 1949, held by three banks. The Louisiana company will use the proceeds to pay off these notes.

* * *

St. Joseph Light & Power Co. in its annual report said: "Although revenues increased to a new peak of $4,405,544 for 1947, amounting costs of operation reduced net income to $283,712 for the year, compared with $509,950 for 1946. Of the aggregate increase of $437,939 in operating revenues over 1946, approximately $175,000 represented revenues resulting from the acquisition by the company of the properties of United Utilities Corp. in March, 1947, and of Maryville Electric Light & Power Co. in October, 1947." Current assets at Dec. 31, 1947 amounted to $2,316,555, compared with current liabilities of $770,192.

* * *

Prescott, Wright, Snider Co., Kansas City, in May publicly offered 1,050 shares of $100 par value, 6% preferred stock, series of 1948 (with stock purchase warrants) and 2,605 shares of $20 par value, common stock of Wichita Building Materials Co., Inc., Wichita, Kansas, at par for the preferred and $25 per share for the common. The net proceeds will be added to the corporation's general funds. Current assets at March 31, 1948 amounted to $432,945, while current liabilities totaled $276,839.

* * *

Last month Stifel, Nicolaus & Co., Inc., offered publicly 9,000 shares of $1.50 cumulative preferred stock, series A, no par value (with common stock warrants) and 9,000 shares of common stock, $1 par value, of Gale & Co., in units of one share of preferred (at $25 per share) and one share of common stock (at $4 per share), or $29 per unit. An additional 8,250 shares are being purchased by the underwriter, of which 2,000 shares may be resold to officers and employees of the Gale firm. The net proceeds will be used to retire the $100,000 unsecured note payable and for additional working capital. The business of Gale & Co., primarily, consists of the financing and discounting of instalment contracts on motor vehicles.

Each common stock warrant will entitle the holder to subscribe for 2½ shares of common stock at $10 per share on or prior to May 1, 1950; thereafter and on or prior to May 1, 1953, to two shares of common stock at $12.50 per share; and thereafter and on or prior to May 1, 1958, to 1½ shares of common stock at 16.66⅔ per share.

* * *

Among the group of investment bankers participating in the public offering on June 3 of 1,000,061 shares of North American Aviation, Inc., capital stock (par $1 per share) at $12.75 per share were Newhard, Cook & Co., Reinholdt & Gardner, I. M. Simon & Co., Dempsey-Tegler & Co. and Stern Bros. & Co. These shares were outstanding and were purchased by a group of underwriters headed by Morgan Stanley & Co. of New York from General Motors Corp.

* * *

The Empire District Electric Co. for the three months ended March 31, 1948, reported gross operating revenue of $1,832,747, against $1,734,563 in the corresponding period of last year. Net income after charges and Federal income taxes was $281,069, compared with $233,574 for the three months ended March 31, 1947.

* * *

H. O. Peet & Co. and Stern Bros. & Co. were also included among those which on May 25 offered publicly 120,000 shares of Gamble-Skogmo, Inc., 5% cumulative preferred stock (convertible prior to July 31, 1958) at par ($50 per share) and dividends.

Berkshire Fine Spinning
Black, Sivalls & Bryson
Commonwealth Gas
Consolidated Dearborn
Delhi Oil
Rockwell Mfg.
Southern Production
Southern Union Gas
Southwest Gas Producing

Bought — Sold — Quoted

SCHERCK, RICHTER COMPANY
Landreth Building
Bell Teletype SL 456 St. Louis 2, Mo. Garfield 0225 L. D. 123

ST. LOUIS

Peltason, Tenenbaum Co.
LANDRETH BUILDING
ST. LOUIS 2, MO.
Teletype—SL 486 L. D. 240

STIX & CO.
INVESTMENT SECURITIES
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Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

Although the market movements of fire insurance stocks tend to follow the cyclical swings of the stock market as a whole, there are times when they do not synchronize, but develop either a lead or a lag.

In comparing Standard & Poor's weekly index of fire insurance stocks with the Dow Jones Industrial Average, it is found that the 1929 boom high was reached by both indexes in September of that year; likewise the 1932 lows were both recorded in mid-summer.

In the ensuing recovery to a subsequent market high however, this was first reached by the fire stocks in February, 1936 (124.3), but the Dow Jones high of 194.40 was not attained until a year later, March, 1937. Since then there have been other divergencies, while from the low of 1942 the fire stocks have developed a pronounced relative lag, as follows:

	1942 Low	June 9, '48	Advance
Standard & Poor's Fire Stock Index	86.80	135.20	+ 55.8%
Dow Jones Industrials	92.92	192.56	+107.2

Notwithstanding this lag, the fire insurance stock index is substantially above the February, 1936 high, which reflected the banner underwriting profits reported by the industry for the year 1935. The record of the Standard & Poor Index from 1935 to 1948, showing annual high, low, and mean, is as follows:

Year	Low	High	Mean
1935	80.7	117.5	99.1
1936	102.7	124.3	113.5
1937	80.1	113.2	96.7
1938	73.6	101.0	87.3
1939	91.5	107.6	99.6
1940	83.8	110.2	97.0
1941	100.1	116.3	108.2
1942	86.8	108.7	97.8
1943	106.5	122.5	114.5
1944	110.4	119.2	114.8
1945	117.6	138.5	128.1
1946	111.6	146.7	129.2
1947	111.3	126.6	119.0
1948	116.9	135.7	(to June 9)

It will be observed that the 1946 high of 146.7 was 18% above the 1936 high, while the 1948 high of 135.7 is 9.2% above. When the records of individual stocks are examined, however, it is found that several have not moved above their 1936 highs, on the contrary, they are priced substantially lower. Based on bid prices the record of 26 leading fire insurance stocks is as follows:

	1936 High	June 9, '48	% Change
Aetna Insurance	69¼	45¾	—33.9
Agricultural Insurance	91½	57	—37.7
American Insurance	17¾	17¼	— 2.8
*Boston Insurance	73½	68½	— 6.8
Continental Insurance	46	61¾	+34.2
Fidelity-Phenix	49¾	66½	+33.7
Fire Association	89	56½	—36.5
Fireman's Fund	112	102	— 8.9
Glens Falls	46	45	— 2.2
Great American Insurance	33¼	31½	— 5.3
Hanover Fire	41¼	27½	—33.3
Hartford Fire	90	118	+31.1
Home Insurance	41⅜	28	—32.3
Insurance Co. of North America	84	104½	+24.4
National Fire	86	46¼	—43.2
*National Union	40¼	33	—18.0
New Hampshire	49¼	42½	—13.7
New York Fire	25	13¾	—45.0
North River	29¼	24	—17.9
Pacific Fire	140	105	—25.0
Phoenix Insurance	110	88½	—19.5
Providence Washington	44½	33¼	—25.3
*St. Paul Fire & Marine	46½	80	+72.0
Security Insurance	43	27	—37.2
*Springfield Fire & Marine	60⅜	46¼	—23.4
U. S. Fire	58½	54¼	— 7.3
AVERAGE			—10.9%

*Adjusted for capital changes

The amazing thing about this record is that the bid prices of only five of the 26 stocks are higher today than their highs of 1936, viz: Continental, Fidelity-Phenix, Hartford Fire, Insurance Co. of North America and St. Paul Fire & Marine. The average appreciation of these five is 39.1% vs. the index appreciation of 9.2%. The other 21 stocks are currently quoted lower by amounts varying between 2.2% for Glens Falls and 46.2% for National Fire.

As already noted, the 1936 high reflected the excellent underwriting profits reported by the companies for the year 1935. The heavy fire losses and unfavorable underwriting operations of the past few years partly explain the lower market valuations of more recent times.

Several companies, however, have exhibited a strong and steady growth over the past 10 or 12 years, accompanied by an irregularly upward trend in earnings. In this group will be found the five companies listed in the table whose stocks are currently quoted higher than they were in 1936.

Changes in capitalization in some instances, such as Aetna, Fireman's Fund, Providence-Washington, etc., have also affected market prices.

Bank
of
Manhattan Company

Circular on Request

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Members New York Stock Exchange
120 BROADWAY, NEW YORK 5, N. Y.
Telephone: BArclay 7-3500
Bell Teletype—NY 1-1248-49
(L. A. Gibbs, Manager Trading Dept.)

The Larger Aspects of LIFO

By DAVID M. FREUDENTHAL*
Business Consultant
Former Vice-President and Treasurer, Bloomingdale Bros.

Retailing expert explains tax and accounting implications of last-in-first-out rule in inventory valuation. Praises it as leveling out extremes of profit or loss, and as helpful to economy in ameliorating distortion from extremes of economic cycle.

Generally, the need for a more accurate means of appraising the value of inventory found its origin in the retail trade late in 1939, according to one authority. Many had been studying the possibility of using LIFO for some years before that date. In 1937 and 1938, there were discussions on the subject at the Board of Directors' meetings of at least one large department store. Even at that time LIFO had been used by certain industries, but only where the inventory was an homogeneous inventory.

David Freudenthal

(I don't like the word "fungible.") Now the problem that confronted retailers was simply this: With rising prices was it a fair accounting procedure to continue to calculate profits on a basis which would include the paper profit resulting from inflation? By paper profit is meant the unrealized profits of the higher value of the closing inventory. Let us be specific:

A merchant has in his opening inventory ten items at a cost of $10 a piece. His retail selling price is $15 per unit. To replace these items he finds he must pay $15 for each new unit. He buys ten units more at the new price, then having in stock 20 units, ten of which cost him $10 and ten at $15 a piece. Being a merchant he marks all of the units up to $20 and sells at retail half of his stock for $200—i.e., ten pieces at $20 each. Assuming that the ones he sold were the ones he had in his opening inventory (FIFO) the cost of goods sold is $100 and the gross profit on the $200 sales is $100. If on the other hand you assume that the units he sold are those for which he paid $15 each (LIFO), his gross profit was only $50. In the first instance (FIFO) it is the value of the ending inventory which gave the higher profits. It was the profit on the goods assumed not to have been sold which gave the extra $50 gross profit.

Tax Implications

With the foreseeable possibility that the price of those same goods would at some time go down why overstate balance sheet values and inflate profits? You will note that we have up till now studiously avoided the tax implications of the situation. They by no means represent the only valid reason for adopting LIFO. But the tax reasoning is important and is not too clearly understood, and so it may be well to spend a few minutes on the subject. Let us assume for this part of the discussion that all of the increase in value will some day disappear then this is what happens: The decrease in profits calculated on the LIFO basis, as compared with FIFO turns in the years when the price structure declines into an increase in profits calculated on the LIFO basis over the FIFO basis. Presumably that, taxwise, makes it all even-steven — but that, of course is not the case. An examination made by us in 1941 indicated that quite consistently when the price structure was high tax rates were high and that when prices declined, the tax rate declined. We further forecast on the experience after the first World War that tax rates declined very rapidly even before prices declined. It followed then that the saving in taxes, occasioned by the lower profits calculated on LIFO during a period of high tax rates and high prices, would be paid back at a low tax rate when both prices declined and taxes declined. And, of course, part of that is just what happened. Profits calculated on LIFO during the war years were certainly lower than they would have been had they been calculated on FIFO. The saving was at an 80 odd percent tax rate. When prices decline those savings will be repaid unless there is a change at a 38% tax rate. The difference remains the property of the taxpayer in perpetuity. Whether now is a propitious time to adopt LIFO is something that many people are seriously considering. The answer to that question is not to be given in general terms—it depends on many special and individual considerations, notably a forecast on how much higher prices will go—if they will at all—or whether they will remain at the present level, and whether corporate tax rates are likely to go lower or stay at the present level, and more importantly: will the volume of inventory of the individual business contemplating the change be higher or lower than the present level? These are some of the questions which must be determined and they are questions which must be individually answered.

But we must not be diverted from the main theme of this discussion. There can be little argument about the tax advantage to those who in 1941 changed to the LIFO basis. The argument next to be considered is the accounting validity of LIFO as a device. But it is perhaps difficult to separate the genesis of the use of LIFO into separate parts consisting of (1) philosophy and (2) tax reasons.

The theory on which LIFO was built is that the taxpayer is unjustly penalized by the rise in price of his inventory inasmuch as such an increase in inventory value means that he has to pay a tax on an unrealized profit. The assumption is that every business requires a minimum amount of inventory in order to stay in business, and that minimum is the closing inventory at the end of the year of change. If, to give another example, a copper merchant needs 1,000 lbs. of inventory in order to supply the demands of his customers, and at the beginning of a year that inventory is valued at 20 cents a pound, he has a total valuation in inventory of $200. The theory is that 1,000 pounds is the minimum under which he could operate, and that at the end of the year instead of evaluating that inventory at the then current price, let us say of 30 cents a pound, he can evaluate it at 20 cents a pound. This assumes that the goods that he sold were the pounds of copper which he bought during the year at 30 cents a pound and is just as good an assumption as the reverse that what he sold was the 20-cent copper. The result, of course, on the calculation of the cost of goods sold, is an increase in that cost over the first-in, first-out method, under which it would be assumed that he had sold the 20-cent copper during the year.

Leveling Out Profits

Over a period of time, the LIFO method, as you can readily see, tends to level out profits as between good and bad years. It decreases the profits under the FIFO method on rising prices and it increases profits over the FIFO method when prices fall.

Stability—an evening-out process—call it what you will, is badly needed in a world that is best by great fluctuations. If for no other reason than this, it does seem that LIFO serves an exceedingly good purpose. The earlier English accountants tried other methods (since discarded) to bring about the same stability. But provided the assumption is sound, it is a desirable thing both from the standpoint of the individual business and for the economy as a whole for us to do our accounting in such a way as to decrease the impact of change in the price structure, both on the upswing and the downswing.

Now a good deal has been written on the theory that LIFO is a child of necessity. That its emphasis is primarily on the earnings statement—that is confuses an already too involved balance sheet and that it violates the principle of cost which is the mainstay of all accounting philosophy. None of these arguments have real validity. Accountants have been most farsighted in their willingness to adjust their thinking to change. And since this new era of a changing world found its inception with the outbreak of the second World War, change in price because it is maintained a distorting factor in measuring results. Certainly it must have been a long stride that was taken when in the earlier days of accounting the first step was taken recognizing not cost alone but "cost or market whichever is the lower." Having taken that step the accounting profession, if it wanted to, cannot now retreat: with respect to the base period inventory it is completely in line with the previous thinking that it should be evaluated on the LIFO basis which is a cost basis and reference is here made, particularly to its use for balance sheet purposes. Accountants have never as a group objected to a method that was conservative. On the way up, i.e., with rising prices, this produces a conservative answer. Now it may be argued that on the way down a result may be obtained which will produce an inventory evaluation which is higher than "cost or market whichever is the lower." The answer is first: let's face that situation when it occurs. To a partial degree we have already faced it. There are departments in stores where the index indicates a lower price level than existed in the base period year. So far no accountant has said that where the total store index is higher than the base and the resultant LIFO inventory is thereby lower than "cost or market whichever is lower," that for those departments which are higher some special treatment must be prescribed. Perhaps when the total store index is lower than the base some special reserve will of necessity be set up. And besides maybe that problem will never arise for those who adopted LIFO in 1941. Nor does this problem necessarily condemn the theory from the accounting standpoint. It's perfectly true that to argue

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*A talk by Mr. Freudenthal before the Controllers' Congress, Chicago, May 25, 1948.

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The Dalton-Cripps-Bevin Triangle

By PAUL EINZIG

Dr. Einzig comments on implications of return of Hugh Dalton to British Cabinet and predicts it will involve an inner conflict to be fought out behind closed doors at 10 Downing Street. Says Dalton disagrees with both Cripps and Bevin.

LONDON, ENGLAND.—Former Chancellor of the Exchequer Dalton, who had to resign in November, 1947, because he prematurely disclosed his Budget secrets to a journalist, is back again in the Government. He is once more a member of the Cabinet. But nobody knows, not even he himself or the Prime Minister who appointed him, what his duties will consist of. He is a Minister without a Department, and is available for special tasks. But the official statement announcing his appointment made it plain that no change would be made in respect to economic coordination which is at present in the firm hands of Mr. Dalton's successor at the Treasury, Sir Stafford Cripps. Both he and Foreign Secretary Bevin are understood to have made strong representations to Mr. Attlee, objecting to any possible interference with their respective departments by Mr. Dalton. And both have sufficient influence to be able to impress their views on the Prime Minister.

Dr. Paul Einzig

What, then, will Mr. Dalton do in his new office? He is a strong man, and a man of action, bursting with energy after his enforced rest during the last six months. His special qualifications are in the spheres of economic affairs and foreign affairs. A politician observed that, if he is kept out of these affairs, his position will be similar to the schoolboy who, having been expelled last term, is readmitted on the understanding that he is not to take part in any of the games. There is, of course, the Colonial Office, the Commonwealth Relations Office, and a few other departments which technically do not belong either under Sir Stafford Cripps or under Mr. Bevin. But the former takes an active interest in the economic affairs of the Colonies, and the latter concerns himself with relations between Britain and the Dominions, so that even in those directions Mr. Dalton would be trespassing on their preserves.

Mr. Attlee will find it difficult to assign to Mr. Dalton any important task without antagonizing one or the other of these two influential members of his Cabinet. He can ill afford to antagonize either. But then he can ill afford to antagonize Mr. Dalton who is very popular in the Labour Party. That is why he decided not to keep Mr. Dalton out of the government any longer. While out of office, Mr. Dalton was making speeches and was writing articles which were highly embarrassing to the government. He advocated a capital levy and the nationalization of any firm which pays too high dividends. He placed himself at the head of the left wing of the Labour Party, and tried to force the government's hands to adopt a much more radical policy than it meant to pursue. He even criticized his successor, and showed that, if necessary, he could be much less friendly in his criticism. So in order to avoid a party split, Mr. Attlee considered it expedient to invite him to rejoin the Cabinet, even though he does not know what tasks he will be able to entrust him with.

One thing is certain. Since Mr. Dalton is now a member of the Cabinet he is in a position to make himself felt even if he is not entrusted with any administrative duties or with the determination of the policy of any department. He will be in a position to debate economic matters on an equal footing with Sir Stafford Cripps, and foreign affairs on an equal footing with Mr. Bevin. He has several supporters among members of the Cabinet, and his word is bound to carry weight.

The question is, will Mr. Dalton continue to advocate within the Cabinet the radical policies he advocated in public while out of office, or will he revert to the more moderate policies he pursued before his resignation? The left wing of the Socialist Party now looks upon him as their spokesman in the government. He will be expected to insist on the nationalization of steel, about which several members of the government still entertain some doubts. He will be expected to continue to agitate in favor of a big capital levy, if possible before the general election in 1950. He will be expected to press the government to elaborate a new program of nationalizations after the general elections. Is he likely to live up to the expectations of his supporters to whose pressure he largely owes his reinstatement in office? Or will he revert to more moderate views now that the advocacy of more extreme views has served his purpose?

To be able to answer these questions we must bear in mind that he harbors now a strong resentment against the business world, owing to the reversal of his cheap money policy, reversal which he attributes to a sinister conspiracy of financiers and businessmen. While his cheap money policy was making progress he was on fairly friendly terms with the City. But now he feels the "money barons" have declared war on him and is longing to retaliate. For this reason alone it is necessary to expect that he will use his influence in the Cabinet for pressing the government to adopt anti-capitalist measures. In this he is sure to clash with Sir Stafford Cripps who realizes the necessity of working with capitalists and is against antagonizing them unduly. In matters of foreign policy he is likely to clash with Mr. Bevin, as he is not so keen on Western Europe as the latter, and is certainly not prepared to sacrifice Empire and Commonwealth economic relations for the sake of a Western European Union. It remains to be seen who will emerge victorious from this inner conflict that is to be fought out behind closed doors of the Cabinet room at 10 Downing Street.

Bache & Co. Branches Out-of-Town to Be Open Saturday Mornings

The New York Stock Exchange firm of Bache & Co. announce that its out-of-town offices will remain open Saturday mornings during the Summer months for consultation purposes. The Exchange itself is closed on Saturdays until October.

The announcement by Bache & Co. stated that this decision was made at the request of various out-of-town branch office managers, and that it would enable people whose business or professional activities take most of their time on other days of the week to visit the branch offices and talk over their investment problems.

Sterling, the Sterling Area and ERP

By SIR STAFFORD CRIPPS, K.C.*

Chancellor of the Exchequer, Great Britain

Asserting sterling, despite its non-convertibility into dollars and gold, maintains sufficient convertibility to make it most significant factor in world trade, Sir Stafford claims success of British efforts to maintain sterling stability. Warns Marshall Plan will only give respite and will not improve British conditions. Cites recent British industrial achievements, and stresses importance of Western Europe and Sterling Area getting in balance with Western Hemisphere before end of ERP. Urges increase in British efficiency "to put our economic life on a sound basis."

I hope it may be of interest to you this afternoon if I try to give you some slight sketch of our present position and link it up with the needs of Western Europe and the Commonwealth so far, particularly, as our balance of payments with the Western Hemisphere is concerned.

This is the major problem which confronts all the countries who are dependent upon supplies of one kind or another from the Western Hemisphere and a very large proportion of those countries fall within the Western European or Commonwealth categories of both of which we have constituted ourselves an important element.

Sir Stafford Cripps

The Marshall Plan or ERP as it is now called has for its object to give us in Western Europe the time within which we can so increase our production as to reach an eventual balance with the Western Hemisphere upon as high a basis of exchange of commodities and services as is possible. We must reach that equalization by expansion and not by contraction. A general expansion of world trade is vital to our own country for it is only by maintaining our share of a larger market that we can hope to sell enough exports to balance our own overseas payments. When, therefore, we examine our contribution to world economy it must not be merely as an isolated unit but as a closely linked part of two separate economic groups, the Commonwealth on the one hand and Western Europe on the other.

*An address by Sir Stafford before the Glasgow Chamber of Commerce, May 21, 1948.

The Only Large Scale Convertible Currency

For both these groups our sterling currency is of great importance. It is, indeed, today the only large scale convertible currency that still exists. Though it has been deprived of some of its use owing to its non-convertibility into dollars and gold except within the limits of the sterling group, yet it still maintains a sufficient degree of convertibility into other currencies to make it the most significant factor in world trade today. It is therefore an obligation upon us as the guardian—as it were—of this implement of world trade to maintain the strength and stability of sterling. That as you know has been one of the main objects of our internal financial policies, by which we have been attempting to hold and indeed to reduce the inflationary pressure upon sterling and to maintain its purchasing power. In those efforts we have had quite a marked degree of success in most difficult circumstances, but still all the difficulties are well worth while if we can accomplish our objective.

If we compare our efforts in this matter with those of other countries we find that not only have we done much better after this war than after the first world war but that we have also done much better than other countries.

In the period July, 1914-1920 the cost of living index for the United Kingdom rose by 149% whereas in the period September, 1939 to June, 1947 it rose by only 31%. For food items alone, the increase between July 1914 and 1920 was 156%; for September, 1939 to June, 1947 the rise was only 17%, mainly because of the Government's policy of subsidies on food.

Similar figures for consumer prices in the United States, whose experience is typical of many other countries, were:

1914-1920: All items 100%; food only 106%.

1939-June, 1947: All items 58%; food only 100%.

There were, of course, other countries in which inflation of prices has been much more marked.

We can, I think, congratulate ourselves upon our comparative control of price-levels and I might perhaps point out that these figures do not tend to show any need to devalue sterling.

ERP Gives Respite

The one thing we must more firmly get into our minds is that the Marshal Plan—ERP—gives us, in itself, no improvement of our conditions. It gives us the time, but the improvement in that time can only come from our own efforts. Let me just remind you of a couple of figures to emphasize what I mean. During the year 1947 we utilized by way of borrowed dollars or from our own reserves about £1,000 millions to enable us to balance our overseas accounts. Those borrowed resources have practically come to

(Continued on page 27)

All of these Debentures having been sold this announcement appears as a matter of record only and is neither an offer to sell nor a solicitation of an offer to buy any of these Debentures.

$57,382,600

Consolidated Edison Company of New York, Inc.

3% Convertible Debentures, due June 1, 1963

Dated June 1, 1948

Of the $57,382,600 principal amount offered to holders of Common Stock of the Company, $53,060,100 principal amount was subscribed for upon the exercise of Subscription Warrants issued to such holders of Common Stock. The $4,322,500 principal amount which was not subscribed for through the exercise of Subscription Warrants has been sold by the several Underwriters.

HALSEY, STUART & CO. INC.

June 15, 1948.

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John Doe—Economics of His Pay Envelope and Savings

By WESLEY LINDOW*

Vice-President, Irving Trust Company, New York

Mr. Lindow, using John Doe as prototype, analyzes disposition of national income and its distribution between consumers' spending and savings. Sees ratio of savings to spending returning to prewar level and growing tendency for individuals to put savings in government bonds or in insurance and bank deposits. Holds, in relation to total liquid assets, present volume of currency is not out of line, and concludes public will continue to turn savings over to government and financial institutions rather than invest more in corporate securities.

John Doe is a mighty man. He determines a great deal more about economic events than he thinks. Together with his brothers, he plays an important part in determining an economic and fiscal policy of the public which may or may not be consistent with the corresponding policies of our monetary and credit authorities.

Wesley Lindow

Of course, John Doe is pushed around a bit too by forces that are greater than he is. He may have to do things he never intended to do, because the impact of superior forces leaves him no alternative.

The main thing we are interested in today is how all this leads up to John Doe's savings. With this thought in mind, I would like to take you through a little tour of the economic machine with particular reference to John Doe's place in it.

Production Determines Income

I think you will agree that the place to begin is production. John Does helps produce goods and services. From this production he gets income. He uses the income to pay taxes, to buy some of the goods and services he helps to produce and he saves some of his income.

The total value of production for the whole nation is called the gross national product. Right now, that product is being turned out at a market value of something around $245 billion a year.

Let us stop and look at this $245 billion a minute. Think of the figure as the total on a balance sheet. It is the same for both sides—for both assets and for liabilities. Similarly, in this case, the figure is the same for both the production side and the income side of the economic machine. That is, the value of the goods and services produced is equaled by the volume of the income generated by that production.

John Doe's pay envelope comes from that total value of production. Right now, the total income of all individuals is running at an annual rate of about $210 billion. The other $35 billion does not go to individuals, but is absorbed in such items as allowances for wear and tear on plant and equipment, undistributed profits of corporation, etc.[1] In any event, when we are in a boom like the present, there are more pay envelopes and they are fatter. In a depression, the number of people at work goes down and the pay envelopes get thinner. It is clear that in this respect, John Doe is only a cog in a machine which is a great deal bigger than he is.

At this point, however, John Doe begins to exercise some of his prerogatives. Once he gets his income he has to decide how to use it. Of course, he has no choice with respect to taxes and he does not have very much choice with respect to some of his basic cost-of-living purchases. He can spend more, or less, for housing and for food and for clothing, etc., but there is a minimum standard which is almost inevitable for a man in his circumstances.

However, it is still true that John Doe can eat butter or margarine; he can buy a suit in the basement store or he can buy it upstairs; he can ride a bus or he can take a taxi. When he feels flush, he will do it the luxurious way and when he feels broke he will do it the economical way. As he makes all of these decisions on spending, John Doe is laying down a sort of unconscious economic policy. The more he spends, the more the economic machine will have to produce. The less he spends, the greater the chance of goods backing up on the shelves and the development of unemployment.

However, the general tendency for individuals as a group is to keep spending in a fairly con-

(Continued on page 30)

*An address by Mr. Lindow before the American Institute of Banking, Buffalo, N. Y., June 10, 1948.

1 This involves a number of technical adjustments which are explained in releases of the Department of Commerce.

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Chicago, Rock Island and Pacific Railroad
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To be dated July 1, 1948. Principal and semi-annual dividends (January 1 and July 1) payable in Chicago. Definitive Certificates, with dividend warrants attached, in the denomination of $1,000, registerable as to principal. Not redeemable prior to maturity. These Certificates are offered when, as and if received by us. Certificates in temporary or definitive form will be delivered at the office of Halsey, Stuart & Co. Inc., 123 South LaSalle Street, Chicago, Illinois. The information contained herein has been carefully compiled from sources considered reliable and, while not guaranteed as to completeness or accuracy, we believe it to be correct as of this date.

June 11, 1948.

Railroad Securities

The Great Northern stock had a rather sharp sinking spell a couple of weeks ago, apparently caused in large measure by a recommendation by one of the large advisory services to switch into Southern Railway common at around the same price. Another factor was presumably uncertainty in investors minds as to how great an influence on earnings the floods in the Pacific Northwest might have. The stock has recovered well from this temporary setback and at this writing is again within a few points of the year's high. Most railroad analysts still consider the shares as among the most attractive of the genuinely investment class of railroad equity.

The road has not been off to a particularly good start this year. As with a large majority of the country's railroads the company was badly affected by severe weather conditions in the opening months. Storms and prolonged extremely low temperatures interfered with the normal flow of traffic and imposed heavy extraordinary operating costs. Another consideration was the sharp curtailment of wheat shipments compared with a year earlier. There was a substantial carryover from last year's spring wheat crop but with the break in prices there was a general tendency to hold it off the market.

Aided by higher freight rates the company did report a gain of 11.2% in gross revenues for the first four months of the year. This increase, however, was more than offset by the higher costs. In particular, the transportation ratio was up 2½ points compared with the like 1947 interim, to 41.6%. Income available for charges dropped 23.4% to $2,606,000. While the percentage decline in available income was quite sharp the actual per share dip was of minor importance. The early months of the year are normally seasonally low in any event. Earnings on the stock for the period through April amounted to $0.04. In the first four months of 1947 the earnings had amounted to only $0.26. A drop of $0.22 can easily be made up over the balance of the year.

The prospects from here on are quite bright. The road is traditionally heavily dependent on three revenue sources—iron ore, wheat, and lumber products. The Lakes opened up for traffic early this year and the demand for iron ore is tremendous. So far this season Great Northern's loadings of this commodity have been running at all-time record levels. It is not likely that this record level will be maintained throughout the time the Lakes are open to navigation but certainly the 1948 volume should top that of 1947 by a good margin. Moreover, in its most recent rate decision the ICC allowed an increase on iron ore to upper Lake ports. Iron ore had been excluded in earlier rate boosts.

Lumber products have been moving over the company's lines at about the level of a year ago so far in 1948. Considering the general economic background and the prospects for well sustained construction activity this heavy volume is expected to continue. In recent weeks the grain loadings have been picking up. The most important consideration in the prospective movement for the year as a whole is naturally the size of the new spring wheat crop to be harvested in the fall. It is too early as yet to make any real estimate of the probable 1948 crop yield but it is understood that conditions in most of the territory served by Great Northern are favorable to a heavy yield. All in all, Great Northern's traffic prospects over the balance of the year appear good.

From press reports it is obvious that the Columbia River floods have had some influence on the company's recent traffic and operations. Indications are, however, that the cost to the road will be moderate. For the full year, then, the company should be able to more than offset the earnings decline of the early months. Earnings should run between $8 and $9, compared with last year's earnings of $7.28. With the debt structure vastly improved in recent years and finances more than adequate the present $3 dividend rate is certainly well protected. It might well be increased or augmented by extras in the not too distant future.

Sale of Lonsdale Co. Common Completed

Blair & Co., Inc., and Maxwell, Marshall & Co. and associated underwriters have completed an offering of 47,943 shares of Lonsdale Co. common stock at $3 per share and the group has been terminated. The stock represented unsubscribed shares of a block of 1,132,631 shares of Lonsdale common offered by Textron Inc. to its common stockholders for subscription through issuance of warrants.

Lonsdale Co. also has sold 77,550 shares of common to its officers and certain of its directors and employees at $3 per share, the same price at which the offering had been made to Textron common stockholders. The offering to Textron stockholders had been at the rate of one share of Lonsdale common for each share of Textron common held.

Incorporated April 14, 1948, under the laws of Rhode Island, Lonsdale will acquire, from the proceeds of the sale of common stock to Textron, the inventories, the leases of land, buildings and machinery, the business and certain of the other assets of Lonsdale Co., a 114 year-old Rhode Island corporation, related to the manufacturing and selling of high-quality textiles, being all of the properties of the old Lonsdale Co. except cash, receivables and minor investments. It will continue the operation of such business.

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Reginald Barnard To Be W. E. Hutton Partner

CINCINNATI, OHIO—Reginald N. Barnard will become a partner in W. E. Hutton & Co., First National Bank Building, members of the New York and Cincinnati Stock Exchanges and other leading Exchanges on July 1st. Mr. Barnard has been with the firm for many years.

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Industrial Development And New Capital Sources

By ALBERT R. KOCH*
Division of Research and Statistics, Federal Reserve System

Federal Reserve analyst, though contending both short- and long-term outlook for industrial expansion is favorable, sees need of avoiding major cyclical fluctuations in business activity by evening out of capital expenditures. Holds, so long as private capital outlays fluctuate widely, problem of maintaining high level employment will be difficult. Says too much rather than too little capital is available in current inflationary boom, but something may have to be done later to channel savings into private investment. Thinks change in tax structure desirable and feasible.

Short-Run Outlook for Financing Business Capital Expenditures

In general, there has been little concern that businesses have been unable to carry out their present capital expansion programs for lack of funds. The concern, at least until recently, has been rather that business enterprises have been forced to finance their expansion through loan, rather than through venture, capital.

Albert R. Koch

The primary concern about the availability of equity capital to business in the short-run has been the difficulty of floating new stock issues, particularly common stocks, at least during the period from the rather sharp decline in stock prices in the fall of 1946 to the recent rise in such prices. Much of the discussion of this problem, however, has overlooked the record volume of internal funds—that is, undistributed profits and funds represented by depreciation allowances—that have been available to business corporations during this period. Such funds, in fact, have always been the most important source of corporate equity capital in this country.

Recent comments on corporate undistributed profits have been largely objections to the level of such profits, as indicated by the available data, on the ground that corporate profits today contain a large volume of short-lived inventory profits and also that they are over-stated because of under-depreciation of existing assets on the basis of current high reproduction costs. However, the volume of corporate undistributed profits in 1947 would still have been by far the largest annual volume on record, about three times that in 1929, even if all the inventory profits as estimated by the Department of Commerce were omitted and if depreciation charges were increased by 50%.

Even in the case of stock financing, the dearth of new issues today relative to prior prosperous periods particularly the late twenties, appears to have been over-stressed. The net new money obtained by corporations through preferred and common stock issues—that is, the dollar volume of new issues less refunding and other financial issues and less the dollar volume of cash retirements of securities—was approximately $1.3 billion in each of the years 1946 and 1947, probably more than in any previous year except 1928 and 1929. And certainly no one would suggest that the roaring bull market for stocks that characterized the late twenties was a desirable factor in the general economic situation.

Moreover, the volume of common stock taken alone has also been fairly large relative to other types of security issues since the end of the war. The proportion of total new bond and stock issues excluding refunding issues represented by common stock has been slightly larger for the period from the end of the war to date, taken as a whole, than it was in prior prosperous periods. The volume of stock sales has been smaller since the fall of 1946 than it was in the earlier postwar period. However, with other equity and loan funds so readily available in large volume and at such moderate costs, the demand for business capital goods has continued to be considerably in excess of the supply of such goods at current prices.

As a result of the large postwar increase in their undistributed profits and new stock issues, business corporations as a group have a somewhat more favorable equity-to-debt ratio today than they had just prior to the war. This has occurred despite the large increase in corporate debt to banks and in public and private sales of corporate bonds that have characterized the postwar period. Moreover, interest rates have decreased so much that the current corporate interest burden, as measured by the ratio of interest to profits before interest and taxes, is considerably less than it was in prior prosperous years.

There is no question that it is undesirable for business enterprises to rely too heavily on debt financing from their capital expenditure programs, but there is little indication that such a situation has occurred for business corporations in the aggregate since the end of the war.

If the lack of equity capital caused some concerns to postpone capital expenditures during the recent period, that lack of equity capital has been desirable in most cases from the point of view of the economy as a whole. Under the full employment conditions that have characterized the recent past, when all the available raw materials, labor, plant, and equipment in the country were being utilized to practical capacity, more equity capital in such cases would not have materially increased total production and might very well have tended to increase prices further. Although such capital might have aided in the production of goods by an individual business concern, it could have done so only by enabling that concern to bid scarce labor and materials away from another concern or away from consumers.

Even if concerns that financed their expansion programs with bank credit had been able to obtain equity capital, the equity-financed expansion need not necessarily have been any less inflationary than the bank-financed expansion. The new equity capital might very well have come from savings of prior periods that were being held in such liquid form as cash or Government securities. The activation of such savings into investment would have put just

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*From an address by Mr. Koch at 25th General Management Conference of the American Management Association, New York City, June 10, 1948.

Outlook for Fuel Oil and Petroleum Products

By A. J. McINTOSH*
Economist, Socony-Vacuum Oil Co., Inc.

Pointing out though everybody everywhere wants more and more petroleum and its products, Mr. McIntosh holds outlook is for increase in supplies equaling demand in next year. Says light fuel oil supply will be better than that of heavy oil, and although petroleum industry is doing good job, everyone should help in conserving petroleum. Foresees need of greater oil imports and points out, since petroleum is international product, it is affected by world conditions.

It is a privilege to be here to tell you something about the outlook for fuel oil and petroleum products and to try to clarify for you some of the apparently confusing statements which you see, or hear, from time to time. If you are a professional economist, you are supposed to make predictions. It is a very precarious occupation. There is a comment credited to Grantland Rice which goes as follows: "When I am right, no one remembers; when I am wrong, no one forgets." I hope you remember some of the things I am going to tell you even though you may not recall who told you.

Albert J. McIntosh

I think you may be interested in looking back over the last few years to see what has been going on.

Let me admit at the start that no one that I know of was able to foresee the tremendous growth in the postwar demand for all kinds of petroleum which has taken place. I am sure I didn't. Let's look at a few classes of these users. We have three million more passenger cars on the road today than ever before. We have one-third more trucks and nearly half again as many buses than we had prior to the war. Farm tractors are steadily increasing and have doubled during the last nine years. All kinds of aircraft use three times as much aviation gasoline as they did before the war. Miscellaneous uses of gasoline for motor boats, construction and stationary engines are rapidly increasing, as well as naphthas and solvents.

Kerosene for space heating and cooking in temporary housing, or in quarters hitherto wood- or coal-heated has been in great demand, and increasing rapidly. Tobacco curers have turned to oil. Coal ranges by the million now burn oil. The latest figures show sales of these equipment during 1947 were nearly twice as many as the whole of 1946. Regular household oil is required for an unprecedented number of new central heating plants installed. It has been estimated that home burners in use increased by between 25% and 30% during 1947 alone.

Railroads are turning to diesels almost 100% for new locomotives and while the total diesels are now only about 5,000, these are the work horses of the railroads. Navy and other ships are oil burners now with coal supplying only a very small fraction of the energy for their international voyages.

Industrial users of heavy fuel oil known as Bunker C, or No. 6, are clamoring for more and more oil, partly because of high labor costs in handling coal, or the uncertainty of coal supply, or for other reasons.

Road construction, so long delayed because of the war, is now under way and a fair portion of these are petroleum asphalt roads, or roads sprayed with oil. Liquefied petroluem gas for users beyond the overcrowded gas mains is in great demand and the gas companies themselves are supplementing natural, or manufactured gas supplied by auxiliary LPG equipment and, in some cases, replacing old coal gas equipment by LPG gas.

Natural gas itself is in use in greatly increased quantities—double over the last 11 years, and yet all of those who want it cannot get it. Public Service Commissions have generally allowed gas companies to limit or stop new gas installations for heating.

The chemical industry turns to petroleum as a most economical source of supply, or a supply

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*An address by Mr. McIntosh before the National Association of Purchasing Agents, New York City, May 31, 1948.

$3,500,000

Chesapeake and Ohio Railway Fifth Equipment Trust of 1948

2⅜% Serial Equipment Trust Certificates
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June 16, 1948

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Securities Salesman's Corner

By JOHN DUTTON

Last week I had the privilege of going on a business trip that took in the greater part of 36 hours of constant travel with a man who at one time was the head of an organization employing over 1,000 salesmen. I would like to relate a few of the things which he discussed, and some of his experiences and views on salesmanship. You can learn a lot, or be mighty bored when you have to spend 24 hours constantly with the same person on trains, planes, and in cabs. But in this case I can truthfully say that I found every minute of this trip a stimulating experience.

Here was a man 65 years of age, as bright and alert and as full of energy as most men of 35. It was evident why he was a great salesman in his own right. He had energy, he looked on the bright side. He spoke of getting fun out of life. He kept saying, "I am having fun." At an age when most men would find their business dull and monotonous, each day and each new venture was a stimulating and bright experience for him. He told me stories of his experiences, all of them studded with humor, or a point of philosophy, or a lesson which they taught. His modesty was natural and sincere and his observations were those of a man who had found life the best teacher and who had learned his lessons well.

He was talking about the days when he had that great sales organization. He said he had a thousand men and 10 of them did half as much business as all the rest. Most men, he said, were easily satisfied. Too few are willing to pay the price of success. Everything has a price tag on it—10 men stood out—10 men were outstanding—all the others were average. Many a good salesman has a prospect ready and willing to do business but an appointment at his home that night conflicts with a date with the wife to go to the movies so he says, "What's the difference? I'll see my prospect tomorrow, he'll wait," but tomorrow is too late and Mr. Prospect has cooled off. It was more fun to go to the movies than to enjoy the added pleasures and comforts a better and larger income affords. Ten men stood out—the rest were average.

There were so many things I could write about that he discussed and all of them would be of interest and value to any one interested in selling as a profession, but there is only space for one more here. "Life is a matter of connections. I wouldn't sell my friendship with———for $250,000," and he mentioned the name of one of his friends. He spoke of the importance of exposing yourself to people who were doing things and going places in life. He spoke of using your time to advantage instead of wasting it. Of knowing people and of doing and saying the things that cause them to accept and to like you. He spoke of the fact that you must be one who likes people and that it must be natural and never forced. Here's an illustration. There was a meeting of a board of directors in a mid-western city and a certain man who is known from coast to coast attended. This individual for years had been known by his intimates as a man who felt that because of his great wealth and the prominence of his family, that most men never treated him the same as they did others. He felt that he was apart—that there was a wall of reserve around him that most people unconsciously observed when they met him. A certain friend of my friend, attended this meeting. In his own right, he too is one of the nation's most successful salesmen and is famous in his own line throughout the country. Immediately, because of this great salesman's instinct for knowing people, he sensed the situation the first time he met the famous industrialist. Upon leaving the meeting the capitalist made the remark that he wished he had a bottle of Scotch. The other man told him that he was on his way to the train but he had a bottle around the corner at his hotel. He said, "You wait right here on the corner. Don't go away. I'll be back in five minutes." The industrialist stood there. Exactly five minutes later, the astonished fellow was greeted by a swirling taxicab, and right through the open window his friend the salesman stuck out his head, tossed a full bottle of Scotch at him and yelled, "Catch it!" With a wave and a grin he sped on his way. It was probably the first time in his life that anyone had ever tossed a bottle of liquor or anything else at this reserved and inwardly unhappy man. Can you understand why this salesman became one of the greatest money makers in the country? Will that bottle of Scotch that was tossed through an open cab window on a street corner in a certain mid-western city ever be forgotten? That is what you call, knowing people and doing the right thing at the right time.

The man who said, "It's the little things in life that count," was surely right. It is true in business as in everything else.

Milwaukee Bond Club to Hold Outing Jun 25

MILWAUKEE, WIS.—The Milwaukee Bond Club will hold an outing at the Merrill Hills Country Club, Waukesha. Reservations are in charge of John A. Toennessen, John A. Toennessen & Co., 135 West Wells Street, Milwaukee.

S. J. Sanford With Amott, Baker & Co., Inc.

Stephen J. Sanford has joined Amott, Baker & Co., Incorporated, 150 Broadway, New York City, as Manager of the Corporate Research and Statistical Departments. Mr. Sanford was formerly Statistical Manager for Bond & Goodwin, Inc.

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More Production—The Price of Freedom

By CHARLES LUCKMAN*
President, Lever Brothers Company

Industrial executive in pointing out nation faces problem of frightening inflation along with giving economic aid to free societies, while having at same time tragic necessity to rearm, urges organized effort to increase industrial production at least 10%. Proposes it be done by "bonus" share to labor in higher wages, lower prices to public, and higher dividends to stockholders. Advocates immediate organization of labor-management "Joint Productivity Clinic" to sponsor incentive production program.

Like all things, freedom has its price. We must pay that price by working even greater miracles in the future than we have in the past. We may not get the credit for those miracles, but we shall certainly get the blame if they do not occur. For our economic way of life is more heavily burdened than ever before.

Charles Luckman

Today, our nation faces three tremendous problems. The first is the frightening reality of inflation. The second is the compelling need to provide economic aid to what remains of a free society. The third is the tragic necessity to rearm ourselves for security, in a world that has not yet learned how to outlaw war. All three problems have a common denominator—their dependence on increased productivity. Our present strength, magnificent as it is, will not suffice. Something new must be added.

I have come before you today to submit the proposition that new vigor and vitality can only be achieved through greater industrial productivity.

Without getting technical, productivity can be defined as the process of getting more units of production, per man-hour, per machine. This means that with the same number of workers, and using the same machinery, we produce an extra amount of products every hour.

At this point I think it is most important to make a very clear distinction between production and productivity. These are two very different things. Suppose you have an apple tree that produces 500 apples. You can double production by planting another apple tree with the same yield. That is more production. But if, through added skill and effort, you get that first apple tree to yield 600 apples instead of 500, you have increased productivity.

Trees Should Yield More Apples

That difference is a vital one. Just as it takes years to grow an apple tree, so it takes years to expand a nation's industrial system. As a nation we simply cannot afford to wait for the building of new plants. Time is of the essence in meeting the threat of inflation. Time is of the essence in putting the Marshall Plan to work. Time is of the essence in rearming our country. We must make the existing trees yield more apples. The extra apples—in terms of food, fuels and machinery—will be a bonus which should be divided as follows:

- a share to labor in the form of higher wages.
- a share to the public in the form of lower prices.
- a share to the stockholders in the form of higher dividends.

Thus, the obvious result of increased productivity is more products, at lower prices for more people.

Now, without trying to fasten blame on anyone, I want to give a rather extreme illustration of how this process has worked in reverse, but to show what the problem is. In Cambridge, where I conduct my business, there is a need for at least 4,200 houses. This need is not being filled. And why not? Well, one answer comes from the bricklayer. Before this last war he used to earn $1.71 an hour for an eight-hour day. In return, he laid 1,000 bricks a day. Thus, the laying of each bick used to cost the home owner 1⅓ cents.

Today, the same bricklayer earns about $2.37 an hour for an eight-hour day. But, instead of laying a thousand bricks a day, he has reduced his quota to 540 bricks a day. Thus, the cost to the home owner for laying each brick has risen from 1½ to 3½ cents.

So it is also with plumbers, carpenters, electricians and all the other building trades craftsmen. Since 1940, their average pay has increased 76%. That is good. But the catch is, their average output of work has declined 38% below the prewar level. That is bad. Here is a crying example of decreasing productivity and its result—fewer products at higher prices, for fewer people. Must we learn the hard way, as Europe and China have, the horrors of galloping fiscal consumption.

I believe most labor leaders are well aware that when pork chops and wage-earners get into a race, the wage-earner always loses. He is slower on his feet than a pork chop. For the last seven years, wage increases have always lagged behind a rising cost of living. Neither labor nor management can break out of that vicious circle simply by blaming each other for getting into it in the first place. There is blame enough to spread around; blame enough to go all around the spiral of higher wages and profits, labor-management conflicts, loss of products because of strikes. The only way for us to escape is to force our industrial machine to turn out more goods at lower prices. We must keep the vigorous blood of increased productivity circulating through the whole body of our economy.

I am convinced that, without building any new plants, we can quickly raise the level of our industrial productivity by at least 10%. This conservative percentage represents a lot of money. American industry contributes over $50 billion a year to the national income. A 10% increase in productivity represents over $5 billion a year. Today, that treasure is buried. It must be recovered.

If put to work it would run the whole Federal Government for almost two months. It would carry the Marshall Plan for well over a year. It would build over a half-million houses. It would provide the money we need to run all the public and private schools and colleges in the entire United States for the next two years. And, in countless other ways, the 10% increase could be used effectively to buttress our national solvency which has become progressively weakened by the erosion of inflation.

Impact of Marshall Plan

Domestic shortages, which have already sent prices sky-high, will be intensified by the impact of the Marshall Plan. In this connection, I think the man in the street has been somewhat misled. Most discussions of the Marshall Plan are in terms of "billions of dollars." This is a mistake. As Mr. Justice Holmes once said: "Think *things*, not *words*." We must get used to thinking things, not money. The dollars are merely a medium of exchange. What the Marshall Plan really calls for is "billions of products." For example, during the next 12 months we in this country must send: 201,000,000 bushels of grain; 2,500,000 bales of cotton; 51,000,000 pounds of meat; 1,800,000 tons of steel; 778,000,000 feet of timber: also freight cars, trucks, tractors—and thousands of other products—all needed for the reconstruction of Western Europe.

Thus, our businessmen are faced with a triple set of demand pressures. From one direction there is the increased postwar demand for our own home economy from people who have been waiting a long time for new consumer goods and durable goods from people who have learned new habits and standards of consumption. In another direction there is the pressure of new demand and new contracts from the armed services, in order to achieve military preparedness. In a third direction, there is the pressure of new demand because of the Marshall Plan.

Any one of those three would be a strain on our productive capacity. The three of them together mean an unparalleled triple strain. Unless we produce more goods we shall be forced to choose between our own needs and those of Europe. No, of course we don't want our own children to have less; but we do want the children of Europe to have more. At the peril of democratic survival we must encompass both.

The only alternative is a chaotic, despairing and ultimately Sovietized world, in which American democracy would be isolated, the object of envious hatreds and the target of attack. The men who rule in the Kremlin have not bothered to conceal the fact that their plans for world control are geared to the expectation of economic decline and collapse in the United States. We cannot abolish the duel between democracy and dictatorship by closing our eyes and our hearts. Communism is a disease that attacks peoples whose physical and moral resistance is undermined by hunger and hopelessness. To stop it we must provide food, fuel and faith.

Nothing less than our national security is involved. Twice in one generation we tried to stand

(Continued on page 23)

*An address by Mr. Luckman at the 25th Annual Management Conference of the American Management Association, New York City, June 9, 1948.

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Sad, Sorry and Puzzling

"We (the British people) are not earning our own living or paying our way, nor does the Government hold out the prospect of our doing so in the immediate future.

"Unless we free our country, while time remains, from the perverse doctrine of Socialism, there can be no hope of recovery. This island can not maintain its position as a great power under a Socialist or Collectivist system.

* * *

"We should be left here with a horde of safe officials brooding over a vast mess of worried, hungry and broken human beings. Our place in the world will be lost forever, and not only our individual self-respect, but our national independence, will be gone.

Winston Churchill

* * *

"How the ministers can deride the system of free enterprise and capitalism which makes America great and wealthy and then at the same time eagerly seek the aid which has hitherto been so generously granted from across the Atlantic—that is a grimace which baffles the limitations of our language to explain."—Winston Churchill.

These are some of the prospects which depress and some of the questions which puzzle a good many in addition to the wartime Prime Minister.

Heimann Urges Planning for Hard Money Return

Manager of National Association of Credit Men contends a gold standard currency will prevent government spendthrift actions.

Need for an early return to a "hard money" monetary basis, not only in the United States but in other nations as well, if the world is ever to have a workable program for international trade, becomes more apparent every day, declares Henry H. Heimann, Executive Manager of the National Association of Credit Men, in his Monthly Business Review released on June 15. He points out that because we have had a "managed currency" for so many years the change to a "hard money" basis cannot be accomplished at once, but that now is the time to inaugurate a definite program for a return to the gold standard as soon as such a plan is found practicable.

Henry H. Heimann

"We may not be able to revert to the gold basis quickly because the action of this nation in adopting a semi-managed currency policy has added to the confusion and uncertainty in the world's yardsticks of value, namely their moneys," Mr. Heimann states. "Under these conditions, a reasonable time to enable other nations to start a program which will lay the foundation for a return to 'hard money standard' is essential. We have suffered the severe illness of monetary disease. The cure necessarily involves a reasonable period of convalescence, but to return to full health we need a prescription that will put us back on gold. In this an election year, the platforms of both parties should stress the need for the type of program that has as its objective a return to a gold basis."

Some of the present inflation aside from war causes is directly traceable to the action of our government during the depression years in devaluing gold and placing the country on a semi-managed currency basis, Mr. Heimann says. This action removed the very important check against spendthrift actions by the government. He has this to say about the effect of the devaluation of gold upon our present inflation:

"If we were on a gold basis, and the government mis-managed its fiscal affairs, or spent like a prodigal son, with the resultant monetary inflation, people could and would demand hard money. This demand for gold, or even a run to get gold, is the check the average person has against profligate spending and being forced to accept money of doubtful value. Assuming the demand for gold increased rapidly as we continued in our trend towards monetary inflation, the shock to our people caused by such a gold demand, and the loss of confidence in paper money would cause Congress and government officials to realize that the situation had to be cured by putting into effect sound monetary and fiscal programs, and offering real incentives for increased production. Today, however, with gold unattainable, we have taken away the most effective brake, outside of elections that the people have over the cost of government and money tinkering."

Elected Directors

The election of Charles Edison and Morris F. LaCroix as directors of the International Telephone and Telegraph Corporation was announced today by Colonel Sosthenes Behn, Chairman and President of the corporation, following a regular meeting of the Board of Directors.

Mr. Edison is President and Director of Thomas A. Edison, Inc., and formerly served as Governor of the State of New Jersey from 1941 to 1944, and as Secretary of the United States Navy from 1939 to 1940. Mr. LaCroix is Chairman of the Board of the General Telephone Corp. and also is a partner in the brokerage firm of Paine, Webber, Jackson and Curtis. He is also a trustee of Smith College.

Trust Investment Policy and Its Application

By RUSSELL H. METZNER*
Vice-President, Central National Bank of Cleveland

Trust Department executive stresses importance of competent trust management and outlines method of determining proper investment requirements of individual trust accounts. Advocates "prudent investment" test in overall department policies governing trust investments and upholds Yale and Vassar Plans in timing securities purchases. Lays down investment principles and standards and gives rules regarding sound investment supervision.

Never before in the history of trust administration has there been greater need for competency in the handling of trust funds. If the trust business as we know it, is to survive (in its present form) it is imperative that our leaders who are responsible for the proper investing of the savings of our people, be sensitive and responsive to their economic, social, political and moral responsibilities. We must have investment officers who understand not only the practical side of investments, but also the economic and social climate in which business operates. They must be professional men who are as well trained as lawyers and doctors. Our responsibilities are great and it is essential that we have as scientific and effective an approach to our investment problems as education and research can devise. It is obvious that if we are to avoid being led astray by the hysteria of speculation or inflation that a sound policy of operation must be adopted which will eliminate errors of judgment and make for sound trust administration over the years.

Russell Metzner

In the hope of improving our investment philosophy in the handling of trust funds, I would like to review with you the function and the need for establishment of an investment policy in the management of trust investments. It is essential that we know what securities best meet our investment needs and not be unduly influenced by the popularity and attractiveness of securities being offered the public at any particular time. An investment policy for an account will establish this fact for you.

In discussing a subject as broad as investment policy, I find it helpful to first analyze the basic fundamentals governing the formulation of a sound investment policy for an account. Once the policy has been determined, the application of sound investment principles to the proper handling of investments is greatly simplified. Such an approach as this not only clarifies the investment problem, but also greatly assists in the economical and efficient administration of the trust. It is only through a clear understanding of the investment objectives to be followed in a particular account that it is possible to efficiently employ the funds to the greatest benefit of all interested parties.

Method of Determining the Proper Investment Requirements of an Account

To properly arrive at the investment requirements of a particular account it is necessary to establish the purpose for which the trust was created, to understand the many special circumstances surrounding the trust and of course, the usual restrictions of the instrument or legal restrictions surrounding investments in a given trust. In effect, an estate analysis is essential to the formulation of the over-all investment requirements of an account. Thus, each and every account will have a separate and distinct investment policy, tailor-made for the purpose of assisting the trust beneficiary in maintaining his or her standard of living under varying conditions and restrictions.

In view of the importance of an adequate estate plan in the formulation of a sound investment policy, a brief review of this phase of the work will be made at this time.

In arriving at the primary purpose for which a trust account is established, it is necessary to review the estate plan of the grantor, or if no estate plan has been prepared, to draft an estate plan. In many instances a careful review of the trust instrument will disclose many facts relating to the purpose for which the account is established. For example, many trusts are created for the specific purpose of providing for the wife's financial needs as long as she lives should the husband pre-decease her. The payment of the remaining assets over to the children is of secondary importance. Thus, if the fund is not large enough to provide sufficient income for the widow's comfort and support, principal invasions will be necessary. This fact alone will have an important bearing on the investment policy to be adopted.

In general, the purposes for which trusts are created are almost as numerous as the trusts themselves. Almost all have specific requirements to be met, such as: to provide for the children's education; to maintain a home for the widow; to provide funds for estate taxes; charitable bequests; and many others.

In addition to the above, there are many special circumstances to be considered. The most common are: Other sources of income of the trust beneficiary; the tax bracket of the beneficiary; termination date of the account; the right to invade principal; principal distribution dates; to whom distributable; cash or in kind. Still other factors are:

(Continued on page 38)

*An address by Mr. Metzner at the Trust Business and Investments Conference, American Institute of Banking, Buffalo, N. Y., June 8, 1948.

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June 16, 1948.

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Mutual Funds

By HENRY HUNT

A Suggestion

Recently we talked to a partner of one of the largest stock exchange firms in the country—a firm that three months ago began recommending mutual funds for the first time. However, the firm has been advising the purchase of mutual fund shares only to their smaller clients, mostly odd-lot buyers with securities or cash on hand amounting to $3,000 or less.

The attitude of this firm, probably typical of many large member firms, is exemplified by the following comment of the abovementioned partner: "A client of mine came in to see me today, and said that he had about $13,000 to invest. He also said that he understood that we were recommending mutual funds, and asked me if I thought he should put his $13,000 in one of them. I told him that our firm enjoys making money, but we feel that the 'load,' although fair for small purchasers, is too high for an investment of $13,000." In other words, he felt that mutual fund loads should be reduced on a sliding scale to give the $10,000-$20,000 investor a break.

While most mutual funds have a sliding scale load, the first "break" generally comes around the $25,000 level. Considering the fact that 90-odd percent of sales today are in units of $2,000 or less, a reduction in the load on purchases amounting to more than $5,000, or possibly $10,000, would not affect the vast majority of the business.

The question, of course, arises as to whether or not such a reduction would tend to bring more of the larger firms and larger investors within the mutual fund fold.

Many buyers of goods in case lots feel they are entitled to a preferential price over the odd-lot buyer. In this connection, it is worth pointing out that the investor who puts $10,000 into a $100 stock on the New York Stock Exchange today pays in commissions, on a percentage basis, less than a fourth the amount that is paid by the investor who puts $1,000 into a $10 stock.

A Sales Hint

King Merritt recently gave us a sales hint for retail salesmen of mutual funds, and it's a good one. He instructs all his salesmen, if they are selling a common stock fund, to turn to the stock quotation page of the "Wall Street Journal," the New York "Times," or any paper that lists all transactions on the New York Stock Exchange and circle with a red pencil every stock contained in the portfolios of the fund the salesman is selling. The salesman then carries the paper with him when he calls on a prospect and shows the marked page to him. Mr. Merritt has found that this is a much more effective presentation than showing the portfolio in the prospectus first. In effect, the salesman obtains a full-page "ad" on his fund for the price of his morning newspaper!

Dollar Averaging

The President of a leading mutual fund sponsor corporation, a firm believer in dollar averaging, sets aside a fixed sum every month which he invests in one of his own funds. Furthermore, he pays the full retail price, doesn't even receive the dealer discount.

40c vs. $11,000

According to **"Oglethorpe Opinions,"** issued by the **Southern Securities Corporation** of Savannah, Georgia:

"Prior to the First World War, New York, New Haven & Hartford Railroad's stock was considered a suitable investment for widows and orphans. General Motors, on the other hand, was a risky new business.

"One hundred dollars invested then in the 'New Haven's' stock would be worth less than 40 cents today. The same amount put into General Motors would today be valued about $11,000."

How Much More Inflation?

The following is an excerpt from **Hugh W. Long's** June **"New York Letter"**:

"The inflationary gun is again being charged with dynamite. During the next 12 months or so, the European Recovery Program, the increased armament expenditures and tax reductions should create at least $13 billion of additional buying power without a corresponding increase in goods and services. Now, still more billions of dollars are being made available through wage increases. These too will compete for available goods and service. Such increases in buying power at a time when we already have full employment and the economy is operating near capacity, create tremendous upward pressures on prices. And additional fuel is added to the fire by reason of the government's fiscal policy, which has again become inflationary.

"Fortunately, there are strong offsets that did not exist during 1946 and 1947 when the inflationary gun was set off. Large capital expenditures on the part of industry have increased our over-all capacity to produce and in many instances to produce more units per man-hour. Inventories have been built up and pipelines filled until almost all of the output is currently available for consumption. So-called soft goods are generally in adequate supply in contrast to the many shortages that existed during 1946 and early 1947. Of further importance is the increased production in Western Europe. It is expected that our exports will be smaller and imports will be larger than last year. This will add goods to the supply available for domestic consumption.

"Possibly most important as an offset to the disagreeable effects of inflation for the average citizen is the outlook for moderately lower food prices. Latest crop estimates are very favorable both at home and abroad. Indications are that Europe will need substantially less of our food supplies this year. It may not be long before the government is buying wheat to support the price, in contrast to last year's government buying which caused high wheat prices—well above support levels —to go even higher.

"Wage increases mean higher production costs for many manufactured products. This, in turn, forces some prices up. But wage increases also affect prices through the greater consumer demand for goods which they encourage. We probably cannot hold the price line as the steel, electrical equipment and certain other industries have tried to do. However, the pace of price advances has been slowed down, the worst sting has been taken out of inflation, and we are developing a more favorable balance in the economy to the advantage of all groups, including investors."

"D. G." Bullish

Distributor's Group's current **"Investment Report"** has the following to say about stock prices:

"The continued advance in stock prices has now convinced market technicians (whole influence on investor opinion is widespread) that the business depression which they erroneously believed was forecast by the price decline in September, 1946, has receded into the indefinite future. Irrespective of the value one might place on their judgment, their change in attitude is important as a further restorative of confidence, for confidence has been the only ingredient lacking in the securities markets. **Values** are and have been extraordinary.

"We have now a remarkable combination of—

"(1) increasing intrinsic values for most common stocks (measured in earnings, in asset values, in dividends),

"(2) a political trend favorable to investment capital for the first time in many years,

"(3) relief from taxation, which must surely encourage investment and should also promote shifts of funds from bonds into stocks,

"(4) an improving foreign situation, and

stocks of many of our leading enterprises available at close to record lows in relation to their earnings and dividends.

"We expect earnings to be maintained at a high level for as long a period ahead as can reasonably be forecast—and the eventual reflection of these earnings in much higher price levels for stocks."

Are Profits Too Low?

"These Things Seemed Important," issued by **Selected Investments Company**, quotes Harvard's Professor Slichter as follows:

"Profits in a few industries have been very large but profits in industry as a whole have not been excessive. The test of the adequacy of profits must always be the practical test of the market: are profits large enough to permit industry to attract adequate amounts of equity capital? In attracting equity capital, inventory profits do not count—the prospective investor wishes to know what operating profits the enterprise can earn. Nor is he interested in what rates present profits yield on plant and equipment bought at prewar prices. He wishes to know what return present prices and costs make possible on new and up-to-date plant constructed at present prices. Measured by this test present profits in most industries are too small—they do not permit enterprises to attract venture capital. . . ."

Hancock Chairman

John M. Hancock, partner of Lehman Bros., has been reelected

John M. Hancock

Chairman of the Board of Directors of the American Management Association.

Grayson Pleads Guilty

The Securities and Exchange Commission and the Department of Justice reported on June 8 that Stanley Grayson, whose previous conviction had been reversed and a new trial granted by the Circuit Court of Appeals for the Second Circuit, pleaded guilty upon retrial to all counts of an indictment charging violations of the anti-fraud section (Section 17 (a) of the Securities Act of 1933), the mail fraud and conspiracy statutes (Sections 215 and 337 of the Federal Criminal Code) in connection with the sale of various oil and gas interests. Grayson was sentenced to one year and a day on all counts except 6 and 26. On counts 6 and 26 he received a 3 year suspended sentence and was placed on probation for that period, with the further prohibition that he may not engage in the securities business during the said period. Sentencing was by Judge William Bondy in the United States District Court at New York City.

Kullman Visiting the Coast

Philip C. Kullman, Jr., of John J. O'Kane, Jr. & Co., 42 Broadway, New York City, is now making a tour of the Far West combining business with pleasure. He is visiting Chicago, Colorado Springs, the Grand Canyon, Los Angeles, San Francisco, Portland and Seattle. Mr. Kullman is accompanied by his wife and his son Robert, who rows on the Iona College 'varsity crew.

Mr. Kullman will be back at his desk in New York on June 21.

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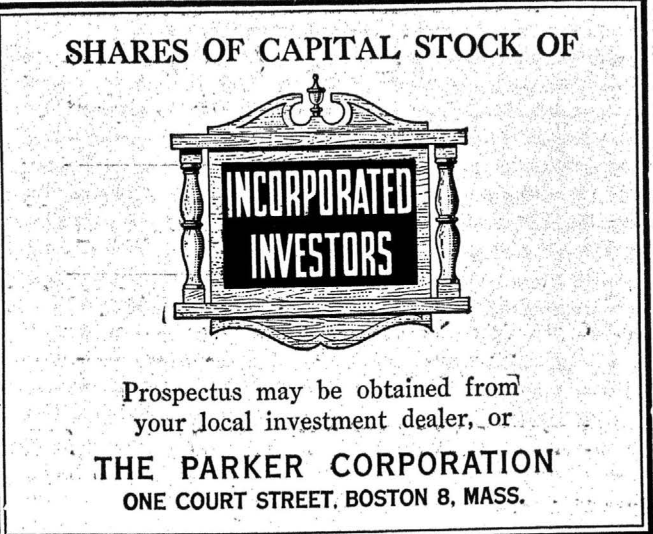

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Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The monetary authorities appear to be taking turns, springing surprises on the government securities markets, with the Treasury the latest to pull the unexpected. . . . The announcement that from July 1 through July 15, 1948, inclusive, non-bank investors will be allowed to purchase $1,000,000, while commercial banks with savings deposits will be permitted to acquire $100,000 of Series "F" and "G" Savings Bonds, caught the market flat-footed, and knocked it down several thirty-seconds. . . . Selling was reported in most issues, and this combined with the reluctance of dealers to add to fairly full positions, put the entire list on the defensive. . . . Marking down of quotations tended to accentuate the apparently none too vigorous technical position of the market. . . .

UP AND DOWN

This up again, down again policy of the money managers toward prices of government securities has the money markets pretty well confused, to put it mildly. . . . First, the Treasury comes along and refunds with 1⅛% certificates, when the market was looking for a 1¼% rate. . . . Up go prices of government obligations and it was indicated that the Treasury was not particularly distressed by the market's response to the retention of the 1⅛% certificate rate. . . . Then the Federal Reserve Board had to have its say and it increased reserve requirements of Reserve City Banks from 22% to 24%. . . . This action cooled off the government market and prices gave some ground after the sharp rise that took place following the maintenance of the 1⅛% certificate rate. . . . Quotations were showing signs of stability, when the Treasury came along, spoke its piece and put the market into reverse. . . .

Injections of uncertainty have been coming fast and furious in the money markets, and it is not surprising that investors, traders and dealers have again taken to the sidelines to wait and see what will happen. . . . Purchases of limited amounts of the "F" and "G" Savings Bonds will take pressure off the government market on the up side, and may even put some of it on the down side. . . . As to how many of the non-marketable bonds will be sold is purely a matter of conjecture, although predictions run all way from a few hundred millions to more than a billion. . . . The last offering of non-marketable bonds, the Series "A" 2½% due 1965, which was made in the fall of 1947, did not turn out to be any great ball of fire. . . .

FAVORABLE YIELD

Indications are that most insurance companies will buy their limits of the Savings Bonds, because the yield is favorable. . . . There will probably be selling by some of the smaller concerns that do not have readily available cash, in order to take on the new bonds. . . . Savings Banks will also be buyers of these securities but there does not appear to be too much enthusiasm for non-marketable bonds. . . . Commercial institutions, in the country bank classification and non-member commercial banks, are planning to buy their limits of the "F" and "G" bonds, since these securities meet their investment needs very nicely. . . . The larger commercial banks that are allowed to purchase the "F" and "G" bonds can take on their limits and still be looking for bargains in the marketable obligations. . . .

NO HURRY

Although it seems to be quite generally believed that the offering of Savings Bonds means that government bond prices have made their tops for some time to come, especially in the longer-term obligations, there are many institutions that will take advantage of price weakness to purchase selected issues, especially the partially-exempts. . . .

There are, however, no indications that they will be rushed in this operation, since they can very well remember what happened to the market after the offering of the Series "A" 2½s in the fall of last year. . . . Conditions are different now from what they were then, but the psychological factor is still with us and it has done some very strange things to the government market in the past. . . .

ACADEMIC

Raising of funds by the Treasury through the sale of "F" and "G" Savings Bonds, in addition to influencing the trend of marketable obligations, could be mildly deflationary if the money used to buy the non-marketable obligations were diverted from speculative loans. . . . However, there has not been very much of this type of financing of late. . . . To the extent that non-bank investors buy the "F" and "G's" with cash resources it will be only a shift in deposits to the Treasury. . . . If marketable eligibles are sold to commercial banks in order to buy the Savings Bonds, deposits will be created and the results not deflationary. . . . Commercial bank purchases will also create deposits. . . .

Since the amount of money that will be obtained by the Treasury through the sale of Savings Bonds will not be sizable enough to make much of an impression on the inflationary forces, the question as to whether the financing is deflationary or not appears to be largely academic. . . .

REACTION LIKELY

After the sharp rise in prices of government bonds (particularly the longer maturities) since the middle of May, following the continuation of the 1⅛% certificate rate, a reaction of some proportions would not appear to be unhealthy for the market. . . . This may be what is being experienced now, and since we very seldom do things except in a big way, the adjustment might be carried to excess. . . . It may be that a larger part of the price rise that has taken place in the last month will be lopped off the list. . . .

The technical position of the market, however, will be improved with price adjustments and as quotations show signs of settling buyers should come into the eligible obligations. . . . The tap issues will have competition in the Savings Bonds and fairly sizable offerings of corporate obligations so the ineligibles could continue longer on the defensive. . . .

Fundamental Facts on Foreign Trade

By GEORGE W. WOLF*

President, U. S. Steel Export Company

Mr. Wolf stresses need of greater U. S. imports in order to reduce world trade imbalance and revive multilateral international trade. Cites need for imported essential raw materials and decline in our domestic reserves. Says granting foreign loans is no substitute for imports, and proper imports are more beneficial than exports. Asserts a planned economy is an empty promise.

We are engaged in a cold war. On one side we have an ideology that believes in the vassalage of man; on the other hand, an ideology believing in the dignity of man. As world leaders of this second group, we must strive to keep America strong—as we have become under our system of Free Enterprise.

George W. Wolf

It has been said that there never was a time since the beginning of this country as an independent nation when the very concepts upon which it was founded—economic, social and political freedom—stood in the balance to the degree they do today. And what is true of America is true of the world at large. World civilization founded on individual freedom is at the crossroads.

It is encouraging that this fact is now generally recognized. It is discouraging that there exists so great a lack of understanding of what must be done to preserve and strengthen these concepts in fundamental ways.

Recognition of this state of world affairs has caused our administration to undertake the European Recovery Program. Fundamentally, this program was set up to take care of the heavy imbalance in foreign trade resultant from the colossal import needs of a war-ruined world—a world the crying need of which is increased productivity of the wealth generating and regenerating type. Only by filling the distribution channels in the various countries and internationally can faith in currencies and a willingness to work and toil and sacrifice in order to produce be implanted in the minds and hearts of men and women everywhere.

*An address by Mr. Wolf at 33rd Annual International Convention of National Association of Purchasing Agents, New York City, June 2, 1948.

The aim of our emergency measures of world aid to peace loving nations is to help them to help themselves establish a viable economy—an economy in each of the separate countries, and therefore in the world at large, that will from some given point in the future be thenceforth capable of supporting their own economic lives.

This means that we are striving to revivify mutilateral international trade on a sound and lasting basis. This means that we must look to that not too distant day when we, as a nation, shall be importing—importing first to sustain our own economy strong and healthy—importing to assure that world economy remains strong, healthy, virile and expanding.

Must Import More

Today, when exports exceed imports by billions of dollars, with no near future prospect of reducing such imbalance, it is more important than ever that we, as a nation, give serious thought to the importance of imports and do all we can to stimulate the flow of goods and services to this country.

Otherwise, our foreign trade will remain a one-way route "outbound," and the whole purpose of such trade—in so far as our national well-being is concerned—will be nullified. To continue the prodigal expenditure of our productive and national wealth at the current rate can but lead to economic bankruptcy and exhaustion.

In reality, our vital imports, so far as national well-being is concerned, are more important now, and always, than our exports, because these vital imports enable us to obtain the essentials as well as the amenities of our economic life without which there can be no expanding economy on a sound and lasting basis.

Imports can be classified into two categories—viz.: those needed for the essentials; and those needed for the ever-expanding amenities that make up the American standard of living.

The dividing line between the necessities and amenities is ever shifting — the amenities of today becoming the necessities of tomorrow.

Essential Imports to Our Economy

Let us first consider those vital imports necessary and essential to our economy. Before doing so, it would be well to pause to consider the fact that today the United States with but 6% of the world's population and a mere 7% of its area possesses one-third to one-half of the world's industrial power. This is our very strength and, at the same time, it is our vulnerability.

The measure of such vulnerability varies almost directly with the continuation or non-continuation of vital imports into this country of huge and ever-increasing quantities of raw materials from all parts of the world. These necessary raw material imports control, in large measure, the level of our industrial activity, the level of our employment and sustain the delicate balance between high employment and dangerous unemployment.

The United States has reached the highest level in the development and integration of industrial enterprises yet known to man. The channels from which it draws

(Continued on page 40)

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

150,000 Shares

Montana-Dakota Utilities Co.

Common Stock

Par Value $5 Per Share

Price $12.50 per share

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

Blyth & Co., Inc. — Merrill Lynch, Pierce, Fenner & Beane

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Kalman & Company, Inc. — Piper, Jaffray & Hopwood — E. H. Rollins & Sons Incorporated

Equitable Securities Corporation — Kebbon, McCormick & Co. — Laurence M. Marks & Co.

Stifel, Nicolaus & Company Incorporated — The Illinois Company — Pacific Northwest Company

Whiting, Weeks & Stubbs

June 16, 1948

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SEC Adds Los Angeles Stock Exchange to List Permitted to Conduct Special Offerings

The Securities and Exchange Commission on May 28 announced that it had declared effective a plan of the Los Angeles Stock Exchange for "Special Offerings." The effect of the action taken by the Commission will be to exempt distributions conducted in accordance with the plan from rules of the Commission prohibiting the payment of compensation for inducing purchases on the Exchange under certain conditions. The Los Angeles Stock Exchange is the eighth national Securities Exchange to file and to have declared effective by the Commission a plan for special offerings. The plan of the Los Angeles Stock Exchange is generally similar to the plans heretofore declared effective for the New York Stock Exchange, New York Curb Exchange, San Francisco Stock Exchange, Philadelphia Stock Exchange, Detroit Stock Exchange, Chicago Stock Exchange and Cincinnati Stock Exchange. A summary of the more important features of these plans appeared in Securities Exchange Act Release No. 3146 issued on Feb. 6, 1942.

The text of the Commission's action follows:

"On May 10, 1948, the Los Angeles Stock Exchange, pursuant to Rule X-10B-2 (d) under the Securities Exchange Act of 1934, filed a plan for special offerings contained in Chapter XI of the Rules of the Governing Board of the Los Angeles Stock Exchange.

"The Securities and Exchange Commission for good cause finds that the notice and public procedure specified in Section 4 (a) and (b) of The Administrative Procedure Act are unnecessary in connection with the consideration of this plan, since it is generally similar to plans heretofore declared effective for other national Securities Exchanges, and the Commission finds further that, Paragraph (d) of Rule X-10B-2 being exemptive in nature, such plan may be declared effective immediately. Therefore the Commission, having given due consideration to the terms of such plan, and having due regard for the public interest and for the protection of investors, pursuant to the Securities Exchange Act of 1934, particularly Sections 10 (b) and 23 (a) thereof and Rule X-10B-2 (d) thereunder, hereby declares such plan to be effective, on condition that if at any time it appears to the Commission necessary or appropriate in the public interest or for the protection of investors so to do, the Commission may suspend or terminate the effectiveness of said plan by sending at least ten days' written notice to the Exchange."

Floyd D. Cerf Group Offers Debentures of Segal Lock & Hardware

Floyd D. Cerf Co., Inc., Chicago, and a nation-wide group of investment bankers made a public offering June 16 of a new issue of $2,000,000 15-year 6% convertible sinking fund debenture bonds of Segal Lock & Hardware Co., Inc., due May 1, 1963, and priced at 100.

Segal, and one of its three wholly-owned subsidiaries, Norwalk Lock Co., ranks as one of the five largest manufacturers of builders' hardware and the largest manufacturer of key duplicating machines and "jimmy proof" locks.

Proceeds from the financing will be used for general corporate purposes including the contemplated expansion of the Sumter, S. C., branch plant of Segalock Fasteners, Inc., a subsidiary manufacturing patened "zipper" fasteners. Neither the company nor its subsidiaries have any funded debt or preferred stock outstanding with the exception of this issue. Segal common stock is traded on the New York Curb Exchange.

The debenture bonds are convertible into 285 5/7 shares of common stock for each $1,000 principal amount at $3.50 per share any time prior to, and including May 1, 1950, and increasing thereafter at an annual average rate of one-half point per share.

Net sales last year were $3,324,185 as against $2,391,268 in 1946. Net profit before Federal taxes was $396,172 last year as against $253,411 in the previous year.

Distribution is through many of the country's largest hardware jobbers and about 30,000 hardware retailers in the United States, Canada and abroad.

A third wholly-owned subsidiary is the Segal Safety Razor Corp. which manufactures safety razor blades and a triple-adjustment patented one-piece safety razor.

Since the end of the war, the company's large plant in Norwalk, Conn., has been reconverted from wartime activities and an extensive modernization program under taken which is now nearing completion. Considerable new high-speed and labor saving machinery has been installed.

Due to rapidly growing building operations throughout the country and the prospects for continued activity, the outlook for Segal's builders' hardware sales and earnings are the most favorable in the history of the business.

Blyth & Co. Group Offers Montana-Dakota Common Stock

Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane jointly headed an underwriting group which offered to the public, June 16, a new issue of 150,000 shares of Montana-Dakota Utilities Co. common stock, $5 par value, at $12.50 per share. Proceeds from the sale will be added to the company's general funds and will be applied toward the cost of additions to its electric and gas properties.

The construction program for 1948, including the balance of the cost of projects underway at the beginning of the year, will involve gross expenditures estimated at $3,570,000.

The company, which is not affiliated with any other public utility, carries on a natural gas and electric public utility business in Montana, North Dakota, South Dakota and Wyoming.

Total operating revenues of the company for 1947 were $10,227,776 and net income for the year was $1,705,106. The company has a funded debt of $19,056,680 and 99,115 outstanding shares of 4.20% cumulative preferred stock, $100 par value. Giving effect to the present offering there will be 1,066,434 shares of common outstanding.

Dividends on the common stock totaled 75 cents per share in 1947 and 60 cents per share in each of the preceding two years. Dividends totaling 40 cents per share have been declared so far in 1948.

At the end of February the company had total assets of $54,235,190. Current assets totaled $4,911,270 compared with total current liabilities of $3,874,727.

All these shares having been sold, this advertisement appears as a matter of record only.

NEW ISSUE

1,132,631 Shares

LONSDALE COMPANY

Common Stock

Par Value $1 per Share

Price $3 per Share

BLAIR & CO., INC. MAXWELL, MARSHALL & CO.

June 15, 1948.

Canadian Securities

By WILLIAM J. McKAY

Despite fervid domestic criticism and foreign misgivings, the wisdom of the action of the Canadian administration in raising the Canadian dollar to par *vis-a-vis* the U. S. dollar is becoming increasingly apparent. In the light of actual developments, perhaps the only valid criticism that can now be levelled at those responsible for this step is dilatoriness in restoring the currency to its original parity. If the decision had been taken before the strong U. S. speculative interest in Canadian securities prior to the revaluation of the currency had gained its overwhelming momentum, Canada's subsequent exchange difficulties would have been largely avoided.

The spectacular influx of U. S. capital funds attracted by the 10% discount level of the official Canadian dollar caused a gratifying increase to an all-time high level in the Canadian exchange reserve of U. S. dollars. This led in turn to the pardonable complacency that existed at that time concerning the strength of Canada's exchange position. Insufficient attention was given to the impermanence of these reserves, and deluded by the imposing nature of their size, the Canadian authorities were slow to check the Canadian buying spree in this country that subsequently developed.

When this error was realized however, speedy and effective action was taken to arrest the alarmingly rapid decline of the Dominion's exchange fund. Furthermore the resultant austerity program has not been merely negative, but has produced also some unexpected benefits to the Canadian economy. No false illusions born of apparent affluence now remain. While the exchange reserve position was strong, the ever-present Canadian weakness constituted by over-reliance on the time-honored U S./Britsih/ Canadian exchange triangle was conveniently neglected.

With the exchange reserves at a precarious level and cold facts of the case could no longer be avoided. With characteristic realism the Canadian authorities then adopted the current austerity measures and re-oriented the official course in the direction of greater economic independence.

Even at this early stage favorable results have commenced to materialize. Trade and Commerce Minister Howe has just announced that Canada's dollar conservation program is beginning to exert a beneficial influence on the U. S./ Canadian exchange position; that imports from this country are being reduced month by month while exports to U. S. markets are steadily increasing; that as a result there have been substantial savings in U. S. dollars since restrictions on imports and capital goods and equipment became effective last November. The Canadian economic position has also been furthered strengthened following a new wave of U. S. branch-plant installation in the Dominion in order to avoid loss of Canadian markets. This movement has also taken an even more favorable turn from the Canadian view-point as several of these new plants will manufacture not only for Canadian and Empire markets but also for export to the world markets even including the United States.

Thus the effect of the raising of the Canadian dollar to its present parity has been instrumental in placing the Canadian economy on a more realistic basis. The Canadian authorities have also long been cognizant of the fact that the unduly large differential between U. S. and Canadian prices that existed before the exchange revaluation could exert undesirable pressure. Raising the exchange level therefore was one step in the long-range policy of gradually permitting Canadian prices to approach the U. S. level. One desired objective of this policy can be readily deduced — before the removal of the current Canadian restrictions on foreign trade and capital can be contemplated, a necessary prerequisite would be a greater degree of uniformity of the U. S. and Canadian price levels.

During the week both the internal and external sections of the bond market were dull and inactive and the internals were marked-down in sympathy with the reaction in free funds following the recent long period of persistent strength. This decline was caused by offerings of free dollars for future delivery in connection with the November Dominion bond redemptions. In view of the approaching accelerated demand for funds for tourist purposes these offerings should soon be more readily absorbed. In addition during the summer months there will be intensified activity in the mining areas of the Canadian North and U. S. investment interest is then likely to be on an increased scale. Stocks after their recent apathetic showing displayed signs of greater animation with the industrials reflecting the upward trend in New York. The gold issues however still remained in the doldrums and declines followed the announcement of the dividend reduction on Dome Mines.

CANADIAN BONDS

GOVERNMENT
PROVINCIAL
MUNICIPAL
CORPORATION

CANADIAN STOCKS

A. E. AMES & CO.
INCORPORATED

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NEW YORK 5, N. Y.

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H. Hentz & Co. Opens New Canadian Dep't

H. Hentz & Co., 60 Beaver Street, New York City, members of the New York Stock Exchange and other leading securities and commodity exchanges, announces the opening of a Canadian Department to specialize in Canadian securities. In connection with the opening of the department, which will be under the co-management of Allen Manus and Cecil Manus, the firm announces the installation of a direct private wire to Angus & Co., 304 Bay Street, Toronto, members of the Toronto and Montreal Stock Exchanges, and the Montreal Curb Market.

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NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

John C. Traphagen, Chairman of the Board of **Bank of New York and Fifth Avenue Bank**, has announced the appointment of Charles M. Bliss, heretofore

Charles M. Bliss Roderick McRae

serving as Vice-President in charge of Investment Counsel, to be the Administrative Vice-President of the institution. Other appointments made at the same time were: Roderick McRae, Vice-President, now in charge of the Security Research Department, to be the Chief Investment Officer with supervision also over Investment Counsel activities; James Carey, formerly Vice-President in the Trust Department, becomes Director of Employee Relations; Karl A. Simson, formerly Accountant, is appointed Comptroller; R. W. Kaiser, Vice-President and heretofore Comptroller, will serve as Vice-President in the Banking Department.

* * *

Philip Young, Dean of Columbia University School of Business, on June 10 was elected a Director of the **Bank of Manhattan Co.**

Mr. Young was the principal organizer of the government program which led to the establishment of the Lend - Lease Administration. Later, when Edward Stettinius, Jr., was named first Lend-Lease Administrator, Mr. Young served

Philip Young

as Deputy Administrator. Subsequently, he became assistant to the Foreign Economic Administrator, as well as foreign trade adviser to the FEA and chief of its Trade Relations Staff. From 1944 to 1946, as a naval officer, he directed the Navy's International Aid Division

* * *

Guaranty Trust Company of New York announced on June 11, the appointment of John H. Schwoon, formerly assistant secretary, and Clifford R. Rohrberg, formerly asistant treasurer, as assistant managers of the Foreign Department; and of John G. Rhatigan as an assistant secretary in the Banking Department.

* * *

At a meeting of the Board of Directors of **Sterling National Bank & Trust Co. of New York**, Robert J. Kiernan, Vice-President at the bank's main office was elected Vice-President and Senior Loaning Officer, it was announced on June 14.

* * *

E. Chester Gersten, President of **The Public National Bank and Trust Co. of New York**, announced that Douglas Savage of the Credit Department, 39th Street and 7th Avenue Office, was appointed an Assistant Cashier.

* * *

S. Sloan Colt, President of **Bankers Trust Company**, announced on June 16 that S. T. Mason Frey has been elected vice-president and William H. Moore assistant treasurer.

Mr. Frey began his bank career in the Foreign Department in 1932, following his attendance at Kent School and Columbia University. He was appointed an assistant treasurer in 1943 and assistant vice-president in 1945.

Mr. Moore, after his education at St. Paul's School and Yale University, joined the bank in 1938. Since his return from the Navy in 1946, he has been connected with the Banking Department.

* * *

The election of James S. Carson, Vice-President and Director of American & Foreign Power Co., Inc., as Vice-Chairman of **Colonial Trust Co.**, has been announced by Arthur S. Kleeman, Chairman and President of that institution Mr. Carson has for several years has been a member of the bank's Board of Directors. Also, he is a Director of the South American and

James S. Carson

Far Eastern affiliates of American & Foreign Power Co., Inc., a member of the Executive Committees of National Foreign Trade Council, Inc., and Pan American Society (of which latter he is an Honorary Vice-President for life), a Director of the Bolivarian Society and on the Directorates of the following international organizations: Argentine American Chamber of Commerce, Inc., Chile-American Association, Columbian American Chamber of Commerce, Cuban Chamber of Commerce in the U. S., Inc., Ecuadorean American Association, Inc., Mexican Chamber of Commerce of the U. S., Inc., Peruvian American Association, Venezuelan Chamber of Commerce, and American Asiatic Association. As Vice-Chairman of our Board, Mr. Carson will act as special consultant to Mario Diez, Vice-President in charge of our International Division.

* * *

An exhibit of New York newspapers and periodicals of a century ago will be a feature of the 100th Anniversary celebration of the **Union Square Savings Bank**, according to an announcement on June 14 by R. H. Brownell, President of the bank.

This unique exhibit, which will open in the bank lobby on Wednesday, June 23, and continue through July 2, will comprise originals and facsimilies of 1848 newspapers and periodicals which are still being published in New York.

The bank, dean of financial institutions in Union Square, was officially opened for business on July 1, 1948, as the "Institutions for the Savings of Merchants' Clerks." It has been known under its present name since 1905.

The publications to be featured in the exhibit and the dates they or their direct antecedents were founded are: "The New York Post" and "Home News," 1801; "Missions," international Baptist magazine, 1803; "Morning Telegraph," 1805; "The Watchman-Examiner," also a Baptist publication, 1819; "Journal of Commerce," 1827; "Railway Mechanical Engineer," 1832; "New York Sun," 1833; "Staats-Zeitung und Herold," German-language daily, 1834; "American Banker," 1835; "Forth," a Protestant Episcopal magazine, 1836; "Commercial & Financial Chronicle," 1839; New York "Herald Tribune," 1841; "Brooklyn Eagle," 1841; "American Journal of Psychiatry," 1844; "Police Gazette," 1845; "Scientific American," 1845, and "Town & Country," 1846.

* * *

At the regular meeting of the Board of Directors of **The National City Bank of New York** held on June 15 Carl Kriech was appointed an Assistant Cashier.

* * *

At a regular meeting of the Board of Trustees of **Central Hanover Bank and Trust Company** held on June 15 Edwin C. Donnelly was appointed an Assistant Secretary and Peter E. Snyder, an Assistant Treasurer.

* * *

Sterling National Bank & Trust Company of New York announces that Peter Schwoebel and Harry L. Durland, at its new Boulevard Office in Forest Hills, have been elected Assistant Vice-Presidents. Louis Steinmuller, in charge of the Bank's Rego Park Office, has also been elected an Assistant Vice-President.

* * *

Mr. John T. Madden, President of the **Emigrant Industrial Savings Bank**, announced on June 16 that the Board of Trustees has advanced Mr. Alexander P. Haber to Vice-President. Mr. Haber came with the Bank in September, 1945 as Assistant Vice-President.

* * *

Howard P. Maeder, Manager of Brown Brothers Harriman & Co. and a trustee of the **Jaimaca Savings Bank, Jamaica, N. Y.**, was elected Honorary Vice-President of the bank at a recent meeting of the board of trustees, it was announced by John Adikes, President.

At the same board meeting, Robert F. Peterson and Vincent A. Carroll were appointed Assistant Secretaries of the bank.

* * *

Burr P. Cleveland, President, First National Bank of Cortland, Cortland, N. Y., was elected President of the **New York State Bankers Association** at its 52nd annual convention at Bretton Woods, N. H., on June 14. He succeeds William A. Kielmann, President, Peoples National Bank of Lynbrook, Long Island.

Harry W. Davies, President, The Syracuse Trust Co., Syracuse, was elected Vice-President, and Charles S. Andrews, President, Bronxville Trust Co., Bronxville, was named Treasurer.

The Association, founded in 1894, includes in its membership over 95% of all the commercial banks in New York State.

* * *

Pierre N. Hauser, Vice-President, First Wisconsin National Bank, Milwaukee, Wis., on June 11 was elected President of the **American Institute of Banking**, after having served as Vice-President for the past year. Hartwell F. Taylor, Assistant Vice-President of The Bank of Vriginia, Richmond, Va., was elected Vice-President. Mr. Taylor was an Executive Councilman of the Institute since 1945.

The officers were elected and installed at the final general session of the 46th Annual Convention of the American Institute of Banking, in session at the Hotel Statler, Buffalo, N. Y., June 7 to 11.

The convention also elected four Executive Councilmen to serve three-year terms. They are: Joseph F. Cornelius, Vice-President of the First National Bank, Spokane, Wash.; Albert H. Gabel, Mortgage Department, Savings Bank of Utica, N. Y.; W. Frank Phillips, Vice-President, Commercial National Bank, Charlotte, N. C.; and Martin J. Travers, Executive Vice-President, Power City Trust Company, Niagara Falls, N. Y.

* * *

Artemas C. Leslie has been appointed a director of the **Keystone National Bank** in Pittsburgh succeeding the late Dr. John B. (Jock) Sutherland, Herman M. Schaefer, President, announced on June 3, it was stated in the Pittsburgh "Post Gazette" of June 4, which added:

"Mr. Leslie, formerly District Attorney here, is a member of the Allegheny County, Pa., and American Bar associations and a partner of the law firm of McCloskey, Best & Leslie."

* * *

Charles A. Winding, attorney, who in 1943 served as Assistant Counsel to Gov. Thomas E. Dewey and as Executive Secretary of the New York State War Council, was named on June 8 Chairman of the board of directors of the **Elmira Bank and Trust Co.**, according to Associated Press advices from Elmira on June 8, which added: He succeeds Samuel G. H. Turner, who becomes Honorary Chairman of the board.

* * *

Michael A. Jackson has been a member of the board of **United States Savings Bank of Newark, N. J.**, it was announced on June 10 by Benjamin Fairbanks, President. Mr. Jackson, a native of Newark, is a director of the Federal Trust Co., it was stated in the Newark "News" of June 10.

* * *

Eugene Murray, Chairman of the board of the **Fidelity Trust Company of Pittsburgh** and affiliated with banking and business interests in both Pittsburgh and Sewickley, died June 7 in the Sewickley Valley Hospital. He was 71.

Mr. Murray, who began his service with the Fidelity as a messenger in 1898, celebrated his 50th year with that firm last February. Prior to his connection with Fidelity he also had worked for two years as a messenger with the Tradesmens National Bank.

The Pittsburgh "Post Gazette" of June 8, from which the above was taken, went on to say:

"Mr. Murray became Treasurer of the Fidelity company in 1912, Vice-President in 1917, a director in 1932 and President in 1934. In September, 1945, he was named Chairman of the board and was

(Continued on page 22)

This announcement is neither an offer to sell, nor a solicitation of offers to buy, any of these securities. The offering is made only by the Prospectus.

NEW ISSUE June 16, 1948.

$2,000,000

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News About Banks and Bankers

(Continued from page 21)

succeeded as President by Alexander P. Reed.

"Mr. Murray was Chairman of the Advisory Committee of the Sewickley office of the Mellon National Bank and Trust Co.; a director of the National Union Fire Insurance Company and of the Union Title Guaranty Company; Chairman of the Advisory Committee of the Home for Aged Protestant Women and a member of the Advisory Committee of the Protestant Home for Incurables."

* * *

Carroll Downes, retired Philadelphia and New York banker, died on May 31 at his home in Atlanta, Ga., it was indicated in the Philadelphia "Inquirer" of June 3, from which the following is taken:

"Mr. Downes was an officer of the **Philadelphia National Bank** from 1918 to 1920 and later served as President of the Liberty National Bank in New York.

"In 1937, he became director of the Southern Governors' Conference. He resigned from the post in 1946 and since then had devoted himself largely to philanthropic interests."

At the time of his death Mr. Downes was 70 years of age.

* * *

Tradesmens National Bank and Trust Company, Philadelphia, Pa., announced the following new appointments as of June 10: George W. Junginger, Assistant Cashier; Joseph F. Binns, Assistant Cashier.

* * *

Stockholders of the **National Capital Bank** have authorized an increase in capital stock to $400,000 from $300,000, President George A. Didden reported on June 9, according to the Washington "Post" of June 10, which added:

"As a result, he said, an additional 10,000 shares of $10 par stock will be sold at $10 a share. The last sale in National Capital Bank stock on the Washington Stock Exchange was at $35 a share. Present stockholders will be given 'rights' to buy the additional shares on the basis of one new for each three old shares now held. It is anticipated that there will be few or no shares left for public sale.

"A market has been established for the 'rights' at $6.66 each. The warrants, to be mailed today, will expire at noon June 30.

"The increase in capital, Didden explained, was made necessary by the rapid growth of the bank."

* * *

The retirement of Robert McEvilley as Vice-President of the **First National Bank of Cincinnati** was announced on June 1 by W. E. Pierson, President, following a board of director's meeting. Mr. McEvilley has been in the bank's employ for more than 50 years and was an officer for 47 years, serving in an official capacity longer than any other since the bank was organized, according to the "Cincinnati Enquirer" of June 2, which added:

"Mr. McEvilley will continue as a member of the board and its Secretary, Mr. Pierson said. Born in Cincinnati in April, 1874, Mr. McEvilley joined the bank in 1890, left in 1893 and reentered the bank's services in 1901 and was elected Assistant Cashier shortly afterward.

"He was elected a Director in 1911, Cashier in 1913 and Vice-President in 1917. He succeeded Joseph Rawson as Secretary of the Board in 1927.

"Mr. McEvilley served two terms as President of the Ohio Bankers Association. He is a Director of the Hobart Manufacturing Co., Troy, Ohio."

* * *

Wilfred H. Bell, Assistant Secretary in the Trust Department of **The Northern Trust Company, Chicago,** retired on June 11 after 49 years of service with the bank. He joined the bank in 1899 when it was 10 years old. He was 16. His retirement marks the completion of the longest record of service of any officer or employee.

In his close to half a century of service, Bell has seen the bank grow from 48 people occupying modest quarters on the ground floor of the Rookery Building to its present personnel of around 1,200 and its present bank building.

* * *

Directors of **Manufacturers National Bank of Detroit** on June 11 declared a quarterly dividend of $1.75 per share payable June 30 to stockholders of record June 15, 1948. This represents an increase in the annual dividend rate from $6 to $7.

* * *

William B. Pollard, Vice-President of the Federal Reserve Bank of St. Louis and manager of its Memphis branch, was elected Executive Vice-President of the **National Bank of Commerce in Memphis** at a meeting of the bank's board of directors on June 8.

* * *

A certificate approving and making effective at the close of business on May 31 the consolidation of the **First National Bank of Columbia, S. C.,** and the **Miners & Merchants Bank of Charleston, S. C.,** was issued by the Comptroller of the Currency on May 28. The Consolidation was effected under the charter and title of the First National Bank, with common capital stock of $500,000 (par $10) and a surplus of $300,000.

* * *

John L. Gibson, previously in charge of the Dallas National Bank's industrial loan department, has been appointed Vice-President of the **Republic National Bank** in charge of the time credit department effective June 15, it was reported in the Dallas "Times Herald" of June 8, which also said:

"He had held the former position with the Dallas National since 1939, excepting for a period of military service. He was previously connected with General Motors Acceptance Corp. and Universal Credit Corp."

The Dallas "Times Herald" of June 9 also reported the following:

"Announcement was made on June 9 by Fred F. Florence, President of the Republic National Bank of the promotion of four Assistant Vice-Presidents to full Vice-President positions.

"The new Vice-Presidents are C. W. Austin, Jr., who has been with the bank for 20 years, the last 11 in the oil loan department, with previous experience in the trust and real estate departments.

"Pat Henry, Jr., has for the past 27 years been associated with the bank in various departments. At present he is in the business development department.

"John R. Scott, formerly with the oil loan department, has been with the bank for the past four years.

"E. E. Wallace, Jr., presently manager of the credit department, has filled a number of responsible positions since his affiliation with the bank."

* * *

The resignation of Jordan C. Ownby, as Vice-President of the **First National Bank of Dallas, Texas,** was announced on May 29 by Edgar L. Flippin, President. Mr. Ownsby's action, it is stated, is prompted by ill health, and President Flippin said that it was with deep regret that the directors accepted the resignation. In reporting this the Dallas "Times Herald" of May 30 said:

"His resignation and retirement from active business terminates more than 17 years of outstanding service with the First National Bank, it was emphasized."

* * *

W. W. Crocker, President of **Crocker First National Bank of San Francisco,** on June 10 awarded the customary gold watches for completion of 25 years of service to the bank to the following three employees: Charles A. Corrasa, new business department; Owen R. Kane, Teller, and Warren M Johnson, securities department This brings to 98 the number of employees presently with the bank who have served for 25 years or more.

The board of directors also announced the promotion of George M. Doyle from Auditor to Cashier effective July 1, 1948. Mr. Doyle succeeds J. A. White, Vice-President and Cashier who retires on June 30, 1948, after serving the bank for 42 years. Ira C. Chaney succeeds George M. Doyle as Auditor effective the same date.

* * *

Harry Lyon Machen, well-known banker and retired Vice-President of the **Anglo California National Bank,** died on June 4 of coronary trombosis at St. Helena, Calif.

A native of Missouri and descendant of distinguished early American colonists, he was educated in that State and spent the earlier part of his banking career there. After working his way up to become Cashier of the Sturdivant Bank of Cape Girardeau, Mo., he was appointed Chief National Bank Examiner of the Eighth Federal Reserve District, with headquarters in St. Louis. Subsequently he was transferred to the office of the Comptroller of the Currency in Washington, D. C. In 1921 he came to San Francisco as Chief National Bank Examiner of the 12th Federal Reserve District. He became an officer of the Anglo Bank in 1924, with the title of Vice-President, and was active as a senior executive at the head office of the bank until his retirement on Feb. 5 of this year.

* * *

William L. Lary and Ralph J. Voss have been elected Assistant Vice-Presidents of **California Bank, Los Angeles,** according to Frank L. King, President. Voss has been assigned to the bank's Hollywood-Vine office and Lary will continue in the loan supervision department at head office. Both joined the bank's staff in 1946 after service in the armed forces.

* * *

George W. Bourke, Vice-President and managing director of the Sun Life Assurance Company of Canada, on June 1 was appointed a director of the **Bank of Montreal.** Mr. Bourke has been associated with the Sun Life for 33 years. He is Vice-President of the Actuarial Society of America, a member of the Canadian Chamber of Commerce and a Past President of the Canadian Life Officers Association.

* * *

A branch of the **National Bank of India Limited** was opened at New Delhi on May 24.

* * *

The National City Bank of New York announces the opening on June 14 of a Paris branch of its affiliate, the **International Banking Corporation,** at 52 Avenue des Champs Elysees. This branch is the 49th unit in National City's overseas system and will serve exporters, importers and other businessmen requiring banking facilities in France. The former National City branch in Paris, The National City Bank of New York (France) S. A., was closed when the Germans occupied the city in June, 1940.

Institutions Can Buy More Series F-G Bonds

Treasury Secretary Snyder announces purchases may be made during period from July 1 through July 15 in amounts exceeding existing limitations.

Secretary of the Treasury Snyder anonunced on June 10 that institutional investors of the classes defined in Department Circular No. 814, dated Sept. 22, 1947, will be permitted to purchase United States Savings Bonds of Series F and Series G during the period from July 1 through July 15, 1948, inclusive, in amounts in excess of existing limitations.

John W. Snyder

The Secretary stated that this offering is in line with his statement of Sept. 5, 1947, when he announced the offering of the 2½% Treasury Bonds, Investment Series A-1965, when he said that "Further offerings of securities suitable primarily for institutional investment needs would be made available whenever the situation warrants such action."

The special offering of Series F and G bonds will be open to institutional investors holding savings, insurance and pension funds, which were eligible to purchase the 2½% Treasury Bonds, Investment Series A-1965, under Department Circular No. 814, dated Sept. 22, 1947. Subject to the following limitations:

(A) Each investor in the following categories will be permitted to purchase Series F and G savings bonds combined up to a total amount of $1,000,000 (issue price) for the calendar year 1948, provided that any bonds in excess of the existing limit of $100,000 must be purchased during the period from July 1 through July 15, 1948:

(1) Insurance companies.
(2) Savings banks.
(3) Savings and loan associations and building and loan associations, and cooperative banks.
(4) Pension and retirement funds, including those of the Federal, State and local governments.
(5) Fraternal benefit associations.
(6) Endowment funds.
(7) Credit unions.

(B) Each commercial and industrial bank holding savings deposits or issuing time certificates of deposit in the names of individuals, and of corporations, associations, and other organizations not operated for profit, will be permitted to purchase F and G savings bonds combined up to $100,000 (issue price) from July 1 to July 15, 1948, inclusive.

It is stated further details with respect to this special offering will be announced later.

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(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Frank G. Sibley has joined the staff of King Merritt & Co., Inc., 408 Olive St. He was previously connected with Slayton & Co., Inc.

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More Production—The Price of Freedom

(Continued from page 16)

aloof from a world crisis and twice we failed. Most of us have finally learned the lesson. We must remember it well, for the role of leadership has been foisted upon us by history. We have accepted it reluctantly. Now, whether we like it or not, we are part of the global community, sharing its common destiny. After a time of blundering and fumbling, we have found and fixed our course. We must hold to it!

We have no other choice. I am convinced that to prepare ourselves for war is our only hope for peace. Preparedness for war will not guarantee peace, but certainly peace cannot be achieved without preparedness. We are dealing with men who have great respect for might—and practically no respect for right. Surely, you remember the famous toast at Teheran when Stalin said: "Without American machines the United Nations never could have won the war." This is proof that dictators understand and respect the word "power." And, being dictators, they will not come to the bargaining table prepared to negotiate in good faith except as they face nations possessing equal or greater power. Without the big stick of productivity, our diplomats cannot wield the big stick of diplomacy.

Carry a Bigger Production Stick

The only way for peace to endure is for us to talk fairly softly and carry a bigger productive stick than any other nation in the world. This can only be done if we make the American industrial system the smoothest, best-oiled and most efficient system in the world.

From whatever angle we diagnose the sick and uneasy world, the medicine prescribed is always the same—increased productivity. How then can we achieve it?

Defects of Old Incentive Systems

The original theory behind incentive systems for increased productivity was that a worker was to be given an extra financial inducement, over and above a fair day's pay, in return for better than a normal daily output. Thus the employer gets an increased output which translates itself into lower costs, and therefore into lower prices, bigger markets, and high profits. The worker receives a bigger pay and consequently is able to enjoy higher standards of living. The public is able to buy more at lower prices, and so is able to make its dollars purchase more of the good things of life. On this basis everyone gains.

You would think, therefore, that everyone would buy this idea. But this is not true. Some labor leaders are opposed to it. In order to find out why, I think we have to go back in our history to the era when our robber barons first began to falsify their incentive bookkeeping. To put it bluntly, they rigged their wage calculations so that an average competent worker couldn't make a living wage unless he was willing and able to give more than a human output.

Thus, the old-fashioned incentive system, adopted in so many factories, was in fact a big league shell game. Labor was the victim of this now-you-see-it-now-you-don't sleight-of-hand racket, played with slide rules and logarithmic equations. There were, of course, many manufacturers who operated honorable and fair incentive plans. But the exceptions to this economic skulduggery were too few and too late to salvage industry's tarnished reputation in the eyes of labor.

As a result of these low practices in high places, the American workman became sour and disillusioned about so-called incentive plans. He grew to distrust industry's fancy talk about productivity as the white hope of America. To him the word "productivity" too often had come to mean only false promises, backbreak, heartbreak, speedup, and layoff. Frequently labor retaliated by restorting to slow-downs, feather-bedding and other deliberate restraints on production. It all became a cruel game of cheating cheaters. We are still feeling the hangover from a more primitive time when we made a retreat to the jungle law—which the ideology boys call "class struggle."

Well, gentlemen, by and large we have inherited that mess. So whether we like it or not, our job now is to figure out new ways of restoring the basic idea of increased productivity to a place of dignity and respect in the eyes of the people who man our machines.

I realize that a change of thinking by management alone will not solve the problem of increased productivity. There are a few gentlemen in labor's house who need some streamlining too. In their own way, and with their public-be-damned attitude, these egomaniacs are proving that the robber baron attitude, past and present, is not a monopoly of management.

We know that we can't expect a healthy economy by sweating labor and cutting wages. They have got to learn that it is equally impossible for them to expect a healthy economy by freezing output and raising wages. The theory of more pay for less work is just as stupid as the theory of less pay for more work. What both groups really face is a challenge to get together, to drop the name-calling and to devise a plan which will produce both more pay and more work.

A New Type of Productivity Planning

This type of productivity planning raises some questions of principle. Two in particular warrant mention here. The first and most important principle in any plan for increased productivity is to insist that it be the joint product of employer and employee thinking. If there is any place in the industrial process where the concept of partnership has validity, this is it.

Does this sound like major league heresy to some of the embattled defenders of management's rights? Don't worry, gentlemen, I am not suggesting that you give your businesses away to the unions. In fact, I am pretty keen on management's rights myself. If any of you can find a tighter series of clauses for protecting the basic functions of management than the clauses we have negotiated with both the AFL and the CIO, I would like to see them. I really would! That will give us something new to discuss when the boys come around next year for another increase.

To put it simply, I am convinced you can agree to full union representation in formulating productivity plans, and still continue to operate your own business with a full complement of management's rights. My point is that no one has a right to manage a business unless he believes in labor's rights just as strongly as he does in management's rights.

The fact is that labor's search for higher productivity starts with a point of view not with a formula. Incentive planning is the search for the sustained plus value of human effort. It starts with the heart and spirit and then proceeds through mutual consent and understanding, to the stop-watch and slide rule.

It is an attitude which opens the door to understanding the economics and mechanics of production. Pride, a sense of contribution and the desire to excel are all attributes of this attitude. This human factor cannot be created synthetically nor in an atmosphere of inferiority. You can't measure it or control it with dials or pushbuttons. Since it is natural for Americans to take pride in their work, the greatest crime that either industry or labor can commit—whether by design or neglect—is to corrode this American instinct to do a good job and to take pride in the job well done. The drive to achieve can be created only by freely accepting men as equals in the productive process and by challenging their creative energies and technical skills. We can no longer bar men from a voice in planning their own affairs and still expect them to exclaim with delight over our concept of what is good for them. Labor should not be an antagonist but a partner in the common search for higher productivity.

Labor Should Share in Fruits

My second basic premise is that labor shall be permitted to share fairly in the fruits of its increased productivity. Justice in dividing those fruits is not only a matter of morals. It is also a matter of low-down expediency. This means that the worker's incentive pay should be at least in direct proportion to his extra efforts. American industry can well afford to increase a worker's wage by 30% in return for 30% more output or by 50% in return for 50% more output. In fact, there is not even a theoretical limit upon the extent to which this process may be carried.

May I add that my faith in these two premises is fully backed up by the experience of my own company. During 1947, Lever employees gave us a big enough boost in productivity to enable us simultaneously to increase wages 11 cents an hour and to reduce prices by 5%. Oh yes, I almost forgot. The stockholders of the company also made a few extra dollars. Because our prices were lower, more people could afford to buy our products. And so we sold more. Because we sold more, we had to produce more. This in turn meant that there was more than enough work available for all hands ready and willing to do the job.

That is the kind of squirrel cage I'd like to be caught in for the rest of my life. And, mind you, that happened to us despite the fact that all our plants are as highly mechanized as it is possible for them to be, and still have people working in them.

Since the "vicious circle" has become a "virtuous circle" for some companies, I think we should now launch a concerted national drive by management and labor to achieve the same result throughout all industry. We need to organize and mobilize an all-out drive to produce for peace just as we did for war. This is the time for vision—and for decision. Let's stop talking. The trouble with this country is that it has too many wide open spaces entirely surrounded by teeth. Let's go to work!

It has already taken us 20 years to get labor and management to sit down together at the bargaining table. So far, that table has been a square one. It has a side for management and it has a side for labor. We must substitute in its place a round table, around which the unity and togetherness of all elements in our economy can be allowed to function properly for the benefit of all the people.

A Joint Productivity Clinic

I propose that we create a Joint Productivity Clinic. We should launch the work of this clinic along completely practical lines. This is not the time for abstract theories.

The approach to this business problem must be made in a businesslike manner:

First—This clinic should run some full-scale market research on the problem of productivity. We must find out what labor and management think about present techniques for trying to increase productivity. This vital area of opinion research has, up to now, been neglected. Yet we in business wouldn't dream of introducing new products without spending hundreds of thousands of dollars to find out what our customers think. Before introducing new plans to labor and management, let us find out what they both really think.

Second—Let the clinic arrange a conference with the leaders of labor and management. This group should be assigned the task of formulating the methods and procedures we should employ to secure increased productivity. This would require agreement on the techniques of developing wage incentive plans, the basis of selecting them, and their method of installation.

Third—Just as we use sample cities for the testing of new products, so should we take our newly developed plans into a group of some pilot plants. Here we can prove to all that satisfactory techniques have been well conceived in theory and fully submitted to the acid test of operations.

Fourth—When this body of practical working knowledge has been fully developed, then let the clinic put that information into words of one syllable, and sell it to labor and management from one end of the land to the other.

Fifth—Let the clinic continue to operate as a sort of "Mayo Clinic," a doctor for the productivity headaches of the American industrial system.

I know this is a large assignment. I can think of no group of men more qualified than you, who represent the tuned intelligence of our unique production system, to give assistance to such an idea. It needs to be tested against your own practical experience and background. I realize, of course, that funds will be necessary to support such a project. Lever Brothers Company will underwrite the costs for the first year.

I believe in increased productivity. Without more goods we can't lick the problem of a runaway inflation, and the berserk economy to which it may lead. Without more goods we cannot meet the triple demands made upon us by our expanding home economy, our commitments under the Marshall Plan, and our need to rebuild the military might essential to prevent war.

We cannot hope to triumph unless we face the future thoroughly armed with confidence in the superiority of our way of life. Fear, anger and desperation are sorry substitutes for resolute faith. Freedom from fear through strength is where freedom begins. Dedication to such a program will justify the claim that America is a living, growing, dynamic society.

In the years that lie ahead, we need "togetherness" as we've never needed it before. If we have a togetherness of the spirit, a communion of purpose, the material power will come.

Leo Roseler Co. Opens

ST. JOSEPH, MO.—The Leo Roseler Company has been formed with offices at 110 South Fifth Street to engage in the securities business. Officers are Leo A. Roseler, President; Mildred Roseler, Secretary and Treasurer; and Frank J. Welch, Vice-President.

With Westheimer & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—Philbert H. Hartman has become connected with Westheimer & Co., 326 Walnut Street, members of the New York and Cincinnati Stock Exchanges.

These Debentures have been placed privately. They are not offered for sale and this announcement appears as a matter of record only.

NEW ISSUE

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Industrial Development And New Capital Sources

(Continued from page 15)

as much pressure on the limited supply of goods as bank credit expansion. Only if the new equity capital came from current savings that would otherwise have been spent would it have been a less inflationary method of financing capital expenditures.

It is probably true that the aggregate of business plant and equipment on hand today is inadequate for a sustained, full-functioning economy. There still remain, however, two problems: first, the problem of the timing of private capital expenditures over the years to make up the shortage; and, second and most important, the problem of maintaining a full-employment economy so that the long-run needs for industrial development will materialize.

On the first and less difficult problem, it may be noted that business cycles in the past have generally been characterized by extreme fluctuations in private capital expenditures. Looking at the business cycle as a whole there has always been over-investment during the prosperity phase and under-investment during the depression phase. Demand and profits tend to be overestimated, and costs underestimated, during prosperity; whereas, just the opposite attitudes characterize depressions. In the long-run, it would seem advisable from the point of view of many businesses as well as the community at large, to try to dampen rather than to accentuate fluctuations in business capital expenditures over the course of the business cycle. In the current boom situation this would mean that existing shortages in plant and equipment would be made up gradually rather than precipitously.

On the second problem, the maintenance of a full-employment economy, obviously no solution has been found in the past and no pat solution is going to be found in the immediate future. However, the spreading out of private capital expenditures would, it seems to me, help in the solution, not only directly through tending to even out activity in the capital goods field, but also indirectly by tending to dampen price fluctuations. So long as private capital outlays fluctuate widely, the problem of government in trying to maintain a high-level of employment will be difficult indeed.

The Long-Run Outlook for Financing Business Capital Expenditures

If we can make some progress in dampening cyclical fluctuations in business activity, the long-run problem may not be a shortage of investment opportunities and demands. There may, however, be a problem, in some periods at least, in connection with the external financing of investment, either by bank credit or by private savings invested directly or through fiduciary institutions.

As to the supply of private savings, individuals seem more and more to be seeking safety and security rather than high return from their savings. According to Securities and Exchange Commission estimates, individuals as a group increased their currency holdings bank deposits, savings and loan shares, insurance and pension reserves, and United States Government security holdings over $14 billion last year while increasing their holdings of corporate and of state and local government securities only $1½ billion. As a result of this trend, individual holdings of liquid assets and individual equity in both private and public insurance and pension reserves are both increasing relative to their holdings of corporate stocks.

Moreover, payments to insurance and pension plans involve substantial regular saving of the same type. Although such saving amounted to a little over one-third of total liquid saving of individuals in a prosperous year like 1947, it would make up a larger proportion of the total in years when employment and personal incomes were lower. Only a fraction of the new funds flowing into insurance and pension reserves can be invested in corporate stocks. Consequently if business concerns want to tap this source of funds, they have to assume debt obligations.

Numerous suggestions have been advanced as to how to make more private savings available for investment in business equities. The suggestions most often mentioned in this connection are various types of reduction in Federal income taxes. There are a number of specific changes in taxable base and tax rates that would make our tax structure more favorable for a large volume of business equity financing. What can be done along these lines, however, has often been overestimated.

Take the personal income tax for example. There is no doubt that some additional individual investment in corporate equities takes place when personal income taxes, particularly those in the higher brackets are reduced. But it is extremely difficult, if not impossible, to tell how much additional investment is induced by a given tax reduction. With fear so rampant today both as to the future peace of the world and as to our ability in the long run to maintain a high level of employment and national income at home, it is extremely likely that it will take more than a tax reduction to increase materially the aggregate investment of individuals in corporate equities.

There is another type of reduction in individual income taxes to consider, the reduction in taxes on the lower incomes and more liberal provisions for carrying forward or backward losses for business operations. Such tax changes would do much to encourage direct investment by owners in small unincorporated enterprises.

However, there is one angle of tax reduction that must be faced. The Federal Government is playing an increasing role in our economy. This means continued large Government expenditures, and these expenditures must be financed in the long run out of taxes, principally personal income taxes. Therefore, it will probably not be possible to reduce such taxes materially.

What probably deserves more consideration than it has received is the volatility of capital gains over time. Much of the objection to the capital gains tax, from an investment point of view, might be met if a method were devised of enabling individuals to average their capital gains and losses over a number of years in order to determine their taxable income. In such a case the preferential rate on capital gains income might even be abandoned.

A second suggestion often mentioned in connection with the long-run problem of adequate business equity investment is to liberalize the investment opportunities open to fiduciary institutions, particularly the life insurance companies. Three of the most common arguments against relaxing the legal restrictions on such opportunities are (1) the necessity for the liquidity of the assets of such institutions, (2) the need for such institutions to value assets at market price and (3) the possibility of concentration of industrial control by life insurance companies.

But these arguments can be met, at least in part. The problem of the liquidity of insurance company assets need not concern us unduly in this connection since the great bulk of such assets can undoubtedly be regarded as permanent investments. As for the valuation problem, a plan is currently being studied by the life insurance companies that would permit the gradual reflection in annual balance sheets over a period of years of changes in the market value of their preferred stock holdings. Finally, limits on the proportion of the securities of a given industrial concern that could be acquired by a single insurance company would limit the possibility of concentration of industrial control by insurance institutions.

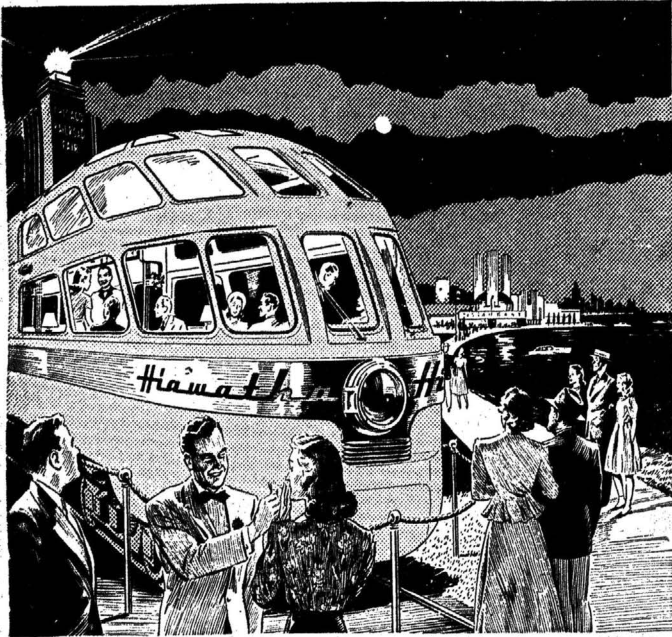
But even if legislative changes were feasible in regard to taxes and investment outlets for fiduciary institutions, there probably still would remain a long-run equity capital problem for business. Many individual concerns at the present do not have convenient access to the savings that are seeking investment and others have no access at all. There may be a need in this country in the long-run for new types of financing agencies to meet this problem, particularly for channeling equity capital to small and medium-sized enterprises both new and old.

Conclusion

To sum up, the outlook for industrial expansion in both the short- and long-run is favorable, particularly if we can make some progress in avoiding major cyclical fluctuations in business activity. The smoothing out of industrial expansion over the years rather than overdoing it, as in the current inflationary period, will contribute to avoiding such fluctuations.

As to the availability of new capital to finance this industrial expansion, to my mind there has been too much rather than too little capital available during the current inflationary boom. Total expenditures in the economy for consumption and investment have constantly been in excess of the available supply of goods and services at current prices. We should have done more recently to dampen all types of expenditures.

In the long run, however, we may have to do something to facilitate the flow of individual savings into private investment. Changes in our tax structure would be both desirable and feasible. However, too much should not be expected from tax changes alone, for total government expenditures—and as a result total government taxes—will undoubtedly have to remain high in our unsettled world. Other aids in the solution of our long-run business financing problem would include the liberalization of laws concerning the investment opportunities open to fiduciary institutions, particularly insurance companies, and the formation and development of different types of new financing agencies to provide equity capital, especially to small companies.



An idealized view of the Railroad Fair to be held on Chicago's lakefront, July 20 — September 7.

New Hiawatha to star at

CHICAGO RAILROAD FAIR

This summer millions will attend a brilliant exposition of railroad progress. An entirely new afternoon Twin Cities HIAWATHA will add luster to this history-making Centennial.

A fine example of Milwaukee Road car building that will be on display is the car pictured here. Its distinctive Skytop Lounge is an observation room designed for more enjoyable sight-seeing. These Skytop Lounges are on the AM and PM Twin Cities HIAWATHAS between Chicago-Milwaukee and St. Paul-Minneapolis. Cars of similar type will be on the Olympian HIAWATHA between Chicago and the Pacific north coast.

With 153 new cars being delivered, The Milwaukee Road will amplify its Hiawatha services. H. Sengstacken, Passenger Traffic Manager, 708 Union Station, Chicago 6, Illinois.

THE MILWAUKEE ROAD

Speedway of the Speedliners

Expects Delay in Sale of New World Bank Bonds

E. Fleetwood Dunstan tells Investment Dealers Association of Canada, Bank has almost $1½ billion available and does not expect to lend half this sum.

In an address before the Investment Dealers Association of Canada at Murray Bay, Quebec, on June 14, E. Fleetwood Dunstan, Director of Marketing of The International Bank for Reconstruction and Development expressed the opinion that the Bank does not contemplate an early issue of its bonds.

E. Fleetwood Dunstan

"The time is coming, of course," Mr. Dunstan said, "when we will be offering more bonds but not before late this year and perhaps not until 1949. The Bank now has on hand approximately $475,000,000 available for lending or investing. This sum is more than we currently need or have any desire to hold in the cash drawer. As a practical matter the Bank management feels that under present conditions cash balances should not be far below $250,000,000, so you can see that we have $225,000,000 to lend before any need for raising additional loan capital is anticipated. The condition of the investment markets, institutional demand, loans pending and similar considerations would be determining factors in such financing. A particularly important feature would be the amount of loans pending. As you know, interest on borrowed money is expensive if the funds are not profitably employed. Therefore, the timing of new borrowing is important in order to avoid having financing run too far ahead of loan demands or conversely to lag too far behind use."

Bill to Exempt Bonds Of World Bank From SEC Control Blocked

The bill providing for exemption of World Bank bonds from SEC registration, which has been under consideration by both houses of Congress (see the "Chronicle," June 10, p. 4) and which was passed by the Senate on June 15, is not likely to receive final passage this session. Although the bill passed unanimously in the Senate, it was prevented from being sent to the House, by a motion of Senator Bricker to reconsider. In the meantime, the House Interstate Commerce Committee has tabled the measure, so no further consideration can be expected unless some unusual development occurs.

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Pacific Northwest Tours Sponsored by San Francisco Exchange Great Success

SAN FRANCISCO, CALIF.—A group of 35, representing the San Francisco Stock Exchange, partners of member firms, San Francisco banks and financial editors of the Bay Area newspapers, left the San Francisco airport on a United Air Lines DC 4 for Portland, Ore., on the night of June 2. The trip was sponsored by the San Francisco Stock Exchange, headed by Mr. Ronald E. Kaehler, President of the Exchange, and covered three days in the Pacific Northwest visiting industrial plants of that area. The purpose of these visits is to better acquaint members of the investment and banking fraternity with top management in industry, to find out what industry is doing and what its problems are and also to give financial editors an opportunity to report to their readers about the companies from a first-hand viewpoint.

On Thursday morning, June 3, the group visited the Crown Zellerbach paper mill in West Linn, Oregon. Frank N. Youngman, Vice-President in charge of operations in the Pacific Northwest for Crown Zellerbach, and P. T. Sinclair, Resident Manager of the plant, were hosts and arranged for guides to show the visitors through the plant. This was the first time that most of the group had seen a pulp or paper operation. A paper machine that was built in 1875 is still in operation here, and due to its slow speed in comparison with the newer machines, it makes it possible for the neophyte to understand the paper-making process.

The visit was climaxed by inspection of the new Fourdrinier paper machine that makes coated magazine paper for "Time," "Life" and Curtis Publishing Co. at the rate of 1,250 feet per minute. Newsprint and various other paper products are also made at this mill.

In the afternoon the group inspected the Doernbecher Manufacturing Company, Portland, which is one of the largest domestic manufacturers of medium and low-priced furniture. Here rough lumber from the mills is kilndried, cut and milled and assembled into the various types of furniture. Veneers and plywood as well as the mirrors used in the products are made by the company. The plant covers 14 acres and some of the buildings are six stories high.

Hyster Company adjoins Doernbecher and was the next stop. Here were seen lift trucks and straddle trucks, used primarily in the lumber industry, in various stages of completion. Hyster makes winches and other products designed for use with Caterpillar tractors, which are sold through Caterpillar dealers.

Thursday night a dinner was held at the Arlington Club, in Portland, Oregon. Bankers, investment men and industrialists met with the visitors. The dinner was ably emceed by Sid Woodbury, of Woodbury & Co., makers of heavy logging machinery. The principal speaker of the evening was to have been J. D. Zellerbach, President of Crown Zellerbach Corporation, but due to his appointment as head of the Italian program for E.R.P., his speech was read by Mr. Youngman. Other representatives of industry gave short talks, more in the spirit of levity. One speaker stated that his company had recently done some public financing and had received the "treatment."

Early Friday morning, the group departed for Seattle from Salem, Oregon via United Air Lines DC 6. The plan circled over the flood area of the Columbia River for a birdseye view of the devastation.

At the Seattle airport, officials of the Pacific Car & Foundry Company met the group and escorted them to the plant at Renton, Washington. Of particular interest here was the foundry, with its electric furnaces and the drawing of the hot metal from the furnace. Pacific Car makes freight cars, interurban buses, school buses, logging arches, used in the lumber industry and castings. The Company currently has 3,000 employees on the payroll.

The next stop was Kenworth Motor Truck Corporation, a subsidiary of Pacific Car. Here were seen buses, trolley coaches and heavy duty trucks built on assembly lines. Of particular interest was the amount of heavy aluminum being utilized and the manufacturing of special trucks powered by 300 H.P. Hall Scott Motors to be used in the desert by the Arbian-American Oil Company.

Boeing Airplane Company was next on the itinerary. The group was shown through the new 74 passenger Stratocruiser by Norman Allen, Assistant to the President. William M. Allen, President of Boeing, was host to the visitors at luncheon in the employees cafeteria. This is probably the largest cafeteria in the country as more than a thousand persons can be seated at one time.

In the afternoon the trip to Everett, Washington, for a tour of Soundview Pulp Company, was made in the new Kenworth bus, which has an automatic transmission and no clutch. U. M. Dickey, President of Soundview Pulp Company, was host and personally conducted one of the smaller groups through the plant. The hydraulic barker, installed by Worthington Pump Co., was one of the outstanding features here, as well as the chipper which chews huge logs into small chips at the rate of 132 feet per minute. It was stated that these machines reduced the number of employees formerly required by 115. Four pulp machines are in operation at Soundview 24 hours a day throughout the year, with the exception of 3 holidays. Present production is at 525 tons per day.

Friday night a dinner simliar to that of the previous evening was held at the Rainer Club in Seattle. E. K. Skeel, President of the Seattle Chamber of Commerce, was the master of ceremonies. Speeches were kept to a minimum with Reno Odlin, President of the Puget Sound National Bank of Tacoma as the principal speaker. Mr. Odlin is an accomplished after dinner speaker and had most of the group in stitches during the greater part of his talk.

Saturday morning after an air trip by United Air Lines to Bellingham, Washington, the group was met by Lawson P. Turcotte, Executive Vice-President of Puget Sound Pulp and Timber Co. By this time the visitors were beginning to consider themselves experts in pulp-making and were able to understand a smattering of what they saw. A different type of hydraulic barker, built and patented by Puget, was in operation there. Both barkers, however, must have merit as each company considered theirs the best. Puget has benefited by other installations in the area, as no part of its plant was built earlier than 1936. A unique operation of Puget is the manufacture of grain alcohol from the waste liquors of the pulp mill and the utilization of the wastes from the alcohol plant to make "Lignosite," which is an additional bonding agent used in linoleum paste and concrete aggregates.

Puget Sound was host for luncheon at the Leopold Hotel in Bellingham. Mr. Turcotte spoke and called upon others in his company. John A. Green, President of Pacific American Fisheries, Inc. gave highlights about his company and invited the group to be guests of the company in Alaska. Victor Olson, President of Bellingham Plywood Company also spoke and invited the visitors for a quick trip through his plant.

Comments from all members of the party indicated that the journey was highly educational and a success from every standpoint.

Members of the group on the tour were:

Member Firms

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

Press

Alexander, C. N., Financial Editor, Oakland "Post Enquirer"; Allen, Sidney, Financial Editor, San Francisco "Chronicle"; Arthur, Lindsay, Financial Editor, San Francisco "Call-Bulletin"; Piper, John S., Financial Editor, San Francisco "News"; Reinhardt, Robert, West Coast Editor, "Iron Age"; St. Peter, Charles, Financial Editor, San Francisco "Examiner."

San Francisco Stock Exchange

Kaehler, Ronald E., President; Schick, Carl, Manager, Public Relations & Statistical Depts.

Banks

Byrne, Patrick, Bond Investment Department, Bank of America, NT&SA; Kelly, Paul B., Vice-President, Anglo-California National Bank of San Francisco; Litchfield, Frank S., Investment Department, American Trust Company; Long, George I., Jr., Asst. Cashier, Wells Fargo Bank & Union Trust Co.; McMicking, J. R., Banking & Insurance, Manila, P. I.; Merkt, Arthur, Asst. Trust Officer, Crocker First National Bank of San Francisco; Schiefer, Arthur W., Assistant Vice-President, Bank of California, N.A.

Halsey, Stuart Offers C. & O. Equip. Issue

Halsey, Stuart & Co. Inc. and associates won the award June 15 of $3,500,000 Chesapeake and Ohio Railway fifth equipment trust of 1948, 2⅜% serial equipment trust certificates, maturing $350,000 annually July 1, 1949 to 1958 inclusive. The certificates, issued under the Philadelphia plan, were immediately reoffered, subject to Interstate Commerce Commission authorization, at prices to yield from 1.50% to 2.50%, according to maturity.

The certificates will be issued to provide for not exceeding 100% of the cost, estimated at $3,555,-248, of new standard-gauge railroad equipment consisting of eight switching locomotives; four freight locomotives; and two 6,000 h.p. steam turbine electric drive locomotives.

Public Utility Securities

Philadelphia Company

Philadelphia Company is an important sub-holding company in the Standard Gas & Electric System. Its history antedates that of the top company, which was incorporated in 1910. Philadelphia Company was first incorporated in 1871 as the Empire Contract Company and after several changes of name was reorganized in 1884 as the Philadelphia Company. Dividends have been paid on the common stock continuously since 1886.

Despite its long and honorable career, the SEC thinks the company has no justification for continued existence and has ordered its dissolution. The first order specifically directed against Philadelphia Company was issued in December, 1946. The company, then under the Presidency of Leo T. Crowley, fought the dissolution order, and employed experts to prove that subsidiary groups, if operated independently, would lose about $1 million a year in earnings (as compared with the present setup) because of increased overhead.

Paul B. Coffman, President of Standard Research Consultants, Inc. (associated with Standard & Poor's) made a detailed study of the system, and his methods and figures were checked by Jay Samuel Hartt, well-known utility valuation expert, and E. C. Stone, a retired officer of the company. Coffman's testimony was given about a year ago and on June 2, 1948, the SEC released its 74-page findings and opinion, which was highly critical of Coffman's report and testimony. In brief, the SEC was unimpressed by the figures showing estimated increase in overhead and maintained that, based on broader aspects of the case, retention of the gas and transit interests would not square with the requirements of the Holding Company Act.

In the meantime, as the result of internal friction in the Standard Gas directorate (which is divided into several groups representing different classes of stockholders) Leo T. Crowley resigned as Chairman and President of both the Standard and Philadelphia companies. He has been succeeded by Edward Boshell of Stone & Webster. It is not yet clear whether the new management will continue to fight the dissolution order (some of the directors were opposed to the fight in the past). If Philadelphia is to be dissolved, there will of course be considerable interest in the Street as to the possible "break-up" value of the common stock. During 1946 one brokerage house study arrived at a figure of 24, and the stock sold above 20 in that year. With shortened market yardsticks, current valuations would run lower.

While the setup and accounting is extremely complicated, the following will sketch the general layout of the system in 1947:

	Principal Cos.	Revenues (Mil.)	Net to Phila. Co. (Mil.)
Electric	Duquesne Light	$47	$8.4
Gas	Equitable Gas Pitts. & West Va. Gas Ky. W. Va. Gas	18	4.5
Transit	Pittsburgh Rys. 53 Underlying or affiliated cos.	23	--
Miscellaneous	Various	1	.1

The company's relations with Duquesne Light (100% controlled) are very simple. Relations with the natural gas companies are complicated, but a partial streamlining job will be effected in connection with Equitable's bond issue on which bids will be received about June 22. Relations with Pittsburgh Railways and its subsidiaries and affiliates are still more involved, and may take years to straighten out.

Pittsburgh Railways has been in bankruptcy for over a decade and its properties and those of the 53 "underliers" are operated by trustees. Philadelphia Company, in addition to owning the entire stock of Pittsburgh Railways, appears to have claims for advances, matured bonds, back interest, etc., of $67 millions compared with $26 million owed to others. In addition to property carried at $68 million net (which includes intangibles) the System at Dec. 31, 1947 had current assets (after deducting accruals for payrolls, damage claims and taxes) of about $19 million (the result of good wartime earnings). On Aug. 7, 1947 the Reorganization Trustee filed with the Bankruptcy Court a revised plan under which a distribution would be made as follows (millions of dollars):

	Philadelphia Co. & Subsidiaries	Others	Total
Cash	$9.8	$3.9	$13.7
Mortgage Bonds	6.3	3.7	10.0
Common Stock	11.5	8.5	20.0
	$27.6	$16.1	$43.7

The plan evidently contemplates drastic write-offs in plant account and reduction of net current assets to normal levels. While there has been some contention that Philadelphia's interest in Pittsburgh Railways should be "subordinated" or "Deep-Rocked," the Trustee has apparently found little evidence to this effect. Taking the new stock at its face value and assuming that the present plan will be consummated, Philadelphia Company would realize an amount equal to over $5 a share on its common stock.

Without any income from the transit business, Philadelphia Company, last year earned 77 cents a share after what appeared to be substantial write-offs. Considering the increasing value of gas properties, eventual break-up value (under present market standards) would appear to be in the range of 15-20, though long analysis would be required to arrive at any accurate figure.

Jones With Thomson & McKinnon

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—Guy R. Jones has become connected with Thomson & McKinnon, Healey Building. Mr. Jones was formerly with Abbott, Proctor & Paine in Fayetteville, N. C.

With Barclay Investment Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Timothy G. Donovan has been added to the staff of Barclay Investment Co., 39 South La Salle Street.

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Postwar Changes in Commercial Bank Portfolios

(Continued from first page)

creation was employed to fill the gap. From the end of 1941 to the end of 1945, the public debt holdings of all commercial banks rose by approximately $69 billion. In addition, loans against government obligations rose by about $5 billion. These two amounts represented the contribution of commercial banks to war financing and accounted for the rapid rise in deposit totals.

The sharp wartime growth in the deposits of individuals and business concerns, along with the expansion in their holdings of currency and government obligations, gave rise to considerable discussion about future trends in bank loans. In view of the magnitude of these liquid assets, there was some question as to whether individuals and business concerns would need to increase their borrowings to finance their postwar operations. This question has, of course, been answered—total bank loans have risen sharply.

Postwar Loan Increase

Since the middle of 1945, the increase in the loans of all commercial banks has approximated $15.5 billion. In 1947 alone it amounted to $7 billion, the greatest expansion to take place in any single year in the history of our American banking system. The loan expansion has resulted from several basic factors. First, holdings of liquid assets, resulting from war finance, were not, of course, spread evenly among individuals and business firms. Second, the postwar rise in prices, itself caused largely by the use of existing deposits, reduced the real purchasing power of the liquid assets, forcing individuals and business firms to resort to bank loans. Third, net savings on the part of consumers experienced a very sharp postwar decline.

Decline in Security Loans

The postwar loan increase has occurred in such categories as real estate loans, consumer loans and business loans. Contrary to the trend in these categories, loans granted for purchasing and carrying securities have fallen sharply. The decline in this category has, in the main, reflected a repayment of loans extended earlier in connection with the purchase of government obligations during the war loan drives. Loans against other securities have shown relatively little change over the past several years. The existing low level of security loans makes this credit category of minor significance, as contrasted, for example, with the situation in 1929 when security loans were of dominant importance. Doubtless the high margin requirements established by the Board of Governors of the Federal Reserve System have had a restrictive influence in this connection.

Increase in Residential Mortgage Credit

In the rapid increase of residential mortgage credit, totaling about $10 billion through 1946 and 1947, commercial banks have played an increasingly important role, in financing both the construction and purchase of homes. The net increase in mortgage loans over the past two years of $10 billion has resulted from the extension of about $20 billion in new loans and the repayment and amortization of about $10 billion of old loans. The new loans, however, have been granted on much more liberal terms than the old, thereby increasing the inherent risks. Rapid increase in volume has been accompanied by a decline in quality.

Undue liberality in the making of home mortgage loans, at a time of extremely high national income, has contributed to the great inflation of real estate prices. Rates of interest have ranged as low as 4%; maturities, as long as 25 years; and, in numerous cases, the amounts loaned have equaled the price paid for the property. Probably a higher proportion of homes are mortgaged now than ever before, with debt service and amortization payments, not to speak of maintenance charges, constituting an important lien on the income of many consumers.[1] The ability of borrowers to maintain payments is dependent upon the continuance of current high incomes.

A growing awareness of the present situation is gradually bringing about a re-appraisal of lending standards. Lenders, as a whole, have little confidence in the permanency of present housing costs and prices and feel that interest rates permitted under government-insured mortgages are too low, in view of the risks involved and alternative uses of funds.

Responsibility for the present inflation in residential real estate must be shared by the legislation enacted by Congress. Two government agencies are empowered to make mortgage insurance available to millions of American families on excessively liberal terms—the Federal Housing Administration and the Veterans Administration. Through the activities of both agencies, the government is assuming huge contingent liabilities.

The bill now pending in Congress, commonly known as the Taft-Ellender-Wagner Bill, extends the inflationary mortgage insurance program of Title VI of the National Housing Act to March 31, 1949, and increases substantially the mortgage insurance authorization; it introduces excessively easy mortgage credit provisions as a permanent change in Title II of the National Housing Act. It creates a government-sponsored secondary mortgage market and includes a special supplemental program for extremely liberal mortgage and yield insurance in the case of rental housing. All of these provisions will tend to aggravate current inflation.

In the absence of an adequate supply of labor and materials, an excessively liberal loan policy will not solve our housing problem. It merely causes an inflation of prices and lays the basis for serious readjustments in the future. It is essential, therefore, that further real estate inflation be checked. Only in this way can those violent swings, so characteristic of the construction industry, be reduced.

Surely no general anti-inflationary program can prove wholly effective as long as Congress and the Administration continue to give support to current inflationary practices in the home mortgage field. Easy credit means easy debt. Easy debt at a time of inflated prices means extremely burdensome debt when prices decline. A period of inflation is a period in which debt should be reduced, not increased.

Inasmuch as governmental policies dominate the residential mortgage loan field and create the inflationary trend to which I have just referred, lending standards should be carefully reexamined by commercial banks. Study should be given to such questions as the matter of appraisals, down payments, and the term and pattern of mortgage amortization. It is extremely important that urban mortgage credit standards serve the best interests of borrowers and lenders and contribute most effectively to a constructive solution of the housing program.

Farm Mortgage Debt

Although the volume of farm mortgage debt increased slightly in 1946 and 1947, total debt, in contrast with urban mortgages, is still far below prewar totals. Farmers made judicious use of their increased war earnings to reduce debt, and the relatively small size of present debt will enable them to make quick adjustments to changing economic conditions. Farmers now possess a flexibility, which they did not have in the period following the first World War when farm mortgage debt was very large.

Consumer Credit

Since the middle of 1945, the total volume of consumer credit granted by commercial banks, other types of lending institutions, retail establishments, etc., has risen from $5.6 to $13.6 billion. This increase occurred despite an unprecedentedly high level of national income and an enormous volume of liquid assets in the hands of individuals.

Over the past 30 years consumer credit has come to play an important and constructive role in the credit system. Like all types of credit extension, however, it can have very definite inflationary implications. The termination of Regulation W on Nov. 1, 1947, eliminated control over down payments and maturities, both of which are of great importance in determining the volume of consumer credit. It will be recalled that Regulation W first became effective on Sept. 1, 1941, and rested upon the authority of an Executive Order of the President dated Aug. 9, 1941, which was revocable either by the President or by an Act of Congress. Effective Dec. 1, 1946, the Board of Governors of the Federal Reserve System made extensive revisions in Regulation W, confining it solely to instalment financing. The termination of Regulation W took place in accordance with a Congressional resolution approved on Aug. 8, 1947. In December, the Senate, by S. J. Res. 157, provided for a temporary restoration of the authority of the Board of Governors to control consumer instalment credit, but this resolution was not adopted by the House of Representatives.

While total consumer credit is still low relative to personal income, nevertheless the financial position of many consumers is weakening and collections are tending to slow down. Since this may augur an increased use of consumer credit, thereby aggravating inflationary pressures, it would seem that the situation may well develop in such manner that Congress must again consider the temporary restoration of the authority of the Board of Governors of the Federal Reserve System to control consumer instalment credit in order that the constructive use of such credit may be promoted and its inflationary misuse, averted.

Business Loans

The commercial and industrial loans of commercial banks nearly doubled between the end of 1945 and the end of 1947, and now constitute about 48% of total bank loans. The postwar expansion in business loans resulted from rising prices, larger inventories and receivables, increased capital expenditures and a rapid increase in the number of business concerns. Virtually all types of business increased their use of bank funds during this period.

The rapid rise in commercial credit included substantial amounts of both current and term loans. Current loans, extended mainly to carry larger inventories and receivables, increased rapidly in the case of chain and department stores, food processing companies and textile concerns. Loans to sales finance companies also rose sharply, reflecting, in part, the expansion occurring in the volume of consumer credit.

The postwar financing of plant and equipment expansion at rising costs and the refinancing of existing debt accounted for the sharp rise in the volume of term loans. Such loans have increased in the case of the chemical, electrical equipment, machine tool, oil, food, textile, public utility and shipping industries. Through 1947, as interest rates rose, a tendency developed to shorten term-loan maturities.

Commercial banks as a whole are giving increased emphasis to the quality of their business loans and are endeavoring to restrict loans to legitimate production requirements. In calling particular attention to the essential need of this tpye of lending policy, the American Bankers Association, under the able leadership of its President, Joseph M. Dodge, has rendered an invaluable service.

Future reliance of business concerns upon commercial banks for intermediate- and long-term credit will depend, in part, upon the degree of response of the capital markets to equity financing. Indeed, one of the chief problems confronting the American economy is the need to stimulate the amount of equity financing. A business structure financed to a considerable extent by equity securities is a flexible business structure, able to adjust itself quickly to changing conditions. Undoubtedly the low interest rate policy has been a factor in encouraging debt financing, and certain types of taxes such as the double taxation of corprate dividends, have militated against equity financing. The whole problem calls for careful study and appropriate measures must be taken to promote the supply of risk capital. Not only from the point of view of the individual firm but also of the economy as a whole, intermediate- and long-term corporate debt should be held to a conservative amount.

Capital Ratios

The rapid rise in total bank loans, by causing a sharp decline in the ratio of capital accounts to loans, has given renewed emphasis to an old problem in American banking—the proper capital-loan ratio. Obviously capital accounts must be large enough to warrant the assumption of loan risks. These risks, which are generally dormant in a boom, come to sudden and dramatic life in a depression.

Since the banking holiday in 1933, the increase in commercial bank capital accounts has resulted in the main from the retention of earnings, made possible by conservative dividend policies. Further substantial increases in capital accounts will require the sale of common stock to private investors. Commercial banks must be permitted sufficiently large earnings to be able to continue to add to their capital accounts through retained earnings and to sell their stock to the public. A banking system with a strong capital structure is better able to withstand economic vicissitudes.

Investment Portfolios

In contrast to the sharp postwar increase in loan portfolios, a substantial decline has occurred in the investment holdings of commercial banks. Since the end of February, 1946, just before the inception of the Treasury's debt retirement program, commercial bank holdings of Government obligations have declined by approximately $28 billion, or bv about 30% from their peak $93.8 billion. Their holdings of other securities, on the other hand, have risen by nearly $2 billion, or about 25%, principally in the form of obligations of states and political subdivisions of which there have been abundant new offerings in the postwar period.

Nearly two-thirds of the decline in commercial bank holdings of the public debt can be attributed to cash redemption by the Treasury, while about one-third represents net sales of obligations by commercial banks in order to replenish their reserves. This need for bank reserves was occasioned primarily by the retirement of Federal Reserve held debt and the expansion in the volume of bank loans.

The greater part of the direct cash retirement of commercial bank held debt, almost $16 billion, took place from March 1, 1946, to July 1, 1947. During this period of 16 months, debt reduction was effected mainly by the use of funds accumulated in war loan accounts at commercial banks. Since last June, however, when the war loan accounts were virtually exhausted, the Treasury has had to rely largely on its current cash surplus for the retirement of debt and has confined its redemptions for the most part to securities owned by the Federal Reserve Banks. This has put pressure on the reserves of commercial banks and made it necessary for them to sell Government obligations to meet their reserve requirements.

In view of postwar inflationary pressures it is particularly salutary that bank holdings of the public debt have declined. Unfortunately, however, there seems to be little prospect of further substantial cash retirement of commercial bank held debt in the approaching fiscal year. The reduction in personal income tax rates, plus the cost of aid to Europe under the Foreign Assistance Act and proposed expenditures for rearmament, would seem to point to a budget deficit in fiscal year 1949.

Sound fiscal policy points to the vital need for a balanced budget, at the present time, even if this requires the raising of tax rates. If Federal receipts and expenditures are balanced on a budgetary basis, the inflow of cash to the trust accounts can be used for the retirement of debt in the portfolios of the commercial banking system.[2]

Monetary and Credit Commission

The current inflation makes clear the need for constructive action, of a long-term character, in the field of monetary and banking legislation. In order to determine the constructive action which is required, a monetary and credit commission should be established with authority, powers and expert assistance to make the necessary studies and report its findings to the Congress.

Attention should be given not only to the problems which I have mentioned, but also to such questions as the future place of gold and silver in the American monetary system, the role of the United States Treasury and of the Federal Reserve System in the control of credit, and the question of an appropriate interest rate policy. The Federal Reserve Act itself is in need of thorough re-examination from the point of view of its administrative framework, the relation of the Federal Reserve System to other banking supervisory agencies, reserve requirements, discount and open-market powers and the issuance of Federal Reserve notes.

These are only a few of the questions which should be on the agenda of such a commission. The membership of the commission should not consist exclusively of members of Congress but should also include authorities and experts from the outside. This is the most opportune time for the establishment of such a commission to examine our monetary and banking laws and to recommend whatever modifications will serve the best interests of our country.

1 "Business Conditions," Federal Reserve Bank of Chicago, May 1948; and Supplement; "Monthly Business Review," Federal Reserve Bank of Cleveland, April, 1948.

2 Cf. my address: "The Control of Inflation," May 2, 1946.

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Nation-Wide Group Offers Kerr-McGee Oil Common Shares

Lehman Bros. and Straus & Blosser headed a group of underwriters that offered publicly June 16, 300,000 shares of Kerr-McGee Oil Industries, Inc. common stock at $16.75 per share. Of the shares offered, 200,000 are for the account of the company and 100,000 for certain selling stockholders.

The company was one of the pioneers in the seismic exploration of the lands underlying waters of the Gulf of Mexico off the Coast of Louisiana. As a result of this exploration, several first class salt dome prospects were mapped and leases purchased from the State of Louisiana. Drilling of the first exploratory well, located several miles off-shore, began in September, 1947 and at a depth of 1,510 feet from the surface, some 176 feet of saturated, highly porous and extremely permeable oil sands were encountered. This well has been completed as a producer with an allowable of 400 barrels per day. An independent petroleum engineer, on the basis of only 50 acres proven by this well, has estimated the proved gross oil reserves to be 5,000,000 barrels of which 521,000 barrels were estimated to apply to the company's one-eighth of the working interest. It is the intention of the company to develop this horizon by directional drilling from the present platform and the first such well is now being drilled. The independent petroleum engineer indicated in his report that it was highly probable that, after additional drilling, considerable oil reserves in excess of the reserves currently indicated as proved might be developed in the presently producing sand and in deeper zones around the salt plug.

The company has interests in a total of 74,762 acres of leases from the State of Louisiana covering areas in the Gulf of Mexico, off the coast of Louisiana and within the 27-mile limit which the State claims to lie within its borders and jurisdiction.

The company owns interests in 188 producing leases in Oklahoma, Texas, Kansas, Arkansas, Wyoming and Louisiana, covering 54,000 gross and 34,000 net acres on which are located 521 oil and 74 gas wells.

Net proceeds of approximately $3,000,000 to be received by the company from the sale of 200,000 shares will be applied to the retirement of secured short term notes, which totaled $1,448,000 on May 20, 1948 and the balance of proceeds will be added to the company's general funds.

After the issuance and sale of the 200,000 shares of common, the company's outstanding stock capitalization will comprise 1,030,796 shares of common and 59,504 shares of cumulative convertible preferred, $22.50 par value, $1.20 cumulative dividend per year.

For the nine months ended March 31, 1948 the company's consolidated total operating revenues were $9,225,905 and consolidated net income $922,167 compared with $8,023,663 and $344,903, respectively, in the full fiscal year ended June 30, 1947.

New York Stock Exchange Weekly Firm Changes

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

Thomas, Bates & Hughes was dissolved on June 11.

The name of Gertrude W. Brown, limited partner in Vernon C. Brown & Co., effective June 2 became Gertrude W. Hawes.

Sterling, the Sterling Area and ERP

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an end and our reserves have reached a level below which it would be most unwise for us to allow them to fall. We not only need them for the current financing of our sterling area banking system—for that is what it is—but also we must have them when by the end of the ERP period we no longer have any gifts or loans from overseas to rely upon.

Compared to that £1000 millions we spent last year we hope that ERP may be in the region of £300-£400 millions in a year; in other words we have somewhere about £600 millions less in dollars and gold than last year to help balance our accounts—and they must be balanced. This must be achieved partly through non-recurrent items and partly by economies on the one hand and increased production on the other. It is a very great task and unless we succeed it means either the loss of our reserves or cutting down on foodstuffs or raw materials, neither of which we can afford to do if we are to maintain our production at its highest point.

Production Progress

The figures show that in many fields of production we are well ahead of prewar figures though in others — notably textiles — we are still lagging behind. In summary we can be stimulated by our achievements to hope for success in our efforts to get our economy into balance and at the same time to maintain a decent standard of living for our people. We haven't by any means got there—but we have quite definitely started on the right road. But as I have said we are not alone in our difficulties and we must manage to fit our economy in to work with those to whom we have promised our cooperation.

Western Europe and the Commonwealth

First come the other countries of the British Commonwealth with whom we want to continue and increase our ties of mutual trade and support. We do not intend to weaken those ties. For that reason we want to help in Europe, too. Indeed, we hope and believe that a more co-ordinated European economy will help all the Commonwealth, who will be able to expand their trade both with this country and with the rest of Europe the more prosperous we all become. We hope that they will work closely in with us in our desire to strengthen Western Europe and we shall certainly keep in the closest consultation with them in all we do.

Both Western Europe and the Sterling Area must aim at getting in balance with the Western Hemisphere by 1952 when ERP ends. Since so much of our own prosperity depends on that of Western Europe, and since the political and economic strength of Western Europe is a vital factor in the maintenance of Progressive Democracy in the world, we have as you know offered to cooperate economically in the attempt to make Western Europe less dependent upon the Western Hemisphere. That is the first object of Western European cooperation and we haven't very long in which to do it.

Problem of Western Europe

In a recent report of the Economic Commission for Europe there was a very good analysis of the European balance of payments with overseas countries outside Europe which covered all European countries outside the U.S.S.R. — more therefore than the 18 E.R.P. countries.

This showed Europe with a deficit in 1938 of $2,100 million in its visible trade with overseas countries but this was offset by a surplus of the same amount on invisible transactions.

In 1947 the visible deficit was $6,900 million, and this was augmented by an invisible deficit of $600 million. Thus between the two years there was a total deterioration of $7,500 million, just over one-third of this—$2,700 million—being accounted for by loss of income from investments, shipping, tourist traffic and other invisible sources.

Contrast With Britain

So far the parallel with Britain is a close one, but when we consider the changes that have taken place in visible trade since 1938, important differences are at once apparent. For whereas Britain in 1947 was importing about one-quarter less in volume than in 1938 and exporting about one-twelfth more, Europe as a whole was importing one-fifteenth more (at 1938 prices) than in 1938 and exporting between one-quarter and one-fifth less. Even if prices had stayed at the 1938 level, this would have meant that the deficit on visible trade would have been increased by $1,200 million—from $2,100 million to $3,300 million. But in fact prices more than doubled between 1938 and 1947, and therefore the deficit in 1947 actually came to $6,900 million—an increase of $4,800 million over 1938.

Summing up the change that has taken place in Europe's balance of payments between 1938 and 1947, we can say that there has been a total deterioration of $7,500 million—$2,700 million due to decline in income from invisible transactions, $1,200 million to changes in the volume of trade and $3,600 million to the general increase in prices. In the case of Britain a considerable part of the post-war deficit was due to the fact that there had been a relatively greater rise in import prices than in export prices: in other words the terms of trade had moved against us. But in the case of Europe as a whole there does not appear to have been any significant worsening of the terms of trade between 1938 and 1947. This means that for the rest of Europe (excluding Britain) there has actually been an average improvement in the terms of trade, though different countries have of course varied results.

At first sight it looks as if developments have on the average favored other European countries more than us, because they are now able to obtain a larger quantity of imports in exchange for a given quantity of exports than before the war. But this is not an unmixed blessing. The "favorable" turn in the terms of trade has made it all the more difficult for some of these countries to increase their exports. The large increase in export prices has proved a severe handicap to the sale of some European goods abroad, particularly in hard currency markets, and it may well prove necessary to lower export prices in order to achieve the necessary expansion in the volume of exports. The experience of other European countries should warn us against looking too hopefully to a change in the terms of trade to provide a solution of our export-import problem; the tendencies are in fact in the wrong direction at the moment; it should also keep before us the dangers of inflation for it is precisely because we have held inflation in check in Britain that we have been able to make such encouraging progress with our export drive — in marked contrast to some of the other countries in Europe.

Europe's Need

If we are to get over this huge unbalance between Europe and what is substantially the Western Hemisphere we must increase Europe's dependence upon itself by increasing its production of its own needs in food stuffs in particular and by increasing the exchange of commodities internally in Europe.

To restore equilibrium in Europe's balance of payments on the basis of the figures I have quoted earlier would require either an increase over 1947 of 125% in exports or a decrease of 55% in imports or a combination of a part of each.

This means a great increase in Europe of for instance the manufacture of capital goods and chemicals both for export and to meet the European demands for new construction and re-construction. It would require an increase of something like 40 to 50% over prewar in these industries to meet all these needs and to close the gap and they would of course require the necessary fuel and power and steel.

By the third-quarter of 1947 the level of these industries had risen to about 12% above prewar and in each case we were well to the fore in increases.

In chemical production we were at 146% of prewar compared with an average of 120% for 9 European countries. In iron and steel we were 111% of prewar compared to 104% for 6 other countries; and in engineering we were 124% of prewar compared with the average of 110% for 12 others. We are therefore already making a very real contribution to European recovery but from the figures I have given you you will see we still have a long way to go and only a short time in which to get there.

I have given you a good many figures and statistics—to what do they all amount?

They amount to this. That so far as our own efforts are concerned we have made a beginning and a not unhopeful beginning. But the higher we climb the steeper and more difficult the path. The initial increases in production were easy. More and more people were coming back to industry; we were getting ourselves reorganized; so far as world supplies permitted we were getting all the raw materials we could expect, and as the situation eased somewhat our production increased. We got gradually into the tempo of peace-time production and we did not find any difficulty in disposing of all we could make.

Need for Continued Good Teamwork

But now the further stages of increasing our production for export are much less easy. Sales resistance is building up, we have almost reached the limit of raw material supplies especially in some key commodities like steel, and there is no more labor to come back.

We must therefore increase our efficiency. That is the absolutely cardinal need of this new stage in the production battle.

We need to do that both to get more production in volume without sacrificing quality—which we must never do—and also, which is equally important, to keep down and bring down the price of our products.

In some units in some industries most remarkable results have been achieved by study and research into methods and by applying new ideas to the deployment of machinery and labor. In others there has been no progress, yet our whole future depends upon such progress not in a few years time but here and now while E.R.P. yet gives us the time.

I have been preaching this need for some years now but every month that passes and the more I see of affairs from my present post of observation the more convinced I become that unless we take the fullest advantage of modern methods and ideas — which we are not doing nearly thoroughly enough today — we shall not succeed in our great endeavor to put our economic life upon a sound footing.

I do therefore beg of managements and workers alike that they will consider in every unit of production in the country whether something more cannot be done to economize in effort and in resources of all kinds so as to enable us to accomplish our object without having to cut down our standards of living.

More production out of existing resources should be the main objective now before us. Every manager should examine with or without expert assistance what he can do to improve the efficiency of his production and should ask for the full and understanding cooperation of his employees. That cooperation will only be forthcoming if care is taken to make the workers fully conscious not only of the economic situation of the country but also of their own unit of production.

Good teamwork based on a sound understanding of the issues involved is the best way to carry through improvements in methods of production.

Those of you who have visited many factories as I have over the last few years fully appreciate the unevenness of our industrial efficiency and how much improvement could be brought about if all were up to the standard of the best.

It is the willingness to profit by the experience and experiments of others that will enable us to reach these new heights of production without imposing any impossible or expensive load upon the workers.

There is no doubt that we can succeed but it needs all our efforts of brain and muscle to win through.

Consolidated Edison Debentures All Sold

Subscriptions to the offering of 15-year 3% convertible debentures of Consolidated Edison Co. of New York, Inc., to company's stockholders totaled $53,060,100, or 92.5% of the $57,382,600 offered under rights which expired at the close of business June 8. Halsey, Stuart & Co. Inc., as representative of the several underwriters, received competitive bids June 10 for the $4,322,500 3% convertible debentures due June 1, 1963, which were not subscribed for through the exercise of subscription warrants. Thirty-two bidders entered bids for a principal amount of $14,453,000 debentures. The six bidders who offered the highest prices were awarded the $4,322,500 debentures at prices ranging from 107.09% to 107.25%.

Halsey, Stuart Group Offers Rock Island Iss.

The Chicago, Rock Island & Pacific RR. awarded June 10 a new issue of $4,590,000 equipment trust certificates due 1949 to 1963 to a banking group headed by Halsey, Sutart & Co. Inc. at a public sale. The winning bid was 99.41 for 2¼% coupons. Subject to approval of the financing by the Interstate Commerce Commission, the certificates were reoffered to yield 1.20 to 2.575%.

Columbus Stock & Bond Club to Have Outing

COLUMBUS, OHIO.—The Columbus Stock & Bond Club will hold its annual golf party at the Columbus Country Club.

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More Investment Needed to Increase Real Incomes

(Continued from page 6)

exploit the other factors of production, and lead to underconsumtion and depression; they believe, in fact, that high profits are the major cause of depression.

They oppose large incomes, because large incomes lead to oversaving; the more extreme "consumptionists" wish to discourage saving, even to the extent of taxing savings accounts and life insurance premiums.

Finally, the advocates of increased consumption look favorably on a considerable degree of regulation and control of the day-by-day conduct of business and of individuals by the Federal Government in order to make people do the things they should do — consume more, save less, equalize incomes—for the benefit of those who, without this help, would consume too little.

The "consumptionist" program will be recognized as a familiar part of the Democratic Administration program of the past 15 years. Very recently, this position has been confirmed by the President's Council of Economic Advisors, in their "Second Annual Report to the President," of December, 1947.[1] It will also be recognized as a large part of the legislative program of the CIO.

Those who believe in the greater potentialities of investment to promote progress and stability, offer a program that is the exact opposite of the "consumptionist" program that has just been outlined.

Those who place investment first believe that if expenditures for investment are maintained at a sufficiently high level, consumption will be automatically increased and maintained; and, in order that investment expenditures may be maintained, large savings and high profits should be encouraged and not frowned upon.

In a few words—the difference in programs — and, remember, both programs are designed to reach the same goal of increased consumption — may be stated as purchasing power versus profits.

Having thus outlined the nature of the controversy as to the best way to achieve progress and stability, how can we arrive at some real answer that will break through the prejudices and fixed ideas that exist on both sides? I need not tell this audience of engineers that the only effective way is to go back to first principles to discover how the American economic machine really works, and then test our answers against field experience. I will try to do this, but you must not expect too much in the short time at my disposal.

Fortunately, I can start with one fundamental principle about which there is no controversy.

Factors Determining Income And Employment

The question is this: What determines the level of aggregate income and employment? And this is the basic answer: The aggregate national income at any time is determined by the immediately preceding level of aggregate expenditures for production. If all income currently produced is currently spent, so that income and expenditure continue equal, there will be no change in the aggregate income, volume of production, or number of employed persons. I am assuming, of course, that no change in prices and no change in production methods occur.

As long as expenditures and income remain the same, everything goes on without change at a fixed level, and this stable condition continues as long as there is no change in expenditures, either by an increase by reason of new funds put to use in our hypothetical society, or by a decrease in expenditure caused by part of the income received from current production being hoarded and not spent.

Now assume that additional funds — additional working capital — is obtained by some members of this self-sufficient community, and put to work in production. Additional workers will be employed, or present workers will work longer hours. More goods will be produced; more income will be generated.

The economic machine we have imagined will continue to operate at this higher level of output (goods and income) just as long as the input of expenditures is kept at the new higher level. If a still higher output is desired, more funds — more working capital — will be needed. Each injection of new funds produces an equal increase in output of income, and the higher level of output continues as long as expenditures remain at the higher level, and no funds are taken out of use.

I have gone into this rather theoretical question in some detail, because the one point I wish to stress is that to achieve a higher level of income, production and employment, new funds — additional funds — must be found and used. This point is important because one of the crucial questions concerning the choice between consumption spending or investment spending is this point that new funds must be found.

So far, I have said nothing as to the purpose or nature of the spending. Spending for any purpose will produce additional income, providing the spending is related to the production process. A dollar spent in the production process by one person is a dollar income earned by some other person.

But now we approach the controversial question: What kind of new funds should be spent, and for what purpose and from what source, in order to increase aggregate income, production and employment most effectively? I return to my original question: Should new funds be spent for consumption or for investment?

I stress the fact that new funds — additional working capital — are necessary to reach a higher level of income and employment. Even when full employment is attained, we still need new funds to provide jobs for a growing labor force, and we need new funds to improve facilities and methods in order to increase the production per capita—to increase per-capita real incomes — and achieve progress.

So new funds and the additional income and employment they produce are the decisive factor in the problem I am discussing. I wish, therefore, to discuss, in some detail, the behavior of funds spent for consumption and the behavior of funds spent for investment in our economic machine.

Behavior of Consumption Expenditures

Consumption expenditures are readily defined as expenditures for goods or services **in domestic markets for near-by consumption.** By common consent, consumer durable goods, such as automobiles, electrical home appliances, and home furnishings are included in consumption goods, even though they are more durable than other consumption goods.

Americans, when free to spend their incomes as they choose, have made a remarkably stable choice between spending for consumption and spending for investment. From statistics made available by the careful studies of the National Bureau of Economic Research, the ratio of consumption (the flow of goods and services to consumers) to gross national income, varied only slightly, decade by decade, over a period of 60 years from 1869 to 1929. The maximum average consumption ratio was 81.1% for the decade 1869-78, and the minimum average ratio was 78.7% for the decade of 1889-98; the average of all six decades was 80.9%.

From more recent national income and product figures, compiled by the Department of Commerce, we can obtain a similar ratio of consumption expenditures to gross national product for each year from 1929 to 1947, but this series cannot be compared with the figures given for the 1869-1929 period, because they are not the same kind of figures. The Department of Commerce series is interesting because it spans the entire period of government and labor union programs designed to increase the consumption ratio. These tremendous efforts have had very little effect on the consumption ratio. The consumption ratio, for the relatively prosperous years of 1929, 1937, 1940 and 1947, changed very little. The ratio declined slightly from 75.9% in 1929 to 71.2% in 1947.

On a different and more significant basis, the ratios of consumption expenditures to disposable were:

Year	%
1929	95.5
1937	94.5
1940	95.1
1947	93.8

Disposable income is aggregate personal income less personal income tax payments.

In between these two terminal years and 1940 there were wide variations in the consumption ratio. It went up considerably during the depression, and it went down considerably during the war years—both for rather obvious reasons.

The conclusion I wish to draw from these figures is that during relatively normal times of peace and good employment, the consumption ratio has been remarkably stable. The ratio of total product that is spent for consumption is not easily changed in an uncontrolled economy. It is not possible for governments or labor unions to do very much about it, unless we wish to introduce a very considerable amount of government control of spending, prices, wages, and incomes into our American system. Here we have one of the real reasons for the pressure for government controls to increase spending for consumption. This ratio of spending to saving is not easily changed if people are left to their own devices.

It can be shown by sound methods of analysis—which I cannot undertake to go into here—that under conditions of limited investment demand, and with a constant consumption ratio, additional funds spent for consumption are very likely to find their way into idle savings—into inactive bank deposits. The new funds are offset by additional hoarded saving, and there is not net gain in income or employment from the new funds.

You will note that I made two conditions or assumptions: (1) that the consumption ratio is constant —that, let us say—out of every dollar of personal income, 90 cents is spent for consumption goods and services; and (2) that the demand for investment funds is limited.

The first condition has been covered by the historical record. The second condition is reasonable and logical, because in a society in which immediate consumption is stressed and encouraged, the atmosphere and the conditions necessary for a high level of investment will not be present. Both consumption and investment cannot be given preference at the same time.

This conclusion that additional funds used for consumption will find their way into idle bank accounts, and so defeat the whole purpose of the consumption program, is not only good theory —it is confirmed by experience.

This is what happened during the long depression of the '30s. During these years when the government was pumping new funds into the system, largely by relief payments to the unemployed, it was discovered that the new money accumulated after a while in idle bank deposits. New funds supplied by the government, largely for consumption, did very little to improve the general business situation and employment, although they did relieve distress.

The record shows that the spending and saving habits of the American people are not easily changed by indirect pressures, and that new funds spent for consumption are not likely to keep on circulating, and to produce additional income through many production cycles. In order to increase consumption—and this, may I remind you, is the goal of both parties to this conflict—it is necessary to increase total income. The size of the pie must be increased.

As I have already explained, total income is increased by the injection of new funds into the production process—by the familiar method of increasing the total money capital used in production. If our national program is to increase total incomes by the injection of new funds for consumption, we need to consider, therefore, where new funds for consumption can be obtained.

A little consideration will show that there is no inexhaustible source of permanent funds that can be used for consumption. Past savings can be used, and this is a common source—but certainly not inexhaustible. Moreover, savings held for future consumption merely subtract from current expenditures in order to add to future expenditures. There is no net increase.

Consumer credit is another source, but that is also limited to short-term loans. Spending is increased only while loans are increasing. There is no long-term net gain unless there is a permanent increase in outstanding consumer credit.

The largest source of new funds for consumption is to be found in government deficit spending for subsidies of various kinds. Note that government subsidies paid out of current taxes are not new funds; such payments represent a redistribution of income from those who pay taxes to those who receive the government benefits.

Thus, we do not find any very desirable nor ample sources of new funds for consumption such as we will find when we come to consider the analogous situation of sources of new funds for investment.

Behavior of Investment Expenditures

The evidence appears to be against depending on increased consumption expenditures for increased general welfare (and not limited to the welfare of relief clients and the indigent). An even stronger case can be presented in favor of investment expenditures. We will now look at the investment case. First, it will be necessary to define just what is included in investment funds and investment expenditures.

Expenditures for investment include these categories:

Private Investment—

(1) Producers' durable goods.
(2) Construction of all kinds.
(3) Changes in inventories.
(4) Foreign investment—usually and chiefly the excess of exports over imports.

Government Investment (Federal State and Local)—

(5) Public Works—Construction of all kinds.
(6) Other purchases from business firms, including military equipment and facilities.

All six classes of investment expenditures, as just defined, have one characteristic in common: They do not cause consumer goods to appear in domestic consumer markets, competing for current income. At the same time, they contribute their full quota to current consumer income. To the extent that the costs represented by these kinds of investment expenditures are not reflected in the market prices of goods purchased by American consumers, these investment expenditures provide consumers with excess purchasing power over and above the total market value of consumer goods currently produced and on sale in domestic markets. This kind of excess purchasing power became obvious during the war.[2] It was the reason behind the recent "reform" of currency in the Soviet Union. This is an important consequence of investment spending for the benefit of consumers that is completely overlooked by those who fear that insufficient purchasing power exists to take consumer goods off the market, and especially during periods of expanding business.

These six classes of investment expenditures comprise a broader definition of investment than is commonly used, but all six kinds of expenditures should be included if a complete picture of investment expenditures is to be presented.

In order to explain the behavior of expenditures for investment, I will use again a model of a self-sufficient community whose current income and total expenditures for production are equal. Business in this community then is on an even keel; it is neither getting better nor getting worse. Now assume that some of the businessmen of the community get together with new capital and start a new factory; they put new funds in use—this time for investment for new construction and new factory equipment.

While the factory is being built and equipped, salaries, wages and other costs are paid out to workers; personal incomes are increased by the amount of the additional expenditure of investment funds.

Then, during the next production cycle, the larger aggregate personal income is spent, partly for consumption, and partly saved.

Here we come back to expenditures for consumption, and should note a very important fact—that an increase in spending for investment results in a proportional increase in personal income, and an increase in personal income may reasonably be expected to result in a proportional increase in expenditures for consumption. This assumption is reasonable because we learned from the record that is the way people normally behave. The reversal of this process cannot be counted on with the same assurance. An increase in expenditures for consumption cannot be counted on to increase ex-

1 The Report, on page 19, says: "If we are to achieve and stabilize maximum production according to any reasonable interpretation of America's capacity to produce, we must in the future have much higher consumption in all the lower and middle ranks. The small number of the well-to-do will not be able to absorb the possible output of consumers' goods. Nor can they go on indefinitely accumulating ownership of the surplus above their consumption needs and investing it in ever-enlarging plant for future expansion of goods for some restricted part of the population. The enlarging production of an industrially efficient nation must go increasingly to filling in the consumption deficiencies of the erstwhile poor."

2 Excess purchasing power of this kind is provided by investment expenditures for the excess of exports over imports, for increases in inventories, for government expenditures for public works, military equipment and other government purchases from the business sector. Taxes are not an offset to excess purchasing power from government investments, because only a small part of the taxes are paid by people who receive the greater part of the income generated by government spending.

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penditures for investment, and, in that way, maintain the chain reaction necessary for continuous income generation.

This is one of the important differences between expenditures for investment and expenditures for consumption. Expenditures for investment are certain to result in an increase in expenditures for consumption; but if new funds are used for consumption, it is by no means certain that an increase in expenditures for investment will result. Consumers, collectively, spend a fixed part of their collective income. Businessmen do not so surely spend out of capital funds. The motives, incentives and conditions are quite different in the two cases.

The first fact to remember, in this investment-expenditure-income relationship, is that one dollar of new investment produces one dollar of new income in the production-income cycle in which the additional funds are spent.

The second important fact is that this increase in income usually results in an increase in consumption. New funds, introduced by expenditures for investment, work through the production process, create additional payrolls and other forms of income; and additional income generally results in increased consumption in the habitual ratio of consumption and saving. And so the process continues; consumption is increased as long as the injection of new funds for investment is maintained.

I wish to stress this behavior of investment expenditures as strongly as I can — that increased expenditures for investment result in higher total income and higher total income leads to higher total consumption; and this result is much more certain than if the same amount of new funds were placed directly in the hands of consumers. It has an obvious bearing on the answer to the question I posed at the beginning of this paper.

I have said that the source of new funds is important. In the case of new funds for consumption, the only large or relatively permanent source was found to be in increased government borrowing from the banking system — in the creation of new money by the Federal Government. There is no inexhaustible source of permanent funds for consumption, even in the government.

When we turn to the question of funds for investment, we find at hand an inexhaustible source of new funds in the production process itself. I need not labor this point before this audience of men from industry. The record of capital accumulation in the United States is the only evidence needed.

Suppose we look at this record. From the same researches of the National Bureau of Economic Research, that I referred to in my earlier discussion of American consumption habits, we learn that 70 years ago expenditures for net private investment (not including capital replacements) averaged only $784 million for each year during the decade 1869-78. In the decade of the 1920's they averaged just 10 times this earlier figure. In 1946 they were over 20 times. Here is real multiplication of investment funds and aggregate income. These are the figures:

Period	Annual Net Capital Formation (in current prices)
1869-78	$784,000,000
1919-28	$7,863,000,000
1946	$18,315,000,000

These funds for private investment did not come from government deficits. They were saved out of production—by individuals and by business firms. Production provided its own income-generating capital.

And I don't want you to forget that this vast increase in American production, income, and employment came from increased accumulation of capital funds and the expenditure of these funds for investment goods, which produced more income; more income provided for more consumption and also still more funds for investment. Here is a truly benevolent spiral.

It will be profitable to look at the investment expenditures and the corresponding national production over the past 19 years. This period is a veritable gold mine of experience for the experimental economist. This period shows incomes for some few years of reasonble normality; years of extreme depression, and years of a world war.

I am going to show you a few charts which will give you a picture of investment funds for selected years, grouped according to the three major kinds of experience we have enjoyed (or suffered) since 1929. First, five selected years of different degrees and kinds of prosperity—the years 1929-1937-1940-1946 and 1947. Next, a picture of depression — the years from 1932 to partial recovery in 1937. Finally, the war years, starting with 1940, as a point of reference, and ending with 1945. There are so many significant implications in these figures that I shall only attempt to mention them and comment very briefly.

Table I

INVESTMENT FUNDS—PROSPERITY YEARS

(Millions of Dollars)

Year	Gross National Product	Investment Funds —Private— Amount	%	—Government— Amount	%	Total	Ratio Investment Funds to G. N. P.
1929	$103,828	$16,577	80.1	$4,116	19.9	$20,693	19.9
1937	90,213	11,502	71.1	4,665	28.9	16,167	17.9
1940	100,477	14,492	70.3	6,116	29.7	20,608	20.5
1946	203,679	29,355	75.7	9,443	24.3	38,798	19.1
1947	229,600	36,550	75.7	11,800	24.4	48,300	21.0

Table II

INVESTMENT FUNDS—DEPRESSION YEARS

(Millions of Dollars)

Year	Gross National Product	Investment Funds —Private— Amount	%	—Government— Amount	%	Total	Ratio Investment Funds to G. N. P.
1932	$58,340	$1,055	22.6	$3,611	77.4	$4,666	8.1
1933	55,760	1,456	31.0	3,240	68.9	4,696	8.4
1934	64,868	3,236	43.8	4,148	56.2	7,384	11.4
1935	72,193	6,092	60.9	3,917	39.1	10,009	13.9
1936	84,705	10,447	70.1	4,455	29.9	14,902	17.6
1937	90,213	11,502	71.1	4,665	28.9	16,167	17.9

Table III

INVESTMENT FUNDS—WAR YEARS

(Millions of Dollars)

Year	Gross National Product	Investment Funds —Private— Amount	%	—Government— Amount	%	Total	Ratio Investment Funds to G. N. P.
1940	$100,477	$14,492	70.3	$6,116	29.7	$20,608	20.5
1941	125,294	18,335	54.5	15,290	45.5	33,625	26.8
1942	159,628	9,123	17.0	44,437	83.0	53,560	33.6
1943	192,573	2,346	3.6	62,691	96.4	65,037	33.8
1944	210,551	3,559	5.3	63,633	94.7	67,192	31.9
1945	213,120	8,304	14.9	47,293	85.1	55,597	26.1

I. The Prosperous Years

The conditions illustrated by the first set of figures—that for the prosperous years—will serve as a standard of reference by which the other two sets of conditions may be measured. Note first that the total investment funds are made up of two parts: private investment and government investment. Private investment funds include depreciation allowances. This total of gross private investment funds includes the four kinds of investment I listed in my broad definition of investment under the first heading of private investment:

(1) Producers' durable goods.
(2) All types of construction.
(3) Inventory changes.
(4) Net foreign investment.

Government investment includes public works and other purchases from the business sector, in which military equipment and facilities are the predominating items in the war years.

The level of business activity depends principally on the level of investment expenditures, and here we have a complete, inclusive picture of investment funds. If they are large, business will be good, if they are low, business will be poor.

It is to be noted that in each of these relatively prosperous years the ratio of total investment to gross national product is in the neighborhood of 20%. This figure of 20% — which leaves 80% of gross national product for current consumption—appears to be the division that private industry, government and consumers prefer under the conditions of free choice.

This statement is not strictly true for 1946 and 1947 conditions. In these post-war years the share of government investment and net foreign investment would be lower if we were not compelled to spend more than we like for exports in excess of imports, and for military purposes.

In 1947, especially, investment expenditures were above the level required for full employment. There was a 25% increase in investment funds over 1946, and only a 12% increase in gross national product, and most of this increase is accounted for by an increase in price level, and not by an increase in volume of physical production.

The comparison between 1929 and 1940 is interesting. Gross national product and total investment funds are very nearly the same, but unemployment in 1940 was more than 7 million workers in excess of unemployment in 1929. The number of employed workers in the two years was roughly the same, and the investment per employed worker was about the same ($432 against $447).

Investment in 1946 works out at $700 per employed worker; if these figures are deflated to 1939 price levels for finished goods prices (BLS Index), the investment funds per employed worker are: 1929, $336; 1940, $440; 1946, $486.

Such figures are only the roughest kind of approximations, but they are, nonetheless, interesting and useful. Thus, it can be roughly estimated that the 7 million excess of unemployed workers in 1940 would have been employed if about $3 billion of additional funds (at 1940 prices) had been spent for investment.

A second interesting fact is that in 1929 private industry provided about 80% of total investment funds, and governments (Federal State and local) provided the other 20%.

In 1940 this division was 70-30, and in 1946 and 1947 it had "recovered" about half way. Conditions in 1946-47 were still abnormal, and it is quite conceivable that the division between private industry and government will, in time, return to the 1929 division of 80-20, despite the changes in political, economic and social ideas that occurred between these two periods, and the years of depression and world war that intervened.

Another interesting point about these ratios is that this division of investment funds may be taken as a rough measure of the division of responsibility between private business and government agencies for the level of income and employment in the whole economy. I cannot take time to go into this very interesting subject, except to point out that neither private industry alone nor government can do the job. It is a partnership job, especially in these days of European reconstruction and "cold war." It is important to note that we have in these all-over figures of investment expenditure, a rough measure of the separate interests of the two parties. But I would also point out that—with the national budget currently balanced — all of these peacetime funds come out of private business.

II. Depression Years

During the 1930 depression, government expenditures for investment were relatively stable, despite widespread impressions to the contrary. Government investment expenditures increased only $1 billion from the low point of the depression in 1932 (before the Roosevelt Administration began) up to the year of relative prosperity of 1937. State and local government expenditures actually declined during this period.

Private expenditures for investment almost disappeared; they declined from $16 billion in 1929 to only $1 billion in 1932.

At the bottom of the depression in 1932, private business contributed only 23% of total investment expenditures, and government agencies contributed 77% — but total investment was less than 10% of gross national product—one-half of the ratio of more prosperous times.

Investment per employed worker was only $120. The large part of employed workers were in occupations that required little new investment.

III. War Years

The outstanding feature of investment funds in the war years is the transfer of practically complete responsibility for income and employment to the Federal Government. During the peak production years—1943 and 1944—about 95% of total investment was provided by government. Funds for investment come partly out of private business and partly out of newly-created money. Total investment funds increased to one-third of gross national product, which is reflected in the reduced personal consumption of the war economy.

So much for the behavior of investment expenditures and consumption expenditures. At what conclusions have we arrived concerning the answer to the question with which I began?

Which is the best road to the destination we all desire to reach —the destination of larger real incomes and greater stability of incomes?

My own conclusion is that the only road—not merely the best road, but the only road—is by way of steadily increasing expenditures for investment; and to travel this road, over the long-term, we need to encourage and safeguard the accumulation of funds for investment — out of no other road to progress. We savings and out of profits. There need have no fear of over-saving. Our rate of progress depends absolutely on the amount of savings we can accumulate. Neither need we fear that capital funds will remain idle because of the lack of investment opportunities.

Any program based on the encouragement of purchasing power and consumption primarily and directly, and the consequent and inevitable discouragement of capital accumulation and investment expenditures, leads only to the economic disasters of stagnation and decline—no matter how sincere and idealistic the advocates of these programs may be.

Chicago Stock Exch. Officers; Committees

CHICAGO, ILL. — Homer P. Hargrave, Merrill Lynch, Pierce, Fenner & Beane, newly elected Chairman of the Board of Governors of the Chicago Stock Exchange, has announced appointment of the following standing committees, to serve for the ensuing year:

Executive: Reuben Thorson, Paine, Webber, Jackson & Curtis, Chairman; Walter J. Buhler, Vice-Chairman; Ralph W. Davis, Paul H. Davis & Co.; John J. Griffin; Charles R. Perrigo, Hornblower & Weeks.

Admissions: Barrett Wendell, Lee Higginson Corp., Chairman; George F. Noyes, Illinois Co. of Chicago; Vice-Chairman; John W. Billings; John R. Burdick; Robert F. Schenck, Jr.

Finance: George E. Booth, Lamson Bros. & Co., Chairman; Norman Freehling, Freehling, Meyerhoff & Co., Vice-Chairman; John W. Billings; James J. McNulty, Ames, Emerich & Co.; Leonard J. Paidar, Goodbody & Co.

Floor Procedure: Chancellor Dougall, Chairman; John R. Burdick, Vice-Chairman; Elmer Kurzka, Fred W. Fairman & Co.; Sampson Rogers, Jr., McMaster Hutchinson & Co.; William H. Sills, Sills, Minton & Co., Inc.; Frederick J. Stannard; Alfred E. Turner.

Judiciary: Sidney L. Castle, Carter N. Harrison & Co., Chairman; Hulburd Johnson, Vice-Chairman; Chapin S. Newhard, Newhard, Cook & Co.; Frederick J. Stannard; Edwin T. Wood.

New Business and Public Relations: George F. Noyes, Illinois Co. of Chicago, Chairman; Edwin T. Wood, Vice-Chairman; Andrew M. Baird, A. G. Becker & Co.; John W. Billings; Irving E. Meyerhoff, Freehling, Meyerhoff & Co.

Stock Listing: John J. Griffin, Chairman; Charles R. Perrigo, Hornblower & Weeks, Vice-Chairman; Walter R. Brailsford, Brailsford & Co.; William H. Sills, Sills, Minton & Co.; Reuben Thorson, Paine, Webber, Jackson & Curtis.

James E. Day was reelected to the office of President, and the following officers were reappointed:

Raymond M. Day, Vice-President; Carl E. Ogren, Vice-President and Secretary; Walter R. Hawes, Treasurer; Martin E. Nelson, Treasurer Emeritus; George J. Bergman, Assistant Secretary.

Allen B. Beaumont Heads Dept. of Wm. R. Staats Co.

SAN FRANCISCO, CALIF.—Allen B. Beaumont is now associated with William R. Staats Co., 111 Sutter Street, in charge of the municipal department.

Kingston Now Proprietor

NEW ORLEANS, LA.—Walter D. Kingston is now sole proprietor of Lamar & Kingston, Canal Building. Walter D. Kingston, Jr., is an associate of the firm.

N. R. Real Co. in N. Y. C.

N. R. Real is doing business from offices at 79 Wall Street, New York City, under the firm name of N. R. Real Co.

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John Doe—Economics of His Pay Envelope and Savings

(Continued from page 14)

sistent proportion to income. As income goes up, spending goes up, too. As income goes down, spending goes down, in a roughly similar pattern.

Consumers' Spending versus Savings

Taking all individuals as a group, the spending and savings relationship has been getting back much closer to the prewar situation. In the first quarter of 1948, individuals saved about 7% and spent about 93% of their income after taxes. That meant a total volume of consumers' expenditures at an annual rate of about $175 billion.

The choices expressed by John Doe in making his expenditures show up in a constantly changing picture. You have doubtless read some of the news articles recently about the declining trend in sales of luxury goods. John Doe is not going so often into night clubs and cocktail lounges. He is spending considerably less on alcoholic beverages this year than last year. The Federal tax collection figures show this trend very clearly. He is also buying less furs and less jewelry and is spending less money on amusements generally.

In the case of clothes, John Doe is tending to shift from higher-priced goods with a relatively high mark-up to lower-priced goods with a smaller mark-up. This shows up in an increase in basement store sales in contrast to the main store sales of department stores.

On balance, John Doe has shifted a larger part of his spending back into the automobile group more in line with the prewar pattern. More money is again going into automobiles, tires and tubes, parts and accessories and, of course, gasoline and oil, than was the case during the war.

In the case of food, John Doe is getting more and better food than before the war. He is eating more meat, more chickens and turkeys, more eggs and more packaged fruits and vegetables. It is true that he doesn't like the high prices, but he is responsible for them by insisting on buying these better quality foods now that his income is higher. In other words, John Doe has bid up the prices of these foods. He doesn't literally bid against his neighbor for a pound of pork chops in the style of an auction, but he gets the same effect as he goes into the grocery store and tries to convert his greater income into a higher quality food basket.

When it comes to savings, we find that John Doe determines a great deal about the money and liquid assets held by the community. Our economic system is a complex one and the volume of new savings each year is determined by a compromise of a number of different forces. Let us see how John Doe influences the results and how he in turn is influenced by outside forces.

First of all, I have already pointed out how John Doe can increase or reduce the proportion of his income after taxes which is spent or goes into savings. He can do this within certain limits, but collectively, he is also very much influenced by external events. Thus, if the government is running at a large deficit as in the war years, the savings figure will have to be higher. This is because extra income will flow out from the government spending, but the supply of civilian goods will not increase correspondingly, so the people will have to save more. You saw it during the war when the extra income of the people, in contrast with the limited supply of available goods, resulted in the greatest volume of savings in our history. On the other hand, if the government is running at a surplus, such as the $6 billion surplus of the first quarter of this calendar year, savings are bound to go down.

The total amount of savings by individuals is also influenced, of course, by the actions of business in buying capital goods. If more of our output takes this form, individuals are pushed into saving more because the goods produced go to businesses rather than consumers.

Types of Savings

Now we come to the matter of what form new savings are to take. Here, John Doe exercises the widest latitude. He may save by putting money into direct investments like government securities or corporate securities. Or he may save by placing funds in insurance—either in private companies or government types of insurance. Also, he may save in the form of bank deposits of various kinds and even currency. Finally, he may also save by making payments on debts—although this was the other way around last year when individuals as a group incurred debt on net balance. I will have to be brief and skim over some of the figures pretty quickly. For those who are interested in more details, see Table I.

TABLE I
Liquid Savings Made by Individuals
(Billions of Dollars)

	1940	1947
Direct Investments:		
U. S. Government Securities	.6	3.1
State and Local Government Securities	—.4	.3
Corporate Securities	—.2	1.2
Subtotal	---	4.6
Institutional Savings (leading to direct investments by others):		
Insurance:		
Private	1.8	3.2
Government	1.3	3.4
Banking:		
Commercial Banks:		
Demand Deposits	1.5	1.4
Time Deposits	.4	1.3
Savings Banks	.1	.9
Postal Savings	.1	.1
Savings and Loan Associations	.2	1.2
Currency	.8	—.4
Subtotal	6.2	11.1
*Gross Total New Liquid Savings	6.2	15.7

Sources: SEC, and Board of Governors of the Federal Reserve System.

*The gross total for new liquid savings reconciles with the SEC figure on net liquid savings if an allowance is made for the net increase in debt outstanding on the part of individuals.

In the case of U. S. Government bonds, John Doe has been willing to undertake a huge volume of direct investment. Last year, individuals invested more than $3 billion net in government bonds; and, today, they own a total of $67 billion of government bonds, of which about two-thirds are savings bonds. During the war, you may remember, it was widely predicted that savings bond holdings would collapse with the end of hostilities. It was said that people would redeem savings bonds in tremendous amounts and that it was a mistake to give them bonds redeemable upon demand. It is a pleasure to note that cash-ins have been relatively small and that the total volume of savings bonds outstanding has continued to increase. John Doe has shown his usual good sense by holding on to his savings bonds and by buying more of them on a rather steady basis since the Victory Loan.

This is an example of how John Doe exercises an economic policy of his own. By increasing his holdings of savings bonds, John Doe has helped the Treasury to reduce the volume of its securities held by commercial banks. This has been an important aid to the Treasury in the fine debt management record which has been achieved since the end of the war.

John Doe does not tend to purchase many corporate securities. He seems to prefer government bonds since he has so little experience with the corporate issues and they are not generally available in small denominations. Last year, individuals took up only a little more than $1 billion of new corporate issues or about one-fouth of the new capital raised by corporations. In these direct purchases, individuals took all stocks as contrasted with a concentration in bonds in the case of the securities taken up by insurance companies.

The situation last year was sharply different from that in the latter part of the 1920's. At that time, individuals also invested on the average only a little over $1 billion a year in corporate securities. However, it should be noted that this was a much larger proportion of total new savings than it represented last year. Although the figures for the 1920's must of necessity be rough, it appears that corporate securities annually absorbed upwards of one-fourth of individuals' new savings in the latter part of the Twenties, as compared with less than 10% of gross new liquid savings last year.

Perhaps corporations can persuade John Doe to buy more stocks directly himself in the future. The problem is complicated, however, by the change in the distribution of income which has occurred over the war years and by the impact of Federal income taxes. A large proportion of our savings today is being made by the many millions of persons in what we may call the moderate income brackets. Increases in wages and salaries have brought many more families into this important group. Yet these people are usually not inclined to invest their savings in corporate securities.

Generally, people in the upper income groups are more inclined to buy corporate securities. But these people are saving far less today because of the impact of high Federal income taxes. So the people who would buy corporate issues have less money, while the people with more money don't buy corporates. And, meanwhile, there is a general trend away from direct investment by individuals toward what we may call the institutionalization of investment.

Indirect Investments Through Insurance Companies

Now let us turn to indirect investments, beginning with life insurance. This has come to be one of the most important vehicles for saving by John Doe. Most families carry some kind of life insurance and they try to keep it going even in bad times. Last year, individuals saved about $3¼ billion net in life insurance companies.

The growth of savings in the form of life insurance has created a tremendous pool of capital. The life insurance industry today has assets of over $50 billion. This compares with only $1¾ billion at the turn of the century and $6½ billion at the end of World War I.

This pool of funds has become a major source of mortgage money and corporate capital. Last year, in fact, the life insurance companies provided corporations with about $3¼ billion of new funds, or about three-fourths of the new capital raised by corporations from new securities. Practically all the securities, of course, took the form of bonds. The life insurance company pool of capital is confined mostly to bonds and some of the better preferred stocks. This is the primary reason why three-fourths of the new money raised by corporations last year came from bonds.

Here, we see an important consequence of the growing tendency to save in the form of life insurance. New corporate capital must come from life insurance companies to a much larger extent and such new capital tends to be provided largely through bonds. Accordingly, there is a decrease in the proportion of corporate financing represented by equity capital, even though the corporations themselves would prefer to reduce the volume of bonds sold and to increase the volume of stocks.

Indirect Savings Through Bank Deposits

Now, we come to John Doe's influence on the banking business. As you know, the volume of bank deposits held by individuals has gone up sharply since before the war. Individuals today own about $50 billion in checking accounts, $35 billion in time deposits in commercial banks and about $18 billion of deposits in mutual savings banks.

Last year, individuals continued to save additional amounts in the form of bank deposits. They accumulated $1.4 billion in demand deposits and $1.3 billion in time deposits in commercial banks. $900 million was placed in savings banks and $100 million in postal savings accounts. A total of $1.2 billion was placed in savings and loan associations. Holdings of currency went down about $400 million. Now, it may be argued as to how permanent some of these forms of savings are. In many cases, the funds may have been only temporarily accumulated with the idea of spending them at a later date. However, for the country as a whole, such temporary accumulations must be counted as savings made in liquid form just like any other savings. We can no longer be sure that savings in currency or demand deposits are less permanent than savings in time deposits or even in savings bonds for that matter.

Let us stop for a minute to consider the significance of the increase of $2¾ billion in individuals' deposits in commercial banks last year. The customary approach is to label them as inflationary, or at least as a symptom of inflation. That is, commercial bank deposits are supposed to represent a kind of barometer of the contribution of bank credit to inflation. The idea is that if commercial banks increase their loans and investments by $1 for example, the opposite item on the balance sheet of the commercial banking system will be an increase of $1 in deposits. Accordingly, the $2¾ billion increase in deposits of individuals last year in commercial banks would be taken as the effect of an increase in commercial bank credit of a corresponding amount. This, of course, assumes that there are adequate bank reserves to take care of the expansion.

It is usually taken for granted that the sequence of events here is (1) an increase in commercial bank loans, (2) a corresponding increase in deposits and (3) the absorption of the new deposits by new savings.

I wonder whether this is a logical sequence. I am inclined to believe that John Doe might have been more active than passive in this picture. Look at it this way: If John Doe wanted to save $2¾ billion in the form of commercial bank deposits, what would happen? (1) Corporations could not sell securities to individuals to absorb those new savings. (2) They would have to borrow from commercial banks as an alternative source of funds. (3) The banks would be the passive element in providing a simultaneous increase in deposits to meet the demand on the part of savers and an increase in loans to meet the related need of borrowers.

Through all of this, the corporations might have preferred to get the money from individuals, and primarily in the form of equity securities. Individuals could have complied if they had wanted to. They had large accumulations in deposits on hand and they were making heavy new savings from income. But the two groups were not able to get together. The conflicting desires had to be bridged by the banks.

It was in this way, then, that John Doe exercised a heavy influence over commercial bank deposits and loans. He did it unconsciously and there was certainly little awareness that this was the case.

Perhaps I have overdone the argument here. My purpose is only to show that John Doe influenced the course of events in banking even though he did not realize it. In the final analysis, the volume of commercial bank loans and deposits was the product of a number of forces pulling in different directions. John Doe wanted to save in certain forms. Corporations wanted to raise money for expansion. The commercial banks wanted to provide credit to their customers in order to help conduct their business on a profitable basis. The government wanted to restrain bank credit because of its inflationary implications. All of those forces were pulling and tugging and my idea is that John Doe was a very important element. His voice was heard by the vote he cast as he made the decision to accumulate some of his savings in the form of deposits in commercial banks.

Savings in Currency

Now, let me turn to currency. John Doe's influence is more obvious in this case. The volume of currency outstanding is determined by the demand. The people ask the banks for the supply of currency they wish to use. The banks in turn get it from the Federal Reserve Banks. John Doe's voice is supreme.

The total volume of currency outstanding has multiplied over three times since before the war to a level of about $25 billion outside banks today. The increase during the war years was about $5 billion per year. After V-J Day, the increase slackened off and over the last year there has been a small decline.

The growth during the war years seemed to proceed at a pretty constant ratio in relation to the growth of liquid assets generally. Viewed in prespective in relation to total liquid assets, the volume of currency outstanding does not seem significantly out of line. John Doe has merely said

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that he prefers to have more currency now that he can afford it. The growth in his liquid wealth has permitted him to carry around a fatter wallet and to keep the sugar bowl up in the cupboard a little more fully packed with folding money for future needs.

It is true also that some of the increase in currency has occurred because of black market operations and tax evasion. It is my opinion, however, that such illegal activities account for only a small part of the currency growth, with the major explanation lying in the simple fact that John Doe is better off financially today and that he has chosen to hold more currency as part of his total liquid assets.

Effect of Savings on Bank Reserves

As you know, the changes which occur in the outstanding volume of deposits and currency have heavy repercussions on the reserves of the banking system. For example, when John Doe saves in the form of a checking account, new reserves are required on the part of the commercial banks—at an average of close to 20%.

Savings in the form of currency have an even more drastic effect on bank reserves. When John Doe takes out one dollar of currency, the banks lose that entire dollar as part of their reserves. It has approximately the same effect on commercial banks as if one dollar of gold were exported. This causes a whole chain of events, including the necessity of action by the Federal Reserve System to take appropriate steps to restore bank reserves. During the war period, the increase of $20 billion in currency outstanding was responsible for a very large part of the Federal Reserve purchases of government securities in the market. These purchases provided corresponding reserves to the banks. I mention this because it is a nice illustration of how John Doe's economic behavior pushes our fiscal and monetary authorities into appropriate action.

Conclusion

In conclusion, I would like to carry this story one step further and consider the future.

I believe that John Doe is likely to continue the policy of turning his savings over to financial institutions and the government primarily rather than investing heavily in corporate securities. Two main problems will therefore remain with us. The first problem concerns equity capital. The relative shortage of equity capital may be expected to continue since institutions will of necessity tend more to concentrate on bonds.

The second problem concerns the implications of further increases in bank credit. There will certainly be apprehension over any increase in bank credit which occurs even though it may stem to a large extent from the desire of John Doe to save in form of deposits. The fiscal and monetary authorities may be expected to try to counteract the trend, although personally I hope that they will not be influenced too much by the banking statistics *per se*. After all, it is deflationary when Joe Doe saves, even if he prefers save in the form of bank deposits. We don't want to get our signals mixed in interpreting the statistics which go with this act.

Of course, both of these problems that I have just mentioned could be alleviated if John Doe would only change his policies. He could solve the equity problem by buying more corporate stocks and by saving less in the form of deposits; this, in turn, would reduce the expansion of bank credit. But I venture to say that it will be a difficult task to persuade John Doe to shift his savings substantially in this direction.

The State of Trade and Industry

(Continued from page 5)

program are underway we might as well be at war as far as availability of steel is concerned, "The Iron Age" points out.

The controversy over foreign scrap seems to involve some muddled thinking. Some steel leaders are not anxious to have scrap hauled over here from Europe—only to turn around and ship finished steel abroad under the ERP. Their thinking on this problem is cold logic: (1) let Germany make steel for rehabilitation with what scrap she has; (2) if there is still scrap left, let German interests sell it to other European nations, and (3) if there is still some left, let it be shipped to the U. S.

In other parts of the world scrap is scattered far and wide. To get it together and to prepare it would cost too much by the time it was delivered to this country, the trade paper concludes.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 96.0% of capacity for the week beginning June 14, 1948, a decrease of 0.1 point, or 0.1%, from last week. A month ago the indicated rate was 95.4%.

This week's operating rate is equivalent to 1,730,400 tons of steel ingots and castings as against 1,732,200 tons last week, 1,719,600 tons a month ago, 1,676,400 tons, or 95.8% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

CAR LOADINGS OFF 9.2% FOR WEEK AND 8.8% UNDER 1947

Loadings for the week ended June 5, 1948, totaled 821,213 cars, according to the Association of American Railroads. This was a decrease of 83,635 cars, or 9.2% below the preceding week and 79,534 cars, or 8.8% below the corresponding week in 1947. They also represent a decrease of 8,915 cars, or 1.1% below the same week in 1946.

ELECTRIC PRODUCTION RECOVERS FROM HOLIDAY CLOSINGS—HIGHEST SINCE WEEK ENDED MARCH 20

The amount of electrical energy distributed by the electric light and power industry for the week ended June 12 was 5,131,811,000 kwh., according to the Edison Electric Institute. This was an increase of 286,353,000 kwh. over the output in the preceding week which included observance of Memorial Day, and was the highest production reported since that for the week ended March 20, 1948, when 5,145,430,000 kwh. were turned out. It was also 429,819,000 kwh., or 9.1%, higher than the figure reported for the week ended June 14, 1947, and was 1,101,753,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT REACHES HIGHEST WEEKLY TOTAL SINCE MID-MARCH

Production of cars and trucks in the United States and Canada advanced to the highest weekly total since mid-March last week as a result of resumption of work at Chrysler plants. Output was estimated at 110,688 units from 75,607 (revised) units the previous week, according to "Ward's Automotive Reports."

Output a year ago was 97,943 units and, in the like week of 1941, it was 134,682 units.

This week's output consisted of 78,333 cars and 26,585 trucks made in the United States and 3,530 cars and 2,240 trucks made in Canada.

BUSINESS FAILURES ADVANCE IN POST-HOLIDAY WEEK

Rebounding in the week ending June 10, commercial and industrial failures rose to 110 from the preceding week's 91, reports Dun & Bradstreet, Inc. They were almost twice as numerous as in the comparable week of 1947 when 66 succumbed and almost 10 times the 12 occurring in 1946. In terms of prewar mortality, however, casualties remained low, claiming about one-half as many as in the same week of 1939.

Most of the week's increase occurred among failures involving liabilities of $5,000 or more, totaling 92 against 77 a week ago and 57 last year. Small failures with losses under $5,000 rose from 14 to 18, twice as heavy as a year ago when only nine were reported.

Retailing with 40 and manufacturing with 39 accounted for a major portion of the total failures. In retail trade, mortality remained the same as in the preceding week but doubled the 20 a year ago. Manufacturers failing, on the other hand, increased considerably from the preceding week's 21 although their rise from the 1947 level was not as sharp as the retailers.

Mortality was heaviest in the Middle Atlantic States where 36 concerns failed against 25 in the previous week and 27 a year ago.

FOOD PRICE INDEX SCORES SHARPEST RISE IN NINE MONTHS

While grains trended lower last week, a continued rise in other staple foods resulted in a sharp uplift in the Dun & Bradstreet wholesale food price index. The latest figure rose 14 cents to $7.11 on June 8, from $6.97 a week ago, or an increase of 2.0%. This represented the sharpest weekly advance since the 31-cent rise registered in the week of Sept. 9, last year. The current index level is 16.2% above the $6.12 for the like date a year ago.

Last week's sharp uptrend reflected higher prices for oats, beef, hams, lard, butter, cottonseed oil, cocoa, rice, beans, raisins, steers, hogs and lambs. Declines occurred in flour, wheat, corn, rye, barley and potatoes.

COMMODITY PRICE INDEX HOLDS TO A NARROW RANGE

Continuing to move in a narrow range, the daily wholesale commodity price index compiled by Dun & Bradstreet, Inc., closed at 286.25 on June 8, compared with 285.53 on June 1, and 256.76 on the like date a year ago.

After an early display of strength, wheat and other grains suffered substantial losses as the result of selling prompted largely by the threatened cut in foreign aid funds.

Other bearish influences included the receipt of beneficial rains in spring wheat areas in the Northwest and in parts of the corn belt, and advices from abroad indicating improvement in European crop prospects. Wheat purchases by the CCC during the first week of June continued at the brisk pace set in May.

Movement of new winter wheat in the Southwest was said to be expanding. New bookings in the domestic flour market continued to slow up but an increase in shipping directions was noted. Spot cocoa prices rose another two cents this week following a three-cent gain the previous week. The advance reflected tightness in the supply position and marked strength in primary markets.

Raw sugar was somewhat firmer, reflecting improvement in demand for the refined product.

Hog prices turned higher in the Chicago primary market and cattle prices continued to rise with choice heifers selling at $35 per hundred-weight, the highest in five months. Lard prices, however, trended slightly easier.

Trading interest in domestic cotton markets was relatively slow during the past week.

Prices were irregular and trended toward lower levels, under the influence of favorable weather in the cotton belt and uncertainty surrounding credit allocations to European countries by the Economic Co-operation Administration.

Another depressing factor was the possibility of a much larger cotton crop being produced this year. Progress of the new crop was reported good, especially in the southeastern area. Steadiness in early dealings was attributed to fairly active mill demand and price-fixing against sales of the staple to Japan. New export inquiries were slow. Sales of cotton in the 10 spot southern markets were reported at 37,500 bales for the week, against 38,000 in the preceding week and 33,300 in the corresponding week a year ago. Carded gray cotton cloth markets continued slow. Inquiries picked up somewhat but bid prices continued to be under current market quotations.

Print cloths declined further and some sheetings dropped below former OPA price levels.

Heavy industrial gray goods showed some pick-up in sales for July and August delivery.

Activity in the Boston wool market continued on a broad scale following the substantial buying of the past several weeks.

Much of the activity was prompted by the announcement by the Department of Agriculture that there would be a new schedule of selling prices for all shorn wools, which went into effect June 3, 1948.

Reports from foreign wool markets indicated continued firmness in prices with continental interests said to be the principal buyers.

RETAIL AND WHOLESALE TRADE SHOWS MODERATE ADVANCES FOR WEEK AND YEAR AGO

There was a slight increase in consumer buying during the past week. While retail dollar volume was moderately above that of the corresponding week a year ago, unit volume in some lines was below the 1947 level, states Dun & Bradstreet, Inc., in its current survey of trade.

Practically all types of seasonal merchandise sold well with the advent of graduations and weddings increasing the demand for suitable gifts.

Instalment and credit buying continued to increase. Collections were prompt, but were slightly slower than a year ago.

Summer clothing and sportswear continued to be very popular with increased demand for work clothing and shoes in some areas. Graduation, formal and bridal gowns were sought. There was a brisk demand for watches, rings and some other types of jewelry. Promotional sales of men's clothing emphasized Father's Day and some mark-down sales of men's wear attracted considerable attention.

There was a slight decline in total food volume but the demand for most foods remained at a very high level.

While canned and frozen meats were steadily sought, the buying of fresh meats decreased somewhat. In some areas sandwich spreads and picnic items were in large demand. Beer and soft drinks it was noted continued to sell well. Both fresh and frozen fruits and vegetables were heavily purchased, demand for canned foods was moderate.

Special promotional and clearance sales of furniture encouraged consumer buying with living-room suites among the more frequently requested items. Luggage, linens and china were also in large demand.

Sporting goods volume remained above the corresponding 1947 level. There were numerous requests for garden supplies and equipment, while paints, hardware and building supplies also sold well.

Retail volume for the country in the period ended 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 5 to 9, East and Middle West 4 to 8, Northwest 6 to 10, Southwest 10 to 14 and Pacific Coast and South 3 to 7.

The volume of re-orders for seasonal merchandise remained very large and many retailers increased their purchasing of some types of goods for fall promotions. The total dollar volume of wholesale trade increased slightly during the week and was somewhat above that of the corresponding week a year ago. Buyer attendance at some of the wholesale centers increased substantially. Most buyers remained selective and were cautious in placing commitments.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended June 5, 1948, decreased by *4% from the like period of last year. This compared with an increase of 19% (revised) in the preceding week. For the four weeks ended June 5, 1948, sales increased by 7% and for the year to date by 7%.

Cool and rainy weather obtained in New York the past week and resulted in little or no change in the volume of department store sales from that recorded in the similar week of 1948.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to June 5, 1948, decreased *8% below the same period last year. This compared with an increase of 24% in the preceding week. For the four weeks ended June 5, 1948, sales increased by 7% and for the year to date by 5%.

*In using year ago comparisons for the weeks ending June 5 and May 29 allowance should be made for the fact that in regions observing the Memorial Day holiday store closings this year occurred in the week ending June 5 whereas last year they occurred in the previous week.

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Federal Reserve Bank of St. Louis

Banking Economics and the Inflationary Boom

(Continued from first page)

World War II. Legislative and administrative changes in our monetary standards in the 30's further complicated the problem confronting the bankers of the country. Federally chartered, and in many cases Federally subsidized, competition, likewise, added to the burden of the commercial banker.

And now, as if the others were not enough, our world-wide relief policy adds a further direct complication to the already heavy problem of being a banker. When Washington buys to put the world back on its feet, it directly affects the welfare of your depositors. By the same token, when Washington stops buying, the welfare of your depositors is also directly affected. Politically you can be an isolationist, if you desire, but economically you have no choice—you cannot escape the impact of world forces.

Inflation, the aftermath of all wars, is raging violently throughout most of the world. Through debt management, money management and credit control, we have so far at least managed to escape the kind of disastrous paralyzing inflation from which most other countries are suffering. And what makes this achievement so remarkable is that we were able to do this and at the same time extend billions of dollars worth of assistance in food, goods and capital equipment to the countries suffering from economic disorganization. Of course, we had more than our share of economists and experts who said it couldn't be done. They insisted that our huge debt of one-quarter of a trillion dollars would make effective credit control measures impossible or, at least, would necessitate the removal of all support from government bonds so that long-term interest rates could rise and seek their own level. Well, they know better now! The monetary authorities have amply demonstrated that they can reduce the credit base (reserve balances) and at the same time keep the price of long-term government bonds above par. For example, from the beginning of the heavy sales of government bonds in October, 1947 to April 1, 1948, the Federal Reserve Bank reduced their total holdings of government obligations by $2.9 billion although they bought almost $5 billion of long-term government during the same period. True, they were able to do this largely through the Treasury utilization of the surplus in its cash budget for selective redemption, but they had others powers which they could have used if they had been forced to do so.

Credit Restrictions in 1920

As you will observe, this is not the classic method of credit restriction through open market sales by the Reserve Banks followed by an increase in the discount rate. This traditional method was used by the monetary authorities in 1920 and it stopped the inflation all right; in fact, it almost stopped the country. The resulting break in commodity prices was too drastic; and what is more important, when we relate the 1920 developments to present conditions, was the serious break in the price of government and other high-grade obligations caused by the sharp increase in money rates. To give you an idea of the disastrous effect of the 1920 break on business, may I point out that total corporate profits dropped from $6.419 billion in 1919 to a deficit of $55 million in 1921!

Last year, when Mr. Eccles, on behalf of the Board of Governors of the Federal Reserve System, requested additional powers to control the growing inflation, particularly the authority to require the banks to hold special reserves of short-term securities, he was roundly criticized for not using the powers the Board already had. Mr. Eccles and his experts knew full well the powers they had, but they also knew that happened when drastic credit control measures were undertaken in 1920. Fortunately for all of us, they carefully weighed their responsibility to the government bond market and the probable economic effects on the whole country of the various methods they could use and refused to repeat the meat-ax methods of 1920. Drastic use of the open market and discount method of fighting inflation advocated by so many is dangerous as it might cause such a break in the price of government issues that the Treasury would find it impossible to refund, on any reasonable basis, the $50 billion of obligations maturing in one year. Also, other high-grade bonds would be adversely affected, mortgage money would become even more difficult to secure, and a real financial storm would probably follow. In fact, if 1920 is any criterion at all, the all-out use of credit control measures might even precipitate such a serious break in business activity that it would cause a depression with large-scale unemployment.

Will Federal Reserve, Change Policy?

Increased expenditures for rearmament and European relief and decreased revenues because of the income tax reduction may force the Federal Reserve authorities to change their credit restriction policies. However, please note that as long as there is a Treasury cash surplus available for debt retirement, the Federal Reserve Banks can buy bonds and support the market and reduce the credit base at the same time—that is, the reserve balances created by the purchases can be wiped out by Treasury redemption of securities held by the Federal Reserve Banks. Furthermore, as long as the Federal Reserve Banks have short-term obligations, they can sell them in the market and support the long-term issues through purchases as it really makes no difference whether they hold long or short maturities. They now have some $15 billion of short-term obligations which they can use for "swapping" as long as bankers are willing to be "outswapped." Of course, this exchanging does not reduce the credit base but it does support the long-term government bond market without increasing the credit base. The successful use of these two alternatives during the last eight months conclusively demonstrated that a large public debt is not an obstacle to credit control, if skillfully managed, although most economists claim the opposite.

What Federal Reserve Can Do

Well, what if the foregoing two methods are not enough to keep things in line?

In the absence of new legislation—and Senator Taft has indicated that he does not expect any during the present session of the Congress — Federal Reserve authorities can:

(1) Raise the reserve requirements in the central reserve cities of Chicago and New York from 22% to 26%.

(2) Continue the public campaign against inflationary and speculative credit extension, implementing it with direct pressure from the examiners and supervisory officials.

(3) Withdraw their support from the government bond market. While it is unthinkable that they would do this under present conditions and outlook, as you well know, there is no law which requires them to maintain the price of government bonds at any particular level!

It should be pointed out that there are strong differences of opinion within administration circles on the whole problem of credit control. As you will recall, after Mr. Eccles' testimony before the Joint Congressional Committee on the Economic Report, the President made it clear that the Administration was not backing the proposals, and the Secretary of the Treasury was quoted as saying he had not heard of them! Also, Treasury maintenance of the 1⅛% certificate rate for June and July, despite the growing inflationary pressure, is another heavy "straw in the wind."

This is an election year and no politician wants to fight what he calls "prosperity." So, those who are trying to slow up the breakneck speed of our economic machine wil be very lonesome until after the election. It is my feeling, however, that even though the politicians continue to "duck the problem," natural economic forces will come to the rescue of our monetary authorities. Either a drop in prices or a decline in business activity will solve their dilemma through a reduction in the demand for credit. It seems as certain as anything can be in an economic world where you have so much management at the top political level, that we shall have one and possibly both of these developments.

"Where Do We Go From Here?"

Let us examine the business and financial outlook so that we can form our own answer to humanity's oldest question: "Where do we go from here?"

Whereas at the beginning of this year there were many indications that the long-delayed business readjustment was getting under way, since then, new forces of inflation have taken such an important position in the economic scene that most people now seem to expect a more or less indefinite continuation of the inflation levels.

One of the greatest inflationary pressures is the swollen total of our money and credit coupled with phenomenally low interest rates. Four times as much pocket money and three times as much demand deposits as pre-war is a lot of economic ammunition! And don't take the easy way out and say, "Why should we worry about it? The government did it." The fact is that bank deposits increased $9 billion in the last half of 1947 alone, and the government had little to do with that! In any event, regardless of who caused the credit expansion, bank loans increased $7.4 billion in 1947 to a total of $43.1 billion at the beginning of 1948, the highest total of all time, and you bankers are the ones who will have to do the worrying about getting the money back. Remember: Every loan is a good loan when you make it; you don't really know about a loan until you charge it off!

Of course, the greatest inflationary pressure has been the unprecedented level of capital and consumption spending. Heavy capital expenditures was one of the most important causes of the boom last Fall and Winter. In fact, capital expenditures for new plants, machinery and inventory since V-J Day are estimated at nearly $70 billion as compared with an average annual rate of some $10 billion before the war. Consumer expenditures have been running at the unprecedented, yes, fantastic, level of some $170 billion a year. Consumer credit has reached a new peak of $13.4 billion. And, as for mortgage lending, the least said the better! Surely, with figures such as these, we are getting to the "bottom of the barrel!"

Now, to these basic inflation pressures must be added tax reduction of some $5 billion; prospective Economic Cooperation Administration expenditures of some $7 billion; and increased armament expenditures of some $3 to only the Congress knows how many billions of dollars. Viewing these increased spendings, the "smart" boys say that we are on our way upward again.

At the outset, we must frankly admit that practically all of the artificial factors are pushing upward, but we must also recognize that most of the basic economic factors are beginning to press downward.

Indications of End of Boom

Lenders have become more cautious. Mortgage lending has passed from the "fever" to the "chill" stage in most localities. Consumer credit has been utilized so extensively that surely the end of its expansion approaches. Interest rates have perceptibly hardened. In fact, most of the money and credit phenomena associated with the end of a boom are either present or are beginning to appear—with the exception, of course, of high interest rates.

Inventories reached $42.7 billion at the end of February, and the pipelines of distribution are full in most lines; in fact, there are indications that the pipelines are reaching the bursting point in some lines. In connection with inventories, don't forget that inventory losses after World War I amounted to $11 billion on much smaller inventories.

Price cutting and trade-in evils have become serious problems in some lines, especially in household appliances. In the automobile field, heavy and medium trucks are much easier to get although the lighter types are still nearly as hard to get as passenger cars. (Since July 1, 1945, some 2,800,000 trucks have been manufactured. These, together with the war surplus army trucks sold to veterans, should go far toward meeting the accumulated demand). Retail inventories of shoes have reached a level which has forced production cutbacks and caused heavy unemployment in some eastern shoe manufacturing centers.

Men's clothing inventories are higher than any time since before the war and consumer price resistance has become a problem. Unit sales at retail are down with the result that there is an estimated over-all drop of 20% in unit purchases from manufacturers compared with last year, with the unbranded, marginal producer bearing the brunt of the decline.

The weakest link in our economic chain is the sustained high level of prices. (Everyone will admit that all prices are too high except his own!) Our postwar price break is 18 months overdue on the basis of past wars, particularly World War I. Widely advertised manufacturers' price reductions on radios, refrigerators, and washing machines show the way the wind is blowing. Even the United States Department of Agriculture admits that farm product prices are headed downward. Although manufactured goods prices are only some 80% above the 1939 level, the prices received by farmers for farm products are nearly 200% higher. Such a distortion of our price structure cannot be expected to last much longer.

The present outlook is for a world food crop in 1948, which will affect all prices, but most particularly agricultural prices. This will adversely affect farm income which, thanks to bumper crops and high prices, reached an unprecedented level of $30.5 billion last year, compared with less than $9 billion annual income in a good year before the war. Even more significant to bankers was the net farm income, after interest and wages, of $18 billion last year, which is in sharp contrast to the $4 billion left in a normal prewar year.

As I said before, it is too much to expect that such favorable conditions will continue indefinitely.

The $64 Question

This brings me to the $64 question. Will the tax reduction and the new expenditures serve as a springboard for more inflation or as a cushion to the readjustment which is in the making? While I recognize that the government can boost business activity and can put prices up, and important officials have indicated that at least the present price level should be maintained, I feel that we face somewhat lower prices and a moderate decline in business activity during the remainder of the year unless armament expenditures increase sharply or a shooting war breaks out. (And I do not expect war, as I am convinced that the "boys" in the Kremlin have their hands full without tackling us.)

Here, in brief, are a few of my reasons for believing that the new spendings will not cause very much more general inflation:

(1) President Truman estimated that of the $3 billion increase in armament appropriations and $375 million for stock-piling of strategic materials, only $1.7 billion would be spent through the fiscal year ending June 30, 1949. Even if this amount is increased further by the Congress and the expenditures are speeded up, the totals actually spent will be relatively insignificant in an economy running at the annual rate of $245 billion.

(2) One indication of how much the impact of rearmament has been overemphasized is that the military needs of 150,000 tons of steel will require only 1/6 of 1% of our annual steel output. (But, of course, this can be changed.)

(3) The Economic Cooperation Administration expenditures of some $7 billion in the next twelve months will not have the same inflationary effect as previous relief expenditures which were largely concentrated on food materials. The demand now will be more for machinery and capital goods. Furthermore, the law instructs the Administrator to conduct the program and direct the expenditures in such a way that the American economy will not be unduly disturbed.

(4) Imports must not be overlooked. If the Economic Cooperation Administration succeeds, we should have imports of more than $30 billion during the years of the plan. Also, Japan and India, as well as the rest of the world, are getting back into production. As I have often pointed out, goods are the real antidote to inflation and it looks as if we are going to have a lot of antidote!

A recent study by the Federal Reserve Bank of Chicago shows tighter credit, higher prices and consumer resistance have weakened the financial position of many mid-Western companies. Whereas in 1944 and 1945 cash amounted to 22% and marketable securities were 22% of current assets, last year the cash dropped to 20% and the securities to 12%. In the same period, inventories rose from 28 to 36% and receivables rose from 28 to 32% of current assets, with collections slowing up.

In conclusion, may I say that it seems to me that business and prices are at, or very near, a moderate downward turn in the business cycle. In my opinion, now is the time to prepare for adverse developments. They say "you can't have your cake and eat it, too!" but bankers can do that very thing. By cleaning house now and setting up adequate reserves, you can face adverse developments with equanimity and real peace of mind. On the other hand, if I am wrong, and contrary to all past experience, we have contrived an economy which will stay at perpetual boom levels, you will still have your reserves and you can then make economic "whoopee" with my fatherly blessing.

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Savings and Debt

(Continued from page 2)

heritage of freedom, free private enterprise, and individual initiative; and then turn to government for answers to our problems, to subsidize our failures, and to correct our excesses. I tell you these two views are conflicting and fundamentally incompatible. You can not have both. Where you choose the second, you give up the first. If you value and would retain the first, you must find ways to avoid the second.

I think what we need most today is more public attention centered on public policies and acts which create or contribute to inflation, and more action directed toward eliminating or modifying them. As one example, there are indications that we are beginning to see some of the consequences of starving out capital formation.

Tax Structure and Risk Capital

Over a period of too many years our tax structure has inhibited the accumulation and availability of equity funds and risk capital and in the process has created no new sources. Funds for equity capital have been drained off by taxes into government uses. This is not replaced by an even greater total of savings by the average wage earner. He can not be expected to use his reserves for risk capital. Savings today flow into bank accounts, life insurance, pensions, Government Savings Bonds, and as payment on personal debt, not directly to capitalize industrial expansion and production or new enterprises. It reaches the latter principally through institutions which invest in promises to pay, not capital. Last year only about 13% of new security issues were for equity funds, the rest was debt, in one form or another.

As a result business has to depend more on credit and less on new capital for its needs. New enterprises are not easily capitalized, whether large or small. This is not a healthy direction for either the business borrower or the lender, and both know it. It is not a healthy direction for the future development and stability of the economy. Everyone should understand that. It raises the questions of where our future capital is coming from and are we going to be able to continue to expand enterprise and production?

Getting Capital From Earnings

One of the effects is that business and industry have to capitalize themselves by retaining a larger and larger part of their earnings. The need to pay substantial taxes on earnings, and to expand and improve and to carry large volumes of business at higher dollar costs means setting aside larger reserves and retaining larger amounts of undistributed earnings. If appropriate amounts can not be paid out in dividends, that again shrinks the new capital market.

As this situation progresses it tends to dry up capital sources, causes greater dependence on loans, and leads to larger and larger business units. None of these is healthy or desirable. Obviously the trend works against small business and new enterprise in favor of the largest, most firmly entrenched and most profitable enterprises. Carried to an extreme, it could bring about an unwanted and complete change in the form of our economy.

This is what can happen under a system of taxation which stifles enterprise and abolishes the possibility of relatively substantial incomes because of extravagantly large demands for government expenditures.

About one hundred years ago Karl Marx and Friedrich Engels produced the Communist Manifesto. In it they advocated (among other things) the elimination of the right of inheritance, the establishment of a heavy, graduated income tax, and the exclusive centralization of credit in the hands of the State by means of a State-owned bank monopoly. With the help of these tools they believed capitalism could be destroyed and Communism brought about. With what already has happened in Europe, that should be warning enough.

We do not know what lies ahead of us. But, I am sure of one thing—that we have reason to be deeply concerned about our public and private debt and progressive increases in public expenditures. We do not know the final cost of foreign aid and the increased defense program. We have seen only the large initial appropriations. We know these have not been accompanied by any marked reduction in other government expenditures. We know that continuously there are new proposals to use public funds. There is one now for a subsidy program for public housing, more easy credit, and $1,600 million more of government guarantees for mortgage loans. One estimate is that loans and grants under this proposal will total $8 billion over the decades to come.

Estimates of Government Spending

I have seen one pessimistic estimate for the next three fiscal years (1949-1950-1951) which suggests we may spend $60 billion for defense, $24 billion for foreign aid, and $63 billion for other government purposes. This is a total of $147 billion. It is an average of $49 billion a year, and about $7 billion a year more than optimistic view of government yearly revenue on the present tax basis. It does not include any expenditures for an actual war.

Anything remotely like this will mean substantial budget deficits, higher taxes, a larger government debt, more inflation, and attempts to reestablish forms of wartime economic controls, and a lower standard of living.

While the near term situation may not get out of hand, it is certainly little better than in balance, and we are faced with a dangerously inflationary long-term outlook unless there is some general and determined effort to avoid it. There are too many instances of proposed Federal programs which call for large and direct cost increases in the next few years.

Lost Fear of Debt

The fact is that we seem to have drifted or been led into a dream world in which we have lost our fear of debt. No one seems to fear deficits and no one seems to think it matters what taxes we pay or what we spend or what we owe. This is the first step toward losing our future.

Because of the individuals of the country do not personally negotiate the public loans or sign the notes, the debts are not real to them. They forget that the present and any future taxes also are debt and are a first lien on what they earn or what they have. There are wails about the high cost of living or the inflation or the taxes or the acts of city, state, or National Government—and no realization of the fact that it is expenditure and debt which are the sources of the trouble.

As a nation, I think we have been acquiring family habits we can not afford, if we intend to retain our stability and protect our future solvency. With public expenditure, as with family expenditure, any and every project which costs money has some appeal, some justification, some need, or some desirability. But—in a family, and in particular one already heavily in debt, many desirable things and even some things which can be made to appear absolutely necessary, just are not done. If they are done, regardless of circumstances or consequences, we are likely to label the people who do them improvident, wasteful, and unmindful of their futures. In public affairs we get this way because government has too many and too easy methods of borrowing and increasing its income, assisted by well organized appeals and public indifference.

Easy Credit and Government Guarantees

Where we do not actually spend money or give it away we use the device of so-called easy credit and government guarantees. As a matter of fact there is no such thing as "easy credit" because by whatever fancy name you call it, it is still "debt" and there is nothing easy about debt, as most people should know.

For borrowers and lenders government guarantees are merely deferred subsidies. Government credit is used to encourage and help a borrower go into a debt with so much risk attached to it he normally could not persuade a private lender to accept his obligation. The lender is encouraged to make a loan he normally could not afford to make. And, if for any reason the borrower repudiates or fails to pay, both borrower and lender are protected against loss by ultimate payment from public taxes.

This is used mostly in the real estate mortgage field and is an easy and effective way to increase private debt and bank loans. Bear this in mind when you consider the problem of inflation and how it comes about, and attempts to acquire controls over the extension of credit so as to halt inflation.

Inconsistency of Credit Controls

Where is there any consistency in demands for new credit controls, as a factor in halting inflation—and easier and easier terms on private mortgage debt, supported by government guarantees, which use the banks and other financial institutions as the principal source of the credit? This is outright and definitely inflationary. It turns present housing costs into more purchasing power. Actually it illustrates a policy of attempting to impose restrictions on private lenders while encouraging the most inflationary type of loan expansion by private lenders through public sources. While specific proposals are made to restrict the general supply of credit for other purposes, no similar restrictions are proposed for government indirect lending, or government direct lending agencies. It is difficult to see how inflation is stopped by imposing lending restraints in one area, and encouraging loan expansion in another.

Recently we have seen some expressions of concern from official sources about the mounting total of real estate loans and the heavy private debt being created to build and buy homes. I wonder what was expected under a government-sponsored easy credit policy? It is reported that at the end of March this year the government had guaranteed $7,125 million of GI loans which included 1,155,000 home loans. And the FHA, created in depths of depression to breath some life into the building business and the economy is doing its largest volume at the height of an inflationary boom.

In 1947 the FHA insured 1,389,961 loans totaling $1,786,771,284, which was the largest volume in its history. An all-time high was set in January 1948. Recently it has been reported that in April a new all-time record was established of 35,555 new dwelling units started in one month under FHA inspection, 17% over the previous high of last October. Is it any wonder that loans go up?

No one will deny there is a housing shortage or a real need for more and better homes. But there is even a greater need for lower costs, lower prices, and better values. The flood of easy mortgage credit has served to create and sustain high costs and prices. The only low cost item in new home ownership has been the interest rate on the mortgage. Until the volume of high percentage loans on high priced properties had begun to use up its proper share of institutional investment funds, and the low interest rate began to appear less attractive when related to the long-term risk and other investments, mortgage money was the only freely available material element in home construction.

It is a problem to find homes for the increase in the population and the large number of new families formed in the last few years—estimated at over 1½ million in the last two years. But let us not overlook the fact that while building was held up during the war and we were growing in numbers and families during and since the war, many persons were taking advantage of inflated incomes and controlled rents to spread out or take over more and better living accommodations, leaving less space and less desirable quarters for the late comers. That is part of the problem. Fewer people are using more of what was already available. The veteran has been left to compete with his buddy for the new high cost housing coming into the market. Costs have risen to the point where veterans' homes are beyond his purse, even with his purchasing power subsidized by government guaranteed loans.

Government Policy and Credit Expansion

Government policy has encouraged both a larger demand for and a larger supply of credit. Prices are high and values low because we have had a large number of government credit-subsidized buyers entering a sellers market. Competition substantially has been eliminated, except between purchasers. Practically anything built could be sold regardless of price or quality. The responsible, experienced, and efficient builder was forced to compete with the newcomer, the speculator, and the irresponsible for the limited available supplies of labor and materials.

In an area of shortage and competition for materials and labor, and restrictionest labor practices and low labor efficiency, all this easy credit has only served to bring on a supply of houses at high cost and with a heavy debt against them over a long term of years. It has developed a larger and larger group of shoestring home owners with a large long-term debt. It has added substantially to the inflation and taken from builders and local and government authorities whatever incentive or power they might have had to impose better standards of workmanship and quality and achieve lower prices.

The really vital need is to do something to reduce the cost of housing so more people in the middle and lower income groups can have homes. The answers proposed are more government guaranteed loans, lower down payments, longer terms of payments, and government subsidies for public housing and slum clearance.

The housing shortage is not a credit problem and loan guarantees are no fundamental solution. It should be obvious to anyone that this will not reduce the basic cost of housing at all. It will only perpetuate what has been going on. If it does anything about costs, it will only redistribute some of them to the other taxpayers. Yet we continue to have proposals for easier credit, which puts spurs to a demand for homes now greater than the supply, and further a demand for building labor and materials not sufficient for our needs. Also we have proposals for using billions of dollars of the taxpayers' money over decades for the purpose of building public housing.

Dangers in Housing Program

I doubt whether many people believe public housing will be low cost and good value. We should not make the mistake of letting this housing shortage hysteria drive us into turning the job over to any governmental authority and taking it away from private enterprise.

We are in danger enough from the government guaranteed loans because, if we have any substantial reversal of our present extremely high level of activity, the government will become the largest home owner in history. Any large scale liquidation of properties covered by government guaranteed loans will throw on the market, at cut prices, a surplus of poorly built structures that the original buyer had such a debt against and so little invested in he was without incentive to protect his ownership. If this should happen, it will effectively stop building in its tracks and destroy with it other and better values.

Easy mortgage credit has been pushed along with a well maintained hysteria over the immediate housing shortage which it took years to create and will take some time to correct. The war brought it on and inevitably will be cured over a period of time. Last year nearly 850,000 new dwelling units were completed. In April of this year 90,000 new permanent housing units were started. At this rate there will be some effect. Already it is beginning to be apparent. Some restraint and selectivity on the part of the veteran, in particular, and the home buyer, in general, will produce more and better results in price and value and for the future than anything the government can possibly do. I recommend it.

Our Objective—Stability

The most important objective of every one of us is the continued economic and financial stability and the long-term prosperity of this country. The major problem of the American economy is to avoid any of the extremes of inflation or deflation which have plagued its past history. These have brought about easily remembered problems of great seriousness to the public and to the government. If we are to do this, everyone of us, whether in banking or any other form of business, must act with more foresight and intelligence than we have sometimes in the past. We must be willing to give more consideration to the economic net product of what we do.

Any way you may figure it we have plenty of problems ahead of us. And our problems are complicated by the fact that we have not succeeded in correcting all of the financial unbalances and production dislocations carried over from the war. The inflationary possibilities arising from more government spending, foreign aid, and another arms program of uncertain magnitude piled on the present situation easily can become serious. No one can accept the present trends complacently.

We must be sure to pursue sound policies in our own businesses and take vigorous action to insure that others do the same. The economic safety and security of this country is not only of vital importance to every citizen but also to the rest of the world, which depends so largely on our strength. And—our fate is much more in our own hands than most persons are inclined to believe.

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Outlook for Fuel Oil and Petroleum Products

(Continued from page 15)

hitherto not known or utilized.

Look down the list and you will find that everybody—everywhere—seems to want more and more petroleum in one form or another. That's great for our business, but it has its headaches too. You have to find the oil, refine it and transport it and those facilities which are being used now to capacity will have to be expanded considerably. They are being built, but it takes time, steel and vast sums of money. The oil business is one of the unfortunate industries where you have to invest over a dollar to be able to sell a dollars' worth of goods a year. The industry is short of all facilities because of the war which limited normal building. Since the war, lack of steel has also hampered expansion plans.

While the topic assigned to me on the program is "Fuel Oil," I assume that you, as purchasing agents, are interested in more than just fuel oil. The fact is you really cannot paint the picture for fuel oil without bringing in the general story of the other products of petroleum. The reason for this is, as you know, that all of these products are made from the same crude materials. The requirements, therefore, for the other products of petroleum to some extent influence the available supplies of either light or heavy fuel oils. At first, therefore, I am going to suggest that we look at the whole petroleum problem and then examine more closely the situation for the fuel oils themselves.

The General Problem

The petroleum industry has recently been furnished with two important reports which are probably the best available at this time. They have the advantage of representing the opinions of a fairly large group of well trained and competent people in the petroleum industry. I suggest that you might watch for these kind of reports as they come out from time to time because they are the ones which the industry itself uses.

The first report referred to is that made by the Sub-Committee on Short Term Availability of the National Oil Policy Committee of the American Petroleum Institute. This report dealt primarily with the supplies which would be available, according to their best estimate, during the next 12 months ending March 31, 1949. These supplies were from the production of crude oil, natural gas liquids and the imports of crude and products from foreign countries. The report indicated that we can expect an increase in these supplies amounting to about 6½%.

The other report, which has just been published, is that of the Economics Advisory Committee to the Interstate Oil Compact Commission. This is one of a series of reports which come out about two or three times a year. It deals primarily with estimates of demand, including exports and supplies for the military. The most recent report indicated that the increases in demand would amount to about 6.4%, covering the same period as the API report. It can be seen, therefore, that the anticipated increases in supplies and demand are substantially the same. This would appear fine at first blush, but there is one thing that we have to consider in addition, and that is that the industry needs to increase its inventories quite considerably to take care of the filling of new pipelines and for working stocks for new refinery equipment and storage tanks which are being built.

Part of the trouble that the industry ran into during this last winter was caused by the fact that they did not have enough inventories on hand at the beginning of the heating season and that by Jan. 1 the inventories were quite low. On the East Coast as of Jan. 1, 1948, the principal inventories were almost 10 million barrels lower than the prior year. Right now the comparative figures are much better. This condition was accentuated by unusually cold weather and severe snow storms with the results which you probably know just as well as I do. When we get into talking about fuel oil and kerosene for next winter, I cannot forget that last winter the fuel oil situation was pretty tight. To show you just how bad it was, let me tell you what happened to a friend of mine. He got an invitation to a house warming party from a newly-married couple. On the bottom right after the usual R.S.V.P. was the special request: "Please bring along five gallons of fuel oil." They wanted to be sure and have a warm party.

The industry is doing everything possible to prevent such a situation happening again, and this means that it should have substantially more finished products in storage next October. The Interstate Oil Compact Commission estimated that it would require about 75,000 barrels a day of all products and crude oil to be added to inventories over the next 12 months to assure that the industry would have enough products in the right places and at the right time to serve all the customers and not run into spot shortages. This is just as much a demand on the raw materials available as is the demand by the actual consumers, and in my opinion, it is a preferred demand if the consumers of petroleum are to be able to get their required supplies whenever they need them.

Will Have to Increase Imports

From this rather quick and overall analysis, it can be seen that the industry as a whole will have to increase its production of raw materials over and above those forecast by the Short Term Availability Committee, or it will have to increase the imports. There is very little probability that the demand for petroleum products will be less than that forecast by the Interstate Oil Compact Commission's Committee, so that we can all see that the new supplies and the demand for the products are going to be very closely matched, even with the best breaks which can be visualized.

Outside of the United States there are many things going on which affect the petroleum consumer within the United States. They affect him in several ways.

In the first place, it is forecast that the United States will import about 110,000 barrels more a day than it will export during the coming 12 months period. Over the last quarter of a century the United States has been a large exporter on net balance, and this is the first time in all of that period in which the United States will be dependent upon other countries to a greater etxent than they depend upon us. Therefore, what happens in the rest of the world can very materially affect the petroleum available for domestic consumers. Europe, Asia and Africa receive most of their supplies from the Middle East and the Caribbean countries. As you know, the conditions in the Middle East are very much disturbed at the present time. One of the large refineries located at Haifa at the eastern end of the Mediteranean Sea has been shut down for several weeks because of the fighting which is going on in that area. This refinery supplied considerable petroleum products to Europe and the nearby countries. If the Marshall Plan program is to be lived up to, then the supplies which are not being made at Haifa will have to be made up from the Caribbean countries, or the United States. It does not make much difference just where they come from because if they are made up completely from the Caribbean countries, then those countries will not have as large a surplus to export to the United States. If the United States is called upon to supply some of these deficiencies, then our exports will have to increase over those anticipated and the same net result will prevail, which is that there will be just that much less available for use within the United States.

The consumers of petroleum within the United States should also be interested in the development of crude oil in foreign countries, just as much as they are interested in the development of the same raw materials within the United States. To the extent that additional supplies are developed in the Caribbean countries, or in the Middle East, then the countries outside of the United States can take care of more of their rapidly increasing demands from their own sources. On the other hand, if these external sources are not developed as programmed, then these countries will be bidding against the United States in the Caribbean area, or will be looking to the United States for additional supplies which they cannot get any place else. Petroleum is an international product and world conditions affect us in the United States to a much greater extent than most people realize. If this is true today, it is going to be increasingly true over the next few years.

Fuel Oil

So much for the general broad picture of petroleum in the United States and in the world as it seems to exist now and in the near future. Just what does this mean as applied to fuel oil used for power burners or space heaters and for the heavy residual fuel oil used in industrial power plants, large office buildings and in railroads and ships?

First, we will discuss the light fuel oils, or so-called No. 2 heating oil. The situation around these fuel oils is contingent upon the rate of increase in the installations of new burners, space heaters and diesel engines. Last year, as you know, there was a record-breaking number of installations of all of these consuming devices. The industry simply was not geared to take care of that great increase in users in the face of a shortage of tankers and unusual weather conditions. It should be appreciated that during the past season a considerable number of these burners were installed for only part of the time, and that next season these same burners will be looking for a complete year's supplies. Therefore, without any additional burners there would be a lot of extra supplies needed for that purpose alone. Looking at the supplies of raw materials available and the demands forecast, it seems to me that the petroleum industry can take care of all of the present users of light fuel oils during the next winter. I think also that there are enough supplies in sight to provide oil heat to new homes if the percentage of those homes looking to oil is not radically changed from the past. I do not believe the industry could provide No. 2 fuel oil for all the new homes by any means, because that would mean a load of 600,000 or 700,000 burners. If these new home installations range in the neighborhood of 200,000 to 250,000 burners during the period, then it should follow that there would be some additional supplies available for a modest number of conversions to oil from coal, or from other non-petroleum fuels. There surely will not be any substantial supplies so that these conversions can be on an all-out basis like they were last year.

In talking about this subject it should be particularly emphasized that the picture that I have been painting is the overall industry for the whole country and probably would not fit the conditions of any individual company, or many distributors. Some companies may be more favorably situated than the general average, while others probably are not as fortunate. It is also true that there are some difference in the situation in the various areas in the United States, but as transportation facilities improve, these differences will probably be minimized.

In regard to the No. 6 fuel oil, or so-called bunker oil, which is used in large quantities by manufacturing plants, the situation here is substantially different from that just described in connection with light distillate fuel oils. The reasons are not at all mysterious The new cracking plants, and particularly those called catalytic cracking plants, are designed to make the maximum amount of gasoline and light products and to minimize the production of heavy residual fuel oil. In this way the refiner is able to produce products which give him a better overall return from his operations, and in a free economy, price determines to a large extent what is made. The oil industry is making less heavy fuel oil out of the barrel, not because it does not like the industries which are looking to use these products, but because it pays them better to make more of the other products if it can. Over the last 25 years practically all of the increase in the energy used in the U. S. has come from petroleum. Up until 1947 coal had remained practically stationary and supplied less than half of the total energy used. There was some improvement during 1947 favoring coal. I do not know that we can count upon petroleum or natural gas to supply all of the increased energy requirements from here out. I do not know whether atomic energy will pick up some of this load or not, or how soon we can count on it. I think we must take a broad view of the situation and see just where we can get additional energy at the least sacrifice to our national well-being because it is only through the utilization of more and more energy per capita that we can increase our standard of living. High standards of living and high energy used are synonymous.

Even with very substantially increased imports of heavy fuel oil, it does not look as if there will be much more total additional heavy fuel oil available for the next 12 months than there was during the last 12 months. There is surely no basis for believing that the industry will make any more heavy fuel oil than its equipment will economically turn out. I do not think that I am in a position to state which are the preferred users of heavy fuel oil, but it does seem that in the case of mobile users of heavy fuel oil, such as railroads and ships, that there are so many advantages for liquid fuels as against solid fuels in these particular installations, that they probably would be able to outbid other users if the competition became severe. This may point then to a consideration for the users of heavy fuel oil in manufacturing plants, factories or power plants.

I was asked from the floor during my visit to Milwaukee whether I would recommend conversion of a plant to heavy fuel oil. As I recall my answer, I said that unless the economies were great, or unless there were very special circumstances which made it highly desirable to use fuel oil in place of coal, that I could not recommend conversion at that time in view of the supply and demand situation as we were looking at it last October. I do not know of anything that would change this general conclusion today.

Lubricants

As far as lubricants go, that is oils and greases, there appears to be sufficient capacity in the U. S. at present to take care of any demands on this country which we can foresee through the year 1951. Nevertheless, we have been informed, as the result of a carefully detailed plant-by-plant study, that during the next two years there will be completed in the United States plants which will add to the capacity around 16,000 barrels a day of finished lubricant production. This will mean over 10% more capacity than is now available in the United States. I also believe that the quality of these lubricants will improve because of these new facilities.

Now, what about prices. Prices should be a reflection of the supply and demand of a commodity. There is no assurance in a free economy that prices will at all times cover costs nor, on the other hand, is there anything in a free economy which limits prices to just enough to cover costs, with or without a small profit. When more goods are desired than there are available, someone is bid out of the market, or is forced into substitutes. Any uncalled for profits would, in a free economy, stimulate supply and decrease demand and tend to again limit such profits after the time has elapsed for such corrections to take place. During most of its history petroleum has not been a scarcity commodity. The long-time history of prices has been down and in no recent year have petroleum prices been anywhere near the general price level of other commodities. Petroleum price increases have lagged behind other commodities since the war. Savings from tecnological improvements or lower cost operations have almost entirely been passed on to the consuming public in the form of lower prices. I don't see anything in the picture which would stop that.

However, costs of operation in our business are very similar to any other. Our percentage of direct labor costs may be somewhat lower than the average, but other industries' labor costs affect our indirect costs just as much and, therefore, labor costs in general are what really affect us, not just what we call our own payrolls.

Building materials, which are the other big oil company costs, are way up. You don't have to have me tell you that. From these considerations only, supply and demand and costs, you may conclude the probable trends of prices over the nearby period. Another thing which has a bearing is that prices of competitive fuels have increased greatly. Fuel oils have at some times been considered a by-product, but a by-product which everyone wants may in time, or under certain conditions, be as valuable as the previous principal product.

Summary

To summarize then what we have talked about, we find that the outlook for increases in supplies and increases in demand over the next 12 months is that they will probably both increase at about the same rate and the industry will have to do its utmost to make even more supplies available so that the short inventory situation within the industry which prevailed several months ago would be greatly improved. We also took a quick look at the world situation and tried to bring out the increasing importance in developments outside of the United States upon the availability of oil for use within the United States. Then we expressed the general conclusion that there would be a larger in-

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crease in supplies of light fuel oil available over the next 12 months than will probably be available for heavy fuel oil and these differences would naturally affect these two categories of users quite differently.

In closing, there are two thoughts which I would like to leave with you.

(1) That the petroleum industry has done a very remarkable job in making greatly increasing supplies available. It has done this as the result of the operation of the free enterprise system and that there is every reason to believe that the industry will continue to move forward as soon as the materials are available and as soon as time permits. Earnings, higher than in the previous year, have been made, but a major part of these earnings is required to buy the higher priced new equipment necessary to produce, refine and transport the ever-increasing quantities of petroleum which are being asked for by almost everyone.

(2) That we should all think carefully of how we use petroleum. Petroleum has generally been in ample supply and we have become accustomed to using it freely. In my opinion, I think we have used petroleum sometimes rather carelessly. From tests and studies with which I am familiar, I know that most oil burners can be adjusted to save quite a lot of oil. Many old outmoded burners probably should be replaced. The oil burner industry is actively campaigning to do just that. They should be encouraged along those lines because that creates real economy. Motorists can, with little effort, use gasoline much more efficiently. They can keep their cars in good mechanical operation, drive at reasonable speeds and be conservative in their use at all times. It is to the self-interest of everyone to conserve petroleum because at today's prices they can save an appreciable amount of money over a year's time.

It would help the situation very greatly if consumers increased their storage tank capacity materially so that they would not be so dependent upon frequent deliveries from their suppliers. These tanks should be filled during the summer months when the load on industry is at its lowest ebb. Next winter we expect the demand to be 600,000 barrels a day over the summer rate. Early fill-ups would help to smooth out some of this large seasonal variation.

Conservation and the efficient use of our great supplies of petroleum will make it possible for ever-increasing numbers of new users to share these supplies and benefit from their use.

Management's Responsibilities To Stockholders

(Continued from page 4)

designates. A follow-up letter goes to each stockholder who requests the gift box.

A special letter from the President also goes to every employee who becomes a stockholder, making the same offer of free products. These "welcome" letters start off the owner-management relationship in a friendly way. Our files are full of appreciative letters from owners who are surprised and delighted at this personal interest.

Another letter is sent to the stockholder if he sells his stock. This is also from the President, and expresses the hope that no action on the part of the management has caused the stockholder to decide to sell and that he will soon again be numbered among the company's owners.

Each stockholder who mails in his proxy for the annual meeting receives a letter of thanks from the President.

Stockholders and the Company's Products

An important though secondary benefit which we hope to derive from stockholder cooperation is the word-of-mouth salesmanship which owners can give to company products. We found that, in spite of a fairly active stockholder program and a very low rate of stock turnover, only a little over half of our stockholders were able to identify the company's nationally-advertised products; still fewer used them in their own homes or recommended them to friends. In an attempt to familiarize owners with the products of the company, and make them active users and boosters of these products, we inaugurated a Christmas gift package and made it available at cost to all stockholders and employees for mailing to their friends. Several thousand of these boxes were shipped in the Christmas season, 1947.

Likewise, whenever we introduce a new product, we send a complimentary package to every owner who indicates a desire to receive it by mailing a return post card inserted in our stockholders' publication. When Apple Pyequick was placed on the market in the Fall of 1946, 50% of the owners requested packages.

Enclosures sent with dividend checks can also be used effectively to familiarize owners with company products. The little memo pad which you have before you is a case in point. As a reminder, it shows our major products in four colors. It is attention-getting, and we hope it will do a good job when it is mailed out with the next dividend check. It reads as follows: "As one of some 12,800 stockholders of General Mills, you have invested part of your savings in this company. You therefore have a real interest in all of your company's products for the home, for agriculture, for industry. How many can you name? As a reminder, some of the principal General Mills products are pictured in this pocket notebook (which we will be glad to keep filled for you). When you take notes, please take note of these products of yours!"

The other dividend insert which you have, labeled "Read About Yourself in the National Magazines," was mailed to General Mills stockholders with their dividend checks last month. This one has a dual purpose. It once again calls attention to our consumer products (on the back page), and it is also calculated to stimulate the reading of the national institutional advertisement which is reproduced on the inside page of the folder. This particular ad ran in four colors in the "Saturday Evening Post," "Life," "This Week," the "American Weekly," and several farm magazines, and attempted to answer the question, "Who owns General Mills?" Because of its subject matter, we believed it would be of particular interest to stockholders, and if they could be influenced to talk about it, so helping to spread the truth about company ownership, we would have made a small contribution toward clearing up a dangerous misconception currently existing in the public mind.

Impression of "One Man" Control

Last year Dr. Link and the Psychological Corporation made a scientific study for the Comptrollership Foundation based on interviews with a thousand persons in 28 cities from coast to coast. These 1,000 persons were a cross section of the nation's adult urban population. The study revealed that almost one-third of the people agree with the statement that "A handful of men like the duPonts, Rockefellers and Fords own most of the corporations in America." Eight out of ten admit they have no idea as to the number of persons who own a big corporation. One person in five guesses that big corporations are usually owned by fewer than 100 people.

Most people simply do not realize that the owners of big corporations are the general public—ordinary people who have spare money to invest; that more women than men own stock; and that owners are widely scattered throughout the country, not centered in Wall Street and in the East.

If you have time to read the ad, you will see that we have tried to dramatize a typical stockholder situation—a widow and her high-school son. In simple dialogue form, the boy's mother points out that General Mills' stock is broadly held by many small stockholders throughout the country, that women stockholders predominate, and that last year our employees' "take" was over six times that of the stockholders.

It would be folly to imagine that this one ad, despite its exposure to some 27 million readers, will correct the erroneous ideas which so many people have about the ownership of corporations as revealed in Dr. Link's survey. But it will help. And if other companies will also present the facts with respect to their ownership, these combined efforts will have a very positive effect.

The Annual Report

The annual report is the most important document prepared for stockholders. We are all aware of the evolution that has taken place in annual reports during the past decade. Our General Mills reports have undergone the transition from dry, conventional, strictly financial statements to what we hope are modern, readable summaries of the year's work. In addition to the necessary financial data, they now touch on the philosophy of management, and discuss the major problems we face and the current situation with respect to such matters as labor relations, research and the development of new products, plant expansion, advertising and public service. Pictures, drawings and charts help liven up the pages, and an effort is made to avoid columns of small print and statistics.

Because of the character of our business—necessitating as it does tremendous purchases of wheat throughout the harvest season—it is not feasible to issue interim or quarterly financial statements, because they would reflect a badly distorted fiscal picture.

Instead we publish, in addition to the Annual Report, two small quarterly magazines for stockholders: "Progress Thru Research," which keeps owners up-to-date on the technical developments of our research laboratories, and "General Mills Horizons," which attempts to cover the whole field of stockholder interests. You have before you sample copies of both. Before "Horizons" was introduced a year ago, we mailed a questionnaire to stockholders in order to learn what type of subject matter would be most interesting to them. A surprisingly large number of responses—over 2,500—were received and they revealed that the subjects in which a good percentage of our owners are interested are:

First: New products new facilities, research, and plans for the future.

Second: Profits and financial outlook.

Third: Current problems facing the company.

Fourth: Policies of the company and the reasons behind them.

Fifth: The company's products and services.

Some 500 owners not only marked the questionnaire, but also took the trouble to give us some additional suggestions and comments.

A good many praised the company's policy of keeping stockholders well-informed through publications and informal meetings.

Many asked for Betty Crocker recipes. This is a reflection of the growing number of women stockholders—44% of our owners are women.

Quite a number suggested that stories on distribution, sales, advertising, human relations, home appliances, products control and nutrition should be printed in "Horizons."

Among the questionnaires returned were several that reflected a good sense of humor. I am reminded of one in particular. The questionnaire had several suggested subjects for the new stockholders' magazine. One was, "biographies of the men who built General Mills." After this statement the stockholder had written, "I have read a history of the company and most of the founders led such hard-working and God-fearing lives that their biographies would make very dull reading!" Accordingly, we have included no biographies of the founding fathers!

Stockholders' Meetings

One of the major points made by Lewis Gilbert in his discussion of the rights of small stockholders is that they should receive a full report of what takes place at the formal annual stockholders' meeting. Surprising as it may seem, a number of corporations are still resisting the issuance of such post-meeting reports to their stockholders. The majority, however, have recognized this as one of the responsibilities of management to stockholders, and are putting out attractive. specially prepared reports. Standard Oil Company of New Jersey sends every stockholder a full stenographic report of the proceedings. We have followed the practice of including the minutes of the meetings in our stockholders' publication, "Horizons." We also include pictures taken at the meeting, as well as other graphic material.

Even better, however, is a report given in person. This was the idea behind Mr. Bell's inauguration a decade ago of the informal stockholders' meeting. Our formal annual stockholders' meeting is held in Wilmington, Delaware, in August. Considering the midsummer heat and the not-too-convenient location, it is not remarkable that only a handful of owners attend it. At meetings held in the fall in convenient metropolitan centers, Mr. Bell has been able to summarize the year's work and also report to the owners on what happened at the formal annual meeting. He regards the chairman of the board as a "personal ambassador of the stockholders to management" whose duty it is not only to interpret management to the owners but also to be their active and direct representative in the affairs of the company which they own. To discharge this responsibility, the chairman must have personal contact with the stockholders.

Some owners come as far as 200 miles to attend these informal gatherings in New York, Buffalo, Washington, Boston, Chicago, Detroit, Minneapolis, San Francisco, and Los Angeles. The meetings are held over a period of about a month's time. The atmosphere is kept informal and personal throughout, starting with a personal invitation from the chairman to attend. Displays of the company's products, activities, and services are on view in the meeting room, which is usually in one of the large hotels. Attendance runs between 150 and 500 people. After a brief talk by the chairman, a motion picture—specially produced for the occasion—is presented. This leads naturally into discussion, and is followed by a lively question-and-answer session. A social period, with coffee and cake and samplings of company products, brings the meeting to a close. The entire affair is well-paced and lasts less than one hour and a half.

The motion picture films developed for these meetings are based on the annual report. They interpret the report in easily understood visual form. Later on, they become important tools in our public relations program with employees, business organizations, students, and other groups. Some of you, I know, have seen our 1946 movie, "Operation 46," which was awarded the first "oscar" to be given by "Financial World" magazine for an annual report film.

We are currently at work on the film to be shown at our informal meetings next fall. As evidence of tangible results, I quote from "Exchange" magazine, the publication of the New York Stock Exchange:

"The personalized slant of General Mills published matter is evident; and this approach to the public and stockholders has long been followed. What results are in evidence?

"The common stock ended 1946 at 50¾, representing a rise of 2¼ points in a year marked by a sharp general relapse of share prices. The Dow-Jones average for 30 industrial common stocks declined over 15½ points in 1946. At 50¾, General Mills common afforded a yield of 2.95%, against an average yield of 4.26% for stocks in the Dow-Jones group. Obviously, the company's stockholders were content, during the market furore, to retain their holdings. A casual relationship existed between stockholder stability and the management's persistent program of enlightened stockholder relations."

I am convinced that if each industrial enterprise will take the trouble to explain its operations honestly and thoroughly—not only to stockholders but to employees and to the general public as well (making sure that those policies and operations are honest and ethical to begin with)—then business as a whole will be well along the way toward eliminating most of the unfair criticisms leveled against it.

A company that is "a good corporate citizen," that produces a good product at a reasonable price; that pays its employees fairly; that rewards its owners with reasonable returns on their investment; that plans for the future with new and better products to raise the general living standard, such a company, if its story is told to the public, provides the best possible testimony for a free economy.

But to accomplish anything of lasting value in human relations, the program must be continuous, long range, year-to-year in scope.

Dr. Samuel Johnson once said: "A man, sir, should keep his friendships in constant repair." His admonition might have been addressed to business. Goodwill cannot be written on the books overnight. And it can never be written to stay there without subsequent entries. All ink tends to fade in the ledger of public opinion. We must make our entries every day.

West & Nammack Admit

West & Nammack, 115 Broadway, New York City, members of the New York Stock Exchange, will admit William J. Nammack, member of the Exchange, to partnership on July 1.

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As We See It

(Continued from first page)

ularly true, of course, of those candidates who are now members of Congress, and most of all those who are in positions of influence in that body. Since the President has by no means always commanded the support of members of his own party in the legislative halls of Washington, he is, of course, skating on somewhat thin ice at times, but as such things go he is probably taking an orthodox course in the campaign he is now opening. It is about the same strategy that President Roosevelt so often employed — albeit with greater finesse and subtlety. It was what was to be expected in the circumstances.

The President's Charges

The President's charges are in essence that Congress has refused, or at all events failed, to do what he has demanded of it. Such an allegation is not, of course, wholly in accord with the facts, but is as to domestic matters at least substantially so. In this sense Congress is "vulnerable" to this attack — as much so as was the Republican party in the years when President Roosevelt made such effective use of the same general plan of battle. In brief, the President, on the whole accurately, asserts that a Republican controlled legislative branch has not been willing to take orders from a Democratic Chief Executive. There is certainly nothing particularly unusual or strange about all this. Whether Congress is to be condemned for such a course is, naturally, another matter — although, as usual in such instances, the President would like it very well if the voters would easily assume that such behavior is to be regarded as a "do-nothing" attitude and hence blameworthy.

Our own complaint is not that Congress has given the President this "issue," but that it has failed to place much clearer and more dramatic campaign material in his hands. Its weakness is, in our view at least, less that it would not always, or perhaps even usually, do what the President demanded, but that it mapped out no comprehensive course of its own which differed basically from that of the President; and that it did not make clear by its own words and acts that it had convictions of its own quite in contrast to those of the Chief Executive. This shortcoming of this Congress, and to be more specific of the Republican party which controlled it, has left the Republican candidates for office, particularly Presidential candidates, under the necessity of spelling out some sort of policy, program or course of action for the party in order that the voter may obtain a definite idea what the real issues are between the two parties this year.

The Bill of Particulars

The President in the course of his recent travels has on more than one occasion attacked Congress as parsimonious, or words to that effect. He has told this or that group hungry for dollars from Washington that he would like to accommodate them, but Congress in its small-mindedness has refused to vote the funds. He wants grandiose river valley developments on the order of the TVA — it made an excellent topic in the Northwest 'midst the floods, past, present and prospective — but he sees no very good prospect of getting them so long as such a Congress is in Washington. These same legislators are in the act of cutting funds for the Department of Labor so short that the poor workingman is certain to suffer — and the country perhaps left without knowledge of the degree in which prices are rising, have risen or may rise in the future.

The labor unions do not like the Taft-Hartley Act. Well, they know well enough who is responsible, and if nothing is done about it, the fault will be their own. He has asked for other legislation in the field of labor; he is not getting it. Congress appears to be quite indifferent. He would like much broader social security legislation, but he cannot interest Congress. He wants broad compulsory military training and service, but Congress turns a deaf ear. He wants vast powers over virtually all aspects of American life — just in case, so he says — but the legislative branch does nothing about it. And more of the same order.

GOP Failures

How much better it would be if Congress, under the leadership of its Republican majority, had by decisive majorities cut the President's peacetime record budget proposals by some ten or fifteen billions of dollars by taking out clearly non-essential programs in toto and vigorously reducing the size of many of those which, though possibly essential, are today vastly swollen with all sorts of wholly unessential elements or parts! How much better it would be if the record of Congress clearly revealed that the Republican party had definitely determined not to have anything to do with these river valley pork barrels, either this year or any other! What a relief it would be if in the course of the past year or two it had been made plain as a pikestaff that the Republican party perceived clearly that these bribes we are now offering and actually delivering to peoples abroad to persuade them from adopting the communistic form of government, are more or less certain presently to prove a snare and a delusion!

Suppose some Daniel Webster in the Republican ranks in Congress had risen and persuaded his comrades — and if that is possible, Democratic members—that it would be the sensible thing for us in the future to keep our noses out of matters which do not concern us. Consider the possibility that some such influential figure or figures had brought squarely to the fore the question as to whether we are wise to continue our policy of underwriting the British Empire — and, for that matter, whether we shall continue indefinitely to be able to do so. There are literally dozens of other matters of real importance which the New Deal philosophy has foisted upon us—and neither Congress nor most of the members of the Republican party have faced them squarely and unequivocally.

If only they had — then we could have a real "showdown" this autumn.

Electric Utility Financing

(Continued from page 7)

that the future of power is the future of the country itself, and there is little doubt that the economic maturity of the country is not even in the foreseeable future.

The part which the American home will play in the future of the industry is significant. A recent study prepared for the National Association of Housing Officials indicates a potential demand need of 4.5 million housing units by 1951 and 20 million by 1960. This is an average increase over the period of nearly 1.7 million units annually, a rate unprecedented for any period of this country's history.

The rate of growth of appliances has been phenomenal, illustrating not only the increased purchasing power of the residential customer, but also the high use value which attaches to these appliances.

Expanding Markets

The general high cost and gradual disappearance of domestic servants is stimulating the market for major labor saving appliances. While the use of some of the heavy energy consuming devices is fixed by competitive fuel, the present degree of saturation is so low and their convenience and necessity value so high that substantial growth and expansion in the use of such appliances as water heaters, ranges and ironers can be generally anticipated. "Electrical Merchandising" has estimated that at the end of 1947 there were 93.1% houses without electric water heaters, 85.5% without electric ranges, and 92.7% without ironers. The Twentieth Century Fund has estimated that while mechanical appliances cost the nation $958 million in 1940, $1,400 million will be spent in 1950 and $1,800 million in 1960. Furthermore, the report states, and this is highly significant, "As late as 1960 purchases of mechanical household appliances will be expanding more rapidly than consumers' income." The heat pump holds promise of becoming a source of profitable income.

The commercial group of customers, consisting of stores, offices, warehouses, and similar small light and power users, is one of the best markets for utilities today. A recent survey of 16,000 department, chain, and independent stores indicated that 74% of the chains, 72% of the departments and 31% of the independents plan some type of modernization during the period 1948 to 1950. Lighting goes hand in hand with modernization. It has been estimated that over 16 billion additional kwh. would be sold annually if the 250,000 schools, 1,500,000 stores, and 100,000 office buildings were raised only to the standard of good practices of today.

It is estimated that by 1951 approximately all of the nation's occupied farms will be served with electricity, which means that some 1.8 million farms will have to be connected to utility lines between now and that time. The pent-up demand for better street and highway lighting which could not be satisfied because of material shortages during the war is now taxing the capacities of equipment manufacturers.

These foreseeable increases in utility load, together with the increased power requirements of industry, which recently was estimated by a large manufacturer of electrical equipment to amount to approximately 18 billion kwh. for the period from the end of 1947 to 1951, portray the story as to why the electric industry is being called on to plan an expansion program which is expected to reach 17 million kw. of new capacity and will cost over a four-year period ending with 1951, approximately $6 billion.

Recently, a large manufacturer of electrical equipment made an estimate for 1951, which indicated a total installed capacity for all plants contributing to public supply of 71.4 million kw. Assuming that the existing ratio of private to public plant will remain at 4:1 the capacity of private plant in 1951 will then amount to 56.9 million kw. This compares with 57 million kw. derived by adding the proposed 17 million kw. less 2 million retirement to 41.9 million kw. installed at the end of 1947.

It is interesting to compare this proposed increase of new capacity with the years following the first World War, when the industry faced a somewhat similar growth. For the four-year period from the end of 1924 to 1928, some 9,250,000 kw. of net additional capacity were added to the system, representing an increase of 55%. While the current four-year period growth in capacity is larger, percentagewise it is much less, amounting to only 33%.

Estimates of Financing

A number of estimates have been made of the probable financing of the proposed construction program which is already under way. Obviously, it is impossible to tell at this date how the financing will be done; but to get some idea as to the magnitude of the job of raising outside capital by classes of securities, the following figures show what would have to be done under a formula requiring 50% debt and the balance in preferred and common stocks and surplus (in millions):

Total construct'n program	$6,000
Cash generated internally except surplus	1,800
Balance to be financed fr. surpl's & outside sources	4,200
Bonds and debentures	2,100
Preferred and com. stock	2,100
Surplus	800
Avg. annual issue of bonds	525
Avg. annual issue of common and preferred	325

Certainly it cannot be said, based on the action of the bond market in recent months, that the electric utility companies generally will encounter much difficulty in that part of their financing program involving the sale of bonds or debentures. Companies may, however, experience difficulties in raising money by the sale of preferred and common stocks if recent past market performance of these stocks is any guide to the future, or unless we are able to dispel in the minds of investors any misconceptions now existing as to the industry's future earning power.

Additional Revenues

Since common and preferred stock prices depend largely on dividend ratios and hence on earning capacity, it is interesting to see what this proposed construction program should do in the way of helping the net earnings picture.

In addition to producing substantial amounts of additional gross revenues, the new facilities built under this expansion program will produce certain economies in operation that will undoubtedly help the net income of the electric utility companies.

Recent studies by this organization, as well as by others, have indicated that considerable savings are inherent in the operation of the new modern plants as compared to the present average of the industry. Analyses of several proposed power stations shows that with the new and more efficient plants burning coal and oil, fuel costs based on present prices will be cut something between 1.5 and 2 mills per kwh. depending on conditions of loading. The heat rate for such new plant will vary between 11,000 and 11,500 btu. per kwh. generated as compared to a nation-wide average for 1947 of 17,000 btu. per kwh. The present program contemplates the gross addition of some 16 million kw. of new steam plant and the retirement of an unspecified amount of existing plant. Assuming that the average heat rate of the new plant will amount to 11.500 btu. per kwh., it has been estimated that the composite industry heat rate will fall from 17,000 btu. per kwh. to 13,600 btu., or a decrease of 20.0%, reducing the existing pounds per kwh. from 1.31 to 1.05. On the basis of a recent projection mentioned previously in this paper fuel economies in 1951 are expected to save the industry approximately $150 million.

The savings do not stop here. These modern plants require smaller operating crews than existing ones because of the larger size generating units and plants, greater mechanization, better layout, more labor saving devices, etc. Estimated payrolls for these new plants will be only about half as much per kw. as for the average of the existing stations, and some of the highest cost plants will be put in standby service or retired. The amount of payroll savings for steam power plants has been estimated at $35 million in 1951.

The savings from these two sources total $185 million. On a ten-times-earnings ratio they are capable of supporting $1.85 billion of common stock capitalization. To further appreciate the magnitude of these savings, they approximate 50% of the $380 mil-

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lion common dividends declared in 1947.

Another very important point that should not be overlooked in considering the cost structure of the electric utility industry is the decreasing increment of costs as the volume of business increases. While total costs increase with the volume of business, such increases are not in proportion to the volume of output. The average cost per unit of output decreases because each additional unit produced can be taken on at a lower cost than the cost of producing the preceding unit of output. This is one of the major differences in the cost structure of electric utilities as compared to most other industries.

To give a more concrete illustration of this point, the period from 1926 to 1930 was one of considerable capacity expansion, and also a period of a relatively stable consumer price index. Kwh. generated by privately owned utilities rose from 65.48 billion to 86.11 billion, an increase of 32%. During that same period operating expenses rose from $609 million to $723 million, or an increase of 19%. Unit costs per kwh. generated were 0.93 cents in 1926 and 0.84 cents in 1930 or a decrease of 9.7% during the period. Hence the increment of additional kwh. generated, which amounted to 20.63 billion, only cost $114 million, equal to an incremental unit cost of 0.55 cents. Thus, the increment cost was only 59% of the 1926 average cost.

Similarly, operating costs per kw. installed amounted to $27.9 in 1926 when total installed capacity amounted to 21.8 million kw. In 1930 operating costs per kw. amounted to $23.9 and the installed capacity to 30.3 million kw. The incremental cost of operating 8.48 million kw. amounted to only $13.45, or less than half of the 1926 average cost.

The operating ratios were 43% and 38% for 1926 and 1930 respectively, while the incremental operating ratio amounted to only 24%.

This economic characteristic of decreasing unit costs has contributed substantially over the years to the ability of the industry to absorb increasing operating costs. It will without doubt serve a similar purpose in the future.

Engineers' Progress

Some comment is pertinent on a few other points which have a bearing on the net operating results of electric utilities. Engineering progress and continued improvement in the art of construction and design of power plants have helped materially to keep costs down in terms of capacity. For example, using 1926 construction costs as an index figure of 100, by the end of 1947 the index had risen to 182.2. The cost of 1 kw. of generating plant in 1926 was $100, whereas in 1947 such cost had risen only to $118. Thus, during this period, simplified and new designs and improved methods of construction, larger size generating units, including boilers, and better and more reliable equipment had offset all but $13 of the increased cost per kw. While it is appreciated that the construction index covers all forms of utility construction, nevertheless, the figures shown are an indication of the extent to which unit costs of capacity have been reduced by these items.

Location of steam plants adjacent to load centers rather than in relation to available sources of cooling water and fuel results in savings in transmission and distribution investment and maintenance. Greater use of cooling towers for circulating water has made this practice possible.

In the fields of transmission and distribution, there have been advances instrumental in lowering average unit investment costs. For transmission and high voltage substations these include simplified designs, larger capacity units and, perhaps of greatest importance, the ability to operate lines and equipment at higher dependable loadings. For distribution, the more extensive employment of higher voltages with their much greater circuit capacities as well as simplified and improved designs are making it possible to carry the continuously increasing demands of residential, farm and commercial customers with lower investment per unit of service.

A word about reserve plant capacity. Twenty-five years ago it was not unusual for isolated systems to carry 50% reserve plant capacity, whereas, before the war the percentage had dropped to around 25% to 30%. The efficiency of the private utility industry has been such that with increasing interconnections, improved "reliability" and better equipment generally, it has operated successfully on smaller and smaller margins and there is no reason to think that this trend will be reversed and that industry has to return even to the pre-war margins of reserve capacity. In fact, it has been estimated that reserve capacity of 15% will be adequate for the future, and for large integrated power pools a 10% margin will be satisfactory.

As regards the matter of payroll costs, a portion of the recent large increase is due to the increase in number of employees from 201,000 in 1944 to 262,000 in 1947, or an increase of 30% due largely to rehiring men following the end of the war. In that period, hourly wages rose from $1.11 to $1.37. It is not anticipated that the number of employees will rise substantially over the number shown for the end of 1947—first, because rehiring of former employees has been completed—second, because the heavy accumulation of deferred maintenance during the war will soon be completed, and third, because with new equipment coming along with labor saving devices, less employees will be required for a given amount of work.

I would like to remind you that we have been dealing with industry averages throughout and that undoubtedly there are going to be companies that will not fit into the picture of averages. In those cases when operating economies or increased revenues are not sufficient to absorb any further increases in operating expenses, the route to increased revenues is open through regulatory channels.

Rate Questions

Generally speaking, state utility laws provide not only that utility service be rendered at rates which are fair, reasonable and non-discriminatory, but also provide that the utility shall render service which is safe and adequate. When economic conditions jeopardize the ability of a utility to render safe and adequate service commissions have to come to their aid.

Perhaps the first occasion utilities had to ask generally the aid of their respective commissions because of the unfavorable impact of economic conditions arose after the close of the first World War. During the post-war period the price of fuel rose sharply and the increase in utility expenses which this increase occasioned, seriously affected the net income of many companies. In order to obtain relief from these conditions many utilities sought across-the-board increases in rates while others introduced into their rate structures fuel adjustment clauses by means of which charges to customers were increased with increases in fuel costs. In the first few cases some commission opposition arose, but when utilities had made their situation clear commissions generally authorized the introduction of these rate changes.

Commissions generally have taken full cognizance of the inflationary pressures on the cost structure of public utilities and that without adequate rates these companies may fail in their principal duty which is to serve the public. Of course Commissions know that money is obtained at favorable rates only if companies are in a strong and healthy financial condition, and from the long-range viewpoint high money costs place an added burden on the consumer.

As far as electric companies are concerned only a few so far have asked for "across the board" increases in rates but a number have had fuel adjustment clauses introduced into their rates where they were not already a regular part of the rate structures.

As you know, the railroads, telephone companies and gas companies have sought and have had granted substantial rate increases over the past year or two. It is interesting to note a few of the comments that were made by Commissions at the time some of these increases were granted:

Last year the ICC in granting an interim increase of 8.9% in freight rates said, among other things: "Our duty is plain. The law requires us to give due consideration, among other factors, to the need of revenue sufficient to enable the carriers under honest economic, and efficient management to provide adequate and efficient railway transportation service for the Nation."

The history of increases in the telephone industry is well known. The Bell System out of a total application for increases amounting to some $200,000,000 has already been granted $130,000,000 of rate relief in various sections of the country. That the Commissions recognized their duty and the interdependence of adequate earning and the efficient rendering of service to the public is exemplified by the two decisions quoted below.

In the case of Rochester Telephone Corporation, Commissioner Burritt's memorandum contained the following statements: "The immediate critical needs of the company are for sufficient revenues to meet its operating expenses and fixed charges (interest charges), and to make it possible for the company to obtain the funds necessary to carry on the plant construction program in which it now is engaged. . . . Thus is appears that immediate relief in the form of interim rates should be granted the company. . . ."

The North Carolina Commission in ruling on the application for increased rates by the Southern Bell Telephone & Telegraph Company said among other things: "This situation (reduction in net income) is giving this Commission grave concern because it is obvious to this Commission that a Company in this plight is not in a position to get new money needed for its unprecedented expansion program by the sale of stock and bond issues. It is, therefore, apparent to this Commission that unless the several regulatory bodies, including this Commission, provide rates which will provide a fair profit to the Company the expansion needed will be crippled or negated. . . . it is obvious to even the novice that unless the Company is put in a position to give good service and provide the necessary expansion the result would be disastrous, not only to the Company but to the public as well. . . . in view of the above, the Commission is of the opinion that the (increased) rates and charges requested by the petitioner which are considered reasonable should be granted. . . ."

The Supreme Court of the United States in upholding the Federal Power Commission's Opinion in the Hope Natural Gas Company case stated that "The rate-making process under the act, i.e., the fixing of 'just and reasonable' rates, involves a balancing of the investor and the consumer interests."

When the Federal Power Commission issued its opinion in the Hope Natural Gas case, and this opinion was later upheld by the Supreme Court, there was a feeling of depression among many utility people. However, a careful reading of the Supreme Court's opinion indicates that its effects both direct and indirect on utilities throughout the country are not likely to be as adverse as was at first feared. In fact it shows that the courts will uphold the utilities against unreasonable or confiscatory Commission actions. For the court went on to say following the sentence quoted above:

"Thus we stated in the Natural Gas Pipeline Company case that 'regulation does not insure that the business shall produce net revenues'. But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital."

In conclusion, it would seem that instead of having any possible detrimental effect on the electric utility industry, quite the contrary, the contemplated expansion program should be of great assistance in keeping the industry in a healthy condition by providing greater revenues and decreasing unit costs, so that net revenues will be earned in amounts sufficient to attract the capital that will be required to meet the demands that will be made upon the industry in this future period.

The Larger Aspects of LIFO

(Continued from page 12)

in favor of a weakness by stating other weaknesses is not too convincing. But there are so many defects with respect to balance sheet values which weaknesses parallel this situation that one cannot overlook them. Take for example the situation where a fixed asset has been completely written off and still is in use. Not only is the balance sheet value not an understatement but the profit and loss statement to the extent that depreciation is a factor is overstated. And what do you do about it? Well you do the best you can and taking into consideration the importance of stating some estimate of the life of an asset as compared with stating none and writing it all off in the year of acquisition, you recognize that it's pretty darn good!

Wider Application of Theory

Then there's the argument that LIFO is bad because you don't know where the theory is going to stop. Should, for example, it be applied to fixed assets? If it is so applied, what further will it do to the inviolability of the profit and loss statement and the balance sheet? Of course, here we are dealing with a different kind of asset than inventory. Its difference primarily deals with a difference in length of life. We have not gotten away from the depreciated cost theory in fixed asset accounting nor do I believe we should. This may seem inconsistent, but to write up or down annually (other than by way of a depreciation rate) the value of fixed assets and thereby affect profit and loss would seem to be a mistake. And although it is perfectly true that we have many problems (particularly insurance problems) which stem from our failure to do so, there are other differences which would make LIFO in my opinion inapplicable to fixed assets. It would be difficult to establish that any business requires to remain in business any given number, value or amount of fixed assets. Look at the balance sheets of companies engaged in the same kind of business and note the variations as between companies in the ratio of fixed to total assets or to sales. But even if it were true, which it is not, the need for such a fixed asset handling should not interfere with the theory behind the use of LIFO for inventory. The two kinds of assets are different—that's all.

Criticisms

Now let's come to the criticism of the way we have applied the use of LIFO to Retail Inventories—the fact that we were forced into the method of using index numbers has not too much bearing on the subject. The Bureau of Internal Revenue lent only a deaf ear to our early pleas that the law said LIFO might be used by *taxpayers*. The law didn't say certain taxpayers. It said *taxpayers*. The Bureau said it couldn't be done—so we just had to develop a method and the use of indexes was the method. We might have used one of a score of other methods such as the use of a number of items in inventory and the average value of each—but we didn't because indexes on mature consideration were deemed the most accurate method. But the argument is that this has been a "metamorphosis from a method of inventory pricing to a substitution of statistics for cost. . . ." LIFO does not substitute anything for cost. It uses statistics to arrive at cost and that is not new to the accounting profession. Inventories have been costed on the basis of index numbers long before the Retailers engaged the National Industrial Conference Board to prepare the retail indices for use in LIFO. And as a matter of fact, the only real objection to the indexes by the Bureau of Internal Revenue was not that they were indexes but that they were prepared by a private agency and not at arms length as they would have been if prepared by a government agency. Some of us, I might add parenthetically, argued in the early days of LIFO in favor of the arms length approach as against those who wanted the store or home made index.

No I don't think our application of LIFO should be downed because the accounting is based on a purely statistical formula. It strengthens the case if the case is right.

All of which is merely to say that to our way of thinking LIFO is a true measure of inventory evaluation, as true a measure as exists, and under present circumstances a better measure for those who adopted it in 1941 than FIFO. That it tends to level out the two extremes of profit or loss as compared with FIFO and is, therefore, very desirable from the standpoint of the user. That the effect of this leveling if used generally by industry would be most helpful to the economy in softening the impact at both ends of the economic cycle.

Lapham & Co. Formed

Lapham & Co. has been formed with offices at 40 Exchange Place, New York City to engage in the securities business. Partners are Harry Lapham and David Gold. Mr. Lapham was formerly a partner in Lapham, Philips & Co., with which Mr. Gold was also associated.

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Resumption of bull move generates new optimism. Consider present holdings sufficient for time being. A minor dip from here can develop into more than just "healthy" reaction.

* * *

Writing about a market which went up after you've written it was in danger of going down, isn't easy or pleasant to do. It is one of those times I'm tempted to say "Lemme alone," when somebody asks me about the stock market.

* * *

I could explain that I write this deathless prose on Mondays, but an explanation doesn't make for jingling pockets or well nourished wallets. I could say that on Monday last, when I took a jaundiced view of the market, I was right because the next two days prices did go down. But on Thursday and Friday they went up, so there I was with a column in print, and in your hands, hardly worth the paper it was written on. Worse than that, the stocks I advised getting out of, moved up leaving you high and dry with nothing but memories.

* * *

Usually the trader who makes such a mistake clears out of everything and retires until he regains his equilibrium. Me, I just retire to sulk, muttering ominously "They can't do that to me."

* * *

At this writing we still have a few stocks to comfort us during this advance. They don't act like world beaters, but they're alright. The temptation is great to add to holdings. The danger is equally great that a whipsaw can develop. So rather than buy anything more, I suggest sitting tight with what you have and let the hollering die down before you make any new moves.

Stocks you now have are, **Anaconda,** at 32½; it's now about 40. **Avco** at 4½, now about 6¾; **Bethlehem Steel** at 31, now about 38; **Lockheed** at 15, now about 24½; **Caterpillar** at 55, now about 62½; **Dresser** at 22, now about 30, and **United Aircraft** at 15, now about 30.

* * *

It would be cozy if every one of these stocks would continue going up, adding to your paper profits. Unfortunately stocks have an irritating way of going down too. It is this proclivity, which sometimes goes too far, that must be guarded against. So back we go to stops. Here they are:

Anaconda, stop at 37. **Avco,** hold. There's no reasonable stop I can figure out. **Bethlehem,** stop at 36. **Caterpillar,** stop at 61. **Dresser,** stop at 27. **Lockheed,** stop at 20, and **United Aircraft** at 27½.

* * *

That's about all for this week. There are plenty of other stocks I like, and if I had sufficient confidence in the market, would mention them. But things being what they are, I think you have enough to handle for the time being.

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.]

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Reynolds & Co. Place Brown & Bigelow Debs.

Reynolds & Co. announced June 16 that it has placed privately with four insurance companies a new issue of $5,000,000 Brown & Bigelow 15-year 4% sinking fund debentures due June 1, 1963.

Proceeds from the sale of the debentures will be used to refund short-term seasonal borrowings and to provide additional working capital to finance the company's expanding business.

Brown & Bigelow is engaged in the design, manufacture and sale of a wide range of articles, including paper products, engraved products, leather goods, metal and plastic novelties and playing cards. The company was a pioneer in the field of advertising calendars, and believes it is the largest manufacturer of this product in the United States.

F. A. Peters Co. Partners

PATERSON, N. J.—Partners of F. A. Peters & Co., 407 East 42nd Street are Carolyn V. W. Peters limited partner and Adele J. Diehl, general partner.

Now Sole Proprietor

BOSTON, MASS.—Frederick M. Swan is now sole proprietor of Swan, Stickley & Co., 75 Federal Street.

Bernon Sheldon Prentice Dead

Bernon Sheldon Prentice, partner in Dominick & Dominick, New York City, died suddenly at Hot Springs, Va., of a heart ailment. He was 66 years old.

Trust Investment Policy and Its Application

(Continued from page 17)

Other assets held outside the trust, such as savings accounts, savings bonds, life insurance, annuities, other securities; as well as real estate holdings which may or may not include a home. The age of the beneficiary and his or her life expectancy, the number of dependents, the size of the trust account, etc., all are factors to be given special consideration.

Needless to say, the formulation of an investment policy is also governed by the powers and restrictions placed upon the trustee either by law or in the instrument. Where investments are restricted to probate legals or a special class of security, the investment policy will, of course, be limited thereby. In all other cases where the prudent investment principle applies, or where investments are not restricted as to type or class of security, the formulation of an investment policy will be governed primarily by the risk the trust can afford to assume under the specific requirements or objectives previously determined for the account. The amount of stability of both principal and income required to meet the objectives of the account at all times under varying economic conditions is an important factor in determining the amount of risk to be assumed. There is also the question of maintaining adequate flexibility in the investment portfolio to permit the proper handling of the investments in keeping with sound investment principles. Thus, the amount of risk to be assumed will vary according to the individual circumstances applicable to a particular account as well as the investment requirements necessary to properly service the account investment-wise.

Once the above facts have been ascertained, a suitable investment policy, incorporating sound investment principles, may be formulated and adopted for the account.

In many instances it is advisable to discuss the investment policy with the creator of the trust or with the beneficiaries of the trust. This will enable all interested parties to be informed as to the investment policy to be followed, as well as to become acquainted with the reasons underlying its adoption. It not only affords an excellent opportunity to become better acquainted with the customer's needs, but invariably promotes good customer relationships which facilitate the economical and efficient handling of the trust.

Overall Departmental Policies Governing Trust Investments

With prudent investment principle gaining in popularity yearly, a review of this principle would appear appropriate at this time. One of the many States to amend its restrictions on securities eligible for trust funds in recent years, is the Commonwealth of Pennsylvania. In lieu of closely defined limitations on assets and earning's protection, the new law stresses the "Prudent Investment" test. I quote:

"In the case of both bonds and preferred stocks, the amended law refers to issues—which any fiduciary may purchase in the exercise of that degree of judgment and care under the circumstances then prevailing which men of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds considering the probable income to be derived therefrom as well as the probable safety of their capital."

From the above it would appear that the prudent investment theory would dictate that, in the purchase of securities, the fiduciary exercise good judgment in the purchase of quality issues of proven income stability and safety to principal.

Although the Commonwealth of Pennsylvania did not include common stocks among its legal investments, the same principles would apply to common stocks as apply to other types of investments.

Under the above investment theory it is important to emphasize the responsibility of fiduciaries to obtain a reasonable investment return on the assets over a period of years without exposing the corpus of the trust to undue risk or loss. Although the above theory is generally accepted as sound, the application of the principle to investments is still subject to considerable differences of opinion among investment men. In so far as investments are restricted to issues of sound quality, of proven income stability, there can be no serious difference of opinion. When securities are purchased primarily for appreciation or better-than-average return, and income and market stability are lacking, the responsibilities of the trustee are not only increased, but the ultimate benefits to be derived from such a policy are subject to serious question. Thus, the adoption of an investment program which will meet with the investment requirements as to preservation of principal and reasonable income will have a distinct influence on the quality and investment characteristics of securities best suited for trust investment purchase or retention.

Aside from the legal restrictions as to what type or class of security constitutes a proper trust investment there is the overall policy of determining what classes of securities — bonds, preferred stocks and common stocks—shall be purchased or held in accounts wherein restrictions are waived. The purchase or retention of common stocks in trust accounts is largely a matter of policy. Ordinarily, the purchase of common stocks affords a somewhat greater return than obtainable from high-grade bonds. In addition, it makes for greater investment diversification as well as provides for at least some participation in the growth of our leading industries and companies. With the amount of risk to be assumed in an account predetermined under investment policy, the selection of securities to be held in a trust is largely a matter of selection of assets in keeping with the overall policy governing the administration of investments in an account.

In the administration of trust investments the adoption of a plan of operation whereby a proper balance will be maintained at all times as between risk assets and high-grade fixed income securities is a prerequisite to sound administration. Thus we note the growing popularity of the so-called chip-off system, Yale Plan, Vassar Plan, etc.

The principal advantages of such a plan are to avoid assuming undue risks during periods when prices are rising and to provide a means for increasing the equity holdings during periods of declining prices. If followed diligently, it will have a tendency to smooth out the extreme price fluctuations in an account and make for a more aggressive policy in the supervision of investments. The net effect of such a program is to assist in the sale of the least desirable holdings in a rising market. It also provides for the orderly supervision of assets over the years, in keeping with the investment policy previously adopted for the account.

The adoption of a plan of operation should have the approval of the Trust Investment Committee and Trust Committee. It is essential that the members fully understand the manner in which it operates so that misunderstandings will not arise when it becomes operative in a rising or falling market. The latter is particularly important if common stocks are to be purchased or retained in an account.

Investment Principles and Standards

To permit the investment policy to operate and fulfill its function successfully there are a number of established investment principles to guide us in our work.

Included among these are the following:

(1) The bond account shall be restricted to money rate issues of high quality. Under such a policy the risk carried in the account is largely restricted to the equity holdings. The stability of the bond accounts, both as to income and principal, is therefore largely secured. The account is also assured of sufficient flexibility to meet any unusual contingency at little or no sacrifice to the trust. The element of risk is largely reduced to that of changing interest rates.

(2) Bond maturities should be scheduled over the years as a hedge against changing interest rates. The beneficiary is thereby assured of at least the average rate of return over the years through the reinvestment of cash received from maturing bonds. It also provides ready funds with which to meet contingencies or with which to take advantage of investment opportunities from time to time. In addition to the above, the application of a chip-off system, or its equivalent, will require a ready source of cash funds with which to purchase securities in a declining market. All of these factors call for a well allocated maturity schedule.

(3) Bond premiums should be amortized so that the interest received will reflect the true return obtained on the investment. This is purely a matter of proper accounting procedure.

(4) Security holdings should be diversified both as to industry and company. As to quality issues of unusual growth prospects, the policy of diversification presents a difficult investment problem. In cases of this type, extreme care should be exercised in the timing of partial liquidation so as to obtain as reasonable a price for the stock as prudence will permit. In situations such as this retention of a somewhat larger holding is justified on the basis that there is less risk entailed in retaining the issue than is the purchase of other issues of satisfactory quality but with less growth possibilities to offer. Speculative concentrations should be liquidated or at least diversified at the earliest opportunity to receive a fair price for the stock. In general, a program for the liquidation of the holding should be determined at an early date.

(5) Security purchases should be restricted to issues actively traded, preferable securities listed and actively traded on a nationally recognized stock exchange. In case of liquidation or purchase, the account is protected against unusual loss, through ability to execute orders promptly at a minimum of cost in market price fluctuation. It further minimizes the multiple trust problem with which all trust companies are confronted.

(6) In the event of your investment policy provides for the purchase of preferred stocks it is recommended that all purchases be restricted to high grade issues in approved industries, wherein little debt is likely to be outstanding ahead of the issue. Sinking fund provisions are to be preferred but are not a determining

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factor in the purchase of the issue. The decision to buy should be determined on the quality and price of the issue and not on the convertibility of the issue, etc.

(7) Common stock purchases should be limited to common equities of outstanding companies in approved industries. Only companies with proven managements over the years and whose earnings are supported by wide diversity of products or services are recommended for purchase. Companies with poor earnings or dividend records or which have substantial debts or preferred stock issues outstanding, or are undercapitalized, do not afford the stability of income desired in trust accounts. Greater risk to principal is incurred in the price fluctuations of these issues. Growth industries, of a non-cyclical nature which meet the quality standards are preferred. Industries subject to severe price competition, labor problems, inventory problems, political complications and unusually burdensome tax problems should be avoided.

Quality Standards

It is through the application of quality standards that control over the risks to be assumed in the purchase of securities for trust investment purposes is established. There is nothing hard and fast about the qualifications, if a reasonable explanation can be given for the deviation from the standard. Most standards are fairly well recognized in the trade by those who are familiar with securities. The principal differences among investment men are not in the standards adopted to determine the investment caliber of a security but in the application of the information. Thus, variations in the evaluation of risk inherent in a given security in relation to the purpose for which the security is being purchased, are fundamental differences making for variations in investment programs.

Ordinarily, if the companies are leaders in their respective fields, little if any differences will arise in the evaluation of the risks inherent in the issues, so that a sound program for bringing the account into line with the established investment policy may be readily formulated.

Investment Supervision

In addition to the employment of sound investment policies there is the need for careful supervision of investments to conserve the corpus of the estate. It is of importance, therefore, that all securities be followed for changes affecting the issue, the company and the industry, as well as the prices at which the securities are selling.

To keep abreast of changing conditions within industry, information as to the growth trend of the industry, profit margins, competition, plant expansion, capital requirements as well as industry research, new products, etc., must be followed closely. The above factors provide a fair measure for appraising the overall management of the industry as well as for a particular company. In addition to the above studies, there are the general investment policies relating to the timing of purchases and sales as determined by the spread in yields as between various classes of securities. For example, the spread in yield as between government bonds, municipal bonds and high grade corporate bonds, preferred stocks and common stocks afford a sound means of determining the relative attractiveness of varying classes of issues for purchase or retention. There is also the spread in yield as between securities of different quality standing.

The economic factors must also be considered in the proper management of trust funds. Included among these are risks inherent in the current outlook for business, in maintenance of present commodity price levels, in the future earnings outlook for industry as well as the risk inherent in the under capitalization of industry. In addition, there are the monetary factors relating to interest rates, taxation, and the U. S. Treasury's policy with respect to the handling of the public debt. All of the above factors and others have a distinct bearing on the proper handling of trust investments, particularly in the selection of issues to be purchased or sold.

Application of Investment Policy

Once the investment policy for an account has been determined the sale of assets to bring the account into line with the adopted policy will require careful handling. This is particularly true of securities paying handsome dividends. Unlisted securities almost always present a problem in that yield is high or the security is selling at a substantial discount from its estimated fair value. The sale or retention of these assets is largely governed by the risk the account can afford to carry as measured by the investment policy established for the account. If the account can afford to carry the risk, the sale or retention of the holding will depend largely on the market price for the issue as contrasted to the future outlook for the security. Retention of securities of inferior quality require that the stock to bond ration adopted for an account be reconsidered in the light of the additional risk involved.

In the normal account, the application of investment policy to the supervision of investments is less involved than in the previous case. If the policy calls for a ratio of 65% fixed income securities and 35% equities, the over-all investment composition of the account will be as follows:

One-third invested in equities of highest quality.

One-third invested in high grade bonds as a reserve for the purchase of additional equities. Also provides a reserve to meet any unusual contingency.

One-third invested in high grade fixed income securities as a permanent revolving fund.

Under the above plan, ample buying power is reserved for the purchase of additional equities in the event of a market decline. All funds reserved for the purchase of equities should be restricted to readily marketable U. S. Government obligations. Such funds need not be restricted to bonds of relatively short maturity as not all of the funds will be used in the purchase of equities at any one time. A scheduling of bond maturities not to exceed ten years should provide ample liquidity to meet all cash requirements. In general, a scheduling of the overall bond account of from one to 15 years will provide sufficient liquidity to permit the successful operation of the adopted plan of operation over the years.

The risk assigned to an account as determined by the investment policy will materially affect the plan of operation to be followed in the servicing of investments in an account. For instance, an account invested 30% in stock should not fluctuate as broadly as an account invested 50% in stock. The percentage of readily marketable government bonds or its equivalent need not be as large in the former case as in the latter instance. Thus all other factors being equal, the percentage of funds eligible for "G" bond investments will vary accordingly.

Another factor to be considered is the method adopted under the plan of operation to maintain a proper balance of risk in the account. Under a plan which is sensitive to so-called "sustained movements" in the security market, it is desirable that the account not become over-activated, or expenses, brokerage fees and other charges will prove excessive.

At what points purchases and sales should be instituted, will be determined largely by the individual policy you wish to follow in the handling of the investments. Ordinarily unusually large fluctuations in the aggregate value of a trust account is not to be desired. It would appear, therefore, that equities should not exceed 35% of the total value of the account if the usual procedure in the handling of managed funds is to be followed. Any excess of this amount will bring about severe price fluctuations in the aggregate value of the account. In the latter case we would recommend the adoption of a modified program of operation in the handling of the account.

We have found that in accounts where a plan of operation for keeping the trust in proper balance has been used, that it has been well received by our beneficiaries. They appear to have greater confidence in the bank's management of their funds. Furthermore, we have found that through the use of such planning that we have been more successful in keeping the investment risks in line with the investment policy for the account.

In closing, I would like to again stress the necessity of an adequate estate plan to the formulation of a sound investment policy for an account. It is only through a clear understanding of the investment requirements of an account as well as the risk to be assumed in an account, that a satisfactory investment policy may be formulated.

Thus, having established an investment policy it is equally important to establish an investment philosophy as a guide to follow in the handling of investments. Once the guiding principle has been adopted, a plan of operation for keeping the account in proper balance with the investment policy must be determined. Once all this has been done, the application of sound investment principles to the management and supervision of investments is in order.

Effects of Rearmament And ERP on Business

(Continued from page 6)

billion additional government expenditure that was not an immediate prospect last January.

How soon will the effects of this additional expenditure be felt? The general opinion seems to be that substantial direct effects will not be felt for some months, although indirect effects will be observable sooner. The prospect of these additional expenditures has of course already brought some changes in the business outlook. The stock market has responded in bullish fashion. There has been a good deal of talk that this anticipated government spending will offset the slackening in some types of private spending that some persons have feared. The projected government outlays, together with tax reduction, have diminished if not eliminated the prospect of a Treasury cash surplus during the balance of this calendar year. Since for a good many months a cash surplus has been the principal instrument of credit control and of debt management, I would assume that during the coming months we will see the evolution of new mechanisms of control. Presumably, such mechanisms will be of more consequence to banks and to financial institutions than to non-financial business corporations.

Two Key Questions

In appraising the effects of these expenditures upon profits and earning capital needs I believe the two key questions are: What will be their effects on inventory accumulation? What will be their effects on business expenditure for plant and equipment? If we could get good answers to these questions I believe we could go an appreciable distance towards forming judgments regarding working capital needs and future profits. As you know, inventory accumulation in 1947 amounted to $6.7 billion. This figure may be compared with $7.5 billion in 1946 and $.2 billion in 1945. Such little evidence as we have so far on the behavior of inventories in 1948 suggests that they are increasing at something less than the 1947 rate—perhaps two-thirds of that rate. The most recent Department of Commerce estimate of business expenditure for plant and equipment in 1948 is $18.7 billion. In 1947, the corresponding figure was $16.2 billion; in 1946, $12.0 billion; in 1945, $6.6 billion.

A number of observations may properly be made regarding these statistics. While expenditures on plant and equipment have been rising steadily since 1944, the percentage increase of one year as against another has been steadily dropping. The figures for 1948, for example, are only 15% ahead of 1947. Ever since the Department of Commerce began making these preliminary estimates regarding plant and equipment the preliminary estimates, such as the $18.7 billion just mentioned, have had to be revised upward in the light of subsequent events. Such may be the case again this year. On the other hand, certain types of foreign shipments, such as steel, may make it difficult for particular companies to complete their plans. Finally, should prices either increase or decrease radically during the remainder of this year these dollar estimates would need to be revised, even if business plans were carried out.

The behavior both of inventory accumulation and business expenditure on plant and equipment suggests that the immediate postwar business expansion is slackening its rate of growth, although the expansion does not appear to be completed as yet. This process of tapering off at a high level tends to support, even to augment moderately, both the prospect for profits and the need for working capital. Incidentally, the ratios of net current assets, of inventories, and of plant and equipment to gross business volume are still well below the ratios prevailing in the decade before the war. The magnitude and impact of government expenditures do not, as yet, appear so great as to be likely to distort this underlying pattern during the balance of the year, although if these expenditures should induce a precipitate price advance the postwar economy would clearly enter a new phase.

Experience of 1941

The thought may have occurred to some of you—what about the experience of 1941, when armament expenditures were rapidly expanding? What lessons can be drawn from that period which may be instructive at this time? In my opinion, the situation in 1941 was so different from that in 1948 that our experience then if of little aid in understanding present conditions, except in so far as techniques of procurement agencies developed in 1941 and 1942 could provide help in an acute situation. For example, at the present time, business activity is at a very high level and certain wartime shortages still persist, whereas, in 1941, there was a good deal of slack in the economy and the surplus conditions of the 1930's were still present. The steel industry, for example, operated in that year at something like 80% of capacity and only some 65 to 70 million tons of steel were produced. Although the Federal Reserve index of production rose steadily during 1941, it did not go above 165, whereas for more than a year it has stayed within the range of 180-190. The combined wholesale price index of the Department of Labor in 1941 stayed within the limits of 80-90, but this spring it has clung persistently to 160. During 1941, we still had something like 8,000,000 unemployed, whereas, this spring, there have been little more than 2,000,000 persons unemployed—and, surely, an unemployed man in 1948 is a different economic and social entity than was an unemployed man in 1941—and a record volume of employment seems in prospect for this summer.

If I may speak briefly regarding my subject for today, working capital and profits, I would like to point out that the SEC has estimated net working capital for non-financial business corporations in 1941 at around $32-$33 billion, but the most recent estimate of the SEC for working capital is $60 billion. Profits after taxes in 1941 were $9.3 billion, which was a sharp advance over 1940 and higher than the figure for 1929; but, in 1947, profits after taxes amounted to approximately $17 billion, and during the spring of this year profits seem to have been running 10% to 20% above the 1947 level. While these recent figures do not allow for the under-depreciation that is taking place in view of high replacement costs, they nevertheless are impressive. Moreover, it seems unlikely that 1948 profits will include as large a percentage of inventory profits as was the case in 1947.

Conclusion

In conclusion, let me summarize my thoughts somewhat as follows: I cannot imagine that rearmament expenditure or European aid will tend to reduce profits or diminish working capital needs. On the other hand, I would not expect them to produce extreme or dramatic effects so long as radical price advances are not precipitated and so long as their prospective magnitude is not greatly increased. You will note, of course, that both these provisos leave me plenty of latitude.

The effects of these expenditures will probably be most directly foreshadowed by their influence on inventory accumulation and business expenditures on plant and equipment. Since the economy is already operating virtually at capacity, and since appreciable amounts of some items in short supply will be shipped abroad, I am doubtful if these outlays can drive plant and equipment expenditure much more than 10% above the $16.2 billion level of 1947 or force inventory accumulation much above $4-$5 billion, as against a figure of $6.7 billion in 1947. In short, I expect a continuance of the postwar high level economy, perhaps at a slightly higher level than at present. A real joker in such "guesstimates" as these—and I mean "guesstimates"—is the behavior of prices.

Ackerman Associates

WOOSTER, O. — Ackerman Associates has been formed with offices in the Buehler Building to engage in the securities business. L. K. Ackerman is principal of the firm.

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Fundamental Facts on Foreign Trade

(Continued from page 19)

its sustenance are located the world around.

In the past, about 60% by value of our total imports consisted of crude materials and foodstuffs. If the next generation succeeds in increasing present levels of production at the same rate as during the last 25 years, the problem of assuring imports of raw materials required for maintaining American employment and American living standards will indeed become serious. These imported raw materials now include such vitally important items of food and drugs as sugar, coffee, tea, quinine, spices; of fibers, such as silk, flax, wool, wood pulp, leather, hides and skins; of fats, such as vegetable oil; of resins, such as rubber; of minerals, such as tin, maganese, tungsten, chrome, nickel, bauxite, diamonds, lead, petroleum, zinc, mercury, cobalt and others.

This is only a partial list. But even casual perusal convinces one that imported materials condition not only the comforts of our manner of life, but even the very existence of such basic industries as steel, oil and automobiles.

The realization of this dependence upon foreign sources of supply for the necessities and amenities of daily life, cannot fail to awaken a real appreciation of the fundamental importance to our nation of that provision of the Atlantic Charter which promises: "Equality of access to the world's raw materials and markets to victor and vanquished alike."

The dislocation of the necessities of our economic life, not to mention the comforts of existence, such as occurred during the recent war, has strikingly demonstrated the fallacy of any belief in our own self-sufficiency.

Our Resources

The United States has been blessed with a reserve of natural resources comparatively plentiful if measured in terms of some other nations; nevertheless, the pace at which these resources are being consumed by industry is so great that many are becoming alarmingly depleted. Suffice it to mention that the steel industry used during the war and continues using almost 100 million tons of iron ore a year. Such quantity, in many foreign nations, would be considered sufficient to justify the installation of a steel industry designed to supply the needs of its markets for several generations.

An organized survey of national resources and a study of their relationship to the present and anticipated future requirements of our domestic market, unfortunately do not exist. The incomplete facts known, nevertheless, lead to the conclusion that, aside from the raw materials for which this nation relies entirely on foreign sources, our existing situation as regards many essential commodities now amply secured from domestic sources, such as copper and iron ore, is in realty less bounteous than is generally assumed.

Dependent as we are as a nation, upon the wealth contributed to us by foreign countries, these countries are even more dependent on American supplies, for the time being at least. Over the long period, however, America must realize, as do certainly foreign nations, that we are indeed vulnerable in our very strength and productive power. In the long run, these same foreign nations have within their power, should they choose to use it, the means—through throttling imports — to dictate our industrial index, and hence our employment, prosperity and even political and social peace.

Thus, the provision of the Atlantic Charter guaranteeing equality of access to the world's raw materials, in all markets without discrimination to any nation, becomes a matter of self-interest to us as well as others. Consequently, too, as never before, foreign policy, as it relates to foreign economic policy, becomes vitally concerned with compliance with this provision of the Charter.

What Is Free Enterprise?

Inasmuch as we are discussing Foreign Trade in the light of the American Free Enterprise System it seems appropriate to define the term "Free Enterprise." The International Business Conference held at Rye, New York, in November, 1944, brought together representatives from 52 countries. The American delegation to this Conference recorded its understanding of free enterprise as follows, and I quote:

"The American delegation is wholeheartedly committed to private enterprise in preference to government enterprise; to free enterprise in preference to controlled enterprise; and to competitive enterprise in preference to monopolistic enterprise This is because the American people proudly cherish in their hearts the traditions of self-reliance, liberty and equal opportunity which are involved in those preferences and which have been the fundamentals of their political and economic system."

"We think this is best for us as a nation. We frankly acknowledge that other nations may follow other courses than the one we take. Our course, as we see it, is to produce freely and trade among our various communities as we always have, as private enterprisers, and in that capacity and in that spirit to trade with other peoples in other lands in so far as may be, without handicap of prejudice or discrimination. To the extent that other nations' economic policies differ from our own, difficulties may arise; to the solution of these difficulties we pledge our earnest attention and cooperation; but we cannot conscientiously part with our birthright, in so far as concerns our own participation in international trade."

"We recognize that in our own short history, the principles on which our American concepts are based have been broadly applied to accommodate the expansion of government functions and controls. The public attitude toward these compromises has not been static —many divergencies from these principles have been urged and accepted as clearly for the nation's good, or as emergency measures. Yet the fact is clear that in America today enterprise is more solidly in private hands, that here it is freer, and that here it is more truly competitive, than in many other lands. And to this, we believe, is due the superb vitality which has enabled our nation to perform the American miracle of production over the years."

"The basis of private enterprise is the right of the citizen, as an individual, or jointly with others, to set up in business for himself—to venture his personal efforts and capital; to own, use, and risk the mechanical means of production. The reward of success is profit, and the penalty of failure is the loss of what has been ventured. Nothing else than this can provide the incentive to that initiative and efficiency upon which economic progress is built. The processes of exploration, research, invention and experiment are all characteristic of free private enterprise."

"And without such economic freedom, without substantial freedom of the individual to seek his living where he can find it, and to venture his means where profit seems likely, and to be obliged to no man for this—without these it is pure delusion to imagine that political freedom, even if it exists, can long endure. As Benjamin Franklin said, as long ago as 1759, 'They that can give up essential liberty to obtain a little temporary safety deserve neither liberty nor safety.'"

"We hold, that for us, no further ground should be yielded to state activities or controls, unless the ends to be served are clearly in the interests of all, and reconcilable with our basic concepts."

"We do not, therefore, accept the necessity of government devoting its resources to or engaging in business enterprise; the resources of government are but the resources of the citizens, and in this area its activity is inherently competitive with theirs."

"We believe that controls which are adopted as emergency measures cannot be allowed to be exercised longer than the emergency itself, without serious damage to economic health."

"Government cannot create wealth apart from the wealth of the governed, or provide for the needs of all of its citizens as well as these citizens can themselves provide. We believe that government can best serve by providing a maximum of opportunity for the individual. We believe, moreover, that this is wholly consistent with government providing some reasonable level of individual security. But in the last analysis a reliable basis of security for the individual, commensurate with our American standard of living, can be provided only by the individual enterprise, energy and productivity of the people themselves."

Inseparable from our form of constitutional democracy is the Free Enterprise System. They will stand or fall together.

Our Foreign Trade Development

To complement my observations on international commerce in general, allow me to devote a few minutes to a brief review of our foreign trade and our commercial policy.

In the three-quarters of a century preceding the last war, sweeping changes occurred in the picture of the business relations of the United States with the outside world. Prior to the depression of 1873, a persistent excess of imports characterized our merchandise trade, which was counterbalanced by heavy investments of foreigners, mostly British citizens, in the industries of a young America fast growing to the stature of full manhood in the concert of nations. After the 1873 crisis an excess of exports appeared, limited in the beginning but progressively swelling into rivers of American goods for export during the early 20's and late 30's.

The character of international trade also underwent striking change. Ray materials and foodstuffs, which previously constituted the main classes of our contribution to the international movement of goods, were gradually replaced by semi-manufactured and manufactured articles. The importance of Europe as a recipient of our products rapidly declined, while the Americas, Asia and to a lesser extent, Africa, imported more and more of our products. On the other side of the balance, our imports, which in the early days were principally composed of finished manufactures, progressively changed to crude materials and semi-manufactures. Europe lost its outstanding sales position and the Americans, Asia, and again to a lesser extent, Africa emerged as important suppliers of our needs.

These trends are readily explained by the history of our country, by its miraculous flowering into a great nation, with a high standard of living for its 140 million people and a great accumulation of productive power in all fields of human endeavor.

But one factor in this picture must be recorded and wisely considered. The physical volume of our imports of foreign goods did not, over this same period, keep pace with the rhythm of our expanding economy. The reason for this is not hard to discover—and though perfectly obvious has been too often overlooked, I am afraid, leading to much fallacious thinking and heaping much abuse upon America for not wanting to buy, but rather, and only to sell and sell and sell.

Let us look at the facts.

Taking the year 1938, a good representative prewar year, 85% of our imports by value were accounted for by only 100 items. Forty-one per cent of our total imports were duty free. Items on which the duty was nominal accounted for 32%. Thus, 73% of our imports, again by value, in a normal year are not seriously affected by duty.

It can then be said that normally we buy some 70% of our imports because they are essentials or accustomed amenities, and the volume of such imports will vary directly with the economic activity or prosperity we enjoy. Duty action to increase this 70% area of imports will have little effect.

But in the 30% area of items bearing considerable duty, foreign sellers themselves through proper and energetic merchandising and distribution techniques can do more to increase volume of sales, than can those who control the amount of duty.

A great increase in the imports of dutiable goods is thus a challenge and an opportunity to those who have something to sell to us.

We, as a nation, have succeeded willy-nilly to world economic leadership. The method by which we discharge this obligation will depend in no small measure upon our willingness to accept world leadership, especially in the spheres of international finance and service. It is certain that we can not go on lending if we are not to be repaid. Unwise international loans enrich neither the one who gives nor the one who receives and accelerate world misunderstandings that endanger world peace.

Foreign Loans No Substitute For Imports

Although loans of American money abroad may, at times, be essential to the overall world economy, including our own, they are not a substitute for domestic imports of services as well as goods as providers of dollars: often they delay the solution of problems instead of facilitating it.

Contrary to a deeply-rooted common belief, not less erroneous for being of wide-spread acceptance, imports are more beneficial to the economy of a nation than exports. After all, the final purpose of organized industry and commerce is to place at the disposal of man the largest possible amount of needed and desired economic goods. This optimum level in the enjoyment of wealth can be attained solely through imports of foreign commodities and services. The prosperity of a nation is not measured by its accumulation of precious metals and currencies but by the essentialities and amenities of life available to its people. Exports are of importance inasmuch as they contribute to provide the means for the procurement of both.

Despite wishful expectations, many of our foreign loans, outstanding and planned, may never be refunded, because of the inability of the borrowers to honor their obligations.

It is worth considering if it would not be preferable to extend financial assistance by purchasing abroad a larger amount of commodities of which we could make tangible use, rather than by swelling the acount of our receivable foreign assets; especially when our national resources begin to dwindle.

World conflict has ceased, but who among us is happy in his heart, content and assured that Peace will endure? Would that I could assure you of my conviction of "Peace in Our Time."

I have come to know, and I think somewhat understand, foreigners. There are many kinds of people in the lands beyond our shores. The vast majority are just plain folks interested principally in security and happiness and seeking the opportunity to live and let live.

We Americans are more fortunate, perhaps, in having as our tradition, the inspirational guidance of our Declaration of Independence, our Constitution and Bill of Rights, the Emancipation Declaration, which immortal documents took up where the Magna Charta and Habeas Corpus left off—and in our great men of history; such men as Benjamin Franklin, George Washington, Thomas Jefferson, Abraham Lincoln and Woodrow Wilson, whose social, political and economic thoughts and teachings have left their indelible mark upon our national philosophy and character.

Our country was founded, sired, and tutored by the liberal thought of Europe, and even today, we have some 31 million citizens either born abroad or with at least one parent there born.

May our country continue to keep its portals open to all the weary and oppressed in heart or soul, and may they who come, confuse not, nor be permitted to confuse, our great liberties with license to work openly or subversively against the institutions which haven them.

Our is a great nation and will continue great only so long as we honor, revere and practice the tenets of democratic, political, and economic faith of our forefathers. We can go on to new heights or we can degenerate and pass into the oblivion of eternity. This is squarely up to us.

Planned Economy—an Empty Promise

Enticing, indeed, are the empty promises of a planned state—where every one gets something for nothing, where the homely virtues of work, frugality, sacrifice, saving, study and constancy are scorned and Where Even God is Defamed and Vilified.

One "famous" so-called economist has stated on a visit to this country, "There is no middle way. Free enterprise and the market economy mean war; socialism and planned economy mean peace. All attempts to find a compromise are a satanic illusion."

Hitler thought so, too, and likewise scorned the economy of the market place, maintaining it preferable to entrust the destiny of Germany to a few leaders of his National Socialistic State than to a political, social, economic framework of a Free Enterprise System. He, and all who think such systems are superior, ignore the fact that Totalitarian Economies, managed by the selected few, degenerate quickly into vicious, sordid struggles for personal supremacy and favor, unchecked by an inherent elements for automatic self-restraint, but rather under constant internal pressure to expand in order to perpetuate.

In contrast to this Frankenstein nature, the competitive economy eventually corrects its own abuse, for it contains within itself a system of automatic checks and balances which act as the white corpuscles of its own blood stream.

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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)	June 20	96.0	96.1	95.4	95.8
Equivalent to—					
Steel ingots and castings produced (net tons)	June 20	1,730,400	1,732,200	1,719,600	1,676,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	June 5	5,475,800	5,451,650	5,412,750	5,064,200
Crude runs to stills—daily average (bbls.)	June 5	5,736,000	5,715,000	5,602,000	5,150,000
Gasoline output (bbls.)	June 5	17,787,000	17,827,000	16,963,000	15,487,000
Kerosine output (bbls.)	June 5	2,224,000	2,144,000	2,144,000	2,273,000
Gas oil and distillate fuel oil output (bbls.)	June 5	7,249,000	7,054,000	7,126,000	5,233,000
Residual fuel oil output (bbls.)	June 5	9,354,000	9,508,000	9,242,000	8,974,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	June 5	107,278,000	107,185,000	109,313,000	94,268,000
Kerosine (bbls.) at	June 5	15,783,000	15,250,000	13,572,000	13,054,000
Gas oil and distillate fuel oil (bbls.) at	June 5	41,063,000	38,641,000	35,117,000	35,135,000
Residual fuel oil (bbls.) at	June 5	56,030,000	55,146,000	51,868,000	47,178,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	June 5	821,213	904,848	880,617	900,747
Revenue freight rec'd from connections (number of cars)	June 5	659,687	710,489	726,086	664,465
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS-RECORD:					
Total U. S. construction	June 10	$174,146,000	$135,055,000	$149,236,000	$158,140,000
Private construction	June 10	75,329,000	91,229,000	81,067,000	91,981,000
Public construction	June 10	98,817,000	43,826,000	68,169,000	66,159,000
State and municipal	June 10	64,962,000	37,338,000	56,640,000	40,201,000
Federal	June 10	33,855,000	6,488,000	11,529,000	25,958,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	June 5	12,985,000	*13,670,000	12,735,000	13,334,000
Pennsylvania anthracite (tons)	June 5	1,011,000	1,198,000	1,132,000	1,108,000
Beehive coke (tons)	June 5	135,200	*139,000	134,600	130,300
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	June 5	282	*297	330	293
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	June 12	5,131,811	4,845,458	5,108,673	4,701,992
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	June 10	110	91	100	66
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	June 8	3.24473c	3.24473c	3.24473c	2.85664c
Pig iron (per gross ton)	June 8	$40.53	$40.53	$40.20	$33.15
Scrap steel (per gross ton)	June 8	$40.66	$40.66	$40.66	$32.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	June 9	21.200c	21.200c	21.200c	21.425c
Export refinery at	June 9	21.575c	21.450c	21.425c	21.425c
Straits tin (New York) at	June 9	103.000c	103.000c	94.000c	80.000c
Lead (New York) at	June 9	17.500c	17.500c	17.500c	15.000c
Lead (St. Louis) at	June 9	17.300c	17.300c	17.300c	14.800c
Zinc (East St. Louis) at	June 9	12.000c	12.000c	12.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	June 15	101.32	101.50	101.20	104.16
Average corporate	June 15	113.31	113.31	112.75	116.80
Aaa	June 15	118.20	118.20	117.60	122.09
Aa	June 15	116.22	116.22	115.82	120.22
A	June 15	112.56	112.56	112.00	116.61
Baa	June 15	106.92	106.92	106.39	109.06
Railroad Group	June 15	108.88	108.70	108.16	111.25
Public Utilities Group	June 15	113.89	114.27	114.08	118.60
Industrials Group	June 15	117.20	117.20	116.61	120.84
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	June 15	2.41	2.39	2.42	2.22
Average corporate	June 15	2.99	2.99	3.02	2.81
Aaa	June 15	2.74	2.74	2.77	2.55
Aa	June 15	2.84	2.84	2.86	2.64
A	June 15	3.03	3.03	3.06	2.82
Baa	June 15	3.34	3.34	3.37	3.22
Railroad Group	June 15	3.23	3.24	3.27	3.10
Public Utilities Group	June 15	2.96	2.94	2.95	2.72
Industrials Group	June 15	2.79	2.79	2.82	2.61
MOODY'S COMMODITY INDEX	June 15	427.4	426.8	418.0	400.8
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	June 12	239.5	238.8	238.2	216.2
Fats and oils	June 12	297.9	285.4	299.4	204.3
Farm products	June 12	268.8	267.6	258.5	248.1
Cotton	June 12	353.0	357.5	340.2	354.5
Grains	June 12	261.3	266.1	269.8	252.8
Livestock	June 12	263.6	259.2	242.7	232.3
Fuels	June 12	231.4	231.4	228.6	172.2
Miscellaneous commodities	June 12	176.1	175.5	176.6	158.9
Textiles	June 12	209.1	213.7	215.0	217.8
Metals	June 12	165.9	165.2	164.2	148.2
Building materials	June 12	229.9	229.9	232.2	185.7
Chemicals and drugs	June 12	158.6	158.6	155.6	154.7
Fertilizer materials	June 12	134.2	134.2	136.1	125.3
Fertilizers	June 12	143.8	143.8	143.8	134.6
Farm machinery	June 12	139.4	139.4	138.9	125.3
All groups combined	June 12	224.3	224.0	221.4	197.2
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	June 5	222,226	180,297	213,822	217,658
Production (tons)	June 5	168,802	191,650	191,787	171,855
Percentage of activity	June 5	87	100	101	98
Unfilled orders (tons) at	June 5	402,625	352,013	418,994	552,280
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	June 11	147.8	*147.1	146.6	144.[illegible]
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	June 5	164.2	164.4	161.9	147.9
Farm products	June 5	192.4	193.0	184.0	179.5
Foods	June 5	178.0	178.0	174.8	163.1
Hides and leather products	June 5	187.0	187.6	188.2	166.6
Textile products	June 5	149.2	149.5	148.2	138.5
Fuel and lighting materials	June 5	132.8	133.8	133.0	104.4
Metal and metal products	June 5	156.8	156.6	156.8	142.5
Building materials	June 5	196.6	196.9	195.9	177.5
Chemicals and allied products	June 5	135.2	134.8	133.4	124.7
Housefurnishings goods	June 5	145.1	144.7	144.6	129.5
Miscellaneous commodities	June 5	121.0	121.0	121.3	115.9
Special groups—					
Raw materials	June 5	180.9	180.8	175.1	161.8
Semi-manufactured articles	June 5	153.0	152.6	153.3	142.5
Manufactured products	June 5	158.6	159.1	157.6	142.9
All commodities other than farm products	June 5	158.0	158.1	156.9	141.0
All commodities other than farm products and foods	June 5	149.3	149.3	148.9	132.2

*Revised figure.

	Latest Month	Previous Month	Year Ago
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of May (in thousands)	$97,593,000	$102,354,000	$87,840,000
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR — Month of May (in millions):			
New construction	$1,449	*$1,302	$1,032
Private construction	1,111	*1,015	790
Residential building (nonfarm)	575	*525	355
Nonresidential building (nonfarm)	283	263	242
Industrial	114	*116	141
Commercial	99	*87	58
All other	70	60	43
Farm construction	50	37	40
Public utilities	203	190	153
Public construction	338	*287	242
Residential building	7	*6	9
Nonresidential building (except military naval facilities)	80	*71	42
Industrial	2	*2	3
All other	78	*69	39
Military and naval facilities	15	*13	15
Highways	125	*98	100
Sewer and water	40	*38	28
Conservation and development	47	*41	29
All other public	24	*20	19
BUSINESS FAILURES—DUN & BRADSTREET INC.—Month of May:			
Manufacturing number	135	99	155
Wholesale number	72	50	51
Retail number	158	175	119
Construction number	31	30	20
Commercial service number	30	50	33
Total number	426	404	378
Manufacturing liabilities	$7,030,000	$7,057,000	$10,971,000
Wholesale liabilities	2,459,000	2,629,000	2,258,000
Retail liabilities	2,679,000	2,476,000	2,037,000
Construction liabilities	588,000	1,662,000	321,000
Commercial service liabilities	1,058,000	1,472,000	739,000
Total liabilities	$13,814,000	$15,296,000	$17,326,000
COTTON SEED — DEPT. OF COMMERCE—			
Received at mills (tons) Aug. 1 to May 31	3,957,796	3,944,155	2,991,540
Crushed (tons) Aug. 1 to May 31	3,869,340	3,721,893	2,946,198
Stocks (tons) May 31	187,984	321,790	163,048
CROP REPORT IN U. S. — U. S. DEPT. OF AGRICULTURE — As of June 1—(000's omitted)—			
All spring wheat (bushel)	315,195	------	296,949
Winter wheat (bushel)	877,230	845,484	1,067,970
Rye (bushel)	24,316	25,983	25,977
Oats (bushel)	1,357,210	------	1,215,970
Barley (bushel)	290,307	------	279,182
Apricots (3 states) (tons)	201,300	------	197,500
Peaches (bushel)	68,254	------	82,603
Pears (bushel)	27,599	------	35,312
Cherries (12 states) (tons)	187,010	------	173,140
FAIRCHILD PUBLICATIONS RETAIL PRICE INDEX 1935-39=100 (COPYRIGHTED) AS OF June 1:			
Composite index	140.9	140.5	135.4
Piece goods	144.0	144.0	135.8
Men's apparel	139.9	139.7	134.6
Women's aopparel	137.0	136.6	130.6
Infant's and children's wear	129.7	129.2	125.7
Home furnishings	147.0	147.1	142.2
Piece goods—			
Silks	129.6	129.3	123.5
Woolens	138.9	138.7	133.7
Cotton wash goods	168.2	168.7	155.4
Domestics—			
Sheets	182.5	182.6	169.8
Blankets and comfortables	140.3	140.3	138.3
Women's apparel—			
Hosiery	107.5	107.5	109.4
Aprons and housedresses	146.5	147.0	143.8
Corsets and brassieres	133.0	133.0	133.4
Furs	158.2	155.7	145.0
Underwear	138.9	138.3	129.7
Shoes	140.9	140.9	129.6
Men's apparel—			
Hosiery	140.2	140.1	138.1
Underwear	154.8	154.4	142.7
Shirts and neckwear	132.5	132.4	129.9
Hats and caps	126.8	126.8	127.8
Clothing, including overalls	130.9	130.9	127.0
Shoes	169.5	168.2	156.5
Infants' and children's wear—			
Socks	131.1	129.9	127.4
Underwear	121.0	121.1	117.8
Shoes	144.7	144.7	138.9
Furniture	150.2	150.2	145.8
Floor coverings	154.1	154.1	148.2
Radios	123.5	123.5	124.9
Luggage	131.0	131.1	126.1
Electrical household appliances	136.9	137.4	132.2
China	132.8	133.0	128.1
MONEY IN CIRCULATION — TREASURY DEPT.—As of April 30 (000's omitted)	$27,716,475	$27,780,951	$28,114,285
NEW CAPITAL ISSUES IN GREAT BRITAIN—Midland Bank, Ltd.—Month of May	£13,480,000	£2,544,000	£9,338,000
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission) Month of March:			
Net railway operating income	$60,724,331	$39,425,294	$73,924,143
Other income	17,285,602	19,739,001	15,656,104
Total income	78,009,933	59,164,295	89,580,247
Miscellaneous deductions from income	3,915,897	3,441,779	3,241,415
Income available for fixed charges	74,094,036	55,722,516	86,338,832
Income after fixed charges	38,594,265	21,108,376	49,347,701
Other deductions	3,147,705	3,310,744	2,708,989
Net income	35,446,560	17,797,632	46,638,112
Depreciation (way & structures & equip.)	30,471,453	30,178,996	29,368,501
Amortization of defense projects	1,369,805	1,685,277	1,351,572
Federal income taxes	26,104,975	22,323,963	30,265,133
Dividend appropriations:			
On common stock	9,725,988	26,081,447	12,152,506
On preferred stock	11,372,449	4,268,196	2,572,569
Ratio of income to fixed charges	2.09	1.61	2.33
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS—Month of April: (000's omitted)			
Exports	$1,121,700	$1,141,200	------
Commercial	947,300	943,500	------
U. S. Govt. foreign aid & relief shipments	174,400	197,700	------
ERP shipments	9,900	------	------
Imports	527,200	666,200	------

*Revised figure.

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Peacetime Draft Is Threat to Individual Liberty

(Continued from first page)

ratio of one officer for eight enlisted personnel returned to civil life. Following World War II only one officer was discharged for each 16 enlisted personnel returned to civilian status.

Twice the proportion of officers were retained following the last war as had remained on the military payrolls in ratio to enlisted personnel during the period after World War I demobilization.

Since early 1946 military officers with little to do but cash their pay checks have constituted a threat to the establishment of a lasting peace in American foreign and domestic relationships. When these men's income depends upon the existence of strained relationships between this and other nations of the world, it seems the height of folly for a President, if interested in the general welfare, to appoint professional military officers to conduct the diplomacy of our State Department.

Not Conductive to Good International Relations

Even if these men were capable of unselfish devotion to their country and above the suspicion of helping their military clique by keeping the international situation boiling, their lifelong training in the settlement of all matters by resort to military force is not conducive to satisfactory relationships with any foreign nation.

The Russian expansion was encouraged by treaties made with that nation at the very time when American military manpower was at its peak of mobilization. After Russia communized Czechoslovakia our President placed the stamp of American endorsement upon the Soviet move by negotiating a trade treaty with new Soviet satellites.

Can any Americans who recall the continued shipments of war materiel and products useful to a nation at war from the United States to Russia be expected to believe that an Administration thus supporting Russian expansion really desires to halt this expansion by enactment of a draft in the United States?

It is likely that President Truman and his professional military officers are praying for new Russian aggressive moves as an excuse for their enactment of an American draft, civilian controls, and allocations for industry of vital raw materials.

A firm refusal to trade with Russia made by the State Department, in the event of disapproval by this nation of Soviet policies, would bring about an immediate change in those polices. Does our Administration wish to stop Soviet expansion or the growth of Communism? Regimentation of Americans will stimulate the growth of Communism in America by creating discontent and bitterness against our American Government on the part of citizens who do not take kindly to the practices of the decadent nations of the Old World, the worst of which practice is peacetime military conscription.

The beneficial results to Americans of the demobilization of officer, as well as enlisted personnel, following World War I were measurable in the impetus given American free enterprise industrial development, the raising of our living standard, and the unparalleled achievements of civilian science.

For a generation America was free of involvement in a major war and a spirit of tolerance and respect for the individual dominated the American way of life. When, through the clashes engendered by the maintenance in Europe of huge standing armies and the conscript systems of manpower procurement, a second World War commenced, America was the best prepared of all nations to conduct herself successfully to a military victory.

We shall never see a congregation as large as a minister desires nor an army as numerous as a general wishes. The present military drive for more manpower is based upon the establishment of an excuse for retention of the excess of officer complement. It is difficult to explain the reason for maintaining an officer at great expense on active payroll when he has no men to order about. There are so many more officers than are required in peacetime active duty status that the military department heads are now prepared to plunge this nation into an orgy of inflation to provide an excuse for the rearmament and remobilization attendant upon retaining these expensive individuals.

A Sure Way to Produce War

It is a curious paradox, but one demonstrated by the history of nations, that the surest way in which to bring about and lose a modern war is to mobilize and regiment a large proportion of the productive element of a nation's population and turn it over to the "training" by professional military officers.

When we stop to consider that there is nothing in America so backward in its thinking nor so deadening in its influence upon individual initiative as the American military system with its insistence upon blind obedience to authority, we may understand the importance from a military viewpoint of keeping our youth engaged in productive channels of civilian science, industry and specialized education and away from the autocratic military control.

It is not recognized generally that soldiers and generals constitute a minor factor in the winning of a modern war, which is decided by the nation possessing the most effective weapons in the greatest quantity.

By tying up a considerable segment of the productive population of a nation in outmoded military drill and indoctrination to the habit of blind obedience, a nation is left without adequate civilian industrial development. Science is destroyed by the military training, for research is dependent upon the development (not the discouragement) of the habit of inquiry.

Our "unpreparedness" for World War II consisted not in lack of military indoctrination of our youth, but in the failure of our military officers to adopt the best and latest weapons as our alert civilian science and industry produced them. The best example of this backward mindedness of military officers was their court-martialing of General Billy Mitchell for insisting that the military develop airpower in the early 30's.

Although declared obsolete in 1918, the military continued to detail huge sums of money to outmoded methods of defense, such as the cavalry, which was not finally abolished until 1946.

The underlying reason for the retrogression of the professional military officer is the fact that a system of chain of command vests final authority in two or three men in each of the military departments. These men, trained in the tactics of 1898 at our army and naval academies, resist changes with all the natural resistance of advanced age and insist upon the entire personnel, which is subordinate in rank, reflecting the practices of warfare of past decades.[1]

This writer does not advocate the nonexistence of a standing army, navy and airforce in a world where other nations maintain such forces. These forces in the interest of preparedness must be kept small in relation to the civilian population and their training and weapons must be constantly improved and replaced as time produces obsolescence through the invention of newer and better weapons. Such a practice is not being followed today in American military training.

In 1944, a plan for the retention of the greatly expanded officer corps even after the conclusion of the war was worked out. A Virginia Congressman, with no military experience himself, worked with the military to develop a system of universal compulsory peacetime conscription at this time. Acting on his advice, the military decided not to campaign for this UMT plan in 1945 nor again in 1946.

Resentment by servicemen, veterans and decent people throughout the nation over the inequity of military law and the injustices of the officer-enlisted man relationships (abuses of the military caste system) was the greatest single element in persuading the military officers that 1945 and 1946 were not the years in which to attempt to clamp universal conscription upon the American people.

Inequities of Military Law

Thousands of protests to Congressmen from veterans and servicemen caused the appointment of an army committee to study officer-enlisted man relationships and military justice. The able chairman of this committee, General Doolittle, in May, 1946, made available the findings supporting the facts of gross abuse of privilege and the existence of many inequities of military law.[2]

In 1947, the plan by which excess complement military officers, retained in precarious status on military payrolls, would obtain permanent peacetime jobs was presented by President Truman who appointed a committee of civilians to provide the necessary window-dressing that would make the plan receive sanction from influential citizens in various fields of activity.

Of course, the real purpose of the plan was hidden under the guise that American youth required a rebirth of spiritual guidance, general education and military instruction; all of which could be provided more effectively by military officers than by local schools, churches and industry. This Universal Military Training plan was designed to sell peacetime conscription to the American public under the labels of education, health and religious instruction.

Aside from its real purpose in providing job security for wartime professional officers during peace, it was intended as a means of controlling through the military departments the most vigorous and adaptable of the American population, providing compusory instruction for all youths by military officers after these men reached the age of 18 years. This instruction could have little value in the event of future war owing to the rapid obsolescence of military tactics, but would exert profound influence upon the development of the habit of blind obedience to authority so necessary in a population for which a dictator is to be provided. The House UMT bill also provided controls over all age groups of the civilian population, including labor draft, by a three-man commission.[3] This in peacetime America!

When the Army submitted this UMT bill to the House Armed Services Committee, President Truman appeared before Congress requesting interim funds to put the program into effect before its enactment by Congress into law. Since only one day of public hearings were provided by the House Armed Services Committee for persons to testify on the bill, a storm of protests from all over the country were directed toward Congress in July, 1947.

Backing of Newspapers and Radio

The most potent factor in connection with the inordinate influence of the military departments over Congress is the backing which is given any policy desired by these departments by the newspapers and by radio. Rarely will a newspaper print any comment unfavorable toward a policy desired by the military departments. The public is at fault in this connection, for a Sub-Committee of the Committee on Expenditures of the Executive Departments has established the fact that millions of dollars of defense funds have been diverted by the military departments from defense purposes to the propagandizing of policies which the military departments desired enacted into law.[4]

In 1947, the second and third largest advertisers in the newspapers in dollar volume were the War Assets Administration and the War Department. When newspapers receive the bulk of their revenue from certain advertisers, it is understandable that they will no longer perform the function of a "free" press with respect to equal treatment in the news and editorials of pro and con views of the public relative to the legislation desired by these advertisers.

The importance of highly favorable newspaper treatment of military programs, such as the peacetime conscription plans (UMT and the draft), in impressing Congressmen and in creating confusion among the general public cannot be overemphasized. Courageous members of Congress, who are well aware of the effect of peacetime conscription in destroying liberty in a country, have found that when they expressed themselves frankly and exposed the totalitarian planning of our military officers, their speeches were not carried in the press.

The effect of this development by the press of the arguments favorable to legislation desired by the military has resulted in causing many Congressmen, most of whom do not have time to go into the individual merits or demerits of each bill, to react favorably toward a draft in the mistaken impression that the constant newspaper propaganda favorable to conscription is indicative of a public demand for this legislation.

This attitude grows out of their ignorance of the enormous military funds being contributed to the press for advertising of conscription programs, and the failure of some of their constituents to express their opposition to conscription by letter or telegram. Unquestionably, this opposition will be expressed by the vote during the coming election, especially if the House of Representatives makes the mistake of misjudging public sentiment that was made by the Senate when it passed Senate 2655 on Thursday, June 10, 1948. This bill provides for the first peacetime conscription program in American history, and would prove, if enacted into law, the end of the American tradition of liberty and individual freedom for its citizens.

According to Cong. Graham A. Barden:

"For every dollar the Army spent advertising for recruits, it spent $10 propagandizing for the draft and UMT.

"We read the headlines, and whatever these (newspapers) boys write, we say it is so. I think that is a dangerous presumption sometimes. I have found it to be.

"About the most serious thing I know in a democracy is when it reaches the point that we must reach out and take a man's liberty.

"An Army or Navy must be made attractive if we expect to get men to enter it. The services are not attractive, therefore not getting sufficient men. Let us start to clean house and see what is under the corner of the rug."[5]

II

The Destruction of the Voluntary Recruitment System

By tactful handling of the members of the Armed Services Committees of the Senate and the House of Representatives, the military officers have succeeded in making some of these Congressmen the salesmen of military policies to their fellow Congressmen.[5] Naturally, in the press of business before each Member of Congress, it is not possible for a Member to study the details of those bills not handled by the Committee of which he is a member.

The tendency of a large segment of the present membership of the Armed Services Committees of both Houses to accept as true all statements of the military department heads without independent research is the most dangerous aspect of our present Congress, for the military heads have told these Committee members that the voluntary procurement system cannot supply adequate manpower for the Army.

Through the effort of five Armed Services members of the minority views of H.R. 6401 (House draft bill) the evidence has been obtained which shows that our own military departments put into effect policies designed to create a manpower shortage under the voluntary manpower procurement system as an excuse for the demand for the practice of peacetime conscription as a permanent policy.

In July, 1947, the Army stopped permitting qualified volunteers to enter the Army for 18 months' enlistments, although claiming a shortage of manpower and in spite of a law enacted by Congress providing for enlistments of 18 months' and two years' duration. There has not been one volunteer accepted by the Army for 18 months' enlistment since July, 1947, to the date of April, 1948, when the latest figures were available.

Approximately half of all the men refused by the Army who have tried to volunteer were rejected for failure to pass the "R-Tests." These tests, also known as the Army classification tests, have been made so difficult that members of Congress who had served in the military have found it impossible to pass them, and there is good evidence to the effect that the average college graduate would experience the greatest difficulty in making the very high grade now required as the minimum passing grade on these tests. It is significant that before voluntary enlistment started the grade for passing these tests was 59. It is now a grade of 80.

In arriving at these figures (59 and 80) it is to be understood that they are not based on a perfect rating of 100. The Chairman of the House Armed Services Committee, one of the most ardent of all the Congressional supporters of programs desired by the military, failed to answer correctly five out of six questions taken from the Army classification test and asked him when he was a witness before the House Committee on Rules for the draft bill. This man, Rep. Walter G. Andrews, served in the Army but would not be regarded now as having sufficient intelligence to enter it according to the Army classification tests.

The insignificant numbers of two-year volunteers accepted since the voluntary enlistment started in April, 1947, is indicative of the lack of interest of Army recruiting services in making known the fact that men may enter for less than a three-year voluntary term. It is quite possible that quotas are being arbitrarily set on the number of two-year volunteers that will be accepted. When we reflect that the

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draft bill provides for forcing men to enter the service for just two years, there is no excuse for the Army refusing to accept as volunteers the men who want to enter the service for that period of time.

These and other facts show unmistakably that the Army believes that all they need do in order to obtain the controls over American citizens a draft would give them, is to sabotage the voluntary enlistment program so as to make it impossible to procure men on a voluntary basis under the ridiculous handicaps they impose upon men desirous of entering the service.

The "Secret Data" Hearings

Two Republicans and three Democrats who were present at all the hearings at which the military leaders presented secret data designed to influence the Armed Services Committee for a draft have spoken regarding the testimony as follows:

"Both Air Corps and Navy spokesmen have admitted that voluntary methods will be sufficient to their needs. The Committee records show that the Army has deliberately refrained from making all-out efforts to utilize voluntary recruitment methods."

* * *

"The provision of adequate housing for married enlisted personnel shorter-term enlistments, and more realistic general classification test requirements, are all feasible measures which we believe would substantially improve recruiting."

* * *

"A final keystone in our defense system is the Active Reserve Force. To date the record of the Army in refusing to build up either the Organized Reserves or the National Guard borders on a national scandal. The testimony before our Committee established clearly that the Army has followed a policy of deliberately ignoring the Reserves as a means of exerting pressure to get universal military training."

* * *

"General Evans agreed that: 'If the Army had done its duty and supported the Guard and the Reserves, having made a sincere, earnest, and determined effort to build them up, there would be no need for a draft, UMT, or anything else!'"

* * *

"In fact, the present measure may mean that our entire National Guard program may be seriously impaired. Maj. Gen. E. A. Walsh advised: 'The enactment of H. R. 6401 as now drafted will mean the complete dissolution of the National Guard of the United States by June, 1950. The security of the nation cannot be assured by destroying its reserves. If there is no possibility of war, then the measures proposed are excessive. If there is a possibility of war, the measures proposed are utterly inadequate!'"

* * *

"The Army has acted as if it is the policy-making body of the nation. In effect, it has said that Congress must accept a conscription program before the Army will organize, train and equip the Reserves. **Congress cannot permit itself to become the rubber-stamp of a wilfull group of officers who want to Prussianize this nation, and who are prepared to sabotage our defenses in the process.**"[6]

The group of men who wrote the above includes no Congressman whose loyalty to this country nor his confidence in the free enterprise capitalist system has ever been questioned. These men realize that America's greatest strength lies in the preservation of liberty and the safeguards of the basic rights of independent citizens.

It is the presence in Congress of such men as these courageous Representatives which provides hope for the millions of Americans who have viewed with alarm the ease with which the so-called leaders of Congress may be stampeded into highly Socialistic measures advocated by a President. The real power behind the Administration, the Secretary of Defense, is the first American military official to influence the executive and legislative functions of the American Government. This influence must be broken if freedom is to remain the heritage of American citizens.

Coming Controls Over Industry

Both Secretary Forrestal and Representative Wadsworth from Geneseo, N. Y., the author of every conscription measure imposed upon this nation, have indicated in testimony before the Armed Services Committees that enactment of a draft can readily be followed, and will be followed, by the establishment of controls over industry by the military or the Executive branch of the government.

The purpose behind the desire for conscription basically is the transfer of control from the people acting through Congress to the Executive branch of government which can be dominated by the military departments. Thus, the military professional officers would determine, through the allotment of allocations for industry, what business would continue to exist. Through the draft they would determine where and how our youth would live and would control members of the medical profession by draft up to age 45 years.

Secy. Forrestal has asserted that should universal conscription not be enacted before the period of time at which the draft expires, it will never be permitted to end. In this statement he is speaking with the authority of history. Once a draft act is imposed upon a nation in peacetime that nation has never been able to rid itself of the curse of conscription and military rule.

The vested interests created for the contemptible job of forcing American citizens into military servitude will not relinquish the posts which are a source of profit. Moreover, if a nation is tricked or betrayed into peacetime conscription it will be argued later that conditions are more threatening than those which existed at the time the draft was imposed.

Our most serious threat is from the enemies of liberty occupying positions through which a military dictatorship may be imposed upon us.

The employment of money by the parties representing the military to bring about the election to Congress of those men known to be partial toward the wishes of the military departments is already evident in campaigns waged to defeat in the primaries those Congressmen whose courage has caused them to assert the truth and challenge the right of the military to dictate a draft law for American citizens.

The American people should redouble their efforts to support the reelection of men like Representative Dewey Short, of Missouri, a Republican Congressman of outstanding ability and courage, whose candidacy has been challenged by an opponent in the primary because of his refusal to betray the freedom of his countrymen by working or voting for the draft bill. As the ranking member of the House Armed Services Committee and its new chairman on reelection, the importance of supporting this candidate and his Democratic colleague in the fight against the draft, Rep. Heffernan, of Brooklyn, N. Y., cannot be overestimated.

The reelection of these men, of two opposing parties, whose primary contests are on the issue of military rule, will demonstrate that a Representative can defy the overwhelming power of the military departments in the interests of American liberty and individual freedom and be returned to Congress to continue the battle.

If the draft act is passed, we may expect an immediate increase in the tempo of the military department's program to regiment America.

Should the draft be defeated in this session of Congress by failure of passage in the House of Representatives, Americans must be diligent in the election of those Congressmen who have demonstrated a faith in the loyalty and courage of American citizens to serve their country by military duty in time of need but who will fight against usurpation of liberty irrespective of the fact that the usurper is an American in name.

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[1] The peacetime professional officers of our general staffs obtained their military academy instruction about 1914-1918. The texts in use at West Point at that time were those published in 1898. Thus, many of our supreme high command are officers schooled in the tactics of the Spanish-American War, an age of mass manpower maneuvering.

[2] Senate Document No. 196, 2d Session, 79th Congress.

[3] House Resolution 4278, 80th Congress (page 4).

[4] "The use of Federal funds for the purpose of influencing legislation before Congress is unlawful under section 201, title 18 of the United States Code. . . . Your Committee therefore reports its firm conclusion that the War Department, its personnel, and civilian employees have gone beyond the limits of their proper duty and have engaged in propaganda supported by taxpayers' money to influence legislation now pending before the Congress."—House Report 1072, 80th Congress, first session.

[5] Testimony of Cong. Graham A. Barden, Representative from North Carolina, delivered before House Committee on Rules, May 25, 1947, in opposition to H.R. 6401 (the House Draft Bill).

[6] Report No. 1881, 80th Congress, 2nd Session, pages 27, 28 of Minority Views.

Wm. T. Robbins Forms Own Firm in Cleveland

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, O.—William T. Robbins has formed William Robbins & Co., with offices in the Citizens Building, to engage in the securities business. He was formerly a partner of Cayne, Robbins & Co., and prior thereto was manager of the trading department for Bell, Burge & Kraus.

Wm. T. Robbins

Kirk C. Dunbar With William R. Staats Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Kirk C. Dunbar has become associated with William R. Staats Co., 640 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Dunbar was formerly with Reagan & Co., Inc., and prior thereto was an officer of Bankamerica Co.

Observations

(Continued from page 5)

Stock Market," "How to Detect Major Tops" and "How to Detect Major Bottoms."

A basically inconsistent error apparent in this reliance on trend lies in the implied confidence that there is a "they" of the market place whose past market policy is a guide to the market's future. Interestingly, Mr. Mindell's reliance on the "they" making the trend of the market as a whole is directly inconsistent with his own wise strictures, which we have cited above, against following the "they" regarding individual issues.

Uncritically Mr. Mindell can embrace the following concept of *trend:* "It is a broad movement, almost glacier-like in its imperturbability and slowness"; and "What the trader must do primarily is to follow the underlying major trend. If he knows the direction of the major trend and follows it, he may buy the wrong stock, he may buy it before a minor decline—and yet the ultimate influence of the major trend usually produces profits for him."

Speculative Investment Confusion

Now this concern with "trend" seems to highlight general confusion by Mr. Mindell, as is so prevalent throughout the community, of speculation with investment. It unfortunately seems impossible to keep observations of an investment and speculative nature differentiated. For example, despite the book's self-ascribed design for "the businessman who is interested in the stock market, but who feels his knowledge inadequate," such lay leaders are firmly told: *is "Security selection will improve results within the framework of the major trend, but it must always be remembered that most individual security price movements are more closely correlated with the major trend than with the trend of their own earnings, dividends, etc., as we have shown. Market appreciation is our primary goal. Putting capital to work at a good buying level will prove much more profitable than regular dividends from a poorly timed purchase."*

Scorekeeping Called For

This emphasis by the "market internalizer" on timing, on market price rather than on value, on the stock market's liquidity elements rather than on hard-boiled businesslike appraisal of securities as ownership certificates in going concerns, composes speculative rather than investment behavior—under any reasonable definition. There is of course nothing sacrosanct about my own "pure" investment concept, nor is there per se any practical harm attached to trying for capital gains. It happens that I am convinced that it is impossible to beat the speculative game; while, on the other hand, Mr. Mindell (the subtitle of whose book is "Basic Guide for Investors") believes that it is quite possible to catch trends and consistently make capital profits. Assuredly, the controversy cannot be settled by theoretical dialectical argument. Hence let Mr. Mindell in his next edition, or some author perhaps including myself, produce a statistical record of actual proven results under each of the two techniques—that is from, on the one hand, following the technical market approach, and alternatively from following the going-business-value-appraisal method.

Besides it seems to me that perusal of the Mindell book is valuable in illustrating other manifestations of commonly-embraced confusion between investment and speculative processes. Earning-power is importantly conceived of as a solace to the security-holder during a declining market, a concept surely entirely inconsistent with business-like concentration on earning-power and dividends. Short-selling, which is encouraged, is frowned on during bull markets, because "it violates our principle of following the major trend . . . short selling is therefore advisable only during bear markets."

Speculative Use of the Interest Rate

Again in the matter of the interest rate is the speculative approach unwittingly over-stressed. Instead of basing the appraisal of particular issues on the long-term *rental* value of capital (and amortizing risk and calculating profit therefrom), forecasting changes in the interest rate are looked on as a tool for beating the market. And in taking into account the differential between bond yields and stock yields, an investment approach would concentrate on the estimated average dividend to be expected *over the long-term*—not the market's ratio of the moment.

Then again a seeming keynote of speculation-investment confusion seems to be set by the writer of the book's introduction, after saying that "the handling of investment funds is a serious business," in the second paragraph following unabashedly reports "my emotions have vibrated with the stock ticker." The weighting of the emphasis on speculative rather than investment behavior is corroborated by the absence of a clear definition of the difference between the two; by glossing-over of the importance of speculators' psychological foibles which are vital to market behavior; by inadequate treatment of the incidence of taxes of all kinds; by neglect of stockholder-management relation problems; and by the important omission of the impact of SEC laws and administration on the investor and on the market structure.

Investing Form and Developing a Golf Swing

The book contains much factual data, including a detailed glossary of stock market terms, as well as conclusions about specific investment techniques and theories. In fact the amount of ground covered together with the absence of a consistent thesis, has led one reader to remark that the lay investor for whom it is intended must feel like a golf novice trying to incorporate in his swing the ideas of 57 different professionals. Buy maybe this, in addition to constituting a tribute to Mr. Mindell's open-mindedness, only reflects the great difficulty of the basic investment problem!

* * * *

It seems to this writer that Mr. Mindell's book is valuable chiefly in showing (1) how even the most intelligent market followers unwittingly engage in speculative, under the guise of investment, behavior; (2) to what extent, and, without realizing it, successful managers of capital rely on their qualities of intuition rather than on the tools of which they are conscious; and (3) how very complex and generally difficult is the problem of investment today!

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Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Admiral Loan Co., Cleveland, O.
June 9 (letter of notification) 750 shares of 5½% cumulative preferred stock (par $100); $60,000 3½%-4½% one-to-three-year promissory notes. Price, par for each class. No underwriter. To make small loans.

• Affiliated Fund, Inc.
June 10 filed 5,332,673 shares of common stock (par $1.25). **Underwriter**—Lord, Abbett & Co., Inc., New York. Price, at market. **Proceeds**—For investment.

Air Lanes, Inc., Portland, Me.
April 26 (letter of notification) 10,000 shares of preferred stock and 10,000 shares of common. **Price**—Preferred, $10 per share and common 1 cent. For plant and equipment costs and working capital. **Underwriter**—Frederick C. Adams & Co., Boston.

American Bosch Corp. (7/19)
June 2 filed 535,882 shares of class B ($1 par) common stock. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Glore, Forgan & Co. and Lehman Brothers (jointly); Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane (jointly). **Bids**—Bids for the purchase of the stock will be received up to 3:30 p.m. (EDT) July 19 at office of Department of Justice, Office of Alien Property, 120 Broadway, New York.

• American Discount Co. of Georgia, Charlotte, North Carolina
June 14 (letter of notification) 22,738 shares of common stock (no par), 2,677 of which will be sold publicly at $23 per share. No underwriter. To increase working capital.

• American Motors, Inc. (Del.), New York, N. Y.
June 8 (letter of notification) 110,000 shares of capital stock (par 50¢) and $55,000 five-year 4% convertible notes due July 1, 1953. **Underwriter**—None. **Price**—$200 per unit of $100 of notes and 200 shares of stock. Proceeds for payment of outstanding obligations and for general working capital.

Ampal-American Palestine Trading Corp., N. Y.
April 7 filed $10,000,000 10-year 3% sinking fund debentures. **Underwriter**—Name to be filed by amendment, if any is used. **Proceeds** — $5,000,000 in mortgage loans for construction of housing in Palestine, $2,500,000 in loans to transportation and industrial cooperatives, and $2,200,000 in loan to Solel Boneh, Ltd., for public works.

• Aquaflight, Inc., Wilmington, Del.
June 8 (letter of notification) 2,200 shares common stock (no par). **Price**—$100 per share. No underwriting. For working capital.

Bankers Fire & Marine Insurance Co., Birmingham, Ala.
April 27 (letter of notification) 25,845 shares of common stock. **Price**—$8. **Offered**—Offered for subscription to stockholders of record March 31 on basis of one new share for each two shares held. Rights expire 5 p.m., June 30. To increase capital and surplus. No underwriting.

• Bareco Oil Co., Tulsa, Okla.
June 7 (letter of notification) 2,000 shares of common stock (par $1). **Price**—$8 per share. **Underwriter**—Kebbon, McCormick & Co.

Barlow & Seelig Manufacturing Co., Ripon, Wis.
May 24 (letter of notification) 8,820 shares ($1 par) common stock. **Price**—$8 per share. **Underwriters**—McMaster Hutchinson & Co. and Charles W. Brew & Co.

Beneficial Industrial Loan Corp. (6/21-25)
May 27 filed 100,000 shares (no par) cumulative preferred stock and an unspecified number of shares of ($10 par) common stock with scrip certificates to cover the conversion by July 1, 1958. **Underwriter** — Eastman, Dillon & Co., New York. Price and dividend rate by amendment. **Proceeds**—General funds.

Berry (D. N.) Co., Denver, Colo.
May 27 (letter of notification) 133,000 shares of common stock. **Underwriter**—John G. Perry & Co., Denver. For working capital.

• Black Warrior Mining Co., Spokane, Wash.
June 8 (letter of notification) 100,000 shares of capital stock (par 5¢). **Price**—25¢ per share. No underwriter. For development work.

Borderminster Exploration Co. Ltd., Ottawa, Canada
June 2 filed 500,000 common shares ($1 par). **Underwriter**—Mark Daniels & Co. **Price**—40c per share Canadian funds. **Proceeds**—For exploration of properties.

• California Electric Power Co., Riverside, Calif.
June 9 filed 75,000 shares of convertible preference stock ($20 par). **Underwriter** — William R. Staats Co., San Francisco. **Proceeds** — For construction and improvement of company's facilities and for acquisition of property.

• Carr-Consolidated Biscut Co., Wilkes-Barre, Pa.
June 14 (letter of notification) 43,200 shares of common stock (par $1). To be issued to J. S. Ivins Son, Inc., of Philadelphia, for purchase of goodwill, trademarks, etc.

Central Maine Power Co.
Nov. 10 filed 160,000 shares ($10 par) common. **Underwriting**—Company called for competitive bids Dec. 8, 1947 and only one bid, that of Blyth & Co., Inc. and Kidder, Peabody & Co. was submitted and was rejected by the company. They bid $13.75, less $1.75 underwriting commission. Now expected on negotiated basis through Blyth & Co., Inc. **Offering**—To be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share and one-tenth share of new common for each common share held. Price by amendment. **Proceeds**—For construction and repayment of bank loans.

Central Power & Light Co.
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Lehman Brothers; Glore, Forgan & Co., Dewar, Robertson & Pancoast. **Proceeds**—For property additions and expenses. On April 15, SEC denied effectiveness of registration statement.

Central Vermont Public Service Corp.
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. Expected by mid-July.

Century Steel Corp., Hollydale, Calif.
Nov. 10 filed 4,000 shares ($100 par) common. **Underwriting**—None. Shares will be sold at par by directors. **Proceeds**—To purchase rolling mill, equipment and for working capital.

Challenger Airlines Co., Salt Lake City, Utah
March 1 filed 600,000 shares ($1 par) common stock, of which 400,000 are being sold for the company and 200,000 for the account of Claude Neon, Inc. **Underwriting**—None. **Price**—$2 a share. **Proceeds**—For equipment purchase and general funds.

Champion Shoe Machinery Co., St. Louis, Mo.
May 26 (letter of notification) 10,000 shares of common stock and 200 shares of preferred stock. Price for common $3.50 per share, and for preferred $30 per share. **Underwriter**—Edward D. Jones & Co.

Chemical Fund, Inc., New York
June 4 filed 669,975 shares of common capital stock, ($1 par). **Underwriter**—F. Eberstadt & Co. Inc. **Proceeds**—For investment. **Price**—Market.

Cincinnati Gas & Electric Co. (6/21)
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. **Bids**—Bids for purchase of the bonds will be received up to noon (EDT) June 21 at office of the company, 4th and Main Streets, Cincinnati, Ohio.

Clinton (Mich.) Machine Co.
April 15 (letter of notification) 10,000 shares of stock to be sold at $5⅛ each (market price), for selling stockholder. **Underwriter**—Charles E. Bailey & Co., Detroit.

Commonwealth Lead Mining Co., Salt Lake City, Utah
May 27 filed 2,000,000 shares of non-assessable common stock (10¢ par). **Offering**—1,303,733 shares are to be offered in exchange for a like number of shares of Utah Ophir Mines Co. on a share-for-share basis plus one cent per share to be paid Commonwealth by Utah Ophir stockholders accepting the offer. **Underwriting**—None. **Proceeds** — For exploration and development work.

Consumers Cooperative Assoc., Kansas City, Missouri
Oct. 16 filed $3,000,000 non-dividend common stock ($25 par); $6,000,000 of 3½% five-year and 4½% 10-year cumulative certificates of indebtedness; and $2,000,000 of 1½% demand and 2½% 6 months cumulative loan certificates. No underwriting. **Offering**—Offered only to stockholders and patrons and members. **Price**—At face amount. **Proceeds**—For acquisition of additional office and plant facilities.

Consumers Power Co., Jackson, Mich. (6/22)
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. **Bids**—Bids for the purchase of the stock will be received up to 11 a.m. (EDT) June 22 at office of Commonwealth & Southern Corp. (N. Y.), 20 Pine Street, New York.

• Continental Radiant Glass Heating Corp., N. Y.
June 11 (letter of notification) 149,900 shares of common stock (no par). **Price**—$2 per share. **Underwriter**—Mercer, Hicks & Co. Corporate purposes.

• Davis Oil Corp., Reno, Nev.
June 7 (letter of notification) 80,000 shares of common stock. **Price**—$1 per share. No underwriter. To drill a test well.

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. Being placed privately.

Equitable Gas Co., Pittsburgh, Pa.
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.

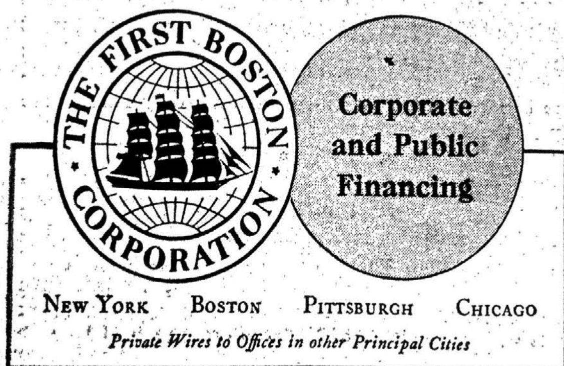
• Equity Fund, Inc., Seattle, Wash.
June 9 filed 400,000 shares of common stock (par 20c). Price, at market (about $4.39). **Proceeds**—For investment. Company is an open-end management investment company.

• Exchange Buffet Corp., New York
June 14 (letter of notification) 250 shares of common stock (par $2.50). Price, market (about $6½ per share). **Underwriter**—Delafield & Delafield, New York. Proceeds to selling stockholder.

First Guardian Securities Corp., New York City
June 4 filed 36,000 shares of 5% cumulative convertible preferred stock ($25 par) and 172,000 shares ($1 par) common stock. (72,000 shares of common to be reserved for conversion of the preferred.) **Underwriter**—None. **Price**—$25 a share for the preferred and $10 for the common.

Fission Mines Ltd., Toronto, Canada
April 16 filed 200,000 shares of treasury stock. **Underwriter**—Mark Daniels & Co., Toronto. **Price**—$1 a share. **Proceeds**—For mining and business costs.

Fitzsimmons Stores, Ltd., Los Angeles, Calif.
Feb. 2 filed 10,000 shares of 6% cumulative first preferred stock ($100 par). **Underwriting**—Officers, directors and employees of the company will offer the stock to friends and associates. **Price**—$100 per share. **Proceeds**—To retire 7% preferred stock. Business: "Super Markets" in Los Angeles, Riverside, Colton and San Bernardino County.



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NEW ISSUE CALENDAR

June 18, 1948

Sound Recorder & Reproducer Corp.....Stock Units

June 21, 1948

Beneficial Industrial Loan Corp..........Preferred
Cincinnati Gas & Electric Co.
Noon (EDT).................................Bonds
Joy Manufacturing Co.....................Common
Southern Natural Gas Co., 11:30 a.m.(EDT)..Bonds
Super Electric Products Corp.......Notes and Com.

June 22, 1948

Consumers Power Co., 11 a.m. (EDT)....Preferred
Philadelphia Baltimore & Washington RR.,
Noon (EDT)...............................Bonds
Richmond Fredericksburg & Potomac RR.,
Noon (EST).....................Equip. Tr. Ctfs.

June 23, 1948

Baltimore & Ohio RR., Noon (EDT)..Eq. Tr. Ctfs.

June 24, 1948

Gulf Mobile & Ohio RR., Noon (EDT)........Bonds

June 25, 1948

Southern Union Gas Co....................Preferred

June 28, 1948

Chicago Milwaukee St. Paul & Pacific RR.,
Noon (CDT)...................Equip. Trust Ctfs.

June 29, 1948

Chicago & North Western Ry.,
Noon (CDT)...................Equip. Trust Ctfs.
New York Telephone Co......................Bonds

June 30, 1948

General Telephone Corp...................Common
Louisville & Nashville RR., 11:30 a.m.(EDT)..Bonds

July 13, 1948

National Fuel Gas Co.....................Debentures

July 19, 1948

American Bosch Corp., 3:30 p.m.(EDT)..Cl. B Com.

Flotill Products, Inc., Stockton, Calif.
March 6 filed 385,000 shares of 60 cent convertible preferred stock (par $5) and 325,000 shares of common stock (par $1). **Underwriter** — Floyd D. Cerf Co., Chicago. **Price**—preferred $10; common $6. **Proceeds** — Stockholders will sell 260,000 preferred shares and 250,000 common shares and company 125,000 preferred shares and 75,000 common shares. Company's proceeds will be used for general corporate purposes. Effective May 5.

Fraser Products Co., Detroit, Mich.
Oct. 21 filed 100,000 shares ($1 par) common. **Underwriters** — Campbell, McCarty & Co., and Keane & Co., both Detroit. **Price**—$5.25 per share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds. Registration statement effective Jan. 16.

General Telephone Corp., New York (6/30)
June 4 filed 208,260 shares of common (par $20). **Underwriters** — Paine, Webber, Jackson & Curtis, Stone & Webster Securities Corp. and Mitchum, Tully & Co. **Offering**—Holders of common stock and 4.40% preferred stock of record June 16 will receive rights to subscribe on or before June 29 to the new shares at the rate of one new share for each six common shares held and at the rate of one new share for each 4½ preferred shares held. **Proceeds**—To make additional investments in the common stock equities of its subsidiaries.

● **Giddings & Lewis Machine Tool Co., Fond du Lac, Wis.**
June 10 (letter of notification) such a number of shares of common stock of the company as will not, at the offering price on the date upon which such shares are offered, exceed $75,000. No underwriter.

● **Globe-Wernicke Co., Norwood, O.**
June 11 (letter of notification) 42,410 shares of common stock (par $3.50). No underwriter. To redeem part of preferred stock.

● **Grolier Society, Inc., New York**
June 8 (letter of notification) 14,530 shares of 6% cumulative preferred stock (par $20). **Underwriter**—None. **Price**, par plus dividends from April 1, 1948. Working capital.

Holan (J. H.) Corp., Cleveland, Ohio
June 4 (letter of notification) 29,723 shares ($1 par) common stock. **Price**—$3.25 per share. **Offering**—26,000 shares offered for subscription by stockholders of record June 10 on a one-for-five basis. Rights expire June 24. The other 3,723 shares are reserved for sale to key employees. **Underwriter**—Cunningham & Co. For construction and new machinery.

● **Hoosier Engineering Co., Columbus, O.**
June 7 (letter of notification) 500 shares of 6% cumulative preferred stock ($100 par). No underwriter. Working capital.

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.

● **Ideas, Inc., Washington, D. C.**
June 9 (letter of notification) 4,500 shares of common stock. **Price**—$10 per share. No underwriter. Working capital.

Illinois Bell Telephone Co., Chicago, Ill.
June 4 filed 389,995 shares of capital stock (par $100). Underwriter, none. **Offering**—To be offered pro rata for subscription by shareholders of record June 2. American Telephone and Telegraph Co. (parent) will purchase 387,295 shares. **Proceeds**—To pay advances from American Telephone and Telegraph, its parent; any remainder of proceeds will be used in improving telephone plant.

International Asbestos Co., Ltd., Sherbrooke, Quebec
Jan. 30 filed 1,500,000 shares ($1 par) common stock. **Underwriter**—Paul E. Frechette, Hartford, Conn., is the U. S. authorized agent and principal underwriter. **Price**—$1 each. **Proceeds**—To construct milling plant and purchase equipment.

Irwin-Phillips Co., Keokuk, Iowa
June 1 (letter of notification) 10,000 shares of 5% cumulative participating preferred stock ($10 par) to be sold on behalf of three stockholders. Price, par. **Underwriters**—Slayton & Co. have been employed as agents to sell the issue.

● **Jamestown Sun, Inc., Jamestown, N. Y.**
June 14 (letter of notification) 4,000 shares of capital stock (par $50). **Underwriter**—None. **Price**, par. To start a community newspaper.

Joy Manufacturing Co. (6/21)
June 1 filed 51,500 shares of common stock (par $1), of which 36,200 shares are being sold by Adams Express Co. and 15,300 shares by American International Corp. **Underwriters**—Hallgarten & Co. and R. W. Pressprich & Co.

Keller & Co., Inc., Boston, Mass.
May 28 (letter of notification) 9,300 shares of cumulative participating preferred stock and $200,000 of 20-year 5½% debentures, due 1968. **Underwriter**—General Stock & Bond Corp. For working capital and other corporate purposes.

● **Kennedy Systems Corp. of Tennessee, Memphis, Tenn.**
June 9 (letter of notification) 29,500 shares ($10 par) preferred stock and 89,500 shares (1c par) common stock. No underwriter. Preferred and common (29,500 shares) will be sold in units of one share of each at $10.01 per unit and 60,000 common shares will be sold to officers and directors. To start industrial loan business.

Kool-Aid Bottling Co., Inc. of Calif., Sheboygan, Wisconsin
March 22 filed 1,500,000 shares ($1 par) common stock. **Underwriter**—Heronymus & Co., Sheboygan, Wis. **Proceeds**—To open and equip bottling plants in California cities. **Price**—$1 per share.

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.

● **Longchamps, Inc., New York**
June 14 (letter of notification) 250 shares of common stock (par $1). **Price**, market (about $6 per share). **Underwriter**—Delafield & Delafield. **Proceeds** to selling stockholder.

Masco Screw Products Co., Detroit, Mich.
June 4 (letter of notification) 141,600 shares ($1 par) common stock. **Price**—$1.75 per share. Offered to stockholders of record May 22 in ration of one new share for each 2½ shares held. Rights expire July 10. No underwriter. To repay a loan and for working capital.

● **Mechanics Finance Co., Jersey City, N. J.**
June 10 (letter of notification) 9,228 shares of common stock, class A (no par value) and 18,465 shares of 8% cumulative preferred stock (par $10). **Underwriter**—None. **Price**—Common, $12.50 a share, and preferred, par. Working capital.

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.

● **Mortgage Associates, Inc., Philadelphia**
June 9 (letter of notification) 25,000 shares of common stock (par 10¢) and 2,500 shares of prior preferred stock (par $10). **Underwriter**—None. **Price**—Common, $1 per share and prior preferred, $10. Proceeds to increase working capital.

National Fuel Gas Co., New York (7/13)
June 4 filed $13,500,000 sinking fund debentures, due 1973. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co. and Glore, Forgan & Co.; Goldman, Sachs & Co. and Lehman Brothers (jointly). **Proceeds**—To purchase 320,000 additional shares of United Natural Gas Co. common stock ($25 par), and to purchase 48,500 additional shares of Iroquois Gas Corp. Expected about July 13.

● **New Jersey Bell Telephone Co., Newark, N. J.**
June 11 filed $55,000,000 40-year debentures, due July 15, 1988. **Underwriters** — Name to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Proceeds**—To pay off advances made by American Telephone & Telegraph Co. (parent) for construction and general corporate purposes.

New Jersey Power & Light Co.
June 8 filed $6,000,000 first mortgage bonds, due 1978. **Underwriting**—Names to be determined through competitive bidding. 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); Union Securities Corp. **Proceeds**—For construction and improvement of property.

New York Telephone Co. (6/29)
May 28 filed $90,000,000 refunding bonds series F, due July 1, 1981. **Underwriters**—To be sold through competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. **Proceeds**—To reimburse the treasury for capital expenditures already made, to retire bank loans incurred in plant expansion and to finance future construction. Expected June 29.

North Canadian Oils Limited, Calgary, Alberta
March 11 filed 903,572 shares (no par) common stock. **Price**—70 cents each. **Underwriter**—F. H. Winter & Co., New York. **Proceeds**—875,000 shares being sold by company and 28,572 by stockholders. Proceeds for purchase of property and drilling.

North Inca Gold Mines, Ltd.
March 10 filed 666,667 shares of common stock (par $1). **Underwriter**—Transamerica Mining Co., Ltd., Toronto. Proceeds for exploration and development.

Northern States Power Co. (of Minn.)
June 3 filed $10,000,000 first mortgage bonds, due July 1, 1978, and 200,000 shares of cumulative preferred stock (no par). **Underwriting**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); Smith, Barney & Co. (stock only); Lehman Brothers and Riter & Co. (jointly both issues); Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co. and White, Weld & Co. (jointly on bonds). **Proceeds**—For construction and to pay off bank loans.

Nuera Products Co., Denver, Colo.
May 10 filed 100,000 shares ($10 par) 6% preferred stock, and 20,000 shares (1 mill par) common stock. **Underwriting**—None named. **Price**—10 shares of preferred and two of common will be sold for $100. **Proceeds**—To build, furnish and tool a factory and apply close to $500,000 to working capital.

Old North State Insurance Co., Greenville, N. C.
March 15 filed 100,000 shares of capital stock ($5 par). **Price**—$15 each. **Underwriter**—First Securities Corp., Durham, N. C. **Proceeds**—General business purposes.

Pacific Gas and Electric Co., San Francisco
June 4 filed 1,000,000 shares of redeemable first preferred stock ($25 par). **Underwriter**—Names by amendment, probably will include Blyth & Co., Inc. **Proceeds**—To retire bank loans and finance further construction.

● **Pacific Telecoin Corp., San Francisco, Cal.**
June 10 (letter of notification) $300,000 4½% equipment trust certificates, series A, dated July 1, 1948, and due July 1, 1951. **Underwriters**—Gearhart & Co., Inc., and Paul D. Sheeline & Co. For equipment.

Pacific Telegraph & Telephone Co., San Fran.
May 28 filed 601,262 shares ($100 par) common stock. Underwriting, none. **Offering**—Holders of preferred and common stockholders of record June 15 are given rights to subscribe on or before July 7 at $100 per share to the extent of one share for each six shares of preferred or common held. **Proceeds**—To reimburse company's treasury for additions, etc.

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.

Pepsi-Cola Bottling Co. of Memphis, Tenn.
June 1 (letter of notification) 58,000 shares ($1 par) common stock. **Price** — $5 per share. **Underwriters**—Leftwich and Ross and Bullington Schas & Co., Memphis. **Proceeds**—To retire notes, to purchase stock of wholly-owned subsidiary (Bottling Co. of Greenwood, Miss.), and to purchase equipment and supplies.

● **Permanente Metals Corp., Oakland, Calif.**
June 9 filed 600,000 shares ($1 par) capital stock. **Underwriters**—The First Boston Corp. and Dean Witter & Co. Price by amendment. **Proceeds**—For general corporate purposes.

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.

● **Public Service Electric & Gas Co., Newark, N. J.**
June 11 filed 200,000 shares ($100 par) cumulative preferred stock. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Morgan Stanley & Co.; The First Boston Corp.; White, Weld & Co. and Union Securities Corp. (jointly). **Proceeds**—For property additions and improvements.

● **Rare Earths Development, Inc., McCall, Idaho**
June 7 (letter of notification) $300,000 of common stock certificates. No underwriter. For dividend payments and expansion.

Realty Co., Denver, Colo.
June 3 (letter of notification), 400 shares capital stock ($1 par). **Price**—$27 per share. **Underwriters**—Ralph S. Young, Colorado Springs, Colo., and J. A. Hogle & Co., Salt Lake City, Utah. For working capital.

Republic Aviation Corp., Long Island, N. Y.
June 4 filed 42,000 shares ($1 par) common stock, issuable upon the exercise of stock options. Options for this stock, exercisable at $7.25 per share, are held by eight individuals and the estate of another, now deceased. For general funds.

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Riley Stoker Corp., Worcester, Mass.
June 3 (letter of notification) 7,000 shares ($3 par) common stock. Price—$11¾ per share. Underwriter—Hanrahan & Co.

● **Rock of Ages Corp., Burlington, Vt.**
June 8 (letter of notification) 2,000 shares of common stock (no par). Price—$13.50 per share. Underwriter—Lee Higginson Corp. To reimburse the corporation for cost of shares purchased from an existing stockholder.

Sandy Hill Iron & Brass Works, Hudson Falls, New York
April 12 (letter of notification) 59,000 shares class A participating preferred stock (par $4). Price—$5 per share. Underwriter—John L. Nolan, Inc., Glens Falls, N. Y. Working capital.

Savoy Oil Co., Inc., Tulsa, Okla.
June 8 filed 150,000 common shares (25¢ par). Underwriting—None. Offering—Stockholders are to be given rights to subscribe to 100,000 new shares at the rate of two-thirds of a share for each share held. The other 50,000 shares will be issued to officers and others at $2.50 per share upon the exercise of warrants. An unspecified number of shares may or may not be offered for sale to the public. Price by amendment. Proceeds—To be added to the general funds of the company.

Schuyler-Wilson Co., San Francisco
May 26 (letter of notification) 15,000 shares of ($10 par) preferred A stock (with warrants) and 90,000 common shares (par $1), reserved for warrants. Price, par for each class. Underwriter—Hannaford & Talbot, San Francisco, will act as selling agents. Each purchaser of one preferred share entitled to buy six common shares at $1 per share. For working capital and expansion.

Shackleton Piano Co., Louisville, Ky.
June 2 (letter of notification) 10,000 shares ($10 par) common stock. To be offered first to stockholders and any unsubscribed shares later to the public. Price—$10 per share. No underwriting. For additional working capital.

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.

● **Sound Recorder & Reproducer Corp. (6/18)**
July 7 (letter of notification) 2,710 shares of 6% cumulative preferred stock ($100 par), 5,710 shares of common ($1 par). Offering—2,710 shares of preferred and 2,710 shares of common will be offered in units at $101 per unit. Company will sell 1,050 additional shares and S. Stanley Scharv will sell 1,950 shares of common to James D. Cleland & Co., underwriter. For repayment of loan and general corporate purposes.

● **Southeastern Public Service Co.**
June 10 (letter of notification) 76,032 shares of capital stock (par 10¢), reserved for issuance against 76,032 stock purchase warrants, issued or issuable to holders or former holders of common stock of the Southeastern Corp. dissolved June 27, 1947. Warrants are exercisable between July 1, 1948-June 30, 1953, and holders may purchase one share of stock for each warrant held at $3.50 per share.

Southern Natural Gas Co. (6/21)
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. Bids—Bids will be received by the company at Room 1130, 90 Broad Street, New York, up to 11:30 a.m. (EDT) on June 21.

Southern Union Gas Co., Dallas (6/25)
June 4 filed 25,000 shares of 5% cumulative preferred stock ($100 par). Underwriter—E. H. Rollins & Sons, Inc., New York. Price—By amendment. Proceeds—To repay bank loans and finance additional construction.

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.

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—Offered to Class B common shareholders of record June 10, in the ratio of one share of new stock for each three shares held at $3 per share. Rights expire 3 p.m., June 25. Fort Industry Co., owner of 122,757 shares of Standard Tube stock has agreed to purchase such portion of the above shares as shall not exceed in cost the aggregate sum of $250,000.

Steak 'n Shake, Inc., Bloomington, Ill.
Feb. 2 filed 40,000 shares of 50c cumulative convertible participating preferred stock, ($1 par) and 160,000 shares (50c par) common stock, of which 40,000 will be sold and the remainder reserved for conversion. Underwriter—White & Co., St. Louis, Mo. Price—$8 for the preferred stock and $2.50 for the common. This stock is being offered by stockholders who are members of the Belt family.

Prospective Offerings

● **Baltimore & Ohio RR. (6/23)**
Company will receive bids up to noon (EDT) June 23 for the purchase of $5,060,000 equipment trust certificates series Z, due $506,000 annually July 1, 1949-1958. Probable bidders: Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc., and Lehman Brothers (jointly); Halsey, Stuart & Co. Inc.

● **Central Maine Power Co.**
June 9 company advised that it proposes to sell through competitive bidding $5,000,000 first and general mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Kidder, Peabody & Co. and W. E. Hutton & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane, and White, Weld & Co. (jointly); Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc.

● **Chicago Milwaukee St. Paul & Pacific RR. (6/28)**
Company will receive bids up to noon (CDT) June 28, at office of J. W. Severs, Vice-President, Room 744, Union Station Bldg., Chicago, for the purchase of $3,820,000 equipment trust certificates, series "EE." Certificates will mature $191,000 semi-annually Jan. 1, 1949-July 1, 1958. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.)

● **Chicago & North Western Ry. (6/29)**
Bids for the purchase of $5,340,000 equipment trust certificates, to be dated Aug. 1, 1948 and to be due in annual instalments either in 10 or 15 years, will be received at office of R. L. Williams, President, Room 1400, 400 W. Madison St., Chicago, up to noon (CDT) June 29. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; Harriman Ripley & Co., and Lehman Brothers (jointly); Kidder, Peabody & Co., and Dick & Merle-Smith (jointly).

● **Commonwealth Edison Co., Chicago**
June 2 company announced that it expects to file a registration statement before the end of June covering $50,000,000 of bonds, to be sold competitively. Probable bidders include: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.; The First Boston Corp.

● **Gulf Mobile & Ohio RR. (6/24)**
Bids for the purchase of $7,000,000 collateral trust bonds, due 1968, will be received up to noon (EDT) June 24 at office of Beekman & Bogue, 15 Broad St., New York. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Harriman Ripley & Co. (jointly); Shields & Co.; Glore, Forgan & Co.

● **Louisville & Nashville RR. (6/30)**
The company has issued invitations for bids for the purchase of $30,000,000 first and refunding mortgage bonds, Series H, dated April 1, 1948, and maturing April 1, 2003. Bids must be received by the company not later than 11.30 a.m. (EDT) June 30. The price is not to be less than 98 and the rate of interest not in excess of 3¾%. Proceeds of the issue will replace treasury funds used for capitalizable expenditures, provide funds for future similar expenditures and increase working capital. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.

New England Power Co., Boston, Mass.
June 4 company asked SEC authority to sell at competitive bidding $11,000,000 first mortgage bonds, series B, due 1978, the proceeds to be used to purchase the utility assets of Bellows Falls Hydro-Electric Corp. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Kidder, Peabody & Co. and White, Weld & Co. (jointly).

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).

Philadelphia Baltimore & Wash. RR. (6/22)
The company has issued invitations for bids to be received up to noon (EDT) June 22 at office of Geo. H. Pabst, Jr., Vice-President, 1811 Broad Street Station Building, Philadelphia, for $17,570,000 in general mortgage bonds, series F, maturing May 1, 1979. Probable bidders: Kuhn, Loeb & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Harriman Ripley & Co.

● **Philadelphia Transportation Co.**
Pursuant to the provision of a plan for the distribution of the assets of Transit Investment Corp., which is being dissolved, sealed bids will be received on behalf of the corporation by Lybrand, Ross Bros. & Montgomery, 2101 Packard Building, Philadelphia 2, on June 24, 1948, at noon (EDT) for the purchase on an "all or none" basis, of voting trust certificates for 9,238 shares of the common stock of Philadelphia Transportation Co.

Richmond Fredericksburg & Potomac RR. (6/22)
Bids for the purchase of $2,400,000 equipment trust certificates will be received at office of H. S. Wood, Treas., Room 501, Transportation Building, 201 W. Broad Street, Richmond, Va., up to noon (EST) June 22. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.).

Texas Gas Transmission Corp.
● June 28 stockholders will vote upon an increase in the authorized stock to 100,000 shares ($100 par) preferred and 3,000,000 shares ($5 par) common. Existing capital authorized is 2,000,000 shares of capital stock, of which 1,265,383 shares are outstanding. It is proposed to use 1,265,383 shares of new common for exchange for existing capital stock outstanding and to sell privately at $8 a share 625,000 shares under an arrangement already made subject to shareholder approval. The preferred shares would be issued in series when necessary.

● **United Public Service Corp.**
The Middle West Corp., has asked the SEC to permit the sale of its common stock holdings in United Public Service Corp. to Doyle, O'Connor & Co., of Chicago.

Westinghouse Electric Corp.
July 12 stockholders will vote on increasing authorized debt from $50,000,000 to $150,000,000. It is planned to issue $70,000,000 to $80,000,000 of debentures to refund or retire a portion of $100,000,000 obligations maturing in 1951. These obligations consist of $20,000,000 of debentures and $80,000,000 of bank loans. Traditional underwriter, Kuhn, Loeb & Co.

● **Stuart Aerial Insect Control, Inc., New York**
June 11 (letter of notification) 200,000 shares of common stock (par 10¢). Price—$1 par share. Underwriter—James T. Dewitt Co., Canton, Ohio. Acquisition of business of P. J. Murray.

● **Super Electric Products Corp., Jersey City (6/21-25)**
June 10 (letter of notification) $148,000 series A convertible participation 5% notes and 14,800 warrants to purchase common stock ($2 par), to be issued in units of 10 warrants with each $100 of notes, and 49,900 shares of common stock. Price—Units, $100; common, $3 per share. Underwriter—Kaye, Real & Co., New York. Payment of existing obligations to State and Federal Governments. Additional working capital, etc.

Tabor Lake Gold Mines, Ltd., Toronto, Canada
April 2 filed 300,000 shares (par $1) preferred stock. Underwriter—Mark Daniels & Co., Toronto, Canada. Price—60 cents a share. Proceeds—For mine developments.

● **Theatre Showcase**
June 11 (letter of notification) 500 shares of $4 cumulative dividend, 50% participating preferred stock, series A. Price—$100. Repay costs and expense of promotion and incorporation of company.

● **Union-Standard Oil Co., Inc., Salina, Kan.**
June 11 (letter of notification) $250,000 of common stock. No underwriter. To drill test well.

United Air Lines, Inc., Chicago
June 7 filed filed 369,618 shares ($10 par) common stock. Underwriter—Harriman Ripley & Co., Inc., New York. Price—By amendment. Offering—To be made to common stockholders of record June 28 on the basis of one share for each five now held. Rights expire July 12. Proceeds—Expenditures for equipment and facilities, retiring bank loans and debentures.

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.

U. S. Rubber Reclaiming Co., Inc., New York
May 25 (letter of notification) $300,000 4½% subordinate convertible debentures, due June 1, 1962. Price, par. Underwriter—Ladenburg, Thalmann & Co. Offering—Offered for subscription by stockholders at par. Rights expire June 22. Complete new plant facilities.

Virginia Iron, Coal & Coke Co., Roanoke, Va.
June 7 filed 3,750 shares of 4% preferred stock ($25 par) and 15,000 shares ($10 par) common stock, to be sold by Mrs. Esther Buchman of New York City. Price—Preferred $20; common $8.25. Underwriter—None.

● **Vitarama Corp., Huntington Station, N. Y.**
June 11 (letter of notification) 3,000 shares preferred stock (no par) and 3,000 shares common stock (par $1). Price—Preferred, $95; common, $3. Underwriting—None. Working capital.

West Virginia Water Service Co., Charleston, West Virginia
June 7 filed 8,000 shares of $5 preferred stock (no par). Underwriters—To be filed by amendment. Price—$100 each. Proceeds—Retire $400,000 of bank loans, and for construction purposes.

Yeakley Oil Co., Alamosa, Colo.
April 30 filed 10,000 shares of common stock (par $10). Underwriting—None. Price—$10 per share. Proceeds—Mainly for development.

Zonolite Co., Chicago, Ill.
May 24 (letter of notification) 22,000 shares common stock (par $1). Underwriter—Wm. C. Roney & Co. Price by amendment.

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Europe's Planning Sabotaging ERP

(Continued from page 4)

acted the necessary automatism, was an element in the "gold exchange standard," applied by the European countries since the last war. This built up the money circulation in one country on the gold reserve of another country where this was also the currency basis, so that the automatism of the gold standard, which appeared to be retained, disappeared for the greater part. The equilization fund policy of the 30's went even further: the purchase of foreign currency by the circulation bank against the issue of treasury paper was intended to counteract the automatism of international monetary traffic; it created "bad money" in the foreign center and had the tendency at home to tighten the money market, although the influx of foreign means ought to have broadened it. In this way natural adaptation was made difficult, if not impossible. But that was just the idea. Currency, credit, had to serve a certain economic policy and therefore the automatism that immediately punished every error was too much of a nuisance.

It cannot be denied that this disinclination to bow to the necessity of a natural adaptation also prevailed during the financial talks in Brussels. No attempt was made to find a solution which would put an end to the evil of one-sided obligations toward Belgium. For this would have compelled the five countries to revise their whole economic policy and seek adaptation among themselves. The Brussels talks had only a temporary solution in view and sought a way out in the direction of a multilateral clearing. It is clear that this is useless if the fundamental causes of the disturbed balances of payment continue to exist. Constructive cooperation was not achieved. Britain, which has so many bonds with and obligations towards the other countries in the sterling area, takes more account of this than of West European financial cooperation.

France and The Netherlands, which have a greater need of exports than the other partners, owing to the German occupation, applaud a measure which gives them greater purchasing power abroad. Belgium and Luxemburg cannot afford to continue as money-lenders without endangering their own monetary equilibrium. These apparently conflicting interests can only be reconciled by a thorough review of economic policy in such a way that it is brought into line with participation in world trade: free commerce and free currency. Unfortunately, we have not come to have this insight yet, as the Brussels talks have shown.

Unsound Brussels Arrangement

European monetary policy is still dominated by the same conceptions as those of the Thirties. The more the effects of this become pronounced (impossibility of healthy recovery, the foundation of prosperity), the more efforts are made to avoid the consequences by an evermore complicated system of measures. Such is the measure that has been evolved, within the framework of Western Union, for debts to Belgium.

The idea is to create a fund in the national currencies of the five countries which will have to be fed from part of the receipts in national currency from ERP—grants in aid. It should be clear that, if no change is brought about in the economic and, especially, the trade policy of the three debit countries (Britain, France and The Netherlands), the picture remains the same: Belgium, therefore, continues to be creditor, and these means (which would be very small because Belgium is allotted only a few grant-in-aid dollars) would soon be used up. It would be a very inefficient use of ERP—assuming that the U. S. agreed with that use of the equivalent in national currency of ERP dollars—and this use would not be in accordance with the aim of ERP with regard to the use of those monies in national currency. It would be more acceptable that a part of the ERP dollars be used as a stabilization fund for European currencies in the same way that, after the first world war, various international stabilization loans were granted, including to Belgium.

Stabilization of Currencies Essential

The stabilization of currencies—by this is meant, of course, the stabilization of a free currency and not a nominal stabilization, as is now being maintained with the aid of the destructive foreign exchange regime—is, as has been set out above, an indispensable condition for a healthy restoration of international commerce. As such it must be regarded as integral to the success of ERP. But then, guarantees for genuine stabilization must be created. To an equal degree is it necessary that ERP helps to free Western Europe of bilateralism and further obstacles and restrictions in the way of a free exchange of goods and services between the countries of Europe. For the matter of that, it is impossible to organize ERP otherwise than on this basis of an economic system seeking its own equilibrium. The existing economic system of the European countries, which is chiefly founded on directed or planned economy, has already become so complicated that governments themselves cannot see the wood for trees and have lost control of the situation.

They have to resort continually to new artificial methods of easing the tensions created by deviation from natural equilibrium. It is a hopeless task to try to plan such a variegated continent as that of the 16 European states plus an economic chaos like Germany. The best and only reliable control is a return to a free, balanced economic system which guarantees that goods and services flow to those areas where they are most badly needed—the only principle of a prosperity-economy.

Economic Isolation Must Disappear

Before 1914 Europe could boast of such a system. It did not return after the first world war because the national states, which were after only what appeared to be of immediate advantage, resorted to an economy of isolation. Now, after the second world war, this has assumed monstrous proportions. It is even doubtful whether complete recovery is possible. One should remember that the European population is so dense that it can only remain so big through a high level of industrialization and a reasonable level of prosperity. A population increase of 100% within half a century was possible only through increasing capital wealth. This has shrunk considerably in the course of two wars. Moreover, the economic structure of the world and of Europe itself has changed. Adaptation will therefore be doubly difficult.

When we see how many difficulties there are to be overcome on a matter on which regulation is vital (the creation of a healthy monetary relationship between the five European countries who have committed themselves freely to cooperation) and that the talks have so far proved fruitless, then one can understand how difficult it will be to coordinate the narrow conflicting interests of the 16 countries, plus the chaos in Western Germany into one healthy economic whole.

The division of Europe into so many sovereign states must make a strange impression on an American, used to thinking in terms of continents, especially in these times. He should remember, however, that both that division and the European creation of world trade in the past four centuries is the result of a certain individualism and energy.

The important thing now is to develop that individualism and energy afresh. ERP can serve as an instrument for this, provided it creates such conditions that this division into states no longer constitutes an obstacle in the way of a free exchange of goods and services.

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CALL FOR TENDERS

The Western Union Telegraph Company

Notice of Invitations for Tenders of

4½% Funding and Real Estate Mortgage Bonds, due May 1, 1950

5% Twenty-five Year Bonds, due December 1, 1951

Notice is hereby given that The Western Union Telegraph Company invites tenders of Bonds of the above issues, for purchase by it, and that tenders will be received by the Company, at 60 Hudson Street, New York 13, N. Y., until 12 o'clock noon, Eastern Daylight Saving Time, on June 30, 1948.

Copies of the Invitation for Tenders, which sets forth the terms and conditions relating to such tenders, and copies of the Form for Tender, on which all tenders must be made, will be supplied by the Company upon request addressed to the attention of its Treasurer at the above address.

No price ceiling has been fixed by the Company, and accordingly tenders may be made at any price.

By the terms of the Invitation for Tenders, Bonds, the tender of which is accepted, must be delivered on or prior to July 20, 1948, against payment. Interest upon such Bonds to said date will be paid as part of the purchase price.

Where the person making a tender is not a bank, trust company, insurance company or member of a national securities exchange or association, arrangements must be made for the delivery of the Bonds, in the event of acceptance in whole or in part of the tender, by a bank, trust company, securities exchange or association member, unless the Company waives such requirement. The bank, trust company or securities exchange or association member making such a delivery upon the acceptance in whole or in part of the tender of another person will be paid by the Company $2.50 per $1,000 principal amount of Bonds delivered.

The Western Union Telegraph Company,
By W. P. MARSHALL, Treasurer.

New York, N. Y., June 10, 1948.

Dealer-Broker Recommendations

(Continued from page 8)

Old Ben Coal Corporation—Illustrated brochure giving 13-year analysis—Comstock & Co., 231 South La Salle Street, Chicago 4, Illinois.

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

Pittsburgh Coke and Chemical Company—Study—Eisele & King, Libaire, Stout & Co., 50 Broadway, New York 4, N. Y.

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

Also available are data on **El Paso Electric Co., Seminole Oil & Gas and Gruen Watch Co.**

Production Aids, Inc.—Memorandum—Fewel & Co., 453 South Spring Street, Los Angeles 13, California.

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

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

Southeastern Public Service Co.—Circular—Marx & Co., 44 Wall Street, New York 5, N. Y.

Standard Oil of New Jersey—Analysis and outlook—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Verney Corp.—Description analysis—A. G. Woglom & Co., Inc., 49 Federal Street, Boston 10, Mass.

Also available are analyses of **United States Finishing and Maine Central Railroad.**

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

Zonolite Co.—Memorandum—Ames, Emerich & Co., 105 South La Salle Street, Chicago 3, Ill.

DIVIDEND NOTICES

AMERICAN MANUFACTURING COMPANY
Noble and West Streets
Brooklyn 22, New York

The Board of Directors of the American Manufacturing Company has declared a dividend of 25c per share on the Common Stock, payable July 1, 1948 to Stockholders of Record at the close of business June 18, 1948. Transfer books will remain open.
ROBERT B. BROWN, Treasurer.

THE GARLOCK PACKING COMPANY

June 9, 1948

COMMON DIVIDEND No. 288

At a meeting of the Board of Directors, held this day, a quarterly dividend of 25¢ per share was declared on the common stock of the Company, payable June 30, 1948, to stockholders of record at the close of business June 19, 1948.

H. B. PIERCE, *Secretary*

The Weatherhead Company

A quarterly dividend of $1.25 per share has been declared by the Board of Directors on the outstanding Preferred Stock of the Company, payable July 15, 1948, to stockholders of record at the close of business on July 2, 1948.

MORRIS H. WRIGHT
Treasurer

May 12, 1948
Cleveland, Ohio

Dividend Notice

The Board of Directors of The Arundel Corporation has this day declared 25 cents per share as the regular quarterly dividend, on the no par value stock of the corporation issued and outstanding, payable on and after July 1, 1948, to the stockholders of record on the corporation's books at the close of business June 22, 1948.

MARSHALL G. NORRIS,
Secretary

June 15, 1948

DIVIDEND NOTICES

WESTERN TABLET & STATIONERY CORPORATION

Notice is hereby given that a dividend at the rate of $.50 per share on the issued and outstanding shares without par value of the Common Stock of Western Tablet & Stationery Corporation has been declared payable on July 10, 1948, to the holders of record of such shares at the close of business on June 24.
E. H. BACH, Treasurer

United Shoe Machinery Corporation

The Directors of this Corporation have declared a dividend of 37½c per share on the Preferred capital stock. They have also declared a dividend of 62½c per share on the Common capital stock. The dividends on both Preferred and Common stock are payable July 6, 1948, to stockholders of record at the close of business June 16, 1948.

WALLACE M. KEMP,
Treasurer.

UNITED FRUIT COMPANY

DIVIDEND NO. 196

A dividend of fifty cents per share on the capital stock of this Company has been declared payable July 15, 1948, to stockholders of record June 24, 1948.

EMERY N. LEONARD
Treasurer

SEABOARD FINANCE COMPANY

COMMON STOCK DIVIDEND
53rd Consecutive Quarterly Payment

The Board of Directors of the Seaboard Finance Co. declared a quarterly dividend of 40 cents a share on Common Stock payable July 10, 1948 to stockholders of record June 24, 1948.

PREFERRED STOCK DIVIDEND
4th Consecutive Quarterly Payment

The directors also declared a regular quarterly dividend of 65 cents a share on Convertible Preferred Stock, payable July 10, 1948 to stockholders of record June 24, 1948.

A. E. WEIDMAN
Treasurer

May 27, 1948

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Washington... And You

Behind-the-Scene Interpretations from the Nation's Capital

In politics, to use a figure of speech, whenever a window washer falls off the side of the building there are always two or three watchers hanging around who will apply immediately for the newly deceased's job.

Something of this philosophy is suggested to explain the current excitement, albeit belated, over the Supreme Court's April 26 decision in the cement case, in which the highest court ruled that as part of a "combination or conspiracy" to restrain prices, the use of a basing point pricing system was illegal. Now from certain quasi-judicial quarters and from various points in Congress come interpretations that American business, so much of which traditionally has operated on one modification or another of the basing point system, is about to be taken apart.

Pittsburgh would have to stop being the nation's steel center; Detroit would close down as the nation's chief automotive center, whereas the hog farmers of Iowa probably would have to make home made cars in backyard garages while Maryland tobacco farmers raise prime hogs and cigarettes cannot be made in Virginia-Carolina but can be rolled by Maine farmers after the season on deer closes, etc., etc. At least, judging by the alarmists, these are some of the things which are going to happen, and if business outside of Washington falls for these scares, it hardly can be blamed.

* * *

One well-written set of alarms comes from a source which would like to amend the anti-trust laws in its own way. That way is to have the Federal Trade Commission be empowered with 1950 model statute to supervise all the practices and ethics of business through the device of trade practice conferences. At these trade practice conferences, already carried on in a limited way by FTC, business could do almost anything in the way of price fixing so long as it was socially nice price fixing approved by the FTC.

Few in Congress, however, are inclined toward any notion of giving any government agency such a broad power. They also recognize that the minute Congress granted industry any broad legal power to "conspire" to fix prices and practices under a benign government eye, labor would force its way into the cut and then there would be the NRA all over again.

* * *

A second set of alarms comes from the politically-professional friends of small business in Congress. Senator Capehart, Indiana Republican, hastened to get put through the Senate a broad investigation of the anti-trust laws by the Interstate Commerce Committee. His investigation would be so broad as to all but recreate a Republican version of the mouthy Temporary National Economic Committee of the early New Deal. Capehart got the Senate to approve this proposal, so theoretically the Senate Interstate Commerce Committee is now to engage in a full-blown study of revision of the anti-trust laws.

Whatever Senator Capehart may come up with when, if ever, in the way of proposals to amend the anti-trust laws, all he can do when he has them wrapped up is to take them over to the Senate Judiciary Committee and cheer for their adoption. It is the latter committee which has sole jurisdiction over anti-trust law changes.

Then Senator Ferguson of Michigan, who has been investigating something or other ever since any one can remember, also came forth with a resolution the effect of which would be to let the Senate Judiciary Committee investigate the need for changes in the law in the light of the cement case and other recent decisions.

Then the House Special Committee on Small Business has announced that it will roam the country this fall with a view to finding just the ideal way in which the anti-trust laws can be amended. Probably the members of the committee will be occupied for the most part with electioneering, but the professional staff of the special committee will be making studies.

* * *

Actually there is relatively little apprehension here among those highly trained observers of business whose job it is to spread the alarm if there is something to be scared of. One outstanding source said that possibilities fell into two parts:

(1) If it were assumed that the language of the Supreme Court decision explicitly outlawed basing point price systems as such, regardless of any other concerted action, then it is still a far cry before industry must completely revolutionize its pricing practices, decentralize, reorganize, and do all the things the alarmists predict. Such dire results cannot be feared until the Justice Department and the Trade Commission have launched innumerable cases. Long before such cases could be adjudicated, Congress would return to send the fire engines back to their red barns and the firemen to playing cards.

(2) It is probable, in the opinion of some trade association experts, that the language of the Court, upon further study and interpretation, will be found to outlaw basing point systems only when they are a device used as a "conspiracy" within the meaning of the anti-trust laws.

* * *

Another decision which has not aroused the fear in this capital it has elsewhere is the recent decision of the Supreme Court upholding "overtime on overtime." Theoretically this decision opens numerous industries to vague liabilities estimated any where from $900 million to several billions.

This decision, of course, is a real problem to the stevedoring industry to which it was directly applicable. Nevertheless, there is a feeling that organized labor may desist generally from instituting such suits on a broad scale for fear of jeopardizing the "third round" of wage rises. There is also some belief that even if suits are launched, Congress will be back in time next January to stop them. Finally, it is insisted by some, even if denied by others in Congress, that the law estopping back portal-to-portal pay suits provides an adequate defense to old wartime claims for "overtime on overtime."

Partly for these reasons Congress decided not to pass a law curing the "overtime on overtime" situation before adjourning. The more practical reason is that Congress did not want to pass another law which the Administration could term anti-labor. Until a few days ago the Congressional leadership was all set with plans to shove through a hasty bill outlawing back overtime suits. Then it was decided it was better politics to hold off until January.

However, this Supreme Court decision does provide another incentive to Congress next winter to revamp the whole Wage-Hour Act so as to cure many of the broad interpretations of the Wage-Hour Administration while at the same time boosting minimum wages.

* * *

When Congress passed a special act to restrict the application of the old insurance law so that persons whom Congress, which wrote the law, did not intend originally to be covered, the Congress knew that the President would veto the bill. Congress sought to exclude from coverage news vendors, salesmen, and other people not classed as "employees."

So Congress to get this restriction adopted despite the President's objection, sweetened the proposition by adding $5 more per person for old age assistance, the charitable, non-contributory phase of social security. This will cost between $178 and $184 million for the first year. This works out to be a per capita cost of $3 per year for every gainfully employed person in the U. S., with the ultimate cost—to override the President's wishes—of billions over a period of years.

However, the contingent liabilities of all taxpayers, had the Congress enacted the social security program the President has been demanding, would have been tens of billions.

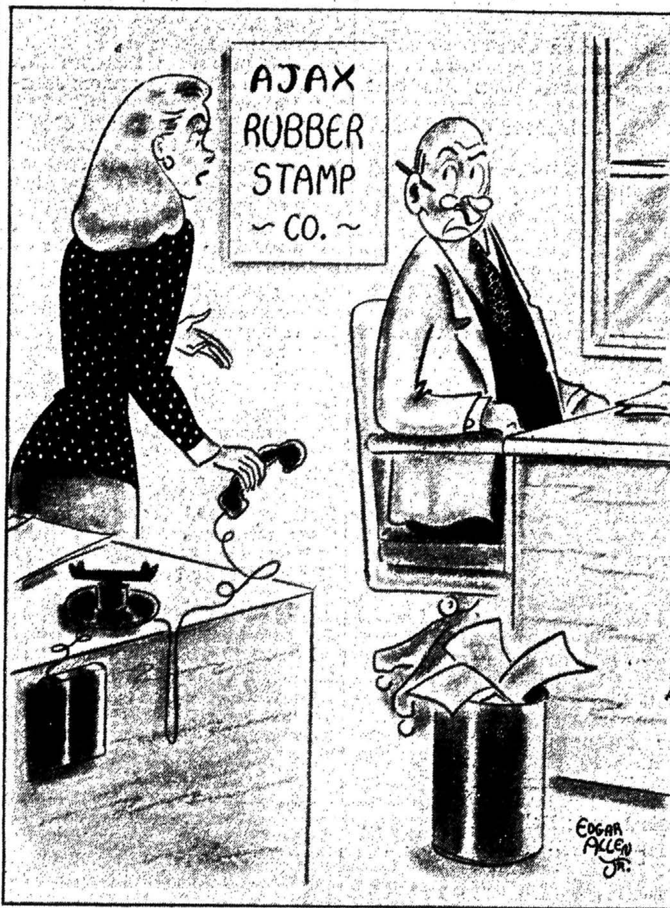
* * *

Don't expect much to develop in the near future in the way of bringing about a devaluation of foreign currencies. Something along this line probably won't develop for a few months.

Congress has leaned toward European currency devaluation on the theory that the over-pricing of currencies was discouraging the incentive of labor and thus discouraging production. The Administration, on the other hand, takes the strictly foreign exchange viewpoint that devaluation is only necessary if the value of the currency is too high to promote maximum exports available.

Labor incentive in Europe will pick up when ECA provides the raw materials and the consumer things Europe cannot buy. After ECA has encouraged expanded European production, it will be time to take a fresh look at currency values, the Administration feels.

BUSINESS BUZZ



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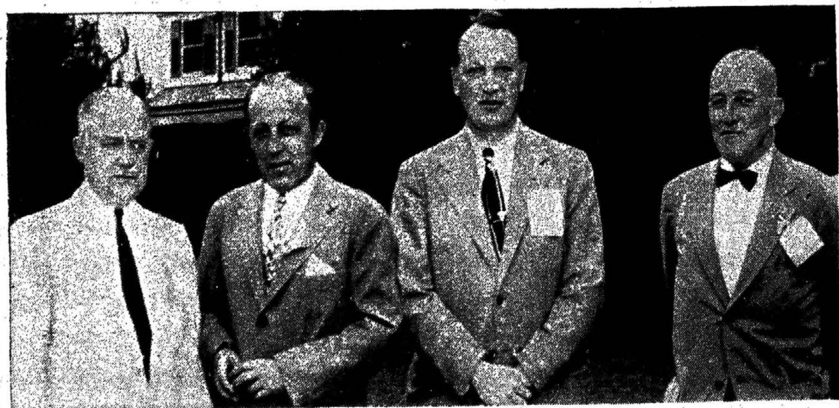

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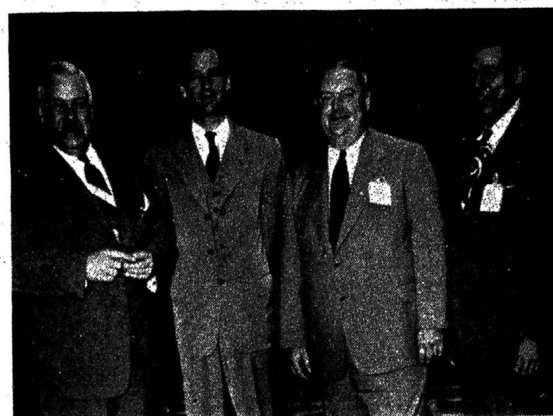

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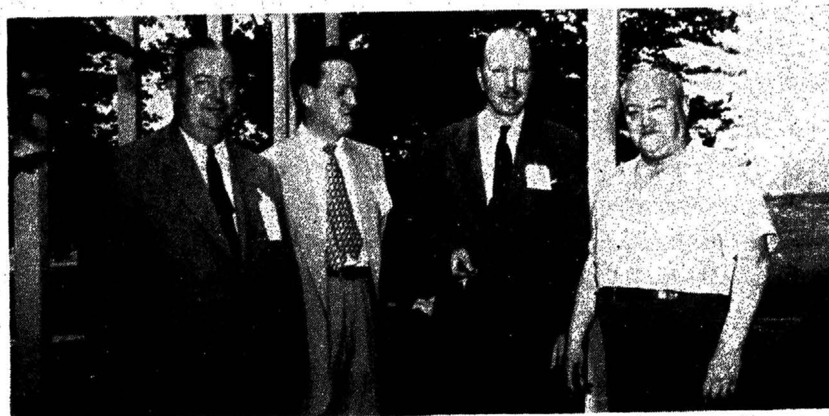

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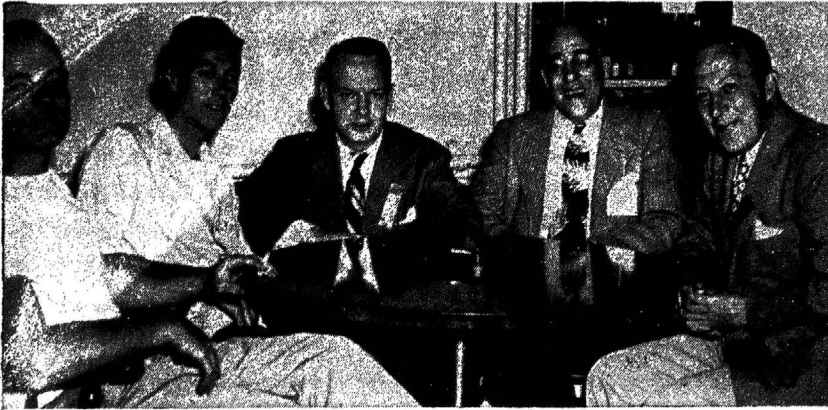

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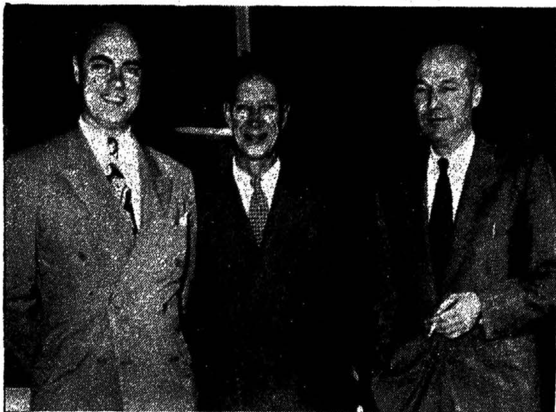

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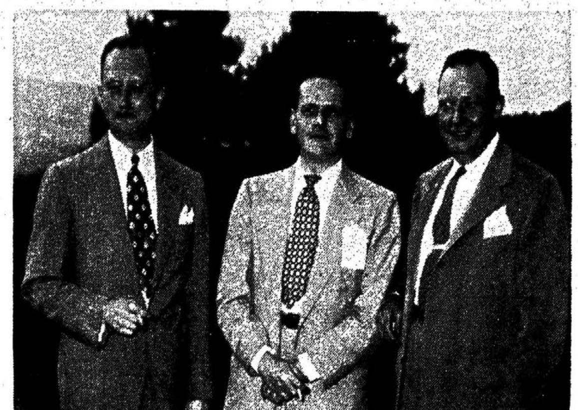

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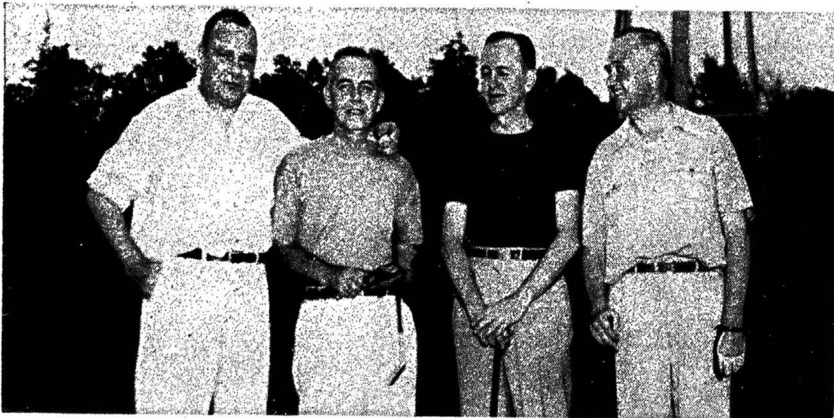

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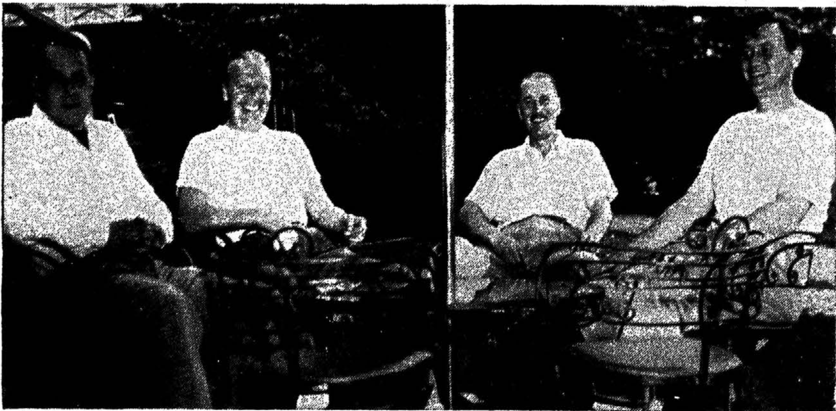
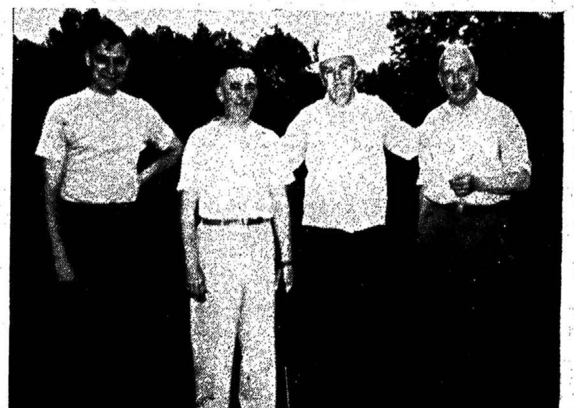


Fred D. Stone, Jr., *Marine Trust Co. of Buffalo,* New York; Ray Wilson, *Union Securities Co.,* New York; Jack Cullen, *R. W. Pressprich & Co.,* New York; Paris Scott Russell, *Glore, Forgan & Co.,* New York

Charles Hamburger, guest; R. H. Monaghan, Newark; E. J. Turner, Newark, guest

Norton P. Rogers, *Rogers, Gordon & Co.,* New York; W. C. Rommel, *J. S. Rippel & Co.,* Newark; Gordon Miller, *National State Bank, Newark;* R. F. Vanderhoff, *Fidelity Union Trust Co.,* Newark

Rodney S. Smith, Jr., *Graham, Parsons & Co.,* New York; Clifford Hemphill, Jr., *Hemphill, Noyes & Co.,* New York; Joseph F. Rush, *Reynolds & Co.,* New York



John Hoffmann, *Shields & Co., New York;* Thomas Kenyon, *Carteret Bank & Trust Co.,* Carteret, N. J.; W. H. Campbell, *Campbell & Co., Newark;* H. L. Rost, *Peoples Bank & Trust Co.,* Westfield, N. J.

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San Francisco Stock Exchange Tour of Pacific Northwest

Members of the Committee heading the Stock Exchange tour of the Pacific Northwest with a representative of Puget Sound Pulp & Timber Co. at the Bellingham airport. Reading from left to right: Ferdinand C. Smith, Chairman, Public Relations Committee; Richard P. Gross, Member, Board of Governors; Ronald E. Kaehler, President; Lawson P. Turcotte, Executive Vice-President of Puget Sound Pulp & Timber Co., and Hubert J. Soher, Chairman, Listing Committee

Ronald E. Kaehler (center), President of the San Francisco Stock Exchange; Douglas G. Atkinson (left), *Dean Witter & Co.*, and Norman Allen, Assistant to Boeing President William M. Allen, inspect the double-deck Boeing Stratocruiser

Members of the group, industrialists and airline attendants partaking of luncheon during the itinerary.

Group at San Francisco airport about to board plane for Northwest trip.

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