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# The COMMERCIAL and FINANCIAL CHRONICLE

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## Truman Again Urges Inflation Controls

**In submitting Mid-Year Report of Council of Economic Advisers, President says action should be taken now to impose inflation curbs. Contends historically, no important inflation has been cured by increasing supply of goods.**

President Harry S. Truman on July 30 submitted to Congress the Mid-Year Report of the Council of Economic Advisers, (referred to elsewhere in this issue), together with his own recommendations and comments, in which he reiterated his request for legislation setting up new executive controls over the national economy in order to forestall a business collapse and to insure the "reconstruction of a peaceful world."

President Truman

*The text of the President's message follows:*

*To the Congress of the United States:*

On Jan. 14, 1948, I transmitted to the Congress my annual Economic Report under the Employment Act of 1946. At the present stage in economic affairs it is again desirable that the Congress and the country be presented with

(Continued on page 22)

## I.C.C. Rate-Making Policy—Its Evils and Remedies

By ELISHA M. FRIEDMAN
Consulting Economist
Chairman, Econometric Institute, Inc.

**Mr. Friedman points out, despite highest peace traffic in history, Class I railroads are reporting low earnings on net plant investment. Sees rail outlook in next depression as ominous. Contends regulated rails' earnings are much less than regulated utilities'. Says Congress should specify a fair return on railroad capital and require ICC to grant prompt, liberal rate increases when conditions require.**

**Railroads Demanded a Freight Rate Increase to Offset Rising Costs**

The request filed July 3, 1947, was for an increase in rates totaling, as later amended, 41% in the East and 31% in the West, and averaging about 29.2% after exceptions. The Interstate Commerce Commission granted increases in instalments of 10% in October, 10% in December, and 4% in April, 1948, totaling an average of 21.4% after exceptions. These increases have just been made permanent in a decision by the Commission on July 29. In the past 28 years on 12 cases the ICC waited an average of 220 days and an extreme of 423 days from the date of request to the effective date of the increase.

Elisha M. Friedman

The delay in granting the full increases requested was protested by two members of the ICC. Commissioner Miller stated, "I think that, with a few exceptions, the carriers are fully justified, and should be allowed, substantially, all the increases sought." Commissioner Mitchell stated, "I concur . . . because of the very apparent need for increased revenue

(Continued on page 24)

## AUSTERITY—The International Crusade Against Luxuries

By WILHELM ROPKE, PH.D.
Professor at the Graduate Institute of International Studies, Geneva

**Dr. Ropke warns against scuttling of ERP through killing production incentives by undue restriction of consumption. Scores "impertinence" of bureaucracy that deprives consumer of right to decide what he can afford. States austerity is cherished by planners and collectivists, because it sanctifies their authority, making consumer the scapegoat of their destructive policies. Declares way to cure crisis of balance of payments is to cut government expenses responsible for inflationary pressure, or let exchange rates go.**

GENEVA, SWITZERLAND—The other day I asked in a Copenhagen department store for a portfolio because my old one had become too shabby and also because I thought it a good idea to buy such a thing in a country teeming with cattle. The young man behind the counter was very sorry; the only things he could sell me were the worst kind of rubbish while neat's leather was out of the question. But where do all the Danish ox-hides go to? I asked rather puzzled. Some of them are certainly made into portfolios, I was told, but they are a luxury which Denmark cannot afford today. So we export them all and you will find the best Danish leather goods in Geneva.

Wilhelm Ropke

Really, as an economist I ought to have known better. I should have been well acquainted with a

(Continued on page 31)

*EDITORIAL*

## As We See It

### The "Defense" Against Disaster

Sum up what the President has been saying during the past two or three weeks, and we have a statement to the effect that we are face to face with approaching disaster which can be averted only by the defensive campaign which has been devised by him. The disaster envisaged is comprehensive and final, embracing economic collapse, the end of free enterprise, war, and ultimate slavery to the Kremlin. The President is, perhaps, not quite so explicit in his warnings of catastrophe, but what he says comes down in final analysis to all this. From it all we can save ourselves and the world if we will, but we must not gag at the remedy prescribed.

**Now, of course, there is no good ground for believing that anything of the sort described by the Chief Executive is in store for the world in the foreseeable future. That at some time or other we shall have another depression all sensible men are, we are sure, agreed. When it will arrive is a matter about which**

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# Council of Economic Advisers Sums Up Economic Situation

**In mid-year report to President it pictures "an unstable economy" and holds, because of unchecked inflation, "adjustments must be made eventually in order to assure sustained prosperity." In section dealing with issue between inflation and stabilization, Council warns effectiveness of voluntary action cannot be assured without wise and vigorous government action.**

In the "Report on the Economic Situation at Mid-Year 1948," prepared by the Council of Economic Advisers, of whom Edwin G. Nourse is Chairman and Leon Keyserling and John D. Clark the other members, (which report, together with his own remarks upholding his program, were submitted to Congress on July 30 by President Truman), a summation is made of present and prospective economic conditions under the heading, "The Nation's Economic Budget." The text of this section of the report follows:

Edwin G. Nourse

Leon H. Keyserling

Dr. John D. Clark

"The Nation's Economic Budget is a convenient way of summarizing the main trends in the flow of goods and purchasing power, and of relating these trends to possible future developments.

"The Nation's Economic Budget total, representing gross national income or expenditure, in dollar terms increased by 7% from 1947 to the first half of 1948 (annual rate). This is a rate of increase somewhat below the rise that took place in the preceding year. A large part of the increase in 1948, as in 1947, reflects the rise in prices and wages; there was, however, also some increase in the real flow of goods and services. The inflationary tendencies that prevailed particularly in the second half of 1947 continued in 1948, though at a reduced rate.

"Comparing the composition of the Nation's Economic Budget in the first half of the current year with the preceding year, the similarities appear more significant than the changes that have occurred. The largest items in the Nation's Economic Budget are consumer income and expenditures. Their share in the Nation's Economic Budget total remains approximately constant with 75% and 71% for consumer income and consumer expenditures, respectively. These percentages, large as they are, are somewhat below those that prevailed in most peacetime years in the past. Large national and international government programs and large business investment compete with consumer expenditures for limited national resources. The sum of business, international, and government accounts in the Nation's Economic Budget maintained a relatively large share in the total; but there were quite substantial changes in the relationship among these accounts.

"Gross private domestic investment increased relatively more than any other major category in the Nation's Economic Budget. This was due to increases in new construction and inventory accumulation. Present indications are that domestic investment will continue on a high level during the remainder of the year.

"Net foreign investment declined by more than half during the first six months of 1948. The increase in Government foreign assistance during the second half of the year will in large part take the form of grants, which are recorded in government expenditures rather than in net foreign investment. For this reason the net foreign investment component of the Nation's Economic Budget will probably not rise, even though the total excess of exports of goods and services increases.

"Government payments have been declining since the war peak, and showed a further slight decline during the last six months. Because of the increase in Federal outlays for defense and foreign aid, and the continuing increase in State-local payments, this trend is likely to be reversed. An increase in government payments therefore appears certain for the coming six-month period.

"Thus it seems likely that expenditures for private domestic investment will continue at a high level, while the decline in government payments will be reversed. In the present situation of full employment and capacity production, this makes for a situation of inflationary pressure.

"The picture of an unstable economy is presented even more clearly when attention is focused upon the excess of receipts or expenditures.

"Both in 1947 and during the first six months of 1948, the excess of investments and exports in the business and international accounts was largely offset by consumer net saving plus the government cash surplus. Between these two periods, the excess of business investment increased by nearly $5.5 billion, as did the government surplus. The most important change in the Nation's Economic Budget that is bound to occur under present legislation for the coming period is that this government cash surplus will be drastically reduced. This means that by necessity other items of saving or excess of investment must adjust themselves correspondingly.

"It should be recognized that the large dollar amounts of individual saving and government cash surplus that helped to balance the large excess investments and excess exports during the last two years were partly a result of the inflationary process. When incomes and prices are inflated, the amounts of saving and taxes tend to increase. Thus we have in our economic structure a kind of automatic emergency brake that helps to slow down inflation. By reducing tax rates despite inflationary prospects, we have acted like an engineer who releases his emergency brake—in the face of an emergency. The question for the coming months is whether once again we will permit a price rise to balance the Nation's economic accounts in the precarious manner that is characteristic of an inflationary movement.

"Looking at the Nation's Economic Budget from the long-range aspect of economic stability, it appears also that major adjustments still remain to be made if a peacetime economy of sustained prosperity is to be achieved. The sum total of business investment, net foreign investment, and government expenditures will probably require a smaller share in the Nation's Economic Budget total than in recent years. That means that, in a future expanded economy, consumer income and expenditures will require a larger share in order to assure markets for everything that can be produced. Adjustments that must be made eventually in order to assure sustained prosperity are not appearing in the course of unchecked inflation. By permitting further inflation, we render the future task of transition to a condition of sustained prosperity that much more difficult."

* * *

### The Issue Between Inflation and Stabilization

Following the foregoing summary of the economic situation, the Council of Economic Advisers discuss the impact of government actions on prices and wages, as well as other aspects of the unsettled issue between inflation and stabilization. Regarding the problem of checking inflation, the report of the Council states:

"In the preceding pages, the

(Continued on page 26)

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# McCabe's Views on Credit Curbs

**New Chairman of Federal Reserve tells Senate Banking and Currency Committee additional bank reserve requirements are necessary to check inflation. Also favors reimposition of wartime curbs on consumer credit. Upholds pegging of long-term government bond yields, but favors rise in rates on short maturities and urges teamwork between Treasury and Federal Reserve Board. Gives summary of Federal Reserve views to House Committee.**

In a statement to the Senate Banking and Currency Committee on July 29, Thomas B. McCabe, the new Chairman of the Board of Governors of the Federal Reserve System outlined the position taken by the Board on anti-inflation credit curbs proposed by President Truman and in addition made "some personal observations concerning the impact of the inflationary forces on our credit control mechanism."

Thomas B. McCabe

*The complete statement of Chairman McCabe, as released by the Federal Reserve Board follows:*

When Senator Tobey very kindly asked me yesterday afternoon if I would appear before you this morning, I requested that he postpone any appearance until after the scheduled meeting of the Board of Governors tomorrow, as I had promised the Board that I would submit to them for approval the statement that I was preparing for the House Banking and Currency Committee before whom I was previously requested to appear.

On the urgent insistence of Senator Tobey, followed by a special request from the President, I prepared a condensed statement of the official view of the Board of Governors and submitted it for approval to the individual members by telephone last night. After obtaining their favorable approval, I telephoned Senator Tobey about 10:00 p.m. and told him that I would be pleased to appear this morning.

*The statement of the Board is as follows:*

**Anti-Inflation Act of 1948**

The proposed "Anti-Inflation Act of 1948" includes two titles relating to credit controls. Both are, in substance, part of the comprehensive anti-inflationary program which the Board of Governors has previously recommended to Congress. Title One relates to regulation of consumer credit and Title Two relates to bank reserves. As you gentlemen know, the proposed regulation of consumer credit is identical, except for the date, with the bill passed by the Senate, and acceptable to the Board of Governors as one part of an overall program.

The proposal with respect to bank reserves is similar to that advanced by the Board in April, except that the increased requirements would be applicable only to member banks, whereas the Board had recommended that they be made applicable to all commercial banks. This is a significant difference. We feel deeply that it is not fair to member banks in their competitive relations to non-member banks to require that they be singled out to carry the additional reserves that may be necessary to combat this inflationary situation. As an emergency measure, however, the bill would be adequate to meet the immediate need for additional authority to deal with reserves.

In thus stating the views of the Board on these two titles of direct concern to the System, I do not want to create the impression that action in the credit field alone will solve our inflationary problems. Other areas, particularly a budgetary surplus, are more important.

Now, I will give you some of my personal observations concerning the impact of the inflationary forces on our credit control mechanism.

Consideration of the pressures now at work in our economy must be based on an understanding of the fact that the financial forces generated in a great war are the most disrupting factors that can affect the economic system. We are now dealing, and for years shall be forced to deal, with the monetary backwash of the greatest and most costly war of all time. We are faced with the problems of liquidating the effects of that war upon our own economy and indeed upon the economy of the world. If history is a guide, we must realize that these problems will not be solved in a day. They will extend over a number of years—how many depends upon how wisely and how courageously we devote ourselves to the task.

The financial cost of the last war, if all conceivable items of cost were included, perhaps could never be accurately summed up. Suffice it to say that our national debt rose to approximately $280 billion and is still above $250 billion. The solution of our present problems does not require us to determine whether the debt should have risen so high, whether we should have spent so much, whether we should have taxed ourselves more and borrowed less, or whether the pattern of our borrowing was well conceived. What has been done is in the realm of fact and the consequences must be dealt with accordingly. One of the important facts is that the creation of our national debt resulted in a tremendous expansion of the money supply. While the government borrowed vast sums from non-bank lenders, other vast sums were supplied by the commercial banking system. And let me say right here that this nation owes a debt of gratitude to commercial bankers generally for their service in the task of financing the war.

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# The Special Session and Prices

By HON. ROBERT A. TAFT*
U. S. Senator From Ohio

**Senate Republican leader, in commenting on special session of Congress, ascribes it not to failure of Eightieth Congress to enact legislation but its difference with President's government philosophy. Says nothing in President's program is of emergency nature and lays cause of inflation spiral to Democratic Administration policies. Holds President has power to reduce prices and says direct price controls won't work. Accuses President of advocating police state program, and concludes only recourse of people against it is at the election in November.**

The Constitution says that the President may convene Congress in special session "on extraordinary occasions." There is no national emergency or extraordinary occasion today. The President did not even refer to the critical situation in Berlin. This call was announced by the President after two o'clock in the morning in the midst of a political speech to the Democratic Convention, solely as a political maneuver in the President's campaign for his own re-election. In the same speech he denounced the 80th Congress as the worst in history in spite of the magnificent cooperation he has received in every phase of foreign policy and in many fields of domestic policy. The session was called without consultation with the leaders of Congress, after Congress had adjourned with the full acquiescence and approval of the Democratic minority leaders. We would be fully justified in adjourning at once until the election is over.

Robert A. Taft

Serious legislative problems cannot be satisfactorily handled in the midst of a political campaign. Legislation should be a deliberative process, and every important measure should be debated from the viewpoint of the public interest. In the 80th Congress our debates have been remarkably free of partisan argument. The 80th Congress enacted a tremendous program of foreign and domestic legislation and completed all routine and emergency matters generally recognized as an extraordinary record of accomplishment. Few realize that Federal legislation today covers such a wide field of subjects that only a fraction can be properly studied and handled in any one year. It would take at least six months to give proper consideration to the President's omnibus left-wing program. We agree with Senator Barkley's statement made in the Senate a month ago before politics entered the situation:

"I have done what I could to cooperate with the majority in bringing about an adjournment because I think if we sit here until after the convention, or if we sit here between the conventions, or after the two conventions, the entire time of the Congress will be taken up with political bickering and political legislation and political oratory, and I do not want that to be brought about. I want to finish what we can finish and adjourn the Congress, and I have tried my best to cooperate with the leaders on the other side to bring about an adjournment."

### Basis of President's Quarrel with Congress

The President's quarrel with the 80th Congress is not its failure to enact legislation, but a fundamental difference in government philosophy between the President and Congress. The President would fix wages, fix prices, expand government spending, increase Federal taxes, socialize and nationalize medicine and generally regiment the life of every family, as well as agriculture, labor and industry, and his proposals would ultimately create an annual Budget which could not be less than $60 billion. Such expenditure would make inflation inevitable and permanent. The Congress believes that progress must be made and all our problems solved within the principles of liberty, equality and justice to all men which guided this country for 150 years. This difference has resulted in a constant conflict, resulting in many vetoes by the President, and frequent action overriding his vetoes. Constructive legislation on liberal lines which the President did not dare to veto, has been criticized and attacked by him. It is difficult and dangerous to work out great public problems without the slightest cooperation from a hostile President. The only way this fundamental difference can be resolved is by vote of the people at the November election.

### No Emergency in President's Program

In the President's program there is very little of an emergency nature. Most of the social welfare legislation proposed is of a permanent character which can be considered more thoroughly next winter. The Democrats controlled Congress for 14 years, professing the greatest interest in social welfare legislation. Now they say that they failed to deal adequately with social security, education, health and housing and blame the Republicans for not enacting the program they failed to enact during 14 years.

We have determined, therefore, that this session should be limited to a short period of perhaps two weeks. Our committees are carefully examining all of the President's recommendations to determine whether there are any matters which can be dealt with promptly on an emergency basis.

The situation which gives concern to members of both parties is the spiral of inflation resulting in constantly higher prices. But of course the higher prices are caused directly by the greatly increased purchasing power of the people competing for all kinds of food and other commodities. Thus even at the frightful prices of meat, the American people are eating 15% more meat per capita than before the war. In his message to Congress, the President deliberately omitted any reference to the income side of the picture. The fact is that the cost of living for an urban family has gone up 72% since 1939, just before the war. But in the same period, the average hourly earnings of 13 million factory workers have gone up 100%, and average weekly earnings have increased from $23.86 a week to $52.81 a week, or 121%. It is quite true that the price index has finally reached the same level where it was in 1920, but the earnings in 1920 were $26 per week while today they are more than $52. Personal consumption expenditures have increased 150% since 1939.

Unfortunately there are many families who have the high prices without sharing adequately in the increased income. This Congress increased the salaries of all Federal workers and I believe that the wages of all workers should be increased at least in proportion to the cost of living increase since 1939. But still the high prices spell hardship for millions.

The President boasts that there has been a tremendous increase in farm income and says that if the farmers don't do their duty by the Democratic Party, they are the most ungrateful people in the world. He boasts of the fact that there has been a tremendous increase in the income of labor, and claims that all workmen must be ungrateful if they do not vote the Democratic ticket. In other words he claims credit for high wages and high farm income, and then tries to blame the Republicans for the other side of the picture, the high prices which must inevitably result from high wages and high farm prices. Such a claim cannot be characterized otherwise than demagoguery.

### Responsibility for Inflation

Who is responsible for the inflation spiral today? It is the result of many policies all sponsored by the Administration in power for the last 15 years. They vastly increased the debt before and during the war creating huge amounts of money which is still coming into the market to drive prices up. Immediately after the war they adopted the theory that a general 20% increase in wages could be granted without price increase. This theory was disproved even by OPA which promptly had to increase coal and steel prices. Prices have been chasing wages ever since.

They have permitted a steady increase of bank loans at the rate of $5 to $7 billion a year. By making loans, the banks create money for use in buying more goods to force up prices.

There has been a great expansion of mortgages for houses. Only last week the Reserve Board pointed out that there have been increases of $8 billion in two years and a half, stimulated by government action creating money to bid

(Continued on page 27)

*An address by Senator Taft over the National and Mutual Broadcasting Systems, July 28, 1948.

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# Utilities—For Income and Profit

By MERCER HICKS
Chairman, Board of Directors,
Eagle Fire Insurance Company of Newark

**Writer stresses utilities as basic industry and cornerstone of modern civilization. Holds utilities stocks are underpriced in market and do not reflect new high records in output and earning power. Presents list of stocks affording safety and income to investor, with likelihood of appreciation in market value.**

It would appear unnecessary to describe or emphasize the importance of **Heat, Light** and **Power**, the products of the Utility Industry. To say they are an essential of every-day modern life is an understatement of fact. Their efficient growth must keep pace with the growth and vital needs of modern civilization, in peace and in war. Thus, the importance of the Utilities Industry becomes an incontrovertible fact that like food, shelter and clothing requires no emphasis.

Marketwise, utilities have not kept pace with the oils, rails, textiles and other groups. By virtue of their manifold and outstanding contributions to the needs of modern civilization, their historical background of consistent growth and stability of earnings, it is our considered opinion that **the securities of high grade operating utility companies can now be purchased at market prices involving a minimum of price risk in relation to the general market.**

### An Out of Balance Market Situation

While petroleum, automotive, farm equipment and textile securities listed on the New York Stock Exchange **advanced about 18%** in market value in 1947, utility, railroad, aviation, amusement, rubber and other groups **declined about 15%**. For example, utilities declined about 6% in market value in 1947, notwithstanding (a) an average **increase in dividends** of about 7% and (b) that 1947 was a year of **record physical achievement** for the electric light and power industry.

### New High Records

New high records were set in a number of different directions in 1947 and there is every indication at present that additional new high levels will be reached in 1948, for example:

Total output from generating sources exceeded 305,000,000,000 kilowatt - hours, 23,000,000,000 more than in any previous year;

Service was extended to about two million new customers, the largest increase in any one year in the history of the industry;

The average residential consumption of electricity rose to an all-time high national average of 1,435 kilowatt-hours.

These were but some of the records set in 1947, yet they had little appeal to, or reflection in, the securities market. As one observer puts it: "Confronted with these accomplishments, the Investor, like Byron, asked himself: 'How should I greet thee?' and the answer was: 'With silence and tears'."

### The Bullish Side

Consistent growth and relative stability of earnings have characterized the utility industry over a long period of years and have led to widespread investor acceptance of representative equities for dependable income.

The natural gas industry, for example, has recorded successive new highs in both unit and dollar volume in each year since 1938. In the electric light and power field, Charles E. Oakes, President of the Edison Electric Institute, said: "As for 1948, the continued rate of sales of electric appliances, the completion of new factories and the increase of homes indicate a continued high rate of expansion in the use of electricity."

### Record Appliance Sales

Last year more than 42 million "traffic" appliances were sold—22 million above the 1940 level—for a total of $529 million, for small electrical items such as toasters, irons, etc., which the customer may buy on the spot while passing through the store, and hence termed "traffic" appliances.

At a conference of dealers and executives in Chicago (July 12) an industry spokesman predicted "electrical appliances will break all sales records iin 1948—that 310 out of every 1,000 people in the nation bought a "traffic appliance last year and that retailers would have to stock a greater variey to meet the advance in competition."

### Looking Ahead

Large expansion programs are now in progress to take care of greatly increased demands. A substantial portion of needs can be taken care of from public sale of securities, for which a ready market exists.

In the domesic field, gross business will grow as new homes are constructed, and it is recognized that houses put up today are likely to be equipped with many new devices using electricity. This trend grows out of increasing recognition of the comforts and conveniences which utility appliances of many kinds contribute to the home.

With the domestic help situation as it exists, the average housewife is eager to get as many labor saving devices into the home as the pocketbook will allow.

Discussing this subject, "The Exchange," a monthly publication of the New York Stock Exchange, states in part as follows: "It would seem obvious that many additional appliances will go on to the utility lines this year not only in new homes but in millions of existing homes as well. In the commercial field new enterprises continue to be opened up requiring utility services and usage by existing customers increases."

New standards of heating and lighting are finding broad public acceptance. Ventilating, air-conditioning and other contributions to customer comfort are being increasingly installed in stores, theatres and public buildings. New and revolutionary processes involving heat-treating also open up new vistas to the utility industry.

### Living Electrically

In a recent publication (EEI—No. P.-6) The Edison Electric Institute stated: "Three wires enter a home," and then raised the question: "How completely do they now enable the family to 'Live Electrically?'" "They supply current for lighting, cooking, water-heating, refrigeration, and all kinds of appliances," but, continues the report, except in a few areas with mild climate, "these 'three wires' do not supply space heating," and then the $64 question: "What would it mean to the utility industry if they did?" and establishes the conclusion that: "Electrical Living, the theme of residential electric service, will reach its ultimate goal when heat also is supplied via the three wires."

### Objective and Potential

The electric utility derives its revenue from the sale of kilowatt-hours. Average electric consumption in the home, as heretofore stated, made a new high record last year (1947) of 1,435 kilowatt-hours per year. Space heating would increase this average by

(Continued on page 31)

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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

Over-all industrial output the past week experienced a slight increase in some lines with production as a whole holding steady and at a high level. Order backlogs in some industries were greater than in previous weeks and the general picture of employment and payrolls was one of stability and peak levels.

Wage disputes in the week arose in scattered areas, but in the main, labor-management relations generally were good. As in past weeks and months some raw materials continued to be difficult to obtain.

* * *

Scanning the recent long-range order of the Interstate Commerce Commission on freight rates charged by railroads, water carriers and freight forwarders, it is found that only $67,400,000 a year will be added to shippers' railroad freight bills. In the final adjustments a number of reductions as well as increases in the maximum rates on specific commodities were included.

According to the Interstate Commerce Commission, the new rate structure raises the freight rate level 22.6% or $1,535,000,000 above that in effect last summer. Since 21.4% of this was granted in three interim freight rate advances last October, the railroads gained 1.2% points over their current freight revenues, the Interstate Commerce Commission reveals. The roads had hoped for an added 7.8% and the commissioners who voted the rise said it still was not enough to meet the carrier's needs to offset rising costs of materials and labor.

* * *

As was rather expected President Truman's message before the 80th Congress on Tuesday of last week dealing with inflation contained most of the proposals that business had counted upon the President stressing before the special session of Congress. Among them were the proposals to restore the excess profits tax, consumer and bank credit controls, wage and price controls and regulation of margins in commodity exchange transactions.

In the matter of controls for consumer credit, Thomas B. McCabe, Chairman, and Marriner S. Eccles, a member of the Federal Reserve Board, sought their reimposition along with authority to raise reserve requirements of the Federal Reserve banks to curb inflation. Mr. Eccles would not only apply these controls to member banks of the Federal Reserve System, but to all banks as well.

* * *

The trend in new business incorporations turned mildly upward in June, following a rather sharp dip in May and a slight decline in April. The June count at 8,550, compared with 8,246 in the preceding month. It was, however, 4.2% below the 8,922 charterings in June of last year, according to the latest tabulation by Dun & Bradstreet, Inc. Twenty-eight of the 48 states shared in the moderate increase recorded in June over May. Compared with June a year ago, advances were listed in 19 states, against 27 declines, and two that showed no change.

* * *

Business failures increased in June continuing the general upward trend which began in the Fall of 1946. Concerns failing during the month totaled 463, a moderate increase above the May figure of 426 and a considerable rise from the 283 reported in June a year ago. Although more failures occurred than in any other June in the last six years, they were less than one-half as numerous as in 1939 and 1940.

* * *

Increased consumer interest in Fall merchandise and final clearance sales of some Summer goods the past week sustained retail dollar volume slightly above the level of both the previous week and the corresponding week a year ago. Moderate priced merchandise made up a large part of consumer purchases.

Total wholesale volume rose moderately during the week, although a slight decrease in some seasonal merchandise was noted. There was a continued favorable response by many buyers to further offerings of Fall merchandise and trading volume in some foods increased moderately.

**STEEL OUTPUT OF INGOT CAPACITY SCHEDULED SLIGHTLY HIGHER FOR CURRENT WEEK**

Steel buyers are turning in droves from rail to other forms of transportation wherever they can and steel executives in some areas are alarmed, the current issue of "The Iron Age," national metalworking weekly points out. But fabricators facing higher costs all along the line are finding this a fruitful field for cutting costs. The majority still mark their orders, "Ship as usual," but so many others are saying, "Ship via truck," that some mills have been forced to allocate truck shipments and charge extra for loading them.

Pressure for truck shipments is particularly heavy in the Mid-

(Continued on page 30)

# Observations . . . .

By A. WILFRED MAY

## The Politicians Fire Two Economic Pot-Shots

Much criticism has been made by this and other observers, of the phoney economics being flung about like a political football since President Truman's "throwing of a forward pass from defensive territory" in the guise of his Philadelphia-platform call for the special session of Congress. And much more can be written pointing out the misstatements, errors, and inconsistencies running through the Democratic party platform, the President's oratory in Philadelphia and at the Congressional opening last week, his Economic Report, and the testimony of his officials and advisers as Messrs. Porter, Bowles, Snyder, Eccles, McCabe, etc. Presumably much more will be said thereabout, but largely from the viewpoint of the validity of these arguments as political strategy, and weighed by the public in the light of its own individual political prejudices. Hence it seems worthwhile to analyze at least a few of the current arguments according to their objective merits for the consumption of that minor segment of the community (like some of the labor group, and the Liberal Party) which, particularly because of the Wallace-Communist splintering-off, is particularly confused, undecided, and open to objective enlightenment.

A. Wilfred May

In this background let us take a look at two of Mr. Truman's foremost proposals: re-imposition of the excess profits tax; and government curtailment of consumer credit. In addition to being the one project reported as most likely of adoption (temporarily) at the present writing, consumer credit regulation epitomizes, along with the renewed gesture for excess profits, the demagoguery and contradictions running throughout the Administration's proposals.

### The Easy Attack on Consumer Credit

To meet the aim of inoffensively putting on the show, in lieu of the genuine steps of deflation—or even anti-inflation—jumping on consumer credit represents an easy way out. Catering to the puritanic prejudice against borrowing, and and not ostensibly hurting any pressure group, the move against instalment selling apparently is regarded by the politicians as legitimate use of a convenient scapegoat, instead of a thoroughgoing self-disciplined attack on the real inflationary elements in the situation. (Incidentally, even in the sphere of political strategy the measure may turn out as a boomerang, in fastening the public's recrimination on the Republicans for a subsequent depression, because of their present concentration on this act of obstructing consumption and neglect of the more popular subsidy proposals.)

Actually, restrictions on instalment buying represent the imposition of hardship on those consumers least able to bear them, namely the lower income groups who are unable to make cash payments for autombiles and other durable goods—particularly at present high prices. Whether thus cutting off consumption and widening the gap between buying power and prices is the way—or even *a* way—to attack "inflation", is highly debatable, depending largely on the definition of that concept.

If the instalment-control move is effective in its purpose, a bust will be brought about in the worst possible way, for (a) the wrong people will be discriminatorially hurt, and (b) none of the fundamental elements of our inflation will have been eradicated. On the other hand, the policy may well be rendered completely abortive through the consumers' substituted devotion of his cash savings to the acquisition of the goods. Particularly to the extent that Savings Bond redemptions are thus enlarged, will the generally inflationary condition of the country be aggravated (under any definition).

### Boom-and-Bust Confusion

This leads to inquiry as to the reasoning behind President Truman's basic contention that we must stop the price advance now because of the boom-and-bust principle that "the higher they go the greater they must fall." If the President will re-examine his own assumptions here, he may realize that even he agrees that at some point production will catch up to effective demand, even without the price-ceiling device. Whether or not Mr. Truman is consistent therewith in contending that price ceilings are the only way to enhance such deflationary production (or whether he even really wants it), he is definitely self-contradictory to his fear of "bust" in trying to balance the situation by taking the instalment buyers out of the market.

It must be remembered that consumer financing is a constant long-term device in selling; and that credit terms have not been expanded to form an inflationary factor. As a matter of fact, terms have been voluntarily tightened and in the over-all quantitative picture consumer financing amounts to a far smaller proportion of the national income than it did pre-war. And the total of retail

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## Harold Gleisberg With Kirkpatrick-Pettis Co.

(Special to THE FINANCIAL CHRONICLE)

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# Present Inflation and President's Program

By PAUL A. PORTER*
Special Assistant to President Truman

**In statement to House Banking and Currency Committee, former OPA Administrator, in stressing seriousness of inflationary situation, reviews course of price rises and warns if opposing action is not taken a disastrous depression will result. Lays excessive demand as prime cause of rising prices, and outlines nature of Anti-Inflation and Excess Profits Tax Bills proposed by President. Holds high prices are cause as well as result of inflation. Contends President does not have sufficient inflation controls. Defends Taft-Ellender-Wagner Housing Bill before Senate Committee. Wants "easy money" to continue.**

I am appearing here as a Special Assistant to the President of the United States to urge the speedy enactment of a bill which will put into effect the recommendations submitted by the President to the Congress at a joint session on last Tuesday. My testimony will be brief and directed to the support of those recommendations dealing with high prices and the problems of inflation.

Paul Porter

Members of the President's Cabinet and other officials of the Executive Branch will be available to this Committee to testify in detail as to particular problems coming within their specific sphere of interest. In a sense, I am completing a return engagement with your Committee after a two-year interlude. When last I was here, we were engaged in a discussion of the renewal of price controls under the OPA. I regret, as I know you do, that these problems of high prices and inflation which the majority of Congress then thought might solve themselves are still with us. But the fact that these problems are an unavoidable and unpleasant reality cannot be ignored.

The simple truth is that the country is in more economic trouble now than two years ago. And, as the President emphasized in his message this week, the passage of time aggravates the critical nature of these highly complex conditions. It is, therefore, to be hoped that this Committee and the Congress as a whole will consider immediate action to deal with the mounting inflationary pressures before it is too late.

The country today is in the midst of an unprecedented prosperity. By any index of material welfare, the average American should be more contented than ever before. I scarcely need to point out that such is not the case. This is an uneasy prosperity, haunted by fears for the future. It is also an unfair prosperity in which the condition of large groups within the country has become progressively worse. This paradox of good times and bad tempers, and the quite justified fear that our present prosperity may be built on quicksand, are primarily rooted in one fact: higher and higher prices.

Prices have been rising rapidly for over two years and they are still rising. There is in fact danger that some of us have become so hardened to this process that we may assume that nothing can be done about it and thus forget the certain consequences. But for millions of people these consequences are very real today, as they see their purchasing power and living standards shrink.

### The Price Spiral

Let us review briefly the price history of the last two years. Between June, 1946 and June, 1948, consumers' prices have, on the average, risen 29%, the retail price of food is up 47%, the retail price of apparel is up 25% and rents are up 8%. Consumer prices are now at the highest point in our history. Wholesale prices have shown even more substantial increases. Thus, the average of all wholesale prices is up 47%, the wholesale price of food is up 61%, farm products are up 40%, and all products other than farm products and foods are up 42%. Wholesale prices are now more than double their prewar level and the highest in our national history.

This drastic rise in prices has had its inevitable effect on the real income of the average man. While the per capita disposable income rose from an annual rate of $1,086 in the first half of 1946 to $1,273 in the first half of 1948, a rise of over 15%, its real purchasing power has been cut by almost 10%.

The point I want to make is that these price increases are not something that happened only in the second half of 1946. They happened again in the second half of 1947 when wholesale prices rose 10% and consumer prices rose 6%. They are happening again now. Since the temporary decline early this year, wholesale prices by June had risen 3%. Consumer prices had also risen about 3%. Price rises on a broad scale are taking place right now. The situation in retail food prices, which have risen 6% between March and June, is particularly acute. It might be noted that, in the last few weeks alone, wholesale food prices have risen around 6%. How far are we prepared to permit this inflationary spiral to go? Can the government, under its responsibility to the people, risk the consequence of further increases, which will undermine the foundations of economic prosperity and bring still greater hardships? The weight of evidence indicates that this is what will happen unless effective action is undertaken quickly.

If we look at the present situation in historical perspective, the country's precarious economic position becomes apparent. This chart shows wholesale prices annually since 1749. It brings out the fact that every previous inflation of this character has been followed by a sharp decline. Such declines have always been accompanied by unemployment and depression.

If we take effective action, even at this late date, there is reason to hope that the price readjustments which are inevitable in the future can take place without general depression and unemployment. The price increases which have already occurred have undoubtedly made such a successful readjustment difficult. If prices continue to rise, the possibility of successful readjustment will progressively diminish and may soon be lost entirely.

And there is every reason to believe that prices will continue to rise, unless we act to stop them. Many people may take false consolation in the hope that the peak of the postwar inflation has been reached, that salutary downward price readjustments are now in prospect. It is true that there are certain factors, such as the grain supply, which might tend to support that view.

However, from time to time during the postwar inflationary spiral, individual factors have appeared which seemed to herald the end of the inflation. Such hopes have on each occasion been false hopes. These particular stabilizing forces have served at best to halt the upward movement temporarily and have soon been outweighed by other factors. You may recall that throughout the second quarter of 1947 prices remained stable on the average, and early this year they actually declined. These pauses in the inflationary process misled many people into believing that the end had been reached. It is always hazardous to attempt to predict the future, but there is no reason for placing any more confidence in optimistic predictions now than there was before.

Prices in general are rising now. Recent wage and price increases in basic industries have not yet worked their way up through the price structure. Tax reduction has meant that the restraining influence of the government surplus will be largely or wholly lost. Defense expenditures are being stepped up. Export demand remains high. There is no indication that the backlog demands of consumers and business, accumulated during the war, have yet been fully satisfied. The volume of liquid assets in the hands of individuals and corporations has scarcely been dented. These and similar factors portend continued inflationary pressure.

Two years ago many people expected that inflation would be solved by increased production. This expectation was disappointed. Industrial production did increase from 170 in June, 1946 to 192 in June, 1948, an increase of 13%. As a matter of fact that 13% increase had been achieved by November of 1947 and the volume of production has remained virtually stable for the past nine months. But increased production did not solve the price problem, and it cannot be relied upon now any more than it could two years ago.

The American economy as a whole is working at full blast. Under such conditions, expansion of total industrial production depends largely upon improvements in efficiency. In a short period such increases cannot be large. In agriculture, where weather is an important factor, crop prospects are favorable. Improved feed supplies will produce a modest expansion in the production of some foods within a period of a year but could encourage producers to hold animals back from the market for heavier feeding. Really significant increases require the building up of cattle and dairy herds. This takes time. And it should be remembered that even the favorable feed outlook depends on the continuation of favorable weather conditions. The only possible conclusion is that while increased production will make an important contribution, it cannot increase fast enough to meet the problem.

### The President's Program

The President in his message has outlined a balanced and con-

(Continued on page 35)

*A statement made by Mr. Porter before the Banking and Currency Committee of the House of Representatives, Washington, D. C., July 29, 1948, supplemented by a portion of statement before the Senate Banking and Currency Committee, Aug. 2, 1948.

# Regulation and Natural Gas Company Investment

By CARL C. BROWN
Laurence M. Marks & Co.

**Mr. Brown points out that, because of strict control over rates and absence of financing regulation, new natural gas pipe line projects are creating topheavy capital structures. Urges rate of return to gas company stockholders be raised to level enjoyed by investors in electric utilities.**

New natural gas pipe line projects seem to be raising their capital requirements substantially through the issuance of senior securities. In this way they are creating security structures with a small proportion of common stock. This trend is due in a large measure to the rigid control over the rate of return and the absence of regulation over financing. The Federal Power Commission has no power under the Natural Gas Act to pass on security issues as the SEC has under the Holding Company Act. Managements are resorting to this expediency of top-heavy financing to create sufficient earning power and value for the common stock as an adequate reward to its stockholders for commitments in a wasting asset industry. An attractive end result for the common stock would not be possible otherwise, under a strict 6% limitation of earnings on depreciated original cost, if capital structures were maintained on a more conservative basis.

Carl C. Brown

### The Capitalization Pattern

A comparison of the capitalization ratios of new enterprises as against older companies in the natural gas pipe line field indicates clearly what has been going on. For example, new pipe line projects have capitalized themselves with common stock equity ranging from 13% to 22%, whereas the old companies are capitalized with 32% to 85% equity. There also has been evidence that a number of the older systems are turning to more senior financing instead of equity financing for their additional money requirements. Thus we find that the most conservative member of the industry, Consolidated Natural Gas Company, which hitherto was capitalized with 100% common stock recently sold $30 million of debentures. Similarly, Panhandle Eastern Pipeline Company, Southern Natural Gas Company, Columbia Gas System, Inc., United Gas Corp., the subsidiaries of Pacific Lighting Company, and Lone Star Gas Company, have recently resorted to debt financing, thereby changing their capital structure to a heavier proportion of debt.

The following tabulation sets forth the capitalization ratios of both the new and the old natural gas pipe line systems at Dec. 31, 1948, as estimated. El Paso Natural Gas Company, while an old company, has been grouped with the new ones because its greatest expansion to California is currently taking place.

### A Means to an End

By a simple calculation of arithmetic it is apparent that with a limitation of earnings by a variation in capitalization ratios, it is possible to stretch the return to the common stockholders over a wide range. To demonstrate the effect on various selections of capitalization ratios a tabulation has been prepared of assumed ratios and money costs. It will be noticed that old pipe line companies, which generally fall into a capitalization category consisting of 15% to 60% debt and 40% to 85% equity, are able to show earnings for their common stock in a range from 6.6% to 10.5%, under a 6% limitation of earnings on the depreciated original cost of their property. When it is considered that with standard capitalization ratios found in the electric industry of 50% debt; 25% preferred and 25% common stock; a return on a similar limitation of earnings produces 13% and more, it is obvious that with the wasting characteristics of the natural gas industry old pipe line transmission projects are being seriously handicapped through the present low allowable rate of return. It is small wonder, therefore, that the managements of new pipe line

(Continued on page 23)

**NATURAL GAS PIPE LINE SYSTEMS**

**New Enterprises**

| At 12/31/48 Est. | Capitalization Ratios Debt. | | Pfd. | Common |
|---|---|---|---|---|
| San Juan Pipe Line (Proposed) | 66% | | 32% | 2% |
| Trans-Continental Pipe Line (Proposed) | 78 | | 12 | 10 |
| El Paso Natural | 80 | (14)* | 7 | 13 |
| Tennessee Gas Transmission | 70 | | 12 | 18 |
| Texas Gas Transmission (Proposed) | 79 | | -- | 21 |
| Texas Eastern Transmission | 78 | | -- | 22 |

**Old Enterprises**

| | Debt. | Pfd. | Common |
|---|---|---|---|
| Pacific Lighting | 45% | 23% | 32% |
| Panhandle Eastern | 50 | 12 | 38 |
| Southern Natural | 62 | -- | 38 |
| Oklahoma Natural | 42 | 16 | 42 |
| Columbia Gas & Electric | 51 | -- | 49 |
| Northern Natural | 49 | -- | 51 |
| United Gas | 48 | -- | 52 |
| Lone Star Gas | 28 | -- | 72 |
| Consolidated Natural | 14 | -- | 86 |

*Includes 14% of Convertible Debentures.

| Typical Company Old Line: | Assumed Capitalization Ratios Debt | Pfd. | Common | 6% Over-all Rate of Return Assumed Int. Rate | Assumed Pfd. Ratio | % Return on Common |
|---|---|---|---|---|---|---|
| | 15% | -- | 85% | 2¾% | -- | 6.6% |
| | 30 | -- | 70 | 2¾ | -- | 7.4 |
| | 50 | -- | 50 | 2¾ | -- | 9.3 |
| | 60 | -- | 40 | 3 | -- | 10.5 |
| Elec Utilities | 50 | 25 | 25 | 3 | 5 | 13.0 |
| New Line: | 70 | -- | 30 | 3½ | -- | 11.8 |
| | 70 | 10 | 20 | 3½ | 5 | 15.2 |
| | 80 | -- | 20 | 3½ | -- | 16.0 |
| | 70 | 15 | 15 | 3½ | 5 | 18.7 |
| | 70 | 20 | 10 | 3½ | 5 | 25.5 |
| | 80 | 10 | 10 | 3¾ | 5 | 25.0 |

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# From Washington Ahead of the News

By CARLISLE BARGERON

It is doubtful if the current disclosures of the activities of Communist agents and sympathizers or "spies" in our government will measure up to the famous Canadian case. The reason for this is that it will not likely be proven or can be proven that they gave Soviet Russia any essential information that the New Deal Administration was not eager to give. She was an ally. This, it is reliably understood, has been the explanation of those among the persons now being mentioned, who have had the honor of appearing before the grand jury investigation in New York which, it has been widely known in Washington official and semi-official circles, extended for some 16 months.

Carlisle Bargeron

Many of the names now appearing have long been widely known in Washington as suspects. Inasmuch as the New York grand jury could not or did not make a case against them, of treason, their flushing out by Congressional committees — Senate and House — is undoubtedly political but it is just as bi-partisan as the so-called bi-partisanship of our so-called bi-partisan foreign policy.

In other words the flushing out, being done by the Republicans, is being applauded by the decent, non-New Deal Democrats.

Under the circumstances it is downright amazing to read editorials in certain respectable Eastern newspapers that this parading of a grand jury's proceedings which did not indict, is a blot on democracy's escutcheon and a blow to our liberties.

This writer has followed the bombastic activities of the House un-American Activities Committee ever since it was launched by Martin Dies. Notwithstanding the repeated screams of "Liberals" that innocent men were being smeared, I have yet to hear of one single one with a valid case of injustice, or, indeed, of one single one who would openly claim that he had been unjustly hurt. I have asked of these "Liberal" screamers a hundred times that they cite one injustice. Not one has ever been produced.

Amazingly enough, several months ago, an unnamed "Leftist," to use the friendlier term, walked into the Washington bureau of the New York "Herald-Tribune," just as misguided, frustrated and psycopathic people are always "running to the papers" and related what he had been subjected to by the government's "loyalty board" authorized by Congress to get the doubtful workers out of the government. This paper, formerly known as the leading Republican organ of the country, ran a series on this anonymous worker's experiences as a heinous thing to be happening in this country, when the worker's employer should have in any decent set-up, been able to fire him for inefficiency. The writer of the stories got one of those dubious journalistic awards for enterprise when he didn't have to go out of his office, and the series has been printed in a book, which hearteningly enough, is not selling.

In these present revelations there is one former high government official who has left his impress upon the economy of this country expressing amazement and saying it is the first time he has ever heard of such accusations as the informer, Miss Bentley, made. He knows that he has been three times a witness before the New York grand jury.

Still another one is pained and grieved and many newspapers have said that it is an outrage that an irresponsible Congressional Committee has been smearing him. His wife was called as a witness four times before the New York grand jury.

It so happens that this writer is intimately acquainted with the repeated blasts of Senator Bridges, Chairman of the Senate Appropriations Committee, and of Chairman John Taber of the House Appropriations Committee, against the export of needed materials to Russia. The fact is that Congress on at least two occasions, by law in appropriation bills, sought to stop these exports.

When the two appropriations committees first ran into the amount of these exports, they were told they were the tail end of lend-lease shipments; then they were told they were part of UNRRA; then they were told they were materials that had already been on order.

Regardless of how Congress might write the law, at the instance of its appropriation committees, and irrespective of the merits, the shipments to Russia continued. Bridges and Taber would indignantly sound off and the provisions in the law would be tightened up, but the shipments continued. I was fascinated at how an agency of the government could continue to get by with this defiance of the legislative branch. Taber and Bridges became more indignant but were apparently powerless.

It turns out that a man now prominently mentioned in the "spy" disclosures was an influential member of the Commerce Department's export control committee all that time.

Another fellow prominently mentioned, and who is he, what did he accomplish? Why he is the fellow who prepared the study issued by Henry Wallace's Commerce Department at the height of the General Motors strike of '45 and '46 to the effect that wages could be increased by 25% without any cost increase. It was the statement which, after the strike settlement, Henry said was written by a young economic student just trying his hand out.

As I say, it is doubtful if it will be found that these people gave Soviet Russian anything that Roosevelt wasn't eager to give them. But their intent was plain and their mischief making ability was unmistakable. They were always planting stuff calculated to stir up strife with the Washington columnists, and always seeking to make the Soviet Government believe that we weren't doing right by her, that we were favoring Britain. The "Liberals" who want to defend them, should be made to do so at their own risk.

## Wm. S. Beeken Adds

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA.—Harry R. Feger is with Wm. S. Beeken Company, Guaranty Building.

# Production Is Answer to Inflation

By MORRIS SAYRE*

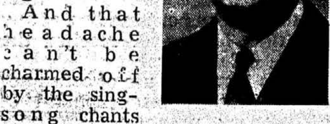
President, Corn Products Refining Company

President, National Association of Manufacturers

**Leading industrialist, asserting big headache today is inflation, contends it cannot be charmed off by sing-song chants of political medicine-men accompanied by strait-jacket controls. Says prices are high because production has not kept pace with amount of money people are willing and able to spend. Attacks President Truman's proposals. Denies profits are cause of high prices and calls for elimination of unnecessary government spending and lower income taxes, and, above all, more output per worker.**

"What this country needs is a good five-cent cigar." Old Tom Marshall was right when he made that sage observation. And he would be just as right today in his appeal for quality at lower cost. Quality at lower cost would solve a lot of our problems—including the inflation we hear so much about.

America's big headache today is "inflation" — "high prices" — "the high cost of living."



Morris Sayre

And that headache can't be charmed off by the sing-song chants about "profits" and "big business" that we hear from political medicine-men. The favorite prescription of the economic quacks and the leftists witch doctors—the strait-jacket of controls—won't help either.

We ought to know by now that we can't cure a hangover by going on another binge.

And that's exactly what we're going through today. We've got a hangover—a hangover from the Federal spending spree we went on in the '30s, lured on by promises of "something for nothing" and "a more abundant life" without having to work for it.

For 60 years until 1929, America was a synonym throughout the world for production, prosperity and progress. True, we had ups and downs. We had cycles. But, in spite of temporary set-backs and even major depressions, we moved steadily onward and upward.

We progressed from one plateau of prosperity to another.

We progressed in direct ratio as we put power and tools and better methods into the hands of men—as mechanical energy replaced animal and human energy in the production of goods—as ingenuity and inventiveness brought new processes and new products—as men worked together for the common good.

And we progressed because, out of the total value of an ever-increasing production of goods, we always saved something. Every year on the average, we plowed back one-fifth of that value into the development of new machines and processes, the expansion of existing industry, and the building of new plants.

That progress stopped dead in the '30s.

The one-fifth of our gross national production that had gone each year for new tools — for more power in the hands of men, for more and better jobs, was grabbed by the tax collector. It went to finance the "tax and spend, tax and spend" programs of New Deal collectivists masquerading as "do-gooders," But "soak the rich" taxes at their best, or at their worst didn't foot the bill. So we went merrily into deficit financing until, in 1939, our national debt reached the then staggering figure of $40 billion.

After that came a disastrous war.

We trebled our money supply to finance war production, from $33 billion to $108 billion. We increased our national debt from $40 billion in 1939 to $278 billion in 1945. We used the equivalent "printing press" money to pay for war goods, shot away the goods but kept the money in circulation. And, right there, is the basic cause of today's high prices, and inflation.

Even since the war when the government stopped increasing its bonds and started to reduce its debt, the money supply in the hands of the public has steadily increased. From December '45 to December '47, bank loans of "member" banks increased $12 billion of which $5 billion was for real estate, (largely housing,) and $9 billion for business. Other loans declined slightly. Consumers have bought $8 billion worth more on credit. Veterans terminal leave bonds have been cashed and spent to the tune of $1½ billion. Business has been forced to spend accumulated savings to pay the increased cost of inventory, of credit to customers, and of expansion and modernization.

You don't have to be an economist to figure out the why of high prices! Let's use some good old-fashioned American horse-sense. Let's strip emotions, politics, and prejudice out of the picture and face the facts.

High prices are no more the cause of inflation, than wet streets are the cause of rain!

As the Department of Commerce said a few days ago, a basic cause of high prices is the fact that demand has outdistanced production.

### Cause of High Prices

Prices are high today because the production of goods and services has not kept pace with the amount of money people have and are willing to spend. Production isn't matching purchasing power. During the war years, while we were creating purchasing power by government deficits, there was little that consumers could spend their money for. Even now, with civilian production at an all-time record high, there is more purchasing power than there is goods. The result is that consumers are bidding against each other for the goods that are available.

Sure, we've got more than 61 million people at work today. And manufacturing production is running 78% above the 1939 level. All industrial production is nearly 72% above 1939. But **Productivity** —output per worker—has gone up less than 10% in the past 10 years, when the historic increase has been about 3% per year.

But even in the face of relatively low productivity per worker, when judged by the 1940 prewar figures, today's industrial production is truly remarkable.

In 1947, for example, we produced 3,400,000 refrigerators as against 2,600,000 in 1940; 4,190,000 washing machines as against 1,550,000 in 1940; 1,200,000 electric ranges as against only 450,000 in 1940; and so on down through the whole line—from vacuum cleaners, radios and stoves to automobiles.

But good as that record is, it is not enough!

Today's higher wages and that unprecedented 61 million people at work have lifted many millions of families to new scales of living. For the first time they are in the market with money — real money—to buy better cars, better clothing and better food. That's all to the good, too.

Take meat for instance. From 1920 to 1929 our average consumption of meat per person was 137 lbs. From 1930 to 1939 it went down to 130 lbs. In 1947, it was 155 lbs.

Much of this increased consumption is by people who were never able to afford as much meat before. In other words, we are

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*An address by Mr. Sayre at the Lions' International Convention, New York City, July 28, 1948.

**Arkansas Western Gas Company**
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# Secretary Snyder Upholds Credit Curbs

**In statement to Senate Banking and Currency Committee, Treasury Secretary, though extolling voluntary action in curbing credit inflation by bankers, urges measures proposed by President giving Federal Reserve further powers. Denies rift with Federal Reserve Board and points to unlikelihood of Treasury surplus in coming year.**

Secretary of the Treasury John W. Snyder appeared before the Senate Banking and Currency Committee on July 30 and gave his full support to President Truman's proposals for further curbs on credit expansion, though maintaining that "our chief reliance for the control of inflationary bank credit lies in the good judgment of the individual bankers in the 15,000 banks."

John W. Snyder

*The text of Secretary Snyder's statement to the Committee follows:*

The control of inflation is not only one of the most important domestic issues before the country today, it is also of vital significance to our foreign policy for it is well-known that influences of certain groups are depending upon an economic collapse in this country to further their own aims.

The President, in his message, outlined an eight-point program for a concerted attack on the problem of high prices. The Treasury Department is directly concerned with Titles I and II of S. 2910, which deal, respectively, with the second and third points of the President's program — namely, the regulation of consumer credit and the control of inflationary bank credit. While these two items are important in the anti-inflationary program, we must keep in mind that they are but segments of the over-all problem and must be treated in their relation to other dominant factors bearing more directly on the cost-of-living.

Title I would implement the second point of the President's message, which reads as follows: "I recommend that consumer credit controls be restored in order to hold down inflationary credit."

During the war and the immediate postwar period, the extension of consumer credit was controlled by the Board of Governors of the Federal Reserve System, acting in accordance with an Executive Order of the President, issued pursuant to the Trading with the Enemy Act. In June 1947, President Truman quite properly stated that he did not consider that he would be justified in continuing the control of consumer credit longer under the authority of legislation applicable primarily to a wartime emergency, and recommended that Congress pass specific legislation authorizing such control. Congress acted on this recommendation last summer, but the legislation then enacted extended the authority of the Board of Governors only to Nov. 1, 1947. Since that date, no Federal agency has had statutory authority to control consumer credit. The Senate passed a bill on Dec. 17, to extend the authority of the Board of Governors to March 15, 1949, but the House of Representatives has not yet taken action. I believe that it is urgent in the national welfare that consumer credit control legislation be enacted as soon as possible.

Total consumer credit outstanding at the end of May reached an all-time peak of $13,800,000,000. This is an increase of $1,750,000,000 since the expiration of control legislation on Nov. 1 of last year.

The increased use of consumer credit in a period of inflationary pressures can only add to those pressures. As we all know, the curtailment of the production of consumer goods during the war period gave rise to a tremendous deferred demand for such goods. And, despite the fact that industrial production since the end of war has reached the highest level ever attained during peacetime, we have not yet been able to produce enough goods to satisfy this deferred demand. There are still many important shortages of goods. But with production near capacity levels, purchasing power made available by consumer loans can be used only to bid up prices of consumers' goods. It cannot call additional goods into existence. It is imperative, therefore, that efforts be made to restrain the demand for scarce goods until supply approaches demand.

It has been urged that the volume of consumer credit, despite its unprecedentedly high level, is lower in proportion to incomes than was the case immediately before the war. This is true, but I do not consider that it is relevant to the immediate problem. The relevant question now is not how much consumer credit the country can bear, but how little it can do with, since at the present time, any addition to consumer credit adds to the already strong pressure of inflationary forces. I submit, therefore, that an expansion of consumer credit of the magnitude which has occurred since Nov. 1 is not in the national interest, and that it justifies the reimposition at the present time of moderate controls on the extension of instalment credit, which has accounted for 85% of the total increase in consumer credit since Nov. 1.

At this point, Mr. Chairman, I would like to quote from testimony which I gave to two committees here last fall, only to indicate that I have from the beginning urged this type of legislation. I am now quoting from testimony given before the House Committee last fall, and before the Joint Economic Committee:

"Anti-inflationary measures which may be taken in the monetary field are of course but a segment of the whole program, and could not, by any means, solve the problem alone. But such steps as can be taken when related to those in other fields will of course be helpful in the overall solution.

"The President is greatly disturbed in regard to price inflation which threatens our whole economic structure, and he is convinced that the Congress is equally concerned.

"The President has laid special emphasis on voluntary actions on the part of businessmen, labor leaders, farmers, and consumers to hold prices down. Intensified efforts will be continued to obtain voluntary restraint. Certain powers are necessary, however, to fortify the voluntary efforts.

"The President has suggested that consideration be given to the following monetary measures: one, that Consumer Credit Controls should be restored and some restraint should be placed on inflationary bank credit; two, Legislation should be provided to prevent excessive speculation on the Commodity Exchanges; three, intensified activity in the sale of savings bonds. . . .

"As to item one, 'Restoration of Consumer Credit Controls' and 'Restraint on Inflationary bank Credit,' these matters have been discussed by Federal Reserve officials. As to consumer credit controls, I am in favor of their restoration.

"The most effective types of credit control are those which strike at the individual forms of credit extension which are contributing to inflationary pressures. The most important single form of such credit extension at the present time is in consumer credit.

"Total consumer credit outstanding at the end of September reached an all-time peak of $11,400 000,000. At the end of 1945, it amounted to only $6,600,000,000. Prior to December 1946, total consumer loans outstanding at any one time had never reached the $10,000,000,000 level.

"This increased use of consumer credit in the present period of inflationary pressures can only add to those pressures. As we all know, the curtailment of the production of consumer goods during the war period gave rise to a tremendous deferred demand for such goods. As we all know, despite the fact that industrial production during 1947 has reached the highest level ever attained during peacetime, we have not yet been able to produce enough goods to satisfy this deferred demand. There still exist many important shortages of goods. But with production near capacity levels, purchasing power made available by consumer loans can be used only to bid up prices of consumers' goods, not to purchase more goods. It is imperative, therefore, that efforts be made to restrain the demand for scarce goods until supply approaches demand.

"Money market interest rates form a small part of the total cost of consumer credit, and changes in such rates are almost powerless to limit its extension. It is necessary to cover specifically by regulation such matters as minimum down payments and the maximum periods over which payments may be spread on instalment purchases of consumers' goods in order to restrain this type of inflationary credit."

Title II of S. 2910 would implement the third point in the President's message. This point reads as follows: "I recommend that the Federal Reserve Board be given greater authority to regulate inflationary bank credit." The expansion of bank credit, except in the fields of consumer and real estate financing, has not, in my opinion, been a major contributing force to present inflationary pressures. We must, however, attack the problem of inflation on all fronts.

As this Committee knows, I have always believed that our chief reliance for the control of inflationary bank credit lies in the good judgment of the individual bankers in the 15,000 banks in the United States. The Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Executive Committee of the National Association of Supervisors of State Banks, representing the Federal and State supervisory authorities, have urged bankers to confine the extension of bank credit under existing conditions, as far as possible, to loans that would help production, rather than increase consumer demands. The banks, in general, have been most cooperative. I should like to take this occasion to commend their public spirit,

(Continued on page 34)

# Sproul Gives Views on Credit Curbs

**President of New York Federal Reserve Bank denies present credit expansion is serious inflationary force, and says more drastic measures than those proposed should be used if a break in vicious circle of wages and prices is required. Holds money income of consuming public would have to be lowered and support of government bond prices abandoned, all of which result in lower production and employment. Says increased reserves, if required, should be applicable to non-member as well as member banks. Sees no need of raising gold reserve requirements of Reserve banks.**

Allan Sproul, President of the Federal Reserve Bank of New York, appeared on Aug. 3 before the Senate Banking and Currency Committee to give his views on proposed anti-inflation credit curbs. Mr. Sproul, who had just returned from a vacation, stated he was unable to give a carefully prepared statement, and therefore could only furnish "a bare outline" of his personal views on the banking and credit sections of the bill before the Committee. These views were expressed by Mr. Sproul as follows:

Allan Sproul

(1) First, I want to emphasize the view I hold that the expansion of bank credit since the end of the war has not been a major element in the inflationary pressures which have been generated in our economy. Some of that expansion of credit was necessary and the rest played a minor part in creating existing inflationary pressures. The present inflationary movement received its main impetus from sharply rising food prices, from a first, second and third round of wage increases, and from a high level of capital expenditures, all operating against the background of wartime deferred demands and accumulated liquid funds of our people, and the heavy demand for our products from all parts of the world.

(2) The resultant of these forces has been a wage-price or a price-wage spiral, whichever way you want to look at it. If we are to be serious about stopping this dangerous trend, instead of making gestures, which will merely give the appearance of having done something about inflation, we should be concentrating on business and labor policies which determine price-cost relationships —that is, on industrial pricing and wage settlements—and on government policies with respect to the prices of farm products and the Federal budget. Throughout the postwar period there has been a not unreasonable presumption that, if we could have restraint in these areas, and no undue expansion of credit, we might work out of our difficult situation with modest strains, without a major check to productive processes, and without inflation getting out of hand.

(3) This, of course, is a matter of judgment. If you believe, as some do, however, that we cannot risk waiting for this relatively happy outcome; that something must be done now to prevent a

(Continued on page 38)

## Dealer-Broker Investment Recommendations and Literature

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

**Balancing the Investment Portfolio—Analysis**—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available are lists of interesting **preferred and common stocks for capital gain**, **Common Stocks for Investment**, a leaflet of **Rail** news, and analyses of **Bethlehem Steel Corporation** and **Morris Plan Corporation of America.**

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

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

**High-Risers** — List of stocks which have advanced percentage-wise more than twice as fast as the averages—Cohu & Co., 1 Wall Street, New York 5, N. Y.

**Insurance Stocks: Present Position and Prospects**—Analytical discussion—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

**Insurance Stock Prices**—Discussion—Dempsey-Tegeler & Co., 210 West Seventh Street, Los Angeles 14, Calif.

**Market**—Discussion of outlook and European situation in "Forthnightly Market and Business Survey"—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

In the same issue is a comparison of 8 leading **Rails**; brief analyses of **Philip Morris** and **Sharp & Dohme**; and a list of **30 Growth Stocks.**

**New York City Bank Stocks**—Quarterly comparison of 19 stocks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

**Public Utility Operating Companies**—Analysis of outlook for listed common stocks—Ira Haupt & Co., 111 Broadway, New York City 6, N. Y.

**Railroad Developments** — Leaflet—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

**Railroad Equipment Industry** — Analysis—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

**Railroad Industry**—Analysis of Debt and Working capital position in "Fortnightly Investment Letter"—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

In the same issue are data on **Water Company Bonds, Continental Baking Co., Jamestown, Franklin & Clearfield,** and new **Louisville & Nashville** 1st reg. 3¾s.

**Railroad Outlook** — Analysis — Smith, Barney & Co., 14 Wall St., New York 5, N. Y.

Also available is a special study of **Atchison, Topeka & Santa Fe Railway Company.**

**Television**—Analysis of outlook —William R. Staats Co., 640 South

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# The Economic Situation

**In "Special Event" radio broadcast Federal Reserve System Governor gives data on prices, production, credit and foreign loans. Says efforts should be made to check a boom that will bring about a disastrous bust.**

M. S. Szymczak, a Governor of the Federal Reserve Board for 15 years, with experience abroad in 1944 for the Foreign Economic Administration and again in 1946 and 1947 with the American Military Government for Germany, discussed "Our Present Economic Situation" in a "Special Events Series," broadcast over Radio Station WJR, Detroit, Mich., on July 31.

M. S. Szymczak

*The questions put to Governor Szymczak and his replies follow:*

Question: Governor, I think the economic problem uppermost in the minds of many of us is the high cost of living. Can you tell us why prices are so high? And what the chances are that they might come down after a while?

**Answer:** That is a long story. Even so, I think we might first take a look at how high the cost of living is now. According to the Bureau of Labor Statistics index (which is to be used to adjust wage rates under the new General Motors-United Automobile Workers contract), consumer prices in May were 70% higher than in 1939 and 9% higher than a year ago.

* * *

Question: Wasn't there a sharp drop in grain prices early this year?

**Answer:** Yes, but it did not help the cost of living much. Food prices dipped temporarily, but they are now somewhat above their January peak and clothing prices have risen further. So have rents, but in comparison with 1939 levels rents are up less than 20% while food and clothing are double what they were before the war.

* * *

Question: Governor Szymczak, what about meat prices?

**Answer:** They have risen considerably in the past few months and are now about 20% higher than a year ago and more than two and a half times the prewar level.

* * *

Question: You said that since a year ago the total cost of living has risen 9%. Have any items come down?

**Answer:** Reductions in retail prices have been few and far between. Radios and vacuum cleaners are cheaper than they were a year ago. Some textiles and miscellaneous products have also been reduced.

* * *

Question: That covers the main facts on the present cost of living; plenty of housewives can supply the details from their own experience. Now, can you tell us what caused these high prices?

**Answer:** Chiefly the war. During that period a great deal of the world's productive resources was diverted to war purposes. In this country, at the peak of the war over two-fifths of all production was for war uses. Abroad, factories were destroyed and trade was disrupted to an extent not readily appreciated by those of us living at a distance from the scenes of actual warfare.

* * *

Question: So that for a period of five or six years production for civilians was low and supplies of consumer goods were reduced?

**Answer:** Yes, and at the same time incomes the world over were expanded tremendously because people were being paid for producing munitions and waging war. The increased incomes were partly taken away by government taxes but people still had much more money to buy goods than there were goods to be bought. Price rises were limited by controls. In this country the amount that people saved out of their incomes increased very greatly during the war period.

* * *

Question: And as a result of this people had more money in the bank after the war?

**Answer:** More money in the bank, more cash in their pockets, and more Government bonds. The total amount of these so-called "liquid assets" held by individuals and corporations at the end of the war was more than three times as great as before the war.

* * *

Question: And where did all these liquid assets come from?

**Answer:** Less than half of the Government's expenditures during the war was financed by taxes and the remaining amount was borrowed. Some of this amount was borrowed from savings and the rest was borrowed from the banks. The Government paid the money out for war equipment, and the money was deposited in banks or held as currency. The expansion in these funds and increased holdings of redeemable Government bonds resulted in a record supply of purchasing power.

* * *

Question: The main point, as I get it, is that people accumulated money during the war, when many goods were not on the market. Then after the war they were able to pay high prices if necessary for what they wanted urgently in the way of food, automobiles, and houses. Is that right?

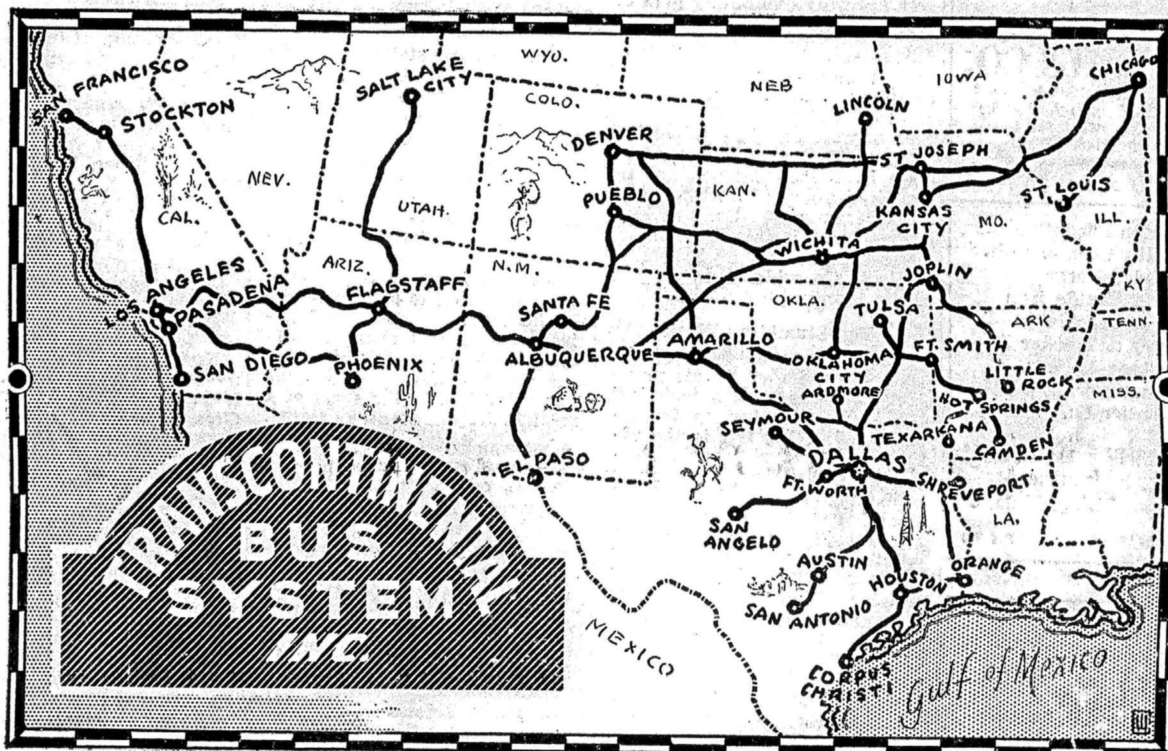
**Answer:** Yes, people could back up their wishes with more dollars than ever before—dollars accumulated during the war and also dollars received out of current incomes which generally continued high after the war in spite of the curtailment of the war program. There were plenty of jobs immediately after the war and even more now. In June employment reached a new record and wage rates have advanced further.

* * *

Question: How much have wages risen?

**Answer** — At manufacturing plants average hourly earnings are more than double prewar levels. This spring wage rates have risen less than before as marked resistance developed in

(Continued on page 34)


## Linking Texas with Chicago and the West Coast

**FROM headquarters in Dallas, TRANSCONTINENTAL BUS SYSTEM, INC. directs the operations of a vast intercity transportation network, comprising more than 22,000 miles of routes throughout the West and Southwest. This far-flung carrier came into being early this year as the result of a merger of Continental Bus System, Dixie Trailways and Santa Fe Trailways, all members of the National Trailways System.**

**Operating over a fourteen-state area, TRANSCONTINENTAL BUS SYSTEM extends west and southwest from Chicago through Kansas City, Denver, Albuquerque, Flagstaff, Los Angeles and into San Francisco; from Corpus Christi and Houston on the Texas Gulf Coast to Dallas, Fort Worth, Amarillo and Denver; and from Dallas to Shreveport, Hot Springs, Oklahoma City and Tulsa.**

**Scheduled operations over these routes in 1947 totaled more than 70,000,000 miles. Combined gross revenues were over $21,000,000. More than 3,500 people are required to operate TRANSCONTINENTAL'S fleet of approximately 1,000 buses, passenger cars and maintenance vehicles.**

**Evidencing its faith in the continued growth and development of its territory, TRANSCONTINENTAL is carrying out an equipment replacement program which will place the company in the enviable position of having the largest percentage of new bus equipment in operation of any transcontinental carrier in the nation.**

*This is another advertisement in the series published for more than 10 years by Equitable Securities Corporation featuring outstanding industrial and commercial concerns in the Southern states. Equitable will welcome opportunities to contribute to the further economic development of the South by supplying capital funds to sound enterprises.*

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# Pennsylvania Brevities

## Corporate News and Notes

PITTSBURGH—Philadelphia Company, subsidiary of Standard Gas & Electric Co., and in turn a holding company of gas, electric and traction properties in the Pittsburgh area, has filed a petition asking the Circuit Court of Appeals in Washington to set aside a Securities & Exchange Commission order of June 1 to liquidate and dissolve. The company's petition did not ask for a hearing, which, according to a clerk of the court, could have been ordered by the Federal judges "right away" if it had been requested.

**The company's petition avers that the petitioners "are injured, oppressed and deprived of legal rights by the terms of the order." The petition also asks the court to review an SEC order of June 30 denying the company the right to introduce additional evidence. The company furthermore wants the commission to consider further the company's voluntary plan of reorganization.**

A spokesman for the SEC stated that a number of steps in the company plan had already received SEC approval and had been or were being put into effect. Steps which have not been acted upon by the commission are the recapitalization of Pittsburgh & West Virginia Gas Co. and Kentucky-West Virginia Gas Co. and the reorganization of Pittsburgh Railways Co. which is in progress in the brankruptcy court.

### The Stumbling Block

**Analysts are agreed that the recapitalization of the gas property subsidiaries is a technical problem presenting no important difficulties; nor is the ultimate plan of refinancing, refunding Philadelphia Company's remaining debt and preferred stock issues. The reorganization of Pittsburgh Railways Co., a wholly-owned subsidiary, and its 41 underliers, is a matter of present contention. In proceedings now before the bankruptcy court in Pittsburgh, public holders of Pittsburgh Railways Co. system securities aver that Philadelphia Company has continuously operated Pittsburgh Railways system as a department for the profit of Philadelphia Company and to the loss and injury of the public holders.**

The 25-page petition, filed on July 14, sets forth alleged acts of malfeasance and misfeasance on the part of Philadelphia Company and joins in the petition filed by the SEC in June in asking for the removal of W. D. George as trustee of Pittsburgh Railways Co.

### Subsidiaries Take Action

**It is reported that the boards of directors of two Pittsburgh Railways underliers, Citizens Traction Company and Allegheny Traction Company, may ask the court to appoint two additional disinterested trustees to serve with Mr. George; thus extending responsibility in matters which might be prejudicial to public holders.**

* * *

### P. T. C. Cuts Losses

PHILADELPHIA — Reflecting effect of higher fares authorized March 21, Philadelphia Transportation Company reports a profit of $313,944 in the second quarter compared with a loss of $533,082 in the first three months. The six months period shows a net loss of $219,138.

**The company statement reads: "The new rates of fare are producing close to the anticipated 10% increase in revenue; but they are providing only for the minimum costs of carefully scheduled and efficiently operated service, leaving little or no margin for return to stockholders and future improvements."**

**Expenses, the company says, are continuing to climb because of higher wage rates and rising costs of materials, supplies and repair parts. It notes that the effect of the five-day week are being felt in the form of a marked drop in Saturday riding.**

Spokesmen for the P. T. C. say that it is impossible for the company to grant lower fares to school children, as demanded by a number of civic groups.

* * *

### Warner Earnings Up

PHILADELPHIA — In a semi-annual report to stockholders, Warner Company, producers and distributors of sand, gravel, central-mix concrete and lime products, reports gross sales of $6,749,-305 compared with $5,422,914 for the similar period last year. Earnings per share were $1.62 compared with $1.37.

Charles Warner, Chairman of the board, states, "Our large capital outlays for plant modernization and expansion have proceeded satisfactorily and increasing earnings are now resulting from the larger volume of business being handled. Further benefits from these improvements should be in evidence in the results for the latter half of this year and thereafter.

**"Our principal product, central-mix concrete, in the Trenton, Philadelphia and Wilmington markets, is in a strong position. Undelivered contracts for this commodity as of July 1, 1948, are over double the amount of such contracts at any preceding midyear, and much new business is in active prospect for public works, utilities and many types of private work.**

"The lime products operations of the company, which presently constitute about one-third of total sales, are operating at capacity."

* * *

### New Bridge Proposed

Theodore T. Knappen, President of Knappen Engineering Co., retained by the Delaware River Joint Commission and the States of Pennsylvania and New Jersey to make an over-all survey of port requirements, will recommend the construction of a new $43 million bridge across the Delaware from South Philadelphia to Gloucester, New Jersey.

This was announced last week at a meeting of the Traffic and Transportation Council of the Philadelphia Chamber of Commerce.

**"Traffic studies," Mr. Knappen said, "have shown that a long-proposed tunnel under the river between Hog Island and Paulsboro, N. J., would not be commercially feasible—at least not at this time. On the other hand, a new bridge would handle about 1 million automobiles and 144,000 buses a year. With the toll set at 25 to 30 cents, the span could operate at a profit."**

Knappen said he also recommends construtcion of a $33 million super marine terminal at Greenwich Point, below the proposed Philadelphia approach to the new bridge.

* * *

### Turnpike Financing

**On Aug. 11, Drexel & Co., B. J. Van Ingen & Co., Blyth & Co. and First Boston Corp., as joint managers, will offer $134 million Pennsylvania Turnpike Commission obligations, the largest revenue bond financing ever to come to market. Of the total, $47 million will be serials to refund $45,-086,000 presently outstanding 2⅛s, and balance, term bonds to finance the construction of the 100-mile extension of the Turnpike from Carlisle to Philadelphia.**

* * *

### Water, Water, Everywhere

The Fidelity-Philadelphia Trust Co., Philadelphia, has been appointed principal transfer agent and dividend disbursing agent for common stock of American Water Works Co. and for all the preferred stocks of the following companies: Citizens Water Co. of Washington, Pa., Commonwealth Water Co., Commonwealth Water & Light Co., East St. Louis & Interurban Water Co., Greenwich Water System, Joplin Water Works Co., Kokomo Water Works Co., Marion Water Co., Monongahela Valley Water Co., Penna. State Water Corp., Peoria Water Works Co., Richmond Water Works Corp., St. Joseph Water Co., South Pittsburgh Water Co. and Terre Haute Water Works Corp.

* * *

### Lit Brothers Resumes

**PHILADELPHIA — After a lapse of 17 years, Lit Brothers has resumed common stock dividends by declaration of 25 cents. Accumulations on the preferred stock were cleared up a year ago and the company has been engaged in a program of reducing the outstanding senior issue.**

* * *

### Philco First Half

William Balderston, President of Philco Corp., reports that company has completed the most active six months in its history and that further gains in all divisions are in prospect for the remainder of the year.

**Sales of $65,956,000 in the second quarter brought the six months total to $124,617,000, compared with $107,941,000 last year, an increase of 16%. Net was equivalent to $2.68 per common share.**

* * *

### Baldwin-Westinghouse

PHILADELPHIA — It was announced last week that Westinghouse Electric Corp. has arranged to purchase 500,000 shares of Baldwin Locomotive Works' authorized but unissued common stock at a price of $15.11 a share.

Proceeds of the sale, about $7,-555,000, will probably be used by Baldwin to reduce or pay off its approximately $6 million of bank loans, the balance being available for additional working capital.

Charles G. Brinley, Chairman of Baldwin, and Gwilym A. Price, President of Westinghouse, in a joint statement, said:

**"For many years, Westinghouse and Baldwin have collaborated closely in the development and design of various types of railroad locomotives. The acquisition by Westinghouse of a substantial but minority common stock interest in Baldwin is a natural step which should materially benefit both companies through the strengthening of the cooperation which has existed in the past."**

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# A. Gordon Crockett With Shields & Co., Houston

HOUSTON, TEX.—A. Gordon Crockett has become associated with Shields & Company, Gulf Building, members of the New York Stock Exchange, as Assistant Manager. He was formerly with B. V. Christie & Co. in the corporate trading department.

A. Gordon Crockett

# Col. E. J. W. Proffitt Receives Hon. D.Sc.

Colonel Edward J. W. Proffitt has been awarded the honorary degree of Doctor of Science in Business Administration from his Alma Mater, Bryant College, of Providence, Rhode Island. Col. Proffitt following his service in the Treasury Department at Washington has specialized for the past ten years in the arbitraging of U. S. Government bonds for banks in New York City and State.

Honorary degrees were awarded at the same time to Hon. W. Stuart Symington, Secretary of the Air Force, and U. S. Senator J. Howard McGrath, now Chairman of the Democratic National Committee.

# Howard Knepple Joins Gordon Graves & Co.

Gordon Graves & Co., 30 Broad Street, New York City, announce that Howard W. Kneppie is now associated with them as manager of the municipal bond department. Mr. Kneppie was formerly manager of the trading department and Cashier for J. A. Ritchie Co.

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# Basic Terms and Objectives of ECA

By PAUL G. HOFFMAN*
Administrator, Economic Cooperation Administration

**Mr. Hoffman outlines to Organization for European Economic Cooperation factors in essential policies of European Recovery Program. Says cooperation pledge of participating European nations must be fulfilled and programs must be developed to conform to fundamental readjustments required in national economies.**

I am happy to have this opportunity to meet you today. The Organization for European Economic Cooperation has been in existence now for approximately three months, and our American Economic Cooperation Administration for a little over three and a half months.

Paul G. Hoffman

We are embarked together upon an enterprise—a magnificent enterprise—of cooperative effort on the part of the free peoples of Europe and America for economic recovery in Europe and for the creation and maintenance of the conditions to freedom and peace. Our objectives are inspiring beyond measure. Our responsibilities are staggering. In the three years which have elapsed since the war, the free peoples of Europe have undergone and are still undergoing many hardships and privations. They have worked hard and they have accomplished much more than could have been expected in view of the desperate conditions with which they were confronted in 1945. Their achievements and their potentialities underscore our joint responsibilities for carrying through to our objectives.

It is time to take stock in broad and basic terms of our objectives and of our present position in relation to those objectives. Most of that stock taking must be done by you—I can perhaps make a contribution by reporting as accurately as I can upon the present attitude of the American people toward the European Recovery Program.

A substantial majority of the American people, President Truman, and Thomas E. Dewey, candidate of the Republican party, all our great labor organizations, business organizations and farm organizations enthusiastically support the European Recovery Program. But this should be noted: The support of the American people stems from their belief in your pledge as set forth in the Report of the Committee of European Economic Cooperation and later reaffirmed by you in the Convention for European Economic Cooperation. In the Convention for European Economic Cooperation, participating countries pledged themselves "to combine their economic strength to join together to make the fullest collective use of their individual capacities and potentialities" and to "undertake the elaboration and execution of a joint recovery program" in order to "achieve as soon as possible and maintain a satisfactory level of economic activity without extraordinary outside assistance."

**Elements of Cooperation Pledge**

To the American people, and I am sure also to yours, this pledge has a very real, a very simple meaning. I should like to focus attention on three elements of the pledge which was made: The promise of joint action and collective use of your capacities and potentialities; the responsibility of each nation to develop an inclusive program in the fields of sound government finance, production and trade; and the terminal date.

To the American people each of these elements was and remains a determining factor in their decision to embark on the task. It is not hard to explain why.

While there has been a growing conviction that it is in the deepest interests of the United States that Europe should again become a living, workable and independent economic and political organization, there has at the same time been a growing conviction that this goal cannot be set in the frame of an old picture or traced on an old design. It cannot be brought about by old ways of doing business or through old concepts of how a nation's interests are best served. New patterns of intra-European trade and exchange must be found and new directions in the use of Europe's resources. These are made necessary and not alone by the drastic consequences of two wars, but also by the tides of change that run longer and deeper.

Each participating nation, looking at the operations of its own national life, must face up to readjustments to satisfy the requirements of a new world. These readjustments cannot be made in the course of national action along the old separatist lines. They can only be accomplished if each nation seeks its new goal in terms of the economic capacity and the economic strength of Europe as a whole. America understands that these readjustments are exceedingly difficult and that they require immense efforts by people who have scarcely had time to catch their breath after the ordeal of war.

**Programs Must Be Developed**

America also understands that it will not be easy for the participating nations to develop programs to conform to the fundamental readjustments of which I have been speaking, but if the recovery we hope for is to be achieved, programs must be so developed. It is the responsibility of each government to develop its own program, and it is the responsibility of each government to work out the mutual adjustments which will be the basis for a master plan.

What seems to me to be called for and quickly is such a master plan of action based upon the full recovery of the European economy by June 30, 1952 when American aid terminates. This master program would, of course, be a composite of programs developed by the 16 participating nations, Western Germany and Trieste. I want to make clear as crystal the fact that what I have in mind is a program of action, not a rigid and ponderous five-year plan which tries to compress the life processes of a nation into a set of formulae and a sheaf of statistical tables. Surely for freedom loving peoples, no plan must ever lose sight of the creative force of individual human beings and of the extent to which a nation of free men renews itself from unknown and unsuspected sources of strength in the minds and spirits of its men and women.

Those four-year programs of action which I envisage would in part be stated in terms of production in agriculture and in key industries, in part in terms of exports or imports of key commodities, but would also include programs for action in such fields as monetary and fiscal policies and trade policies where governments and governments only can take action. In addition to the programs for each of the countries, the OEEC should have a four-year plan of action of its own calling for specific accomplishments in the direction of making free the movement of goods, services and peoples among the nations. I would hope that the four-year program of action would be supplemented by four one-year programs so that at the end of each year progress could be measured. The steps in the program, the measures which are planned

(Continued on page 14)

*Remarks by Mr. Hoffman made recently in Paris, France, before the Organization for European Economic Cooperation.

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# Congress Stands Against One Man Government

By HON. CHARLES A. HALLECK*
U. S. Congressman from Indiana

**Republican leader in House of Representatives answers President Truman's attacks on Congress and denies existence of an emergency that requires special session of Congress. Defends record of Eightieth Congress and accuses President of working against and not with Congress. Says Republican victory in November will mean complete accomplishment of program.**

After this Republican Congress was elected in 1946 President Truman publicly stated that the people had spoken, that he accepted their verdict, and that he would cooperate with the Republican Congress. That pledge he has not kept. On the contrary, he has sought constantly to block the will of the people as expressed through their duly elected representatives.

Charles A. Halleck

Mr. Truman vetoed measure after measure, only to see his vetoes overridden by overwhelming majorities in the Congress. And that, bear in mind, took Democrats as well as Republicans, and they spoke for the people.

More recently, he began a vicious and completely unjustified attack on the Congress, an attack so obviously political and so petty as to reduce even further his already rapidly disappearing support among the people.

Mr. Truman's attack on the Congress, and his insistence on having his way without regard to what the people's representatives believe, must remind many of a similar attack once made on the Supreme Court of the United States. Then the Supreme Court stood against a one-man government. Today, the Congress stands against a one-man government. Today, the Congress stands as an independent branch of the government, rightfully rejecting executive domination, recognizing only its obligation to all the people to legislate in the best interest of the nation as a whole.

When Mr. Truman first took office, he called Republican leaders to the White House on many occasions, laying legislative requests before us and asking for our cooperation. He did this with respect to domestic matters and many times with respect to foreign affairs where he had an initial responsibility. We cooperated with him in everything we deemed to be in the best interests of the country. But what a contrast is seen in his subsequent warring on the Congress and in his constant refusal to cooperate with Congress on matters primarily of its concern.

You remember, the President called this special session of Congress in the course of a partisan political speech at a political convention in which he almost failed of renomination by his quarreling, divided, bolt-ridden party. He did not consult with Republican leaders in Congress about the call for the session. He did not attempt to work out a program.

The American people are well acquainted with the cry, "emergency." They heard it throughout the New Deal, again, and again, and again. The American people and this Congress are willing to work and sacrifice for any real emergency. But a political emergency is an entirely different thing

It cannot be denied that Mr. Truman, in calling the session sought political advantage at whatever expense to the country rather than sane, sensible legislation to be worked out in a spirit of harmony and co-operation for the good of the country. The very volume, number, magnitude, scope and importance of the dozens of legislative demands Mr. Truman stated in his message is final proof, if any be needed, that the affair in the Capitol yesterday officially opened the New Deal-Democrat campaign at the taxpayers' expense and with the Congress furnishing the back-drop. This is a continuation of his war on Congress. I believe the people resent such tactics.

In spite of the attitude of a hostile President bent on bolstering his crumbling political fortunes the Republican Congress will, in this special session as always in the past, do whatever may be found necessary in the public interest as an emergency matter.

**Not Going to Bankrupt Country**

But we are not going to bankrupt the country, socialize the country, or regiment the country by police-state methods. We are not going to destroy production instead of increase production and otherwise jeopardize our solid and sound progress by sacrificing the true national interest on the altar of political expediency.

What is the record in that regard?

Back, before the 1946 elections, the Republicans in Congress joined in a statement of principles and policies. On that we were elected. On those pledges we have delivered. For that the people commend and applaud us and for that they will re-elect us and elect our candidates, Dewey and Warren.

We then said:

"Today's major domestic issue is between radicalism, regimentation, all-powerful bureaucracy, class exploitation, deficit spending, and machine politics, as against our belief in American freedom for the individual under just laws fairly administered for all, preservation of local home rule, efficiency and pay-as-you-go economy in government, and the protection of the American way

(Continued on page 35)

*An address by Rep. Halleck over National Broadcasting Company and Mutual Broadcasting Company, July 28, 1948.

*All of these securities 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 securities.*

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*Copies of the Prospectus pursuant to which the offering was made may be obtained from the undersigned.*

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August 5, 1948

# Britain's Economic Defenses

By PAUL EINZIG

**Dr. Einzig, commenting on Britain's present war potential, points out, from economic viewpoint, the nation is in a better position than in 1914 or in 1939, but, because of loss of overseas investment and lack of materials stock-pile, Britain is less prepared to fight a prolonged war than in 1939.**

LONDON, ENGLAND.—It is a sad reflection on the state of the world that, less than three years after the end of World War II, it has become necessary to think in terms of economic war potential in case of another war. Until recently the problem was Britain's conversion from war economy to peace economy. With the almost complete demobilization of the fighting services, and the adjustment of industries to civilian requirements, that task may now be regarded as completed. But with the reappearance of war clouds on the horizon there is a growing concern in Britain that a third World War would find the country economically unprepared.

Dr. Paul Einzig

These fears are to some degree exaggerated. For in many respects Britain's economic defenses are now in a better position than they were in 1914 or in 1939. Agricultural production, in spite of its decline from its wartime peak, is still well above prewar level, and a larger proportion of food can now be grown within the country than in 1939. In spite of the "demobilization" of the munition industries, the production of war materials could come into its stride within a much briefer space of time than it did at the beginning of the last war. Most wartime economic controls are still in force, so that the regulation of consumption and production in accordance with war requirements would present no problem. Those who remember the interminable delays that occurred after 1939, before exchange control, rationing and other indispensable measures came to be adopted and applied efficiently, will appreciate the advantage of not having to start from scratch in this respect.

The other side of the picture is represented by the exhaustion of Britain's external reserves; the inadequacy of food and raw material supplies actually in the country; the inadequate degree to which wartime wear and tear of industrial plant has been made good; the decline of the tonnage of the merchant fleet compared with 1939; the reduction of the country's resources of timber and other home produced materials: and the inadequacy of the coal output.

In 1939 Britain had a gold reserve of some £700,000,000, and overseas investments valued at about £3,500,000,000. Now the gold reserve is under £500,000,000, much of which is claimed by other Sterling Area countries, or is offset by external short-term debts such as the advances obtained from the International Monetary Fund. There is also an external indebtedness of some £3,000,000,000. What is left of the overseas investments is not easily realizable. Even in the absence of war requirements Britain would be unable to balance her international accounts without the Marshall aid. The outbreak of a war would inevitably increase import requirements, to such extent that it would tend to exhaust the gold reserve in a matter of months. Britain would depend on American financial assistance to an even higher degree than in World Wars I and II. It is assumed, however, that since on this occasion the United States would be in the war from the very outset there would be no difficulty in securing American aid in the form of a resumption of lend-lease or some other form. Even so, delays through the need to obtain the approval of any such arrangements by Congress might create an awkward position for a time.

In 1938-39 Britain embarked on stock-piling in anticipation of a war. Owing to exchange difficulties since 1947 her stocks have been allowed to run down considerably on the present occasion. The country has been living from hand to mouth. Generally speaking the only supplies that are actually available are those which are in the "pipelines." This is true not only concerning government-owned stocks but also privately-owned supplies, as the London commodity markets are much less well-supplied with stocks than before the war. There has also been recent fairly heavy Russian buying of rubber and other commodities. Scrap metal stocks are at a low ebb.

Even though progress has been made towards the renewal of worn-out industrial equipment since 1945, the present position leaves much to be desired. This is true also concerning the rolling stock of the British railroads. Notwithstanding the progress made by British shipbuilding since the war, the tonnage of the merchant fleet is very inadequate even for peacetime requirements.

During World War II, Britain's own timber resources have declined to a very low level. Coal output is deplorably inadequate. All this could not be remedied at short notice, and would handicap the initial economic war effort.

In one respect, at any rate, Britain's economic war effort would be at an advantage compared with the situation at the beginning of World War II. Then everything had to be learned from the very beginning. Now the government knows all about war economy. The last war was so recent that the situation has not changed fundamentally, and the lessons learned between 1939 and 1945 still hold good. Even so, it may be said that, on balance the country is today less well-prepared, from an economic point of view, to fight a prolonged war than it was in 1939.

## Robert A. Dahn Joins G. H. Walker & Co.

G. H. Walker & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, announce that Robert A. Dahn is now associated with the firm in its municipal bond department in New York.

Mr. Dahn was formerly in the municipal trading department of Union Securities Corp. Prior thereto he was with R. W. Pressprich & Co.

## Joins Stewart, Scanlon Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Arthur L. Winn is with Stewart, Scanlon & Co., 216 Montgomery Street, members of the San Francisco Stock Exchange.

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# The Stock Market

By ROGER W. BABSON

**Mr. Babson holds, because Republican party election has already been discounted, present probability is stocks will continue to go down within a 165-185 Dow Jones range. Sees investors demanding higher income yields and predicts eventually there will be another war.**

Wall Street has again turned bearish. Apparently the insiders have sold their stocks and are again waiting for the market to drop. This especially applies to the oils which Wall Street has been selling while advising everyone else to hold! Last January in my Forecast for 1948 which this newspaper published, I clearly stated in paragraph No. 34 that the safe range (based upon the Dow-Jones Industrial Averages) to hold stocks during 1948 would be a low of 165 and a high of 185. (This was assuming no further change in the tax laws or the margin requirements.) Hence, those readers who followed my advice sold stocks when the Averages crossed 185 and are thankful. Although stocks temporarily sold above 185, they made a good profit and now have cash for later repurchasing.

Roger Babson

The present probability is that a Republican election has already been discounted and that stocks will continue to go down, approaching my low of 165, after which they will move up again. Wise investors are those who await these buying periods which usually come about once a year. As the time to sell is when most brokers are bullish, so the time to buy is when these same brokers are bearish.

### Dividends and Yields

There are two reasons why I made that forecast last January. The first reason is that the value of stocks is their income yield. Food, clothing and shelter have a **necessity** value; furniture has a **use** value; an auto has a **transportation** value; even jewelry has a **show** value. Unless stocks pay dividends, or **hope to some day**, they have very little value. "Book value" is a factor only for scrap liquidation.

Over a normal period of time the dividends paid by the Dow-Jones Stocks yield about 5% when purchased at 165, but yield only 4% when purchased at 185 to 190. Or to figure it another way: a good 8% stock should sell at about 165 to yield 5%; but at 185 it would yield only about 4%. Letters from thousands of investors show they want a yield of from 4% to 5%.

### Income Taxes and Stock Prices

When readers show this 165-185 Forecast of mine to brokers, the brokers come back with the retort: "But the stocks which I am recommending to you yield more than 6% even at a 185 average price. Hence, it is reasonable to believe that the Dow-Jones Industrial Averages will go to 200 or 225." Then they also talk about the "book value" to which I refer in the beginning of the column.

Well, as I have said, book value means almost nothing unless accompanied by a reasonable hope of income. But the real answer to the brokers' criticism of my 165-165 range is that personal income taxes reduce the yield to investors from 20% to 80%. I grant that if we were today having prewar income taxes, the Dow-Jones Industrials would sell at an average price of 250; but this is not now possible. I repeat that to have a net yield, **after paying income taxes**, of from 4% to 5% on any safe list of common stocks, the average investor can afford to buy only when the Dow-Jones Industrial Averages are under 185. As indicated above, I would change this range if the tax laws or the margin requirements should be changed; but so long as they are as they are today, readers had better depend upon my 165-185 Range.

### What About Russia?

There will be no war with Russia this year. However, everyone realizes that there will be a World War III sometime and when this comes some of our largest cities will be destroyed. Hence, wise investors are now selling the securities of companies with most of their assets in these large cities. As there are few buyers, the prices of these stocks drop badly. This same reasoning applies to certain oil companies with big refineries in vulnerable locations. The above and the disappointment of the "Dow-Theorists" are the main causes of the recent stock market slumps.

# President's Housing Program—A Paradox

By HON. EVERETT M. DIRKSEN*

U. S. Congressman from Illinois

**Accusing the President of "trying to put a fire out by pouring gasoline on it," in recommending housing legislation leading to government outlays and mortgage credit expansion while at same time urging anti-inflation curbs, Congressman Dirksen reviews failures of Housing Expediter and praises private industry in affording more homes. Says President's program will not increase housing but will intensify competition in building industry for materials and manpower.**

Yesterday at noon, President Truman came up to Capitol Hill and delivered his message to the special Turnip Day session of Congress. It had a little of everything in it. In fact, the President presented Congress with three programs rather than one. The first might well be called his "Must" program, dealing with high prices and housing.

Everett M. Dirksen

The second might be called his "Urgent" program which included civil rights, more money for power projects, price controls, a modification of the Displaced Persons Act, excess profits taxes, consumer controls and other items.

The third might be called the "Spare Time Program." The President indicated that if Congress had time, it could devote attention to such things as anti-trust laws, universal military training, repeal of the Taft-Hartley Act, national health insurance and other items.

*An address by Mr. Dirksen over the Columbia Broadcasting System network, July 28, 1948.

If you put them all together, they would involve the expenditure of hundreds of millions of public funds.

Frankly, the President's message is something of a paradox. In one breath, he directed attention to the dangers of inflation and in the next, he recommended more expenditures and more credit, which is like trying to put out the fire by throwing gasoline on it.

From now until November, there will be a chance to fully discuss all these things. But tonight, I want to talk about housing.

Now folks, what, if anything has government been doing about houses for people over the years? Well, I've been a member of Congress for 16 years and remember most of the legislation that was passed. It began with the Federal Home Loan Bank Act in 1933 and the Home Owners Loan Act to meet the distress conditions that existed in those days. In 1933 and 1934, Congress created a public housing program and also set up the Federal Housing Administration. In 1937, we created the United States Housing Administration. In 1944, Congress passed the socalled GI or Serviceman's Readjustment Act which contained a housing title. In 1946, we created the Office of Housing Expediter. Since 1932, we have committed or expended or incurred liabilities in the field of housing activities of more than $20 billion.

### The Housing Expediter

The Act which was passed by Congress in 1946 to create a Housing Expediter or Housing Czar deserves a little discussion. In January of 1946, a few months after the war ended, the President called Wilson Wyatt, the former mayor of Louisville, to Washington. Mr. Wyatt was to be made a Housing Czar and get home construction under way. Mr. Wyatt had a grandiose plan for building houses faster. It was enacted into law in May of 1946. The goal was to be about 2¾ million houses in two years. All but 250,000 of those were to be permanent construction. About a million and a quarter were to be completed in 1946. Congress gave Mr. Wyatt broad powers, armed

(Continued on page 32)

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

*New Issue*

184,809 Shares

**United Air Lines, Inc.**

Common Stock

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Rights, evidenced by Subscription Warrants, to subscribe for these shares at $10.75 per share, in the ratio of one share for each ten shares held, have been issued by the Company to its Common stockholders, which rights expire at 2:00 o'clock P.M., Eastern Standard Time, on August 17, 1948, as more fully set forth in the Prospectus.

Approximately 175,000 of the 184,809 shares of Common Stock are also being offered, subject to subscription by holders of Subscription Warrants, for subscription by certain employees of the Corporation at $10.75 a share. The period within which these subscriptions may be made also will expire at 2:00 o'clock P.M., Eastern Standard Time, on August 17, 1948.

The several Underwriters named in the Prospectus, including those named below, may offer shares of Common Stock acquired by them pursuant to the Underwriting Agreement or through the exercise of Subscription Warrants at prices not less than the subscription price set forth above and not above a price equal to the current offering price on the New York Stock Exchange, plus an amount equal to stock exchange commissions.

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

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*August 4, 1948*

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# Bank and Insurance Stocks

By E. A. VAN DEUSEN

## This Week — Bank Stocks

In the July 8 issue of the "Chronicle" this column presented earnings of 17 New York City banks for the first six months of 1948 vs. the comparable period in 1947. This week we present similar comparisons for a selection of 16 banks in cities other than New York, viz: Boston, Philadelphia, Pittsburgh, Cleveland, Chicago and California.

BANK STOCKS

| | Indic. Net Earns. per Sh. 6 Mos. End. June 30 | | Book Value —1948— | |
|---|---|---|---|---|
| | 1947 | 1948 | March 31 | June 30 |
| *Boston—* | | | | |
| First National | $1.80 | $1.77 | $43.17 | $43.51 |
| National Rockland | 1.40 | 1.44 | 61.10 | 61.54 |
| *Philadelphia—* | | | | |
| Fidelity-Philadelphia | 2.05 | 1.87 | 72.26 | 72.57 |
| First National | 1.94 | 1.70 | 45.16 | 45.58 |
| Girard Trust | 2.10 | 2.29 | 43.35 | 44.88 |
| *Pittsburgh—* | | | | |
| Peoples-First National | 1.05 | 0.98 | 49.14 | 49.32 |
| *Cleveland—* | | | | |
| Cleveland Trust | 13.94 | 15.86 | 317.97 | 323.75 |
| *Chicago—* | | | | |
| City National Bank & Trust | 9.45 | 7.27 | 277.91 | 279.97 |
| Continental Illinois Nat'l Bk. & Tr. | 3.92 | 3.75 | 90.48 | 91.97 |
| First National | 12.47 | 13.11 | 222.46 | 231.71 |
| Harris Trust | 10.57 | 10.85 | 325.08 | 331.18 |
| Northern Trust | 19.22 | 17.81 | 681.89 | 698.05 |
| *California—* | | | | |
| American Trust | 2.36 | 3.19 | 68.03 | 68.69 |
| Bank of America | 2.90 | *3.23 | 30.67 | 32.65 |
| California Bank | 2.21 | 2.76 | 66.17 | 67.93 |
| Citizens National Trust | 2.28 | 2.37 | †57.27 | 56.49 |

*Reported net earnings. †April 12, 1948.

As in the case of New York City banks, results are mixed. Nine banks show higher earnings this year than in 1947, and seven banks, lower. However, the earnings shown are "indicated" (except in the case of Bank of America which are reported), and hence are not necessarily conclusive nor strictly comparable. Despite this, nevertheless, the comparisons are favorable on the whole.

Earning assets of all banks, both in New York City and in other leading cities, are down since the first of the year, as the following figures published by the Federal Reserve Board show:

MEMBER BANKS, NEW YORK CITY
($000,000)

| | Commerc'l Loans | Total Loans | Short-Term Govts. | U. S. Bonds | Total U. S. G. | Total Invests. | Total Loans & Invests. |
|---|---|---|---|---|---|---|---|
| Dec. 31, 1947 | 5,336 | 7,076 | 2,128 | 9,574 | 11,702 | 12,926 | 20,002 |
| July 28, 1948 | 5,190 | 7,397 | 2,292 | 7,910 | 10,202 | 11,343 | 18,740 |
| Change | —146 | +321 | +164 | —1,664 | —1,500 | —1,583 | —1,262 |

MEMBER BANKS IN LEADING 94 CITIES
($000,000)

| | Commerc'l Loans | Total Loans | Short-Term Govts. | U. S. Bonds | Total U. S. G. | Total Invests. | Total Loans & Invests. |
|---|---|---|---|---|---|---|---|
| Dec. 31, 1947 | 14,645 | 23,229 | 7,722 | 29,505 | 37,227 | 41,487 | 64,816 |
| July 21, 1948 | 14,562 | 24,318 | 8,928 | 25,951 | 34,879 | 39,197 | 63,515 |
| Change | —83 | +1,089 | +1,206 | —3,554 | —2,348 | —2,290 | —1,301 |

It will be observed that commercial loans stand fractionally below their year-end volume both for New York City and the country. The low point of the year was June 2, and a moderate rise has taken place since then. Loans to brokers and dealers and also real estate loans are moderately higher than at the beginning of the year.

With regard to investments, holdings of government bonds are down in New York City and the 94 cities. Treasury bills and notes are also down, but Treasury certificates are higher by about 40% for New York City and 33% for the 94 cities.

By and large the banks are doing an excellent job and demonstrating earning ability adequate to cover present dividend disbursements by moderate to substantial margins. But they have been laboring under difficult conditions imposed by the "easy money" policy of the government. It is now a little more than a year since the government unpegged the 90-day bill rate, permitting it to rise from its fixed rate of ⅜% to its present rate of .997%. Meanwhile there have been small rate increases in many other categories of loans and notes, but the trend on the whole has been quite restricted and modest. Nevertheless, these increases have helped the banks. There are now further indications that the Treasury's opposition to higher interest rates is beginning to soften, as a means of curtailing credit expansion. It also seems likely that higher reserves may be set for the banks which obviously will have the effect of reducing funds available for lending and thus tend to lower income unless offset by further increases in interest rates.

The theory that all credit extension by the banks is inflationary, which appears to be the prevailing view in Washington, is of course wrong. Many loans to industry and business are for the purpose of increasing production and facilitating the distribution of goods, and to this extent are on the side of supply vs. demand. Other loans, which create funds for the purpose of bidding up goods that are in short supply, obviously increase demand pressure and are hence inflationary. Expert banking knows how to differentiate without being told or forced.

It appears to this observer that a moderate hardening of interest rates in various categories would be salutary all around.


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Bell Teletype—NY 1-1248-49
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CG-105

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Schofield Building
SUPERIOR 7644
CV-394

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Providence, Enterprise 7008 Detroit, Enterprise 6066


# Spahr Queries Dewey On "Sound Money"

**In open letter to Republican Presidential candidate, executive of Economists' National Committee on Monetary Policy questions whether present currency is "sound" and asks whether candidate would support Buffett Bill to restore a gold redeemable monetary system.**

Dr. Walter E. Spahr, Executive Vice-President of the Economists' National Committee on Monetary Policy and Professor of Economics at New York University, has addressed the following open letter to Governor Thomas E. Dewey, the Republican candidate for President:

Aug 2, 1948.

*Dear Governor Dewey:*

The Republican Platform advocates "a sound currency." The question is pressing today as to what a sound currency means to the Presidential nominee of the Republican Party.

Thomas E. Dewey Walter E. Spahr

With the dollar depreciated and depreciating sharply in terms of its purchasing power, with widespread concern regarding this state of affairs, and with Congress and the present Administration devoting special attention to high and rising prices, it seems reasonable to suppose that you would believe it helpful to interpret the sound currency plank of the Republican Platform.

Since there has been much discussion of the following major issues in respect to providing the United States with a sound currency, doubtless you would agree that it would be helpful if you would state your position on them.

(1) Do you believe that our present domestic system of irredeemable paper money, silver certificates excepted, provides the people of the United States with a sound currney?

(2) Do you believe that an irredeemable paper money is sound currency?

(3) Do you believe that the United States Treasury and the Federal Reserve banks should be authorized, as is the case today, to issue promises to pay which they are not required to redeem, do not redeem, and under our laws cannot redeem, in the metal (gold) in which our standard monetary unit is expressed?

(4) Should you believe that these institutions should have the power to issue promises to pay which they are not required to redeem, would you believe this is a case of granting special privilege without requiring the assumption of corresponding responsibility?

(5) There has been introduced in Congress the Buffett gold standard bill (H. R. 5031) which would provide the United States with a gold-coin standard based upon the present prescribed weight of the standard gold dollar. Would you support the Buffett proposal on the ground that this would provide the people of this country with a sound currency?

If a "sound currency" means something to you that is not revealed in your answer to these five questions, would you state precisely the additional provisions for a sound currency which you would recommend to the people and to Congress?

Since your beliefs as to what would constitute a sound currency for the United States is a matter of general concern, these queries are submitted to you in the form of an open letter on the assumption that you will wish to make your reply to the public in general.

Sincerely

(Signed) WALTER E. SPAHR, Professor of Economics, New York University, Executive Vice - President, Economists' National Committee on Monetary Policy.

The HON. THOMAS E. DEWEY
The Capitol
Albany, New York.

## With Dempsey-Tegeler Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Philip P. Walter is now associated with Dempsey-Tegeler & Co., 210 West Seventh Street. He was formerly with Bingham, Walter & Hurry.

# Basic Terms and Objectives of ECA

(Continued from page 11)

and the individual accomplishments which are scheduled should be stated clearly and concretely. Such a statement would furnish understandable gauges against which every citizen in Europe, and in America too, could measure the degree of progress.

Above all, I would hope that the plans would not be little plans, for as a great American city architect said, "Make no small plans—they have no magic to stir the imagination of man." But plans alone are not enough. They must be supported by faith, and the will to carry through. We believe in you, believe that your greatness lies in the future and not in the past. We are backing up that belief by not only sending you the products of our workmen and farmers but also some of our ablest citizens. The United States Special Representative for Europe is a former member of our Cabinet. Every head of mission is a man of exceptional qualifications. We are sending you our products and our men because, like you, we have a vital stake in the success of the Marshall Plan. It must succeed. In justice to the hopes and efforts of all free peoples, we must make it succeed. Much remains to be done vigorously, and to be done soon. We stand ready, as a partner, to help. But the initiative lies with you.

# Business Man's Bookshelf

Why Kill the Goose? — Booklet based on parts of book of same title by Sherman Rogers — Foundation for Economic Education, Inc., Irvington-on-Hudson, New York—Paper—10 copies, $1; lower rates for larger quantities.

## Robert F. Sprang Joins Staff of First California

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Robert F. Sprang has become associated with First California Company, 510 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Sprang was formerly with Revel Miller & Co. and Butler-Huff & Co.

## Byron C. Foster with Westheimer & Co. Staff

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—Byron C. Foster has become associated with Westheimer & Co., 325 Walnut Street, members of the New York and Cincinnati Stock Exchanges. Mr. Foster in the past was with W. H. Zieverink & Co. and Nelson, Browning & Co.

## Niland with Browning Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO — William H. Niland, Jr., has become associated with Browning & Co., Union Trust Building. Mr. Niland was previously with J. A. White & Co.

## With John B. Joyce & Co.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO—Richard W. Johnson has been added to the staff of John B. Joyce & Co., Huntington Bank Building.

## With Chas. A. Day & Co.

(Special to THE FINANCIAL CHRONICLE)

BARRE, VT.—Charles E. Sullivan is with Chas. A. Day & Co. of Boston.

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# No Valid Reason for Special Session

By HON. KENNETH S. WHERRY*

U. S. Senator from Nebraska

**Republican Party leader denounces President Truman's call of Congress in special session as political move. Denies grounds for emergency legislation and chides President for not bringing up foreign situation and Communism as issues. Says Congress has already given President power to stabilize currency and reduce living cost which he has not used to full advantage. Accuses President of losing faith in free enterprise.**

The opportunity to discuss with you the Special Message which President Truman yesterday delivered to the Congress is one that I deeply appreciate. We Americans should face our common problems together into a calm, cool, and reasoned way. Our form of government in which the people have a positive voice has prevailed longer and has operated more successfully than the government of any other nation on earth.

Sen. K. S. Wherry

Our Constitution wisely makes provision that Congress may be called into special session to deal with an extraordinary emergency. Throughout our history, other Presidents have not played fast and loose with the office they have held; they have acquainted the nation at large with the nature of the emergency when a special session was necessary. It was not in this spirit that President Truman acted. But rather in the atmosphere of a political convention at 2 o'clock in the morning without consulting the leadership of Congress, without even considering the provisions in the Constitution, without advising the people of America of any emergency, he issued a call on Congress to reconvene at a moment when the nation is in the heat and hysteria of a political campaign.

He is floundering in the quicksands of a ruined political fortune and he has imposed upon the American people a Special Session of Congress at a time when he should be thinking of the unity of the people and of the seriousness of the situation at home and abroad.

In the closing hours of the regular session, the Minority Leader, Mr. Truman's own running mate, Senator Barkley of Kentucky had this to say about the convening of Congress in a Special Session:

"If we sit here until after the Convention or if we sit here between the conventions, or after the two conventions, the entire time of the Congress will be taken up with political bickering, political legislation and political oratory, and I do not want that to be brought about."

Well, Fellow Americans, in obedience to the call which the law authorized, Congress returned to Washington this week.

The Members of the Senate and House of Representatives listened to the President, that is to say, to "Candidate" Truman. They heard him submit a warmed-over version of what he presented to the Congress eight months ago. There wasn't anything new in the President's message.

He offered no solutions. He offered no new program. It emphasized that the Administration is devoid of any new thinking. In fact, it demonstrates the confusion and total inability of this Administration to cope with the problems that now confront the American people.

## Crucial Issues

Fellow Americans, there are three crucial issues confronting the American people tonight. They are: Livings costs, foreign commitments, and Communism.

It is appalling that on foreign policy, the President was absolutely silent, and not once did he mention the threat of Communism at home or abroad.

The President came before the joint session in an emotional appeal and staked his case upon the living costs, appealing to the housewives in the hope that he can fool them and distract their attention from the failures of the Administration in handling these vital issues.

That is exactly what the American people can expect of a political candidate who in desperation apparently will consider any means to win.

Why did not President Truman in his message to the special session discuss these issues? Because he chooses to serve the lesser selfish fortunes of the Democratic Party at the expense of the greater fortunes of the American people.

At home, the President chose to stress the cost of living. He stated that living costs were the results of the lifting of price controls and blamed it squarely upon the Republican Party. He absolves himself from all responsibility, even though in 1946 a Democratic Congress passed the decontrol measure, which he as President signed and the provisions of which he exercised, telling the American people at that time that he did not believe in police state methods, and we should once again return to a peacetime economy under American free enterprise. Now he advocates return to a program which he himself denounced. If he was right then, he's wrong now.

Why, Fellow Americans, everyone is concerned with living costs. This Congress has been warring against increasing prices and their cause each and every day it has been in session.

This Congress has been the friend of the housewife in attempting to lower living costs so that she could obtain food, clothing and the necessities of life.

But let me point out that Candidate Truman's lip service for low prices will not add one pound of beef to the family table; one suit of clothes to a member of the family; or reduce the cost of these necessary items by one red cent.

Why doesn't the President tell the American people the truth about living costs?

One of the principal causes is huge government spending. Do you know that the cost of government today is more than the annual food bill that we Americans pay, at even today's prices?

The people of America know you cannot burn up all of our priceless resources in a war and increase our national debt from $40 to $258 billion without feeding the fires of inflation.

The American people know the billions we have appropriated for foreign aid takes out of the coun-

(Continued on page 39)

*An address by Senator Wherry over Columbia Broadcasting System network, July 28, 1948.

# Rep. Wolcott Offers Credit Control Bill

**Chairman of House Banking Committee would restore consumer credit controls and permit Federal Reserve to raise reserve requirements within specified limits for both commercial and Federal Reserve Banks.**

According to an Associated Press dispatch, Chairman Jesse P. Wolcott, (Rep.-Mich.), of the House Banking and Currency Committee on Aug. 4 presented to his Committee for approval a bill to curb credit expansion. This bill would give the Board of Governors of the Federal Reserve System authority to exercise anew controls over consumer and instalment credit up to March 15, 1949. The bill would also permit the Board of Governors of the Federal Reserve System, "in order to prevent injurious credit expansion, by regulation to change the requirements as to reserves to be maintained . . . against demand or time deposits or both; (1) by member banks in central reserve cities, or (2) by member banks in reserve cities, or (3) by member banks now in reserve or central reserve cities, or (4) by all member banks; but no such change shall have the effect of requiring any such member bank to maintain a reserve balance against time deposits in an amount equal to more than 7% thereof, or a reserve balance against its demand deposits in an amount equal to more than 29% thereof, if such a bank is in a Central Reserve city; 23% thereof if in a reserve city; or 17% thereof if not in a Reserve or Central Reserve city. No change in reserve requirements made under authority of this paragraph shall continue in effect after March 31, 1949."

Jesse P. Wolcott

In addition to the above new cash reserve requirements which may be placed upon commercial banks, every Federal Reserve bank under the proposed bill is to be required to maintain a reserve in gold certificates of not less than 35% against its deposits and reserves in gold certificates of not less than 40% against its Federal Reserve notes in actual circulation; provided, however, that when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation.

The present gold reserve requirement of the Federal Reserve banks is 25% of notes and deposits.

# NSTA Notes

## NSTA CONVENTION

The Dallas Bond Club desires that all requests for registrations for the NSTA convention be directed to the Chairman of Registration: Carrol M. Bennett, Dallas Rupe & Son, 903 Kirby Building, Dallas 1, Texas.

The Registration Fee is: $50 for Non-members; $35 for Members; $25 for Wives of Members.


*New Issue*

# $10,000,000

# State of South Carolina

## 2.10% State Highway Certificates of Indebtedness

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Dated August 15, 1948. Due each August 15, as shown below. Principal and semi-annual interest (February 15 and August 15) payable at The National City Bank of New York or at the State Treasury, Columbia, South Carolina. Coupon certificates in denomination of $1,000, registerable as to principal only or as to both principal and interest.

*Interest Exempt from Federal Income Taxes Under Existing Statutes and Decisions*

*Eligible, in our opinion, as Legal Investments for Savings Banks and Trust Funds in New York, Connecticut, Massachusetts, South Carolina and certain other States*

AMOUNTS, MATURITIES, YIELDS AND PRICE
(Accrued interest to be added)

| Amounts | Maturities | Prices to Yield | Amounts | Maturities | Yields or Price |
|---|---|---|---|---|---|
| $ 200,000 | 1950 | 1.00% | $1,250,000 | 1955 | 1.70% |
| 600,000 | 1951 | 1.15 | 1,250,000 | 1956 | 1.80 |
| 100,000 | 1952 | 1.30 | 1,250,000 | 1957 | 1.90 |
| 400,000 | 1953 | 1.45 | 1,250,000 | 1958 | 2.00 |
| 1,200,000 | 1954 | 1.60 | 1,250,000 | 1959 | 100 (price) |
| | | | 1,250,000 | 1960 | 2.15 |

*The above Bonds are offered subject to prior sale, for delivery when, as and if issued and received by us and subject to the approval of legality by Messrs. Reed, Hoyt and Washburn, Attorneys, New York City.*

The National City Bank OF NEW YORK
The Northern Trust Company
Glore, Forgan & Co.
The First National Bank OF PORTLAND, OREGON
Trust Company of Georgia
Harris, Hall & Company (Incorporated)
A. G. Becker & Co. Incorporated
W. E. Hutton & Co.
Roosevelt & Cross Incorporated
Stroud & Company Incorporated
City National Bank & Trust Co. KANSAS CITY
Robert Winthrop & Co.
The Milwaukee Company
The Citizens and Southern National Bank ATLANTA
The Citizens and Southern National Bank OF SOUTH CAROLINA
Stern Brothers & Co.
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Newman Brown & Co. INC.
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August 4, 1948


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# Canadian Securities

By WILLIAM J. McKAY

Canada once more has demonstrated marked ability in the direction and regulation of the Dominion economy. When faced with the problem of rapidly dwindling U. S. dollar reserves no hesitation was shown in putting into operation heroic measures for its solution. Now when there is no longer any doubt concerning the success of the resultant austerity program, steps have promptly been taken to mitigate the burden placed on the Canadian consumer. Following the recent government announcement of the elimination of the drastic excise taxes imposed last November, the retail prices of a long list of important consumer items have been substantially lowered.

It was simultaneously announced that the governmental embargo on the shipment to this country of Canadian lambs and sheep had been removed and that the subsidies on domestic wheat had been reinstated. As a result of the latter measure, although the Canadian farmer will benefit from the higher prices which are now effective in accordance with the new United Kingdom wheat contract, the cost of bread to the Canadian public will remain unchanged. The opening of the U. S.-Canadian border to the shipment of lambs and sheep now clears the way for consideration of the removal of the ban on cattle exports to this country.

In this way in addition to the beneficial effects of the Dominion austerity program which have so far reduced the adverse trade balance with this country, by more than half in comparison with last year, Canadian meat exports will soon serve further to improve the Dominion's U. S. dollar position. In this connection also the latest figures relating to ECA offshore purchases demonstrate that Canada with a current total of $136 million will be by far the largest recipient of the U. S. dollars disbursed on this account.

Although capable Canadian management plays an invaluable part in the successful operation of the Dominion economy, the vast natural resources of the country and the character of its people are even more important factors to be considered in the appraisal of Canadian economic prospects. Even with indifferent administration, Canada, at this stage of dwindling world reserves of essential industrial requirements, must inevitably play an increasingly important role in world economic affairs; with the advantage of proven capable management the economic progress of the Dominion will be all the more accelerated.

The recent resumption of the U. S. flow of industrial capital north of the border is partly a result of the Canadian austerity measures and Canadian governmental encouragement, but mostly as a consequence of the recognition in this country of Canada's increasing importance in the industrial field. The United Kingdom has also recently been obliged to acknowledge the wisdom of greater British participation in Canadian economic development. Hitherto British economic policy has tended to concentrate on African expansion, but the results of the recent South African elections, and a growing appreciation of Canada's enormous industrial potential, has brought about a reluctant change of heart.

There is also a widespread feeling in Britain that the British Isles can not indefinitely support its present population. In view of Canada's obvious advantages in comparison with the other British Dominions, and especially when consideration is given to its proximity to the greatest market in the world, there is every reason to anticipate that British emigration to Canada will ultimately attain unprecedented proportions. An interesting indication of the shape of things to come is the recent British official statement that the U. K. Government is now willing to facilitate investment in Canada which can be shown to be advantageous to the British U. S. dollar position. A large number of leading British industrial firms have already indicated their interest in establishing branch plants in the Dominion and the British movement of industry to Canada will be further encouraged by the Dominion Government's offer of Canadian dollars against the collateral of British investments in Canada. This offer was first made in December, 1946, but until now it had received no official recognition from Britain.

During the week all sections of the bond market were dull and inactive. Free funds remained steady and offerings in connection with the November Dominion bond redemptions were easily absorbed by the demand on tourist account. Stocks also moved within a narrow range despite the boost in base-metal prices and newsprint which failed to create any investor interest.

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(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Philip N. Smith has joined the staff of S. R. Livingstone & Co., Penobscot Building, members of the Detroit Stock Exchange.

## Two with Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Jack B. Brunner and William H. Culver are with Herrick, Waddell & Reed, Inc., 1012 Baltimore Avenue.

## Two With E. F. Hutton

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Karl A. Didricksen and Robert L. Janssen have joined the staff of E. F. Hutton & Company, 623 South Spring Street.

## With Capital Securities

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF.—Jacques L. Vale has joined the staff of Capital Securities Co., 2038 Broadway.

# Mutual Trust Funds—A New Medium of Investment

By EDWARD M. HEFFERNAN

Trust Officer, Ann Arbor Trust Company, Ann Arbor, Mich.

**Writer, holding it is unfortunate there has not been greater acceptance of the mutual or common trust fund as medium of investment by small owners of capital, points out their advantages. Stresses value of handling funds by specialists trained in specific fields of investment.**

"No, I believe that we have enough of the stock in the account for now," is the reply so often made to the suggestion by financial counsellors that an individual consider the advisability of additional investment in some mutual investment fund. The same situation has confronted trust men in suggesting the use of the newer, but similar, common trust fund as a medium of investment. And in our own Trust Company we have encountered the same experience with our Trust "A" Fund, which is similar in most respects to the mutual investment or common trust funds.

Ed. M. Heffernan

It is obvious, especially to the well-initiated, that the average individual, even today, has little understanding of the mutual-type investment fund—whether it be one of the better known investment funds or a common trust fund. My experience substantiates this all too prevalent feeling among those people who have surplus funds for investment. Too often do individuals insist upon the purchase of, or investment in, only one or a few selected securities at the sacrifice of a well-diversified list of securities through a mutual investment or common trust fund. There is still the belief that the latter type represents investment in only a single company.

### History of Investment

The idea of collective investment is not new. The basic practice has been in use for over a century—both in the United States and in foreign countries. Trusteeship principles of investment, or the investment management of funds, have been followed in our own country since its infancy. As early as 1830 the Massachusetts Supreme Court handed down the "Prudent Man Rule" and this concept of investment has been adopted by many other states, including my own State of Michigan. Furthermore, this same theory now guides many of our well-known mutual investment and common trust funds.

The mutual type of investment fund developed and grew over the years. While this growth was modest through the First World War, the development during the prosperity and inflation of the "Fabulous Twenties" was overly-accelerated. This medium of investment then became a victim of the collapse of our international financial structure in 1929. During the early thirties they were one of the more common financial scapegoats—although unjustly so. When people regained their "investment equilibrium," they again appreciated the inherent advantages of the mutual-type investment fund and the latter resumed its natural growth. At present these funds hold a dominant position in both our national and international economy.

During the late thirties the Common Trust Fund, another form of investment management, found its impetus among banks and trust institutions. In 1937 the Federal Reserve Board promulgated regulations set forth by the Revenue Act of 1936 which exempted the common trust funds, as such, from income taxation. There are 30 states which have passed enabling acts permitting the use of the Common Trust Fund by banks and trust companies in those states.

### Present-Day Investment Funds

It was only natural that banks and trust companies throughout the country should realize the advantages to be gained from the use of the mutual-type investment fund in their own operations, as well as the improved service which they could render to their customers. Today most bankers and trustmen are most enthusiastic about the potentialities of the Common Trust Fund.

Actually the person with funds to invest today, either as a result of idle cash or as a beneficiary of a trust fund or an insurance policy, has the same problem as did a person several generations ago. Historically their problems are no different and fundamentally they must be solved on the bases of the same principles.

The institution with which I am associated, the Ann Arbor Trust Company, realized the need

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# The ECA European Payments Plan

By RICHARD M. BISSELL, JR.*

Assistant Dep. Administrator, Economic Cooperation Administration

**ECA official explains proposed international clearance system to be established in Western Europe by ECA and presumably to be operated by Bank for International Settlements. Describes method of operation and role in scheme by ECA. Sees in plan means for lessening demand for U. S. dollars.**

At the present time, the principal barrier to trade within Europe, and, therefore, the principal difficulty in the path of one European country in making use of the resources of another country, is the barrier presented by the shortages of the foreign exchange among those countries. The objective of the payments plan that has now been developed by the O.E.E.C. is to remove that barrier to trade among the countries and thereby permit a fuller and more effective use of European resources.

R. M. Bissell, Jr.

The essence of the plan, I think—it can be described under three main headings—is as follows:

The first is the establishment of a much broader and more thorough-going clearance arrangement within Europe. It is to be presumed that clearance will be handled by the Bank for International Settlements at Basel in Switzerland, which has been the clearing agent, or a more limited intra-European clearing house, for some months past. The operation there is of a familiar sort, and it is in effect the operating of a clearing house that, in theory, each central bank or each government comes in at the end of an accounting period with certain debits against other countries and certain credits, and these debits and credits are cleared through a clearing house mechanism so that what emerges from the process of clearing is a series of net balances. Certain governments turn out to be net debtors to certain others within Europe; other governments turn out to be net creditors. That is what can be accomplished by the clearing house mechanism. Such a mechanism can make it unnecessary, if it works effectively, to use dollars, for instance, with some commonly acceptable non-European currency for individual transactions. But the clearing mechanism that has existed for the past year or two years in Europe has been unable to function simply because certain European countries have been debtors in their current trade with other European countries; and after the debtors had run up substantial indebtedness and had used up the credits extended to them by European creditors, then, a clearing house could not function to permit the continuation of trade.

### Example of France

France, for instance, is one of the principal debtor countries of the European Continent. France has been running a deficit in its trade with Italy, with Belgium, with U. K., and with the Bi-zone. The French have used up credits extended to them in Italy and in Belgium. They are having to use dollars to make current settlements with the Bi-zone. They had used up their full sterling credits extended to them by the U. K. until the new extension of a £10 million credit by the U. K. two or three weeks ago. That is an illustration of the fact that the persistence of deficits in Europe in trade on the part of certain debtor countries and the persistence of surpluses in their trade by certain creditor countries, of which Belgium and Bi-zone have been two very prominent examples in recent months—the persistence of those, the running of surpluses by creditors, the running of deficits by debtors, has threatened to halt European trade and make the function of a clearing system unworkable.

Therefore, the other two elements of this proposal in Paris, in addition to the first, which is the extension of the clearing mechaniom itself — the other two elements of the proposal are designed to cope with the problem of persistent deficits by some countries and persisitent credits by others. The other two elements are: first, the funding or stabilization of existing debts that have been run up between European countries by the process I have just described, and the extension of European creditors of additional credit to European debtors.

### Indirect ECA Assistance

The second element of the proposal is the furnishing of some

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*Statement by Mr. Bissell at the Press Conference of the Economic Cooperation Administration, Washington, D. C., July 30, 1948.

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# Railroad Securities

The Interstate Commerce Commission finally came out late last week with a decision on permanent freight rate increases in Ex Parte 166. In general the increases followed fairly closely along the lines set up in the three temporary emergency increases granted in these proceedings since last October. There were, however, a number of adjustments (some up and some down) in individual commodities, the net result of which, it is estimated, will add another $67.4 million to industry revenues. The total increase over rates in effect last September is estimated at about 22.6%.

As was to be expected, industry spokesmen voiced disappointment over the decision and failure of the Commission to grant the full increase that had been requested. It is pointed out that even at current levels of traffic the new rates will not provide the carriers with a return of 6% on their investment. Certainly a return of 6% could hardly be termed excessive. Moreover, costs have continued to mount in the months since the petition was originally filed, and the industry is faced with an almost certain third round of wage increases. With this background, it has been stated in the press that the railroads are making plans to file a petition for still another rate rise.

Apparently in reflection of the expressed disappointment of the industry over the outcome of Ex Parte 166 the immediate response marketwise was lower prices for railroad shares and the more speculative railroad bonds. Granting that even with the new rates the industry will not be getting an equitable return on property investment, and that with any material decline in traffic present costs would be quite burdensome to most of the railroads individually, it is the opinion of most railroad security analysts that a bearish attitude at this time is not warranted. Earnings will be high this year and the traffic outlook for some months to come at least is highly favorable. Dividend prospects are promising and prices are extremely low in relation to current and anticipated share earnings.

The recent decline in railroad security prices has taken place in the face of a sharply improving current earnings picture. June results were almost without exception highly favorable, bolstered in most instances by credits to unemployment insurance taxes representing the cut in such taxes retroactive to the beginning of the year. Even Pennsylvania, which has been having a hard time of it this year, was in the black for the first six months due to the large June net income. Earlier in the year the road had been plagued by severe weather followed by the bituminous coal strike. As a result it finished the first five months with a net deficit of $7,398,000.

For the month of June alone the company reported net income of over $8,000,000. The increase over the like month a year earlier amounted to $4,437,000 and over the month of May, 1948, it amounted to $5,277,000. This increase was recorded despite the fact that gross revenue was just about the same as it had been in the preceding month. The net credit resulting from the cut in unemployment insurance taxes amounted to $3,476,000 in June, 1948, the balance of the increase in net being attributable to a reduction in operating costs. Despite the sharp improvement in June results net income for the full half year was down to $653,921 compared with $3,790,986 in the opening half of 1947.

Further improvement in the road's earnings is expected in coming months, although future gains will presumably not be so wide as those of June. Apparently the company will benefit to some extent from the change in individual commodity increases in the Commission's decision of last week. Also, passenger fares in eastern territory have recently been upped again. To these revenue benefits will be added the influence of the gradual improvement in operating performance that has been evidence since the beginning of the year. All in all, while the road's earnings are still nothing to inspire any great enthusiasm there is evidence that the tide is turning appreciably for the better.

## Scores Truman's Anti-Inflation Proposals

**National City Bank of New York, in August "Monthly Bank Letter," says "what the program amounts to is blowing up the economy with more inflation steam with one hand, and trying to hold the lid on with more controls and more taxes with the other." Sets forth own anti-inflation program.**

In the August "Monthly Bank Letter," published by the National City Bank of New York, President Truman's anti-inflation proposals as set forth in his recent message to the special session of Congress come in for considerable criticism on the ground that it is inconsistent and contradictory. Commenting on the President's message, the "Monthly Bank Letter" states:

"Having set forth in the first part of his message the program as 'necessary to check high prices and safeguard our economy against the danger of depression,' the President then proceeded to devote most of the remainder of his discourse to urging a series of costly proposals that would add to the already huge spending-lending-guaranteeing activities of the Government, and accentuate inflationary pressures.

"First on the list was housing. Declaring that we 'desperately need more housing at lower prices,' the President requested prompt passage of the Taft-Ellender-Wagner bill, with its broad provisions for liberalizing mortgage credit and guaranteeing yields on housing investment, and for public housing and slum clearance.

"There is, of course, no question as to the need for more and cheaper housing. But as the New York 'Journal of Commerce' said editorially on July 28—

"'Homes are being erected in this country about as rapidly as is possible with existing supplies of building materials and available labor.

"'It is estimated that a million new dwelling units will be started this year. This would constitute a new record. It is a remarkable achievement, considering the fact that the capacity of the building industry had been so severely contracted in the depression of the thirties and the war years, and it can be expanded only gradually.

"'Nothing the Government could do would step up the rate of home construction materially. It is possible through legislation to expand public housing, but this would only contract activity in private construction. The total number of dwelling units would not be changed materially in consequence.'

"Given these conditions of tightness in the building field, it seems probable that passage of the Taft-Ellender-Wagner bill, or similar legislation, would result, as suggested in these columns a month ago, not in **more** housing but only in **more expensive** housing for most people, with inflationary effects spreading throughout the entire economy. On the latter point, no one has been more emphatic than Mr. Marriner Eccles, of the Board of Governors of the Federal Reserve System and formerly its chairman. Testifying before Congress last Fall, Mr. Eccles described the expansion in 'excessively easy mortgage credit for housing' as 'perhaps the most inflationary single factor in the present situation.'

"Again, testifying before Congress last month on the President's recent proposals, Mr. Eccles vigorously opposed as 'inflationary' the long-range housing program.

"Following housing, the President continued with a whole series of other 'musts' for immediate action, including $300 million a year federal aid to education, upping the minimum wage law in industry from the present 40 cents an hour to 'at least' 75 cents, increasing social security old age benefits by 'at least' 50% and lowering the retirement age for women from 65 to 60, amending the displaced persons act and ratifying the international wheat agreement, authorizing a government loan of $65 million for construction of a United Nations headquarters, increased appropriations for public power projects including the $4 million TVA steam plant, and 'equitable and realistic' federal pay adjustments.

"Then, 'if the Congress finds time,' the following should be taken up: a 'comprehensive' na-

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## Interest on World Bank Bonds Paid to Foreign Corporations Trading in U. S. Ruled Tax-Exempt

The International Bank for Reconstruction and Development announced on Aug. 5 that the United States Treasury Department has ruled that interest on the bonds of the Bank paid to foreign corporations engaged in trade or business in the United States (other than interest paid to a foreign life insurance company and attributable, under Section 201 of the Internal Revenue Code, to its life insurance business in the United States) is not subject to taxation under the Internal Revenue Code. The Treasury had previously ruled that interest on bonds of the Bank paid to non-resident aliens, or to foreign corporations not engaged in trade or business in the United States, is not subject to Federal income tax.

The latest ruling is contained in a letter dated July 21, 1948, to the Bank, a copy of which is as follows:

"TREASURY DEPARTMENT
Washington
July 21, 1948

"Mr. R. L. Garner, Vice-President
International Bank for Reconstruction and Development
Washington 25, D. C.

"My Dear Mr. Garner:

"Reference is made to your letter dated April 13, 1948, requesting a ruling with respect to the question of whether interest on the bonds of the International Bank for Reconstruction and Development is subject to Federal income taxes when paid to foreign corporations engaged in trade or business in the United States.

"You refer to a ruling by the Treasury Department dated Nov. 19, 1947, in which it was held that interest on bonds of the Bank paid to non-resident alien individuals or foreign corporations not engaged in trade or business in the United States would not be subject to taxation under sections 211(a) and 231(a) of the Internal Revenue Code, due in part to the fact that such interest could not be considered from sources within the United States under section 119(a)(1) of the Code.

"You state that the above-mentioned ruling would seem necessarily to apply equally to foreign corporations (other than insurance companies) which are engaged in trade or business in the United States in view of the provisions of section 231(c) of the Code to the effect that gross income of foreign corporations includes only income from sources within the United States.

"With respect to foreign insurance companies engaged in trade or business within the United States you further state that under your above interpretation no particular problem seems to be presented in the case of foreign mutual insurance companies taxable under section 207(a)(5) of the Code, since such section provides that net income of a foreign mutual insurance company shall be the net income defined therein from sources within the United States, nor in the case of foreign life insurance companies taxable under section 201(a)(2) of the Code since that section provides for a tax on the income of such companies attributable to domestic insurance business regardless of the domestic or foreign source of such income. You conclude, therefore, that the ruling dated Nov. 19, 1947 would apply to mutual insurance companies taxable

(Continued on page 33)


$4,700,000

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| 1949 | 1.55% | 1952 | 2.20% | 1956 | 2.60% |
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July 29, 1948


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## Now Grody & Company; Adds Stanley Pelz

Benjamin Grody Company, 40 Exchange Place, New York City, announces a change in the firm name of Grody & Company effective Aug. 2, and the association with the firm of Stanley Pelz as Manager of the trading department. Mr. Pelz formerly was associated with L. Johnson & Co. of Syracuse, N. Y., as Manager of their New York City office. Mr. Pelz will continue to specialize in upstate New York issues as in the past.

## Capital Securities Adds

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CAL.—Paul R. Rogers has been added to the staff of Capital Securities Co., 2038 Broadway.

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Boston 9, Massachusetts

# Mutual Funds

By HENRY HUNT

### If I Were a Retail Salesman

The sixth article in this series was written by Douglas K. Porteous, Vice-President in charge of New York sales for Herrick, Waddell and Reed, distributors through a retail organization of United Income Fund with net assets of nearly $16 million. Doug is the kind of sales manager who is not too proud to pound the pavements himself occasionally and ring up retail sales on his own. We think you will enjoy reading his down to earth article on mutual funds which should be helpful to any retail salesman.

### *Lord, Abbett Heads "Big 4" Among New York Sponsors*

Due to the phenomenal sales of **Affiliated Fund** during the past 12 months, the **Lord, Abbett Group** of mutual funds which also includes **American Business Shares** and **Union Trusteed Funds** now ranks as the largest of the "Big 4" among New York sponsors with

## If I Were a Retail Salesman

*(Sixth of a Series)*

By DOUGLAS K. PORTEOUS

Vice-President, Herrick, Waddell & Reed, Inc.

His name is George. He works in our office building and has for 12 years. He doesn't have his name in gold lettering on a door nor importantly engraved on a letterhead. His suits are not freshly pressed each day nor does he wear a clean white shirt. His English is spiced with a heavy foreign accent. But, he's an American citizen, proud of his citizenship; has saved his money, dollar by dollar, living frugally on his weekly wage for performing the many menial chores of a porter. George has been a good listener during his years in Wall Street, has heard the usual "street" talk in the washrooms and has dreamed dreams of security, of income and of retiring when the infirmities of age slow down his activity.

Douglas K. Porteous

Many a high powered salesman has rubbed shoulders with George (and with other Georges) and ignored the possibility that he was a prospect. One day recently a friendly guy in a clean shirt and a freshly pressed suit passed the time of day with George. One word led to another and suddenly the guy realized that George was a prospect. A prospect not for a $50,000 sale—but, for a surprising amount anyway. We'll call the friendly guy Bill Smith—and if I were Bill Smith I would feel humble about the opportunity I had to do something for George—helping him realize his lifetime ambition to build for himself a Trust Fund, a Living Annuity.

Bill Smith lives in a small suburban town. He commutes daily. Interested in other people's lives, Bill had made friends with the conductor. Oh, he's ridden his train for years, the 8:15 to the city. Last week he sold that conductor some shares of a Mutual Investment Fund. I asked Bill how he felt about that sale and he replied, "I've done a favor for a man who has performed many for me!" I asked him why he hadn't sold him sooner and he told me he just hadn't applied himself before.

There are many Bill Smiths, John Jones, Harry Browns who are having similar selling experiences. They are beginning to realize that there is no segment of the investment business, the insurance field or the banking field which is accomplishing so much for the "average American" as Mutual Invstment Funds.

If I were a retail salesman of Mutual Investment Funds, my first step would be to educate myself in the broad principles of our business such as the protection we offer the investor for diversification, for marketability, for continuous investment management . . . for continuous dividend income . . . for continuity of "the purchasing power of the dollar the prospect would receive as income," etc. I would take an interest in the Georges, the conductors, the many people with whom I'd come in contact daily. I would study their individual investment needs and would handle my visits with them on the subject closest to them—their own financial problems—with the serious purpose of protecting them with my own better knowledge of investments. I would illustrate investment priciples with practical stories, involving either local people or well-known events. I would learn enough about the subject to talk in realistic terms—not theoretically, for too often that confuses and frightens a prospective purchaser.

My prospect list would be kept "alive"—not more than 300 names at any one time—each of them a "qualified" prospect. Too much time can frequently be spent with the extremely wealthy, with institutions, with pension funds, etc. Sure, it's gratifying to bring in a big sale—but the little sales can quickly mount up and several little sales may be closed during time spent trying for a big one. Everybody would be my prospect; the hardware store owner, the business executive, the shoe repair man, the retired school teacher, the trained nurse, the business woman—and the man behind the plow. They all have one common problem: Fear of insecurity in their old age. To help them not only puts "business on the books" but gives a salesman an inside glow of doing something for others.

This slogan would be a good one for me: "Time not spent in the presence of a prospective client is time wasted." I would try not to be a "putterer" nor waste good working daytime hours with routine office work, looking up addresses or sorting prospect cards. Those activities are for non-selling hours. I'd make as many calls a day as possible, realizing that the salesman who makes a sufficient number of calls each day will be taken care of by the law of averages. I'd be convinced I can't sell such a vitally important matter as the investment of a man's money by mail, nor by telephone. I'd realize I must see the people—that I've got to get out of the office.

Too much sales punch in the first interview can be a deterrent. The "Trust Fund Plan" idea should be developed gradually in the minds of prospects. They deserve to have the time to think it over—it's their money that's being invested. I wouldn't turn down a first-call sale—oh, no, but I'd close only when I saw the "ready" look in my prospect's eye and the relaxed lines of his mouth. He will have realized that in buying Shares, he can create for himself gradually and slowly over the years, a "Living Annuity" in which he participates . . . that through this plan he will not be like the millions of Americans who are financially dependent at the age of 65.

Many banking institutions do not solicit the "average American" for a trust fund. Consequently, I would point out to my prospect that he too can create a trust fund, by joining many others with similar finances and desires.

A big advertising campaign, in the 1920's, used the slogan: "Ask the man who owns one." I'd ask—each sale I make—for names of his relatives or friends whom he thinks would be interested in buying Shares too. There's no better selling assistance than a satisfied customer.

I'd consider myself in business for myself. If I owned a grocery store—I'd expect my customer of yesterday to be my customer of today—and tomorrow . . . and the closing of a mutual fund sale would be recorded in my own records as merely the transition from pospect to customer . . . A customer for additional business in a few weeks, or months—or perhaps a year.

George cannot break his habit of frugal living and regular saving. He'll want to increase his own little holdings from time to time. The dependable conductor of the 8:15 has a pal on the 7:45—and I'd set my trusty "Big Ben" for an earlier rising to get acquanited with him to point out that he too can create a fund for himself that would mean "Security of the Purchasing Power of his Dollars" and his eventual active business retirement without the fatal dependence upon relatives or dependence upon the meagre government Social Security payments.

And—I'd be so sold on my own salesmanship that, like the President of a leading Mutual Investment Fund corporation, I'd set aside a fixed sum out of my earnings each month to invest in Shares for myself. I'd want a Living Annuity, too!

Manhattan Bond Fund
INC.

Prospectus from your Investment Dealer or
HUGH W. LONG & CO.
INCORPORATED
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LOS ANGELES CHICAGO

COMMONWEALTH INVESTMENT COMPANY

Prospectus on Request from Authorized Dealers or General Distributor
NORTH AMERICAN SECURITIES CO.
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net assets as of June 30 totaling $105,458,000, excluding bank loans of "Affiliated."

In the runner-up position is **Calvin Bullock**, whose five mutual funds headed by **Dividend Shares** have combined assets of $97,290,000.

Close behind, in third position is **"D. G.'s" Group Securities** with assets of $90,349,000.

**Hugh W. Long's** sponsored funds, **Manhattan Bond Fund** and **New York Stocks**, now have combined assets of $66,4?6,000. However, including **Fundamental Investors** and **Investors Management Fund** (distributed but not managed by Hugh W. Long), total assets of $110,689,000 places this group at the top among New York distributors.

It is interesting to note that the growth of **Lord, Abbett's Affiliated Fund** has been more than four times as fast as that of the business as a whole during the past three years.

| Net Assets | Affiliated Fund | 81 Mutual Funds |
|---|---|---|
| June 30, '45 | $18,450,000* | $1,065,000,000 |
| June 30, '48 | $57,343,000* | $1,597,000,000 |
| % Increase | 210% | 50% |

*Excluding bank loans.

Needless to state, **"Affiliated's"** growth was accomplished largely through sales of new shares. Apparently its combination of income and capital leverage appeals to the investor of today.

Keep up the good work, Harry and Leon. You've still got to

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go some to catch up with **M. I. T.**, and **Keystone** although you're not too far behind **Investor's Mutual.**

### *"Incorporated" Optimistic*

In its mid-year report to shareholders, **Incorporated Investors** of Boston notes that assets rose from $67,046,000 to $75,274,000 during the first half of '48. President Parker comments on the outlook for business as follows:

"The management continues to maintain the fund in a fully invested position because it believes that conditions are favorable for common stock investment. Retail sales continue at record levels. Construction work is at an all-time high; the expansion plans of industry run to figures of tremendous magnitude; profits and dividends are excellent; employment is high. And yet, stock prices in relation to earnings and dividends are unusually low. Your management can find no basis in business conditions or money conditions for a downswing in business activity or common stock prices, in the near future.

"Your management feels that the last few years have offered a special opportunity to investment companies to demonstrate the value of professional investment management. These years were trying years for the average unaided investor. From many quarters he heard forecasts of a business recession. Various theories indicated that equities should be sold, which added to his perplexity. Yet no business recession developed and stock prices are again above the levels at which the so-called sell signals were given. In nearly all cases those responsible for the management of diversified investment companies relied on careful analysis of fundamental conditions and resisted the implications of the various mechanical theories of investing. As a consequence they not only produced creditable investment results for their stockholders but also a peace of mind that other investors left to themselves may not have enjoyed."

### *Wellington Skeptical*

**Walter L Morgan**, President of **Wellington Fund**, states in the mid-year report that net assets have reached a new high in excess of $57 million. The report continues as follows:

"Although there was some evidence of a decline in business activity in the first quarter of the year, this trend was reversed under the stimulus of our European recovery and rearmament programs and income tax reduction. These stimulating factors caused a change in public psychology. The expected decline in the general price level did not materialize and some fears of shortages were revived. The demand for automobiles and other durable goods increased and building construction rose to a postwar peak. Bonus payments of many States, higher wages and prices for farm products also helped to increase national income and improve the outlook for business for the remainder of the year.

"It should be realized that some of these stimulants may be diminished or absent next year. European aid and bonus payments are scheduled for smaller amounts. Many authorities doubt whether farm products will remain at present peak prices. The non-recurring stimulants cannot be considered as permanent props to prosperity. If the fear of war should abate, there is apt to be a more severe adjustment in business than would otherwise have occurred. If the defense program is expanded further, it may lead to controls, profit restrictions and higher taxes. It should also be realized that the production of many consumer goods is catching up with demand so that business may have some adjustment to more normal levels."

## World Bank Reports Its Finances

**Net income for year ended June 30 of more than $4 million eliminates deficit of previous year and provides surplus of over $3 million.**

The International Bank for Reconstruction and Development has released its financial statements for the fiscal year ended June 30, 1948, audited by Price, Waterhouse & Company.

The Bank's total income for this period amounted $18,703,978. After deducting expenses amounting to $11,557,848 and amounts for the Special Reserve aggregating $3,051,478, the net income for the year was $4,094,652. This was sufficient to eliminate the deficit of $1,063,805 existing on June 30, 1947 and to provide a net income at June 30, 1948 of $3,030,847. It should be noted that during the fiscal year $1,276,003 of bond registration and issuance cost was charged directly to expenses for the year.

During the year, the subscribed capital stock of the Bank increased $261.5 million as the result of the subscription to 2,000 shares by Australia and 380 shares by Finland, and the subscription to six additional shares by Paraguay, 133 additional shares by Egypt, and 96 additional shares by Iran. The total subscribed capital stock at June 30, 1948 amounted to $8,286,000,000.

The total loans of the Bank increased from $250 million to $497 million during the fiscal year. In addition, on March 25, 1948, the Bank approved loans to two corporations owned by the Chilean Government in the aggregate amount of $16 million, to become effective when ratified and guaranteed by the Government of Chile. Including this, the total loan commitments at June 30, 1948 amounted to $513 million, against which disbursements have been made approximating $470 million. The equivalent of $2 million was disbursed in Belgian Francs and the equivalent of approximately $4 million was disbursed in Swiss Francs. Disbursement of the loans to France and to the Netherlands has been completed. Denmark has available an unused loan balance of $23,551,741 and Luxembourg, $3,392,508.

In July, 1947, the Bank sold to the public $100 million of its Ten-Year 2¼% Bonds due July 15, 1957, and $150 million of its Twenty-Five Year 3% bonds due July 15, 1972, both issues being payable in United States dollars.

On June 1, 1948, the Bank sold 2½% Swiss Franc Serial Bonds dated April 1, 1948 maturing in 1953 and 1954, in an aggregate principal amount of 17,000,000 francs (equivalent to $3,955,788) to the Bank for International Settlements, Basle, Switzerland at par and accrued interest. These Swiss Francs were disbursed to the Kingdom of the Netherlands as part of the loan of $195 million to it.

### Herrick, Waddell Adds

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—John W. MacMahon is with Herrick, Waddell & Reed, Inc., 1012 Baltimore Avenue.

## Proposed Pennsylvania Turnpike Extension

**$134,000,000 Bond Issue to Reach Market on August 11**

**A topographical panorama of the Commonwealth of Pennsylvania showing the Pennsylvania Turnpike and the Philadelphia extension as it will appear upon completion, is on display this week at 25 Broad Street, open for inspection by investment dealers and the general public. A nationwide investment banking group jointly headed by Drexel & Co.; B. J. Van Ingen & Co., Inc.; Blyth & Co., Inc. and The First Boston Corporation, plan to offer $134,000,000 Pennsylvania Turnpike Commission bonds about Aug. 11. This is the largest revenue bond issue ever to be marketed. The panorama is shown above with the Turnpike appearing in the foreground.**

**Shown viewing the penorama are, left to right, front—Walter H. Steel of Drexel & Co. (pointing) and James Couffer of B. J. Van Ingen & Co.**

**Left to right, rear—B. J. Van Ingen of B. J. Van Ingen & Co.; Eugene Cowell of The First Boston Corporation; and Reginald Schmidt of Blyth & Co., Inc.**

*This announcement is not an offer of securities for sale or a solicitation of an offer to buy securities.*

New Issues August 3, 1948

**The Hawaiian Electric Company, Limited**

(a Hawaiian Corporation)

**50,000 Shares Series D, 5% (Cumulative) Preferred Stock**

(Par Value $20 per share)

**100,000 Shares Common Stock**

(Par Value $20 per share)

(Dividends subject to a 2% Hawaiian Withholding Tax)

Transferable subscription warrants, expiring at 12:00 o'clock Noon August 16, 1948, evidencing rights to subscribe for Series D Preferred Stock at $20 per share and Common Stock at $20 per share are being issued by the Company to holders of its outstanding Common Stock, as more fully set forth in the prospectus.

*Copies of the prospectus may be obtained from whichever of the undersigned (the underwriters named in the prospectus) may legally offer these securities under applicable securities laws.*

**Dillon, Read & Co. Inc.** **Dean Witter & Co.**

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# Securities Salesman's Corner

By JOHN DUTTON

There are many good arguments against working diligently during the hot days of July and August. They run the gamut of excuses all the way from such old standbys as, "What's the use of calling on people now because most of them are on vacation", or, "It is too hot to work, who wants to call on a customer or a prospect looking like a wet rag?" Then there are such gems as these, "Markets are slow, nobody is doing anything anyway." You have heard them all, so why go on.

Here are a few good reasons for working if you like the other side of the story for a change. True, many people are away, but to say that the majority of people are not in and there is no use to put in a full day's work for this reason is just the bunk. All the people are not away, many of them are at home this summer the same as every summer, and if you want to see them, all you have to do is to make the calls. Telephone calls will sometimes obviate wasted effort if you wish to simplify and organize your day, which is only common sense either in the winter or the summer.

If it is hot you will feel a lot better working than sitting around in the office bemoaning the fact that you are not doing enough business. When you are busy you don't mind the heat nearly as much as when you are sitting in a pool of your own perspiration.

If markets are slow that is a good time to call upon people. The time to open new accounts is not when markets are boiling and security prices are up. People who see their investments down in price will be more willing to meet a new face who can bring them some fresh ideas and good cheer. Besides if you offer securities at a time when they are not in demand the chances are ten to one that, when the market once again picks up, your new customers will see a price rise in that which you have sold to them.

In this business, today's sales are the result of yesterday's efforts. If you are going to do good business this fall you will recognize that the smartest thing you can do right now during these hot dog-days of July and August is to go out and see three to four brand new qualified prospects each day for at least five days a week. The only way anyone can sell securities is first to gain the good will of your prospect. Next comes a certain amount of friendliness between you and your potential client. The way you conduct yourself, your willingness to help supply information and service, your sincere conviction that you want to help your customers and not just make sales, your complete indifference to any high pressure sales arguments, these are the things that will pay off in October and November if you will lay the foundation right now.

Besides if you expose yourself to business you just cannot help but obtain some orders and some new accounts. You will keep your old customers reminded of your desire to serve them. If they have some losses go to see them by all means. Bring them the latest information which you can obtain about their holdings. Put in a solid day's work. You will find that both the heat and any other worries which you may have concerning your business will be of little concern to you. The greatest blessing that God gave to man is work. There is nothing that will clear the mind and reinforce your bank account except work. It is the doctor's best prescription.

## Edward K. Dunn Elected Governor of IBA

BALTIMORE, MD. — Edward K. Dunn, Robert Garrett & Sons, has been elected a Governor of the Investment Bankers Association of America to serve for a three-year term. He will succeed John Redwood, Jr., Baker, Watts & Co., whose term expires at the close of the association's annual convention next December.

Edward K. Dunn

## T. J. Meaney, Inc. Is Being Formed in Phila.

PHILADELPHIA, PA.—T. J. Meaney, Inc. is being formed with offices at 1420 Walnut Street, to engage in the securities business. Officers are Thomas J. Meaney, President; Thomas F. Glancey, Vice-President and Secretary; and Charles E. Loxley, director. Mr. Meaney was formerly Secretary, General Manager and trader for W. L. Morgan & Co., with which Mr. Loxley was also connected.

Thos. J. Meaney

## Florida Securities Adds

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA.—F. Raymond Maxson is with Florida Securities Co., Florida National Bank Bldg.

## F. Malcolm Minor Dies

F. Malcolm Minor, partner in Pyne, Kendall & Hollister, New York City, died on July 28.


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*Established 1913*

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# Now, Mr. Bowles!

"The Republican Party leaders, at the direction of the National Association of Manufacturers, were responsible in June, 1946, for the destruction of the original controls which had limited price rises to only 5% over a three-year period of intense inflationary pressures.

Chester Bowles

"With complete control over Congress, they not only refused to accept even the limited tax and fiscal approach, but actually moved to increase the inflationary dangers still further by adding substantially to our supply of money and credit.

"The Republican leadership has made it clear that its heart still clings to Wall Street, that its overwhelming concern is not with the welfare of the working people of America but with the profits of the meat packers, the steel monoply and the great corporations which dominate the National Association of Manufacturers.

"Although it is unlikely, there is still time for a dramatic reversal of the viewpoint of the Republican leaders. If they will face up honestly, even at this late date, to the dangerous emergency which confronts us, and accept President Truman's proposals, they can stop inflation dead in its tracks."—Chester Bowles.

**If Mr. Bowles continues to gain wide publicity for this sort of drivel, the Republican Party ought to present him with some sort of medal.**

**It is probably a good thing though that men like Paul Porter and Chester Bowles are lining up so eagerly with the President. No one then need make any mistake about the real nature of the movement now getting under way.**

# N. Y. Reserve Bank Reviews Gold Movements

**Reports net imports in half-year ended June 30 at $778 million, continuing trend of last two years. Foresees slowing up of gold imports.**

The August issue of the "Monthly Review" of the Federal Reserve Bank of New York analyzes the gold inflow into the United States since the end of the war and its effect on member bank reserves. According to the Bank:

"The rate of inflow of gold into the United States, which had begun to show signs of tapering off earlier this year, increased again in May and June. Despite the slowing down in February, March and April, the gold stock of this country increased $778 million in the six months ended June 30. Imports were over $1 billion, but some of the incoming gold was placed under earmark for foreign accounts for later use. Since increases in the gold stock have been the main source of gains in member bank reserves during the postwar period, an analysis of the causes and origins of gold movements to this country is of interest with respect, not only to the international situation, but also to domestic monetary developments."

Continuing its analysis, the Bank states:

"The main cause of the postwar movement of gold to the United States has been the widespread shortages of goods which the war left in its wake almost everywhere. Some of these shortages were the direct result of wholesale destruction of production facilities and of the shifting of men and machines from peacetime production to war production. Other scarcities of goods arose from the cutting off during the war of certain countries outside the battle area from their normal sources of supply. After the end of the hostilities both groups of countries turned to the United States for their peacetime needs.

"In addition to using the dollar proceeds of their own exports, the substantial amounts of dollars obtained from the U. S. Treasury, either directly—through the various credits and foreign aid programs of our government—or indirectly through the International Bank and the Monetary Fund, and (in some cases) dollars which they had accumulated before or during the war or which they derived from the sale of dollar securities requisitioned from their nationals, foreign countries have drawn on their gold reserves in order to help finance the large volume of their postwar imports. To the extent that the dollar balances of foreign countries had been accumulated at the Federal Reserve banks, reductions of those balances have had an immediate effect on the reserve position of American commercial banks. Balances held by foreign central banks and governments with the Federal Reserve banks at the end of 1945 amounted to about $900 million. In the first half of 1946 a sizable decline in these balances was more important than gold sales as a source of additional bank reserves. To the extent that foreign countries' dollar balances were already held with commercial banks at the end of the war, they of course did not represent a potential source of additional member bank reserves.

FOREIGN ACCOUNT EXPENDITURES AFFECTING MEMBER BANK RESERVES BY SOURCES

Six-Month Periods January, 1946-June, 1948

(In Millions of Dollars; Increase or Decrease (—) in Member Bank Reserves)

| Six Months Ended | Gold — Net Import | Gold — Reduction in Earmarkings With Federal Res. Bank* | Gold — Total | Dollar Balances Reduction in Amount Held With Federal Res. System |
|---|---|---|---|---|
| June, 1946 | 257 | —44 | 213 | 358 |
| Dec., 1946 | 55 | 412 | 467 | —3 |
| June, 1947 | 531 | 965 | 1,496 | 161 |
| Dec., 1947 | 1,335 | 92 | 1,427 | —45 |
| June, 1948 | †1,058 | —262 | 793 | —13 |

*Excludes gold held for international account and gold pledged as collateral for loans. †Preliminary.

Source: Board of Governors of the Federal Reserve System and Department of Commerce release "United States Gold and Silver Movements in June, 1948."

"Aggregate foreign spending affecting bank reserves (from gold and dollars held with the Reserve banks) slackened in the second half of 1946. The Treasury spent about half a billion dollars more on international account than in the preceding six months, while our net exports declined somewhat. In the first six months of 1947, however, net exports of this country rose sharply in quantity and even more so in value, partly as a result of price increases. Substantially enlarged payments to foreign countries by our government failed to close the financial gap. As a result foreign countries drew heavily on their reserves through gold sales to this country and through further reductions in their dollar balances with the Reserve System.

"Some contraction in foreign purchases of goods from the United States was effected in the last half of 1947. Since, however, Treasury payments to foreign countries decreased somewhat, sales of gold to this country remained close to the high rate of the preceding period. A further reduction in the quantity and value of United States net exports occurred in the first half of 1948. The slackening of gold sales to this country during the period reflected this development and occurred despite a further reduction in international payments by the Treasury.

**Sources of Gold Sales**

"In the early postwar period some of the liberated countries of Western Europe, notably France, were the heaviest sellers of gold to the United States, but in 1946 and the first half of 1947 large amounts of gold were sold by other countries. A large part of the sales were from gold held under earmark at this bank for foreign countries. At the end of 1945 total unpledged earmarked gold for foreign accounts amounted to nearly $4.2 billion, but at the end of 1946 the amount had been reduced to about $3.8 billion, and at the end of 1947 to less than $2.8 billion.

"An important factor in the 1946 reduction in earmarked gold, however, was the repatriation of Argentine holdings. Gold exports to that country largely offset imports from other countries in the latter half of 1946 and account in part for the low rate of net imports in that period. Sales of gold in the United States by other countries were nearly as great as in the first half, including South African gold which began to reach this country in fairly sizable volume.

"Gold was imported from South Africa and Canada at a greatly accelerated rate in the first half of 1947; as in the previous period, most of the gold imports came from these two countries (although not necessarily for their accounts exclusively). Exports of gold to Argentina dwindled to a negligible amount in the first half of 1947 and were later reversed, as that country found it necessary to draw heavily on gold reserves for the payment of its imports from this country. Western European countries also drew heavily

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on their gold reserves to meet their commitments.

"To pay for their heavy purchases of goods in the United States in the second half of 1947, our former allies, as well as the ex-neutrals, exported gold to this country in substantial volume. Chief among the exporting countries were the United Kingdom and Argentina, with amounts of nearly $490 million and $350 million, respectively. France, Canada, and South Africa each exported amounts of between $115 and $165 million. Some of these shipments, however, were made to rebuild holdings of earmarked gold here. (Exports of the respective countries were greater than the decline in their gold reserves.) Other countries continued to draw upon their earmarked accounts, which declined further.

"During the first six months of this year the United Kingdom was the largest source of our gold imports; its gold shipments to the United States jumped to $810 million. Other Western European countries also shipped a fairly sizable amount of gold to this country during the period. Some of these shipments were used to enlarge unpledged earmarked accounts, which increased about $260 million.

"It seems likely that the importance of gold shipments and sales of earmarked gold as a source of bank reserves here will again tend to diminish, in part as a result of import restrictions which several countries have imposed recently. The successful efforts of various countries to cut down their purchases of American goods have already resulted in a diminished rate of use of gold to settle accounts in the United States in a number of cases. Furthermore, as the European Recovery Program gets under way and a greater share of this country's net exports are financed through funds supplied by the Treasury, a further decline, perhaps to the level of gold production in the Western world outside the United States, may well occur, especially since the gold holdings of certain individual countries have already been reduced to minimum levels."

GOLD MOVEMENTS TO AND FROM THE UNITED STATES
Six-Month Periods January, 1946-June, 1948
(In Millions of Dollars)

| Country— | Net Import or Net Export (—) Six Months Ended June 1946 | Dec. 1946 | June 1947 | Dec. 1947 | June †1948 |
|---|---|---|---|---|---|
| Argentina | — | —134 | —21 | 357 | 46 |
| Other Latin American Countries | 7 | — 4 | — 5 | 9 | —39 |
| United Kingdom | — | — | — 1 | 490 | 810 |
| France | — | — | — | 163 | — |
| *Other Western European Countries | — | — | — | 28 | 135 |
| Canada | 290 | 54 | 289 | 157 | —71 |
| South Africa | 3 | 115 | 297 | 114 | 200 |
| All Other Countries | —43 | 24 | —28 | 17 | —23 |
| Total Imports From All Countries | 257 | 55 | 531 | 1,335 | 1,058 |

*Belgium, Netherlands, and Sweden. †Preliminary.

Source: Board of Governors of the Federal Reserve System and Department of Commerce release "United States Gold and Silver Movements in June, 1948."

# NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Clifford F. Scherer has been appointed Assistant Vice-President of J. P. Morgan & Co. Inc. it was announced on Aug. 3. Mr. Scherer has been on the staff of J. P. Morgan & Co. Inc. since April 1, 1929.

* * *

John McHugh, former President of the **Chase National Bank of New York,** died at his home at Chappaqua, N. Y., on Aug. 1. Mr. McHugh, who had also served as Chairman of the executive committee of the bank, retired from that post in 1934, retaining, however, his position on the boards of several other corporations; one of these was the Chairman of the board of the Discount Corporation. Mr. McHugh was at one time President of the Iowa State National Bank at Sioux City. In its account of his career, the New York "Times" of Aug. 2 said in part:

"In the Middle West Mr. McHugh made himself a banking leader, was elected President of the Iowa Bankers Association, and also a member of the executive committee and Chairman of several sub-committees of the American Bankers Association. Among prominent bankers who came to appreciate his caliber was Gates W. McGarrah, then President of the Mechanics and Metals National Bank of New York. In July, 1915, Mr. McGarrah invited Mr. McHugh to join him as a director and Vice-President of the Mechanics and Metals. He accepted, moved to New York in 1916, and in 1922 he succeeded Mr. McGarrah as President.

"Four years later occurred the second billion-dollar bank consolidation in the history of American banking when, in February, 1926, the Mechanics and Metals National was merged with the Chase National Bank under the name of the latter. The combined assets of the two institutions were estimated at $1,025,000,000, ranking the Chase at that time as second only to the National City Bank. Mr. McHugh became the first President of the consolidation.

"He retained the post only two years, resigning in 1928 to take the Chairmanship of the executive committee. After his resignation of this Chairmanship he continued as Chairman of the Discount Corporation, which he had organized in 1920, until 1941. He was a former President of the New York State Bankers Association, and was for 18 years on the executive committee of the American Bankers Association."

* * *

Albert M. Creighton, Chairman of the board of directors of the **Federal Reserve Bank of Boston,** announced on July 27 the appointment as "Class C" director of Ames Stevens of North Andover, Mass., director and Treasurer of the Ames Worsted Company of Lowell. Mr. Stevens fills the vacancy caused by the resignation on Dec. 31, last, of Donald K. David, Dean of the Harvard Business School. Mr. Stevens is a graduate of Groton and Harvard and a veteran of World War I. He is Treasurer and director of the Main Spinning Co. of Skowhegan, Me., and Vice-President and director of the Lawrence Manufacturing Co. of Lowell.

* * *

Because of ill health, Victor H. Frazier has retired as President of the **High Street Bank & Trust Co. of Providence, R. I.** Lovett C. Ray, formerly Vice-President, has been elected President and a director, it was indicated in the Providence "Journal" on July 30. That paper states that Mr. Frazier entered the employ of the bank in 1922. It likewise said in part:

"His banking career started in 1912 when he became associated with the United National Bank. He stayed with United until it was absorbed by Industrial Trust Company in 1916. In 1920 he became associated with the Rhode Island Hospital Trust Co., leaving there to become Cashier of the High Street Bank on March 1, 1922. He was elected a director in 1928 and will continue as a member of the board. When the bank changed its name to the High Street Bank & Trust Co. in 1931 he was elected Secretary and Treasurer. In 1938 he became Vice-President and was elected President in 1946.

"Mr. Ray became associated with the bank in 1923. In 1925 he was elected Assistant Cashier and Assistant Secretary, being advanced to Secretary in 1938, Treasurer in 1946 and Vice-President in the following year."

* * *

James Comegys Torrey, who from 1929 until his retirement two years ago, was Auditor of the **Philadelphia National Bank of Philadelphia, Pa.,** died on July 31. He was 67 years of age. The Philadelphia "Inquirer" reports that his father, James Windrim Torrey, and grandfather, John Washington Torrey, were also associated with the Philadelphia National before their deaths.

* * *

The **Logan National Bank and Trust Co. of New Kensington, Pa.,** has become the New Kensington office of **Mellon National Bank & Trust Co. of Pittsburgh,** according to the Pittsburgh "Post Gazette" of Aug. 2, which also had the following to say:

"The acquisition of the Logan bank by the Mellon National was approved by the stockholders of the Logan National on Friday. R. J. Wilson, formerly President of the Logan National, has been appointed Manager of the New Kensington office. D. L. Robinson, Ralph B. Hudson and M. K. Alter, former officers of the Logan National have been appointed Assistant Managers. Frank R. Denton, Vice-Chairman of the Mellon National, said an advisory committee to the new branch has been named.

J. N. Garber, formerly Manager of the Oakland office of the **Mellon National Bank & Trust Co. of Pittsburgh,** has been appointed Assistant Vice-President of the bank. Merle J. Fairbanks, formerly Assistant Manager, will succeed Mr. Garber as Manager, said the Pittsburgh "Post Gazette" of July 29, which added that both men were officials of the Forbes National Bank when it became the Oakland office of Mellon.

* * *

Without a single dissenting vote, the stockholders of the **Stock Yards Bank of Louisville, Ky.,** authorized on July 28 the issuance of 500 shares of $100 par value stock in the bank at $250 a share and the issue was at once oversubscribed more than 40%. This is learned from the "Courier Journal" of Louisville, from which we also quote the following:

"More than 60% of the new stock will go to present stockholders and the remainder to 32 new stockholders. The certificates will be issued as of Sept. 1 and will make the bank's capital position $200,000 capital, $325,000 surplus. Voting at the stockholders' meeting represented 1,429 of the bank's current 1,500 shares of stock."

The plans to enlarge the bank's capital were noted in our issue of July 15, page 239.

* * *

Earl R. Muir, President of the **Louisville Trust Company of Louisville, Ky.,** announced on July 28 the promotion of Gilliam H. Atherton to the post of Assistant Treasurer. According to the "Courier-Journal" of Louisville, Mr. Atherton began his banking career at the Farmers and Merchants Bank in Livermore, Ky., 10 years ago. He was Assistant Cashier there in 1941 when he left to become Audit Clerk at the **Louisville Branch** of the **Federal Reserve Bank of St. Louis.** Six months ago he entered the service of the Louisville Trust Co. as an Assistant to the Treasurer. While he was with the Reserve Bank, he served three years in the Army.

* * *

Effective July 15, the **First National Trust & Savings Bank of Fullerton, Cal.** was placed in voluntary liquidation, having been absorbed by the **Bank of America National Trust & Savings Association of San Francisco.** The Fullerton bank had a capital of $175,000.

* * *

It was stated in the Seattle "Times" of July 28 that coincident with the election of Harvard Palmer, Seattle attorney, as Assistant Vice-President and Trust Officer of the **Seattle-First National Bank of Seattle, Wash.** Walter J. Brewer, long with that institution, became Assistant Vice-President and Trust Counsel on July 28.

## Paul J. Cox Opens Own Investment Firm

KANSAS CITY, MO.—Paul J. Cox has opened his own investment business with offices at 1016 Baltimore Avenue. Mr. Cox was formerly local Manager for O. H. Wibbing & Co. Prior thereto he was with Prescott, Wright, Snider Company and B. C. Christopher & Co.

## Frank L. Hall Co. Opens Inv. Business in NYC

Frank L. Hall has formed Frank L. Hall Co. with offices at 120 Broadway, New York City, to act as dealer and broker in railroad, public utility, and reorganization securities. Mr. Hall for the past ten years has been with Pflugfelder, Bampton & Rust as Manager of the reorganization securities department.

## H. G. Diveley Interests

(Special to THE FINANCIAL CHRONICLE)

COLORADO SPRINGS, COLO. —H. G. Diveley Interests, Inc., is engaging in a securities business from offices in the Colorado Springs National Bank Building. Officers are H. G. Diveley, President; Robert H. Schif, Vice-President; and Raymond E. Rayford, Secretary-Treasurer.

## Junior Brokers Group Of New Orleans Elects

NEW ORLEANS, LA.—On Friday, July 23, 1948, semi-annual elections of the Junior Brokers

Thos. C. Holmes, Jr.

and Bankers Association of New Orleans were held and the following officers elected for the remainder of 1948: President, George B. Riviere of Howard, Labouisse, Friedrichs & Co.; Vice-President, Thomas Holmes of Weil and Co.; Secretary, Allen M. Steiner of Woolfolk, Huggins and Shober; Treasurer, Milton J. "Mickey" McGovern of Beer & Co.; Program Director, W. E. "Bill" Figueira of Woolfolk, Huggins and Shober.

The Association was formed in 1947 to promote a spirit of cooperation and understanding among the members and to further the knowledge of the members in the fields of investment banking, securities brokerage, banking and commodities.

Outgoing officers were President, James F. McKillips of Steiner, Rouse & Co.; Vice-President, Pierre R. Dupont of MLPF and B; Secretary, George B. Riviere; and Treasurer, Thomas Holmes.

Meetings are held weekly and include a guest speaker from investment banking firms, banks, securities and commodities brokerage houses, and industry.

## Bartling & Co. Formed In Los Angeles, Cal.

LOS ANGELES, CALIF.—Announcement is made of the formation of the investment banking firm of Bartling & Co. with offices at 650 South Spring Street. Officers are Herbert W. Bartling, President; Arthur W. Billings and Daniel T. Oertel, Vice-Presidents; Claude J. Whitfield, Secretary-Treasurer. Cecil J. Downes is Manager of the trading department and Charles W. Flesher is Sales Manager.


Newport News
Shipbuilding and Dry Dock Company

*Quarterly Statement of Billings, Estimated Unbilled Balance of Major Contracts and Number of Employees*

| Billings during the period: | Thirteen Weeks Ended June 28, 1948 | Thirteen Weeks Ended June 30, 1947 | Twenty-six Weeks Ended June 28, 1948 | Twenty-six Weeks Ended June 30, 1947 |
|---|---|---|---|---|
| Shipbuilding contracts | $ 3,126,162 | $ 4,326,250 | $ 7,839,714 | $ 7,873,048 |
| Ship conversions and repairs | 15,082,986 | 9,746,224 | 28,540,054 | 13,840,987 |
| Hydraulic turbines and accessories | 1,021,948 | 767,436 | 2,293,454 | 1,104,994 |
| Other work and operations | 1,990,139 | 1,147,076 | 3,327,215 | 1,891,071 |
| Totals | $21,221,235 | $15,986,986 | $42,000,437 | $24,710,100 |

| | At June 28, 1948 | At June 30, 1947 |
|---|---|---|
| Estimated balance of major contracts unbilled at the close of the period | $67,943,262 | $59,439,571 |
| Number of employees at the close of the period | 11,861 | 10,981 |

The Company reports income from long-term shipbuilding contracts on the percentage-of-completion basis; such income for any period will therefore vary from the billings on the contracts. Billings and unbilled balances on Government contracts are subject to any adjustments which might result from statutory repricing and profit limitations.

By Order of the Board of Directors

*July 28, 1948* R. I. FLETCHER, *Vice President and Comptroller*


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Federal Reserve Bank of St. Louis

## Warns Taft-Ellender-Wagner Bill Will Obstruct Rather Than Facilitate New Housing Output

**George L. Bliss, former President of Federal Home Loan Bank of New York, asserts if government will keep out of housing, construction will continue at record pace.**

More homes will be constructed for American families if the Taft-Ellender-Wagner Housing Bill is not enacted than will be built if it should be passed at the special session of Congress, is the opinion of George L. Bliss, President of the Century Federal Savings Association of New York City.

George L. Bliss

Mr. Bliss, who was for many years President of the Federal Home Loan Bank of New York, pointed out in a statement made on July 29, that the construction industry is at present engaged in the greatest housing program in its history, with dwelling units being erected at a rate which, if continued for the balance of the year, will produce approximately 1,050 000 privately-built and privately-financed dwelling units in the year 1948.

"Indications are that, if the government will keep out of the housing business, even this rate of building will be exceeded in 1949 and that housing construction will continue at a record pace so long as there is a need for more housing units," Mr. Bliss asserted.

"The principal objective of the T-E-W bill is the crection of more public housing. Its alleged 'aids for private housing' provide a false facade, intended to conceal the true purpose of the bill. The construction industry is already absorbing all of the materials and labor now available for home construction. There is nothing in the bill or that Congress can do, to increase the supply of either building materials or construction labor.

"On the other hand, enactment of the T-E-W bill will cause confusion and will divert materials and labor, which are already in short supply to a greatly expanded public housing construction program. Government officials in their zeal to expand their socialized public housing plans are misleading the public as to the true housing situation. The greatest danger in their effort is that the adoption of a program to provide hundreds of thousands of 'low rent' housing units, with the deficits on their operation paid by taxes assessed against owners of private housing, will result in driving private investment funds away from the housing field."

Mr. Bliss cited statistics showing that the average annual number of housing units provided in this country during the 35 years from 1911 to 1945 was 433,857. The peak decade was from 1920 to 1929, when an average of 703,400 housing units were provided each year.

With restrictions on construction removed in the middle of 1946, there were 681,000 housing units provided in that year. In 1947, the number of privately built and financed housing units completed climbed to 879,000. Based on the rate of increase over 1947 production shown so far this year, Mr. Bliss estimated that 1 050,000 housing units will be provided in 1948. He further forecast the possibility of 1,250,000 dwelling units being provided in 1949, "provided the construction and home-financing industries are not confronted with the discouragements and competitive threats of additional public housing such as are proposed by the Taft-Ellender-Wagner housing bill."

## Analyzes Domestic Corporate Issues

**August issue of "Business Comment," published by Northern Trust Company of Chicago, citing compilations of the "Chronicle," points out although new issues in first half of 1948 were highest since 1930, in comparison with national income and current capital needs, its figure is relatively lower. Sees need of a healthier new issue market.**

Domestic corporate security issues to obtain new capital totaled three billion dollars in the first half of 1948, fourth highest six-month period on record, according to an article in the August issue of "Business Comment," the bulletin of The Northern Trust Company, which cited compilations of the "Commercial & Financial Chronicle."

Only the first and second halves of 1929 and the first half of 1930 showed greater sums, the article states, with figures of $4.2 billion, $3.8 billion, and $3.3 billion, respectively. In those earlier periods, flotations of investment trusts and holding companies constituted an important fraction of the total. If such issues are excluded, then only the first halves of 1929 and 1930 exceed the first half of 1948 in activity in the new issue market.

The 1929-30 period was unusual in the security markets, the article points out, because of the great speculation and high prices in the stock market. Taking as more representative the years 1925-29, inclusive, domestic corporate security issues for new capital averaged $5.1 billion. The figure for the year ended June 30, 1948, is $5.9 billion. In contrast with the five-year period 1936-40, it appears that the present volume is five times as large.

The comparatively favorable volume of new capital financing must be judged relative to other changes in the nation's economy, the article states. "The national income is almost two and one-half times 1929 and three times prewar. Aggregate business spending on plant and equipment is twice as high as in 1929 and over three times prewar. Personal savings are three to four times higher than in 1929 and before the war."

The greater importance of bond issues rather than stock issues as compared with the 1925-29 distribution is marked in all categories, according to the bank, capital obtained from stock issues has fallen 40% from the 1925-29 annual average, while the amount obtained from new bond issues is 43% greater.

"The bias toward bond issues is attributable, of course, to the high level of corporation and individual income taxes." There is a definite advantage in bond financing as compared with stock financing, the bulletin points out, because interest on the bonds is deductible from income before computing income taxes, whereas dividends are not deductible. From the standpoint of the security buyer also, the effect of high income taxes in reducing the attractiveness of risk-taking in common stock investments is well known.

The present record volume of business, the article concludes, being done at constantly higher price levels, requires an increasing volume of funds for financing plant and equipment expenditures, and large dollar inventories and receivables. Internal means of financing these requirements in 1947 covered only 71% of the total needs, according to figures compiled by the Department of Commerce. The remainder came from mortgage loans, 14%, and new security issues, 15%. "It is obvious that corporations cannot continue to finance their present scale of activities unless a healthy new issue market and the availability of bank and other credit is maintained."

## Dillon, Read & Co. and Dean Witter Underwrite Hawaiian Elec. Stocks

Dillon, Read & Co., Inc., and Dean Witter & Co. are underwriting the offering by The Hawaiian Electric Co., Ltd., to its common stockholders of 50,000 shares of series D 5% cumulative preferred stock par value $20 and 100.000 shares of common stock, also par value $20.

The company is offering the new common stock and the series D preferred stock for subscription, in each case at $20 per share, pro rata to the holders of its common stock of record July 20, 1948, at the rate of one share of common stock for each 3½ shares of common then held, and one share of series D preferred for each 7 shares of common stock then held. The subscription warrants will expire on Aug. 16, 1948.

Of the proceeds from the sale, $2,300,000 will be applied by the company to pay a like face amount of its short-term promissory notes. The balance of the proceeds will be added to the company's general funds and will be available for the payment of construction expenditures during 1948, the reimbursement of the company for construction expenditures previously made, or for other corporate purposes. The company has entered into a program of plant expansion for the period 1948-1950 which calls for an estimated total expenditure of $11,127,519. This includes proposed expenditures of approximately $6,342,000 for new generating equipment and additions and $3,992 000 for additions and betterments to transmission and distribution equipment.

The company is engaged in the production, purchase, transmission, distribution and sale of electric energy on the Island of Oahu, Hawaii. It furnishes electric service in all sections of the island, including the City of Honolulu, sugar and pineapple plantations, Army and Navy establishments and numerous towns and villages. Estimated population as of July 1, 1947, of the entire territory served was 360,274, exclusive of the United States armed forces.

For the calendar year 1947 the company reported total operating revenues of $10,400,862 and net income of $1,763,581. For the three months ended Mar. 31, 1948, operating revenues were $2,774,228 and net income $285,231.

Giving effect to this financing the company will have outstanding 300,000 shares of preferred stock par value $20 (including 100,000 shares of series B 5% and 150,000 shares of series C 4¼% and 450,000 shares of common stock. Funded debt amounts to $15,200,000.

# Truman Again Urges Inflation Controls

(Continued from first page)

an up-to-date survey of the economic situation, the difficulties it presents, and the solutions called for. This Mid-Year Economic Report is transmitted to the Congress for that purpose.

### A Time for Action

In the years since the end of hostilities in World War II, the American economy has offered an impressive display of inherent strength and elasticity. More than 10,000,000 veterans have been smoothly absorbed into the activities of the business world. Month after month, the labor force has been employed at a level which but few were willing to forecast. In spite of high living costs, our people continue to enjoy high standards of living. The income of American consumers, and the resources of American business, furnish the basis for sustained markets. Our financial condition is strong. A national debt of tremendous size has been managed so skillfully that we are prone to treat too lightly the problems which it still offers.

But our present prosperity should not blind us to the growing threats to our well-being. Repeatedly, I have called attention to the developing inflationary conditions which endanger both our domestic strength and our place in world affairs. In addition, recent events have forced us into a preparedness program adding to the strains upon our home economy, and making it even more imperative that we act with courage and dispatch. In my recent message to the Congress upon the opening of the special session, I again advised the Congress of the dangers that we face, and made recommendations to meet them.

I must emphasize that the course of inflation does not run according to any set schedule. Until the very eve of an economic collapse many people are apt to grow more and more confident about the soundness of the economy and the indefinite continuance of the boom. It may not be true that "a boom is always followed by a bust," as many students of business affairs frequently say. But it would be reckless to assume that the bust will not happen if we neglect action to control the boom.

For two years, it has been asserted that if matters were left alone there would be so great an increase in production that it would take care of prices. Increasing the supply of goods is, indeed, to be sought through every practicable means. But, historically, no important inflation has been cured in that manner. Nor has this one, despite the fact that every factor of high profits, heavy market demand, and large funds available for investment has been favorable to the expansion of production.

The policy proclaimed in the Employment Act requires us to devise and adopt positive measures to stop this inflation and secure relative stabilization. It is not too late for preventive measures, and we are not yet forced by the tragic consequences of depression to adopt measures which would interfere with our free economy far more than would any or all of the measures I have proposed. I realize that the anti-inflationary program I have offered will impede some business plans, will curb some profit opportunities, and may limit some wage advances. It is of the very essence of a plan to counteract inflation that this be done. All groups will ultimately benefit when it is done.

### The Economic Situation in Summary

The recommendations that I have made for dealing with inflation are based upon a candid look at the whole economic situation as it has developed over the past 6 months, and upon a careful analysis of where this situation may lead us if we do not act in time. Below I summarize what seem to be the points of greatest significance in this situation and this analysis. A more detailed examination of the facts, and a more extended analysis, is contained in a report on The Economic Situation at Mid-Year 1948, prepared for me by the Council of Economic Advisers, which I am transmitting to the Congress along with this Mid-Year Economic Report.

**Employment** in the first half of this year ran continuously above the level of a year ago. Some 850,000 workers were added to the labor force, yet unemployment in June was only 2.2 million—400,000 less than a year earlier. June civilian employment set a new record of 61.3 million.

**Industrial production** reached a new postwar peak in February and, after the work stoppage in coal mining, approached it again in June. Improved industrial relations and high business confidence reinforced by increased Government commitments for foreign aid and defense give promise of continuing high-level output for the rest of the year.

**Agricultural production** ran below the level of the first half of last year because smaller numbers of livestock and tight feed supplies have reduced the output of most livestock products. At midyear, our second largest wheat crop was being harvested, and generally favorable crop reports were highlighted by an indicated production of over 3.3 billion bushels of corn—a new record. While such a crop could not remedy the meat shortage during the rest of this year, it would provide the basis for more ample supplies of livestock products in 1949 and thereafter.

**Gross national product** reached a new high of $246.5 billion per year during the first half of 1948, reflecting some increase in production but mostly the rise in prices.

**Consumer income** ran at an annual rate of about $208 billion, compared with $195 billion in 1947. Consumer income after taxes increased from a rate of $174 billion to a rate of $186 billion.

**Consumer expenditure**, as a result of some buyer hesitation in the first quarter, increased less than disposable income, leaving a small increase in net consumer saving.

**The distribution of income**, according to the most recent data, has changed but little since 1946. A survey of families, however, showed half the Nation's consumer spending units falling substantially behind in the race of incomes with living costs during 1947. One-fourth of the family units spent more than they earned. Low-income people were spending past savings predominantly for current expenses, higher-income people more often spending theirs for durable goods or converting them into residential or business investments.

**Consumer credit** continued to expand during the first half of 1948.

**Business investment** took a larger share of the national output in the first half of 1948 than during 1947. Equipment outlays have been exceptionally high

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since the war; plant construction expenditures have increased less strikingly. Present indications are that such outlays will continue high throughout the rest of the year. Nonfarm inventories increased markedly during the first quarter of the year, when sales lagged, but leveled off in the second quarter as sales picked up.

**Profits** exceeded last year's average, reflecting high prices for a high volume of output. First quarter data, however, indicated a drop in profits of small manufacturing firms.

**Residential construction** is expected to increase the total supply of dwelling units by more than a million during 1948. This high output has been accompanied by an increase in costs that is outrunning consumers' ability to pay for the housing they need.

**Net foreign investment,** at less than half the rate of the last quarter of 1947, in part reflected decreases in exports and increases in imports in our trade with all continents. The foreign aid program will increase our surplus of exports during the rest of the year.

**The Federal cash surplus** during the first half of 1948 amounted to $7.6 billion. Receipts ran 7% higher than last year, payments 9% lower. The reduction in income taxes and the increase in expenditures for defense and foreign aid will virtually eliminate the surplus for the second half year. The Federal debt was reduced about $5 billion during the first half of the year, bringing it down to $252 billion.

**State and local government expenditures** have overtaken revenues, and deficits are likely to increase.

**Prices** rose after a decline in February. Many farm prices regained or surpassed their earlier levels and industrial prices resumed their climb. By midyear, price increases appeared to be accelerating. The index of consumers' prices has now reached an all-time high.

**Wages** continued the third round of increases that began last fall though interrupted by the break in commodity prices. Most of the third round increases have roughly corresponded to the rise in cost of living since the previous contract.

**Foreign aid and defense expenditures** during the present fiscal year will increase pressure on the domestic economy. New defense expenditures will not be great during the next few months, but will rise thereafter. Both programs have a special impact upon such short-supply items as steel, other metals, and farm machinery, and will draw increasingly upon our already fully employed labor force. More adequate allocation authority is needed if we are to avoid progressively more serious disruptive effects of these programs upon supplies, prices, and the organization of production.

**The reduction in income taxes** will reduce Federal revenues by about $5 billion at the same time that expenditures will be substantially increasing under the new programs. The deflationary influence of recent government cash surpluses will thus be replaced by the inflationary influence of additional expenditures on the part of consumers whose tax burdens are reduced.

**The general outlook as to inflation** shows conflicting influences. On the one side, the supply situation in a number of industries is improved over a year ago. Bountiful crops are in prospect. Postwar expansion programs are nearing completion in many lines of production, and we should experience a gradual increase in output from an enlarged and modernized industrial plant. Commendable caution continues to be shown by business in avoiding speculative overexpansion, and many leaders in both industry and labor can be applauded for the conscious restraint they have exhibited in their pricing policies and wage demands.

The immediate situation is dominated, however, by three interacting processes making for continued inflation. First, consumer demand for goods and services, business demand for investment goods, and demands arising from expanding government defense and foreign aid programs press strongly upon production. Second, we are currently in the midst of a round of substantial wage and price increases in major basic industries. These developments foreshadow continuing and ramifying effects on cost structures and prices in many related lines of production, on the cost of living, and on further wage demands. Third, credit expansion, partly a cause and partly a result of inflation, still persists.

The facts add up to a clear and disconcerting conclusion. In spite of some favorable factors, we are in the very midst of gathering inflationary forces, which day by day are imposing additional hardships upon countless families, and day by day are undermining the foundations of the remarkably high level of postwar prosperity that we have thus far maintained.

The hard facts of today leave no room for complacency. Though most people are optimistic about the immediate business outlook, lasting prosperity is not assured. Even in the midst of the present prosperity, the average American sees that the value of his accumulated savings has declined, and that many of his neighbors living on pensions or fixed salaries are actually worse off than they were a year ago. Looking abroad, we see that, despite great progress, many countries are still far below the living standards needed for sustained production and are dependent on outside help for any hope of further advance. We must be on our guard lest our national prosperity and security be undermined by inflation at home or by misery abroad.

Our American prosperity depends in part on world events, but far more on our own action or inaction right here at home. More than 90% of all the goods and services that we produce are for domestic purposes.

But thus far we have shown a blind disregard of the dangers that beset our path. Despite my repeated warnings and recommendations, we have not adopted adequate legislation for controlling inflation. The failure to control inflation effectively in the past makes it increasingly urgent that we adopt and apply vigorous measures to guide us safely from the uneven postwar boom to an era of sustained and stable prosperity.

We are now challenged to carry out the pledge to the American people contained in the Employment Act of 1946 that it shall be the policy of our Government to to "utilize all its plans, functions, and resources . . . to promote maximum employment, production, and purchasing power," in an economy of free competitive enterprise.

It is no less important to take action to forestall a business collapse than it is to use Government measures to overcome a depression once it has arrived. Our success in this effort is essential for the reconstruction of a peaceful world.

## Rand & Co. Admit

Rand & Co., 37 Wall Street, New York City, have admitted Charles J. Rodarmor and John J. Lees to limited partnership.

## D. Allan Burt Dead

D. Allan Burt, limited partner in Hazlett, Burt & Watson, Wheeling, W. Va., died on July 28.

## Regulation and Gas Company Investment

(Continued from page 6)

projects are resorting to a pyramided type of capital structure with capitalizations varying from 70% to 80% in debt, and from 10% to 20% in common stock. Under such circumstances they are able to earn a more respectable return on their equity ranging from 12% to 25%.

### The Consequences

The comparatively thin equity ratios for the new pipe line companies and the declining cushion of equity capital for the older companies give a basis for considerable concern to investors. Ironical as it may seem, the mature enterprises with heavier equity are apt to be more adversely affected by the deteriorating capitalization trend than the new ventures. As now constituted the new lines have certain advantageous characteristics not found in the older lines, that impart a substantial element of strength.

Most important of these features is the large "take or pay" provision contained in the sales contracts which require the purchaser to pay for their contracted quantities of gas at the prescribed minimum level, whether they use it or not. There are certain permitted adjustments in the event of a serious business decline but, due to the price advantages of taking gas at 100% load factor operation, it is likely that even under highly unfavorable economic conditions customers of these new lines will continue their long-term purchases at a high level. This in effect constitutes a guarantee of minimum earnings from year to year for substantially the entire capacity of the new lines. This high load factor operation is augmented by the underground storage facilities and interruptible load characteristics of the purchasers. Generally speaking the old lines, with few exceptions, are devoid of these highly important features and are therefore susceptible to the ups and downs of the business cycle. Their salvation is not to dilute the equity too greatly. It is unfortunate that as a counter measure to a low allowable rate of return the older enterprises are being forced to resort more and more to debt financing. While there is still room for senior securities in the capital structure of a number of the older companies it is not a desirable development to countenance. A growing amount of the common stocks of these companies have found their way into conservative investment portfolios and therefore should not be allowed to deteriorate in quality.

The real need of the industry is a higher allowable rate of return so that conservatively capitalized companies will be able to earn more than a nominal rate of return for their common stockholders in an industry limited by a substantially shorter life span than electric utilities.

### The Recommendation

The actual picture at present is not as glum as it is pictured. Although the 6% over-all earnings level has been established formally by FPC action and court decree, all pipe line companies are earning substantially greater than the prescribed limit. Whether by its inaction of mandatory rate reductions the Federal Power Commission condones a higher level of return due to its cognizance of the factors cited herein, the mounting cost of gas, material, labor and money, is not known. This in itself is not of sufficient consequence, however, to impart confidence in investors so long as the 6% limitation threat is overhanging. What is needed is a new pronouncement of the Commission raising the over-all allowable rate of return to a 7½%-8%, thereby permitting a soundly capitalized company to earn at least as much for its common stock as a standard capitalized electric utility company.

# Public Utility Securities

## Northern vs. Southern Utilities

Net income of all electric utility companies in the first four months of 1948 showed only slight declines, but the month of May showed a drop of over 10%. There have been many irregularities in the recent reports of individual companies. It may be interesting to compare the reports for different areas to see how much the geographical factor accounts for these changes. The principal reason for gains in the south is of course the use of natural gas as fuel—plus the rapid increase in sales for a good part of that area.

Some recent reports of share earnings for northern companies have been as follows:

| Company— | —Period— Mos. | Ended | ——Earnings—— Current | Previous | Percent Decline |
|---|---|---|---|---|---|
| Consolidated Gas of Balt. | 5 | May | $2.26 | $2.64 | D 14% |
| Kansas G. & E. | 12 | May | 2.33 | 2.86 | D 18 |
| Philadelphia Electric | 12 | Apr | 1.64 | 1.73 | D 5 |
| Commonwealth Edison | 12 | Jun | 1.81 | 2.09 | D 14 |
| Detroit Edison | 12 | Jun | 1.41 | 1.69 | D 10 |
| Public Service of N. J. | 6 | Jun | .53 | 1.21 | D 56 |
| Consolidated Edison | 3 | Jun | .34 | .47 | D 28 |

On the other hand, compare some of the increases of the southern companies:

| Company— | —Period— Mos. | Ended | ——Earnings—— Current | Previous | Percent Increase |
|---|---|---|---|---|---|
| Southwestern Pub. Ser. | 12 | May | $2.56 | $2.08 | 23% |
| Houston Lighting | 12 | May | 3.45 | 2.50 | 38 |
| *Electric P. & L. System | 12 | Apr | 5.25 | 3.86 | 36 |
| Central & South West | 12 | Mar | 1.38 | 1.18 | 17 |
| El Paso Electric | 12 | May | 2.82 | 2,46 | 15 |
| Gulf States Utilities | 12 | May | 1.65 | 1.54 | 7 |

*Includes United Gas and four electric companies.

There are of course exceptions in both sections. Thus in the north the American Gas & Electric System earned $4.32 vs. $3.79 recently despite the fact that its subsidiaries burn coal—improved efficiency appears to be the answer. In the south we find Tampa Electric earning only $2.19 vs. $2.58—but this company burns oil instead of gas—and oil now costs about $2.83 per barrel vs. $1.48 in 1946. Georgia Power in the Commonwealth & Southern System in the 12 months ended May 31 earned $1.32 vs. $1.68—but much of its power is hydro-generated, and it has had to buy power recently.

Some of the figures for the northern companies can be explained as due to special factors, but unfortunately explanatory comments are not always forthcoming with the published statements. Thus Virginia Electric's recent decrease in earnings is said to be due to heavy stock-piling of coal in anticipation of a strike. Public Service of New Jersey had a variety of reasons for its bad showing—a heavy winter storm, a temporary rate cut, bad transit earnings (prior to the recent fare increase), special charge-offs, etc. Consolidated Edison in the second quarter included six months' retroactive wage increase, and the company is still awaiting rate relief for the gas business which is heavily in the red.

How about the Pacific coast companies? Southern California Edison in the 12 months ended May showed a gain of 12%, and further gains seem likely, since the company is now relieved of a heavy expense burden for shifting operations to 60 cycle phase. Pacific Gas earnings in the 12 months ended March were $2.23 vs. $2.57—due to a new issue of common shares, combined with drought effects. Mountain States Power, which wasn't touched by the drought, reported $5.05 vs. $3.54 in the 12 months ended May.

In studying these cross-currents in electric utility earnings, it's necessary to know how the company's power is generated—by hydro or fuel. If hydro, rainfall and water supply are vital factors. If fuel is used, it's necessary to know what kind—coal, oil or natural gas (the cost of the latter is virtually stationary compared with the others). If the company burns coal or oil, it may still be able to offset part or all of the increased cost through fuel adjustment clauses—hence it's important to know this feature of the rate structure (Consolidated Edison and Boston Edison have clauses covering almost all operations; most other companies have clauses applying only to industrial and commercial business).

A third important question, particularly for the coal burning companies, is whether they have lagged in their construction program and hence have had to run a lot of inefficient generating facilities, or buy expensive power from other companies. And a fourth question is whether, in financing their expansion, they have already diluted their earnings by issuing additional common stock, or whether such dilution will appear in the future. And a possible fifth query might be—how tough is the commission in the state in question, with respect to a possible rate increase?

## New Chicago Exch. Member

CHICAGO, ILL.—The Board of Governors of the Chicago Stock Exchange today elected to membership Edward H. Keller, Secretary and Treasurer, of Texas National Corporation, San Antonio, Texas.

Texas National Corporation is the sixth Texas firm to become a member firm of the Exchange and the first in San Antonio.

## Approve Sisto for NASD

The admission of J. A. Sisto & Co., New York City, into the National Association of Securities Dealers, Inc., has been approved by the Securities and Exchange Commission. Membership in the NASD had been barred by the Commission because of the expulsion in 1938 from the New York Stock Exchange of Joseph A. Sisto, controlling partner of the firm, for "conduct inconsistent with just . . . principles of trade." The NASD contended that the firm has been "sufficiently penalized," and the Commission which has veto power over the association's membership agreed.

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# I.C.C. Rate-Making Policy—Its Evils and Remedies

(Continued from first page)
at once. This need has been evident for some months, and yet this Commission has failed to bring in a report, finally determining the amount of the increase to which the carriers are entitled. I know of no good reason why the final report should not be issued now, in fact should have been issued some months ago. **The public and the carriers are entitled to an immediate final decision by this Commission."**

### What Is Present Procedure?

In 1946 and 1947 investors witnessed the historic procedure of raising railroad wages first and railroad rates later. Again the ICC gave too little and too late.

Yet, as was pointed out by J. Carter Fort, General Counsel, Association of American Railroads, before a House Committee April 15, 1948, **"A general increase in rates, demanded by rapidly changing economic conditions, calls for no order by the ICC.** No finding by the Commission is required as to the reasonableness of the individual rates in a case involving the general level of rates. The Commission is under no statutory requirement that an urgently needed increase in the general level of rates be deferred pending th conclusion of an investigation so prolonged as to defeat the purpose of the national transportation policy."

During the 1930's about 40% of the Class I roads were in bankruptcy or receivership. No other regulated industry was in this plight; neither telephone, electric, gas, trucking or waterways companies. Obviously, there is something wrong with the manner of regulating rates on the railroads. **The railroads may have been financially bankrupt due to government policy. But fundamentally it was government policy which was bankrupt.**

**The market value of railroad securities declined drastically.** Wage increases were granted on May 22, 1946, retroactive to Jan. 1 without any compensating increase in freight rates. Obviously, railroad earnings would have to decline. The threatened sharp decline in railroad earnings precipitated a sensational shrinkage in market values, greater in railroad securities than in any other group. In five months the total value of railroad stocks and bonds listed on the New York Stock Exchange shrank from $13.5 billion to $11.4, or a total of over $2 billion. This is a consequence of a cockeyed policy of regulating railroad rates. **The relative shrinkage in railroad stocks exceeded by far the shrinkage in any other group or in the total listed.** The regulated utilities shrank only 16% compared to 24% for the railroads.

Similarly, after the rebound in stock prices by Jan. 31, 1947, the railroad stocks still showed by far the greatest shrinkage of any major group. Lacking a rise in rates, they rallied least of any group. This shrinkage from May, 1946, to January, 1947, was 22% for the railroad stocks, 17% for all stocks, 14% for the steels and chemicals, 12% for the regulated utilities, while the oil stocks rose by 7%. These cold figures are more damning of our rate-setting policy than any legal brief or the most meticulously descriptive words in the dictionary.

You could have bought practically the entire railroad system in the United States for about $11 billion, which is about half of the original cost less depreciation, or 10% above the par value of the bonds.

This condition is not new or unique. For over 20 years the ICC policy has been to make increases too little and too late, so that railroad earnings shrank and stock prices fell far worse than industrials. A study needs to be made correlating ICC decisions and shrinkage in market values of shares of railroads compared with other groups listed on the New York Stock Exchange. **Because of this plight, practically no railroad has been able to finance by new stock issues since 1930.** This is in striking contrast to new stock financing by industrial companies. But these are not hampered by unintelligent government regulation.

**The highest traffic in peacetime history has caused low earnings for all roads and deficits for some.** In 1946 great systems like New York Central and Pennsylvania had deficits, the latter for the first time in its 100-year history. On the old freight rates prevailing at the time that wages were increased in 1947, the earnings on the net investment for 1948 were 0.16%. After the first rate increase of 10%, the 1948 earnings on the net investment were 1.8%. After all three increases, totaling 24%, the 1948 earnings on the net investment should be about 4.25%. **The return on the investment is insignificant in boom years.** Corporation profits for the years 1946 and 1947 were the greatest on record, but the railroads earned only 3.10% on the net investment after depreciation. In the prosperous 1920's, the earnings were less than 5%, and in the depressed 1930's, less than 2%. What will be the earnings in the next depression?

**The return was less for the railroads than for public utilities and far less than for trade and manufacturing companies.** In an array of 70 industrial groups showing the percent or ratio of net income to net worth in 1946, the railroads were practically at the bottom. The average for all manufacturing was 12.1%, but for Class I railroads was about 2%. (National City Bank Monthly Letter of April, 1947.) **The railroads' peak return of 6.30% earned in 1942 fell short of the utilities' average rate of return of 6.44% for the period 1926-1946** granted by Commissions and State and Federal Courts.

For the period 1926-1945, the railroads earned an average return of 3.54% under ICC regulation, but public utility transportation companies, regulated by over 40 state commissions, were granted 6.83%; and all public utilities, including electricity, gas, telephone, and telegraph, were granted 6.43%. In the prosperous half decades 1926-30 and 1941-45, the railroads earned less than 5%, but the utility transport companies earned over 6%. **In the depressed 1930's, the risky railroad business earned 2.22%, or less than the rate of interest on riskless U. S. Government bonds, while public utilities earned 6.26%.**

**Rate of Return on Net Investment**

| Period— | Earned by Class I Railroads | —Granted to— Pub. Util. Transp'n | All Public Utilities |
|---|---|---|---|
| 1926-30 | 4.76 | 6.95 | 7.08 |
| 1931-35 | 1.95 | 6.82 | 6.47 |
| 1936-40 | 2.50 | 6.58 | 6.05 |
| 1941-45 | 4.95 | 6.36 | 6.09 |
| Average | 3.54 | 6.83 | 6.43 |

**This chart and these figures ought to be on the desk of every member of the ICC as a permanent exhibit, reminder and a call to duty.**

Because railroad earnings were so meager, new capital was not easily raised. Since World War I, new money put into railroads came 1% from stock and 99% from bonds or earnings. Risk capital was not attracted to the railroads because of the totally inadequate return. In 1947 the railroads' return of 3.4% was $600 million short of the 6% return, exceeded by state-regulated utilities.

**The prospect for railroad earnings during the next recession or depression is ominous.** If the railroads are having such difficulty in earning less than half of a reasonable return in the greatest peace boom in American history, what are their prospects when business declines? In poor years, shippers plead poverty so that rates should not be increased. As a result, a new wave of railroad bankruptcy faces the investor in the future. The ICC makes the mistakes, but the expropriated investors pay the penalty for official sins.

**The railroad managers, instead of insisting on their clear legal and Constitutional rights, resort to complicated apologetics.** As I stated in my briefs in 1938 and 1939, the railroad managers have been geniuses in engineering as in tunneling mountains and bridging chasms, but not in their attitude to the regulatory bodies. They do not fight, but appease and apologize. The whole case before the ICC is based not on the simple argument of the clear right to earn a reasonable return, but on an extended series of apologetics, namely: (1) the farmers are prosperous; (2) industry is profitable; (3) costs of transportation have risen.

The 40-odd State Utility Commissions decide rates independently and thus set precedents for, and in a sense compete with each other. **But the ICC is a rate-making monopoly.** The utility companies carried hundreds of rate cases to the courts and succeeded in obtaining returns averaging over 6% from 1926-46. But the railroads sought relief in the courts very rarely.

### What Are the Causes and Fallacies Involved?

**Excessive regulation has crushed the initiative of the managers.** They do not challenge the conclusions of the ICC in the courts. When they did, **as in 1932, they were successful in compelling the Commission to grant rate increases which it had just previously refused to give.** They do not carry the case for their almost a million stockholders to the stockholders' Congressmen to get legislative relief. Instead of tackling fundamental fallacies and misconceptions, both of the Commission and of the opponents of a rate increase, they present a vast array of statistics and figures which obscure the strong, underlying legal and Constitutional right to a reasonable return.

**Freight rates cannot be based on forecasts of volume of traffic.** Government forecasts have proven notably erroneous and are distorted by political pressure groups. The government opponents of a rate increase present overoptimistic forecasts of traffic. But government statisticians, after the collapse of Germany in 1945 forecast that there would be eight million unemployed within six months, and 13 million within nine months. Instead, a great boom followed. In the spring of 1946, government economists again forecast a depression. Twenty-eight months later we are still in a boom. Man is fallible, even in a government post.

The ICC for years has been forecasting the volume of business as a basis for fixing freight rates. But Fairman B. Dick, in his statements before the Hobbs Committee on Railroad Bankruptcy in 1943, showed how terribly wrong these forecasts were. In the autumn of 1931 the ICC was "hopeful" for prosperity and in the spring of 1932 it said the outlook was "desperate." It was wrong on both occasions.

Commissioner Carroll B. Miller, in dissenting opinions in 1938 and 1939 in railroad bankruptcy cases, stated repeatedly, "It is not the business of the Commission to forecast earnings. That is a task for God." Most forecasts are rationalization of a wish. It is a fundamental fallacy to fix freight rates on the basis of such fanciful forecasts.

**Not economic forecasts, but accounting facts should be the basis for ICC decisions.** When costs rise, selling prices must rise. This is elementary in every business. The railroad spokesmen at the hearings did an excellent job in presenting the rise in costs, material and supplies, fuel and wages, and the lag in the necessarily offsetting rise in freight rates. They showed how this lag created sharp declines in earnings.

To make wages retroactive and then to delay raising freight rates is an accounting crime, an economic transgression, and a violation of the "due process" clause of the Constitution.

**American railroad freight rates are the lowest in the world and the wages highest in the world.** Here is a bold fact which affords a logical, sound, and practical basis for long-term rate-making policy. In 1941 the ICC studied the relation of freight charges to the value of commodities transported. In this ratio, freight rates had lagged by 40% and, therefore, should have been raised correspondingly to restore the prewar relationship.

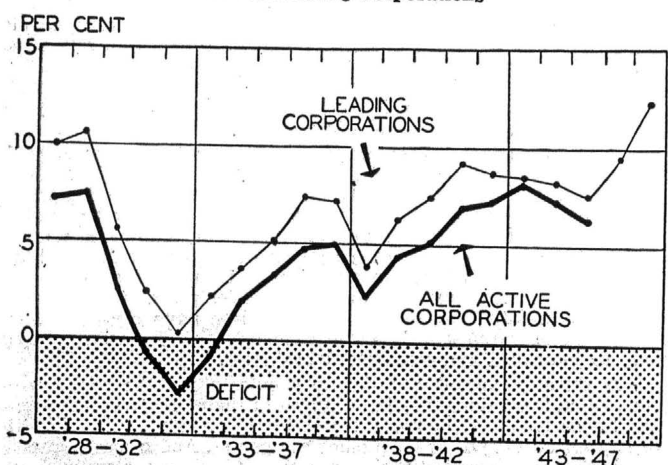
**The traffic can bear the increase.** Farmers now enjoy the greatest prosperity in history. Yet the procedure before the ICC is dominated by an ancient "deadhand," legislation passed when agriculture was in depression. For example, the Hoch-Smith resolution, passed in 1925 and still in effect, states: "In view of the **existing depression** in agriculture, the Commission is directed to effect . . . such lawful changes in the rate structure . . . as promote . . . the movement of products of agriculture, **affected by that depression,** at the lowest possible lawful rates." Again, under the Agricultural Adjustment Act of 1938: "The Secretary of Agriculture is authorized to make complaint to the ICC with regard to rates . . . relating to the transportation of farm products and to prosecute the same before the Commission." However, the farmers' erstwhile plight has been converted into current unprecedented prosperity.

The farmers have been long accustomed to special privileges at the expense of the railroads. **The Government favors the farmers at the expense of the railroad stockholders.** Roads which were bankrupt or paying no dividends were carrying farm products below cost. A pauperized industry was paying subsidies to prosperous agriculture. It is easy to be a philanthropist with other people's money. Why should the Government rob a poor Peter to pay an opulent Paul?

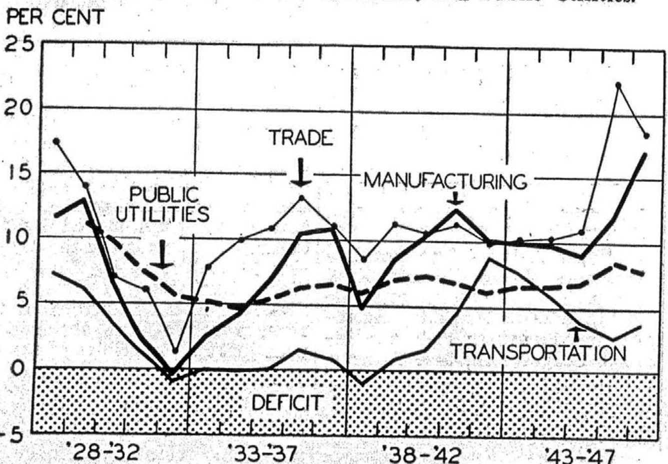
**The opposition to a rate increase on the basis of inefficiency is utterly unfounded.** There was "no wartime inefficiency" in World War II, as charged by the spokesman for the State Utilities Commissions. In World War I, under Federal control the Government assumed the railroads' deficit of $2 billion per annum, but in World War II the railroads under private control paid the Government taxes of over $3 billion per annum. The difference constitutes a burden of $5 billion per annum on the taxpayer. Furthermore, even the shipper benefited. In World War I under government control, railroad rates had risen by 78% at the end of the war, but in World War II rates either had not risen at all, or in some cases were lower at the end of the war than at the beginning.

Railroad efficiency helped to win the war. Comparing World War II with World War I, freight traffic was 74% greater, but was carried in 25% fewer freight cars, by 33% fewer locomotives, and with 25% fewer workers. **The superior performance of the railroads in the two postwar years**

**Annual Rate of Return on Net Worth of All Active Corporations and of Leading Corporations**




**Annual Rate of Return on Net Worth of Leading Corporations in Manufacturing, Trade, Transportation, and Public Utilities.**




**Source: National City Bank Monthly Letter, April, 1948.**

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**1921 and 1947 reveals the increase in efficiency.**

In that 26-year interval, there was an increase in tons per train of 76%, in freight-car-miles per day of 88%, and in freight-locomotive-miles per day of 54%. Meanwhile, the average hourly wages rose 78% and cost of materials by 75%. But the revenue per ton-mile declined 16%.

Every measure shows increased efficiency of the railroads. It was such increases of efficiency that made it possible to keep freight rates low in World War II.

**The railroad income accounts and balance sheets are meaningless unless the figures are expressed in dollars of the same purchasing power.** The opponents of a freight rise do not seem to realize that in comparing net operating incomes in 1925, 1935, and 1947, they are comparing current dollars of low purchasing power with the better dollar of prewar times.

The long-term trend in cost is meat for the radicals. When prices were falling in 1893, the radicals argued that rates be based on the prevailing low reproduction cost. After World War I when prices rose, the radicals shifted to the ancient low original cost. As one witty lawyer said, "All that happened was that the radicals took their opponents' briefs." But as Justice Brandeis stated in a dissenting opinion in the United Railways v. Best 1930, whether to use charges "based on original cost or upon fluctuating present values is a problem to be solved by the exercise of practical judgment based on facts and on business experience."

**The investor is the forgotten man.** Stockholders put up savings and own the railroads. **Freight rates should never be set at so low a level as to despoil the investor or repel capital from the industry.** The proceedings in the rate hearings partake of tragicomedy. After the series of catastrophic years when almost 40% of the nation's mileage was bankrupt or in receivership and close to $3 billion in securities were wiped out through decapitalization, the ICC is still today trying to see that the railroads do not earn too much money. What a witless policy!

The investor is ignored like an Eskimo at the U.N. meetings. Professor Leo Sharfman wrote a book —"The ICC—A Study in Administrative Law and Procedure," in five volumes of 2,980 pages. It deals with every conceivable aspect of the ICC, but there is not a word about the stockholders whose money built the railroads, keeps them going, and pays the taxes to help support the ICC.

The A.A.R.'s statistical booklets, "Yearbook of Railroad Information" and "Review of Railway Operations," give all sorts of figures about miles of tracks, amount of equipment, materials and supplies, taxes, number of workmen, wage rates and annual earnings, but there is no mention of how many stockholders there are; what the distribution is, the average holdings per shareholder; what percentage owns less than 10, 25, 50, and 100 shares; how many own stock for more than five, 10 or 20 years.

Because stockholders are not organized, they are not heeded or even heard. If a few retired, elderly stockholders were brought into the hearings to show the cruel impact of ICC niggardly rate-making policy upon the backbone of the American community, the hearings would assume an atmosphere of life and reality.

### What Is the Remedy?

**Develop an integrated policy.** Since 1938 I have been urging changes in government policy on railroads. In May of 1938 I pleaded, purely as a public service, before the Railroad Bankruptcy Sub-Committee of the House Judiciary Committee, "Rate-making and wage-setting or power and responsibility, should be unified. Unification of government regulation is essential for all transport agencies in standards of safety, wage scales, labor standards, rate-making, accounting, depreciation and taxes."

Moreover, in a brief on March 24, 1939, to the House Committee on Interstate and Foreign Commerce, I pleaded, as a public service, "Equalize wages and hours on railroads and their competitors. Relate selling prices and costs. The Government assumes the power with respect to freight rates and wages but refuses to assume responsibility for its action. Unite power and responsibility." Again in July, 1946, I pointed out the absurdity of dividing hearings on wages and on freight rates and the grave risk of delaying rate increases long after wage increases, and pleaded that "the present policy cannot continue. There must be integration of selling prices and costs, of freight rates and wages."

**Investigate other methods of rate-making.** The ICC might well study the experience of other systems of rate-making, such as "agreed rates," which are in effect in Great Britain and in Canada. Professor G. Lloyd Wilson's book, "Freight Rate Making" compares our class and commodity rates with "agreed rates."

"Freight rate-making is a pricing procedure and as such it is highly volatile. There is danger that the patterns of rate-making may become unduly fixed and that more attention be paid to following familiar practices in making rates than to making sure that the rates are in conformity with the revenue needs of the carriers and the industrial and traffic requirements of producers, distributors and consumers." Vision in aim and flexibility in method would be helpful in developing a sound and effective policy of rate regulation by the ICC.

**Make an historical survey of the ICC's errors of omission and commission.** This would give long-term perspective on the problem of rate-making. It should be valuable to Commissioners, new as well as old. The fact that these errors continue for so long a time recalls a quip about an elderly physician, "He keeps on making the same mistakes for 50 years and calls it experience." Basically, the ICC ignored its responsibility to set such rates as would give a "fair return," as did 40 State Utilities Commissions in setting rates for electricity and transportation. A recital of this history of errors could be a valuable guide for future ICC policy —how **not** to do things.

**Let the ICC regulate but not manage the railroads.** A commission is a suitable form of organization for regulating and judging, but it is not suited for administering and executing. **Let the railroad decisions be made by the railroad managers who are responsible for the results.** The railroads do not wish, or benefit by, excessive rates. But they, and not the ICC, should have the power that goes with responsibility. Often they do not even utilize the full latitude in raising rates to levels allowed by the ICC.

Railroads should be allowed to raise selling prices automatically to meet rising costs just as industry and agriculture do. Some utility commissions, domestic and foreign, use an automatic sliding scale, whereunder rates move with the price of fuel and labor.

Certainly the ICC cannot as ably as the management, relate cost and selling price, operating expenses and freight rates. The very idea of having the ICC actually fix rates should be rejected. Let it merely correct clear inequities later, but the railroads should be allowed automatically and immediately to raise rates when wages and materials and other costs rise. As J. Carter Fort stated at a House Committee hearing on National Transportation Policy: "Under the governing statute, railroads are permitted to initiate rates by filing them with the Interstate Commerce Commission and such rates become effective, unless suspended by the Commission, upon 30 days' notice, or less with the permission of the Commission."

The Transportation Act of 1940 does not **require** the Commission to hold hearings before rate increases, requested by the railroads, become effective. The provision of the statute is merely permissive but the Commission has interpreted it as mandatory. This interpretation produced in 1946, a record year of peace-time production, insignificant earnings, matched only in the depressed 1930's.

As Louis D. Brandeis stated 34 years ago, **"The ICC has been powerless to reduce operating costs.** Greater reductions in rates can come only with reductions in costs. Even all-potent, price fixing Commissions cannot take the place of invention as a stimulant and a guide."

**Raise pay of ICC members and provide for retirement and disability.** The terms of the service on the Commission should attract able men. Commissioners' salaries should be raised. Generous retirement pay should be provided for commissioners, to cover old age and disability. Even the staff, down to the clerks, now enjoys such rights denied to the members of the Commission. There should be no political pressure on original appointments or on security of tenure. The commissioners should, like Federal judges, enjoy freedom from political influences and rights to pensions on retirement.

**"Allow generous returns."** So said Mr. Brandeis to the ICC in 1914. "The road should have an opportunity to earn. The managers should have ample reward for their efforts. . . . The railroads need a surplus not only to provide for the lean years but in order that there may be such stability to the investor as will induce him to buy their securities at a low rate." Again in 1907 he wrote, "Under proper conditions, a reasonable assurance of the undisturbed enjoyment of high dividends might be the best method of attaining cheap gas." High dividends will also create low rail rates.

The public utility industry has fairly stable volume of business and relatively stable earnings. Therefore, the rate of return on the net investment fluctuates but little around the 6% level. But the railroad industry suffers great fluctuations in the volume of traffic, earnings, and the rate of return. In years of declining business, it is impossible to raise rates, for the volume shrinks. In depressed years the earnings for Class I roads might go to 0 or even to a deficit. Therefore, in such a "prince and pauper" industry, **to average even only 5%, the rate of return in a good year might have to be 8% or better.** But the ICC does not allow a 5% return in good years and the industry can earn but little in poor years. **Under the present ICC policy of allowing 4.20% in boom years, bankruptcy is inevitable in the next depression.**

The principle that earnings in a boom period should be generous because railroad rates cannot be increased during a depression, was also clearly enunciated in 1937 by the ICC itself (General Rates Increases, pp. 729-730). The reason is obvious. The railroad industry is highly pyramided in its operations. Unregulated industry can curtail operations. But the railroads must serve the public and run a certain minimum number of trains, regardless of the volume of traffic. They must also maintain adequately right-of-way, structures and equipment. These are fixed costs. When volume declines slightly, profits decline greatly.

Over a period of years the railroads must average a fair return, but the ICC concentrates on trying to fix a return at each hearing. That is impossible. The railroad should average 6%, as the utilities have been allowed over a long period of years. It is shocking to think that in the greatest boom period in peace, the net return was only 1.99% in 1946 and 3.40% in 1947. The Commission should lean to the side of liberality because of the difficulty of forecasting. Rates can always be reduced if they are too high. But if they are too low, bankruptcy of the roads could result.

Commissioner Eastman in his report of January 1, 1936, made this clear: "So long as we depend on private enterprise for transportation, the carriers must have revenues which will not only cover all costs but provide profits large enough to attract capital. There is no escape from this conclusion and **even a sound system of public ownership requires earnings sufficient to cover all costs and prevent a burden on general taxation."**

**Adequate earnings are needed to make new money available at low rates.** There is also need for modernization, expansion, relieving the car shortage and to increase safety and efficiency. In an industry constantly in need of improvement and greater efficiency, the amount paid out in dividends must be relatively small, as about half the earnings are required for capital improvement. For this reason the earnings available for dividends should be liberal enough to attract new capital. Besides, with the rise of prices of materials and supplies and of wages, the cost of expansion and improvement increases and therefore higher earnings are necessary because of the low buying power of current dollars.

**Ample earnings would make possible financing by stocks rather than bonds.** Thus the percentage of bonds to total capital would decline. Good dividends would make possible rising stock prices. Then if the railroads would use convertible bonds as a financing medium, the bonds would be converted and disappear in periods of prosperity. Good earnings are necessary because the railroads have followed a very conservative dividend policy and generally have paid out less than half the earnings, except during the depressed 1930's, when earnings were scant. Besides, American railroads paid out a smaller percentage than industrial companies did. Again, American railroads paid little in dividends and improved the property, but British railroads paid liberal dividends and neglected the property.

**The utilities were granted adequate return on the investment and flourished. But the railroads received inadequate returns and languished.** The ICC should follow the precedent of the State Commissions and the Courts which have granted returns twice that allowed by the ICC.

**Government policy should integrate the approach.** Publicly regulated enterprise should follow the practice of private competitive enterprise and examine wages and rates at the same time. Let both hearings be held at the same time.

**Eliminate the lag in raising rates.** Immediately after wages are increased, give railroads the right to raise rates on short notice and let the ICC hearings be used to adjust relative differences later. But do not hold up the broad rate increases until all the details of relative rates have been adjusted. The law does not require this procedure.

In utility rate regulation, some state commissions often follow a prudent and practical course. They promptly grant the increase requested by the utility and impound the resulting proceeds, subject to final determination of the rate. Customers receive a refund if the final rates are less than requested rates. The Interstate Commerce Act in Section 15 (7) specifically authorizes the ICC to follow the same policy, of permitting a proposed rate increase to go into effect, impounding the resultant increased revenue, subject to a refund to shippers depending upon the final decision of the ICC as to rates. The ICC has not seen fit to use this authorization in any general rate increase.

**Congressional action may be necessary.** The 1940 amendments to the ICC Act provided for a National Transportation Policy. In that statute Congress specified many purposes except a fair return. Section 15-A calls for "adequate and efficient railway service at the lowest cost . . . and the need for revenue sufficient to enable the carriers to provide such service." This Section should be amended so as to specify clearly that the ICC is required by law to grant such rates as will provide adequate earnings. **The law should specify some definite return on the investment averaged throughout a complete economic cycle.** It should require the Commission to authorize a rate increase immediately upon the application of the railroad and not suspend or reduce it until after the hearings are held.

**The law would have to be revised so that increases or decreases of wages and freight rates should be handled** by the same body, or if by two bodies then at least **at the same time.** The rate increase should be automatic after wages were raised. The collapse of earnings, as in 1946, due to ICC delay should never be allowed to recur. Surely Congress has a clear duty here. Certainly the statute should prevent recurrence of the historic procedure of the ICC in refusing to allow rates to be raised even when the return was miserably inadequate. Even if the ICC allowed too high rates, the rail managers, as a matter of prudence and discretion, would not apply the maximum if it prevented traffic from moving or shifted traffic to competitors.

The approach to the rate hearings has been too legalistic—too much of historic precedents and too little of present actualities. But the law was made for man and not man for the law. The law can and should be changed. Only then will there be a realistic approach to the problem of railroad rates, earnings, and bankruptcy.

Continuance of the present rate-making policy forebodes dire ills for one million railroad investors, for private enterprise in general, and even for the ICC itself. Its abolition by statute, already mooted in some Congressional committees, is inevitable under its present rate-making policy. It must ultimately be the legislative victim of its adminstrative errors.

## Betts, Borland Admits

CHICAGO, ILL. — Robert C. MacCorkle, member of the New York Stock Exchange, will be admitted to partnership in Betts, Borland & Co., 111 South La Salle Street, Exchange member firm, on Aug. 6. Mr. MacCorkle will make his headquarters in New York City.

Interest of the late John H. Quinlan in the firm ceased on July 21.

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## Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The Presidential request for greater control over bank credit, along with testimony of Treasury Secretary Snyder and Federal Reserve officials before Congressional committees, played havoc with the Government securities markets. . . . Prices of bank eligibles in many instances went plummeting down to "pegged" levels as bids faded because what few buyers that were left in the market, withdrew to the sidelines. . . . Some minor support on the way down was supplied by those that were covering short positions. . . . Uncertainty and confusion are again rampant in the money markets, which means that confidence is at about as low an ebb as it has been in a long time. . . . Investors and traders are not going to do anything until the atmosphere clears, and no one is attempting to predict when that will take place. . . .

**Volume increased on the downside but was not excessive, although it was large enough to exercise a definitely depressing influence on prices of Treasury obligations. . . . All maturities and groups have been affected, shorts, longs, taxables, partially exempts and ineligibles, so that the market at times was not too dissimilar to what it was just prior to last Christmas Eve. . . .**

### INCREASED RESERVES LIKELY

President Truman's recommendation that the "Federal Reserve Board should have increased power to restrain inflationary bank credit," took more concrete form, when Secretary of the Treasury Snyder and Chairman McCabe, of the Fedreal Reserve Board, urged that the Board be given authority to regulate instalment credit and to increase reserve requirements of all banks by 10% on demand deposits and 4% on time deposits. . . . These new powers would expire June 30, 1950. . . . It is up to Congress now to decide whether the Federal Reserve Board should be given the restrictive measures that have been asked for. . . . Politics will be very important in what takes place in the way of additional powers for the regulatory authorities and predicting political actions is at least a very hazardous business.

**Opinions still seem to be divided (despite apparent approval by Senators Taft and Tobey and Representative Walcott) as to whether or not additional restrictive powers over bank credit will be given to the Board. . . . However, the shrewdest followers of the money markets are going along with the idea that the Congress will see fit to grant this authority. . . .**

### PSYCHOLOGICAL IMPEDIMENT

Larger reserve requirements for member banks of the System, along with higher short-term rates and an increase in the rediscount rate should have a restraining influence upon the lending policies of member institutions for a time, at least, although it cannot be completely effective as long as support levels are being maintained by the authorities on Treasury obligations. . . . However, the knowledge that the Federal Reserve Board could step up required reserves of member institutions from time to time will no doubt serve as a braker on the credit creating policies of the commercial banks. . . .

**On the other hand, if desirable loans should continue to come along there is nothing to prevent the banks from selling Government obligations and using the proceeds to meet increased reserve requirements. . . .**

### MARKET EFFECT

Supporting prices of Treasury obligations give the banks an out, so to speak, in their lending operations and the initiative for creating credit still remains with the member banks. . . . Sharply restrictive measures however, might slow up loaning so that business would be adversely effected. . . . On the other hand, it could be that the commercial banks will find it more to their liking to swap Governments for loans, and the brunt of the effect of the proposed credit limiting program of the authorities would be borne by the government bond market. . . .

**Limited action in the money markets is no cure-all for strong inflationary trends. . . . However, the inflationary forces which have been brought into the political arena may lose some of their momentum in the near future and when prices pass over the hump, as some believe they will soon, there will not be the same bally-hoo for credit controls. . . . If this should be the case, it might be that mildly restrictive measures now would be enough to tip the scales in the opposite direction. . . .**

### INVESTOR CONFIDENCE LACKING

The Government securities markets have had some wild price gyrations since the end of the war, and these can be attributed largely to the short-range stop-gap policies of the monetary authorities in their management of the huge public debt. . . . There seems to be no easy way of doing the job of keeping interest rates low and Government bond prices within limits other than by the method of supporting Treasuries when they approach levels set by the managers. . . .

**However, this has not created confidence in the minds of large holders of Government securities, because they are not convinced that support prices can be held indefinitely. . . . This feeling still persists despite statements by the money managers that the 2½% rate on long Governments will be maintained in the foreseeable future. . . . However, until such time as confidence is restored in the Government market the authorities will continue to be the only sizable buyer of Treasury obligations. . . .**

### NON-BANK SELLING

Institutional investors, principally insurance companies, continue to sell long governments to the Federal Reserve Banks with these eliminations in the last three weeks exceeding $354,000,000. . . . Savings and commercial banks also disposed of the more distant maturities in the past week. . . . However, these sales, by non-bank investors, so far have not had inflationary implications since total government security holdings of the Central Banks have decreased by more than $325,000,000 during this same three weeks period. . . . Switching from longs into shorts by investors as a whole, along with the Treasury weekly retirement of bills is responsible for the smaller government holdings by Federal.

# Economic Advisers Analyze Nation's Situation

(Continued from page 2)

problem of inflation has stood at the center of the picture. The upsurge of various elements in the price and income structure has introduced unsettling factors which are clearly incompatible with stable prosperity and increasing national security. At the very heart of sound economic policies must be the desire to help achieve greater stability and more permanently workable relationships as rapidly as possible.

"From time to time since the war, there have been brief periods when we appeared to be moving toward such stabilizing relationships. But each time this prospect was soon upset by some new factor of curtailed supply or expanded market demand which unleashed again the unsettling forces of inflation. Effective adjustment policies have been hard to devise and harder to get accepted and applied.

"We appear now to be once more at a stage of renewed instability, with many prices reaching for the easy dollars that a still undersupplied market is ready to yield; with recent and prospective wage settlements contributing to the upward process; with market demand again being stimulated by the accelerating procurement programs of foreign aid and national defense; and with continuing scarcities of numerous key materials. Tax reduction has added to consumer and business demand in the market, but it is incapable of stimulating a proportionately larger flow of goods from our already overloaded plants, fully employed labor force, and still overstrained supply lines.

"The presence of these inflationary factors does not mean that we are on the threshold of an inflationary orgy of the 'run-away' kind. While alarmists refer to our present currency as 'printing press money,' sober students do not see in the present monetary situation any real analogy with Continental and Confederate currency episodes or the more recent collapse of the currencies of numerous countries in Europe or elsewhere after both World Wars.

"Of course, the United States dollar has had its real value lowered in the course of the economic readjustments induced by World War II. And there is likelihood of a near-time restoration of that former value. But there is nothing sacred about the price marks of 1939 or 1926, and the attempt to restore them would probably create more hardship than it would alleviate.

"To be sure, we want to achieve reasonable steadiness of the dollar, although at a price level necessarily higher than in prewar times. But the process of monetary adjustment is only one ingredient, and in a sense only a byproduct, of adjusting relationships within the price-income structure so as to facilitate and maintain maximum production and employment. The practical question now is how these adjustments may be wrought, primarily in the context of the bargaining and compromising through which the parties at interest work out their rival claims in a free economy, but subject to the guiding influences of appropriate public policies.

"In this process as it is now unfolding, there are complex forces, some working to lessen and others to intensify inflationary pressures. In attempting to judge what balance these competing forces work out, we begin by examining some of the factors that reduce the pressure of inflation. Outstanding among these is the fact that, in many fields of production, the supply situation is greatly improved.

"One such development was dramatized by the Department of Agriculture crop report of July 9. It opened with these profoundly significant sentences:

" 'Crop production in 1948 promises to surpass that of the outstanding year of 1942, and the record set in 1946 . . . a record [corn] production of 3,329 million bushels is now indicated. The wheat prospect, 1,242 million bushels, is an improvement of 4% over earlier forecasts and will be the second largest crop in our history. . . . Cotton acreage is 10% larger than in 1947. . . . All-crop prospects are reported above the average of the past 10 years and as good as in 1946. Current estimates indicate an aggregate production about 128% of the 1923-32 average, compared with 123% in 1942 and 126% in 1946.'

"Despite our high degree of industrialization, the tremendous importance of agriculture cannot be overlooked. The world shortage of foods and other products of agricultural origin, continuing up to this year, has had an immense inflationary impact upon the whole price structure through the relations that farm prices have to the cost of living and to industrial wages, prices, and profits. Although the full effects will not be felt for some time, greater abundance in basic agricultural crops should be of signal aid in the checking of inflation and the progressive working out of reasonably stable relationships.

"That end would not be promoted if the enlargement in supply of farm products were to coincide with some serious curtailment of demand to produce a collapse of farmers' incomes. Such a collapse shortly after World War I spread to rural merchants and bankers, to manufacturers of farm equipment and consumer goods, and to other commodity markets. But the repetition of such a debacle today is precluded by a policy of farm income supports, implemented by procedures worked out and tested over the past 20 years, though not yet perfected.

"A second factor which should significantly work against further inflation is the increase in industrial expansion. We appear to be nearing the end of the strong impact of war-created shortages of plant and inventory. While industrial output has increased less rapidly than extremely favorable production conditions had led us to expect it, it should progressively show the effect of nearly three years of added capital investment upon a vast scale. As an enlarged and modernized industrial plant gets shaken down and its crews trained to maximum efficiency, domestic backlogs of orders will be worked down, and the increased flow of final products will permit the great demands upon the productive system to be met more easily and will ease the pressure on prices.

"These favorable factors on the physical side are reinforced by numerous indications of improved economic understanding and broader objectives on the part of those who operate our business system. It cannot fairly be said that they have rushed blindly anead in the boom spirit of past expansionary periods. A sense of caution has been attained by industrialists, merchants, and bankers with regard to inventories, credit expansion, and construction plans. Some unions have applied moderation to their wage demands, and some manufacturers and distributors have sought to hold prices against further advances or have initiated reductions, as a means of doing something positive to stem inflation.

"If international tension lessens, the lightening of both the physical and psychological impact on our economy, with its great productive potential, would sharply reduce inflationary pressure at important points. We might then rather promptly be put to the test to show whether our producers and distributors could make price and cost adjustments fast enough to continue employment and production without serious cutbacks.

"In spite of the counterinflationary factors enumerated, it remains true that inflation is still very much with us. The nature of this continued inflation has been treated in detail in the preceding sections of this report. It can be summarized briefly as three interrelated phases of one complex process.

"First, there is the fact that demand in most categories has been expanding and may expand further. Consumer demand is running high, particularly under the impact of tax reduction and wage increases. Rising residential construction and heavy investment, fed by high profits, add to business demand. Government expenditures are rising. Thus the sum total of effective demand of all types still continues to press against a supply that increases only slowly. This excess of demand may not be as general as it was when postwar shortages were at their peak. The inflationary pressure is perhaps more selective than it was, but it is still a major factor in the price situation.

"Second, the inflationary effects have been multiplied through the price-wage spiral. Developments of the last few months have had a cumulative effect of great importance at the very base of our industrial structure. The recent attempt to hold industrial wages and reduce prices of industrial goods has evaporated. Substantial wage increases, which often have been made in order to catch up with previous price increases, have been accompanied in turn or promptly followed by substantial rises in the prices in industrial goods. Production costs are still rising. and while many businesses can pass them along in higher prices, there are others that are

**The Nation's Economic Budget**
(Billions of Dollars)

| Account— | —Calendar Year 1947— | | | Calendar Year 1948, First Half, Annual Rates Seasonally Adjusted* | | |
|---|---|---|---|---|---|---|
| | Receipts | Expenditures | Excess of Receipts (+) or Expenditures (—) | Receipts | Expenditures | Excess of Receipts (+) or Expenditures (—) |
| Consumers: | | | | | | |
| Disposable income | 173.6 | ---- | ---- | 186.0 | ---- | ---- |
| Expenditures | ---- | 164.8 | ---- | ---- | 174.4 | ---- |
| Saving (+) | ---- | ---- | +8.8 | ---- | ---- | +11.6 |
| Business: | | | | | | |
| Undistributed profits and reserves | 19.4 | ---- | ---- | 21.4 | ---- | ---- |
| Gross private domestic invest. | ---- | 30.0 | ---- | ---- | 37.2 | ---- |
| Excess of receipts (+) or investment (—) | ---- | ---- | —10.6 | ---- | ---- | —15.8 |
| International: | | | | | | |
| Net foreign investment | ---- | 8.9 | ---- | ---- | 3.9 | ---- |
| Exess of receipts (+) or investment (—) | ---- | ---- | —8.9 | ---- | ---- | —3.9 |
| Govt. (Federal, State and local): | | | | | | |
| Cash receipts from the public | 59.9 | ---- | ---- | 64.0 | ---- | ---- |
| Cash payments to the public | ---- | 53.2 | ---- | ---- | 52.0 | ---- |
| Excess of receipts (+) or payments (—) | ---- | ---- | +6.7 | ---- | ---- | +12.0 |
| Adjustments | —21.3 | —25.2 | +3.9 | —24.9 | —21.1 | —3.8 |
| Total gross national product | 231.6 | 231.6 | 0 | 246.5 | 246.5 | 0 |

*Estimates based on incomplete data.

NOTE—Detail will not necessarily add to totals because of rounding.

Source: See appendix A for sources and explanatory material.

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obviously squeezed. Capacity to pay for high-priced material is not necessarily distributing them in the way most consonant with economic efficiency. Railroad freight and passenger rates have been materially increased, and utilities in many instances have been granted advances by public utility commissions while others have requests for such advances pending. This upward movement of prices is linked on the one side to the third round of wage increases and linked on the other to active talk of a fourth round.

"The rising cost of living is imposing intense hardship upon millions of individuals who are not strategically located to participate in the upward movement. Meat prices continue to rise, while the prospectively large supply of grain will have little power to enlarge the supply of meat throughout the remainder of this year and indeed may operate somewhat to reduce it. While improved grain stocks next year will have important effects on the prices of livestock products, they cannot in the immediate future counteract the strong inflationary forces which control our markets.

"Third, credit expansion, partly a cause and partly a result of inflation, still persists. The spiraling increase in prices and wages can continue only so long as business can replenish its working capital from bank credit or through the conversion of liquid assets.

"Almost as significant in its disturbing effect as the statistically demonstrable evidences of inflation is the persistent uneasiness which it breeds, an uneasiness which could expand into a profoundly disruptive force if it is not removed by dealing with the specific factors which are its causes. The deep significance and reality of this uneasiness in the presence of inflation was clearly illustrated by the conditions surrounding the break in commodity prices early in 1948. A tremor of uncertainty, even of fear, ran through the whole economy, and for a short time there were many who thought that we were close to a serious and general downturn in employment production.

"Fortunately, that particular break turned out to be corrective rather than disastrous. But this should not blind us to the fact that there were special circumstances, already referred to, which isolated its significance and which could not be counted upon to protect us under other circumstances. Besides the farm price-support program, which gave assurance to the business community at large, the break was shortly followed by other events in the economy which fortified optimistic business sentiment.

"But we cannot ignore the prospect that unworkable relationship in the price structure, necessarily the outgrowth of unconquered inflation, may lead to a break in some other sector of the economy where the consequences would not thus be isolated. If attendant developments which cannot be foreseen did not serve substantially to counteract it, this break well might carry our highly sensitive economy into a general recession of serious proportions.

"In short, we have this very year had a significant warning while there has still been opportunity to act in time. Far from being satisfied because the lack of action thus far taken has not yet reaped the ultimate consequences of inflation, we should profit by this warning and vigorously seize the additional grant of time that circumstances have accorded to us. The most dangerous error that could overtake us as a nation would be to assume that the problem has disappeared, or that our efforts should be abated because we have thus far avoided serious reverses or because the basic conditions for continued prosperity appear to be sound. It is typical for inflationary and speculative booms to collapse while business sentiment is still confident.

"It is not enough to be satisfied with quick and crude adjustments by which our economy can 'get by' from month to month or year to year, still under the momentum of forces engendered during the four-year war period. No one can foretell precisely when some event or series of events might touch off a change in the economic situation more rapidly than we were prepared to deal with it. It is of ever-increasing importance that the policies and actions of private business, labor, agriculture, and government should move toward economically sound relationships so that the postwar boom may be succeeded by a sustained prosperity based on the maximum reasonable use of our productive resources.

"In the Employment Act of 1946 the Congress declared the continuing policy of the government to 'coordinate and utilize all its plans, functions, and resources' to bring about and maintain maximum production and employment and to preserve and strengthen our economy of free competitive enterprise. This plan of action requires that we shall always look to the independent factors in our business world to adjust their policies so intelligently that the imbalances which are inevitable in our highly dynamic economy shall be temporary and shall not accumulate until they destroy business stability.

"The role of the government as contemplated in the Employment Act ordinarily is to develop its own activities and organize the policies which affect business in such a way as to facilitate these needed voluntary adjustments. But if economic maladjustments become so serious that the voluntary action is clearly inadequate to halt threatening trends in the economy, the power of government must be used where the President and the Congress deem necessary to forestall serious damage to the public interest.

"The comprehensive wartime controls over business were rapidly removed after the close of hostilities. Voluntary action has been increasingly relied upon to maintain business activity at a high level without permitting serious maladjustments to arise. The files of our business journals show that wide attention has been given to the desirability as well as the need for every business firm to adjust its own policies so that it may contribute its share to stabilization. The attitude and effort of thousands of less conspicuous firms deserve to be recognized along with the better publicized actions of a few of our most important business corporations which have held down or actually reduced prices in a boom market for the express purpose of furnishing leadership in an effort to halt the inflationary movement.

"The same attitude has been exhibited by a large number of the most important leaders of organized labor, who have earnestly and with some success postponed or moderated the urgent demands of members of their labor unions for wage increases to meet the rising cost of living. Farmers have frankly expressed their uneasiness about the situation which was being created by rising prices even though they have been beneficiaries thereof, but the nature of this industry gives them little opportunity to take positive measures. Consumers have reserved large amounts of their savings bonds and, despite the pressure of high prices, have made large annual additions to current savings.

"While this spreading sense of responsibility and of caution promises much for the success of our economy in meeting problems of adjustment in the future, the forces with which we now contend have proved to be too strong for the countervailing efforts of individual factors in the business world. The workers have seen the cost of living continue to mount, and to them it seems that any restraint they have shown has only brought them sacrifice without corresponding benefits to the public. The business firms which have held down their prices can only feel that they have permitted others to increase their profits, and they have not halted the inflation.

"A real difficulty with the wholly voluntary solution is that it requires simultaneous action by workers, businessmen, and consumers. But no individual or group can have firm assurance that the inflation will be stopped. It is therefore necessary that the government should have and use powers in the interest of economic stability, to supplement the strength of individual actions, to give them common direction, and to prevent their dissipation through mutual conflict of purpose. Only with the support of wise and vigorous government action can the effectiveness of voluntary actions be assured."

# The Special Session and Prices

(Continued from page 4)

up the prices of building materials and homes.

In 1947, we exported $11 billion more goods than we imported. If we let foreigners come in here and buy huge amounts of American goods without their being able to produce goods to furnish to us, of course that foreign demand forces up prices. This year the excess of exports will be between $7 and $8 billion.

The President insists on expenditures of nearly $40 billion a year, and nearly all of this money finds its way into the markets to help force up prices.

The government tax burden is more than $40 billion a year, and many businesses and individuals today are able to pass on those taxes into the price of the goods that the housewife buys. When you buy a pair of shoes, you pay some of the taxes of the farmer, the feeder of the cattle, of the packer, of the hide processor, of the shoe manufacturer and the shoe retailer. The consumer finally pays. Probably 25% of the price you pay for manufactured goods represents taxes.

These are the causes of inflation and while we go on creating money and increased buying, we cannot be surprised at higher prices. Each of the programs has merit. None perhaps can be wholly eliminated. But if we don't want high prices we will have to cut all of these programs in a reasonable proportion.

The President has power to cut many public expenses. He has never shown the slighest interest in economy of any kind. I have yet to see the project for spending money which he has not endorsed. He wants to increase taxes, and three times vetoed our tax-reduction bills. The Federal Reserve Board has power by raising the re-discount rate and limiting its purchases of government bonds to force a reduction in bank loans. In fact, its power is so great that the danger is, if it were carelessly, used, it might not only reduce all prices, but precipitate a depression.

The President does not lack power to reduce prices. The fact is he doesn't want to reduce prices, certainly not before the election. He wants votes from the farmers for high farm prices. He wants votes from the workmen for high wages.

We will look over the field and see whether any other reasonable powers can be given him by which he can restrain the expansion of credit, but I feel quite confident he will never use them before November. Fortunately bountiful crops have already reduced the price of corn, wheat and other grains, which is bound to be reflected in a lower price for food. Otherwise the only hope for lower prices lies in getting rid of administration inspired by the New Deal philosophy of spending and spending, and taxing and taxing.

### Price Controls Won't Work

The President tries to blame high prices on the Republicans because they have refused to restore to him power to fix prices, fix wages, allocate and ration commodities. In October 1947, the President said that such controls were police state methods. He was right they would mean the end of economic freedom in this country. The President wants to re-establish OPA, WPB and all the wartime agencies. He represents that he only wants these powers for standby purposes, and that they will be sparingly used only with relation to vital commodities in short supply. This Congress has learned that when powers are once granted to a left-wing Administrator they are freely used. If there is one thing we learned from OPA in the war, it is that you can't do price control partially. Every important commodity is interrelated. You can't fix the price of meat unless you fix the price of corn and wheat and chickens and dairy products. Once you start to fix prices, you have to regulate every detail of every sale transaction. This Congress certainly is not going to grant powers on the theory that they won't be used.

### Objections to Price Controls

Apart from the destruction of liberty, there are three practical objections to adopting police state methods:

(1) They choke production instead of increasing it. What we want is more production to give people what they need at reasonable prices. Surely, the memory of the American people is not so short they can't remember OPA after the war. The housewife couldn't buy any butter, any meat, any soap or canned goods. No man could find a white shirt or a new suit. There was no leather because of the black market slaughtering of beef, and no shoes. There wasn't any lumber or building materials, except in the black market, and none of them came back until we got rid of OPA. The English have complete price control and rationing, but they haven't got enough to live on. They have no incentive to get production, and they rely on American aid for a standard of living far below our own. Many countries in the world have controls. In all of them incentive to produce has vanished.

(2) In the second place, nobody knows enough to do the job of control as well as it is done by natural economic law. There are probably a billion transactions a day in this country, and no one knows enough to fix the prices and conditions to govern those sales. I saw the little men who struggled with the problem in the OPA bureaus. They created books and books of regulations and had to amend them daily. If their rules fitted the East, they didn't fit the West or the South and there was no relief from bungling and injustice.

(3) Price control and rationing won't work in America in time of peace. In time of war a morale develops which makes it possible to maintain some control, but once peace came, remember the black markets which existed here? 80% of the meat was in the black market. There was no lumber in the lumber yards, but millions of feet on black market trucks. The American people don't like to be regimented and they don't like to be ordered around by Federal officials. Morals are broken down, because it pays to be a criminal. The moment the government fixes the price of corn at less than its natural price, most of it goes into the black market.

Price control won't work. Surely, the President's memory must be short. He took off price controls, not the Republicans. Let's remember what really happened. July 1, 1946, Republicans renewed price control powers with various modifications designed to increase production and the provision that they should be gradually relaxed. The President vetoed the bill, resulting in the complete removal of control for a period of 30 days. By the time the Congress could enact another bill—and remember this was a Democratic Congress—it was almost impossible to re-impose controls on basic agriculaural products. The President's own De-control Board then removed controls on dairy products and grain. The attempt to control meat was such a fiasco that the President himself took off these controls just before the 1946 election, because he was told that no Democratic Congressman could be elected if they remained in effect. Then after the election, it was the President himself who took off almost all other controls before the first Republican Congress in 14 years could even meet. He could have reimposed controls at any time up to July 1, 1947. He did not do so, and did not ask for a renewal of his powers. Can he sincerely believe that the government could now enforce the controls he is asking for without a vast army of enforcement agents; or even with such an army? He knows that no reasonable man would give him such power, and personally I believe he is only asking for it because he knows it will not be granted. The President's adoption of this police state program represents a complete surrender to politics, and to the left-wing which is so tempted to stray away to the support of Henry Wallace.

The policies of the Administration have caused inflation. An Administration which has been in power for 16 years cannot escape the results of its own action. It has the powers to check inflation today—we may grant additional powers—but the only real recourse of the people against inflation is at the election on Nov. 4.

## John W. Ayres With Scott, Horner, Mason

LYNCHBURG, VA. — Scott, Horner & Mason, Inc., Krise Building, announce that John W. Ayres is now associated with them in the sales department of their Richmond office, 12 North Eighth Street. Mr. Ayres was formerly with C. F. Cassell & Co. of Charlottesville.

## Bonds of City of Brisbane Drawn for Redemption

Holders of 30-year sinking fund 5% gold bonds due Mar. 1, 1957, of the City of Brisbane are being notified that $50,000 principal amount of these bonds have been drawn by lot for redemption on Sept. 1, 1948, at par. The bonds will be redeemed at the head office of The National City Bank of New York.

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# As We See It

(Continued from first page)

**opinions may well differ—and about which no opinion now held may prove to be fully accurate—but it would be nonsense to suppose that any of the strange admixtures of economic quackery and contradiction has banished the business ups and downs long familiar, or that any program or programs likely to be formulated by the amateurs, or, for that matter, the professionals, may reasonably be expected to do so. The notion that the next depression must bring the horrible consequences now described by the President is, fortunately, however, quite without foundation in fact. One might as well solemnly assert that mankind will shortly and certainly go to the damnation bow-wows unless each human being from this day onwards has a slice of the moon for his or her dinner—a diet never known to human beings and still wholly unavailable to them.**

### Must Be Exposed

But in the existing circumstances it would probably not be the part of wisdom to dismiss the President's recent pleas with such a generalization, however evident its validity may be to the matriculate. The Chief Executive is obviously addressing himself to the great rank and file, many if not most of them unaccustomed to broad economic analysis of cause and effect and not well acquainted with economic history. He is, moreover, addressing an audience rendered all too receptive to quack suggestions by the increasing burden of the cost of living and the "education" inflicted upon them under the leadership of President Roosevelt over a period of a dozen or more years.

**Let us therefore examine the Truman proposals with rather more care than their inherent content would suggest they are worth the time and space required. Of the eight "points" of the anti-inflation program, seven of them are demands for controls or for authority to impose controls. The one exception takes the form of a demand for reinstatement of the excess profits tax on corporations. It is a little difficult, at this time, to regard this proposal as other than purely political. Corporate profits — now more or less regularly overstated in current estimates — have long been a source of complaint by many politically powerful groups which have not hesitated "again and again and again" to associate them with the high cost of living, despite the fact that high and constantly rising wages (never connected with the high cost of living by these observers) are much more directly related. Anyhow, the "corporations" are generally regarded as profitable political targets.**

### What of EPT?

But, politics aside, what could reasonably be expected of a return to the wartime excess profits tax arrangement, or something approaching it? Of course, any complete answer to such a question would depend upon much information which is not at this moment available, but certain elementary conclusions may be safely drawn and they will suffice to condemn the proposal in toto. The satisfaction of future demands in the modern complex economic system depends peculiarly upon preparations today for production tomorrow. That is to say if the production of the good things of life is to keep pace with population growth, to say nothing of satisfying new or expanded per capita demands, a substantial part of current output must at all times be devoted to the enlargement of plant and facilities. This is particularly true in a day and generation when the workman demands more and more for less and less effort on his part. In these circumstances, it becomes absolutely essential that industry be more and more mechanized to save that most expensive of all items, human effort.

**Now, a very important part of the growth of plant has historically, particularly in this country, been made possible by retaining profits and investing them for this purpose. In the years since the end of World War II, this proportion has been exceptionally great. For this there are several reasons—most of which come down in final analysis to the simple fact that the required funds could not be readily obtained from any other source. The wealthy individual (often termed the capitalist) is largely out of the picture for the simple reason that, when he is through paying his taxes, he has little or nothing left. Due to the fact that the reformers in Washington have so shackled the securities markets that they can no longer function as once they did, and in part to the uncertainties involved in all the quackery clearly in evidence even when slightly below the surface in Washington, it has for years been difficult if not impossible for corporations to go to the general public for equity funds. Conditions generally have scarcely warranted substantial enlargement of fixed charges.**

In these circumstances, the taxing away of corporate profits on the scale apparently now proposed could scarcely be other than severely damaging to the economy. Such a conclusion, so it seems to us, is fully warranted quite regardless of whether the funds so taken in taxes are employed by the Federal Government in such a way as to enhance effective demand for consumer goods (as may well be); for public works either "self-liquidating" or not; or merely taken out of existence by retirement of Federal debt held by the Reserve banks. Perhaps it could not reasonably be expected that the President give any clear indication at this point as to what he would do with the funds — or, for that matter, to give evidence of any understanding of the real consequences of such a proposal would be.

### As for the Rest!

The remainder of the President's anti-inflation program —which, according to him, must be given effect if the world is to be saved—consist of familiar (and we had supposed for the most part thoroughly discredited) controls. All the old notions of "ceilings" (on prices if not in full degree on wages), of "roll-backs," of rationing, of "allocations," of more rigorous rent controls, and the rest are paraded with such old-time protagonists (or should we say antagonists as Paul Porter) formulating proposals and defnding them before Congress—where, as is well known, they are not particularly popular.

**Two requested controls, or authority to control, deserve special attention, perhaps. One of these is the demand for the wartime control on consumer borrowing, and the other asks for further power for the Federal Reserve over its member banks. As for the former, it appears scarcely consonant with the constantly reiterated complaint that the consumer buying power is too low, and as for the latter it is obvious enough that the Federal Reserve authorities have all the power they need to force retrenchment by merely selling Treasury obligations.**

**This program of the President's is a strange conglomeration of nonsense.**

# McCabe's Views on Credit Curbs

(Continued from page 3)

The rapid expansion of the money supply which resulted from their contributions must not be permitted to rise and plague them as if they had cunningly contrived it for their own selfish ends.

Nevertheless, as a net result of war financing, there were increases in the public's holdings of demand deposits and currency from less than $40 billion in 1940 to $110 billion at present; of time deposits from less than $30 billion to nearly $60 billion; of United States Government securities, which are readily convertible into money, from a few billion to over $90 billion. The total supply of these forms of money and potential money is now more than three times the prewar total.

The productive capacity of the nation was largely devoted to war purposes for almost five years. At the peak more than 50% of our record production was for war use. While 140 million people were coming into possession of more money than any people had ever had to spend and save, there was a scarcity of things to spend it for. Consequently two great backlogs rapidly accumulated—a backlog of unfilled wants and a backlog of money savings. With removal of controls this pent-up spending power plus an unprecedented volume of current income were turned loose in a market characterized by scarcities and shortages. Prices rose rapidly. Pressure on wages quickly ensued and the spiral of price-wage inflation was on its way. At present total physical production of all goods and services is probably not over two-thirds greater than at the prewar maximum, while prices have risen by about three-fourths.

### Pnblic Debt Holdings Provide Basis for Postwar Credit Expansion

In helping to finance the government's large war expenditures and to provide the money supply demanded by the expanding and abnormal war economy, the commercial banks of the country and also the Federal Reserve Banks greatly expanded their holdings of government securities. Commercial bank holdings of government securities of all types increased from about $16 billion in 1940 to a peak of $90 billion at the end of 1945 and then were reduced during 1946 to $70 billion, largely by Treasury use of its excess bank deposits to retire debt. To meet the demands of rapidly expanding private economy in the postwar period banks have further reduced their holdings of government securities but they still hold $65,000,000,000 of them. Other investors have also sold or redeemed some of the holdings of government securities in order to obtain funds for other uses.

Sales of U. S. Government securities in the market by banks and others have not been absorbed by purchases on the part of other investors. In order to keep the prices of government securities from declining, the Federal Reserve System has continued to carry out its wartime responsibility of supporting the market by buying at relatively stable prices securities offered for sale and not purchased by others. The result of these purchases by the Federal Reserve banks is to supply additional reserve funds to banks. Because of the fractional system of reserve requirements, these new reserves in turn provide the basis for an increase in bank credit that may be many times the amount of new reserves obtained.

In the postwar period these reserves supplied the basis for an increase in bank credit in response to an active demand for loans to finance the operations and expansion of the business system in an era of high demand, accelerated activity, rising costs, and rising prices. There is ample evidence that bank credit is also being used for purposes ordinarily served by the capital market. As a result, despite a reduction of $25 billion in the volume of government securities held by commercial banks, deposits and currency held by the public have increased by $15 billion since the end of 1945. This has been largely the result of an increase of $15 billion in bank loans. The Board of Governors has kept the Congress and the public informed concerning these results of supporting the market for government securities. It has repeatedly pointed out that the effect has been to increase significantly, and it may be dangerously, the money supply.

### Policies Adopted to Restrain Inflationary Credit Expansion

The Federal Reserve System and the Treasury have adopted policies designed to offset the expansive effect on bank reserves of market purchases of government securities by the Federal Reserve System. The first and quantitatively more effective of these measures has been the use of the Treasury surplus to retire maturing securities, particularly those held by the Federal Reserve banks. The debt retirement program was made possible first by a large cash balance built up by the Treasury in the Victory Loan drive in 1945 and later by a substantial surplus of cash receipts over expenditures. In paying out a large part of the excess cash collected from the public to the Federal Reserve for retirement of debt, that amount of money was eliminated from the money supply and also from bank reserves.

As a second measure of restraint, about a year ago the Federal Reserve and the Treasury embarked upon a program of permitting yield rates on short-term government securities to rise from the very low levels at which they had been pegged during the war. The purpose of this action was to encourage banks and others to invest available funds in short-term securities. This enabled the Federal Reserve to reduce its holdings of short-term securities and thus offset the effect on reserves of its purchases of longer term bonds. The rate on 90-day Treasury bills rose from 3/8 of 1% to about 1%, and that on one-year Treasury certificates from 7/8 to 1 1/8%. Late in 1947, market yields on government bonds also rose, i.e., prices of bonds declined in the market. This adjustment was in large part inaugurated by sales by financial institutions to obtain funds to invest in corporate securities and mortgages, but it was accelerated by sales made in fear of further declines in prices of bonds, which had been selling at substantial premiums. In order to check this decline, the System adopted a policy of freely purchasing bonds at an established series of prices, which maintained yields in accordance with a pattern ranging from 1 1/8% for one-year issues to 2 1/2% for the longest-term bonds.

It may be of interest to review credit developments and the effects of these policies during the past 12 months. In the year ending June 30, 1948, as shown on the charts, commercial banks showed a small increase in their deposits and their total loans and investments, although there were some wide fluctuations during the period. In the 12 months, commercial banks increased their total loans and their holdings of corporate and state and local government securities by a total of $7 billion. Most of this growth occurred in the latter half of 1947 and was accompanied by an expansion in bank deposits and reserves. In the early months of 1948, however, deposits were withdrawn to make seasonal heavy tax payments, which were not offset by Treasury expenditures. Banks met the drain by reducing their holdings of Treasury bonds.

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Some maturing bonds were exchanged for certificates or notes and a part of these issues were sold. At the same time banks in general purchased added amounts of Treasury bills, an indication of the effect of the higher short-term rates in attracting available funds.

Banks also continued to increase their loans in the first half of 1948, by about $1.7 billion, although at a somewhat slower rate of growth than in 1947. Most of the dollar increase in bank loans during 1947, particularly in the last half, was in commercial and industrial loans, but the increases in consumer loans and real estate loans showed larger percentages in 1947 and have continued to expand in 1948.

Savings institutions, particularly insurance companies, also considerably expanded their holdings of mortgages and investments other than United States Government securities during the past year. In the aggregate, these assets of selected groups of financial institutions increased by $8.6 billion in the period, of which $6.4 billion was met by receipts of new savings from the public and $2.2 billion by a reduction in their holdings of government securities. Non-bank investors, as a group, sold and redeemed bonds, but purchased certificates and bills, reflecting increased popularity of these issues with the rise in rates. Another chart shows how life insurance companies substantially increased their holdings of government securities during the war and then in the postwar period reduced these holdings while increasing their mortgages and other investments.

Sales of Treasury bonds by non-bank investors and by banks in the past year have been largely purchased by the Federal Reserve System. The System purchased $5.7 billion of Treasury bonds in the market and also purchased in the market a net amount of about $2.6 billion of notes and certificates, but sold on balance nearly $4 billion of bills to banks and other investors. In the same period the Treasury redeemed for cash about $5 billion of maturing issues of various kinds held by the Federal Reserve banks. With all of these wide shifts in holdings of different types of securities, there was only a small net decline in the System's aggregate holdings of government securities, although the total fluctuated considerably from time to time.

The purpose of this detailed survey of figures is to illustrate how shifts in holdings of the public debt are being used to finance inflationary spending, and how Federal Reserve and Treasury policies endeavored to offset these tendencies. Treasury use of surplus funds to retire securities held by the Federal Reserve drains reserves from banks and makes it necessary for them to sell securities if they wish to maintain their loans, and even more so if they want to expand credit. The higher rate on Treasury bills encourages banks and other holders of liquid funds to buy bills rather than invest in other assets. Since most of the bills have been held by the Federal Reserve, a reduction in System holdings is made possible and bank reserves are thereby absorbed. Nevertheless, sales of bonds to the Federal Reserve, primarily by non-bank investors, have been so large that the restrictive effect of the other policies has been fully offset.

It should be mentioned that bank reserves have also been supplied in the past year by an inflow of gold amounting to $2.2 billion and also by a decline of about half a billion in currency in circulation. A temporary increase of $1.3 billion in Treasury deposits at the Federal Reserve offset in part these factors. The total growth in reserves was $1.4 billion, sufficient to cover increases of about a billion dollars in reserve requirements at central reserve city banks in New York and Chicago, as well as increased requirements resulting from deposit growth.

**Prospective Demands for Credit**

Economic prospects indicate a continuation of strong inflationary pressures during the next several months and perhaps for a much longer period. Individual incomes have continued at a high level, with a tendency to increase as prices and wages have risen and employment has grown with the labor force. Consumer spending, based on current incomes, the use of past savings, and borrowing also has continued to expand. Construction volumes seem likely to remain for a while at capacity levels, with possible further rises in prices. Business expenditures are also expected to continue in large volume. Government expenditures are increasing, while the recent income tax reduction will lower receipts.

Continuation of these tendencies will call forth further credit expansion. Borrowing by consumers and homeowners will no doubt continue to expand and thereby add to consumer spending and to demands for housing, which are already excessive. Prospective large outlays by business for expansion of inventories and plants will probably exceed internal funds available and also amounts obtained by flotation of new securities. Overall demands for funds may continue in excess of the current volume of savings readily available for lending for such purposes. To help meet the demands for credit and capital, corporations, individuals, and financial institutions will sell some of their holdings of government securities and also increase their borrowings from banks.

If these tendencies continue, sales of government securities by non-bank investors may exceed $1.5 billion in the last half of 1948 and perhaps be much greater early in 1949. These sales will keep the government bond market under pressure and require support purchases by the Federal Reserve, if the policy of maintaining the 2½% yield level on long-term Treasury bonds is continued. Thus additional reserve funds would be made available to banks which, unless otherwise offset, could sustain a further very large inflationary expansion of bank credit. Additional reserves supplied through the gold inflow may be approximately offset by the drain resulting from seasonal currency demands.

To avoid an abundance of reserves, an easy short-term money market, and continued inflationary credit expansion, positive measures to absorb reserves will be needed. In view of the pressure of current demands, the continued shortages of many goods, the limited capacity for increased output, and the available accumulations of liquid assets, further credit expansion will add to the pressure for rising prices. Continued credit expansion will store up trouble for the future and make the inevitable adjustment more dangerous for the stability of the economy.

This course of economic and monetary developments has been the source of increasing concern to the Federal Reserve authorities. We are convinced that, so long as the present situation lasts, it is important to restrict further credit expansion and to promote a psychology of restraint on the part of both borrowers and lenders. To keep the reserve position of banks under pressure and discourage further inflationary credit expansion will require carefully coordinated operating measures on the part of both the Treasury and the Federal Reserve System.

Of the two sets of measures used to restrain the growth of bank reserves during the past year —namely (1) use of the Treasury cash surplus to retire Federal Reserve-held securities and (2) reduction in Federal Reserve holdings of Treasury bills through a rise in short-term rates—the first has been greatly reduced in its potency. Whereas the Treasury showed an excess of cash income over cash outgo of $9 billion in the fiscal year 1947-48, the prospects for the current year on the basis of very tentative and unofficial estimates are for a cash surplus of only about $3 billion. This difference reduces considerably the most important anti-inflationary influence in the situation during the past year.

The Treasury cash surplus was a particularly effective device because it exercised a drain on bank reserves. As a result the banks losing reserves had to sell securities in order to maintain their reserve positions. While under these pressures they are less likely to be seeking new loans and in some cases less willing to meet loan applications.

This brings us to the various ways in which restraint may be exercised over credit expansion.

The first means is voluntary self restraint on the part of borrowers and lenders. I am convinced that the voluntary program originated and actively developed by the American Bankers Association has had a significant effect in developing a more cautious and critical attitude on the part of bankers toward so-called unproductive or speculative loans. If inflationary pressures were mild, voluntary restraint might be adequate to hold them in check. Continued and intensified voluntary restraint will make our joint task easier.

There are a number of reasons, however, why voluntary restraint cannot be expected to do the whole job alone when inflationary pressures are as strong as they are at the present time. Perhaps the most important reason is that a loan which may appear productive when viewed by itself may not add to the total output of the economy as a whole. For example, a customer may increase his production by borrowing funds to purchase needed parts that are in short supply. Such a loan would appear to be productive from the individual point of view of both the borrower and the lender. But will the loan increase the supply of the parts or total output? If all resources are being used to capacity, the loan may merely enable the borrower to secure parts that otherwise would have been bought by another firm. From the point of view of the economy as a whole, the loan has increased the demand for goods but it may not have increased total supply at all. Basically, that is why I believe that self-restraint, though important, is inadequate to check a strong inflationary development.

Another reason is the force of competition not only among banks but among all lenders. We have in the United States not only 14,000 commercial banks but also many thousands of other lending agencies. Because of concern for the general interest a bank may refuse to lend even to a good customer. This does not mean that the customer will not secure the funds. It may merely result in a permanent loss of the customer to the bank. And unfortunately the new lender may secure the funds from sale of government securities, with the result that the loan may be just as inflationary as if the bank had made it in the first instance.

I want to emphasize that I support strongly the self-restraint program developed by the American Bankers Association and would like to see it pursued aggressively, not only by banks but by all lenders. It is an important step in the right direction. Primarily for the reasons I have mentioned, however, I do not think it can do the job alone.

Another approach to the problem is through control over member bank reserves. Bank credit cannot expand unless banks acquire or have reserves on which to expand. One way in which the System has supplied reserves has been through purchases of long-term government securities. A means of restraint would be for the System to limit its purchases of such securities either by refusal to buy or by reducing its prices sufficiently to attract other purchasers. As you know, the System has made a public commitment to support the 2½% yield level on long-term government bonds for the foreseeable future. I gave my reasons for subscribing to that commitment when my confirmation was under consideration by the Senate Committee on Banking and Currency. Although that commitment substantially limits our freedom of action, I believe there is a better way to operate against credit expansion than now to abandon that commitment.

Our basic problem is to absorb reserves. Increases in reserves may be anticipated from three principal sources: (1) imports of gold, (2) return of currency from circulation, and (3) purchases of government securities by the Federal Reserve banks to support the long-term yield level. The principal problem before the System is to absorb or offset reserves arising from these sources. The only way it could do this effectively under present authority is to liquidate part of its holdings of government securities. It would be necessary, of course, to sell them at prices the market would pay. The System has a large portfolio of bills, certificates, and other short maturities that it could use. If the inflationary demand for bank credit is strong, use of these holdings to absorb reserves would result in a further stiffening of short-term interest rates.

The Open Market Committee of the Federal Reserve System feel that a rise in short-term rates is a necessary and desirable step. An increase in the short rate would tend to attract funds from other uses to investment in short-term government securities. The policy of allowing short-term rates to rise was begun about a year ago and has had some success.

At this point the necessity for teamwork between the Treasury and the Federal Reserve becomes apparent. I am keenly sensitive to the necessities of the Treasury in its task of managing the public debt. I thoroughly understand the Treasury's responsibility to keep the interest cost of the debt as low as possible consistent with all relevant factors. I know that the Treasury Department is equally sensitive to the responsibilities of the Federal Reserve in the field of monetary and credit policy. The problems of mutual concern to the Treasury and the Reserve System in their respective field are being approached in a continued spirit of cooperation.

The rediscount rate is another instrument of policy in the short-term market. Although its effectiveness is diminished in times like these when the volume of member bank borrowings is small, it should not be written off. If, for example, the yield on short-term Governments rises, it might become appropriate under these circumstances to increase the discount rate. This action would discourage the market from reacquiring through the discount window the funds that had been withdrawn through the disposal by the Reserve System of short-term Governments. An increase in the discount rate has great psychological effect. Each increase repeats the warning that credit is in need of continued restraint. Changes in the rate and open market operations supplement each other as necessary parts of an over-all credit policy.

These two related instruments influence the volume of reserves of member banks. The third general instrument—reserve requirements—is designed to influence the amount of bank credit that can be based on a given volume of reserves. An increase in requirements immobilizes reserves and makes them unavailable for further lending and investing. As you know, the Board of Governors has presented various ways of dealing with the problem of reserves or immobilizing certain bank assets.

The method proposed in the bill before you is simple and direct, and involves no departures from existing principles. The bill would increase by 10 and 4 percentage points the reserves that member banks may be required to maintain against their demand and time deposits, respectively. The authorization would be granted for a period of two years. We feel deeply that it is not fair to member banks in their competitive relations with non-member banks to require that they be singled out to carry the additional reserves that may be necessary to combat this inflationary situation. The Congress might well find it desirable during this interval to reconsider the whole structure of reserve requirements, possibly along the lines developed recently before the Joint Committee on the Economic Report.

I should like to indicate briefly what can and cannot be accomplished through increase reserve requirements. Changes in requirements cannot, of course, be considered in isolation. They must be related to other instruments of policy. In practice they are closely related to open market operations. One method that banks use to adjust their positions to the pressure exerted by an increase in requirements is to sell Government securities. To the extent that these are purchased by the Federal Reserve, new reserves are created which meet the higher requirements. This is not the whole story, nor does it happen invariably, but it does illustrate the complexity of our problem. An increase in requirements, of course, reduces the multiple credit expansion ratio as well as the liquidity of banks. Even when the Federal Reserve creates new reserves, it has a greater volume of securities available for sale. The extent to which it could use them, however, involves similar considerations to those arising in connection with disposals from the present portfolio, namely, the price at which they could be liquidated.

In other words, the purpose of increasing authority over reserve requirements is not to obviate the possible need for increasing short-term rates. That problem would still be with us.

The basic purpose of increasing the authority over reserve requirements would be to enable the System to acquire more—if necessary many more—long-term Government securities to maintain the long-term yield level. New reserves created by such System purchases—or in other ways—could be absorbed through increases in reserve requirements and thus be made unavailable for multiple credit expansion.

**Summary of Reserve Board's Views**

*Subsequent to making the foregoing remarks, Chairman McCabe appeared on August 2, before the House Banking and Currency Committee, and after repeating many of the above statements summarized the Federal Reserve Board's views as follows:*

In conclusion, I should like to state emphatically the Board's view that the use of its powers over the supply of reserves under present conditions should be directed toward restraining further credit expansion and not toward forcing liquidation of the outstanding volume of credit. The Federal Reserve System was established to provide for flexibility in our monetary system. It was not designed to make available

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# McCabe's Views On Credit Curbs

(Continued from page 29)

any amount of money that borrowers might demand without regard to the productive capacity of the economy and the speculative nature of the commitments. The System would be derelict in its duty if it did not exercise a proper measure of restraint.

Expansion of the public debt because of war and the necessity of maintaining a degree of stability in the value of the vast holdings of that debt by financial institutions and individuals has confronted the System with formidable difficulties in the exercise of restraint over credit expansion. The proper handling of this problem requires the most careful management. It can be facilitated by the extension of the System's powers, as proposed in the bill before you, which extension is thoroughly consistent with existing powers and traditional methods.

As I have pointed out, there are possibilities and prospects for a continuation of inflationary pressures which will call forth additional demands for credit. I feel confident that the Federal Reserve authorities will use their existing powers to the fullest extent possible to restrain these tendencies without depriving the economy of the credit needed to maintain production and employment at the highest sustainable levels. We would endeavor to use the additional powers proposed in the same way.

Finally, it should be emphasized as strongly as possible that action in the monetary field alone cannot readjust the unbalanced relationships within the economic structure which have already been created by inflationary forces, and cannot check further inflationary pressures arising from non-monetary causes.

The additional powers sought would enable the Reserve System to exert a very necessary degree of restraint upon the now unrestrained expansion of credit. For that reason they are urgently needed, even though they are not and should not be regarded by the Congress or by the public generally as a cure-all.

# United Air Lines Offers 184,809 Shares Com.

Harriman Ripley & Co., Inc. and associates, underwriters of an offering of 184,809 shares of United Air Lines, Inc. common stock to the company's common stockholders for subscription, announce they may offer shares of the stock acquired by them pursuant to the underwriting agreement or through the exercise of subscription warrants purchased by them, at prices not less than the subscription price of $10.75 set for common stockholders and not above a price equal to the current offering price on the New York Stock Exchange, plus an amount equal to stock exchange commissions.

Rights of Common stockholders to subscribe to the 184,809 common shares, in the ratio of one share for each 10 shares held, will expire at 2 p.m., (EST), on Aug. 17, 1948. Shares not subscribed by stockholders are to be offered to employees on a formula involving seniority and compensation. Employee rights also expire at 2 p.m. (EST), on Aug. 17, 1948.

The present offering is one-half the size of a previously planned offering of 369,618 shares which was filed with the SEC June 9 and the sale of which was temporarily postponed.

# The State of Trade and Industry

(Continued from page 5)

west. Detroit buyers are finding they can pick up steel by truck in Chicago for just about $2 more than they pay a Detroit producer. If they can take water shipments from the windy city the price is about the same as that from a local mill. Or they can reach over to Cleveland and truck cold-rolled sheets into the auto city for no more than the Detroit f.o.b. mill price plus switching charge, the magazine states.

**Using trucks to dodge high rail rates sounds good but has its bad points. Many steel mills can't move more than 20% of their output by truck. If all mills had facilities to load half their tonnage onto trucks there wouldn't be trucks enough to haul it.**

Some products are too big to be trucked. At some mills there is a tendency to accept truck shipments only for areas that are otherwise virtually closed by prohibitive rail freight rates. But new mills have better truck loading facilities and older plants are building them, the trade paper adds.

The President of United States Steel, Benjamin Fairless, foresaw this some years ago and doubted that Pittsburgh could hold its position in normal times in the face of the rail freight rate increases being levied against it. This week he disclosed that two Big Steel subsidiaries, Carnegie-Illinois and American Bridge, had asked Eastern roads to slash rates to New York and Detroit by 40%. The customer is now paying this freight but he is learning that in some cases he can save by using trucks and the railroads stand to lose business at present rates.

One thing that is certain—and as the months roll by it is becoming more fact than fiction—that is more voluntary allocation of civilian and military steel, "The Iron Age" notes. On top of the freight car program and that for hot air heating, those for atomic energy and prefabricated houses, there has been added about 105,000 tons monthly of armament steel. An inland barge construction program will put the bite on another 20,000 tons a month beginning in the fourth quarter. Other programs are certain to come in for more steel.

Considered separately, not one of the voluntary allocation programs is a drop in the bucket if it be measured against total steel production, but added together on top of an already tight supply the commercial steel buyer has to scratch just a little harder each month, this trade authority 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 94.2% of capacity for the week beginning Aug. 2, 1948, an increase of 1.1 points, or 1.2%, from last week. A month ago the indicated rate was 90.3%.**

**This week's operating rate is equivalent to 1,697,900 tons of steel ingots and castings as against 1,678,100 tons last week, 1,672,600 tons a month ago, 1,660,700 tons, or 94.9% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.**

## ELECTRIC OUTPUT EXPANDS FURTHER IN LATEST WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended July 31, was 5,352,439,000 kwh., according to the Edison Electric Institute. This was an increase of 10,312,000 kwh. above the output in the preceding week and 546,699,000 kwh., or 11.4% higher than the figure reported for the week ended Aug. 2, 1947. It was also 1,001,428,000 kwh. in excess of the output reported for the corresponding period two years ago.

## CAR LOADINGS DECLINE BELOW PREVIOUS WEEK AND CORRESPONDING PERIODS IN 1947 AND 1946

Loadings for the week ended July 24, 1948, totaled 882,566 cars, according to the Association of American Railroads. This was a decrease of 9,961 cars, or 1.1% below the preceding week, and a decrease of 37,362 cars, or 4.1% below the corresponding week in 1947 and 27,947 cars, or 3.1% below the same week in 1946.

## AUTO PRODUCTION LOWER IN LATEST WEEK

Production of cars and trucks in the United States and Canada dropped to 113,706 units from 118,797 (revised) units the previous week, according to "Ward's Automotive Reports."

Output in the similar period a year ago was 97,712 units and, in the like week of 1941, it was 61,146 units.

This week's output consisted of 86,529 cars and 23,707 trucks made in the United States and 2,360 cars and 1,110 trucks made in Canada.

**Ward's took a pessimistic view of the production prospect immediately ahead.**

Total output for July was placed at 495,796 cars and trucks in the United States and Canada.

## BUSINESS FAILURES TURN UPWARD

Commercial and industrial failures rose to 98 in the week ending July 29, Dun & Bradstreet, Inc., reports, exceeding 91 in the preceding week and 69 in the comparable week of 1947. Although concerns failing were seven times as numerous as in the same week of 1946 when 14 occurred, casualties were only about one-third as numerous as the 277 recorded in prewar 1939.

**Failures involving liabilities of $5,000 or more accounted for all of the week's increase, rising considerably above last year's total of 58.**

Increases occurred in the number of retail and commercial service casualties, while failures were slightly less in all other industry and trade groups. In all lines, the 1947 level was equalled or exceeded, but the only sharp rise appeared in retail business.

Over one-half the total failures were concentrated in the Pacific States, being over twice as many as a year ago.

## FOOD PRICE INDEX ADVERSELY AFFECTED BY GRAINS AND MEATS

There was an appreciable drop in the wholesale food price index last week from the record high levels of recent weeks, according to Dun & Bradstreet, Inc. Influenced largely by declines in grains and meats, the index fell 12 cents to $7.18 on July 27. This was 10.3% above the $6.51 reached in the corresponding 1947 week.

## WHOLESALE COMMODITY PRICE INDEX SLIGHTLY UNDER LEVEL OF PRECEDING WEEKS

The Dun & Bradstreet daily wholesale commodity price index showed little change during the past week with the general level holding slightly below that of preceding weeks. On July 27 the index closed at 281.45, as compared with 281.71 a week ago and 268.77 a year ago.

**As trading in July grains ended on July 23 slight advances occurred but prices generally were below the level of a week ago.**

Wheat futures continued to vary with a narrow range during the week. While receipts have been very heavy, a considerable volume of recent shipments of wheat have been going into storage for government loans. There was some increase in the mill demand for wheat the past week. Both corn and oats futures declined moderately as receipts continued to increase. Yields of corn and oats were above previous expectations and a record high corn crop was anticipated.

The demand for domestic flour was limited last week as bakers generally awaited further price developments. Many of the small bakers were buying to fill immediate needs while the larger bakers had previously placed orders covering much of their future needs. Prices were virtually unchanged for the week.

**Cotton prices in spot markets declined slightly last week and reached the lowest level in the past four months. There were numerous offerings and liquidation continued with the prospect of a large new crop.**

Buying interests generally were centered on forward shipments and cotton futures rose moderately. Total sales in the ten spot markets were reported to be 55,700 bales last week as compared with 54,100 in the preceding week and 72,500 a year ago. Cotton consumption during the first 11 months of the current season was about 18% below that of a year ago largely as a result of decreased exports, according to the New York Cotton Exchange Service Bureau.

There was a moderate increase in the demand for cotton gray goods with a noticeable rise in the number of requests for class A print cloths. A considerable order volume for delivery during the first quarter of 1949 was booked. There was also a marked gain in the spot demand for print cloths. While buyer interest in sheetings increased appreciably, there was no sharp rise in order volume.

**Receipts of cattle and sheep declined last week as heavy rains and falling prices discouraged current shipments. The number of hogs received in leading markets remained steady, reflecting a moderate increase in price.**

Activity in the Boston wool market increased last week from the low levels of previous weeks. Interest was directed mainly toward scoured medium wools and carpet wools. The demand for most foreign wools remained limited and prices generally were unchanged at a high level.

## RETAIL AND WHOLESALE TRADE CONTINUES TO REFLECT MODERATE IMPROVEMENT FOR THE WEEK AND YEAR

The volume of consumer buying continued to increase during the past week, but at a slightly slower rate than during previous weeks. Total dollar volume somewhat exceeded that of the corresponding week a year ago, Dun & Bradstreet, Inc. reports in its current survey of trade. Shopping in basement departments and interest in lower priced merchandise increased substantially as many consumers continued to seek bargains. Unit volume in some lines decreased somewhat.

**Requests for credit rose slightly last week but collections generally were fair.**

Interest in Summer apparel centered on clearance sales of sport and beachwear with interest maintained in cotton dresses and men's lightweight suits. Some items of lingerie and costume jewelry sold well at reduced prices. There was a spurt in consumer interest in Fall apparel last week as many retailers reported an increased demand for Fall coats and suits. The response to early promotions of furs was reported to be fair in many sections of the country.

**Consumer resistance to the high prices of some food items increased during the week.**

Retail volume of some fresh meats and dairy products dropped moderately as housewives sought reasonably priced substitutes. Large quantities of fresh fruits and vegetables were purchased at moderate prices and a large demand for beer and picnic items was sustained in the week. Produce suitable for home canning was sought by many consumers. Total grocery volume for the period ended on Wednesday of last week was slightly above that of the corresponding week a year ago.

There was a substantial demand for used cars and automobile accessories. A seasonal lull adversely affected furniture sales in some parts of the country and demand for small electrical appliances also declined somewhat the past week. Sporting goods, however, continued to be in high favor with vacationists.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 5 to 9% above that of a year ago.

**Regional estimates exceeded those of a year ago by the following percentages: New England and Pacific Coast 5 to 9, East 2 to 6, South 4 to 8, Middle West 8 to 12, Southwest 6 to 10 and Northwest 9 to 13.**

Wholesale order volume in many regions rose moderately during the past week with total dollar volume slightly exceeding that of the corresponding week a year ago. There was a slight decrease in the demand for some seasonal merchandise, but this was more than balanced by an increased demand for Fall apparel and by increased wholesale volume in some food lines.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended July 24, 1948, increased by 9% from the like period of last year. This compared with a similar increase in the preceding week. For the four weeks ended July 24, 1948, sales increased by 10%, and for the year to date by 7%.

**Retail trade here in New York the past week was marked by seasonal activity. However, in terms of dollar volume, gains over the like period of a year ago were not as great.**

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to July 24, 1948, increased 3% above the same period last year. This compared with an increase of 8% (revised) in the preceding week. For the four weeks ended July 24, 1948, sales increased by 9% and for the year to date by 6%.

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# AUSTERITY: International Crusade Against Luxuries

(Continued from first page)

most curious game which is going on in international trade today and of which I had been a very insignificant victim at Copenhagen. Every country is proud to produce things of good quality and workmanship, which to have is not a strict matter of life and death; everybody likes these so-called "luxuries" and is prepared to make an extra effort to earn the necessary money; but more and more countries are most anxious to sell them all abroad and to keep out the "luxuries" of other countries. The final outcome of this practice is that only a few countries are left where the "luxuries" of the world can be bought freely and in reasonable amounts, not necessarily only rich countries like the United States or Switzerland, but also a country like Belgium which has been impoverished by the war but whose economic policy is determined by a good deal of common sense.

The reasons usually given for this international crusade against luxuries seem quite plausible. The country, we are told, it too poor to afford things which are not strictly essential. Houses or wheat are more necessary than watches that is the simple philosophy. People are all the more eager to swallow it as the good things of this earth can be bought only by a minority anyway against which envy, suspicion or puritanical self-righteousness can be easily aroused. So nations can be all too easily persuaded to follow governments in their policy to export all, or most of the luxuries made in the country itself, and to keep out those made in other countries.

### Some Fundamental Fallacies

All this *seems* quite plausible, and yet it is all wrong. It is based on a reasoning which can easily be shown to be faulty, and it leads to policies which are pernicious and self-defeating. The crusade against luxuries is one of the most powerful agents for depriving our civilization of its best fruits, for destroying life of its springs and for dragging the nations down to the level of grey drudgery and "controlled misery." But it is unfortunately one of most efficient devices of a bureaucracy which wants to prove its indispensability and to expand its reach further and further.

What is the main fallacy of the belief that "luxuries" must be kept out of a country because it is too poor to afford them? The most obvious objection is that it is impossible to define objectively what a "luxury" is. For instance, Swiss watches are one of the notorious victims of the present international crusade because watches are not deemed indispensable. Now it would be difficult to find a better symbol of our civilization than a watch. It is so significant and indispensable that it would be quite proper to speak of a "watch civilization," and it is simply ridiculous to class this instrument of measurement of time among "luxuries," but the very fact that this has been possible in so many countries shows how dangerous it is to base commercial policies on such an arbitrary concept.

But the real fallacy is even much more fundamental. It is immaterial if the government calls a thing a "luxury" or not, as long as it leaves it to us to decide whether we can afford it or not. It is exactly the impertinence of bureaucracy that it deprives us of this choice when, on the ground that the "country" cannot afford this or that, it prohibits or restricts its importation. The whole argument against the free importation of "luxuries" implies that bureaucracy knows better than the consumers what is good for them and that it must see to it that wheat will be imported instead of oranges or paper (largely to be used by bureaucracy itself) instead of automobiles. The government, in other words, has the astounding insolence to ask us to accept its arbitrary scale of preferences for our own. It counts on the people to overlook or to forget that no starving man will prefer coffee to porridge and that, if people want new houses above anything else, they will demand houses instead of automobiles. To ask whether a country can "afford" watches or not is only another way of asking whether the sum total of the consumers of the country, by demanding watches, expresses its preference for this commodity as against others of which they have already enough or which they deem less indispensable. The fact that, by private trade obeying the commands of the consumer, oranges are being imported into a country indicates that a large class of these people, who really must know whether oranges are a good thing or not, has made up their mind that they can afford them. These people are the consumers. It is they for whom Providence let these delicious fruits grow.

All this sounds almost indecent to some people who specialize in what may be called social prudery. They will ask us indignantly how we can assume the interest of the rich to be identical with that of the country as a whole which is supposed to be poor. Now it is sheer social hypocrisy to think only of the rich as potential buyers of "luxuries" in the more advanced countries. We have all of us seen more than once a golden watch on a simple workman's wrist. It much be conceded, on the other hand, that a very unequal distribution of income might make it possible that one consumer is starving while another buys imported oranges. But it is precisely to common fallacy to believe that, by farbidding the imports of oranges or refrigerators, we are feeding the hungry or housing the homeless. As long as the government does not change the distribution of income and take away the purchasing power ready to buy those "luxuries," the prohibition of its imports is a mere curing of a symptom. Instead of buying foreign "luxuries" people now will buy national ones. Since a British consumer cannot buy a good Swiss watch lasting a life-time he will spend his money on whiskey, tobacco, racing, or spectacles. In fact, under the present regine of "austerity" in Great Britain, more money than ever has been spent on alcohol, tobacco and entertainment.

If the restriction of imports of "luxuries" is to force a nation to be more economical it is bound to fail entirely, because this measure will not destroy the purchasing power available for buying things which are not strictly essential but only divert it into other and mostly less desirable channels. If a man wants to offer a watch to his wife as a Christmas present but is prevented from doing so by the import restrictions he will not present to her a saving certificate instead. He will only hunt for something else which will make both of them less happy. The total result for a nation will be at least the same amount of luxuries but less happiness, and less economical use of the productive resources of the country.

### The "Crisis of the Balance of Payments."

Everybody is bound to admit this. But if restrictions of the imports of "luxuries" do not help a nation to economize its productive resources, can they not be defended as a means for economizing its reserves of *foreign exchanges?* This argument seems to be impregnable to most people. It rests, however, also on incomplete and oversimplified reasoning. A child can understand that if the imports of refrigerators are restricted, more foreign exchanges will be available for the imports of wheat or less exports will be needed to restore the balance of payments. It takes, however more than a child's understanding to see that mere cuts of imports are a wholly inadequate means for overcoming a "crisis of the balance of payments."

*First* of all, this "crisis of the balance of payments" is not an act of God but the result of a maladjustment of the national economy as a whole. It is a symptom of an economic overstrain of the country which leads to an inflationary pressure tending to drive up prices and foreign exchanges. There will be a strain on the balance of payments, in other words, there will be a shortage of hard currencies as long as either the internal inflationary pressure has not been diminished or the rate of foreign exchanges not been allowed to find its natural level. The way to cure the "crisis of the balance of payments," therefore, is not to cut imports but to cut the governmental expenses responsible for the inflationary pressure—or to let the exchange rates go. But bureaucracy does not like this cure because it means less instead of more employment and power for it.

*Secondly,* a cut in imports has repercussions which their more simple-minded advocates overlook. Its most direct and most important one is that on exports. Trade is reciprocal, and a restriction of imports is bound sooner or later to diminish exports as well. That is true for any kind of commodities, essential or not. If the British Government prevents its subjects from buying a Swiss watch or going to the Alps it is at the same time preventing so many Swiss from buying a British suit. This repercussion on exports may set in immediately as in the case of strictly bilateral trade agreements between soft-currency countries, or it may take some time and come about in more indirect way as in the case of a hard-currency country like Switzerland, but come it will. Many countries believe that they can indefinitely earn Swiss francs or gold by selling their export goods freely to Switzerland while keeping out Swiss export goods on the pretext that they are "luxuries." It is obvious, however, that such a country must in sheer self-defense restrict its own imports too if the other countries persist in their practice.

*Thirdly,* there are other important repercussions to be considered which make the economies in foreign exchanges by import cuts largely illusionary. Most European countries which have been devastated by the war have based, as we know, their entire policy of reconstruction on the simple idea that, by a formidable machinery of over-all economic control, imports have to be cut to the bone while everything beyond the barest necessities should be exported. In this way, it is thought, the capital reserves of the country can be built up again in the quickest possible way. That is the philosophy which we encounter again and again, and we have shown already two reasons why it is likely to fail. Restriction of imports and expansion of exports does not necessarily imply a corresponding net saving of the national economy as a whole. Unless the system of control will be extended to a real collectivist tyranny, which destroys completely the liberties to work and to consume, it will not reach its goal.

But the rehabilitation of the capital plant of a nation does not only depend on how much of a given amount of national production will be absorbed by current consumption. It also depends on the *total amount* of the national production. Little would be gained by a policy which prevents the people from buying what they like if it kills at the same time their zest to produce as much as possible. That is exactly what all these European regimes of "austerity" do. It is more and more being recognized today that those countries have been acting unwise which have believed in this all too simple arithmetic of import cuts and export drives. What is the use of working hard if you cannot buy something beyond the merest necessities? The country simply gains on the balance-sheet of foreign trade what it loses on that of production, and we have good reason to believe that what it loses on the latter account is greater than what it gains on the former, especially as time goes on. Except in war times, all efforts to increase production by moral persuation, posters, medals or theatricals will end in disappointment. The soundest and most efficient stimulus consists in offering people the chance of buying a watch, an automobile or oranges or of going abroad for the holiday if they work hard.

It has been one of the great merits of the Report of the Harriman Committee of Foreign Aid (delivered on November 8, 1947) to have seen all this very clearly and to have warned the European nations against killing production incentives by undue restriction of consumption. They would indeed be wise to follow the Belgian example and to give more attention to the satisfaction of consumers' demand as a prerequisite of increased production. That means, on the other hand, that the governments have to scale down their over-ambitious investment programs which they had believed to be able to carry through regardless of human reactions. They have to rediscover the consumer, and they have to lift the ban on "luxuries."

"Austerity" is bad economics and wrong arithmetic. It is also a dreary philosophy. But it is dear to all planners, collectivists and "commissars." It gives them employment, power and importance; it lends a tone of unworldly saintliness and patriotic concern to their public speeches, and it gives them the opportunity of making the consumer the scapegoat of their destructive economic policies. They seem to have become accustomed to look upon the consumer as a highly obnoxious and disturbing element which, unfortunately, it has not yet been possible to suppress altogether. In their eyes, it is sheer insolence on his part to wish to buy what he likes with his money he has earned. It is nasty for him to ask for "luxuries." He must be firmly put in his place and be intimidated by all sorts of economic sophisms. It is hardly an exaggeration to say that this is a mentality which is distressingly widespread the world over.

But now the governments are beginning to discover with dismay that there are limits for the restriction of consumption. They have to take account of the revolt of the consumer. If he cannot buy the "luxuries" he wants he is inclined to buy the *luxury of leisure,* that is, to work less, but this is precisely the kind of luxury which is really harmful to the nation today. He is also beginning to look through the flimsiness of the arguments for his own regimentation.

In this he might be inspired and encouraged by the wisdom of an Italian friend of mine. He had been invited to give lectures in Great Britain, but he declined, his main reason, as he confided to me, being that he did not like "austerity" even for a few weeks of this short life, least of all if it meant to live according to the whims of a man whose only forceful argument is that he is in office. My friend has to work very hard to earn his living, and there are few luxuries which he can afford, but he likes to be sure that he may have what he can afford and to work for it. I am inclined to agree wholeheartedly with him.

# Utilities—For Income and Profit

(Continued from page 4)

approximately 8,400 kilowatt-hours per home. This gain of some 600% in kilowatt-hours indicates—yes dramatizes—the importance of the goal, not only to electric utilities and home owners, but also to investors.

The leaders of the industry "have only one objective: to reduce to a minimum the period which so frequently elapses between inception of a new development and the day when the idea is translated into sales."

The gas business has been positively embarrassed by the new demands for service made upon it. This situation has been brought about by sizable price rises in competing fuels, particularly coal and oil, the cost of which makes electricity and gas attractive on a price basis as well as on the basis of convenience and cleanliness.

### Selected Growth Stocks

To aid the investor in selecting equities which should do well in terms of safety of capital invested, income and appreciation in market value, we have prepared the following tabulation. All are rated "above average" by "Standard & Poor's" Advisory Service, and in addition to liberal yield on the basis of indicated dividend rate, hold additional appeal for those who cannot afford to overlook safety and income in the search for market profits.

| Common Stocks— | 1947 | 1946 | 1945 | 1944 | 1947 Div. | Current Price | Approximate Price Range 1946-1948 High | †Low |
|---|---|---|---|---|---|---|---|---|
| California Electric Power | 0.77 | 0.75 | 0.95 | 1.06 | 0.60 | 8⅛ | 13⅞ | 6⅜ |
| Central Arizona Light & Pwr. | 0.72 | 1.00 | 0.95 | 0.73 | 0.60 | 12 | 14 | 8¼ |
| Central Electric & Gas | 1.00 | 1.06 | 0.46 | 0.42 | 0.60 | 9¼ | 10⅞ | 6⅜ |
| Central Illinois Elec. & Gas | 2.67 | 2.23 | 1.77 | 2.05 | 1.30 | 22½ | 29½ | 17⅞ |
| Central Illinois Public Service | 1.68 | 1.30 | 0.70 | 0.27 | 1.00 | 14½ | 14½ | 11⅝ |
| Central Maine Power | 1.35 | 1.50 | 1.34 | 1.41 | 1.20 | 18½ | 28 | 15½ |
| Citizens Utilities | 1.61 | 1.53 | 0.72 | 0.48 | *0.50 | 9 | 14 | 7¼ |
| Community Public Service | 3.34 | 3.47 | 2.54 | 2.52 | 2.00 | 30 | 42 | 25⅛ |
| Connecticut Light & Power | 3.32 | 3.81 | 2.98 | 2.69 | 3.50 | 60½ | 72 | 53 |
| El Paso Electric | 2.70 | 2.25 | 1.57 | 1.59 | 1.60 | 27¼ | 27¾ | 21½ |
| Kansas-Nebraska Natural Gas | 1.68 | 1.41 | 1.04 | 0.82 | 0.50 | 17½ | 17¾ | 10¾ |
| Northern Indiana Public Serv. | 2.04 | 1.89 | 1.07 | 0.91 | 1.20 | 16½ | 24¾ | 13½ |
| Puget Sound Power & Light | 2.03 | 1.88 | 1.50 | 2.05 | 0.60 | 12½ | 16½ | 10½ |
| Texas Public Service | 2.26 | 1.33 | 1.14 | 1.11 | 0.95 | 23¾ | 24½ | 13⅝ |
| Western Light & Tel. | 2.77 | 2.98 | 1.99 | 1.27 | 2.00 | 23½ | 33½ | 22 |

*Plus 3% in stock. †To July, 1948.

# Peter L. Maes Joins S. R. Miller & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Peter L. Maes has become associated with S. R. Miller & Co., 231 South La Salle Street. Mr. Maes was formerly trader for the Republic Investment Company.

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# Production Is Answer to Inflation

(Continued from page 7)

13% more meat per person last year than in the prosperous '20s. And we will eat still more this year in spite of feed shortage. So it is with food in general; with clothing, and with many more durable items.

But getting back to the demand for goods. Every real American is willing and anxious that the United States shall do its utmost to relieve and help rebuild war-shattered Europe. That means priority for $6 billion of foreign aid. Add to that commitments for rearmament and it is easy to see what is exerting "too great a demand on available supplies."

There's a good deal of misunderstanding and still more plain, unadulterated demagogic bunk about today's prices.

In our free economy, prices are the balancing factor between supply and demand. Prices are made by consumers as well as by producers for, even in a sellers' market, prices cannot go higher than consumers are willing to pay.

Look at the meat situation again. We recoil at what seem to be fantastic prices. But the figures show that, even at these prices, we are buying **More** per person than in the prosperous '20s. New automobiles sell like hot-cakes in used car lots at large premiums over the manufacturer's price.

Sure! Some prices have skyrocketed. Some have gone up moderately. And some have declined—as in the case of radios, shoes and luggage. But the biggest boosts, according to the figures, have come in foods and farm products.

Food, of course, looms largest in the family budget, and when we protest the high price of foods, most of us think that all prices are keeping pace with food prices. That just isn't true!

### Food Prices

A study of the wholesale price index from the end of 1939 to the latest available figure in 1948 shows increases from highest to least in this order: Farm products, raw materials, **Foods**, all commodities semi-manufactured goods, **and Last on the List with the Smallest Increase**, manufactured products! ! ! And yet, much of the hew and cry about prices is directed against manufacturers.

Or take the consumers' price index. Here, again, we find that food prices have out-run all other items in the cost of living of workers' families.

And just as many of us think of all prices in the terms of food prices, so, we too, frequently gauge the cost of living in terms of the price of a porterhouse steak. We've heard predictions within the last few days of new high meat prices and growing shortages for the balance of this year. "How come?", you ask.

Remember last winter's demand by President Truman for the reimposition of price controls on various food items? There wasn't a student of the situation who didn't know right then that that would upset the market. Under the pressure of the poor 1947 corn crop and high wheat feed prices, farmers had marketed more cattle and calves in 1947 than ever before. It was obvious that, if the 1948 demand for meat continues at the 1947 rate, prices must go up.

And then the farmers heard the President's demand for new controls. Who would be foolish enough to buy feeder cattle or farrow hogs with the prospect of controls that might not allow a break-even price for these animals. Farmers are good business men, too. Add to that, the effect of the packing house strikes during last February and March and the prediction of higher prices this fall makes sense.

But there is certainly a brighter side. Bumper crops of corn, wheat and other grains are now in prospect. We shall be growing more pork and beef for ourselves. Russia, too, is experiencing its biggest crop year. Australia, the Argentine and other cereal producing countries are anticipating the greatest yields in their histories. To the extent that these hopes and anticipations are realized—and they're going to be—the pressure on us for tremendous shipments of foods abroad is going to be relieved. Lessened demand abroad and more produtcion at home give real promise of lower prices.

### The Presidents Proposals

And yet, within the last 24 hours we've heard the President of the United States appeal again to the Congress to reestablish price controls—to set up a new meat-rationing system. Of all of the people on earth, we Americans are the one people who ought to know by recent and bitter experience that price controls and rationing are no answer to high prices. Has anyone in this great hall forgotten the OPA price ceilings, the price tags and the black markets of just a few years ago? Did price control actually control—did prices actually stand still under OPA? Can we have price controls without wage controls, subsidies, and rationing? Did ration books result in a fair distribution of necessities? What about that neighbor who always seemed to be able to get thick juicy steaks? Did you always get goods when you presented a ration coupon? You couldn't butter your bread with the price ceiling on butter that wasn't churned, could you? Were housewives forced to buy "tie-in" items—two cans of this or two pounds of that in order to get rationed goods? Were there under the counter goods?

Can artificial controls be put on a few selected items without creating distortions in others? Would it be possible for hundreds of thousands of retailers to roll back the prices of the goods now in their stocks and still remain in business? Would return of controls again require the employment of untold thousands of government bureaucrats who could be more usefully employed in productive enterprise? Have we any reason on earth to think that controls would increase production?

Producers know that controls interfere with production. They know that controls hamper raw material supplies, impede distribution, increase costs and discourage both initiative and incentive. Producers know too that without the patriotic urge of war to inspire compliance, a return of controls now would create a black market that would make our last one seem lily-white by contrast.

Getting back to meat again—because that is the yardstick by which many of us measure living costs—we have a prime example of the futility of price controls and rationing.

Right there — in meats — was where price controls finally broke down completely. It was that collapse that forced the President himself to abandon controls altogether in November, 1946, after a series of substitute and make-shift experiments to make something work.

Farmers just flatly refused to sell hogs and beef at ceiling prices which did not allow them something, however little, above the cost of raising the animals.

Can you blame them for that? And don't you think they'll do it again?

And if you think prices are high now, how high do you think they'll go if we move into another price-controlled black market and "under-the-counter" economy?

And then there's that crack-pot idea of rolling back prices to the 1946 or even 1939 level. There's a phoney if there ever was one. It's a phoney because those who talk such nonsense wouldn't think of having their wages or their salaries rolled back to 1939.

Yet those wages and salaries would certainly have to be cut for they represent 85% of the cost of all consumer goods.

What would such a rollback mean?

Official government statistics show that the cost of living in May, 1948, was 71.5% over 1939. But during the same period, hourly earnings of factory workers increased 105% and weekly earnings 117%. Between June, 1946 and May, 1948, alone, hourly earnings of factory workers increased 20% and their weekly earnings went up in the same proportion. For three years now we have had general wage increases in the spring and then wondered why we had price increases in the fall.

### Profits and High Prices

Profits are assailed as causing high prices. Labor leaders point to them to justify increased wage demands. Proponents of price controls argue that rollbacks can be made and still allow business to break even.

Well let's look at that one.

You cannot use profits **before taxes** for this purpose because government would have to get about a fourth of its income out of us in some other fashion anyway. 1947 was a record year for manufacturing industry production and for profits which reached $17.4 billion **after** taxes. But the Department of Commerce says that part of these earnings were fictitious in that they represent the same physical inventories at higher prices. So they take off $5.7 billion. Part of the remaining $11.7 billion is not real profit either because it is conceded that current depreciation allowances are not enough to keep up with the necessary replacement of worn out equipment. But even if all the $11.7 billion were added to wages the workers would get about 10% more at the expense of those who have provided the money that makes jobs possible.

If all the $11.7 billion were applied to price reduction, the result would be less than 6% on the $211 billion of ultimate consumer goods.

### More Production Will Stop Spiral

Production to satisfy demand is the only way to stop the spiral. And increased productivity—output per worker—is the only way to increase real wages, lower prices and provide the better tomorrows we all so ardently desire.

The key to this log-jam is to eliminate unnecessary government spending and reduce our highly progressive income tax so that people can again save and invest. Management today labors under a double handicap in its efforts to get production up and to lower costs. On the one hand, management faces an inability to find people with the money and the incentive to risk their savings in plant modernization and new ventures. On the other hand, it faces short-sighted shop labor committees that frequently attempt to regulate the introduction of new equipment or restrict its use. Industrial management needs —the country needs—and desperately, economic education and sound thinking on these problems at the grass-roots levels.

The answer to inflation is certainly not in higher wages. Three rounds have demonstrated that. It is not in reduced profits. They are already too low to attract the savings necessary to finance lower cost production. It is not in controls. They have been tried and found wanting.

Obviously, the answer is in more and more efficient production, as our history has abundantly shown.

Government can help by a return to fiscal policies that encourage saving and that encourage the investment of those savings in productive enterprise.

Labor, in its own interest, can contribute by encouraging the utmost efficiency and low-cost production.

Management has a major responsibility in working to strive for greater cooperation between tool owners, and tool users.

But the greatest of all responsibilities is that of folks like us fellow Lions, charged with local leadership—grass-roots leadership —in thousands of communities all over this country.

Ours is a great opportunity for service to your country, to promote sound thinking and the application of common sense and American principles to today's problems.

Sound thinking must be based on facts. We have a right to our opinions but none of us has a right to be wrong on our facts.

The facts about inflation, prices and high cost of living are available to you today—at the doors as you leave this hall.

Get a copy of this report I hold in my hands. Get the facts. Pass them on to your friends, your families, y o u r workers, your preachers, your children's school teachers.

This is a great country, this America of ours!

Ours is truly a wonderful way of life with its freedoms today and its promise of even better tomorrows for everybody.

There's our job, Lions. If enough Americans have the facts, we'll keep America Safe, Strong, and Free!

# President's Housing Program—A Paradox

(Continued from page 13)

him with subsidies and insurance and let him get to work to expedite the building of houses. Mr. Wyatt forthwith issued rules and regulations galore. But he soon discovered some elementary things about building houses and dwelling units.

### What It Takes

Mr. Wyatt quickly discovered that to build houses, you must have materials such as lumber, soilpipe, lath, plaster, flooring and what not. He soon found that there were bottlenecks in getting brick, soilpipe, flooring and other items. You see, there were price ceilings on those items. The producers of these items could not raise wages to induce men to come back to work because they were under a price ceiling. OPA would not change the ceilings, therefore better wages could not be paid and therefore production lagged. It was a case of one government agency refusing to cooperate with another with the result that the program bogged down.

The program also bogged down because of the multitude of rules and regulations. Houses and designs had to conform to certain standards. New designs and methods had to be approved in Washington. Detailed plans had to be submitted. Half of all houses must be under $7,500 and half of those had to be rental houses. If OPA permitted an increase in price on certain materials, it became difficult to produce houses in many areas under the ceiling set by the Expediter.

Despite the fact that Congress supplied Mr. Wyatt with $400,000,000 to build more houses faster, the program was a considerable flop. One of the top men dealing with home loan guarantees in the Veterans Administration r e s i g n e d in protest. Another government official said that "Private builders could do better at less cost."

Now then, what happened to this Wyatt program? It just died. It just folded up from sheer inertia. The President made no effort to revive it after its expiration date. And there was a reason. It was a pretty sorry record. While the number of starts that were reported seemed rather impressive, the number of completions was pitifully small. After all, no one can live in a "started" house. The lag and stretch-out between the time a house was started and the date of completion became longer and longer. And, of course, it added materially to the expense.

Now folks, one thing more. That Act which created the Office of Housing Expediter declared housing to be an emergency. It gave the Expediter vast powers to impose price ceilings on new houses, issue directives, impose priorities and what not and when it was all over, it was a rank failure. They found that it took materials and manpower to build houses. It couldn't be done with directives, rules, regulations and red tape.

### President Versus Congress

Now comes the President to ask for additional housing legislation. What he refers to is a bill which has been pending in Congress for a long time. It would commit the country to an ultimate expenditure of about $9 billion. Roughly, two-thirds of that would be in the form of public contributions on public housing for a period of 40 years. One House of Congress has refused to go along with this program and for a reason. That reason is that it believes that private enerprise, private builders can lick this housing problem better, faster and cheaper than any government agency if it has a chance. This is a free enterprise country. In the seven year period from 1922 to 1929, the builders of the country built a lot more houses than they did in any similar period before or after. Nor did they have mortgage insurance or Federal aid of any kind in those days.

### The Record

Now folks, let's look at the record. Early this year, Congress set up a Joint Cmmittee of Senators and Congressmen to survey the housing problem. That Committee secured estimates of our need for houses from at least 15 different sources including the CIO, the AFL, the Census Bureau, the Department of Labor, the Producers Council, building economists and others. The highest estimate was 2 000,000 units per year. The lowest was 300,000. Several of the refined estimates were around 900,000 units per year.

Very well, that is the estimated need. Now what has been done to meet that need?

In 1947, 849,000 units were started and completed. There were plenty of problems in securing material and manpower. After all, air castles in Spain can be built from dreams but it takes brick, lumber, nails, flooring, hardware and other substantial things to build a house.

Now then, what's the score for this year?

For the first five months, starts by private builders were 356,000 units.

That's 28% above 1947.

If that rate is maintained, it will mean that for this year of 1948, we will build more houses than in any year in our history. The peak year was 1925, when we

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built 937,000 houses. We'll beat that in 1948.

Now there's the answer to housing.

The Dept. of Labor says that for May of this year, 2,064,000 persons were employed in the construction industry.

That's an increase of more than 200,000 over last year.

In proportion as more material and more manpower becomes available, we shall gradually go over the million mark each year and that's so far beyond the dreams of any government agency that it's not even funny.

**The President's Idea**

These houses I refer to are going up now in all parts of the land. They're not paper houses. They're not houses made of Federal red tape. These are real houses. People live in them.

Now comes the President with a request to supply additional housing legislation. Now, the Bill to which the President refers contains a lot of provisions. It would authorize the use of public funds to build and equip plants to produce pre-fabricated houses. It has a provision for insurance of blanket or multiple loans for the on-the-site pre-fabrication of houses. It has a billion dollar revolving fund for slum clearance. It has a revolving fund and annual contributions for so-called public housing where the government helps pay the rent of those in the low-income brackets. It contains a provision for rural housing. It contains a number of provisions for expanding and liberalizing home mortgage credit.

**What This Can and Probably Will Do**

No one denies that we need more houses. I doubt whether there has been any period in the history of the nation when we did not need more houses. But we're moving toward the million-per-year mark to meet it. And the production of houses will grow as materials and manpower become available in greater supply.

Now, what will happen if the government is put into the housing business up to its ears?

On top of the demand for houses which is so readily evident now, it will stepup and increase the demand. As you increase the demand, you add to the very inflationary pressure which the President says he wants to cure.

Certain it is that this Federal program which the President proposes will not increase the supply. What it will actually do is to intensify the competition for what material and manpower are now available and instead of reducing the cost of a house, it will increase it.

As a matter of fact, to superimpose the kind of a program the President wants on top of what we're now doing in this field, will not mean more housing but more expensive housing.

But it will mean something else. If we expand home mortgage credit on such slender terms that scarcely no owner-equity is needed it will not only aggravate the demand for houses but feed this dangerous inflationary fire as no other force can do—the very inflationary fire which he seeks to curb!

Now folks, that does not happen to be my personal unsupported opinion. About three months ago, the Joint Committee on the Economic Report consisting of seven Senators and seven Congressmen, of which Senator Taft is the Chairman received about 150 pages of testimony from the Board of Governors of the Federal Reserve System. Mr. Marriner Eccles, who has been a member of the Federal Reserve Board since 1934, and who until recently was the Chairman of the Board, testified in behalf of the Board.

Incidentally, the Federal Reserve, as you know, is the system that was set up 25 years ago to supervise banking, and keep our credit and monetary system on an even keel.

Mr. Eccles was sounding a warning on inflation and suggesting that the Reserve Board be provided with additional powers to increase reserves against deposits and thereby keep credit expansion under control.

When all is said and done, the answer to inflation will be found in the monetary field. It means whittling Federal expenditures to the very bone. It means living within our income. It means keeping the budget balanced. It means keeping easy credit under control.

Now then, here is what Mr. Eccles said to the committee. "Congress is currently considering the continuance of easy mortgage credit for housing. Easy mortgage credit is one of the most inflationary factors in the domestic credit picture. . . . The housing shortage cannot be overcome by increasing the competitive pressures on scarce supplies of materials and manpower. They are the limiting factors on the volume of construction."

There's the essence of this problem. With private builders moving toward the construction of nearly a million units in 1948, shall we now project government into this field to compete for materials and manpower, so that we merely aggravate demand and wind up with not more houses but more expensive houses and a heavy additional burden upon the public Treasury.

I am not insensible to the need for houses. But there are 145,000,000 people in this country who are going to get hurt, including those who may acquire new houses, unless Congress moves cautiously to make sure that the economic house of the entire nation does not come tumbling down.

Once more, let me say that more manpower is employed in the construction industry and more houses are being built than at anytime in the history of the nation. Shall we now accede to the President's request and again project the government so far into this field as to jeopardize the very program which is actually producing houses? I am persuaded that at this time, we should not.

# Scores Truman's Anti-Inflation Proposals

(Continued from page 17)

tional health program, repeal of the Taft-Hartley labor law and substitution of a 'fair and sound' labor-management relations act, a 'real' long-range farm program, a stronger reciprocal trade agreements act, universal military training, a national science foundation, strengthening anti-trust laws, and, finally, approval of the long-standing and much-debated St. Lawrence waterway project.

**Economics vs. Politics**

"Quite a schedule for an 'emergency' session of the Congress! What makes it difficult to understand as an economic program, considering the circumstances of the message, is that most of these projects would involve pouring out more money, or would increase costs directly as in the case of the proposed minimum wage increase. That some of these projects, of and by themselves, have merit is not questioned. But tossing them all into the hopper at a time when, by the President's own testimony, the economy is already dangerously inflated, and, in a message purporting to present an anti-inflationary program, seems explainable only in terms of political considerations.

"In effect, what the program amounts to is blowing up the economy with more inflation steam with one hand, and trying to hold the lid on with more controls and more taxes with the other.

"As for price controls and rationing of goods deemed in short supply, such proposals evoke memories of the artificial prices and black markets that so exasperated the public until wartime controls were abandoned in 1946 at the people's insistence. Furthermore, price controls and rationing would pose great problems of setting up peacetime enforcement agencies, district offices, regulations and accounting and allocation systems—all adding to swarm of Federal employees and involving businessmen and tradesmen in new miles of red tape.

"As regards the corporate excess profits tax — probably the strongest weapon in the President's proposed arsenal — even this may be conceived of as having a two-way influence. While such a tax, if it results in a budgetary surplus that is used to retire public debt held by the banks, tends to exert a deflationary influence upon credit, it also enters into business costs and, like a wage boost, tends to increase prices. To be most effective for anti-inflationary purposes, taxes should bear upon the great mass of spending by individuals. But corporations, of course, do not vote.

**A Sound Anti-inflation Program**

"What, then, would be a sound program for curbing inflation?

"**First,** cut government. With our huge $40 billion budget, the Government today is the biggest spender of all. The President recommends more government spending, whereas what we need is less.

"**Second,** next to government spending, the greatest inflationary factor has been the rapid expansion in urban mortgage credit, fostered by government guarantees on excessively easy terms. We ought to be tightening up on this, instead of pumping out more credit into an already seriously inflated field through more federal subsidies and guarantees for housing construction, now straining at the practical limit of available supplies and labor.

"**Third,** modify price support for agricultural products and let the cost of food come down. It is fantastic that high government officials should be talking about imposing more taxes and more regimentation on the American people while the Government puts a 'floor' under wheat at $2 a bushel on the farm, and spends millions of dollars to keep up the prices of potatoes, eggs, and other foods that might otherwise decline and ease the pressure on the cost of living. Also, lower agricultural prices would reduce the cost of our foreign aid program.

"**Fourth,** before asking for new controls over bank credit, we should be using those which we have—the traditional and tested instruments of the Federal Reserve discount rate and open market operations. As in the case of the agricultural price support policy, it is an anomalous situation to be asking for more powers over credit when we have a discount rate of 1¼%, and when money rates generally are set by the banking and fiscal authorities at levels that are an open invitation to inflation.

"It is said that we cannot permit interest rates to advance, for then prices of government bonds would decline. The answer to this is that, while some control over interest rates and the government bond market is desirable, this control cannot be carried to the point of absolute inflexibility without making it impossible for credit control to work. While it is true that action in fields other than money is essential to stem inflation, action is needed in money too. We must shut off the spigot on the free and unlimited creation of credit through the simple process of selling government securities to the Reserve Banks at guaranteed minimum prices. Unless interest rates are permitted some flexibility, the Reserve Banks have no latitude for exercising their proper discretion in determining the terms and conditions under which their facilities are made available to the market.

"**Fifth.** In addition to what government can do, success in fighting inflation will depend to a large extent on the spirit and good sense of the people. Along with some of the inflationary excesses of today there are many other instances of sound, conservative action. At a time when we have so many examples of inflation and its results, it is not too much to hope that our people can recognize the dangers and act in time to avoid the ills which present trends presage."

# Interest on World Bank Bonds Paid to Foreign Corporations Trading in U. S. Ruled Tax-Exempt

(Continued from page 17)

under section 207(a)(5) of the Code for the same reasons given for your conclusion with respect to foreign corporations other than insurance companies engaged in trade or business within the United States, but would not apply to foreign life insurance companies taxable under section 201(a)(2) of the Code and that income on the bonds of the Bank paid to such latter companies would be subject to tax.

"A question is raised, according to your letter, with respect to foreign insurance companies taxable under section 204(a)(2) of the Code, because of the provisions of such section to the effect that the normal tax net income and corporation surtax net income of foreign insurance companies taxable under such section shall be 'the net income from sources within the United States' minus certain credits, while the provisions of section 206 of the Code state that the gross income of insurance companies taxed under section 201 or section 204 of the Code 'shall not be determined in the manner provided in section 119,' which latter section sets forth the rules for determining whether income is derived from sources within or without the United States.

"It is your contention that section 206 should not be read as providing that section 119 is inapplicable in determining whether income is or is not from sources within the United States, but rather as providing merely that section 119 is inapplicable in determining what types of income (irrespective of geographical source) should be included in gross income from sources within the United States, and under this contention it is your opinion that interest on the bonds of the abovenamed Bank when paid to insurance companies taxable under section 204 of the Code, will not be subject to tax under that section.

"Section 204(a)(2) of the Code, as stated in your letter, provides that the normal tax net income and the corporation surtax net income shall be the net income from sources within the United States. Gross income from such sources, however, is not limited to the six items specifically mentioned in section 119 of the Code but is broad enough to cover any income from United States sources although not specifically mentioned in that section *(Helvering v. Suffolk Co., Ltd., CCA-4, 104 F. [2d] 505)*, and it has been held, in the case of income from the sale of property, to depend on all the factors of the transaction such as negotiations, the execution of the agreement, the location of the property and the place of payment. *(G.C.M. 25131, C.B. 1947-2, p. 85.)*

"The provisions of section 9 of Article VII of the Bretton Woods Agreements Act, quoted in the previous ruling letter from this Department, dated Nov. 19, 1947, and briefly stated herein, to the effect that no taxation of any kind shall be levied on any obligation or security of the Bank by whomsoever held if the sole jurisdictional basis for such taxation is the place in which it is issued or paid or the location of any office or place of business maintained by the Bank, and the provisions of section 116(c) of the Code, also stated in the previous ruling letter, render the factors of the transactions mentioned above inapplicable with respect to the payment of interest on the bonds of the Bank to insurance companies taxable under section 204 of the Code.

"It is the opinion of this Department that your conclusions as stated above and in your letter dated April 13, 1948 are correct with respect to the fact that interest on the bonds of the International Bank for Reconstruction and Development paid to foreign corporations, other than foreign life insurance companies, engaged in trade or business within the United States is not subject to taxation under the relative sections of the Internal Revenue Code.

"Very truly yours,
/s/ THOMAS J. LYNCH
Acting Secretary of the Treasury"

# Halsey, Stuart Offers Missouri Pac. Equips.

A group headed by Halsey, Stuart & Co. Inc. on July 28 was awarded $4,700,000 Missouri Pacific RR. 2⅜% serial equipment trust certificates, series KK, maturing $470,000 annually Aug. 1, 1949 to 1958, inclusive. The certificates, issued under the Philadelphia plan, were immediately reoffered by the group, subject to ICC authorization, at prices to yield from 1.55% to 2.70%, according to maturity.

Other members of the offering group include R. W. Pressprich & Co.; A. G. Becker & Co., Inc.; Hornblower & Weeks; Otis & Co.; First of Michigan Corp.; Freeman & Co.; Julien Collins & Co.; Mullaney, Wells & Co. and McMaster Hutchinson & Co.

Proceeds of the issue will be used to finance not exceeding 75% of the actual cost, estimated to be $6,279,730 of the following new standard-gauge railroad equipment: 14 diesel freight locomotives and four diesel road switching locomotives.

## With Pledger & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Gilbert L. Reed has become connected with Pledger & Company, Inc., 210 West Seventh Street, members of the Los Angeles Stock Exchange. He was formerly with Marache, Sims & Co. and Merrill Lynch, Pierce, Fenner & Beane.

## G. Brashears Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Morris F. Sullivan has been added to the staff of G. Brashears & Company, 510 South Spring Street, members of the Los Angeles Stock Exchange.

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## Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

**War talk dominates market. Nervous public selling meeting with but little inside buying, causing present uncertainty. Market itself says nothing.**

* * *

It's a little surprising how the war talk has gripped New York. I've just completed a 7,000-mile trip covering various parts of the Southwest including Mexico and nowhere was the talk of war so rife as it is right here in New York. The fact that I don't subscribe to it doesn't matter. I have to recognize that the buying public does believe shooting will start and not knowing how to evaluate this in terms of market action, is laying off, or selling what it has.

* * *

I find the same general feeling among industrialists (those I've spoken to) who see the threat of a war as unsettling to their businesses, e. g., allocations of scarce material, quotas, etc. It's all quite confusing. The only thing that isn't confusing is the stock market, and its lack of confusion rests on the fact that it is doing nothing one way or another.

* * *

But if the general feeling is that the shooting will begin I feel that the present unsettled market condition comes from domestic rather than foreign difficulties. The question of prices, their control, the halting of the inflationary spiral, are all basic. A situation where an industry raises wages and then increases prices of its products so that fewer people can afford them is too fantastic to picture. Yet, that is what is happening every day.

* * *

An evaluation of any stock today based on past earnings is almost without meaning. Where there was a potential market of a million buyers a year ago for product X, it has now dwindled to perhaps 500 thousand. And if the rate of increase continues it will become half that. The automobile is an example. List prices go up almost daily and behind them are the under-the-table deals. The same thing holds true in almost every other field. Both political parties are leveling charges at each other and making big noises but neither is doing anything.

* * *

Some weeks ago when I first advised caution, a condition I foolishly abandoned too soon, I saw what I believed were certain signals. Later I saw what to me seemed good buying. Unfortunately the latter disappeared and nervous selling took its place. Under usual market conditions such selling frequently is absorbed by shrewd buyers. In this instance the past buyers didn't sell their stock but simply stepped back and let the market go. The result is what you saw — a decline. When the situation will be corrected I can't say; the market isn't saying anything.

* * *

It becomes tiresome and repetitious to advise a do-nothing policy. But until the market itself gives a clue it is the only policy to follow.

**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.]*

**Pacific Coast Securities**

**Orders Executed on Pacific Coast Exchanges**

**Schwabacher & Co.**

*Members*
*New York Stock Exchange*
*New York Curb Exchange (Associate)*
*San Francisco Stock Exchange*
*Chicago Board of Trade*

14 Wall Street New York 5, N. Y.
COrtlandt 7-4150 Teletype NY 1-928
*Private Wires to Principal Offices*
San Francisco — Santa Barbara
Monterey — Oakland — Sacramento
Fresno

## COMING EVENTS

In Investment Field

**Aug. 27, 1948 (Denver, Colo.)**
Bond Club of Denver-Rocky Mt. Group of IBA joint Annual Party at Park Hill Country Club

**Sept. 10, 1948 (New York City)**
Security Traders Association of New York Summer Outing at Travers Island.

**Nov. 13, 1948 (Chicago, Ill.)**
Bond Traders Club of Chicago Luncheon for members of NSTA passing through Chicago on way to the Convention.

**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.

## C. F. Mead & Co. Formed

(Special to THE FINANCIAL CHRONICLE)

MARIETTA, OHIO—Carl F. Mead has formed C. F. Mead & Co. to engage in the securities business from offices at 138 Putnam Street. Mr. Mead was formerly President of the New First National Bank of Marietta.

## Stroh Joins Beadling Co.

(Special to THE FINANCIAL CHRONICLE)

YOUNGSTOWN, OHIO—Thomas W. Stroh has become associated with Beadling & Co., Union National Bank Building, members of the Cleveland Stock Exchange. In the past he was with Otis & Co. and Butler, Wick & Co.

# Secretary Snyder Upholds Credit Curbs

(Continued from page 8)

and particularly to commend the American Bankers Association for its program to secure the maximum voluntary curtailment in the extension of bank credit.

But, in the present situation, I think that it is clear that prudence requires that additional instruments — to supplement the voluntary action of the bankers — be placed in the hands of the Federal Reserve System.

At this point I would like to refer to some previous testimony before two committees of the Congress last November:

"In reference to the second part of item 1 'Some restriction should be placed on inflationary bank credit,' this is a matter under the jurisdiction of the Board of Governors of the Federal Reserve System which has the responsibility for overall bank credit control. Mr. Eccles has discussed this matter with you in considerable detail. He and I have discussed it together on a number of occasions and we are entirely in agreement that the objective is fundamental to the inflation control program."

In order again to clarify the background of the legislative history, I would like to inject here a statement by the Chairman of the Federal Reserve Board on Dec. 10 at the conclusion of the hearings that were conducted at that time:

"In view of the fact that some of the press has emphasized a difference in viewpoint between Secretary Snyder and myself in regard to the Board's so-called special reserve proposal, I would like to take this opportunity to clarify the record. I have discussed the matter with the Secretary. The fact is that the area of agreement between us is much more complete than has been represented. Such difference as exists is in evaluating the degree of restraint on inflationary expansion of bank credit that would be exerted by the special reserve requirement. He has expressed to this Committee some doubt as to its effectiveness. I am more sanguine about it. We both feel that whether the special reserve is needed at all or whether some stronger measure of restraint may be needed next year depends on factors which cannot be determined in advance with certainty at this time. We are in full agreement:

"(1) That the most effective anti-inflationary measure has been and should continue to be a vigorous fiscal program to insure the largest possible budgetary surplus consistent with the government's obligations at home and abroad.

"(2) That coupled with an intensified savings bond campaign, the program accomplishes two vital purposes. To the extent that savings of the public are invested in savings bonds, spendable funds are taken out of the market place at this time of excessive demand and insufficient supply and can be used to pay off maturing debt held by the banking system. Likewise a budgetary surplus can be used to reduce bank-held debt. Both measures reverse the process by which the money supply was increased during the war and are effective anti-inflationary influences.

"(3) That the program which the Treasury and the Open Market Committee have been pursuing during the year has been effective and will continue to exert restraint during the next few months, when the Treasury will continue to have a substantial cash balance that can be used to reduce bank-held public debt.

"(4) That some additional restraint may be expected as a result of the joint statement of Federal and State bank supervisory authorities cautioning banks against overextension and inflationary lending.

"(5) That the problem will present a different phase when current debt-payment operations are no longer available. If it appears that other restrictive steps are needed, increased reserve requirements or possibly some stronger measure may be necessary.

"(6) That this will depend on the course of events and in part upon self-imposed restraint by the banking community, which has gained a broader understanding of the problem as a result of discussions before Congress and in the press.

"(7) That the Board's proposal is not in any sense a substitute for but a supplement to the fiscal program and direct action on other fronts where inflationary forces are generated but cannot be corrected by monetary and fiscal policy alone.

"(8) That under present and prospective conditions it is essential to maintain the established 2½% rate on long-term marketable government securities.

"(9) That restraints should be reinstated on instalment credit.

"The area of disagreement, therefore, narrows down to whether the special reserve would be appropriate if additional measures prove necessary to limit the now unrestricted access of the banking system to reserves upon which a multiple expansion of bank credit can be built."

I go back to my testimony before the other committees:

"I would like to point out that I have a positive feeling that the major objective at this time is to maintain the fiscal soundess of the government and the continued confidence of the public in government obligations. I feel that the attack on the problem can best be handled by the application of a substantial budget surplus to the reduction of the public debt in the manner which will extinguish an equivalent amount of bank-held government securities. . . ."

I go back now to my prepared testimony. To repeat one sentence: "In the present situation, I think that it is clear that prudence requires that additional instruments to supplement the voluntary action of the bankers be placed in the hands of the Federal Reserve System."

The legislation before your Committee would accomplish this objective. It authorizes the Board of Governors of the Federal Reserve System to increase member bank reserve requirements against demand deposits by 10 percentage points and against time deposits by 4 percentage points. These permissible increases would be in addition to the existing statutory maxima, and could be applied flexibly to demand deposits in general, or to those in banks in central reserve cities, in reserve cities, or in other places, separately; or to time deposits, as required. The bill provides that these changes in reserve requirements shall not continue in effect beyond June 30, 1950.

The situation—which has changed Mr. Chairman, since my brief previous testimony—is the fact that we no longer have the prospects of a surplus for the Treasury to use against inflationary pressures.

Reserve requirements, at the present time, are at their statutory maxima for time deposits in all banks, and for demand deposits in all banks except those in central reserve cities. The present reserve requirement for demand deposits in banks in central reserve cities is 24%, as compared with a statutory maximum of 26%.

The only remaining authority of the Board of Governors to tighten credit conditions through the medium of increasing reserve requirements, applies, therefore, to banks located in central reserve cities. But these banks have shown the least credit expansion in the recent past of any class of bank. It is clear, consequently, that the remaining power of the Board of Governors to increase reserve requirements is not well suited to the nature of the problem which now confronts us. The proposed legislation would remedy this by providing the Board of Governors with authority to cope with the excessive expansion of bank credit—whenever this may best be done by the required reserve method—in the class of bank where such control seems most needed.

# The Economic Situation

(Continued from page 9)

leading industries. Recent increases in automobile and electrical equipment industries have been within the general range of 5 to 15 cents an hour, which has been characteristic this year where any increases at all have been negotiated.

* * *

Question: Now that you are discussing wages, Governor, I want to ask you whether they are high because prices are high or are prices high because wages are high?

**Answer:** I am glad you asked that because there seems to be so much misunderstanding about it. Basically prices, wages, and profits are all high because of heavy demands for goods. It needs to be remembered that wages are not the only business cost; that, particularly in times like these, many prices are not very closely related to costs; and that consequently care should be taken in attributing price increases to wage increases.

* * *

Question: But wage increases add to costs and they add to incomes so they must have some influence on price increases.

**Answer:** They most certainly do. Actually these things are all interrelated, which is one reason why we talk about the "inflationary spiral." Such a spiral once under way is difficult to stop. In a period of heavy demand and rising prices, increases in prices and wages reinforce each other. Only those who receive fixed incomes can claim that they do not contribute to the spiral.

* * *

Question: Governor, there is another question I would like to ask you in this connection—has the banking system contributed to the rise in prices by expanding loans?

**Answer:** Earlier I mentioned that during the war the banks loaned a great deal of money to the Government, which the Government spent for war purposes, and this resulted in an increase in the purchasing power people held. In the last two years the Government has raised more in taxes than it has spent and with the surplus has paid back some of these loans, which has tended to reduce the supply of money. But bank loans to private business and to consumers have expanded sharply since the war, tending to increase spending.

* * *

Question: Have bank loans continued to rise this year?

**Answer:** Loans for commercial and industrial purposes have not

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risen since the beginning of the year, partly because of seasonal influences and partly because of substitution of other means of financing. Also, banks have shown some restrain in making loans. Loans on real estate have continued to rise rapidly, despite some restrictive policies; and so also have consumer loans.

* * *

Question: Do you regard increases in loans as a cause or a result of rising prices?

**Answer:** Extension of credit since the war has in some degree made possible more production, but borrowed funds have also been used to compete for a limited supply of goods, thereby adding to the pressure on prices. Higher prices in turn have required larger loans to finance a given physical volume of business.

* * *

Question: How about loans to foreign countries? Haven't they been sizable and helped push up prices?

**Answer:** Yes, Federal loans and grants to foreign countries have been large and they have contributed to increases in prices of domestic commodities, but it is a cost that we have willingly assumed in order to assist in relief and recovery abroad. Even without United States assistance, however, foreign demands would have been very large relative to prewar because of wartime shortages of goods and accumulations of gold and dollar balances.

* * *

Question: You have been discussing so far the influence on prices of various demands for goods. Now, would you tell us something about supplies? How large has production been?

**Answer:** Total physical production of goods and services has been two-thirds higher this year than in the 1935-39 period; output of manufactured goods has been double the prewar average. Of course, that period was quite a while ago and since then the population has increased by 11%. Also, there were many unemployed in the 1935-39 period. Even so, the present production level is very high — practically at peacetime capacity with present equipment.

* * *

Question: You are emphasizing then that in spite of a very large volume of output since the end of the war the pressure for price increases has been very great.

**Answer:** Yes, and this pressure was particularly evident in the latter part of 1946 when practically all price controls except those over rents were removed. This action was taken partly with the hope that production could thereby be increased. Since then, in the past year and a half, production has increased, but by only a moderate amount because of capacity limitations, and prices have advanced further.

* * *

Question: Has the high level of production since the war eased the shortages of goods prevailing then?

**Answer:** Yes, quite a little. Merchants and manufacturers have been able to substantially increase their stocks of goods. More—though not enough—housing accommodations have become available. Consumers have satisfied some of their more urgent deferred demands for goods not available in wartime. In some lines, as in the shoe industry, supplies have exceeded demand and output has been curtailed.

* * *

Question: Have there been any periods when supplies of goods generally seemed to be catching up with or exceeding demand?

**Answer:** Such appeared to be the case for a time in the second quarter of 1947 when hesitation was noticeable in a number of markets, even reducing production in a number of lines for a short time; but a new wave of buying and price rises occurred in the summer and autumn, stimulated partly by short feed grain crops and new plans for aid to Europe, and production later reached new peak levels.

* * *

Question: How about the situation since then?

**Answer:** Early this year there again was some hesitation in buying, as grain prices declined sharply on prospects of excellent crops in this country and abroad, but demand has since increased again owing in part to the actual and anticipated effects of a reduction in taxes, increased foreign aid, and the expanded armament program. Generally, production has been close to capacity levels and supplies of some important products, such as steel, have continued to fall short of demands. Upward presures on prices and wages have been strong.

* * *

Question: Can it be expected that prices, wages and profits, and the volume of bank credit will go on expanding indefinitely?

**Answer:** That is a very basic question. The answer which economists read from the pages of history is that booms come to an end, with serious consequences for production, employment, financial assets, and economic well being generally. The bigger the boom the more likely it is that the bust will be disastrous. That is why efforts should be made to check a boom and prevent the distortions in prices, production, profits, and the like which lead to severe reaction.

# Congress Stands Against One Man Government

(Continued from page 12)

of life against either Fascist or Communist trends.

"We believe that genuine social and economic progress can be achieved only on these American constitutional principles and it is our purpose to give our citizens this clean-cut choice."

That was the issue in 1946. Truman's sweeping proposals are clear proof that that is still the fundamental issue for 1948. That is his basic conflict with the Congress—a conflict between two different philosophies of government.

The Republican Congress, with understanding, courage and foresight, hailed the challenge for the preservation of the Republic and, reversing the ruinous New Deal policies, established solid foundations upon which our country is now going forward again.

### What Republican Congress Did

Here is what we did.

We liberated the people from seventy-six thousand rules, directives and orders, releasing their energies and capacities to produce goods urgently needed to maintain ourselves at home and our friends abroad. True, many things are yet in short supply. Why wouldn't they be with so many demands from abroad and at home? But this much can be said: except for the Republican Congress prices would be higher and houses scarcer today.

We cut the cost of government and balanced the Federal budget. We did away with unnecessary government functions and payrollers, pruned Mr. Truman's spendthrift budgets, and cut the national debt with the biggest surplus in the history of the nation. Excessive government spending is one of the causes of high prices. To cut the cost of government and pay on the national debt reduces inflationary pressure and cuts prices. Secretary of the Treasury Snyder just this month said as much, and then predicted that we are close on the edge of having government expenditures exceed receipts. Why, then, does Mr. Truman call for programs costing billions and billions of dollars to put us completely in the red and make inflation and high prices inevitable and permanent?

We cut personal income taxes with 71% of the tax relief going to persons with incomes of less than five thousand dollars. More than seven million in the lowest bracket now pay no taxes at all. That reduces the price of everything we buy, from a haircut to an automobile, and also puts more money in the hands of consumers. Also, tax reduction has stimulated much-needed production.

We passed the Taft-Hartley Act providing fair and just procedures for peaceful settlement of labor-management disputes. Labor's right to organize, bargain collectively and strike is fully protected. Rights of employers and the general public are also safeguarded. Peaceful settlement of disputes is going forward. Labor is obtaining good contracts, and above all, production is proceeding without interruption. That is the production so badly needed to keep prices down, and meet our commitments at home and abroad.

We have exposed the Communists and battled for the elimination of Communists, Fascists and other subversives from the Federal Government and other places where they can carry on their nefarious schemes to wreck our country.

We have aided foreign nations. We have appropriated billions to relieve impoverished humanity in foreign countries, to re-establish their economies, and restrain communist aggression. This has been done with the full knowledge that the great export of goods involved would necessarily raise prices in this country as well as add to inflationary pressures because of the great spending involved. But the Congress with the people, and at the President's request, believed this aid program to be in the national interest. High prices resulting from such foreign aid programs should not be charged to the Republican Congress in an effort to get votes as Mr. Truman seeks to do.

The tense international situation has required tremendous sums for national defense. We have provided for the national defense, with increased appropriations for all branches of the service, particularly the air corps, and with temporary selective service.

We have cared for the veteran and his dependents, passing 188 bills meeting needs of veterans, including increased compensation for the disabled, survivors of war dead, subsistence payments for student veterans, for on-the-job training, the cashing of terminal leave bonds, and aids for veterans' housing.

We generated a building boom through the removal of red-tape and unnecessary restrictions and by legislation directly aiding in the construction of homes, particularly for veterans.

We adopted a long-range farm program designed to give the farmer reasonable assurance for the future and at the same time stimulate the maximum production of much needed goods.

We forwarded reclamation, flood control, river and harbor improvement, rural electrification and rural road building. For these meritorious projects we appropriated record sums since they are all essential to expansion and protection of our national economy.

We expanded social security, passing a bill to increase payments for the needy, aged and blind.

We provided a cost-of-living increase for postal and other Federal employees.

We extended the reciprocal trade agreements act with fair amendments designed only to give proper consideration to American agriculture, labor and industry.

These and many other things we have done. The measures we enacted are benefiting every segment of our population and creating wholesome conditions for prosperity and happiness.

### A Record of Accomplishment

So this 80th Republican Congress has made a great record of accomplishment. It has made a record of which we who have helped in its achievement take justifiable pride. It is a record of which the overwhelming majority of the American people approve.

Of course, the work of the Congress is never done. Always there will be something which someone believes should be enacted and probably ought to be enacted. Possibly we might have been able to do a few more things before we adjourned a few weeks ago had the President stayed here in Washington on the job, working with the Congress, instead of playing hookey and going across the country at the expense of the taxpayers on a political expedition.

But that is water over the dam. Today, it is undoubtedly true that some prices are too high, and we do not have all the housing we need. The Republican Congress has been considering the whole situation and will continue to do so.

Beyond that, and looking at things about me, I am not as pessimistic as some about the future. Everywhere I see homes being built, utilizing every available nail and board and man. In my own State of Indiana and elsewhere I see the most bounteous crops ever to favor a grateful people. As they are being harvested, prices are dropping way below the peaks of the past. Inevitably that means decreasing consumer prices for foodstuffs. In all of these things, Washington can help and is helping, but the big job of actual production must be done in the country.

One thing finally, the Republican program, as such, must necessarily be enacted when we have a Republican President to cooperate with a Republican Congress when we meet next January. We shall elect Dewey and Warren, and a Republican Congress, in November, and then we shall move to the complete accomplishment of our program.

# Present Inflation and President's Program

(Continued from page 6)

structive program of eight measures to stop inflation. This program has been incorporated into the Anti-Inflation and Excess Profits Tax Bills which, it is hoped, Congress will consider and adopt. These bills are designed to halt further increases in the general level of prices by a comprehensive program that attacks the problem at all the strategic points. This is necessary to deal both with the basic cause of the inflation and with the factors that cause it to spread through the whole price system.

The proposed bill deals with all of these points except taxation, which will be covered in another bill.

Title I of the present bill authorizes the reimposition of control for two years over consumer credit by the Board of Governors of the Federal Reserve System, but only with respect to installment credit.

Title II authorizes the Federal Reserve System for two years to increase the reserves that member banks are required to hold against demand and time deposits.

Title III authorizes the establishment of control over key prices and wages and then only under specified conditions. I do not propose at this time to treat with the standards in the pricing and wage provisions. The Committee has just received the bill and I will be glad to appear in support of the criteria used at the pleasure of the Committee and when the members have had the opportunity to study its provisions in greater detail.

Title IV gives the President power to establish allocations and inventory control over scarce materials or facilities that basically affect production or the cost of living and where they are necessary to fulfill defense requirements, carry out U. S. foreign policy or curb inflation, and also to establish priorities where necessary for these purposes. It is under this Title that rationing would be established for key cost-of-living commodities in the event such rationing should become necessary. This Title also extends export control powers to June 30, 1950.

Title V authorizes the Housing Expediter to establish or re-establish maximum rents and strengthen enforcement.

Title VI gives the Secretary of Agriculture authority to regulate margins in connection with trading on the commodity exchanges, a power which he does not now have.

Title VII establishes an Anti-Inflation Coordinator in the Executive Office of the President to coordinate the anti-inflation activities of the executive agencies and an Anti-Inflation Advisory Board to advise the Coordinator; requires the President to submit a report to Congress at least once every quarter on the progress made in controlling inflation and on desirable legislative action; and contains certain miscellaneous provisions.

The process of inflation is characterized by three inter-related phases. First, there is the excess of total demand—by consumers, business, government and foreign countries—over available supplies at existing prices.

The effects of this initial phase are then intensified by the price-wage spiral. Finally, an increasing credit and money supply is essential to support the operations of the economy at the higher income and price levels; and the increased money supply in turn tends to reinforce the excess demand.

An effective anti-inflation policy must at the same time limit the increase in total demand and, by selective action, bring to a halt the inflationary spiral. Without support of other measures a restrictive credit policy would have to be so drastic to combat inflation that it would run the risk of causing a depression.

### Excessive Demand, Basic Inflation Cause

No anti-inflationary policy can be effective that does not deal with the basic cause of inflation, the excessive demand. Since government expenditures and foreign

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# Present Inflation and President's Program

(Continued from page 35)

aid are determined by considerations of national policy of high priority, consumer and business demand must be limited and brought in line with available supplies of goods.

Most business expansion is financed by undistributed profits, some by bank credit and some by new capital issues. Adoption of an excess profits tax and legislation that authorizes some tightening of bank credit controls are the most suitable means for limiting business expansion without interfering with desirable investment in bottleneck industries.

One method of limiting consumer demand is the reestablishment of consumer credit control. Higher down payments and shorter maturities for instalment credit will limit other consumer expenditures at a time when supplies are still scarce. It should be frankly recognized that the tax relief given by the Congress to many people who are not among those hardest hit by the price rise has added billions to consumer purchasing power and has made more difficult the task of limiting it.

The curtailment of total demand, unless pursued drastically at the danger of causing a depression, will not in itself do the whole job. There is a momentum in the inflationary spiral that will continue even if the basic cause, excess demand, is effectively reduced.

There are prices that will increase because of past developments. Meat supplies will be low and meat prices high because of last year's short corn crop and high feeding costs. Wage demands are related to price increases of the past. A continued price-wage spiral may multiply even a small excess of demand that otherwise could be absorbed by an early increase in productivity and supplies. With respect to such a price-wage spiral, it is true that the best way to stop inflation is to stop it. If a price rise in items essential in the cost of living, like meat, or in industrial production, like steel, can be prevented, the basis is laid for a stabilization of prices and wages. Labor leaders have stated repeatedly that wages can be stabilized if the cost of living is held and if excessive profits are taxed. Gradual increases in the amounts of profits and in wages and gradual reduction of prices would then again become the method by which producers and consumers share in the fruits of technological progress and increased productivity.

It has been said that price and wage controls try to cure the symptoms ratner than the cause of inflation. This argument overlooks the fact that the price-wage spiral is not only the result of inflation but also causes further inflation.

A reasonable policy involving a minimum of risk, therefore, should provide for a combination of various measures, some designed to curtail total demand, others to halt the inflationary spiral. In such combination, no measure needs to be applied drastically because each gives support to the other.

What we want, therefore, is a program which will hold inflation without incurring the risk of causing a depression. All of these requirements, we believe, are met by the balanced program proposed by the President. This program is embodied in the two bills before the Congress.

These bills should be regarded as a means of reducing excess demand; of restraining increases in prices and wages at key points which, directly and indirectly, influence the entire price and wage structure; and finally of securing the most desirable distribution of the chief scarce commodities. We do not expect these measures to reduce the general price level now. We do expect them to end the upward march of prices and to reduce, so far as is possible at this late date, the threat of future collapse.

I have attempted to give you only a brief outline of the seriousness of the present inflationary situation, of the need for effective action by our government, and a summary of the comprehensive program submitted by the President to supply this action. I have not attempted to present a detailed statistical picture of the many facets of our economic situation which support the need for this program. We stand ready to supply you with whatever facts or analysis on specific or general points you may desire in the consideration of this program. The collective impact of individual studies, however, can only emphasize the general conclusion indicated by the over-all picture: inflationary pressures are still with us, prices are still rising and the living standards of large numbers of our people are being progressively impaired. Thus the basis for national prosperity becomes increasingly precarious.

I have also attempted to approach this problem without the hysteria which too often accompanies a discussion of matters touching so closely the interests of various groups in the economy. American industry, labor and agriculture are producing at a record rate. We are not faced with the hyper-inflation or the intense general shortages that are present in most other parts of the world. The American dollar will not become worthless. Disaster may not be just around the corner. But the prospect that the patient will not die is no excuse for subjecting him to great suffering and misery.

There is also no point in attempting to assess the blame, among the various groups in the community, for what has happened or is happening to prices. I, for one, do not believe that such an assessment is possible. There is loose talk about profiteering by business or greediness on the part of labor and farmers. But despite some unfortunate monopolistic elements which exist, prices are still established throughout most of our economy in greater or less degrees in the market place, by the inter-action of supply and demand. We cannot expect the farmer to sell his wheat for less than the market price because you or I may feel that it would be in the public interest for him to do so; nor can we expect other groups individually to substitute your or my idea of the public interest for normal competitive practices in determining their returns. Our present price structure is the natural result of the operation of our economic system of private enterprise under the abnormal conditions of this post-war period. History indicates that nothing so weakens a system of free private enterprise as extreme instability of the type we are now experiencing. The blame can be laid only at the door of a government which miscalculates its responsibilities and negelects to provide measures to protect the system from the temporary and abnormal pressures carried over from the war. We propose, even at this late date, that this neglect be remedied.

### Says President Does Not Have Power

*Appearing before the Senate Banking and Currency Committee on August 2, four days after making the foregoing remarks, Mr. Porter refuted statements that the President already has sufficient power to control inflation and defended the "easy money" policy of the Administration. He also urged the enactment of the Taft-Ellender-Wagner Housing Bill. The portion of his testimony relating to these matters follows:*

In the past week, I have noted at least three fallacies now being urged by those who would apparently prefer to condemn this country to the miseries of inflation rather than take the unpleasant steps that this program calls for. The first of these is the repeated assertion that the President has ample power to deal with inflation and that Congress should not authorize additional measures. The record does not sustain this assumption. The reservoir of presidential powers in the type of emergency that we now experience is not unlimited. There presently exists no authority to control prices by direct regulation or to require the allocation of scarce commodities and materials for essential purposes. Such powers are asked for in the pending bill and are basic and indispensable to any attack on the problems of high prices and inflation.

It has also been asserted that the President now has authority to proclaim some kind of new emergency and thus, invoke consumer credit controls. The Joint Economic Committee, the Banking and Currency Committee of the Senate and the Senate as a whole reenacted the authority to continue consumer credits. They were repealed in the House. It is my opinion as a lawyer that there is grave doubt as to whether the President has the real authority to invoke consumer credit control under the existing law. But assuming that that authority existed, that one action alone would be insufficient to maintain stability or seal off the increases in prices that are growing every day.

It has been said before the committees of Congress that present inflationary conditions are the result of "easy money" policies. Many of those who would reject the President's proposals appear to take refuge in the assumption that some manipulation of red'scount rates, abandonment of the government support of the bond market or other credit and monetary policies would remove the basic cause of inflation. This committee has explored exhaustively these policies and the mechanisms now in effect. I trust that you have reached the conclusion that no real restraint can be put upon prices by credit restrictions alone. I further hope that the evidence has established that the abandonment of existing policies would place in jeopardy the savings of many small investors and bondholders and strike a fundamental blow to the confidence which is essential if we are to maintain full employment, relatively stable prices and avoid the prospect of a major depression.

It is my personal belief that the government should strenuously resist any proposal that the price of long-term 2½% bonds be permitted to drop "a little below par." Par is a fixed point which the people understand; if it is abandoned, small investors and bondholders would never have any confidence in official assurance that some other price would really be protected.

There has been the repeated suggestion that exports are responsible for the high price level and existing inflationary conditions. I have attempted to avoid hyperbole in my presentation to the Congress of this issue. However, I cannot refrain from characterizing the claim that the net export of 2½% of our gross national product is the cause of inflation as sheer nonsense.

### Rising Prices and Housing

Finally, it has been asserted that the President's program, taken as a whole, does not make "economic sense." This attack is based principally upon the claim that a plan to check rising prices is in contradiction with a program to stimulate the construction of low-cost housing. What are the facts?

In the first six months of this year, 450,000 permanent non-farm dwelling units were started, as compared with 355,000 in the first six months of 1947. Units completed probably amounted to at least 500,000 in the first half year, compared to 360,000 in the corresponding period last year and 832,000 during all of 1947. If present trends continue one million units may well be completed in 1948.

It should be recognized, however, that the completion of one million units this year will be possible as the result of a hold-over of housing starts from last year. It is likely that new starts—especially starts of rental housing—from now on will fall off unless the legislation embodied in the Taft-Ellender-Wagner Bill is enacted. Without that legislation next year's housing record will probably be well under the one million completions expected this year.

Even the supply of new housing so far constructed has fallen far short of meeting the heavy volume of housing demand. Housing prices and costs of construction have continued to rise, but more slowly than in 1947. Far too much of current production is priced well above the ability of most consumers to pay for it.

Mortgage loans made on new and existing 1-4 family houses are running at an annual *rate* of $11 billion for the first half of 1948, compared to less than $3.8 billion in the last prewar year of 1941. The outstanding *volume* of such loans has risen since December, 1945 from $20 billion to about $33 billion. About one-third of the outstanding volume of home mortgage debt is insured or guaranteed by the Federal Government, through the G.I. and FHA programs.

Mortgage loans made on multi-family dwelling units are much smaller. The only figures available are those for FHA loan insurance on such units, which was running at an annual rate of $720 million in the first six months of 1948. Unless new legislation is adopted, a substantial drop in such rental housing is to be expected. The FHA Title VI insurance program was responsible for a large proportion of new rental construction, and new commitments under that program ceased April 30, 1948.

Except for the period of the Wyatt program, when allocations, priorities, and construction controls were used, the principal powers available to the Federal Government to encourage the construction of sales and rental housing have been credit aids. The G.I. loan program, adopted in 1944 as one of the measures to promote the readjustment of veterans to civilian life, was amended in 1945 by the liberalization of appraisal standards, by doubling the maximum amount of the loan guaranty, and by numerous other amendments.

The FHA war housing insurance program (Title VI), which had been deliberately permitted to expire late in 1945, was revived and substantially liberalized in May, 1946. It was successively extended until April 30, 1948, when it expired.

These programs have been successful in bringing about an increase in housing construction, and in getting both new and existing houses into the hands of veterans.

It was recognized by the Congress and the Administration that these credit aids, while increasing the volume of housing, would necessarily add somewhat to the inflationary pressures in the economy. In view of the urgent national need for housing, these inflationary risks had to be accepted —just as the inflationary risks of ticularly recognized in the revival a strong national defense program have had to be accepted.

Such a calculated risk was parand extension of the FHA Title VI program. In recent months, approximately 40% of the total non-farm housing starts have been made under the FHA insurance system—an indication of the importance of this program. It must be clearly recognized that in the long run, a sustained, high volume of housing production is the only sure way of correcting the present inflation in the housing market.

Every practicable anti-inflationary safeguard should of course be incorporated in the housing program. This has been recognized consistently. Last fall the President directed the Administrator of the newly-created Housing and Home Finance Agency to review the problem and recommend appropriate proposals for legislative and administrative action.

It was found that the existing legislation left little room for further practicable administrative action which would decrease its inflationary effects. Therefore, a number of legislative recommendations were submitted to the Congress by the President in February, which are incorporated in the Taft-Ellender-Wagner Bill as it passed the Senate.

That Bill includes amendments to place appraisal standards on a more conservative basis, particularly on 1-4 family housing insured under Title VI, and to begin the transition from Title VI to more permanent forms of credit assistance. It also includes a number of provisions designed to lower housing costs, such as provisions for research, and financial aids for large-scale methods of construction, both on-site and in factories.

Furthermore, the Taft-Ellender-Wagner Bill is consistently designed to make financial aids available principally for the types of housing most urgently needed, such as low-rent housing and low-priced sales housing. Thus the Bill is designed both to stimulate cost reduction and to divert more of our productive capacity to the low-priced field where housing is most needed.

The argument has been made that the Taft-Ellender-Wagner Bill is unnecessarily inflationary at a time when labor and materials are being used to capacity. Such an argument fails to realize the following significant points:

(1) Without the credit aids to private enterprise, it is doubtful that present rate of construction will be maintained next year.

(2) There is every reason to expect that the materials supply will continue to improve during off-building season and that supply factors will be significantly improved by next spring.

(3) The Bill recognizes in its slum clearance provisions that it would be unwise to compete heavily now for limited materials and labor. Expenditures for slum clearance are limited to planning work for the next year; actual clearance work could be defered two years in areas of shortage. The importance of these provisions is the need to begin the necessary and time-consuming planning work in connection with this program.

Furthermore, if the President's anti-inflation program is enacted, certain other actions will be possible to lesson the inflationary aspects of a full-scale housing program. The authority to allocate scarce materials could be used to limit less urgently needed construction in favor of low-cost and rental housing, and the authority to establish price ceilings could be used to hold down the cost of some building materials.

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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) | Aug 8 | 94.2 | 93.1 | 90.3 | 94.9 |
| Equivalent to— | | | | | |
| Steel ingots and castings produced (net tons) | Aug 8 | 1,697,900 | 1,678,100 | 1,672,600 | 1,660,700 |
| **AMERICAN PETROLEUM INSTITUTE:** | | | | | |
| Crude oil output—daily average (bbls. of 42 gallons each) | July 24 | 5,447,800 | 5,444,450 | 5,493,900 | 5,083,650 |
| Crude runs to stills—daily average (bbls.) | July 24 | 5,591,000 | 5,633,000 | 5,674,000 | 5,202,000 |
| Gasoline output (bbls.) | July 24 | 17,879,000 | 17,524,000 | 17,938,000 | 16,166,000 |
| Kerosine output (bbls.) | July 24 | 2,166,000 | 2,207,000 | 2,350,000 | 1,903,000 |
| Gas oil and distillate fuel oil output (bbls.) | July 24 | 6,625,000 | 7,382,000 | 7,200,000 | 5,777,000 |
| Residual fuel oil output (bbls.) | July 24 | 8,825,000 | 9,008,000 | 8,858,000 | 8,737,000 |
| Stocks at refineries, at bulk terminals, in transit and in pipe lines— | | | | | |
| Finished and unfinished gasoline (bbls.) at | July 24 | 100,641,000 | 100,701,000 | 104,178,000 | 85,955,000 |
| Kerosine (bbls.) at | July 24 | 20,382,000 | 19,773,000 | 18,436,000 | 16,962,000 |
| Gas oil and distillate fuel oil (bbls.) at | July 24 | 54,756,000 | 53,385,000 | 45,166,000 | 45,047,000 |
| Residual fuel oil (bbls.) at | July 24 | 64,556,000 | 63,170,000 | 58,812,000 | 52,414,000 |
| **ASSOCIATION OF AMERICAN RAILROADS:** | | | | | |
| Revenue freight loaded (number of cars) | July 24 | 882,566 | 892,527 | 888,582 | 919,928 |
| Revenue freight rec'd from connections (number of cars) | July 24 | 685,161 | 654,015 | 708,067 | 694,509 |
| **CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS-RECORDS:** | | | | | |
| Total U. S. construction | July 29 | $114,276,000 | $143,213,000 | $160,923,000 | $100,834,000 |
| Private construction | July 29 | 52,226,000 | 69,784,000 | 74,643,000 | 66,216,000 |
| Public construction | July 29 | 62,050,000 | 73,429,000 | 86,280,000 | 34,618,000 |
| State and municipal | July 29 | 48,377,000 | 63,277,000 | 64,477,000 | 25,840,000 |
| Federal | July 29 | 13,673,000 | 10,152,000 | 21,803,000 | 8,778,000 |
| **COAL OUTPUT (U. S. BUREAU OF MINES):** | | | | | |
| Bituminous coal and lignite (tons) | July 24 | 12,130,000 | 12,220,000 | 12,800,000 | 11,798,000 |
| Pennsylvania anthracite (tons) | July 24 | 1,191,000 | 1,070,000 | 1,116,000 | 1,117,000 |
| Beehive coke (tons) | July 24 | 139,800 | *79,200 | 144,300 | 137,000 |
| **DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100** | July 24 | 231 | 236 | 263 | 213 |
| **EDISON ELECTRIC INSTITUTE:** | | | | | |
| Electric output (in 000 kwh.) | July 31 | 5,352,439 | 5,342,127 | 5,165,825 | 4,805,740 |
| **FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.** | July 29 | 98 | 91 | 103 | 69 |
| **IRON AGE COMPOSITE PRICES:** | | | | | |
| Finished steel (per lb.) | July 27 | 3.77117c | 3.24473c | 3.24473c | 3.16613c |
| Pig iron (per gross ton) | July 27 | $43.72 | $42.96 | $40.51 | $36.38 |
| Scrap steel (per gross ton) | July 27 | $43.16 | $41.33 | $40.66 | $40.83 |
| **METAL PRICES (E. & M. J. QUOTATIONS):** | | | | | |
| Electrolytic copper— | | | | | |
| Domestic refinery at | July 28 | 21.200c | 21.200c | 21.200c | 21.225c |
| Export refinery at | July 28 | 21.600c | 21.425c | 21.550c | 21.425c |
| Straits tin (New York) at | July 28 | 103.000c | 103.000c | 103.000c | 80.000c |
| Lead (New York) at | July 28 | 19.500c | 17.500c | 17.500c | 15.000c |
| Lead (St. Louis) at | July 28 | 19.300c | 17.300c | 17.300c | 14.800c |
| Zinc (East St. Louis) at | July 28 | 15.000c | 12.000c | 12.000c | 10.500c |
| **MOODY'S BOND PRICES DAILY AVERAGES:** | | | | | |
| U. S. Govt. Bonds | Aug. 3 | 100.71 | 100.78 | 100.88 | 103.70 |
| Average corporate | Aug. 3 | 111.81 | 112.37 | 112.75 | 117.20 |
| Aaa | Aug. 3 | 116.41 | 116.61 | 117.00 | 121.88 |
| Aa | Aug. 3 | 114.46 | 115.24 | 115.43 | 120.22 |
| A | Aug. 3 | 111.25 | 111.62 | 112.19 | 116.80 |
| Baa | Aug. 3 | 105.86 | 106.21 | 106.74 | 110.15 |
| Railroad Group | Aug. 3 | 107.98 | 108.16 | 108.70 | 112.56 |
| Public Utilities Group | Aug. 3 | 112.19 | 112.56 | 113.31 | 118.60 |
| Industrials Group | Aug. 3 | 115.63 | 116.22 | 116.41 | 120.63 |
| **MOODY'S BOND YIELD DAILY AVERAGES:** | | | | | |
| U. S. Govt. Bonds | Aug. 3 | 2.45 | 2.45 | 2.44 | 2.25 |
| Average corporate | Aug. 3 | 3.07 | 3.04 | 3.02 | 2.79 |
| Aaa | Aug. 3 | 2.83 | 2.82 | 2.80 | 2.56 |
| Aa | Aug. 3 | 2.93 | 2.89 | 2.88 | 2.64 |
| A | Aug. 3 | 3.10 | 3.08 | 3.05 | 2.81 |
| Baa | Aug. 3 | 3.40 | 3.38 | 3.35 | 3.16 |
| Railroad Group | Aug. 3 | 3.28 | 3.27 | 3.24 | 3.03 |
| Public Utilities Group | Aug. 3 | 3.05 | 3.03 | 2.99 | 2.72 |
| Industrials Group | Aug. 3 | 2.87 | 2.84 | 2.83 | 2.62 |
| **MOODY'S COMMODITY INDEX** | Aug. 3 | 431.9 | 432.1 | 434.7 | 419.1 |
| **NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:** | | | | | |
| Foods | July 31 | 244.3 | 245.8 | 242.2 | 223.9 |
| Fats and oils | July 31 | 225.1 | 235.0 | 286.5 | 195.1 |
| Farm products | July 31 | 276.1 | 273.3 | 275.5 | 258.2 |
| Cotton | July 31 | 313.0 | 317.8 | 349.6 | 344.4 |
| Grains | July 31 | 230.0 | 233.9 | 254.0 | 250.5 |
| Livestock | July 31 | 292.4 | 285.9 | 276.7 | 250.7 |
| Fuels | July 31 | 233.8 | 232.9 | 231.4 | 180.1 |
| Miscellaneous commodities | July 31 | 172.7 | 172.5 | 176.9 | 167.5 |
| Textiles | July 31 | 199.7 | 200.3 | 214.3 | 220.5 |
| Metals | July 31 | 181.8 | 167.4 | 166.0 | 158.4 |
| Building materials | July 31 | 231.9 | 228.3 | 228.4 | 216.1 |
| Chemicals and drugs | July 31 | 156.6 | 156.6 | 157.1 | 149.8 |
| Fertilizer materials | July 31 | 138.6 | 136.5 | 136.6 | 127.9 |
| Fertilizers | July 31 | 144.0 | 144.0 | 143.8 | 135.0 |
| Farm machinery | July 31 | 143.1 | 140.2 | 140.2 | 127.1 |
| All groups combined | July 31 | 228.0 | 226.0 | 226.8 | 206.7 |
| **NATIONAL PAPERBOARD ASSOCIATION:** | | | | | |
| Orders received (tons) | July 24 | 159,210 | 138,409 | 160,314 | 163,539 |
| Production (tons) | July 24 | 175,182 | 157,641 | 187,408 | 176,856 |
| Percentage of activity | July 24 | 91 | 84 | 97 | 99 |
| Unfilled orders (tons) at | July 24 | 360,981 | 372,739 | 336,183 | 458,672 |
| **OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100** | July 30 | 145.3 | 145.6 | 146.9 | 141.2 |
| **WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:** | | | | | |
| All commodities | July 24 | 168.2 | 168.9 | 166.7 | 150.6 |
| Farm products | July 24 | 194.6 | 198.1 | 198.4 | 182.0 |
| Foods | July 24 | 190.4 | 191.2 | 183.0 | 167.1 |
| Hides and leather products | July 24 | 189.5 | 189.1 | 188.6 | 173.6 |
| Textile products | July 24 | 148.1 | 148.0 | 149.1 | 138.6 |
| Fuel and lighting materials | July 24 | 136.5 | 135.8 | 134.0 | 108.9 |
| Metal and metal products | July 24 | 160.9 | 160.9 | 158.8 | 143.6 |
| Building materials | July 24 | 198.0 | 197.9 | 197.4 | 174.8 |
| Chemicals and allied products | July 24 | 132.9 | 134.5 | 135.5 | 117.9 |
| Housefurnishings goods | July 24 | 145.9 | 145.9 | 145.0 | 131.3 |
| Miscellaneous commodities | July 24 | 119.2 | 119.4 | 121.2 | 116.4 |
| Special groups— | | | | | |
| Raw materials | July 24 | 184.6 | 186.4 | 185.2 | 166.0 |
| Semi-manufactured articles | July 24 | 154.5 | 154.7 | 153.9 | 145.3 |
| Manufactured products | July 24 | 163.1 | 163.4 | 160.5 | 145.0 |
| All commodities other than farm products | July 24 | 162.3 | 162.4 | 159.7 | 143.7 |
| All commodities other than farm products and foods | July 24 | 150.6 | 150.4 | 149.9 | 133.7 |

*Revised figure.

| | Latest Month | Previous Month | Year Ago |
|---|---|---|---|
| **ALUMINUM (BUREAU OF MINES—** | | | |
| Production of primary aluminum in the U. S. (in short tons)—Month of May | 55,450 | 53,277 | 51,116 |
| Stocks of aluminum—short tons (end of May) | 13,868 | 9,258 | Not avail. |
| **AMERICAN GAS ASSOCIATION — For Month of June:** | | | |
| Total gas sales (M therms) | 2,245,092 | 2,470,358 | 2,110,831 |
| Natural gas sales (M therms) | 2,007,558 | 2,204,179 | 1,847,537 |
| Manufactured gas sales (M therms) | 167,263 | 182,003 | 165,179 |
| Mixed gas sales (M therms) | 70,271 | 84,176 | 98,115 |
| **AMERICAN PETROLEUM INSTITUTE—Month of May:** | | | |
| Total domestic production (bbls. of 42 gallons each) | 182,646,000 | 176,213,000 | 166,416,000 |
| Domestic crude oil output (bbls.) | 170,574,000 | 164,509,000 | 156,024,000 |
| Natural gasoline output (bbls.) | 12,044,000 | 11,676,000 | 10,342,000 |
| Benzol output (bbls.) | 28,000 | 28,000 | 50,000 |
| Crude oil imports (bbls.) | 10,293,000 | 9,757,000 | 8,703,000 |
| Refined products imports (bbls.) | 4,519,000 | 5,048,000 | 5,625,000 |
| Indicated consumption—domestic and export (bbls.) | 184,006,000 | 182,950,000 | 172,944,000 |
| Increase—all stock (bbls.) | 13,452,000 | 8,068,000 | 7,800,000 |
| **COKE (BUREAU OF MINES)—Month of June:** | | | |
| Production (net tons) | 6,133,743 | *6,298,919 | 5,824,000 |
| Oven coke (net tons) | 5,592,763 | *5,721,600 | 5,352,900 |
| Beehive coke (net tons) | 540,980 | *577,319 | 471,100 |
| Oven coke stocks at end of month (net tons) | 855,635 | *801,900 | 668,461 |
| **COPPER INSTITUTE — For Month of June:** | | | |
| Copper production in U. S. A.— | | | |
| Cruds (tons of 2,000 lbs.) | 87,432 | *91,819 | 82,334 |
| Refined (tons of 2,000 lbs.) | 105,221 | 104,524 | 103,474 |
| Deliveries to customers— | | | |
| In U. S. A. (tons of 2,000 lbs.) | 111,927 | 113,389 | 116,678 |
| Refined copper stocks at end of period (tons of 2,000 lbs.) | 73,065 | 72,791 | 82,542 |
| **GRAY IRON CASTINGS DEPT. OF COMMERCE—Month of May:** | | | |
| Shipments (short tons) | 992,692 | 1,051,083 | 1,097,307 |
| For sale (short tons) | 555,728 | 584,969 | 633,013 |
| For producers' own use (short tons) | 436,964 | 466,114 | 464,294 |
| Unfilled orders for sale at end of month (short tons) | 2,601,626 | 2,690,893 | 2,782,706 |
| **METAL OUTPUT (BUREAU OF MINES)—Month of May:** | | | |
| Mine production of recoverable metals in the U. S. | | | |
| Copper (in short tons) | 74,891 | *74,045 | 75,072 |
| Gold (in fine ounces) | 153,638 | *154,856 | 161,353 |
| Lead (in short tons) | 33,652 | *35,512 | 32,772 |
| Silver (in fine ounces) | 3,269,401 | *3,408,464 | 3,037,920 |
| Zinc (in short tons) | 51,422 | *53,042 | 57,902 |
| **MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOC.) — Month of June:** | | | |
| Total number of vehicles | 431,033 | 338,531 | 400,372 |
| Number of passenger cars | 312,406 | 225,461 | 307,124 |
| Number of motor trucks | 117,572 | 111,789 | 91,620 |
| Number of motor coaches | 1,055 | 1,281 | 1,628 |
| **NEW BUSINESS INCORPORATIONS—DUN & BRADSTREET, INC.—Month of June** | 8,550 | 8,246 | 8,922 |
| **NON-FERROUS CASTINGS (DEPT. OF COMMERCE) — Shipments, Month of May:** | | | |
| Aluminum (thousands of pounds) | 33,868 | 38,269 | 37,400 |
| Copper (thousands of pounds) | 81,286 | 89,035 | 90,054 |
| Magnesium (thousands of pounds) | 622 | 673 | 628 |
| Zinc (thousands of pounds) | 35,469 | 39,070 | 36,772 |
| Lead die (thousands of pounds) | 1,260 | 1,219 | 966 |
| **PORTLAND CEMENT (BUREAU OF MINES)—Month of May:** | | | |
| Production (bbls.) | 17,740,000 | 16,041,000 | 13,389,000 |
| Shipments from mills (bbls.) | 19,544,000 | 19,047,000 | 15,328,000 |
| Stocks (at end of month) (bbls.) | 16,077,000 | 17,880,000 | 19,388,000 |
| Capacity used | 86% | 80% | 66% |
| **TRUCK TRAILERS (DEPT. OF COMMERCE)—Month of May:** | | | |
| Production (number of units) | 3,753 | *4,116 | 4,580 |
| Shipments (number of untis) | 4,052 | *4,736 | 4,568 |
| Shipments (value in dollars) | $11,657,505 | $13,313,997 | $11,270,344 |
| **U. S. GOVT. STATUTORY DEBT LIMITATION — As of May 31 (000's omitted):** | | | |
| Total face amount that may be outstanding at any one time | $275,000,000 | $275,000,000 | $275,000,000 |
| Outstanding— | | | |
| Total gross public debt | 252,292,246 | 252,236,480 | 258,286,383 |
| Guaranteed obligations not owned by the Treasury | 73,460 | 74,596 | 89,520 |
| Total gross public debt and guaranteed obligations | $252,365,707 | $252,311,077 | $258,375,903 |
| Deduct—Other outstanding public debt obligations not subject to debt limitation | 824,135 | 828,043 | 884,487 |
| Grand total outstanding | $251,541,571 | $251,483,033 | $257,491,416 |
| Balance face amount of obligations issuable under above authority | $23,458,428 | $23,516,966 | $17,508,583 |

*Revised figure.

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# Sproul Gives Views on Credit Curbs

(Continued from page 8)

worse situation later, and that that something is monetary and credi action to break the vicious circle of wages and prices, you will have to contemplate action far more drastic than I apprehend is contemplated by the proposed legislation which is before you. The purpose of that legislation, as I understand it, is to help restrict further credit expansion. If you want to work through credit measures to meet existing problems in the old-fashioned way, however, you will really want to aim at credit contraction. The steps in the process are restriction of the money supply, rise in interest rates, contraction of employment and production, contraction of income. And to add to the difficulties of using this "tried and true" method of ending a boom, we now have the added complication of a government debt of $250 billion, which is in continuous process of refunding, and which includes a large demand liability, and we have a government security market sensitive to every wind that blows. In order to be sure of getting results, we should have to use our powers, with or without this proposed added authority to increase reserve requirements of member banks, without regard to interest rates and the government security market.

Our action would have to be drastic enough to lower the money income of a large section of the consuming public. To accomplish this by over-all monetary or credit action would probably mean a serious decline in production and employment. In view of our domestic needs and our international commitments, I still cannot believe that is the right policy.

(4) What we are left with then is the question as to whether our present modest policy of credit restraint needs to be supplemented now by enactment of legislation authorizing a reimposition of consumer credit controls, and the grant of additional authority to the Federal Reserve System to increase reserve requirements of member banks.

(5) With respect to the first proposal, I repeat my advocacy of restoration of consumer credit controls on instalment credit, although it must be realized that after a period of no control, during which our control organization has necessarily disintegrated, the problem of enforcement will be a difficult one. Nevertheless, I believe this is the kind of a selective credit control the terms of which can be so clearly delineated and the restraints so generally applied as to make its administration possible, and I believe that, in terms of restraining further inflationary developments, its application is desirable.

(6) With respect to the second proposal, I am not so clear. My personal preference would be to continue with the policy we have been trying to follow under our present powers and in cooperation with the Treasury. That policy has involved a continuous effort not only to absorb reserve funds that become available to the banks, but also to keep the banks under some pressure in maintaining their existing reserves by reducing, whenever possible, the System's holdings of government securities. That process has involved the use of surplus Treasury funds to redeem maturing securities held by the Federal Reserve banks, permitting short-term interest rates to rise, increasing Federal Reserve Bank discount rate and, in general, maintaining a degree of doubt and uncertainty in the money market, which places restraint on the desire of banks to extend commitments and of borrowers to enter into them. That policy has had a measure of success, even though it has been applied haltingly and with time lags which to me have been distressing. Perhaps one set of figures will illustrate its effectiveness, taken together with the voluntary efforts of the commercial bankers of the country. Preliminary figures for June 30, 1948, of total demand deposits adjusted and currency outside banks, which is the current money supply, show a total of $108,560 million, which is a reduction of approximately $5 billion since Dec. 31, 1947 and an increase of only $127 million or a fraction of one per cent since June 30, 1947. In other words, the rise in the general price level has occurred in the face of a substantial decrease in the money supply during the past six months and practically no increase during the past year. I should like to step up our existing policy in terms of timing and aggressiveness, but I do not think that granting the System authority further to increase reserve requirements will add much to its effectiveness. So long as we continue to give our support to the government security market, the initiative will remain with the commercial banks and the market through the banks, as to whether they will make use of more reserve credit or not. To be sure, to the extent that the authority is used, the ratio of expansion of member bank credit based on a given volume of reserve bank credit will be reduced somewhat, and the possibility of its use will introduce another factor of uncertainty and doubt into the situation. But these gains may well be at the expense of an extended period of further unsettlement in the government security market, involving our support and a consequent increase of the credit base, and at the expense of public confidence in the Federal Reserve System or in the sincere desire of the government to do something about inflation. Giving the Federal Reserve System additional power to increase reserve requirements isn't going to bring down the price of meat or the cost of housing.

(7) My only basis for supporting this proposal to grant additional authority to increase reserve requirements would be a long range desire to reduce the leverage factor in our present system of proportionate reserves. There may well be reasons, taking the long view, for an increase in the reserve requirements of the commecial banks of the country, and of the limits within which those requirements can be varied by the Federal Reserve System. I am inclined to believe that this could be a progressive step in our monetary-banking organization, especially if there should continue to be a persistent and substantial inflow of gold. With a modern central banking system operating in a highly developed deposit banking system, and with a decreasing reliance upon gold, much of the need for low reserve requirements and consequent economizing in the provision of money by commercial banks has disappeared. In these circumstances there may well be a balance of advantage in higher reserve requirements, as a means of reducing the dangerous expansibility and, at times, destructive contractability of a money supply based on low reserve ratios of commercial banks. There may be too great an element of leverage in our present system to be left at the disposal of 14,000 banks. This is really a long-term improvement, however, not an emergency device, and something more appropriate to the studies of a monetary commission than to this brief session of the Congress.

(8) If you do decide to adopt this proposal, I think that, by all means, it should be made applicable to all banks and not just to banks which are members of the Federal Reserve System, if it is to be capable of having its maximum effect and if it is to be fair to the banks which are members of the System. I also believe this whole power to deal with reserve requirements should be lodged in the Federal Open Market Committee, which already has responsibility for open market operations in goverment securities, rather than in the Board of Governors. I realize that this would make passage of the legislation a little more complicated, but so does the proposal to extend the authority of the System to nonmember banks. Probably, this reflects my lack of any enthusiasm for the proposed legislation in the terms and circumstances in which it is brought before you, and my concern whether the public will understand that this standby authority would be merely an addition to our present modest policy, and would not represent a change toward a much more drastic policy in terms of rising interest rates and abandonment of our present support of the government security market.

* * *

**Federal Reserve Gold Reserves**

Regarding the proposal to increase the gold reserves required against notes and deposits in the Federal Reserve banks, Mr. Sproul remarked:

Such a proposal might, of course, arise out of the fundamentalist thinking of those who believe that any "strengthening of the gold base" is a desirable check on inflationary developments. I am not going to enter into that area of religious belief and religious disputation. In the area of economics and public policy I can discern, rather dimly, three arguments which might be made for this proposal, none of which, however, has anything to do with the immediate inflationary problem.

First, there is the argument that the reserve requirements of the Federal Reserve banks were lowered during the war to meet an emergency situation, and should be returned to their former level now that the war is over. Second, there is the argument that somehow, some way, increasing the reserve requirements of the Federal Reserve banks would sterilize the current gold inflow. Third, there is the sort of catch-all argument that an increase in the reserve requirements of the Federal Reserve banks, would put desirable restraints on the central bankers, give earlier public warning of critical conditions in our banking system, and bring the whole subject before Congress for review.

On the first argument, aside from pointing out the futility of a different reserve requirement for notes and deposits, in a country with a highly developed deposit banking system in which notes and deposits are completely interchangeable, I can do no better than to quote from a speech made by Senator Taft at the time the present reduced reserve requirement for Federal Reserve banks was adopted by the Congress in 1945. He said when the bill was before the Senate in April of that year "I cannot understand why a 25% gold reserve requirement is not a sufficient one for the currency of our country. I think 25% as a gold reserve is adequate. I cannot conceive that gold would be demanded in anything like the amount of 25%. If there were any such tremendous rush it would swamp 40% just as much as it would swamp 25%. I do not see the necessity for a 40% reserve. But I do see great danger involved in constantly agitating as to what the reserve should be." That was good advice when Senator Taft gave it, and it is good advice now. Our people are not afraid of the dollar; they are gravely concerned about rising prices, but they are not rushing to get out of currency into things, as people do when there is a real run-away inflation; and those who risk creating such fears about our currency, no matter how devious the approach, are performing a real disservice.

I might add to this general argument a more specific one. The reduction in reserve requirements of the Federal Reserve banks was made late in the war as a necessary adjustment to fundamental changes which had taken place and still were taking place in our banking system. The reserve requirement was lowered in order to provide the monetary authorities with sufficient excess reserves to meet any emergency which might develop. I can see no institutional or conventional reason for restoring the reserve requirement to what it was before the war, so long as we cannot happily make a similar adjustment in the public debt and in the assets and liabilities of the banking system. The action taken in 1945 was not solely an emergency action, but if it had been the emergency it was designed to meet is still with us.

Little time need be spent on the second argument that increasing the reserve requirements of the Reserve Banks would sterilize the current gold inflow. This is really just another way of saying that the Federal Reserve banks now have too much excess reserve, and it follows by definition that any increase in the reserve requirement will reduce the amount of those excess reserves. This is not sterilization, however, since nothing is done about member bank reserves, and it is at that level that the problem currently arises. When gold is imported into this country (and is not placed under earmark for some foreign owner), it is sold to the United States Treasury at $35 per fine ounce, and the dollar proceeds are paid over to the seller from the Treasury's account in the Federal Reserve bank. The spending of the proceeds puts new reserves, as well as deposits, into the commercial banks, and enables the banks to expand their loans and investments by several times the amount of the reserves created for them by the gold inflow. This is the level at which gold imports need to be sterilized under present inflationary conditions, and to some extent we have had the means of doing so. So long as the Treasury has a surplus in its cash revenues, and so long as it uses these surpluses to retire government securities held by the Federal Reserve banks, it is effectively offsetting the effect of gold imports on the reserve position of the commercial banks. That is what we have been doing to "sterilize" gold imports and, while the inflow of gold is not likely to be so large this year as last, we should continue to keep our fiscal house in order, so that wise debt management will enable us to prevent gold imports from adding to inflationary pressures.

Finally, there is the general argument about tightening up the brakes on our monetary machine. It has a reassuring sound but it may be a dangerous adjustment. Historically, the chief reason for the suspension of the Bank Act in England was the high fixed gold reserve requirement of the British currency system, and in our own country we established the Federal Reserve System, because we found that when the brakes were jammed on by a rigid gold requirement we usually had a money panic.

Theoretically reserve requirements for Federal Reserve Banks are unnecessary, but I am not arguing that they are not required by public opinion, and as a broad guide to policy and to necessary changes in our banking system which may require review by the Congress. Granting that Reserve Banks should be subject to reserve requirements, however, they should always be permitted to have a wide margin of excess reserves. To be of real service in time of need Reserve Banks must be prepared to face the situation as they find it, to maintain broad contacts with the commercial banking system, and to extend accommodation on any sound asset. It is essential that the public have confidence in its ability to obtain money when needed. While the Reserve Banks should be in a position to impose restrictions and restraints on monetary and credit expansion, they should not be compelled to refuse demands, by automatic and inflexible mechanical brakes on their powers.

# Mutual Trust Funds—A New Medium of Investment

(Continued from page 16)

for and the advantages of this type of investment management, and established its Trust "A" Fund as early as 1932.

My experience with our Trust "A" Fund, which is operated on the same basic investment principles as the mutual investment or common trust funds, is that customers find an additional attraction through participation in that Fund. It provides them with a personal contact with the management of their funds and, of course, each account participates in the Fund usually through a trust agreement. The latter arrangement is attractive to many as it excludes that portion of their estate from probate and the related costs.

**Investment Objectives**

The objectives of all investment management are as follows:

(1) Conservation of principal.

(2) Provision for an adequate income.

(3) Preservation of purchasing power.

While there is some variation in policy among investment companies banks and trust companies as to the best way to accomplish these investment objectives, all managers of investment funds seem to be pretty well agreed upon two things—namely, diversification and research. The latter involves not only the original investigation into a particular industry and company, but also the subsequent continuous examination of all pertinent data. And equally important is the so-called "timing" factor which, in effect, means the proper time to buy—and to sell. Relatively few persons are in a position to provide similar services to themselves, as it all adds up to a full-time job.

**Diversification of Investments**

Most investors undoubtedly feel that the word "diversification" has been over-emphasized in connection with all investment problems. Perhaps it has, but it should be remembered by everyone, especially those with modest investment funds, that it is an important factor whenever any investment is contemplated. Seldom can an individual investor accomplish by personal investment what can be done through a mutual or common trust fund. Intelligent and proper diversification will reduce the risk of loss of both principal and income and, therefore, must be given consideration by every person with an investment problem.

**Management Costs**

No mention has been made up to this point about the cost involved in a mutual-type invest-

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ment fund. Naturally there must be some compensation to the managers of capital, as there is considerable expense in the constant supervision which is provided the funds under their management. The investment companies have what is known as entrance and management fees, while the banks and trust companies charge regular trustees' fees on the funds under their management. In either case, the charges are very moderate, and sometimes, nominal, compared with the services rendered. In most cases the cost of acquiring the same "tools" as are available to professional managers would be prohibitive to the individual investor—and usually, impractical.

**Current Trends in Investment**

Today there is evidence that the theory of mutual or common investment is continuing to gain greater acceptance by the owners of capital. Investment funds are growing, not only in dollar volume, but also in the number of participants, while the newer-type common trust funds likewise have experienced substantial growth in those states where permitted. The latter is a significant development. For many years corporate trustees have managed a large proportion of the wealth of the country and it is a well-recognized social development that the wealth of capital of our country is becoming less and less concentrated; hence the need to provide the present owners of this wealth with comparable facilities. There is still a tendency on the part of the average owner of capital, or those who recently have acquired some surplus funds, to feel that they alone and only they, are capable of handling the investment of these funds. This is especially true of men who have been very successful in their own field of endeavor. It might be well at this point to quote an excerpt from Mr. Arthur Stone Dewing in his well-known book, "The Financial Policy of Corporations," published by The Ronald Press Company, New York City.

"... The school teacher, clergyman, lawyer, dry goods merchant, and shoe manufacturer know enough about their respective businesses to feel assured that the ordinary uninitiated could not succeed without long and specialized training. Yet these same men stand ready to embark on one of the most intricate businesses — that of investment — requiring perhaps the most extensive and far-reaching specialized knowledge of any profession or business."

Furthermore, in this day and age of specialization, it is a rare instance where a person is a specialist in more than one field.

Another common tendency among investors, which, however, seems to be decreasing, is the concentration of funds in one type of security or one industry. It is not unusual to find a person who insists upon placing all of his or her funds in first mortgages on real estate, or in land contracts, or in public utility or railroad stocks and bonds. People come into the Trust Company daily inquiring about investment or trust services and make the statement that their funds must be invested entirely in only one type of security or industry. Even after the disadvantages of this method of investment is explained to them, some of the potential investors are adamant in their stand.

It is unfortunate that there has not been a greater acceptance of the mutual or common trust fund by the smaller owner of capital, who in most cases, is the average investor in the United States. The advantages of this medium of investment, as pointed out above, are without equal in the history of investment either in this country or abroad. And those individuals who obtain these benefits, through common trust funds operated by many of our bands and trust institutions, accomplish a dual purpose through establishment of a bona fide trust arrangement. They acquire not only a sound investment program, but further, in part, their estate plans.

**Public Reaction**

On the other hand, it is encouraging to those of us who are engaged in the investment field to see the large number of people who are coming to realize that they, as individuals, are ill-equipped to cope with investment problems under our present complex economy. Day by day more investors are beginning to appreciate the benefits to be gained through the use of the mutual or common trust fund and are turning to these investment managers to handle their surplus funds. Part of this recognition can be attributed to the outstanding educational campaigns which investment companies, banks and trust companies have been promoting to apprise the general public on this very subject. It is hoped that these same groups will continue their splendid work along this line.

Acknowledging this heartening trend and in reply to the opening statement made in the first paragraph, I should like to say that a person never can have too much of the best.

# No Valid Reason for Special Session

(Continued from page 15)

try scarce materials, food, clothing, steel, lumber, farm machinery and thousands of other items. These huge exports cause high prices at home.

The American housewife knows that her dollar today is not worth as much as it was in 1939, and it doesn't go nearly so far.

It is the history of every country that has imposed price controls that production dropped, prices increased, black markets took over, and the value of money went down.

The American housewife knows that she can no longer support a government that requires the payment of 39 cents out of every earned dollar for open and hidden taxes.

Now, what has the Congress done about it? The Congress has given the President the power he needs to stabilize the currency and to reduce the cost of living.

The Congress has given the President full authority to control exports. He has not used that weapon to full advantage. This has resulted in a higher living cost at home.

The only solution the President offers is controls—controls—and more controls, and regimentation of the people.

**A Defeatist Attitude**

The President has a defeatist attitude. He has lost faith in the free enterprise system and in the ability of the American people to produce and distribute their goods.

It was only after the 80th Congress boldly broke the shackles fastened upon the people by the New Dealers in Washington that we began to get production. When the war ended there were more than 76,000 government orders, rules, regulations and directives, that were choking industry, and stifling initiative. The nation had directive indigestion. Thousands of these orders and directives have been repealed. Across the nation the ground-swell of relief was reflected in industry—agriculture — mining, and all segments of our economy.

And last year, the American people did the greatest dollar volume of business, and produced the highest national income in all the nation's history.

We cut President Truman's spendthrift budget by more than $6 billion and we rejected proposals by him that would have added $20 billion more. This certainly would have fed the fires of inflation.

The Republican Congress has reduced taxes. We have cut $4.8 billion from Federal income taxes. 71% of that reduction is going to persons receiving under $5,000 a year; 7,400,000 low wage earners have been dropped from the tax rolls; married couples are permitted to divide their incomes for tax purposes and thereby obtaining lower rates; special relief is going to persons over 65 years of age and to the blind. This means more take-home pay for the workers. It means a replenishing of the wells of investment so that there can be more plant construction — more plant expansion — more jobs and more production, and with more production lower prices.

In response to the will of the people, aroused by the blackest year in work stoppages and loss of production—the year of 1946—your Republican Congress passed over President Truman's indefensible veto the so-called Labor-Management Relations Act. Experience under that act proves that it is doing the job demanded by the people and intended by the Congress. Official reports of the Bureau of Labor Statistics in the Department of Labor show that since the Act went into effect on Aug. 22, 1947, there has been a substantial reduction in work stoppages. Compared with the number before the Act became effective, wages have reached their highest peak under this Act and there has been more constant production of goods we so urgently need in order to bring down prices.

**Prospects for Deflation**

As evidence of the accomplishment of what can be done with production that is unrestricted, when all segments of our economy cooperate, it should be pointed out that at this very moment the farmers of this country have produced one of the largest, if not the largest, wheat and oats crops in the history of this nation. We also have one of the finest prospects for corn. These big crops are what furnish us meat and other food.

And the falling prices of grain will be reflected in the consuming markets in meat, bread and dairy products.

Fellow Americans I have only enumerated a few of the major bills passed by the 80th Congress that have helped to increase our production, and production is the only sure cure for high prices.

We could have done more, a lot more, if we had had the cooperation of President Truman. It is a notorious fact that he has vetoed 133 bills since he has been President of the United States.

In conclusion, as Acting Majority Leader of the United States Senate, I want to assure you — one and all — that even though President Truman has called the extraordinary session of Congress as a political maneuver, this Congress is ready and willing to pass costructive legislation at any time, for the welfare and benefit of the American people.

I want you all to know that any legislation found to be of an emergency character will have our favorable consideration and will be sent to the White House where I hope the legislation will be shown like consideration.

May I make this final appeal. This is no time for strife or for political bickering. This is a time when we need unity of purpose. It is a time when we must have full cooperation of all branches of the government.

The means to remedy this lack of unity rests with the American people. It will come with the election of Thomas E. Dewey to the Presidency and the return of a Republican Congress in November.

This will clear the way for the solution of pressing problems — both foreign and domestic—and redound to the well being of all America.

# The ECA European Payments Plan

(Continued from page 16)

part of the assistance that the ECA is to render to each of the debtor countries of Europe; the furnishing of that assistance indirectly by way of the currency of the creditors within Europe itself, so that, France, for instance, will receive some part of its aid from the ECA directly, as it is receiving in the first two quarters, and some part of its aid it will receive indirectly. The mechanism by which it will receive aid indirectly, I can illustrate as follows:

If France continues to run a deficit in its trade with Belgium, the ECA will grant a so-called conditional or supplementary allotment for grant-in-aid to Belgium. That would be conditional upon Belgium granting equivalent aid to France. Therefore, ECA will make a grant-in-aid to Belgium, as that grant-in-aid is used by Belgium, the Belgium Government will establish a drawing account of equivalent value in Belgian currency, and that account will be available to the French Government. The French Government will thereby be enabled to use this indirect ECA assistance to finance its deficit in trade with Belgium or with any other European creditor who enters into this proposal.

Those three points, I think, are the essence of the whole operation. It is very similar to what these Europeans, at least, believe superior to the so-called off-shore procurement in Europe. It means, for instance, in terms of the example I have just quoted, that instead of giving the French Government dollars to spend in Belgium, the dollars go directly to the Belgian Government upon condition of the Belgian's provision of Belgian currency to France.

One of the great advantages of using indirect assistance to France, instead of giving the French, for instance, dollars for off-shore procurement, is that it can drastically put an end to dollar trading within Europe, because it means that the way in which a European debtor finances, at least a part of its debit balance with a European creditor—the way in which, say, France finances part of its debit balance with Belgium—is not by a settlement in dollars, and it is not by paying dollars for Belgium's essential exports to France. Instead, it means that it will be financed by our indirect assistance, and, therefore, no direct dollar trade is going to be necessary.

There are many more details of this that I could elaborate. One point that I will mention is that a debtor country, a debtor in its trade within Europe, that is, a country which needs indirect assistance in the way that I have described it, will of course be required to make a local currency counterpart deposit against its direct aid, just as it does against its direct assistance, so that this is, I think, correctly described as simply an indirect way of furnishing assistance to the countries that are debtors in current accounting.

One last remark I would like to make in explanation of this. The purpose of it can be described, as I did at the beginning, but again in these terms. We want to make sure that it is just as easy for the French to buy steel in Belgium as it is to buy steel in the United States. In the case, notably, of such a commodity that is in short supply, we did not want to have a state of affairs where it could be said that we give steel free, through a grant-in-aid from the United States, whereas Belgian steel or U.K. steel, if there were any for export, would have to be paid for.

Therefore, the European countries are buying their steel here instead of buying it in Europe. We would not want that said. The very reason for being willing to furnish aid indirectly in this fashion is to make sure that it is not easier for the French, for instance, to buy their steel here instead of Belgium, or that it is not easier to procure any commodities in the Western Hemisphere if they are available or could be produced inEurope.

## Stockholders of McCall Take 94% of Stock-Issue Oversubscribed

McCall Corp.'s offering to its common stockholders of 87,167 additional shares of common stock at $26 per share was subscribed for to the extent of 81,941 shares or approximately 94%. The subscription warrants, which expired Aug. 3, entitled the stockholders to purchase one additional share for each six shares held of record July 20. The offering was underwritten by an investment banking group headed by White, Weld & Co. The 5,226 shares which were not subscribed for have been sold by the several underwriters.

## With Brush, Slocumb Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — John T. Wallace, formerly with Dean Witter & Co., is now associated with Brush, Slocumb & Co., 1 Montgomery Street.

## Morton Seidel Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Morton Seidel & Company, 458 South Spring Street, have added Hiram H. Stolurow to their staff.

## With C. E. Abbett & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Dorothy A. Stubblebine has joined the staff of C. E. Abbett & Company, 3277 Wilshire Boulevard.

## Coburn, Middlebrook Adds

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—James A. Lennon is with Coburn and Middlebrook, 37 Lewis Street.

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# Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

**Air Commuting, Inc., White Plains, N. Y.**
June 17 (letter of notification) 1,060 shares of capital stock (no par value), of which 600 shares will be sold publicly at $100 per share. **Underwriter** — Burnham & Co. **Proceeds**—To be used to engage in limited helicopter operation over routes which the company is presently certificated to fly or in limited helicopter commercial work.

● **Air Power Publishing Co., Inc., Tenafly, N. J.**
Aug. 2 (letter of notification) 66,004 shares of common stock (par $1). **Price**—$1 per share. No underwriting. To provide working capital and general corporate purposes.

**American Fidelity Fire Insurance Co., New York**
July 2 (letter of notification) 20,000 shares 80c non-convertible preferred stock (par $5). **Price**—$14 per share. Stockholders of record July 15 will be given the right to subscribe to the stock. Rights expire Sept. 9, 1948. Expand fire insurance business. No underwriting.

● **Anco Electric Corp. (Del.), Wilmington, Del.**
July 29 (letter of notification) 150,000 shares of common stock (par $1) and 150,000 shares of preferred stock (par $10). Price of preferred, par. The common shares will be issued to Anco Electric Corp. of New Jersey in exchange for assets. No underwriting. General corporate purposes.

● **Arizona Airways, Inc., Phoenix, Ariz.**
July 30 (letter of notification) 48,000 shares ($2.50 par) common. **Price**—$5 per share. No underwrtier. For property and equipment.

**Arkansas Power & Light Co. (8/24)**
July 23 filed $7,500,000 first mortgage bonds, due 1978. **Underwriters**—Names will be determined by competitive bididng. Probable bidders include: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.; White, Weld & Co.; Glore, Forgan & Co. and Harriman Ripley & Co. (jointly). **Proceeds** — To reimburse treasury for construction expenditures, to defray the cost of new construction and for other corporate purposes. Expected Aug. 24.

**Armstrong Rubber Co., West Haven, Conn.**
June 30 (letter of notification) 1,000 shares of 4¾% cumulative convertible preferred stock, ($50 par) and 2,000 shares of class A common stock. To be sold at $44 and $11.75, respectively. This stock is being sold by James A. Walsh, President of the Company. **Underwriter**—F. Eberstadt & Co., Inc., New York.

**Armstrong Rubber Co., West Haven, Conn.**
July 8 (letter of notification) 1,000 shares of 4¾% cumulative convertible preferred stock ($50 par). To be sold at $44 each for Frederick Machlin, Executive Vice-President and Secretary of the company. **Underwriter**—F. Eberstadt & Co., Inc., New York.

**Ashland Oil & Refining Co.**
July 14 filed 400,000 shares of $1.20 cumulative convertible preferred stock. **Underwriter**—A. G. Becker & Co. Inc. **Proceeds**—Of the total, 300,000 shares are to be sold for the account of the company and 100,000 shares for the account of two individuals. The latter are stockholders of Allied Oil Co., Inc., and the stock to be offered for their account is a part of the shares they are to receive in connection with the merger of Allied into Ashland. **Proceeds**—Proceeds from sale of company's stock are to be added to general funds and made available for further expansion of its interests.

**Associated Telephone Co., Ltd. (8/17)**
July 27 filed 85,000 shares 5% preferred stock (par $20), of which 75,000 shares will be offered publicly at $21.25 per share and 10,000 will be offered for subscription by employees under a purchase plan at $20.25 per share. **Underwriters**—Mitchum, Tully & Co.; Paine, Webber, Jackson & Curtis, and the Stone & Webster Securities Corp. **Proceeds**—Plant expansion and to retire bank loans.

● **Badger Exploration Co., Inc., Denver, Colo.**
July 26 (letter of notification) 2,000 shares of ($100 par) common stock. **Price**—$50 per share. No underwriter. For working capital and to acquire properties.

**Belmont Iron Works, Philadelphia, Pa. (8/17)**
July 23 filed 36,210 shares ($5 par) common stock. **Underwriters**—Stroud & Co. and Coffin, Betz & Sullivan. Proceeds to selling stockholders. Expected about Aug. 17 at $25 per share.

**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.

● **Brentlawn Racing Association, Inc., Shelbyville, Ky.**
July 28 (letter of notification) 9,600 shares of common stock. To be offered to stockholders in the old St. Matthews Trotting Horse Association at $2.50 per share. Harry N. Faxstein, Secretary-Treasurer, will purchase the unsubscribed shares. No underwriting. To increase working capital.

**Central Illinois Public Service Co. (8/17)**
July 15 filed 574,087 shares ($10 par) common stock, owned by Halsey, Stuart & Co. Inc. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Glore, Forgan & Co.; Blyth & Co., Inc.; The First Boston Corp., and Central Republic Co. (jointly); Lehman Brothers and Lazard Freres & Co. (jointly); A. G. Becker & Co. Expected about Aug. 17.

**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. and Kidder, Peabody & Co. **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 negotiated a purchase contract in April, 1948, but the SEC on July 27, 1948, concluded that financing by the proposed preferred stock issue is not necessary.

**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.

**Chieftain Products, Inc., Brooklyn, N. Y.**
July 2 (letter of notification) 50,000 shares of common stock and 30,000 warrants entitling the holder to purchase common stock. **Price**—$2.75 per unit consisting of one share of common and 1½ warrants. General corporate purposes. **Underwriter**—Dunne & Co., New York.

**Citizens Credit Corp., Wilmington, Del.**
July 23 (letter of notification) 4,000 shares ($12.50 par) class A common stock and 4,000 shares (25 cents par) class B common stock. To be offered in units of one share of class A and one share of class B at $13.25 per unit. **Underwriter**—Emory S. Warren & Co. For general business.

**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.

**Cobalt Mines Corp., Newark, N. J.**
July 26 (letter of notification) 290,000 shares of common stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. To meet obligations.

**Colonial Western Underwriters Co., Inc., Shreveport, La.**
July 12 (letter of notification) 24,170 shares of Class A common stock ($1 par). **Price**—$10. **Underwriter**—Mid-South Securities Co., Nashville, Tenn. To purchase the controlling interest in other corporations, particularly life insurance companies.

● **Columbia Industries, Inc., Seattle, Wash.**
July 27 (letter of notification) 300 shares of preferred stock (par $100) and 120,000 shares of common stock (par 1¢). To be offered in units of 1 share of preferred stock and 400 shares of common stock at par value thereof. No underwriter. To perfect certain tool inventories.

**Commercial Discount Corp., Chicago, Ill.**
July 16 (letter of notification) 5,970 shares $3.50 prior preferred stock, ($50 par) and 11,940 shares of Class A common stock. To be sold in units of one share of preferred and two shares of Class A common for $50.25 per unit. **Underwriter**—Julien Collins & Co. Working capital and general corporate funds.

**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.

**Continental Motors Corp. (8/10-13)**
July 19 filed 300,000 shares ($1 par) common stock. **Underwriter**—Van Alstyne Noel Corp. **Proceeds**—To be applied toward the payment of $3,500,000 bank notes.

● **Cowles Co., Inc., Cayuga, N. Y.**
Aug. 2 (letter of notification) 500 shares of capital stock (par $5). **Price**—$35 per share. **Underwriter**—Blair F. Claybaugh Co., Syracuse, N. Y. Additional working capital.

**Dunk Donut Corp., Highland Park, Mich.**
July 8 (letter of notification) 300,000 shares ($1 par) common stock. Price, par. **Underwriter**—Charles E. Bailey & Co., Detroit. To establish shops, pay debts and increase working capital.

● **Eagle Oil & Refining Co., Inc., Santa Fe Springs, Calif.**
July 30 (letter of notification) 20,000 shares of common stock. **Price**—At over-the-counter market price. No underwriter.

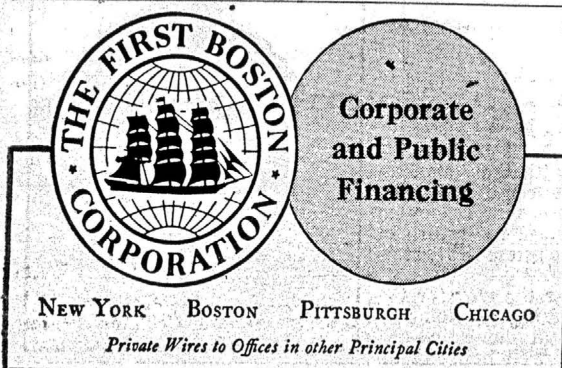
**Eureka Corp. Limited, Toronto, Ontario, Can.**
July 7 filed 675,000 shares ($1 par) common stock and 405,000 common stock purchase warrants to be offered shareholders at the rate of one for each 25 held. **Underwriter**—None is planned. **Price**—135,000 units are to be offered, consisting of five common shares and a stock purchase warrant for three shares, for $7.50 per unit. **Proceeds**—To de-water mine, cross-cut to the ore zone, and for repayment of temporary loans.

● **Family Finance, Inc., Long Beach, Calif.**
July 29 (letter of notification) 13,409 shares 6% cumulative preferred stock (par $10). **Price**—Par. No underwriter. For general expansion of business.

**Fireman's Fund Insurance Co., San Francisco**
July 23 filed 458,544 shares of common stock ($7.50 par). **Offering**—Shareholders of record Aug. 23, will be offered 433,164 shares at $30 per share at rate of four new shares for each five shares held. **Underwriters**—Blyth & Co., Inc., The First Boston Corp., and Dean Witter & Co. will underwrite 25,380 shares and will purchase all unsubscribed shares. **Proceeds**—To provide the companies of the Fireman's Fund Group with additional capital funds.

**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.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## NEW ISSUE CALENDAR

**August 10, 1948**
Chesapeake & Ohio Ry
11:30 a.m. (CDT)-----------Equip. Trust Ctfs.
Continental Motors Corp.-----------Common
Northern States Power Co. (Minn.)
10:30 a.m. (CDT)-----------Preferred
St. Louis-San Francisco Ry.
Noon (EDT)-----------Equip. Trust Ctfs.

**August 11, 1948**
Pennsylvania, Commonwealth of-----------Bonds

**August 16, 1948**
Official Films, Inc.-----------Pref. and Common

**August 17, 1948**
Associated Telephone Co., Ltd.-----------Preferred
Belmont Iron Works-----------Common
Central Illinois Public Service Co.-----------Common
Detroit Edison Co.-----------Common
Wisconsin Public Service Co.-----------Bonds

**August 18, 1948**
Seaboard Air Line RR.
Noon (EDT)-----------Equip. Trust Ctfs.
Southern California Edison Co.-----------Bonds

**August 24, 1948**
Arkansas Power & Light Co.-----------Bonds
Chesapeake & Ohio Ry-----------Equip. Trust Ctfs.

**August 25, 1948**
Chicago Rock Island & Pacific RR.
11:30 a.m. (CDT)-----------Equip. Trust Ctfs.

**September 14, 1948**
Indiana & Michigan Electric Co.-----------Bonds

**September 21, 1948**
Pacific Telephone & Telegraph Co.-----------Debentures

**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.

● **Football Club of Chicago, Inc.**
July 29 (letter of notification) 2,130 shares ($100 par) common stock. **Price**—$100 per share. No underwriter. For working capital.

**Fraser Products Co., Detroit, Mich.**
Oct. 21 filed 100,000 shares ($1 par) common. **Underwriters** — Campbell, McCarty & Co., and Keane & Co., both Detroit. **Price**—$5.25 per share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds. Registration statement effective Jan. 16.

**Fuller Brush Co., Hartford, Conn.**
July 12 (letter of notification) 3,000 shares of ($100 par) preferred stock. **Price**—par. To raise working capital and retire existing indebtedness. No underwriting.

● **Grammes (L. F.) & Sons, Inc., Allentown, Pa.**
Aug. 3 (letter of notification) 1,042 shares of common stock. **Price**—$30 per share. **Underwriting**—None. Working capital, plant improvement, etc.

**Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.**
June 25 filed 2,041 shares of class A common stock and 5,000 shares of class B common stock (par $100). **Price**—Par ($100 per share). **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

**Heyden Chemical Corp., New York, N. Y.**
June 29 filed 59,579 shares of cumulative convertible preferred stock (no par) to be offered common stockholders in the ratio of one share of preferred for each 20 shares of common stock held. **Price**—By amendment. **Underwriter**—A. G. Becker & Co. will acquire the unsubscribed shares. **Proceeds**—To be used in part for improvement and expansion of manufacturing facilities. Offering postponed.

**Idaho-Montana Pulp & Paper Co., Polson, Mont.**
May 17 filed 100,000 shares of 4% cumulative preferred stock ($100 par) and 500,000 shares ($10 par) common stock. **Underwriter** — Tom G. Taylor & Co., Missoula, Mont. **Price**—$300 per unit, consisting of two shares of preferred and 10 shares of common stock. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

**Illinois Power Co., Decatur, Ill.**
June 30 filed 690,098 shares of common stock (no par value). To provide for conversion of 345,049 shares of outstanding 5% cumulative convertible preferred stock (par $50) which the company intends to call for redemption at $52.50 per share and accrued dividends. Each preferred share is convertible into two common shares. Public offering is contemplated of the common stock not issued in conversion. Underwriting and offering price to be filed by amendment. Probable underwriter: The First Boston Corp. **Proceeds**—To redeem the preferred stock and for construction.

**Indiana & Michigan Electric Co. (9/14)**
July 14 filed $25,000,000 first mortgage bonds, due 1978. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Lehman Brothers; Dillon, Read & Co. Inc.; Harriman Ripley & Co. **Proceeds**—To prepay $6,000,000 of bank notes borrowed for construction and $10,000,000 borrowed by Indiana Service Corp. and assumed by the company under a merger, and for treasury funds. Expected about Sept. 14.

**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.

**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. **Proceeds**—For working capital and other corporate purposes.

● **Kentucky Oil & Distributing Corp., Monticello, Kentucky**
July 30 (letter of notification) 299,900 shares (10¢) capital stock. **Price**—$1 per share. **Underwriter**—Peter Morgan & Co. For development work and working capital.

**Kingsburg (Calif.) Cotton Oil Co., Kingsburg**
July 14 (letter of notification) 20,000 shares ($1 par) capital stock. **Price**—$4.25 per share. **Underwriter**—Fewell & Co., Los Angeles. Proceeds to selling stockholders.

**Lincoln (Neb.) Telephone & Telegraph Co.**
July 12 (letter of notification) 15,000 shares ($16⅔ par) common stock. **Offering**—Offered stockholders of record June 30 at the rate of one share for each eight now held. Rights expire Aug. 4. **Price**—$20. To extend plant facilities. No underwriting.

**McAleer Manufacturing Co., Rochester, Mich.**
June 15 (letter of notification) 7,000 shares of common stock (par $1). **Price**—$5.50 per share. **Underwriter**—C. G. McDonald & Co.

**McVicar Mining Co., Ltd., Vancouver, B. C.**
July 14 filed 400,000 shares (par 50¢ Canadian funds) common stock and 1,100,000 common share purchase warrants, as well as 1,100,000 common shares to be reserved for issuance upon exercise of warrants. **Underwriter**—Carstairs & Co., Philadelphia. **Price**—60 cents (U. S. funds) and 60 cents (Canadian funds) for not more than 100,000 shares to be sold in Canada; one cent each for the warrants. **Proceeds**—General funds and to develop mining property.

● **Melrose Corp., San Francisco, Calif.**
July 30 (letter of notification) 10,000 shares of capital stock (par $10). **Price**—Par. No underwriter. Mainly for well drilling.

**Midwest Packaging Materials Co., St. Louis, Mo.**
June 25 (letter of notification) 3,500 shares of common stock (par $5). **Price**—At market. **Proceeds**—To selling stockholder. **Underwriter**—Edward D. Jones & Co.

● **Nanscran Mining Co., Seattle, Wash.**
July 30 (letter of notification) 31,000 shares of preferred stock and 310,000 shares of non-assessable common stock, to be sold in units of one share of preferred and 10 shares of common for $1. No underwriting. For exploration and development work, as well as purchase of equipment.

**National Battery Co.**
July 14 filed 65,000 shares ($50 par) convertible preferred stock. Price and dividend, by amendment. **Underwriters**—Goldman, Sachs & Co., New York; Piper, Jaffray & Hopwood, Minneapolis. **Proceeds**—To retire $3,000,000 of bank loans and general corporate purposes. Temporarily deferred.

**National Electric Products Corp., Pittsburgh, Pennsylvania**
June 23 (letter of notification) 2,000 shares of common stock (par $50). **Price**—$37.50 per share. **Underwriter**—Singer, Deane & Scribner. **Proceeds**—To executors of an estate.

**Northern States Power Co. (of Minn.) (8/10)**
June 3 filed 200,000 shares of cumulative preferred stock (no par). **Underwriting**—Names to be determined by competitive bidding. Probable bidders: Lehman Brothers, Smith, Barney & Co. **Bids**—Bids for the purchase of the stock will be received up to 10:30 a.m. (CDT) Aug. 10, at company's office, 231 So. La Salle Street, Chicago, Ill.

**Official Films, Inc., New York (8/16-20)**
July 16 (letter of notification) 49,000 shares 35¢ cumulative preferred stock (par $5) and 49,000 shares of common stock (par 10¢). **Price**—$6 per unit, consisting of one share of each. Working capital and other general corporate purposes. **Underwriter** — Aetna Securities Corp., New York.

**Old North State Insurance Co.**
June 24 filed 100,000 shares of capital stock (par $5). **Price**—$15 per share. **Underwriter**—First Securities Corp., Durham, N. C. **Offering**—26,667 shares will be initially offered on a "when, as and if issued" basis; 13,333 shares will be purchased by underwriter for public or private offerings; and the remaining 40,000 shares will be publicly offered on a "best efforts basis" on completion of the subscription of the first 40,000 shares and the company's receipt of a license to do business in North Carolina. **Proceeds**—For general business purposes.

**Pacific Associates, Inc., San Francisco, Calif.**
June 29 (leter of notification) 8,000 shares 6% cumulative prior preferred stk. ($25 par); 16,000 shares ($1 par) common stock, and 16,000 shares of common to be issued upon exercise of warrants held by owners of the prior preference stock. All stock to be sold at par value. Proceeds to pay off a bank loan, make advances to a wholly-owned susbidiary, Klamath Machine & Locomotive Works, Inc., and for additional working capital. Hannaford & Talbot, San Francisco, will be selling agents.

**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.

**Powers Oil & Drilling, Inc., Casper, Wyo.**
July 14 (letter of notification) 800,000 shares (25¢ par) common stock. **Price**—25 cents per share. **Underwriter**—John G. Perry & Co. For drilling operations.

**Public Service Electric & Gas Co.**
June 11 filed 200,000 shares ($100 par) cumulative preferred stock. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Morgan Stanley & Co.; Union Securities Corp. and White, Weld & Co. (jointly). **Proceeds**—For property additions and improvements. **Bids**—Company, Aug. 4, received two bids on the proposed issue of 200,000 shares of preferred stock, but rejected both. On July 7, last, the same issue was put up for sale, but when the hour came for underwriters to submit their bids the management declined to accept them. A group headed by the Union Securities Corp. and White, Weld & Co. on Aug. 4 bid 100.90 for stock with a $4.50 dividend, which compared with the bid of 101.65 for $4.40 dividend stock which this group was prepared to submit July 7. Morgan Stanley & Co. and associates bid 100.55 for $4.50 dividend stock, the same terms as they were prepared to bid on July 7. These were the only bidders at each of the sales.

● **Quality Seal Oil Co., Saginaw, Mich.**
July 27 (letter of notification) 12,500 shares of 7% cumulative preferred stock. **Price**—$10 per share. No underwriter. For working capital.

● **Raritan (N. J.) Mills**
July 16 (letter of notification) $150,000 mortgage to Leroy Jones and Albert C. Van Tine as depositaries and agents trustees for certificates issued against mortgage and accompanying bond. Trustees will issue 5% participation certificates. **Price**—$1,000 per unit. To meet operational losses and payment of bills incurred for new machinery.

**Riley Stoker Corp., Worcester, Mass.**
June 3 (letter of notification) 7,000 shares ($3 par) common stock. **Price**—$11¾ per share. **Underwriter**—Hanrahan & Co., Worcester, Mass.

● **Royalties Associates, Inc., New Orleans, La.**
July 30 (letter of notification) 18,000 shares ($1 par) capital stock. **Price**—$10 per share. No underwriter. To purchase or acquire lands.

**Sangamo Electric Co., Springfield, Ill.**
June 29 (letter of notification) 8,500 shares (no par) common stock, (stated value $8 a share). **Price** — $33.625. **Underwriter** — Paul H. Davis & Co., Chicago. Proceeds will be used to partially reimburse the treasury for expenditures in connection with a new $1,000,000 plant at Marion, Ill.

**Sanger Bros., Inc., Dallas, Tex.**
June 25 (letter of notification) 2,000 shares of common stock (par $2.50). **Price**—At market (about $11.25 per share). **Underwriters**—Walker, Austin & Wagener and Stifel, Nicolaus & Co. **Proceeds**—To selling stockholder.

● **Sears, Roebuck & Co., Chicago**
July 11 the Savings and Profit Sharing Pension Fund of Sears, Roebuck and Co. Employes, Chicago, Ill., filed 25,000 memberships to participate in the purchase of 650,000 shares of capital stock. Total amount of contributions of all members will not exceed $11,500,000.

**Shoe Corp. of America, Columbus, O.**
June 28 filed 25,000 shares of cumulative preferred stock (no par), with class A common share purchase warrants attached and 25,000 shares of common stock reserved for warrants. **Underwriter**—Lee Higginson Corp. **Proceeds**—For general corporate purposes.

**Southern California Edison Co. (8/18)**
July 28 filed $25,000,000 first mortgage bonds. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. and Harris, Hall & Co. (Inc.), jointly. **Proceeds**—Finance construction program. Expected Aug. 18.

**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.

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(Continued from page 41)

**Sudore Gold Mines Limited, Toronto, Canada**
July 21 filed 500,000 shares of common stock ($1 par). **Price**—$1 per share American funds. **Underwriter**—None. **Proceeds**—For mining operations.

**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.

● **Thermo Electric Fuse Corp., New York**
July 28 (letter of notification) 1,000 shares of class A preferred stock (par $100). Price, par. No underwriting. Working capital.

● **Tide Water Power Co., Wilmington, N. C.**
July 30 filed 80,000 shares (no par) common stock. **Underwriters**—Union Securities Corp. and W. C. Langley & Co. Price by amendment. **Proceeds**—For construction.

**U. S. Airlines, Inc., St. Petersburg, Fla.**
June 2 (letter of notification) 171,000 shares ($1 par) common stock. **Price**—56 cents each. To be offered for Frances B. Law, Robert B. Law, and Theodore N. Law. **Underwriter**—R. H. Johnson & Co., New York.

● **United Utilities & Specialty Corp., Boston**
July 29 filed 41,000 shares of 5% cumulative convertible preferred stock ($10 par). **Underwriters**—Herrick, Waddell & Reed, Inc., and George R. Cooley & Co., Inc. **Proceeds**—For general corporate purposes.

**Victor Products Corp., Hagerstown, Md.**
June 28 (letter of notification) 42,800 shares of common stock, of which 21,503 shares will be sold to single holder of the majority of the outstanding voting stock and 21,297 shares will be offered publicly. Stockholders of record July 6 are given the right to subscribe in the ratio of one new share for each 10 shares held. Rights expire Aug. 10. **Price**—$7.50 per share. **Underwriter**—None. **Proceeds**—To increase working capital.

● **West Virginia Coal & Transportation Co., St. Paul, Minn.**
July 30 (letter of notification) 36,261 shares (10¢ par) common stock. Common shareholders will be given rights to subscribe for one share for each share held at 10¢ per share. Unsubscribed shares will be offered by company at not less than $3 per share. No underwriter. Expansion and replacement of coal mining facilities at West Columbia, W. Va.

**Wisconsin Public Service Corp. (8/17)**
July 19 filed $5,250,000 first mortgage bonds, series due Aug. 1, 1978. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Goldman, Sachs & Co. and Salomon Bros. & Hutzler (jointly); Glore, Forgan & Co. and Central Republic Co. (jointly); Shields & Co.; Kidder, Peabody & Co.; Harris Hall & Co. (Inc.); Harriman Ripley & Co., Inc. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—For the payment of $4,600,000 of short-term bank loans and for construction. Expected Aug. 17.

**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.

# Prospective Offerings

● **Chesapeake & Ohio Ry. (8/24)**
Aug. 3 reported company has plans for sale of $5,500,000 equipment trust certificates on Aug. 24. This is in addition to the $3,600,000 equipment certificate offering that the company is putting up for award on Aug. 10. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.)

**Chesapeake & Ohio Ry. (8/10)**
The company is inviting bids to be received on Aug. 10 for $3,600,000 equipment trust certificates to finance the purchase of locomotives costing $3,690,692. Certificates will be dated Sept. 1, 1948, and mature serially in equal annual instalments from Sept. 1, 1949 to Sept. 1, 1958, both inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.).

● **Chicago Rock Island & Pacific RR. (8/25)**
Bids will be received up to 11.30 a.m. (CDT) Aug. 25 at company's office at 1136 La Salle St., Chicago, for the purchase of $3,420,000 equipment trust ctfs. series B. To be dated Sept. 1 and to mature in 20 equal semi-annual instalments from March 15, 1949 to Sept. 15, 1968. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Kidder, Peabody & Co. and Dick & Merle-Smith.

**Detroit Edison Co. (8/17)**
July 28 American Light & Traction Co. asked SEC permission to sell at competitive bidding 190,000 shares of Detroit Edison capital stock. Probable bidders include: The First Boston Corp.; Coffin & Burr, Inc., and Spencer Trask & Co. (jointly); Blyth & Co., Inc. Expected Aug. 17.

● **Griesedieck Western Brewery Co.**
Stockholders will be asked in the near future to approve an issue of new convertible preferred stock, which will be underwritten by a group of investment houses, headed by Edward D. Jones & Co., St. Louis.

● **Holly Sugar Corp.**
Sept. 1 stockholders will vote on approving an amendment to the certificate of incorporation which would change the authorized capital from 500,000 shares of common ($10 par) to 185,000 shares of preferred stock ($30 par) and 850,000 shares of common stock ($10 par). It is contemplated the preferred stock will have some privilege of conversion into common stock. It is presently intended that only the preferred stock will be sold and the proceeds from such sale will be used to increase working capital. Probable underwriter: Central Republic Co., Chicago.

● **Northwestern Bell Telephone Co.**
July 30 Russell J. Hopley, President, announced company plans the sale of $60,000,000 45-year debentures to retire debts created by plant improvements. Debentures will be dated Nov. 15, 1948. Sealed bids will be asked with the coupon rate to be determined by the successful bidder. Probable bidders: Morgan Stanley & Co., Halsey, Stuart & Co. Inc.

● **Pacific Telephone & Telegraph Co. (9/21)**
July 28 the application of company for authority to issue $75,000,000 35-year debentures was approved by the California P. U. Commission. Company, it is expected, will call for competitive bids on Sept. 10 to be submitted on or before Sept. 21. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.

● **Pennsylvania, Commonwealth of (8/11)**
Offering of $47,000,000 2¼% serial bonds, due 1952-1963 and $87,000,000 3¼% term bonds due June 1, 1988, expected Aug. 11 by Drexel & Co., B. J. Van Ingen & Co., Inc., Blyth & Co., Inc. and The First Boston Corp.

● **Peoples Gas Light & Coke Co.**
July 26 directors authorized an application by the company to the Illinois Commerce Commission for authority to issue $16,400,000 convertible debentures. If authority is obtained, debentures will be offered for subscription by stockholders later this year in ratio of $100 of debentures for each four shares held. Funds will be used to reimburse company for expenditures already made on account of plant and equipment and for necessary future expansion. Probable bidders, if sold competitively, will include Halsey, Stuart & Co. Inc.

● **Seaboard Air Line RR. (8/18)**
Bids for the purchase of $4,200,000 equipment trust certificates, series D, will be received up to noon (EDT) Aug. 18 at office of Willkie Owen Farr Gallagher & Walton, 15 Broad St., New York. Certificates will be dated Sept. 1 and will mature in 15 equal annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **St. Louis-San Francisco Ry. (8/10)**
Company has issued invitation for bids to be opened Aug. 10 (Noon), at office, 120 Broadway, N. Y. City, for the purchase of $5,550,000 equipment trust certificates, series B, to be dated Aug. 15, 1948, and due $370,000 Aug. 15, 1949-1963, due in one to 15 years. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly).

# Dealer-Broker Recommendations

(Continued from page 8)

Spring Street, Los Angeles 14, Calif.

* * *

**Arkansas Western Gas Co.**—Detailed information available to dealers and other financial institutions—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

**Associated Telephone and Telegraph Company**—Brief analysis of recent developments—Hourwich & Co., 27 William Street, New York 5, N. Y.

**Associated Transport, Inc.**—Circular—Homer O'Connell & Co., Inc., 25 Broad Street, New York 4, N. Y.

**Barlow & Seelig Manufacturing Co.**—Circular—McMaster Hutchison & Co., 105 South La Salle Street, Chicago 3, Ill.

**Bird & Son, Inc.**—Memorandum—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

**Central Public Utility Corp.**—Card memorandum—Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

**Chicago, Burlington & Quincy**—Analysis—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are analyses of the Chicago Corporation and International Nickel and leaflets on **Joy Manufacturing** and **North American Co.**

**Clary Multiplier Corp.**—Summary and conclusions—Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

**Davison Chemical Corporation**—Analytical study—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

**R. Hoe & Co., Inc.**—Analysis—Adams & Co., 105 West Adams Street, Chicago 3, Ill.

**Leonard Refineries, Inc.**—Circular—George Birkins Company, 40 Exchange Place, New York 5, N. Y.

**Line Material Co.**—Circular—Milwaukee Co., 207 East Michigan Avenue, Milwaukee 2, Wis.

Also available is data on **Bank Stock Earnings.**

**Long Bell Lumber Company**—New analysis—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

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

**National Tool Company**—Special report—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Also available are data on **National Pressure Cooker Co.**

**New England Electric System**—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

**New England Public Service Co.** plain preferreds—Analysis—Ira Haupt & Co., 111 Broadway New York 6, N. Y.

**Niagara Hudson Power**—Discussion of situation—Kalb, Voorhis & Co., 25 Broad Street, New York 4, N. Y.

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

**Philip Carey Manufacturing Co.**—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Il.

**Silver Creek Precision Corporation**—Analysis—Heimerdinger & Straus, 50 Broad Street, New York 4, N. Y.

**Southwest Gas Producing Company**—Analytical brochure—Scherck, Richter Company, Landreth Building, St Louis 2, Mo.

**Southwestern Public Service Company**—Brief report in current issue of monthly bulletin—Rauscher, Pierce & Co., Mercantile Bank Building, Dallas 1, Tex.

In the same issue are reports on **Mading Drug Stores Co., Federal Water & Gas Corp., Southern Union Gas Co., Berkshire Fine Spinning Associates, Galveston-Houston Co., Consolidated Gas Utilities Corp.,** and **Purex Corporation.** Also in the issue is a list of **Texas Municipal Bonds** interest exempt from all present Federal income taxes.

**Terminal Tower Co.**—Data—Wm. J. Mericka & Co., Union Commerce Building, Cleveland 14, Ohio.

**Time, Inc.**—Analysis—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

**Verney Corp.**—Descriptive analysis—A. G. Woglom & Co., Inc., 53 State Street, Boston 9, Mass.

Also available are descriptive analyses on **United States Finishing** and **Maine Central Railroad.**

**Winters & Crampton Corp.**—Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

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

**Wisconsin Central Railway**—Memorandum—Price, McNeal & Co., 165 Broadway, New York 6, N. Y.

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# Our Reporter's Report

Investment bankers and potential corporate issuers of new securities are among the groups who have their attention focused on Washington these days.

**The sudden outcropping of political anxiety over inflation and the demand that Congress do something to stop the forward rush, largely through action to tighten up on credit, naturally carries the threat on some stiffening in interest rates.**

The government securities market, most sensitive to such possibilities, has been reflecting its uneasiness in a distinctly softer tone, particularly since the new Reserve Board Chairman outlined his view before Congressional committees this week.

**Bank eligibles have backed down an average of about ¾ of a point within the week, while short-term Treasuries are off a ¼ point and ineligibles are virtually all at their "pegged" prices.**

This behavior of the government market quite naturally is disturbing to underwriters who are given to discussing the possibility of decisions by corporations to delay considerable of their projected expansion and necessary financing until more propitious conditions are restored.

Meanwhile there is the threat of additional selling by corporations and other holders to obtain necessary funds, and since the government market yield is the key to money rates such a development could mean marked general firming.

### Mid-Summer Slack

Underwriters are experiencing a decidedly quiet spell at the moment and with vacations in full sway are probably just as well pleased. The new issue calendar is thin over the balance of the month, thus permitting dealers to work on unsold portions of recent slow movers.

**August 17 now looms as the big day of the month with three issuers slated to go up for bids unless something happens in the meantime to dictate a change in plans.**

In view of the veritable dearth of offerings it seems strange that all three issuers should chose the same date.

**But bankers will be bidding that day for 574,087 shares of Central Illinois Public Service common being sold by Halsey, Stuart & Co. Inc. along with $25,000,000 of Southern California Edison first mortgage bonds and 190,000 shares of Detroit Edison Co. common being offered by American Light & Traction Co.**

### Looking Ahead

Though still some distance in the future it now looks as though Northwestern Bell Telephone Co. will shape up as one of the biggest borrowers this fall.

**The company is working on plans for an issue of $60,000,000 of new money debentures which would constitute its first public offering of debt securities. Until now it has borrowed directly from the parent company, American Telephone & Telegraph Co., to finance its construction.**

At the same time People's Gas Light & Coke Co., is expected to seek $16,400,000 through sale of an issue of convertible debentures, to carry a 3% coupon and mature in 15 years. This operation also is scheduled for late fall.

### Cutting the Cloth

United Air Lines has taken the bull by the horns so to speak and trimmed its common stock offering to fit the prevailing market pattern.

**This undertaking is being carried through three potential offering stages. The company amended its registration to halve the amount originally filed with the SEC and fixing the offering price at $10.75 a share.**

**Books are to be opened first to stockholders of record as of Aug. 3 in the ratio of one new share for each 10 held. Any unsubscribed portion then will be offered to empolyees.**

In the event of any remaining unsold balance the latter will be underwritten by a banking group.

# Observations

(Continued from page 5)

sales, according to a current study by the National Industrial Conference Board, have been maintaining the same ratio to disposable income as heretofore.

The complete inadequacy of the current proposals must be recognized in the light of the suggested legislation which touches only one-half of the consumer credit outstanding, namely, $7.2 billion of instalment buying out of $14.1 billion of the consumer credit total. The other $7 billion non-instalment half of the consumer credit outstanding in charge accounts and other forms with their supposed economic (if not political) importance are to run on untouched. If it is sincerely felt that consumer credit is a major cause of trouble warranting primary legislative attention, then surely it is utterly absurd to cover only half the field. Not cnly would the automobile buyer be discriminated against, but distortions and imbalances would be vastly increased by such inconsistent coverage.

**In summary, as all non-politicos should realize, that taking a swipe at instalment credit makes no sense whatever. It can be effective only in aggravating economic imbalance and generating depression in key sectors of industry, or in promoting inflation, or both.**

At its very best, Reserve Board restriction of consumer credit can be as illogical, unjustified, irrelevant, and harmful as has been Mr. Eccles' clinging to anachronistic margin requirements which discriminatorially cut securities off from usability for credit. Mr. Eccles now is opposing all of his Chief's current proposals, excepting only those for bank and consumer credit control, as "piecemeal" measures of control. Should he not agree that those two measures which he favors will work out as "piecemeal" *political strategy?*

### "Excess" Profits Again

Likewise clearly epitomizing the ignorance and demagoguery of the current proposals is the hauling forth of the attack on corporate profits—under the epithet of "excess"(?). Let us look at the reasons advanced for the proposal. In his last week's message to the Congress, President Truman said: "(sic) First, I recommend that an excess profits tax be re-established **in order to provide a Treasury surplus and provide a brake on inflation!**

Actually (as his Council of Economic Advisers could have informed him) there are many better ways to help the budgetary position, which he disregarded or affirmatively undermined in the same Message; and far from being deflationary, the excess profits tax is grossly *inflationary*. This is so in the first place because the resultant draining-off of capital funds would prevent their investment in plant, which, as even Mr. Truman recently said he realized, is necessary to create badly-needed anti-inflationary production. Such a tax is likewise *inflationary* because, as was clearly demonstrated during the recent wartime years, net earnings of 10-40-cent dollars incite the grossest kind of extravagance in corporate management extending from advertising outlay to executives' hotel and night-club luxuries. And, as has been proved time and again in the practical business world, higher taxes are invariably translated into higher prices.

Likewise, Representative Dingell justified the introduction of his enabling bill today (Aug. 4) by stating as the measure's primary anti-inflation quality, "through it large corporations would lose $4,300,000,000 of purchasing power"—again a completely misleading statement about the real use of corporate capital. Surely the Truman Brain Trust knows that anti-inflationary production facilities can be provided only out of capital funds, or through expanded bank credit (which it also professes to eschew).

Again, like the pot-shot against consumer credit which concentrates on the instalment segment, the singling out of corporate profits in the whole purchasing power field is ridiculously narrow and inconsistent. For corporate profits are running at only $32 billion annually, against the nation's $210 billion of personal income, and against $133 billion of wages and salaries. But presumably that $32 billion represents the political impotents!

# South Carolina Issue Of $10,000,000 Ctfs. Placed on Market

A syndicate headed by the National City Bank of New York made public offering on Aug. 4 of $10,000,000 State of South Carolina 2.10% highway certificates of indebtedness at prices to yield from 1% to 2.15%, according to maturity. The certificates are dated Aug. 15, 1948, and mature serially on Aug. 15 from 1950 to 1960, inclusive. They are general obligations of the State of South Carolina and, in the opinion of the underwriters, are eligible as legal investments for savings banks and trust funds in New York, Connecticut, Massachusetts, South Carolina and certain other States.


### SITUATION WANTED

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## Alfred Valzone Opens

Alfred Valzone is engaging in a securities business from offices at 1212 University Avenue, New York City.

## Haven with McCarley Co.

(Special to THE FINANCIAL CHRONICLE)

ASHEVILLE, N. C.—Girard E. Haven has joined the staff of McCarley & Co., Vanderbilt Hotel Building.

## With Bosworth, Sullivan

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — John C. Crawford and George E. Frazier are now with Bosworth, Sullivan & Co., 660 Seventeenth Street.

## With Steiner, Rouse

(Special to THE FINANCIAL CHRONICLE)

MOBILE, ALA. — Patrick E. Hughes and Dudley W. Lang, Jr., are with Steiner, Rouse & Co.


## DIVIDEND NOTICES

**CANCO AMERICAN CAN COMPANY**

PREFERRED STOCK

On July 27, 1948 a quarterly dividend of one and three-quarters per cent was declared on the Preferred Stock of this Company, payable October 1, 1948 to Stockholders of record at the close of business September 16, 1948. Transfer Books will remain open. Checks will be mailed.

EDMUND HOFFMAN, *Secretary.*

**AMERICAN RADIATOR & Standard Sanitary**

*New York* CORPORATION *Pittsburgh*

PREFERRED DIVIDEND
COMMON DIVIDEND

A quarterly dividend of $1.75 per share on the Preferred Stock has been declared payable September 1, 1948, to stockholders of record at close of business August 20, 1948.

A dividend of twenty-five cents (25¢) per share and a special dividend of ten cents (10¢) per share on the Common Stock have been declared payable September 24, 1948, to stockholders of record at the close of business on September 1, 1948.

JOHN E. KING
*Treasurer*

**AMERICAN GAS AND ELECTRIC COMPANY**

**Preferred Stock Dividend**

THE regular quarterly dividend of One Dollar Eighteen and Three-quarter Cents ($1.18¾) per share for the quarter ending September 30, 1948, on the 4¾% cumulative Preferred capital stock of the Company, issued and outstanding in the hands of the public, has been declared out of the surplus net earnings of the Company, payable October 1, 1948, to holders of such stock of record on the books of the Company at the close of business September 3, 1948.

**Common Stock Dividend**

THE regular quarterly dividend for the quarter ending September 30, 1948 of Twenty-five Cents (25c) and 2/100ths of a share of the Common Stock of Atlantic City Electric Company on each share of the Common capital stock of this Company, issued and outstanding in the hands of the public, has been declared out of the surplus net earnings of the Company, to be payable and distributable September 15, 1948, to holders of such stock of record on the books of the Company at the close of business August 12, 1948.

H. D. ANDERSON, Secretary

August 4, 1948.

**HUNT FOODS, INC.**

**DIVIDEND NOTICE**

*The Directors of Hunt Foods have declared the regular quarterly dividends on the Company's Common and 5% Preference Stocks as follows:*

*Preference Stock—12½ cents per share payable September 1, 1948 to stockholders of record August 16, 1948.*

*Common Stock—25 cents per share payable August 31, 1948 to stockholders of record August 16, 1948.*

EDWARD MITTELMAN
*Secretary*

*Los Angeles, California*

## DIVIDEND NOTICES

**The United Corporation**

**$3 Cumulative Preference Stock**

The Board of Directors of The United Corporation has declared the regular quarterly dividend of 75¢ per share upon the outstanding $3 Cumulative Preference Stock, payable October 1, 1948 to the holders of record at the close of business September 22, 1948.

THOMAS H. STACY,
*Secretary.*

July 29, 1948
Wilmington, Delaware

**WOODALL INDUSTRIES INC.**

A regular quarterly dividend of 31¼¢ per share on the 5% Convertible Preferred Stock has been declared payable September 1, 1948, to stockholders of record August 13, 1948.

A regular quarterly dividend of 25¢ per share on the Common Stock has been declared payable August 31, 1948, to stockholders of record August 13, 1948.

M. E. GRIFFIN,
*Secretary-Treasurer.*

**THE FLINTKOTE COMPANY**

30 Rockefeller Plaza
New York 20, N. Y.
August 4, 1948

*Preferred Stock*

A quarterly dividend of $1.00 per share has been declared on the $4 Cumulative Preferred Stock of this Corporation, payable on September 15, 1948 to stockholders of record at the close of business September 1, 1948. Checks will be mailed.

*Common Stock*

A quarterly dividend of $.50 per share has been declared on the Common Stock of this corporation, payable on September 10, 1948 to stockholders of record at the close of business August 27, 1948. Checks will be mailed.

CLIFTON W. GREGG,
*Vice Pres. and Treas.*

**AMERICAN WOOLEN COMPANY INCORPORATED**

"THE GREATEST NAME IN WOOLENS"

AT the meeting of the Board of Directors of American Woolen Company, held today, the following dividends were declared:

A regular quarterly dividend of $1.00 per share on the $4 Cumulative Convertible Prior Preference Stock payable September 15, 1948 to stockholders of record August 26, 1948.

A regular quarterly dividend of $1.75 per share on the 7% Cumulative Preferred Stock payable October 15, 1948 to stockholders of record October 1, 1948.

A quarterly dividend of $1.50 per share together with an extra dividend of $2.00 per share on the Common Stock payable September 15, 1948 to stockholders of record August 26, 1948.

Transfer books will not be closed.

Dividend checks will be mailed by the Guaranty Trust Company of New York.

F. S. CONNETT,
*Treasurer.*

August 4, 1948


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# Washington . . . And You

**Behind-the-Scene Interpretations from the Nation's Capital**

WASHINGTON, D. C.—Long after the smoke of President Truman's private but furious battle with the opposition Congress has blown away, the Democratic political generals will hold a critique, and here is what the informed are betting that they will say: The calling of the special session was the greatest tactical blunder made by a President who was not noted for consistently brilliant political generalship.

President Truman's truly extraordinary attempt to win popularity at the expense of Congress was bound to succeed, they note, only if two premises were found to be justified. The first is that the public is fretting at the march of inflation. The second is that the public lops up, to change the figure, Dr. Truman's patent inflation remedy.

**Only one of those premises was believed to be justified in part. The public does not like the prices it pays for the other fellow's service and merchandise. The public did not want Dr. Truman's remedy. Of that the inferential proof is said to lay in the attitude of Congress. Surrounded and insulated by arden advisers, the President can spin a theory as to what the public wants.**

Congress, on the other hand, cannot. It is a commonplace that around election time the gentlemen of Capitol Hill are jittery. Often 10 un-organized letters from constituents one way or another can cause them to change their viewpoint around election season, or cry in their beer for fear they did not do right. The Congress was not or has not been unduly worried over turning down Mr. Truman. It came to the conclusion that constituents saw in the controlled economy the prospect of lowered prices for their own goods and services, black markets, and perhaps even a business decline.

* * *

Mr. Truman's message, contents finally revealed, also relieved them of much of their worry. In the words of the man who was spurned, member M. S. Eccles of the Federal Reserve Board, the Truman program was about as inflationary as it was deflationary. So the Congress thought. It figured that even the large spending programs would be comprehended by the voters as anything but deflationary.

* * *

As is the custom of military generals, the political generals of the Democratic party will not hold their critique until after the battle is over. The battle is the battle of the ballots, and it will be decided Nov. 2. It may be that despite the gloomy predictions of the Democratic political generals, their troops are not heading into certain disaster, in which case their critique will be different. Otherwise, here are some of the things which will be noted:

(1) Mr. Truman's call of the special session strained national unity on foreign policy almost to the breaking point. Such men as Senator Vandenberg and Gov. Dewey held the rank and file from going out on a binge of recrimination against the Roosevelt-Truman Administration "for getting us into this mess," only by heroic pleading. The behind-the-scenes battle has been won in favor of "bi-partisan foreign policy," but this unity might break in a further crisis.

**(2) Designed to give publicity to the Democratic sales line for "action against high prices now," the weight of publicity has been far from preponderant in favor of the Administration. The public has come to think of the former Chairman of the Federal Reserve Board as a New Dealer. Mr. Eccles utilized the rostrum of Congressional committee hearings to tear the Truman special session program apart. Then Paul Porter, the Administration's bright boy, didn't do so well. He was forced to admit that while the President wanted power to roll back prices he wouldn't roll them back. Finally, the Senate and House committees investigating commies got more space and more headlines and better positions with the story of alleged communists on federal payrolls accused of betraying their country to the Reds, than did the news stories of the anti-inflation program.**

(3) Normally southern Democrats go into opposition at a time of threatened victory for Republicans, or of Republican control of the Administration. The southerners have all but reversed their positions. They think the Senate Republicans are pretty nice guys, and vice versa. The alleged filibuster around the anti-poll tax bill has been just the nicest, sweetest sham battle you ever saw.

**Of course the southern Democrats feel they have got the dirtiest end of the special session stick. They don't blame the Republicans for the fact that circumstances inevitably pointed to the fact that the special session would have to deal with "civil rights." They blame Truman and the left-wingers.**

There are a lot of astute political gentlemen among the southerners. If their normal impulse to be "regular" were present, they might help Mr. Truman immeasurably, and embarrass the Republicans. So the critique will list as a third factor the joining of political battle when part of the Democratic forces had either tacitly withdrawn from the battle, or had gone over to the enemy.

**(4) While the news generally has not been played in the newspapers, the southern revolt against the national Democratic party, has been growing and feeding on the special session "fight" on civil rights. Out in the land of cotton the southerners have been making hay for the Thurmond-Wright Dixiecrat ticket. Some of the more responsible claim that Truman will lose South Carolina, Florida, Mississippi, and Alabama, with Georgia maybe coming up. Louisiana is beginning to crack, and progress is being made elsewhere.**

So the special session, on top of the northern wing victory at the Democratic national convention, is making a split within the party which will take longer to heal, if ever it does. This in itself, the critique will say, is enough to condemn the special session as a tactical political blunder. The political generals will say as did Hitler's generals of the "Battle of the Bulge," that when forced to the defensive consolidate your forces, and do not divide them in a futile assault.

**(5) Finally, the "liberals," all that is left to Truman, will not like the light in which all their programs to save humanity from its ills and worries have been put. They have been tagged as "bare-faced election bids," and inflationary measures.**

* * *

As the session draws near an end, the Congressional leadership faces a final decision on whether to enact increased bank reserves, or duck everything. They are deciding which of two dangers is greatest.

On the one hand, an increase in legal reserves, even though permissive, might be just the psychological factor which would swing a broad turn in the business cycle. It is believed that such a fear has hitherto restrained Chairman McCabe of the Federal Reserve Board or Treasury Secretary Snyder from advocating increased reserves, until finally forced to because Mr. Truman had committed himself for this proposition.

**On the other hand, the GOP reasons, perhaps if increased legal reserves are authorized, then they will have a political argument. They will be able to point to this provision as "something they have done," and leave it to the monetary managers to try to hold down credit enough to somehow prevent price increases without bringing about a decline in business.**

* * *

There is not too much worry here of war in the near future.

War with Russia will, of course, always be a possibility at almost any time. The Reds have not back-tracked on their objective of dominating the continent of Europe. The U. S. has not backed down on its opposition thereto.

However, from every side the word is reported that the Russians show no disposition to fight now. The strongest belief is that so far as can be learned, the Reds still think they can win by their historic tactics of infiltration.

**Some time within the next 12 months, perhaps, if the Marshall Plan works as well as is hoped for it, western Europe will have reached that stage where the Russians will have to make up their minds they cannot dominate it without fighting. When that time comes there will be a crisis. The crisis will come when the Politbureau decides whether to give up its objective or to fight.**

While that crisis is expected some time in the next 12 months, it is not expected this year.

The fight will not be over Berlin, it is said. The U. S. has climbed out on a limb on the Berlin question. The U. S. cannot stay forever in Berlin if the Reds make up their minds that the U. S. must get out. They will not have to force the U. S. out with Red troops, eventually the blockade will work.

**Likewise the Reds have got out on a limb on Berlin. The problem is viewed as one of working out an acceptable compromise (a short-run compromise) whereby the U. S. will lose something as a condition to to staying in Berlin, or give up Berlin as a condition to holding on to some other things. For instance, the speed of organizing the western German Government might have to be slowed down, or some currency arrangement worked out more satisfactory to the Russians.**

Such an agreement is believed now to be a subject of negotiation. It may postpone for a time the imminence of the crisis.

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