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The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 168 Number 4738 New York, N. Y., Thursday, September 30, 1948 Price 30 Cents a Copy

Managed Economy Worldwide Keynote

By A. WILFRED MAY

Portentous pyramiding of domestic, international direction and controls, with complacency thereover, observed at International Bank-Fund meetings.

WASHINGTON, SEPT. 29—Belief in the inevitability of management and planning in the international as well as the domestic sphere, is the over-riding impression arising from the proceedings at this third annual meeting of the International Bank and Monetary Fund.

A. Wilfred May

One is struck by the widespread acceptance of many of the premises which underlie belief in the workability of centralized economic controls and management as the key to world reconstruction.

Just as in the course of domestic collectivizations, their enlargement internationally is justified on the ground that the uncontrollable environmental factors have changed since their initia-

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See **PICTORIAL SECTION** for pictures taken at the recent Annual Outing of the Bond Club of New Jersey.

A "New Look" in Oil

By EUGENE HOLMAN*

President, Standard Oil Company (N. J.)

Noting increasing outlets of petroleum and its products, chief executive of leading oil producer predicts little likelihood production will ever again outrun supply. Says trend of last two decades from coal to oil cannot continue indefinitely and sees danger of price instability bringing dislocations in oil industry. Contends aggressive progress and active competition exists within oil industry and with other industries, and stresses U. S. is now transformed from oil exporting to oil importing nation. Advocates continued extensive research in petroleum production and uses and outlines Standard Oil activities in meeting problem.

The theme of these remarks is the "new look" in oil. Unlike its counterpart in women's clothes, however, oil's new look is not the result of any sudden change in consumers' desires. It is part of the gradual evolution of the industry. But viewed in contrast to that of earlier years within the memory of all of us oil's look today has changed indeed. The changes are real. They are significant. And the future strength of our industry depends upon our ability to recognize these changes and adapt ourselves to them.

Eugene Holman

The oil business today is no longer primarily a one-product business. Many of you here can remember when the main job was to supply kerosene. Then, during the last several decades, the industry's efforts have been directed principally toward supplying

(Continued on page 28)

*An address by Mr. Holman before the National Petroleum Association Meeting, Atlantic City, N. J., Sept. 16, 1948.

The Surrender to Inflation

By WALTER E. SPAHR*

Professor of Economics, New York University
Executive Vice-President, Economists' National Committee on Monetary Policy

Deploring public indifference to inflation, Dr. Spahr ascribes this surrender attitude to our "dishonest" monetary system. Holds a return to honest money, based on gold standard, should have beneficial effects in arresting currency depreciation, along with reconstruction of Federal fiscal affairs. Sees little effect from new Federal Reserve credit curbs and advocates radical reduction of government expenditures and revamping of tax system to encourage venture capital and production.

"Inflation Runs on by Common Consent"

Dr. Joseph H. Schumpeter of Harvard University has said that in the United States today "inflation runs on by common consent." In his article, "There Is Still Time to Stop Inflation," in the "Nation's Business" for June, Professor Schumpeter, who was Austrian Minister of Finance in 1919-1920 and is now President of the American Economic Association, pointed out that he had been a close observer of the inflations that ran their courses in and after World War I in Austria, France, Germany, and Italy, and stated that, although all of them could have been stopped within a year or two, "they were

Walter E. Spahr

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*An address by Dr. Spahr at 298th Regular Meeting of the National Industrial Conference Board, Inc., New York City, Sept. 23, 1948.

EDITORIAL

As We See It

The Real Communist Menace

Communism and communistic infiltration into the Federal Government during the Roosevelt Administration and possibly in some degree under President Truman have been much in the public eye for a good while past. Congressional inquiries have "revealed," but not always proved, some shocking conditions. It is unfortunate that these "investigations" have at times been inept and given, apparently, about as much to playing politics in an election year as the President in denouncing the entire effort as a "red herring." The thoughtful citizen easily recognizes the dangers in some of the procedures recently engaged in — as readily as he understands the seriousness of some of the situations uncovered. We must correct conditions which threaten our own security and prevent them from again coming into existence, but to do so we scarcely need adopt communistic techniques.

But as important, as vital as all this is, we for our part can not suppress the feeling that the real danger to the United States from Communism, the communists

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Price Trends and Capital Demand and Supply

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

Professor Slichter analyzes price outlook as well as long-run demand for capital and available supply of investable funds. Foresees no downward trend in prices and looks for abnormally high demand for new industrial capital for a decade. Holds American personal savings are insufficient to meet needs of corporate industry and concludes, in foreseeable future, supply of investment-seeking funds from individuals will not greatly increase. Says postwar boom leveling off.

I

These remarks will be divided into five parts. First, I wish to examine the long-run outlook for prices; second, I wish to analyze the long-run demand for capital; third, I wish to analyze the long-run supply of investment-seeking funds; fourth, I wish to examine briefly the short-term business outlook; and finally, I wish to appraise how well the community has managed the boom of the last three years.

Prof. S. H. Slichter

II

Great wars have usually been followed by a long decline in prices. The Napoleonic Wars were followed by a drop in the index of wholesale prices in the United States from 155 in 1814 to 60 in 1849; the Civil War by a drop from 132 in 1865 to 47 in 1896; the First World War by a drop from 154 in 1920 to 65 in 1932.

In the summer of 1948, the price level in the United States has risen higher than ever before. Most economists appear to believe that history will repeat itself, and that the Second World War will be followed by an extended period in which the dominant movement of prices will be downward. For example, 62 nongovernment economists who responded to a questionnaire of the Farm Credit Administration forecast that the price level in the quinquennial 1956-60 would be slightly below the period 1946-50. The experts for the Committee of European Economic Cooperation, in estimating the balance of trade of Western Europe between 1948 and 1951 assume a slow decline in prices. The Bureau of Agricultural Economics, in a study on the long-run outlook for agriculture, recently estimated that during the decade 1955-65 consumer prices will average about 10% below 1947 and wholesale prices about 18% below. These estimates of prices are based on the assumption of "high" employment during the decade. The Bureau of Agricultural Economics regards "high" employment as more likely than "intermediate" or "low" employment.

With these forecasts that the dominant price trend will be downward for the next decade or two, I disagree. These forecasts fail to take account of major changes in world conditions, in economic institutions, and in public policies.

(1) The forecasts of an extended period of falling prices are based upon the assumption that the Second World War will be followed by an extended period of peace—as were the Napoleonic Wars, the Civil War, and the First World War. The Second World War is over, but it has not been followed by peace. Guerilla warfare continues in many parts of the world (including parts which are important sources of many raw materials) and in other parts of the world there is an armed truce. There is no sign that this armed truce will end at an early date. Relations between Russia and the United States were more strained in 1947 than in 1946, and they are more strained in 1948 than in 1947. The steady worsening of relations has forced the United States to introduce the draft again and to expand greatly its expenditures on armaments. Other countries in Western Europe will undoubtedly be compelled to make large increases in their expenditures on armaments. Russia is determined to overthrow the economic and political institutions of both capitalism and democratic socialism. There is no sign that Russia will abandon this objective at an early date. In the meantime the military demands upon the raw materials and the industrial capacity of the world will be greater than ever before in time of "peace."

(2) The relationship between the fabricating capacity of the world and raw material capacity is very different today from what it was during the 19th century and even after the First World War. During most of the 19th century the industrialization of the world's economies had made little progress outside of Britain and the northeastern part of the United States. In view of the limited capacity of the world to convert raw materials into manufactured goods, discoveries of new sources of supply and the opening of important new regions (such as the upper Mississippi River valley or the lumber regions of the Great Lakes or the South or the Pacific Northwest) could produce substantial effects upon raw material prices. Even after the First World War the opportunities to bring about great increases in raw materials relative to the demand for them were still very great.

Today the situation is quite different. Fabricating capacity has been growing during the last 20 years all over the world, and the war made heavy inroads upon the most accessible supplies of many raw materials. The discovery of new sources of most raw materials has not kept pace with the rapidly growing demand for them. Hence, despite the great destruction of industrial capacity in Germany, the prospect is that many raw materials will be scarce in relation to demand for many years to come. This appears to be particularly true of lumber, most metals, and fuels. Food products, it is true, will become far more abundant relative to demand than they are today, but there is no immediate prospect that they will become as abundant relative to demand as before the war. Not only has population substantially increased in most parts of the world, but there has been a large movement from the country to the cities.

(3) An important change has been occurring in the nature of the costs of production as a result of the gradual transformation of the economy from one composed in the main of self-employed persons to one in which most workers are employees. Enterprises operated in the main or entirely by owners respond to a drop in demand in a very different way from enterprises operated in the main by hired employees because the former type of concern has almost negligible out-of-pocket costs. Hence a drop in demand has little effect upon the willingness of the concern to maintain production. In fact, a drop in demand may even induce an expansion of output. Concerns which use hired employees, however, must ordinarily limit their output to the amount which can be sold at prices which cover the wages of employees. As late as 1840, about 40% of the gainfully employed in the United States were self-employed. Today only about one out of five gainfully employed is self-employed. During periods when the long-term movement of prices was downward, most of the decline was concentrated in periods of depression. The changed nature of costs means that decreases in demand are far less effective in inducing reductions in prices than they were when the economy was composed largely of self-employed.

(4) A basic change has occurred in the public policies of the community since the 19th century and even since the First World War. The price declines which occurred after the Napoleonic and Civil Wars and even after the First World War occurred in a community which was committed in the main to the policy of *laissez faire*. At any rate no vigorous effort was made after either the Napoleonic Wars or the Civil War to halt the decline in prices. The greenbackers made an effort after the Civil War, but they did not get very far with their efforts. Some attempts were made to cushion the fall of prices after the First World War, but these efforts would not be regarded as vigorous by present-day standards. The failure of the government to attempt to halt the decline in prices after the Napoleonic Wars and the Civil War is reflected in the fact that in the 22 years between 1814 and 1836 the Federal budget showed a surplus in 18, a deficit in only three, and neither surplus nor deficit in one. In the 31 years between 1865 and 1896 the Federal budget showed a surplus in 28 and a deficit in three. Indeed, it showed a surplus even through-

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*An address by Dr. Slichter before the Mortgage Bankers Association of America, New York City, Sept. 22, 1948.

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Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

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WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
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Thursday, September 30, 1948

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

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Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.

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Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

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"Cold Panic" Seems to Grip the Stock Market: Mundy

Partner of Jas. H. Oliphant & Co., lays timidity of investors to confiscatory taxation fears, severe margin requirements and political uncertainties. Holds moderate recession or readjustment in business would not be an unmixed evil.

Floyd W. Mundy, senior partner of Jas. H. Oliphant & Co., members of the New York Stock Exchange, has made public his point of view regarding the stock market in a letter to a friend. In his letter, Mr. Mundy states:

"Stocks in our market are not selling at dizzy heights, indeed quite the contrary. While naturally I am, like countless others, confused about the future, I do feel that the market from its present price level might act much better than our fears would justify. If another war is coming, or if in peacetime we are to return to huge deficit financing by the government, such as existed in the '30s, then all opinions and conjectures would have to be suspended for some time to come.

"At various times during recent years Stock Exchange business has been extremely dull, there being decided timidity on the part of capital. Then, of course, we have had severe restrictions in connection with margin requirements and the use of listed securities as collateral in borrowings; taxation also has played its part. A sort of 'cold panic' has seemed to grip the market. The investment business has been quite different from other types of business which have been enjoying great activity, due to more money being in circulation than ever before, and to the existence of large pent-up demand for all sorts of manufactured goods.

"Our clients are investors and, as stated, capital has been thoroughly frightened for years—in the '30s and during the war and postwar periods. An investor could easily conjure up in his mind the fear of injury to capital through confiscatory taxation or other causes. Therefore, under such conditions as we have seen over these years, capital, which ordinarily would be directed to the purchase of equities, has sought refuge in the holding of cash and government or other high grade bonds which seemed to be safe beyond peradventure.

"If, however, on the other hand we should one day find that, providentially, light had begun to pierce the clouds and dispel some of the fears which had shadowed the minds of investors, then an altogether different picture would be presented. It seems to me we would discover on the part of thousands and thousands of investors, a pent-up demand for stocks, corresponding to the postwar pent-up demand which has manifested itself in other fields. It is quite generally recognized that inflation which is found to prevail in other markets does not exist in the stock market. Indeed it is felt that, having regard for the financial strength of representative companies, their high earnings and the generous yields on their stocks, the market is definitely on the low rather than the high side.

"I think that a moderate recession or readjustment in business would by no means be an unmixed evil; it certainly would affect favorably the man in the middle who does not belong to any of the powerful pressure groups. The latter have been able to demand higher wages, which of course were desirable, but too frequently these have been won by threats to upset the whole economy of the country. The white collar worker, if he does not belong to any of the powerful pressure groups, has not been able to achieve such relief against the rising cost of living and the concurrent lowering purchasing value of his dollars. There has existed a sellers' market, not only in labor but also in business, to the severe disadvantage of the general public. An early readjustment would be better than were it delayed, because there is still a cushion, a backlog of demand.

"We know there is no individual who is able at a time like this to discern the future course of the market; but if more reassuring conditions for capital are ahead, the market itself may be expected to give expression to such a change, influenced doubtless by the very impressions which take shape in the minds of people. It might well be that the strength which at times has been manifested in the market this year reflects a gradual change from fear to optimism. When we as individuals *know* that conditions are better, we may conclude from past experience that the market will have already largely discounted the changed situation and that the price level of stocks will not be as low as it is today."

Business Man's Bookshelf

Business Statistics for New York State Economic Areas and Counties—New York State Department of Commerce, Albany, N. Y.—paper.

Operating Results of Illinois Retail Jewelry Stores in 1947—David J. Luck—University of Illinois College of Commerce and Business Administration, Urbana, Ill.—paper.

Plowshares Into Swords—Arthur P. Chew—Harper & Bros., 49 East 33rd Street, New York 16, N. Y.—cloth—$3.00.

United States and Foreign Investment Problems—Cleona Lewis—The Brookings Institutions, Washington 6, D. C.—cloth—$3.00.

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Inflation—More Than a Monetary Problem!

By THOMAS B. McCABE*

Chairman, Board of Governors of Federal Reserve System

New head of Federal Reserve, though praising structure of System, maintains it alone is unable to cope with number one problem of inflation. Describes recent action on interest rates and credit curbs, but deplores reduction in budgetary surplus as offsetting effect of these moves. Upholds pegging of government bonds and advocates, as help to solution of inflation problem, restraint in spending, both public and private.

When the President asked me to take a place on the Federal Reserve Board of Governors and become its Chairman, I was frankly reluctant to accept. Many of my friends here and my family were apprehensive about having me go back again to fight in the battle of the Potomac, as it is a strenuous life and the men in the spotlight positions are subject to the sharpest kind of attack and criticism. Since I had been connected with the Federal Reserve here in Philadelphia for several years, the System was in my blood and I could not resist the challenge and the opportunity to serve at a time when the need was so great. As one columnist so aptly said, "I was a sucker for a curved ball." I did not assume the office without searching appraisal of the responsibilities involved. This appraisal included the job the Federal Reserve has to perform in this critical period and the adequacy of its tools. My appraisal convinced me that the job could be done. I am still of that opinion.

Thomas B. McCabe

Walter Leaf, the eminent English banker, once declared that there are three main causes that dispose men to madness — love, ambition, and the study of monetary problems. And he added that the last was the worst. After some five months in office at the Federal Reserve Board, I know exactly what Mr. Leaf had in mind.

The Federal Reserve Act

The Federal Reserve Act, passed in 1913, is a monumental piece of legislation and great credit is due its author, Carter Glass, for his foresight and wisdom. Its original purposes as conceived by its founders were to give the country an elastic currency, to provide facilities for discounting commercial paper, and to improve the supervision of banking. Over the years the System has developed a broader objective, namely, to help prevent inflations and deflations and to do its share in creating conditions favorable to sustained high employment, stable values and a rising standard of living.

There are over 14,000 banks in the United States, with total deposits of approximately $154 billion. 85% of the commercial deposits are held by members of the Federal Reserve System. These member banks keep their reserves with the Federal Reserve Banks. The Federal Reserve Banks are also depositories and fiscal agents of the United States Government.

The System is close to you and your businesses even though you may not always be aware of its operations. It was established on parallel lines with our political government as a federated system of 12 regional Reserve Banks rather than on a single central bank just so that it could be quickly responsive to the economic and financial needs of each area and remain close to the grass roots. One of these 12 regional banks is the Federal Reserve Bank of Philadelphia, of which I was Chairman for several years before I took the appointment in Washington. The directors of the 12 banks, a majority of whom are elected by the local member banks, represent, with their branch directors, an excellent cross-section of the leaders in finance, commerce and agriculture of their respective regions, and I have found that their advice and judgment on the problems of the System are invaluable.

Each regional bank and the Board's staff in Washington are watchfully feeling the pulse of the economy, for the Federal Reserve research groups collect, correlate, and interpret a host of data about every "moving part" of the financial and commercial machinery. And the System is always working to maintain steadiness and strength in the field of money, banking and credit. In doing this, it has achieved a real status as an independent body, free from politics, serving only the public interest.

Number One Problem—Inflation

As everyone knows, the number one problem before the country is inflation. In analyzing the problem, the first question is—How did we get in this position of high and continually rising prices? Basically, the cause was the war. Of that there can be no doubt. 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 millions of 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, was turned loose in a market characterized by scarcities and shortages. Prices, wages, and profits rose rapidly, and the spiral of inflation was on its way.

When you consider that half of our industrial capacity was taken up for so long with making the nonproductive tools of war, and that many millions in our labor force were paid to turn out articles they could not buy, it is amazing that the shock to our economy was so well withstood and that our recovery has been so orderly. I think that is a great tribute to the strength of our private enterprise system.

At present, the supply of money or potential money readily available to buy the current output of goods and services is about three times the prewar level. Yet the over-all physical volume of production of goods and services is little over a half larger than the prewar maximum. Production, it is important to emphasize, is practically at capacity. There have been only small over-all increases in physical output during the past year and a half, notwithstanding the great pressure of unsatisfied demands, expanding credit, and rising prices.

In spite of certain soft spots which are occurring in the price structure, the economic prospects indicate a continuation of strong inflationary pressures during the immediate future. 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 in this field. Business expenditures are also continuing at a high rate. Government expenditures are increasing, primarily because of our European aid and national defense programs. At the same time income taxes were lowered, thereby sharply reducing the Treasury surplus.

What Can Be Done About It?

That's the situation we find ourselves in this autumn. What can be done about it?

Certainly no one authority or agency can accomplish the desired result alone. It is far too deep-rooted in the complexities of our economic and political life for that. However, within their fields the Federal Reserve and the Treasury have recently made four moves to check further growth in the supply of credit. These moves have been:

(1) Higher short-term interest rates.

(2) An increase in the rediscount rate.

(3) Restoration of restrictions on installment credit.

(4) An increase in bank reserve requirements.

Time will not permit me to go into a detailed explanation of how these moves limit the supply of credit, because they are rather technical. You are all familiar, however, with the conditions of instalment credit, reimposed as a result of the authority granted by the Special Session of Congress. These conditions are less restrictive than in wartime, yet they will prevent much unsound borrowing and overreaching for goods.

Let me say that greater than anything we can do from a gov-

(Continued on page 31)

*An address by Mr. McCabe at Pennsylvania Week Luncheon of the Philadelphia Chamber of Commerce, Philadelphia, Pa., Sept. 27, 1948.

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Question of Sterling Convertibility

By PAUL EINZIG

Commenting on pressure on Britain to agree to some sterling convertibility, Dr. Einzig points out opposition and difficulties that may arise from this move. Says convertibility is unpopular in Britain and conservatives feel strongly against liquidating Empire Preference and Sterling Area, while Socialists oppose making economic sacrifices in interest of pro-American policy.

LONDON, ENGLAND—The question of the convertibility of sterling is once more in the foreground. It has arisen in connection with the Paris negotiations in inter-European trade and payments. Once more Britain is pressed to agree to a degree of convertibility which is bound to result in further losses of gold. There is a very strong feeling in London against any such concession which, it is felt, Britain can ill afford, especially as she has just agreed to relinquish for the benefit of Europe about one-third of the benefit to be derived from the Marshall Plan.

Dr. Paul Einzig

Even if Britain were to retain the full benefit of the Marshall Plan deliveries it would not be sufficient to cover the gap of the balance of payments. That gap is now likely to widen as a result of the rearmament to which Britain is now committed. A large and growing part of producing capacity will have to be diverted to military requirements, and it will become necessary to import additional raw materials. The deferment of releases of men from the armed services will reduce industrial man power. All this must mean an aggravation of the problem of the trade deficit, and an acceleration of the pace at which the gold reserve has to be drawn upon.

Notwithstanding this, the government's decision to relinquish much of the ERP receipts for the benefit of France and other Western European countries in the form of unrequited British and Sterling Area exports has met with very little criticism in Britain. While it is denounced by the Communists and their supporters, most quarters are convinced of the necessity for Britain to assist the weaker Western European countries. In any case the extent to which the arrangement under which Britain would allocate sterling to these countries would affect the balance of payments is by no means clear. Quite possibly the increase of unrequited exports to the continent would not necessarily mean a corresponding decline of British exports to hard currency countries.

On the other hand, the acceptance of the principle that sterling allocations to Western European countries should be made transferable to countries other than those to which it was allocated would result in a direct net loss of gold. The British Treasury is afraid that, if France, for instance, is entitled to use the sterling for purchases from Belgium, the net result would be an increase of Belgian sterling balance in excess of the maximum inconvertible limit of £27,000,000, whereupon Belgium would become entitled to demand gold for the surplus. It was for fear of this happening that London refused to join the continental clearing arrangement under which sterling would become freely transferable as between Western European countries. Since this is refused even in the case of sterling balances arising through goods imported by Britain, there is, it is felt, much stronger reason for refusing it in the case of sterling for which no goods have been received from the continent.

The experience of 1947 has made convertibility most unpopular in Britain. Large amounts of dollars were lost through the use and abuse of convertibility. It is expected that, should a limited degree of convertibility be agreed to in relation to Western Europe, the experience of 1947 would repeat itself on a smaller scale. And while last year the losses could be covered out of the proceeds of the American loan, at present they would have to be covered out of the dwindling gold reserve. The way the assistance received through ERP is whittled down is causing widespread concern, especially since in the meantime the price paid for Marshall aid is becoming increasingly evident. The government has just issued a number of decrees providing for the reduction of Empire Preference rates, in confirmation of the Geneva Pact. The OEEC agreements in Paris are also expected to be detrimental to Britain's trade with the Sterling Area, since part of the benefit derived from that trade will be relinquished in favor of Europe.

Conservative circles which feel very strongly against the liquidation of Empire Preference and Sterling Area arrangements are faced by a dilemma. They are naturally anxious to support the policy aiming at resisting the expansion policy of the Soviet Union, and are reluctant to attack measures which were taken in pursuance of this policy. Nevertheless they feel impelled to register their protests. This provides excellent material to pro-Soviet propaganda, since it us used as evidence to show that Marshall aid has been bought at the cost of grave disadvantages and that the benefit derived from it is really much smaller than was expected.

In Socialist circles the prospects of making heavy economic sacrifices in the interests of rearmament in pursuance of the "pro-American" policy are viewed with growing disapproval. It is feared that, should the gold reserve become exhausted Britain would become entirely dependent on American financial assistance, in which case Washington would be in a position to interfere with British economic, social and political policies. For this reason a decline of the gold reserve is likely to be accompanied by a growing trend of Socialist opposition to the government's foreign policy, on the ground that it endangers the country's economic and even political independence. Even Conservative circles fear that the choice is between two evils, since security against Communist domination can only be achieved by sacrificing Britain's position in the Empire and in the Sterling Area.

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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

The over-all performance of industrial production for the nation in the past week reflected little if any change from that of the preceding week. On a comparative basis it was slightly above the level of a year ago. While labor relations in the main have been tranquil the prolonged shipping strike on the West Coast has proved to be a retarding influence on manufacturing activity in that area. Notwithstanding such scattered disputes, employment generally continued at a high level accompanied by steady and high payrolls in the week.

* * * *

Fall buying got off to a flying start in September reaching a new record level as consumers responded very favorably to the frequent promotional sales of Fall merchandise. Cool weather in many sections of the country helped to stimulate buying during the early part of the month and as a consequence, retail dollar volume continued above a year ago by between 8 and 12% according to early spot reports made by Dun & Bradstreet, Inc. Unit volume in some lines remained below the 1947 level, but there was a spurt in the demand for fall apparel with emphasis on back-to-school clothes and accessories. Resistance to high-priced foods remained strong, but total food volume was almost unchanged at the very high summer level.

* * * *

The present inflationary spiral was given a further lift with the announcement on Friday of last week that the rail carriers would seek an additional 8% increase in freight rates. Speaking for the carriers, W. H. Dana of Chicago, Chairman of the Western Traffic Executives Committee, said the present freight rates had "failed after a trial period to produce adequate revenue despite the heavy volume of traffic that is being handled." Should the Interstate Commerce Commission grant the present request it will inevitably mean higher prices for almost all goods transported by rail. Touching upon pending wage demands of the rail unions and their ultimate effect, if granted upon railroad operating costs, Mr. Dana stated that it "is a bridge that will have to be crossed when we come to it."

In a current release from the Association of American Railroads, based on advance reports from 82 class I railroads, whose revenues represent 81.1% of total operating revenues, it estimated that railroad operating revenues in August, 1948, increased 15.2% above the same month in 1947. The estimate it states, covers operating revenues only, and does not take into account substantial increases in operating expenses that have taken place since August, 1947, as a result of increases in wage rates and material prices. Estimated freight revenue in August, 1948, the Association reports, was greater than in August, 1947, by 18.5% but estimated passenger revenue decreased 3%.

* * * *

Retail volume in the week slightly exceeded that of both the preceding week and the comparable week of 1947. Consumer price resistance continued to have a restraining effect on the purchases of luxury items, the cool weather stimulated consumer interest in Fall and Winter apparel. Instalment purchases rose slightly in the early part of the week.

Wholesale volume was steady at a high level and remained fractionally above that of the corresponding week a year ago. New orders and re-orders of Fall and Winter apparel increased somewhat. Trading volume in textiles moderately exceeded that of the previous week with an increase in orders for future delivery.

STEEL OPERATIONS SCHEDULED AT HIGHEST RATE SINCE WEEK OF MAY 24

With the railroads seeking higher rates on finished steel, steel companies are placing more emphasis on other means of transportation, states "The Iron Age," national metalworking weekly, in its current summary of the steel trade.

If the Interstate Commerce Commission allows the 8% increase now sought by the railroads the rate for moving the bulk of the nation's iron and steel products will be about 70% above the prewar level and steel company traffic managers are using every means possible to find ways other than railroads to transport a larger and larger part of steel shipments.

The increase asked in freight rates for coal and iron ore will put on pressure for higher steel prices. Steel companies faced with higher raw material costs may pass on the increase which will amount to as much as $1 a ton on finished steel. If this is passed on, states the trade magazine, it will be in addition to what the steel user will pay if higher rates for finished steel are approved.

The chances are excellent that the steel industry will break an all-time record this year in finished steel output. "The Iron Age" estimates that more than 64,000,000 tons of finished steel will be pro-

(Continued on page 29)

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Mutual Savings Banks, Inflation And Public Debt Policy

By AUGUST IHLEFELD*
Executive Vice-President, Savings Banks Trust Co., New York City
President, Institutional Securities Corporation, New York City

Stressing national welfare as requiring end of inflation, Mr. Ihlefeld tells how savings may assist or hinder this objective. Lauds restraint of savings banks in holding bonds and in extending mortgage loans. Holds chief problem is to gradually restore flexibility in long-term interest rates, without disrupting government bond market. Advocates raising one-year Treasury rates to $1\frac{1}{2}$% and increasing further bank reserve requirements. Points out a Treasury debt refunding policy which would raise interest rates by shortening maturities, without adversely affecting outstanding issues.

The chief economic problem that confronts our nation today is inflation. We have come through a great wartime credit inflation, in the course of which the nation's money supply was tripled. It would be unfortunate indeed if, on top of this wartime inflation of the money supply, we were to embark upon a great new postwar inflation of bank credit. This would be unjust to the vast army of American savings bank depositors and policy-holders and investors in government bonds, the purchasing power of whose savings would be further impaired. It would also bring on another "boom and bust" business cycle of great violence.

August Ihlefeld

The conduct of any group of financial institutions is judged by its effect on the economy of the country. Our primary duty, as savings bankers, is at all times to our depositors. But we are not doing our full duty to our depositors unless our policies contribute also to the national welfare. The national welfare today requires that inflation be checked and a relatively stable commodity price level be achieved.

Savings Banks May Aid Inflation

Mutual savings banks do not add to the money supply of the nation by the creation of new deposits, as do commercial banks. We hold thrift deposits, rather than demand deposits subject to check that constitute the largest part of this country's money supply. Nevertheless, savings banks could intensify present day inflationary pressures in several ways. First, mutual savings banks could contribute to inflation by selling large amounts of government bonds they hold to the Federal Reserve Banks. When bonds sold by savings banks from their portfolios are acquired by the Reserve banks, new reserves are created for member banks. A basis is thus laid for additional bank credit expansion.

It is quite significant, therefore, that mutual savings banks have held their government security portfolios largely intact to date. Today, almost 65% of the deposits of mutual savings banks are invested in government obligations, as against 30% before the war. And almost 75% of the Treasury securities held by mutual savings banks mature in 10 years or more. Mutual savings banks have shifted out of their government security holdings to a far lesser extent than any other major group of financial institutions.

Secondly, mutual savings banks could contribute to inflation also by lending money freely on real estate mortgages based on inflated property values. As the Federal Advisory Council of the Federal Reserve System has said:

"The capacity of the building industry is limited. Attempts to force building beyond that capacity by excessive loans . . . lead to shortages of labor and materials, higher prices and poor quality construction by speculative and unqualified builders."

Here again, the record of the mutual savings banks has been highly creditable. They have expanded their mortgage portfolios gradually and carefully, refusing to throw caution to the winds and accept as permanent the inflated market values of properties produced by a temporary severe shortage of housing.

In the third place, mutual savings banks could contribute to inflation by investing on a wholesale scale in corporate securities to obtain a higher return. In this way, funds available to business for speculative expansion could be expanded further, adding to the amount of money corporations have to bid for the limited supplies of capital goods available. But the mutual savings banks have limited purchases of corporate issues to those of the highest quality, and these have been acquired in very moderate amounts.

To sum up, we find that the past two years have witnessed a great expansion of the supply of mortgage loans and corporation bonds affording higher yields than government bonds. It has seemed tempting, at times, to convert a large part of the government bond portfolio into mortgages and corporate obligations. But mutual savings bankers have recognized that, by doing so, they would lower the average quality and lessen the over-all liquidity of their portfolios, as well as contribute to inflationary pressures in the whole economy. They have preferred to keep virtually intact the government bonds they accumulated in large amounts during the war, and have used mainly the net increases in their deposits for expanding mortgage and corporate bond holdings.

However, some switching has taken place as was to be expected. I stated last November to the Savings Banks Officers Forum, Group IV, that there would likely be a deficiency of current savings and that this could be made up in part through some switching by financial institutions from government securities held to other investments with results helpful to the economic well-being of the nation.

The mutual savings banks have shown a prudent restraint in the volume of this switching as witness the fact that they retain virtually intact the very large portfolio of approximately $12 billion of government securities accumulated during the war.

Moreover, where a savings bank has shifted from governments into sound mortgage loans and corporate bonds, it has usually insisted on a substantially higher return on the latter. This, again, helps the fight on inflation, for an in-

(Continued on page 32)

*An address by Mr. Ihlefeld before Group Five, Savings Banks Association of New York, New York City, Sept. 28, 1948.

"OBSERVATIONS"—A Wilfred May has been attending the meeting of the Governors of World Bank and Fund in Washington. See cover page for his article.

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Foreign Aid Programs and U. S. Foreign Trade

By WM. McCHESNEY MARTIN, JR.*
Chairman, Export-Import Bank of Washington

Stressing disequilibrium in U. S. foreign trade and the need for increased imports to ease dollar shortage, head of Export-Import Bank urges positive action to encourage increased flow of imports sufficient to enable borrowing countries both to meet service charges on obligations to us and also to continue to buy our products on scale essential to their welfare. Cites factors operating toward automatic increase in imports, and outlines Export-Import Bank policy in fostering imports of essential materials.

When I attempted to develop the subject assigned to me by your President, namely, "Our Economy and the World," it proved just a bit too large for me and, hence, with your permission, I am going to change it a little and discuss with you the relationship of United States foreign aid programs to our foreign trade, as seen from the special vantage point of the United States Export-Import Bank. This seems to me a matter of vital concern to all of us.

Wm. McC.Martin,Jr

Now that the Economic Cooperation Administration is in full operation, we have before us renewed evidence of the crucial importance of our postwar aid, both to this country and to the world at large. When World War II began, the United States was only moderately active in world trade and its industry was geared primarily to the domestic market. But by the early part of 1945, exports under lend-lease alone were leaving this country at the staggering rate of $16 billion per annum. At the same time that our industrial machine was thus expanding, the war was forcing the rest of the world to contract. Now, more than three years after V-J Day and despite the really remarkable degree of world recovery, especially in Western Europe, the United States productive capacity is such that the free people of the world still depend upon it to provide the additional assistance essential to the completion of their own earnest self-aid efforts.

*An address by Mr. Martin at the 47th Annual Conference of the National Association of Supervisors of State Banks, Louisville, Ky., Sept. 23, 1948.

Change in Attitude on Repayments

It seems to me that the whole approach taken by the American Government after this war, supported as it has been by both major parties and the American people as a whole, contrasts most favorably with the approach taken at the end of World War I. In no area is this reflected more clearly than in the contrasting attitude towards the repayment problem after the two wars.

After World War I we insisted, without any regard to the feasibility of repayment, that our European allies repay for all United States aid, even for the shot and shell which had been expended on the field of battle. After World War II, in contrast, there has been a growing appreciation of the fact that we can only approach the whole foreign lending problem from the point of view of a realistic appraisal of the borrowing countries' capacity to repay. In the case of Europe, there is a growing recognition that we can not reasonably expect Europe to repay all, or perhaps even a major part, of the total aid required from the United States. This current estimate of the repayment prospects for United States foreign aid, it should be noted, is contrary to the original hope of this government. It was thought in 1945 that, apart from UNRRA type relief aid, the emergency reconstruction needs of the war-torn areas of Europe and Asia (exclusive of Great Britain) would be on a small enough scale so that they could be met entirely through loans, in the first instance by the Export-Import Bank on a stop-gap basis and then principally by the International Bank for Reconstruction and Development. The British needs were to be met through a separate line of credit. As you may recall, a large measure of dollar aid was rendered in 1946 and 1947 on this straight loan basis. There was the British loan of $3¾ billion; Export-Import Bank reconstruction credits of over $2 billion; and surplus property and post V-J Day lend-lease credits of nearly $3 billion.

By the middle of 1947, however, it has become generally recognized that some new basis for financing the dollar aid requirements of Europe had to be found. The Export-Import Bank emergency reconstruction credits were coming to an end early in 1947 as available resources were exhausted and in accord with the understanding that the International Bank, which was just beginning to operate, would assume responsibility for this type of credits. The latter institution, however, found it impracticable to raise funds in the open market in the amounts required for further reconstruction needs, nor did it appear likely that the countries involved could service additional credits on a loan basis. The British line of credit, expected to last until 1951, was largely exhausted by the end of August, 1947. The unavailability of private financing made it clear that, if the remaining dollar needs of Europe were to be met, they would have to be met directly by the United States Government. Accordingly, the logical and necessary bulwarks to the Export-Import Bank reconstruction credits and the British lines of credits were the interim aid grants to France, Italy and Austria in the winter of 1947 and the ECA grants and loans now being processed. The emergence of the European Recovery Program reflected the conviction of the Executive Branch and Congress that the remaining postwar dollar aid requirements might extend over a further four-year period, might amount to as much as $17 billion and would have to be met largely (upwards of 80%) on a grant rather than a loan basis.

Despite the fact that further United States aid will be largely on a grant basis, the long-term

(Continued on page 39)

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From Washington Ahead of the News

By CARLISLE BARGERON

One of the most amazing campaigns in the country is going on down in Tennessee. The newspapers and several of the Nationally circulated magazines have carried stories about how Carroll Reece, former Republican National Chairman, is running with a hill-billy candidate for governor, and how they are playing to tremendous crowds.

Carlisle Bargeron

They picture the gubernatorial candidate, Roy Acuff, nationally known as a fiddler and singer of mountain ballads, as another of the Jim Fulsome, of Alabama, Fiddling Sam Jones of Louisiana, and Pappy O'Daniels type. The assumption is that, as they did, he is promising the sun to the people of the hills and the valleys of the Tennessee State. It is, one would believe, the same old demagoguery.

The plain fact is that perhaps a more conservative campaign is not being conducted in the country today. There is the show of Roy and his seven Smoky Mountain Boys to get the crowd out. Of that there is no doubt.

But Roy in his speech promises them nothing at all. He is undoubtedly the most unpromising candidate on record.

His opponent, Gordon Browning, is far more promising. He has held out the hope of everything to everybody.

Roy tells the folks that frankly, he doesn't know, but he will make a study.

There is the hotly agitated question of the bonus. Browning has promised it. Roy agrees that the several thousand young men and women who "when war came left whatever they were doing and went off are entitled to some repayment from their state."

"Other states," he continues, "have given their veterans a bonus. But Tennessee is not among them."

He then says that "even a small $250 bonus will cost upwards of $80 million."

"Now mind you, I can't guarantee that the State can pay you a bonus. But I promise you this if you elect me governor, I will appoint a commission to look into the question of possible revenues and on that commission you will be represented."

He has been told that there is a wealth of votes in coming out against the sales tax. He won't do this. Instead he intends to study it, "along with all the people, and if there's too much coming in, I'll be in favor of cutting it; if we don't need it at all, then I'll be in favor of cutting it out. Now, that's being fair and honest, ain't it?"

Roy's opponents make mockery of his "running on the Golden Rule and the Ten Commandents."

But certainly running on that is less costly than the promises of his opponent.

Roy, dubbed a hill-billy, but in reality, a very successful businessman; he's worth probably a million, is far more conservative in speech and promises than is Harry Truman, the President. There is nothing radical or flamboyant in his language, He has not mentioned his opponent's name a single time. He has had no criticism for anybody.

Inevitably in this state where fiddling has often been the vehicle to political success, there is a comparison of his campaign with that of the famous Taylors, Bob and Alf. The daughter of one of them wrote to a paper saying condescendingly that she realized the comparison was inevitable but she expressed the hope "it wouldn't go too far."

The fact is that Roy is making a far more dignified campaign. He tells no jokes when he is speaking. The show is through then and he has explained that "I want to talk to you man to man."

He gives the ups and downs of the various issues, discusses them pro and con, then says he won't promise what he will do about any of them except study them.

Mr. Truman is running around the country screaming that the heavens will fall if he is not elected.

Roy says: "I'm probably the first candidate ever to come asking you to vote for me who will not say that if you don't vote for me, your crops will fail, the roof of your house will fall in or that Tennessee will be doomed."

Our so-called statesmen can learn a lot from this fellow who never went past high school.

Manney & Co. Being Formed in New York

Manney & Co. is being formed with offices at 41 Broad Street, New York City to act as brokers and dealers in corporation securities. Partners in the new firm are Irving Manney and Julius Manney. Mr. Irving Manney was formerly with Eisele & King, Libaire, Stout & Co. In the past he conducted his own investment business.

Irving Manney

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Inflation As It Affects Middle Classes

By H. W. PRENTIS, Jr.*
President, Armstrong Cork Corporation

Contending middle classes, such as professional people, farmers, and business owners, have provided stability to our American system, prominent industrial executive points out extent to which these groups have been adversely affected by current inflation. Sees threat in this to democratic government and step on road to dictatorship. Lays down measures for combating inflation.

In the presence of the two other speakers on this program tonight—the first especially distinguished in the field of banking and public service, and the second noted both as a practical and academic economist—I am naturally more than ordinarily conscious of my own limitations as a businessman. However, I have maintained for years that it is the bounden duty of all of us who are engaged in commerce and industry to do our part when called upon in the discussion of vital public questions. And certainly there is no more dangerous dilemma before the American people today than the pressing problem of inflation.

H. W. Prentis, Jr.

Thomas Hobbes—the old British political philosopher—published a monumental book in 1651 entitled, "Leviathan—or the Matter, Forme, & Power of a Commonwealth," in which he holds that the state is a necessary but dangerous monster which always devours men's freedom if it be not constantly subjected to appropriate controls. "The Leviathan of Inflation" is a similar behemoth. It is eating away today at the vitals of our economy and unless checked it might well be the ultimate means of destroying our free society.

When Dr. Jordan's invitation to address you reached me a month ago, I was on vacation recovering from an operation. All the exercise I was permitted was to walk a bit every day, and here I tried to emulate the procedure of the author of the original "Leviathan," for it is said of Thomas Hobbes that:

"He walked much and contemplated, and he had in the head of his staffe a pen and inke-horne, carried always a note booke in his pocket, and as soon as a thought darted, he presently entred it into his booke, or otherwise he might perhaps have lost it. . . . Thus that book (the Leviathan) was made."

And thus this talk was prepared, although I confess I substituted a cane and a pencil for Hobbes' ingenius writing device!

I shall leave to my eminent associates the discussion of the broader aspects of inflation. My objective is to carve in high relief—if I can—the problem that it poses for our so-called middle class—the group which has been the gyroscopic stabilizer of the American Ship of State ever since that vessel was launched from the Cradle of Liberty in Philadelphia a century and three-quarters ago. Under the impact of inflation its stabilizing influence is now waning and we already see our national caravel wallowing in the troubled seas of unwise fiscal policy, top-heavy government expenditures and mounting prices, with a rising tide of class envy and hatred in the offing, the like of which America has never known.

What Is Inflation

First let me clarify the terms that I shall use. What is inflation? What are its causes and manifestations? What is the middle class?

To my way of thinking inflation is the condition that results when the supply of spending money in the hands of the people outstrips the available supply of goods and services. Its primary cause is a sudden and unwonted increase in the money supply. When I was in college I had a course in the theory of money, which I considered the most abstruse subject I ever tackled. The writer of the Book of Proverbs, you may recall said that there were four things which were too wonderful for him: "The way of an eagle in the air; the way of a serpent upon a rock; the way of a ship in the midst of the sea; and the way of a man with a maid." I would add a fifth, the way of mankind in regard to money!

The crux of the matter seems to be that men fail to realize that money is a commodity as well as a medium of exchange. The value of a dollar expressed in other commodities varies with the supply of dollars, just as the value of other commodities expressed in dollars varies with the supply of those other commodities. The Federal Government spent over $350 billion during the five war years, $96 billion of which were new dollars created by the banks when they purchased government bonds. These bank credit dollars were spent for battleships, aircraft and all the other paraphernalia of war, the bulk of which has long since gone up in smoke, but most of the credit dollars that paid for them are still circulating around in somebody's pocket or bank account. With such a stupendous addition to our money supply, dollars became cheap and the prices of commodities expressed in terms of those dollars rose.

This inevitable advance in prices as the result of monetary inflation has been accentuated by a number of factors that have affected the demand for and the supply of existing goods and services. Let me mention a few of them:

Our population has increased since 1940 by over 14 million souls.

The buying power of large segments of our population has been enormously enhanced. For instance, in 1941 there were 4,139,000 family units with incomes between $3,000 and $5,000 a year; in 1947 there were 13,165,000 such families. In 1941, 1,564,000 family units had incomes over $5,000; in 1947 the number in this classification had increased to 6,921,000 families.

During the war period, unfortunately, facilities for the production of peacetime goods could not, generaly speaking, be increased to meet the additional demand created by this phenomenal shift in buying power. Industry has been trying to make up for lost time ever since V-J Day but the productive capacity of many segments of the economy has not even yet been able to adjust itself to the new conditions. The same thing is partially true in the field of agriculture. The calves that were born in the summer and fall of 1945 are only now coming on the market as dressed beef.

Among the other factors at work have been reduced working hours; increases in wage payments without corresponding increases in productivity; limitations on output and lack of apprentices in many of the skilled

(Continued on page 38)

*An address by Mr. Prentis before the 298th Regular Meeting of the Natonal Industrial Conference Board, Inc., N. Y. C., Sept. 23, 1948.

We are pleased to announce that
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W. T. KITCHEN
formerly of Kitchen & Murphy
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WE ARE PLEASED TO ANNOUNCE THAT
JAMES W. MEANS
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HAVE BEEN ADMITTED TO PARTNERSHIP IN OUR FIRM.
MR. MEANS, FORMERLY VICE PRESIDENT, TRUST COMPANY OF GEORGIA, WILL MANAGE OUR MUNICIPAL BOND DEPARTMENT.
MR. NUNNALLY AND MR. SITES, LONG ASSOCIATED WITH US, WILL CONTINUE TO SPECIALIZE IN CORPORATE SECURITIES.
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September 27, 1948

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FORMERLY SAN FRANCISCO MANAGER OF OUR CORPORATE TRADING DEPARTMENT
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OF THE CORPORATE TRADING DEPARTMENT
IN OUR NEW YORK OFFICE
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The Theory of Relativity In Selecting Railroad Bonds

By GEORGE M. GRINNELL*
Partner, Dick & Merle-Smith, Members of New York Stock Exchange

Railroad analyst reviews working of laws restricting investments of savings banks in railroad securities, and points out disadvantages of rigid yardsticks. Points out conditions facing railroads have changed and railroad industry has become highly cyclical, thus necessitating flexibility in qualifications for legal investment of their securities by savings institutions. Concludes present New York and Massachusetts laws have been improved, and railroad bonds of the better roads are excellent savings bank investments.

I hope that the title of my talk has not lured any of you here under a misapprehension. I am not going to explain Einstein's theory or even suggest any method of applying it directly to the selection of railroad bonds. The theory of relativity which I have in mind is that employed in your new law governing the eligibility of railroad bonds as savings bank investments in Massachusetts.

George M. Grinnell

I have used the phrase "theory of relativity" in my title because the fundamental concept of the new law is that the important question in analyzing railroad bonds is not "how good are the earnings of a particular railroad" but "how good are they relative to the earnings of other railroads." Naturally all railroads earn more in periods of prosperity than they do in periods of depression. Only a few roads earned their fixed charges one and one-half times in 1932. Today practically all of them do. If you had been restricted to bonds of roads with this coverage in 1932 you would have been prevented from buying many thoroughly sound bonds when they were extremely low in price. Today such a provision would permit you to buy almost any railroad bond not in default. Under your new law you can buy bonds of only the better than average railroads but you can buy them when they are cheap as well as when they are high priced.

But before discussing the new law further I would like to point out why a change was vitally necessary. Let us review the record of the 1930's. You will all agree that a law regulating savings banks investments should do two things. It should prohibit the purchase of unsound bonds at any time and it should permit the purchase of sound bonds at all times—including periods of depression when prices are low and yields attractive. The savings bank investment laws in effect in many states did just the opposite. They permitted, in periods of prosperity, the purchase of many railroad bonds which subsequently went into default and prohibited, in periods of depression, the purchase of many thoroughly sound bonds.

Qualifications for the Legal List

Just how bad was the record is well illustrated by what happened to the roads whose bonds were on the legal lists of various states in 1930. I am citing the Massachusetts list and the New York list as examples, the former because you are most interested in it and the latter because it is the state with the largest savings bank deposits.

The New York law provided in brief that fixed interest mortgage bonds of a railroad would be legal if the road had earned its fixed charges one and one-half times in nine out of the ten preceding years, including the year preceding investment, or had earned its charges one and one-half times and paid dividends equivalent to 25% of its fixed charges in five out of the six years preceding investment, including the year preceding investment. There was also a provision to qualify even the debenture obligations of the larger roads with exceptionally good earnings records. There were of course other provisions relating to the size of the property, etc., but those mentioned above are the ones which are most pertinent to the present discussion. In 1930, bonds of 39 railroads qualified as legal investments for New York savings banks, and three years later only seven roads met the 1930 requirements. Of the roads which qualified in 1930, nine had to be reorganized. By reorganized I mean not only roads which went into bankruptcy or receivership but also the Baltimore & Ohio and Lehigh Valley which were forced to scale down their fixed charges but were able to do so under Chapter 15 of the Bankruptcy Act.

The law in effect in Massachusetts in 1930 contained special provisions regarding New England roads. The principal provisions regarding other roads were that for each of the ten years preceding investment gross earnings must have been at least equal to five times fixed charges and that dividend payments each year must have equaled at least 4% on the total outstanding stock. There were also qualifications as to mortgage position, size of the property, etc.

Under this law certain obligations of 27 roads qualified in Massachusetts in 1930 and three years later only eight met the requirements of the law in effect in 1930. Of the 27 roads which qualified in 1930, five went into bankruptcy or receivership and defaulted on most or all of the issues which had been legal. Two more put through plans of readjustment which, however, did not affect the specific issues on the Massachusetts legal list except for an extension of maturity in one instance.

Obviously these are not good records. Massachusetts recognized this fact and amended the law in 1941 but this amended law was similar to the New York law and its record would have been no better than the actual record of the New York law.

So many bonds would have required removal from the legal lists in Massachusetts and New York that both states enacted moratoriums. In analyzing the merits of the law in force in 1930 the effect of these moratoriums should obviously be ignored.

Defects of State Laws

It is now clear that the laws in effect in New York, Massachusetts and many other states in 1930 permitted the purchase by savings banks of many railroad bonds which should not have been included in the portfolios of such institutions. Furthermore, the methods of selection permitted the purchase of these bonds during a period when bond prices were generally high. On the other hand, when bond prices were thoroughly deflated and many sound bonds were available at bargain prices, savings banks would have been restricted to bonds of relatively few roads except for the moratorium provisions. It became obvious that the old standards had broken down and that something must be done about it.

I would like to say a word here in defense of the old laws. When they were first adopted and for many years thereafter they worked well. The trouble was that the character of the railroad industry changed. Railroad net earnings became more volatile, partly because gross revenues had become more sensitive to the business cycle and partly because the margin of profit had been materially reduced. But these changes went unnoticed in the "new era" of the 1920's and no changes were made in the savings bank laws to fit the new situation.

When it became apparent that something must be done to modernize the laws, different states adopted different methods. Pennsylvania, Connecticut and Vermont all gave up the idea of incorporating yardsticks in their laws. Pennsylvania now leaves it up to the discretion of the individual institutions, prohibiting only bonds of roads which had been in default within five years. Vermont now uses the ratings of the statistical agencies. The Connecticut law provides for a committee to determine legality. All of these states now leave the eligibility of railroad bonds for savings bank investment largely up to individuals, either in the institution itself or in a committee, or in the statistical agencies. The success or failure of such laws will depend on the ability of individuals to resist the feeling, in periods of prosperity, when railroad earnings are good, that all problems have been solved, and that the railroad industry is in a new era, and the feeling during periods of depression, that the railroads are going the way of the trolley lines and that no railroad bonds are any good. You are all familiar with the psychological effect on investors of periods of prosperity on the one hand and periods of depression on the other, and I do not believe that this factor should be under-estimated. The intrinsic security of a bond should not change with the business cycle. If, in a depression, a bond is vulnerable to default, then in a period of prosperity it cannot be considered a top grade bond no matter how good the earnings may look at the time.

New York still retains the old yardstick. However, in 1931 it adopted a moratorium which permitted all the railroad bonds then on the legal list to remain on the list provided the road was not in default. At the end of 1932, out of $7 billion face value of railroad bonds on the New York State legal list only $2 billion complied with the original requirements of the statute. The other $5 billion were on the list through the provisions of the moratorium. Later, New York gave the Banking Board authority to admit bonds to the savings bank legal list which

(Continued on page 36)

*An address by Mr. Grinnell before the Savings Banks' Association of Massachusetts, Swampscott, Mass., Sept. 18, 1948.

Dealer-Broker Investment Recommendations and Literature

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

Canadian Gold Stocks—Study—Milner, Ross & Co., 330 Bay Street, Toronto 1, Ont., Canada.

Coming Blue Chips—Discussion of qualifications—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Leading Banks and Trust Companies of Northern New Jersey—Comparative tabulation—Parker and Weissenborn, Inc., 24 Commerce Street, Newark 2, N. J.

Market Outlook—Leaflet on current situation and the outlook—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Outlook for the Market—Leaflet—Frank Ginberg & Co., 30 Broad Street, New York 4, N. Y.

Petroleum—Analysis of the industry—with data on 36 companies—Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

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

Also available is a comparative list of **Public Utility Bonds.**

Unpopularity of Common Stocks—Review—Baker, Weeks & Harden, 1 Wall Street, New York 5, N. Y.

Utility Income Bond—High yield—Data on request—George Birkins Co., 40 Exchange Place, New York 5, N. Y.

Well Protected Liberal Income—List of 32 selected issues providing yields ranging from 5.4% to 9.3%—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available is a memorandum on **Chicago, Rock Island & Pacific,** a leaflet on **Oils** and a research item on **Struthers Wells Corp.**

Yields on 100 "Eligible" Stocks—Selected list of Canadian preferred and common stocks considered eligible for investment by Canadian Life Insurance companies—a supplement to the "Eligible Book"—Cochran, Murray & Hay, Dominion Bank Building, Toronto, Ont., Canada.

* * *

American Buslines—Analysis—Thomas E. King & Co., 39 South La Salle Street, Chicago 3, Ill.

Arkansas Western Gas Company—Detailed information for dealers—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Bingham-Herbrand Corp.—Circular—Hecker & Co., Liberty Trust Bldg., Philadelphia 7, Pa.

Bingham - Herbrand Corp.—Memorandum—Wm. J. Mericka & Co., Inc., Union Commerce Bldg., Cleveland 14, Ohio.

Deardorf Oil Corporation—Bulletin listing producing properties and giving details on recent developments—Tellier & Co., 42 Broadway, New York 4, N. Y.

Fireman's Fund Insurance Co.—Bulletin—Laird, Bissell & Meeds 120 Broadway, New York 5, N. Y

Fuller Manufacturing Company—Study—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

James Manufacturing Co.—Special report—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Mexican Gulf Sulphur Co.—Analysis—George B. Wallace & Co., 15 William Street, New York 5, N. Y.

Mining Corp. of Canada Ltd.—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available are a circular of follow-up comment on **Southern Pacific Co.** and an analysis of **General Electric Co.**

Minneapolis Gas Company—Special report—A. C. Allyn & Co., Inc., 100 West Monroe Street, Chicago 3, Ill.

National Chemical & Manufacturing—Circular—Smith, Burris & Co., 120 South La Salle Street, Chicago 3, Ill.

New England Public Service Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Pittsburgh Forgings Co.—Circular—Emanuuel, Deetjen & Co., 52 William Street, New York 5, N. Y.

Seaboard Finance Co.—Memorandum—Crowell, Weedon & Co., 650 South Spring Street, Los Angeles 14, Calif.

Also available are data on **MacFadden Publications, Inc., Ex-Dividends Stocks** and **Central & Southwest Corp.**

Southern Production Co.—Circular—Bear, Stearns & Co., 135 South La Salle Street, Chicago 3, Ill.

Studebaker Corp.—Recent report—Freehling, Meyerhoff & Co., 120 South La Salle Street, Chicago 3, Ill.

Also available is a special report on **Inland Steel.**

Warner Co.—Analysis—H. M. Byllesby & Co., Inc., Stock Exchange Bldg., Philadelphia 2, Pa.

Winters & Crampton Corp.—Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Also available is an analysis of Miles Shoes, Inc.

Harold B. Smith, Now With Pershing & Co.

Pershing & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce that Harold B. Smith is now associated with their firm as manager of the unlisted securities department. Mr. Smith was formerly resident manager in New York City for Collin, Norton & Co.

Harold B. Smith

Well-known in Wall Street for many years, Mr. Smith is a Vice-President of the National Security Traders Association, of which he is also Chairman of the Advertising Committee; he is a former President of the Security Traders Association of New York, and is a member of the Bond Club of New Jersey and the Corporate Bond Club of New York.

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The Latin American Exchange Situation

By E. M. BERNSTEIN*
Director of Research, International Monetary Fund

After pointing out serious exchange difficulties in several Latin American countries is aggravated by European dollar shortage, World Fund economist says primary cause is excessive imports, intensified by high level of private and public investment financed by credit. Holds there is no easy way out of situation and condemns "multiple rates" and exchange controls as no satisfactory solution. Lays Latin American currency inflation to industrial development programs out of balance with international payments position.

I am genuinely grateful for the opportunity to discuss with you the exchange situation in Latin America. We who work for the International Monetary Fund frequently discuss exchange problems with the officials of our Latin American members. Once in a while we get a chance to discuss exchange problems with Latin American businessmen when we come to your countries to consult your governments. Frankly, I believe it is very helpful to talk about these problems with businessmen. Exchange problems are not theoretical questions that can be solved by discussing statistics with government officials. They touch every aspect of the economic life in a country. You who see exchange problems in your everyday business can be influential in securing an exchange policy suited to Latin America and helpful to its long run economic development.

E. M. Bernstein

It is unnecessary for me to tell you that it is a mistake to assume that all Latin American countries have the same exchange problems. Latin America is a collection of 20 republics, each with national peculiarities of its own, each with economic problems that differentiates it to some extent from its neighbors. There are some Latin American countries who are for the time being free from any serious exchange problems. Their monetary reserves, their holdings of gold and U. S. dollars have continued to expand. Their export proceeds are still adequate to pay for their import needs. In these few fortunate countries it is still true that by and large exchange is provided freely to those who must make payments abroad.

Bad Exchange Situations

But in many Latin American countries the exchange situation is bad. In part, this is a consequence of the serious payments difficulties all over the world. While some Latin American countries sell their products to Europe, they cannot now secure from Europe full payment for their exports in dollars or in imports that they need. Their dependence on United States sources of supply has increased more than in proportion to their capacity to make dollar payments. Europe's dollar difficulties have aggravated Latin America's exchange problem; they have not caused it. The fact is that the Latin American exchange problem arises out of Latin American conditions.

The difficult exchange situation in Latin America is not the result of inadequate foreign exchange receipts. The dollar value of exports of Latin America has increased enormously, partly as a consequence of a larger volume of exports, but primarily as a result of very good prices in world markets. For Latin American countries as a group exports rose from $1,650 million in 1938 to $5,840 million in 1947. All Latin American countries, with the exception of Chile, Peru and Bolivia, have receipts from exports approximately three or four times their prewar dollar amount. And even in these three countries the value of exports is double their prewar dollar amount.

Problem of Excessive Imports

The exchange problem of Latin America is primarily one of excessive imports. The dollar value of the imports of these countries has increased even more than their exports. For Latin American countries as a group imports rose from $1,560 million in 1938 to $5,850 million in 1947. Allowing for a doubling of dollar import prices, this represents a very large increase in volume as compared with prewar. Furthermore, if it were not for restrictions imposed during 1947, the imports of Latin American countries would have been even greater.

For a time this large volume of imports could be financed by drawing on reserves. During and immediately after the war, when exports increased and imports were still unavailable, the gold and foreign exchange reserves of Latin American countries rose from about $850 million at the end of 1938 to about $4 billion at the end of 1946. As imports began to increase in 1946, these reserves were drawn down. The loss in reserves in 1947 was nearly $700 million. And though, on the whole, it has now been stopped, this has been largely the result of very severe import restrictions. The urgency of conserving their exchange resources has compelled many countries to take drastic measures to put their current payments into order.

The principal cause of the present difficult exchange situation is the inflation in Latin America. The inflation in turn is largely due to a relatively high level of private and public investment financed to a considerable extent through bank credit. While in some countries the inflation may not yet have made exports unprofitable, it has resulted in a tendency to over-import. In time, however, unless the inflation is checked exports will also become unprofitable and the exchange situation will then become quite critical.

No Easy Way Out

We at the International Monetary Fund do not believe there is any easy way out of the exchange difficlties of Latin America. Exchange control may be necessary as an emergency measure to prevent a crisis. But it is difficult to see how exchange control can be regarded as a suitable policy in countries whose exchange receipts are at record levels. This is the time when Latin American countries should not only meet their current payments freely, but should be able to add to their exchange reserves. Nor can such measures as multiple currencies, involving penalty rates for some imports, be an entirely satisfac-

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*An address by Dr. Bernstein before the Inter-American Council of Commerce and Production, Chicago, Ill., Sept. 22, 1948.

Money, Credit and Inflation

By KENNETH K. DU VALL*
President, First National Bank, Appleton, Wis.

Referring to change in Administration's policy from credit expansion to credit contraction, midwestern banker contends postwar credit expansion is not alarming and is largely result and not cause of higher prices. Says primary cause of inflation is huge government spending and most of bank credit expansion has been helpful to the economy. Warns, however, undue bank credit expansion can be harmful and banks are in position, because of large government bond holdings, to intensify inflation by excessive loans. Sees serious depression if money market is drastically tightened.

Accountants, because of their increasingly important function of advising and counselling top management in business, have a vital interest in—and a real need to understand—the problems involved in managing money and credit in the critical period our nation entered with the end of World War II. It is for these reasons that I propose to explore with you the background upon which is cast such recent front-page news stories as that appearing under the caption "Senator Taft Says New Interest Rate Is Inflation Brake." I propose to suggest some of the problems—I don't presume to have all of the answers. My discussion must of necessity be limited by my qualifications—as a banker—and not as a professional economist.

Kenneth K. Du Vall

Most of you need not be reminded of the fact that only a very few years ago the bankers of the country were being openly criticized for their reluctance to take risks—for their failure to adopt courageous and aggressive loaning policies. In 1944 organized banking became aroused and engaged in a country-wide campaign exhorting bankers to make credit available to every worthy borrower for every worthy purpose.

Contrast, if you will, this 1944 point of view with that prevalent today! In 1948 bankers are being criticized for doing too well, a job they were accused of neglecting only four years ago. Twice, in less than a year, the President of the United States has urged Congress to enact laws aimed at controlling and restricting bank credit. At the special session last month a Republican-dominated Congress empowered the Federal Reserve Board to raise bank reserves and impose controls over consumer credit. The issue is not merely political. It has deep roots in the nation's economy.

What has happened to cause this rather abrupt and complete change in the thinking and attitude of our leaders—in and out of government? Are bank loans dangerously high? Has the expansion of bank credit been a major cause of inflation? Why are we concerned about the trend of bank credit? Finally, if our concern is well founded, what can be done about it?

As to the first of these questions—Are bank loans dangerously high?—we may gain perspective by looking at the rcord made since the end of World War II and comparing it to a like period following World War I. The loans of all banks in the United States reached a figure of some $43 billion at the close of 1947, or roughly, a gain of $13 billion over the figure established at the end of 1945. The gain in these two years was about 42%. Going back to a comparable period following World War I, loans rose from some $22 billion on June 30, 1918 to almost $31 billion on June 30 1920—a gain of some $8 billion, or about 37%. Surely the 42% gain following World War II compared to 37% following World War I is not alarming and neither is the total of $43 billion on Dec 31, 1947 compared to $31 billion on June 30, 1920 a cause for real concern. On the other hand, need I remind you that the inflation of 1919-1920 was followed by drastic deflation in 1921.

Passing on to the next question—Has the expansion of bank credit—post World War II—been a major cause of inflation?—we enter somewhat more controversial ground. Let us start by measuring the growth of bank loans against some of the more commonly used yardsticks of general economic activity. It might be well to look at this phase of the subject from two angles, namely, the longer-term point of view, say, from 1939 to 1947, and the shorter-term point of view, say the calendar year 1947.

As to the longer period—1939 to 1947—it may be observed that in the year 1947 the dollar value of our "gross national product" was estimated at 254% of the figure set down for 1939; our "national income" in 1947 was 280% of 1939; at the close of 1947 the index of "industrial production" was 171% of the closing figure in 1939; the index of "commodity prices" rose by the end of 1947 to 211% of the Dec. 31, 1939 index. Bank loans, in this same period, increased by 195%—modest enough in comparison to the other indices. Evidence of this nature has led some observers to conclude that bank loans have followed and not led the pattern of the nation's economy. Thus, it is reasoned, increased bank loans are an inevitable result and therefore not a cause of upward spirals in the economy. The logic in drawing this conclusion from the premises is clearly open to challenge. Is it not equally logical to conclude, for instance, that the increase in bank loans of 195% caused the other indices to rise?

Effect of Increased Bank Credit

However this may be, the shorter, more immediate period of the year 1947 makes a statistical record that casts considerable doubt on the proposition that the increased use of bank credit results in no appreciable inflationary pressure. Between January, 1947 and January, 1948, while bank loans were increasing by some 21%, commodity prices rose by 17% but industrial production moved up by only 3%. To assume a simple, direct relationship of cause and effect between bank loan increases and price increases would be an unjustifiable simplification of a complex situation. On the other hand, there is no denying that the considerable increase in bank loans in 1947 did add to available purchasing power and evidently did not result in larger production.

As I have said, admittedly we are on controversial ground when we try to decide whether or not the increased use of bank credit causes inflation or is the inevitable result of inflation. While I do not wish to labor the point, let me make one further observation. Quite obviously, more money is needed by the economy as prices rise and more dollars are tied up in accounts receivable and more dollars must be invested in inventory even though physical volume remains unchanged. This reasoning is familiar but, it seems to me, the logic behind it is much the same as the logic behind the plea of labor for higher wages to offset a higher cost of living and the argument of the manufacturer who justifies higher prices by pointing to higher costs. Thus all of us disclaim responsibility for inflation and righteously claim to be victims. Meanwhile, none of us does anything about it. Our

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*An address by Mr. Du Vall before the American Institute of Accountants, Chicago, Ill., Sept. 22, 1948.

Arkansas Western Gas Company

Common Stock

GROWTH—

	Net Profit Year Ended	
1943	$ 99,752	$0.38 per sh.
1944	133,336	0.51 per sh.
1945	214,428	0.82 per sh.
1946	238,825	0.91 per sh.
1947	307,049	1.17 per sh.
	6 Months Ended June 30	
1948	220,133	0.84 per sh.

Current dividend $0.20 quarterly.

Approximate Market 13⅞

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Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Bank Stocks

It is expected that New York City bank earnings for the quarter to end Sept. 30 and to be released next week will, in general, compare favorably with previous periods.

While the funds available for investment and lending have generally been smaller during this period because of the higher reserve requirements and retirements of Treasury securities, higher interest rates have helped to offset, in part, the effects of the decreased amounts.

It is believed that income from investments from here on should tend to stabilize. While the Federal Reserve officials have authority to further increase reserve requirements by 4 percentage points in the case of Central Reserve City banks, New York and Chicago, no immediate use of this power is expected. On the other hand, the existing higher rates should help to minimize any further minor reductions in investment holdings.

Another consideration and one which has helped to maintain a generally satisfactory level of operating earnings over the past two years while earning assets were being reduced has been the increase in the volume of loans outstanding. The high level of business has resulted in a sharp expansion of bank credit. After a period of seasonal decline during the first quarter of 1948, commercial loans of New York City banks have expanded and are again near the post-war peak. In most cases outstanding loans are now considerably larger than a year ago.

This fact is considered most important from the standpoint of bank earnings. As a result and with expenses lending off, the benefit of a larger volume of loans at higher rates should be reflected in net income.

In this connection, it is interesting to compare the record of outstanding loans of the leading New York City banks. Presented in the following tabulation is the record of loans and discounts outstanding at the end of the last two quarters and at the year-end of 1947 and 1946.

LOANS AND DISCOUNTS OUTSTANDING

	June 30, 1948	March 31, 1948	Dec. 31, 1947	Dec. 31, 1946	Percentage Change from Dec., 1946-June, 1948
	000's				%
Bank of Manhattan	$425,865	$434,482	$426,782	$385,765	+10.4
Bankers Trust	539,228	576,407	623,056	500,098	+7.8
Brooklyn Trust	28,755	31,455	36,149	33,634	—14.5
Central Hanover	450,288	418,156	411,395	400,986	+11.2
Chase National	1,461,070	1,405,757	1,324,264	1,126,462	+29.7
*Chemical Bank & Trust	529,393	432,571	449,401	357,234	+48.2
Commercial National	51,277	52,644	52,362	48,229	+6.3
Corn Exchange	78,964	73,765	79,964	76,768	+2.9
First National	94,088	77,143	90,510	88,444	+6.4
Guaranty Trust	870,077	810,900	851,405	747,370	+16.4
Irving Trust	413,238	398,798	377,810	290,729	+42.1
Manufacturers Trust	555,347	496,449	484,036	475,066	+14.7
†National City	1,309,220	1,276,311	1,216,870	1,094,614	+19.6
New York Trust	252,275	248,900	241,716	218,395	+15.5
Public National	146,573	135,597	124,182	138,865	+5.6
U. S. Trust	32,397	25,600	32,144	27,915	+16.1

*In the second quarter of 1948 the Chemical Bank merged with the Continental Bank & Trust Co., taking over certain of the latter's assets and liabilities.
†Including figures of City Bank Farmers Trust Co.

With one exception, all of the banks listed have shown an increase in the volume of loans outstanding between December, 1946, and June, 1948. In most cases the increase has amounted to more than 10%.

When this fact is considered along with the firming in interest rates, the trend is favorable for bank earnings. While two years ago the rate to prime commercial borrowers was 1½%, it is now 2%. The full effect of this rise in rates has not been reflected in operating earnings as yet. It takes time for loans made at lower rates to be refunded at higher rates or for the funds made available from maturing loans to be placed on more favorable terms. However, the effect is cumulative and it will be some time before the full impact of the present loan volume and higher interest rates are reflected in the earnings statement.

In a recent analysis of the earnings and expenses of New York City banks made by the Federal Reserve Bank of New York in its Monthly Review, during the first six months of 1948, interest on U. S. Government obligations showed a decline of 10.1% as compared to the similar period of 1947. At the same time, interest and discount on loans increased by 24.4%. As these categories represent the two main sources of revenue for the banks, this trend is significant. Taking this and other factors into consideration, the outlook for bank operating earnings is believed favorable.

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FRANKLIN 7535
CG-105

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Schofield Building
SUPERIOR 7644
CV-394

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LA-1086

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Russ Building
YUKON 6-2332
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The Groundwork for Foreign Investments

By CURTIS E. CALDER*

Chairman of the Board, Electric Bond and Share Company

Utility executive, experienced in Latin American enterprises, sees our foreign investment discouraged by unfriendly actions of extreme nationalists against foreign enterprises. Stresses need of International Code of Fair Practices and deplores distrust and muddled thinking exhibited at ITO and other international conferences. Attacks government interference with private enterprise and unfair treatment of foreign investors, and expresses view foreign undeveloped nations are inclining to belief U. S. Government will liberally supply them with funds. Denies U. S. has surplus capital supply.

Some four years ago, in New York City, it was my privilege to address the Second Plenary Session of this Council on the theme of "The Economic Future of the Western Hemisphere." In that talk I presented my conception, frankly idealistic, of a future America—peaceful, prosperous, and free; of a hemisphere whose separate peoples, by their industry and thrift, and through intelligent economic cooperation, would have achieved a high degree of social and economic progress, based upon a free and constant interchange of goods, capital and ideas. At that time, the American republics were united in a struggle with alien forces which would have frustrated our hopes of realizing this ideal. I believed wholeheartedly in that ideal then, and as I meet with you, my fellow Americans, in this year of painful postwar adjustment—made more difficult by the mistakes we all have made—I hold to it more strongly than ever.

Curtis E. Calder

Today, however, I have been asked to speak on a less visionary subject, but one with the broadest implications for the future welfare of the peoples of this hemisphere, involving the essence of that intelligent economic cooperation which is an essential part of our American ideal—the subject of foreign investments. If, during my talk, I depart from my announced topic to affirm and reaffirm my belief in private enterprise, it is because I am convinced that the present day drift toward statism is the most serious threat that all private investments, domestic and foreign, have ever faced.

I suppose if we were to take a public opinion poll to learn what foreign investments mean to the average man, we would get a variety of answers. To the uninformed, foreign investments would mean little or nothing. To an isolationist in my country they might represent an unnecessary drain on national resources. To a political demagogue in your country, they might symbolize heartless exploitation. To an investor, if he were a fortunate one, foreign investments would mean income; if he were an unfortunate one, and there are many, they would mean a continuous headache. But to the thoughtful citizen of a nation whose resources are inadequately developed, foreign investments might mean economic salvation.

*An address by Mr. Calder at the Fourth Plenary Meeting of the Inter-American Council of Commerce and Production, Chicago, Ill., Sept. 21, 1948.

In the autumn of 1944, I had the pleasure of serving as Vice-Chairman of the Section on the Encouragement and Protection of Foreign Investments, under the able Chairmanship of my good friend, Dr. Daudt d'Oliveria, at a great conference of businessmen of over 52 nations then in session at Rye, New York. I attended as a representative of interests in a great creditor country, in the business of investing money and industrial know-how in less developed areas of the world. Dr. Daudt, a citizen of a debtor country, represented commercial interests of a great nation still in the earlier stages of its industrial development. One might have thought that here the stage had been set for a sharp conflict of viewpoints and ideas; but Dr. Daudt and I, at opposite poles of the foreign investment axis, were never in serious disagreement. To us, foreign investments were a source of mutual benefit, in the form of greater productivity, increased trade, and the higher living standards which derive from the economic development which these investments foster. Equally important, they were to us a means for developing that better understanding among nations that comes only when we work together and know each other better.

As we saw it, the task of our study group at Rye was not to decide whether foreign investments were to be encouraged and protected, but to investigate the nature of the obstacles which were impeding their flow, and to discover means by which these barriers might be overcome. We started with the sound thesis that borrowing and lending countries have a mutual interest in encouraging the international flow of productive capital. It was self-evident, in the light of all the experience of the past, that the responsibility for making this capital available, where needed, for the development of latent resources and industrialization, was primarily that of private enterprise. We knew that private capital, in a free society, is no respecter of national boundaries, but will venture wherever a reasonable expectation exists that it will find safe and profitable employment. We were faced with the fact, however, as we are today, that private capital is not flowing across international boundaries; to be more specific, it is not flowing in adequate volume from the greatest reservoir of available capital, the United States, to the underdeveloped areas, where the need is greatest.

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Foreign Investment Requires Encouragement

Since there were (and are) no restrictions in the United States to impede this flow, it followed, logically, that the difficulty must lie with the inability, or the unwillingness of the prospective recipients to give it the encouragement it requires. Our discussions, therefore, centered on measures which could be taken by the less developed countries to make their investment opportunities more attractive; and on the attitudes which should be developed by foreign investors to make their investments more welcome.

Out of these discussions there evolved a series of positive recommendations for the encouragement and proper utilization of foreign investments directed toward the investor, the recipient country, and the capital-exporting nation. I believe that the following would be a fair summary of their contents:

Investors of foreign capital should be conscious of their social and economic responsibilities, recognizing that the welcome their investments receive will depend on the contribution they make to the general welfare of the people.

Nations which need the assistance of foreign capital, and which seek it intelligently, will make a conscious effort to attract it by establishing records of fair treatment for existing investments and by establishing safeguards for its future well-being.

Nations which have capital available for export should encourage its productive employment abroad, knowing that in so doing, they should be prepared to receive additional foreign goods and services in an amount commensurate with the service charges on these investments.

These principles, applied to our separate nations, embody the essence of intelligent economic cooperation—the progressive development of the resources of a hemisphere through foreign investment, production, and trade—achieved by free men, in a free society, under private enterprise. However, it is one thing to make an objective analysis of a problem, and quite another to obtain the cooperative action needed for its solution; and it is especially difficult in the atmosphere of intense nationalism and social unrest so prevalent today. If the action required to end the existing foreign investment impasse were entirely in the hands of practical business statesmen, mindful of the long-range implications of their day-to-day decisions, this cooperation might be readily attained. The policy decisions in this field, however, are usually political decisions, influenced by political, as well as economic, considerations.

Code of Fair Practice

The businessmen at the Rye meeting, realizing that an atmosphere conducive to the resumption of the international flow of investment capital could only be created by the restoration of mutual confidence, concluded their final reports with recommendations for the adoption of an International Code of Fair Practice and Business Ethics. It was hoped that by adherence to such a code, in conformity with the economic principles enunciated at the Conference, confidence in foreign investments could be restored.

Similar recommendations have since been made at a number of national and international conferences of businessmen, investors, and foreign traders; and proposals for the elaboration of a code were submitted to the Economic and Social Council of the United Nations, the Inter-American Conference at Bogota, and international conferences at Geneva and Ha-

(Continued on page 34)

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Money Rates a Political Problem

By JOSEPH STAGG LAWRENCE*
Vice-President, Empire Trust Company, New York City

Dr. Lawrence argues that as long as living costs rise, political action will be taken to increase interest rates, but if deflation sets in and injures economic position of important political groups, central bank authorities can be counted on to reverse stand. Cites experience of Spring of 1920, when discount rates were raised, and Federal Reserve was blamed for resulting depression.

The question of the money rate trend is no longer economic but, rather, political. If the evolution of political authority in the field of finance which has taken place during the past 15 years could be reversed, and the money rate outlook appraised on the basis of economic factors, there seems little doubt that the price of money today would be considerably higher than it in fact is and in all probability would go still higher.

Jos. Stagg Lawrence

The economic factors disposing the money market toward a higher rate are reasonably clear both as to their presence, importance and influence.

In the first place, it is hardly necessary to note the fact of inflation. It has become an acute political issue. According to orthodox economic reasoning, amply buttressed by experience, inflation almost invariably causes money rates to rise. The general purchasing power of the dollar today is only 58% as great as it was in the period 1935-1939. The classic theorist points out that when the value of money declines, the lender usually insists upon a higher rate to compensate for his loss of real principal. Whether this is an adequate or actual reason for stronger money rates in a period of inflation need not be debated. The evidence is reasonably conclusive and confirms the effect of inflation on money rates.

A second economic factor operating today and tending to push rates higher is the great demand for capital funds. In 1939, U. S. business spent in the aggregate $5.2 billion on new plant and equipment, and in 1947, $16.2 billion. The volume of such outlays during the current year has been maintained at the 1947 level. In the face of this three-fold increase in demand for capital, other things being equal, certainly rates would have to go up.

There is a third factor that might, in terms of orthodox thinking, play some part in bringing about a firmer level. This country has enjoyed peak prosperity for a matter of some nine years. Granting the importance of war and deferred demand, this is an unprecedented cyclical experience. There are many careful students who believe that this period is about to run out and that its duration has been extended by the fear of another war and the anticipation of controls by buyers who wish to protect themselves. This prospective early termination of the boom, coupled with the narrow profit margin on which many business enterprises operate today, induces a spirit of caution upon lenders. This results not only in a more careful screening of loan applications, but also in a firming of rates because of greater risk.

Politics Moves In

The foregoing represents the kind of reasoning which would have been valid a generation ago in considering this problem. In the interval politics has moved in, and the rash analyst who undertakes to prophesy the course of the money market must be a student of politics and to a degree also of mass psychology. In weighing the outlook for money through the lenses of politics, the following are the factors which will play a part in the development of rate policy.

In the first place, there is a definite connection between the high cost of living and the trend of money rates which Washington is disposed to promote. This relationship has little to do with the more or less classic reasoning calling for higher rates because of shrinkage in the value of money. The politician today does not dare to tackle the authentic causes of inflation because it means offending large, politically-important groups. He dare not remove or reduce drastically Federal support of farm prices. He dare not agitate openly and officially for restraint by labor in demanding wage increases. On the other hand, he is confronted by angry consumers who raise embarrassing questions about the price of potatoes. It is, therefore, necessary that he make some gestures which may seem like serious efforts to check inflation which at the same time are politically innocuous. For this purpose and up to a point the money rate is an ideal subterfuge. Since rising rates in classical theory are supposed to discourage the expansion of credit, this legislator can point to a rise in the rediscount rate and short-term government paper and say, "Here is an earnest of our desire to keep the cost of living within bounds."

It is obvious that this motive can operate on a political mind only so long as the cost of living is high or is going higher. Once the trend of prices is reversed and moves in the other direction—particularly if in so doing it injures the economic position of important political groups—then the formula is immediately reversed. In other words, if we have a substantial crack in farm prices and deflation becomes a fact today as it did after the First World War, our central bank authorities and our politicians can be counted on to reverse immediately their present stand in favor of firmer money rates.

In fact, the possibility that a high level of interest may be charged with responsibility for such deflation induces the utmost circumspection on the part of central bank spokesmen in instituting higher rates. Allan Sproul, of the Federal Reserve Bank of New York; Marriner Eccles and Thomas McCabe, of the Board of Governors, in their testimony before Congressional committees, made it very clear that any attempt to check inflation by changes in Federal Reserve credit policy, including money rates, would have only a very limited effect on prices.

These men are all conscious of the post-World War I experience. It may be recalled that in the spring of 1920 the Federal Reserve Board, in a desire to apply the money rate as a selective penalty against errant bankers, persuaded Congress to pass the Phelan Amendment authorizing progressive discount rates. These were applied in four of the 12 districts and resulted in one isolated instance, in the Atlanta District, in a discount rate of 87½% on a Federal Reserve Bank advance to a small bank in Alabama.

When the crash came, our politicians immediately sought scapegoats and found them in the membership of the Federal Reserve Board at the time. In fact, John Shelton Williams, a talented rabble-rouser, who was Comptroller of the Currency under Wilson, stumped the country charging that deflation had been deliberately engineered by the Federal Reserve authorities and that an extortionate and discriminatory rediscount rate had been the weapon used.

The present leadership of our Federal Reserve System is unwilling to expose itself to a repetition of this charge and will not only move with great caution in raising rates, but will also reverse itself promptly the moment the first signs of deflation appear.

In the third place, the government is conscious of the substantial burden which servicing of the national debt entails. It is a pressing item in the budget, running between $5 and $6 billion, and the Treasury is not anxious to promote or to tolerate any increase in the rate structure which will aggravate the burden of this service.

In the fourth place, the men who hold public office today and those who seek to displace them are extremely conscious of the possibility of a depression in the course of the next few years. Much thought is being given by top-level leadership in both parties to appropriate therapy for such a contingency.

There is no question in the mind of anyone with the most elementary political instincts and the most limited knowledge of political motivation that the treatment of an economic depression will be prescribed largely in the form of huge outlays of public money. Such means cannot be used by a government that does not have ready access to credit at reasonable terms, even though the process of getting such credit may resemble more or less closely the feats of self-levitation performed by professional magicians.

The fact is that the appearance of a good, confident money market must be maintained. With such a requirement in mind, no public official with elementary political sense will expose the money market to natural forces and allow the money rate again to be developed by purely economic factors.

Grim Prospect of War

Finally, we have the grim prospect of war. Opinions may differ as to the gravity of this danger. Very few men will deny that the danger is real. Certainly this is true among the leaders in the top echelons of our government. These men know very well that an outbreak of war will involve again huge financing for armaments not only for ourselves but for our allies.

It is almost inconceivable in the face of such prospective needs that our government will relax its present controls and expose the market completely to natural forces. The same reasoning that seeks to maintain a favorable outlook for government paper in the event of depression will similarly seek to maintain such a market for government financing in the event of war.

If we accept this premise, namely, that the course of money rates is primarily a political rather than an economic problem, then the conclusion is almost inescapable that the movement of money rates in an upward direction must be severely limited and that the more likely prospect today is for stable and possibly declining rates.

*An address by Dr. Lawrence at 35th Annual Convention of the Mortgage Bankers Association, New York City, Sept. 23, 1948.

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

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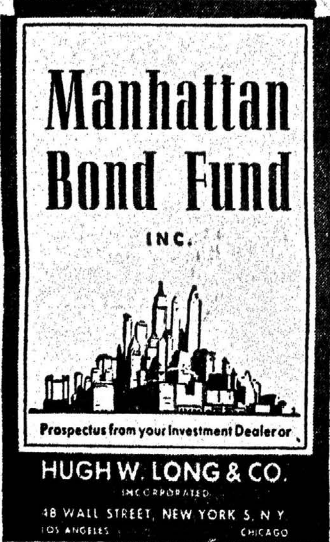

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Mutual Funds

By HENRY HUNT

Thank You, Gentlemen

For the past 13 weeks we have been indebted to executives of leading mutual fund sponsors for their contributions to the series of articles titled, "If I Were a Retail Salesman," which appeared in these columns during the period from July 1 to Sept. 23, inclusive. We appreciate the effort that these gentlemen expended during the summer months and feel sure that their ideas were helpful to everyone in the business who read them.

We take this opportunity to thank each and every one for his courtesy in responding to our invitation. Our contributors are listed in the accompanying box in the order of the appearance of their articles in this column.

The fact that the sponsor corporations with which our guest writers are associated control mutual fund assets of some $1,200,000,000, approximately 75% of all mutual fund assets, is indicative of the broad representation of the business in this series of articles.

The Aluminum Industry

"Aluminum is one of the most abundant of materials composing the earth's crust, yet it is a relative newcomer to the roster of metals in general use. Not much more than a half century ago it could be classed as a rare metal, its price being quoted in dollars per pound and its production counted in very few hundreds of tons. This apparent paradox was brought about by the fact that the metal does not occur in pure form and a process for extracting it on an economical basis was not developed until the early part of the twentieth century. Once costs were reduced to a reasonable level the peculiar qualities of the metal began to create a demand which grew steadily until shortly after World War I. Even the decline in production which occurred then was of short duration and output went on to attain new highs within a few years.

"The Second World War, however, created what may be considered an entirely new phase in the history of aluminum. At the war peak the industry was capable of producing some seven times its prewar output. Many of these new facilities were constructed without regard to costs of operation—the major item being electric power—and were not designed for operation after the war. Some have since been dismantled while others have been placed in 'mothballs.' Nevertheless productive capacity which could be operated on a competitive basis was still some three or four times what it was in 1939. In addition a tremendous amount of scrap metal was expected to return to market. The combination of these two factors, it was freely predicted, would demoralize the industry. But these gloomy prophesies have been as badly confounded as were similar forecasts concerning other metals.

"There are a number of other light metals but up to now their costs of production are comparable to those of aluminum in its very early years. Thus, it seems that aluminum's fight will be with the older metals and with which it is now in a more favorable position from the standpoint of price relationships than it has been at any time in its history."—*Quoted from Calvin Bullock's "Perspective."*

A Quotable Quote

We are indebted to **First Investors Shares Corporation** for the following quotation from a book by Louis D. Brandeis, former Justice of the United States Supreme Court:

"There are listed on the New York Stock Exchange some two thousand, seven hundred securities; a hundred thousand unlisted issues are available. For the average investor to make an intelligent selection from these many corporation securities— and indeed to pass an intelligent judgment upon a single one—is ordinarily impossible. He lacks the ability, the facilities, the training and the time essential to making a proper investigation. He needs the advice of an expert who, combining special knowledge with judgment, has the facilities and the incentive to make a thorough investigation."

Population Forecast

"These Things Seemed Important," issued by **Selected Investments Company** states that the census bureau "By 1950 expects 150 million population. Through spot checks predicts changes in population characteristics as follows: Slightly more women than men for first time in U. S. history; 15-million growth since 1940; definite drift to west coast with California third state in population; marked drop in farm population, growth in cities; substantial rise in number of children and persons over 65."

What Is Leverage?

"If a man can invest $1,000 at 5%, he will get a return of $50 per year. But if he can borrow an additional $400 at a cost of 2½%, and then invest the $1,400 at 5%, he will get a gross return of $70 and a net return, after interest cost, of $60 per year, or a return on his own capital of 6%. This method of increasing income is called **Income Leverage.**

"When borrowing is used with the objective of obtaining greater capital appreciation, it is called **Capital Leverage.** A 25% increase in value of a $1,000 investment is $250; of a $1,400 investment it is $350. Therefore, if the investor with $1,000 had borrowed and invested an additional $400, the percentage gain on his own capital would have been 35% instead of 25%. The investor should, of course, select and time his investment with great care, because a 25% decrease in value would, with the above leverage, become a 35% loss.

"It is not feasible for many investors to apply leverage themselves, because they do not have ready access to sources of funds to borrow at low interest rates, nor are they equipped to give expert selection and careful timing to their investments. Leverage is quite feasible, however, when the investments of thousands of people are combined into a single investment company, which can command borrowed money at low rates of interest and can employ professional supervision."—*Quoted from a Lord, Abbett bulletin on Affiliated Fund.*

Outlook for Motors

Broad Street Sales Corporation's Sept. 15 "Letter" discusses the outlook for the leading automobile manufacturers. The following paragraphs are excerpts:

"Although there have yet been no signs of a return to more normal selling conditions in the automobile field, recent further advances in new car prices, accompanied by a tightening in instalment credit terms, may bring closer the time when the automobile market becomes competitive.

"Similar analysis of other fields indicates that there are comparable situations in other industries. For example, the same condition exists with respect to certain products in the electrical appliance field, since some manufacturers of high quality products have advanced prices faster than their competitors and, therefore, are more vulnerable with regard to future profits. Such analysis also indicates that it is not necessarily the larger companies in the field that are always the least vulnerable. It would be extremely difficult for many individuals to ascertain these factors for themselves and such studies are additional examples of the potential advantage of constant, competent, organized security research, which is made available to investors large and small through the medium of investment company shares."

Contributors to Series of Articles in the "Chronicle" Entitled

"If I Were a Retail Salesman"

KENNETH GASTON
President, Distributors Group

ROBERT E. CLARK
Vice-President, Calvin Bullock

WOODFORD A. MATLOCK
President, Broad Street Sales Corp.

EMERSON W. AXE
President, Axe-Houghton Funds

JAMES W. BRIDGES
Partner, Keystone Company of Boston

DOUGLAS K. PORTEOUS
Vice-President, Herrick, Waddell & Reed

HENRY T. VANCE
Partner, Vance, Sanders and Company

CRAIG SEVERANCE
Sales Manager, F. Eberstadt & Co.

DOUGLAS LAIRD
Vice-President, National Securities & Research Corp.

A. J. WILKINS
Director of Sales, Wellington Fund

LEON ABBETT
President, Lord, Abbett & Company

EUGENE J. HABAS
Vice-President, Hugh W. Long & Co.

J. K. BRUMELL
Sales Manager, Investors Syndicate of Canada

Pointers on Selling

For clever, helpful hints for selling securities read the "Securities Salesman's Corner," a regular feature in every Thursday's issue of the "Chronicle."

Golf Winners At Outing Of Bond Club of N. J.

Winners in the golf tournament at the Field Day of the Bond Club of New Jersey, held Sept. 23 at the Echo Lake County Club, were:

Class A Low Gross

Ludlow Van Deventer 80

Class A Low Net

C. S. Morley 88—20—68
Norman Brassler 86—18—69
(Tie score: Morley winner on toss of coin)

Class B Low Gross

Kenneth D. McLaren 93

Class B Low Net

Benjamin Fairbanks 94—27—67

Guest Prizes

Low Gross

R. S. Nichols, Jr. 74

Low Net

Russell Williams 76—14—62

Member Guest Price

H. L. Rost and
R. S. Nichols 97—18—79
74— 6—68
Total, 147

Winners in Kickers' Handicap

	Net
Harry Zimmer	71
J. Clark	70
Edward T. Purcell	70
Robert Pyle	70

Editor's Note: Pictures taken at the outing appear in the *Pictorial Section.*

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McCloy Reports on World Bank Progress

In third Annual Report he tells of impressive increase in number of loan projects and a surplus of $4 million in year. Reviews European economic situation and says bank intends to supplement ERP to extent its own resources and credit of beneficiary nations permit. Says Bank's effectiveness is not so much in number and amount of loans as in influencing sound attitudes for development by members.

The Third Annual Report of the International Bank for Reconstruction and Development, as approved by its Executive Directors, was presented to the Board of Governors at their annual meeting in Washington on Sept. 29 by the Bank's President, John J. McCloy. Its financial sections cover the fiscal year ended June 30, 1948; other sections of the report deal with the accomplishments of the Bank through Aug. 31, 1948. It also analyzes major economic problems facing various areas of the world and suggests certain lines of action to meet these problems.

John J. McCloy

The report points out that in addition to loans already made, there has been an impressive increase in the number of projects brought to the Bank for its consideration. Covering a great variety of fields, these include such projects as power developments, transportation and communication facilities, irrigation and other agricultural projects, migration programs, mining development, shipbuilding and industrial plants. The Bank has sent missions of investigation to 13 countries in Latin America, Europe, the Middle and Far East, and a number of similar missions are planned for the near future. Altogether, the report states, active discussions are now being conducted concerning productive projects in more than 20 of the Bank's member countries.

The Bank embarked on several new types of financing operations during the past year. It authorized the granting of its first credits for development purposes, in two loans to Chile. The pattern set by this financing, the report states, is promising.

The year also witnessed the Bank's first loans to private enterprises and its first use of its guarantee powers, in loans to four leading Dutch shipping companies secured by mortgages on ships, with the subsequent sale to a group of private United States banks of the greater part of the notes evidencing the loans under the guarantee, as to principal and interest, of the International Bank.

Total Loans of Bank

The total loans made by the Bank are: $250 million to France and $195 million to the Netherlands, made during the period covered by the Second Annual Report; and the following during the period covered by this report: $40 million to Denmark; $12 million to Luxembourg; $16 million in two loans authorized to instrumentalities of the Chilean government, which loans are to be guaranteed by the government of Chile; and, $12 million in six loans to four Dutch shipping companies —a total of $525 million.

With regard to the uses to which loans have been put, the report states that most of the disbursements were made for the purpose of assisting in financing large general programs of reconstruction by supplying essential capital goods such as industrial and agricultural machinery; equipment for transportation systems, steel mills, etc.; as well as basic raw materials. While most of the expenditures financed by the Bank's loans were made in the United States, substantial amounts were spent in other countries. As of June 30, 1948, out of the $470.1 million disbursed by the Bank, the areas of expenditures in round figures were as follows: $356.4 million in the United States; $50 million in Latin America; $12.5 million in Canada, $47.7 million in Europe; and $3.5 million in Africa, the Near East and Far East.

Loan Procedures Established

One of the significant developments of the past year has been the establishment of procedures whereby the Bank carries out the mandate of its charter to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted. As the first step in this system of supervision, the Bank requires that the proceeds of a loan are subject to withdrawal by the borrower only upon satisfactory certification that expenditures have been or will be made for the purchase of the specific goods or services authorized in the loan agreements. Subsequently the Bank conducts an investigation, generally carried out in the borrowing country by the Bank's field representatives, of the end use to which the goods are put.

During the past year there have been encouraging developments also in connection with the creation of a broader market for the Bank's bonds. The Bank sold its first non-dollar bonds—an issue of 2½% Swiss franc serial bonds amounting to 17 million francs (approximately $4 million), which was purchased in its entirety by the Bank for International Settlements at Basle, Switzerland. Although up to the present time the Bank has had ample funds for its loan operations, the report states that from a long-range viewpoint it is clearly desirable that the Bank should supplement its borrowing in the United States by tapping other sources of capital.

A $4 Million Annual Surplus

The financial statements for the fiscal year ended June 30, 1948, show an excess of income over expenses of approximately $4 million. This was sufficient to eliminate a deficit of some $1 million existing on June 30, 1947, and provide a net profit of approximately $3 million on June 30, 1948.

In spite of its activity in these varied fields, full realization of the Bank's potentialities cannot be expected, the report states, as long as economic and financial stability in large areas of the world continues to be threatened by political tensions and unrest.

"By developing its activities in different directions," the report says, "both with respect to the size and character of its loans and with respect to the techniques it employs to channel capital into productive international investment, the Bank has grown in flexibility, strength and stature. As it continues to acquire experience and to gain the confidence of its members, the Bank should gradually be able to play an increasingly effective role in help-

(Continued on page 33)

Snyder Reviews World Bank and Fund

Treasury Secretary points out postwar economic dislocation has been more serious than anticipated and therefore tasks of Bank and Fund are not easy. Hits indirectly at France's action in not following Fund's advice, and says chief problem is to restore international balance of payments.

Secretary of the Treasury John W. Snyder, speaking as a governor of both institutions before a joint session of the International Bank for Reconstruction and Development and the International Monetary Fund in Washington, D. C., on Sept. 27, reviewed briefly the problems and difficulties arising from present unbalanced international financial situation. In his address, Secretary Snyder stated:

John W. Snyder

The annual meetings of the Boards of Governors provide an important occasion for the interchange of ideas and the discussion of issues among the representatives of a large number of countries who otherwise will rarely see each other except when immediately urgent issues must be settled. Here we have an opportunity to examine the broader phases of international financial policy. It is possible to exchange views and to gain some impressions of the climate of world opinion on the problems with which we are concerned.

As Governors of the Fund and Bank, however, we have the immediate task of reviewing the work of the Executive Directors and of the staffs of these institutions in the past year. We must act on several matters of policy which are reserved by the Articles of Agreement to the Boards of Governors. Although we have entrusted most of our powers to the Executive Directors, it is appropriate for the Governors to inquire into the operations of the institutions and to consider broad aspects of their policy.

Postwar Economic Dislocation

The postwar economic dislocation has been more serious than had been anticipated at Bretton Woods. The extent of physical destruction was greater and the disruption of normal trade channels has hindered the return to economic stability. The political uncertainties of the period have contributed to the difficulties of international finance and investment. As we review the work of the Fund and the Bank we must examine it both from the standpoint of the objectives for which these bodies were established and in terms of the economic and political conditions under which they have had to operate in the last few years.

Even today there are really no precise estimates of the amount which will be required to restore fully the economic life of the war-torn countries, and to finance the economic development of other countries whose national incomes today are below the potential levels. The International Bank has been able to provide notable assistance in both of these fields. Naturally enough, in the first period of its operations most of its loans were reconstruction loans made to the countries whose economies had suffered most from the war. Now it is turning to an increased extent to development loans which, we may assume, will become of greater importance as the activities of the Bank expand. The opportunities for investment are great. The ability to supply funds and investment goods is more limited. I wish I could say that the conditions prevailing in the world were conductive to the free flow of private capital for investment in foreign industry. To a considerable degree the factors which affect the private investment market also affect the Bank.

The Bank, if it is to continue its useful career over the next decades, must make loans which will be repaid by the borrowers since only in this way can it continue to make new loans. The Bank does not compete with the private investor; it serves to facilitate private investment and to direct funds into the proper places. The Bank must have assurance not only that its loans will be repaid but that they will be expended efficiently for productive purposes which will facilitate repayment without unduly burdening the international accounts of the borrowing countries.

Bank's Task Not Easy

In reviewing the work of the Bank over the last few years, it must be borne in mind that making good investments for development purposes is by no means an easy task. The projects must be given careful study. The conditions in the borrowing country should be favorable to undertaking international obligations. Before the Bank can reach its decision, it must have available to it a large amount of data about the project and the long-range program of the country concerned which alone can supply the needed information. Countries in need of economic development may, in practice, have difficulty in formulating their projects since they often need technical advice and assistance as well as finance for their projects. The Bank, in my opinion, has proven very helpful in sending missions to countries requesting aid to assist them in planning their programs of development and formulating their loan projects. These investigations will, we hope, soon lead to further expansion of the Bank's loans. The Bank, of course, can-

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September 28, 1948

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Canadian Securities

By WILLIAM J. McKAY

Canada's long-range prospects have never been brighter but conversely the short-term situation presents a variety of problems of a peculiarly difficult nature. On the one hand the Dominion's enormous wealth of undeveloped resources, now increasingly recognized as a major source of world industrial supplies, can only give rise to optimism for the future. On the other hand Canada is at a stage of potential dynamic expansion when almost universal financial and economic restrictions are strangling the normal growth of world commerce.

Canada's natural trade outlets in the sterling area and Europe are circumscribed by a mounting maze of regulations and bureaucratic restrictions. Moreover the current discussions with Sir Stafford Cripps indicate that the United Kingdom is committed to a policy of strict self-interest in accordance with which Britain will increasingly withdraw within the Sterling area. As a result the normal tendency should be in the direction of still closer U. S.-Canadian economic collaboration. This would further suggest that Canadian economic pattern is likely to undergo a fundamental change. The influence of the British system of rigid control would be replaced by a stronger impulsion toward economic freedom and the removal of trade and financial restrictions.

This would be more in accord with the current requirements of the Canadian situation where there is a natural tendency to expand that is now cramped by self-imposed restrictions. Although external circumstances compelled the Canadian authorities to augment rather than to modify the wartime system of strict financial controls, this policy nevertheless is directly counter to the Canadian desire to increase the volume of U.S.-Canadian trade. Furthermore the necessary regimentation which was borne patiently by the Canadian people during the war is now giving rise to mounting irritation and wider criticism. It is becoming increasingly difficult to reconcile the current state of internal prosperity with any necessity for irksome restraints on U.S.-Canadian trade and financial operations.

Political considerations therefore might eventually induce a reversal of Canadian policy on this vital issue. The removal of the existing barriers to trade and free financial dealings between Canada and this country would be warmly welcomed on this side of the border and it is also possible that Canadian official fears of the dangers of such a move have been exaggerated. Now that the wide gap between U.S.-Canadian prices no longer exists there is little risk of a sudden shock to the Canadian economic structure as a result of the removal of the insulating restrictions.

Furthermore the freedom to liquidate U. S. investments in Canada and on the other hand the abolition of restraint on Canadian investment in this country is not likely to lead to a sustained capital movement adverse to Canada. At the present time U. S. capital is deterred from entry into Canada because of the restrictions on its eventual withdrawal. Conversely there is a natural urge for a flight of Canadian capital to this country born of the loss of confidence in the Canadian dollar engendered by the current financial restrictions. With the removal of these restrictions the standing of the Canadian dollar would be enhanced and the capital flow would more likely be in the direction of Canada.

If the Canadian dollar were permitted to find its own level in one free market it is possible that the immediate consequence would be a temporary decline. Subsequently the fundamental strength of the Canadian economy and the ability to exchange the Canadian dollar freely for all purposes should lead to an eventual improvement.

During the week there was a continued demand for high grade external bonds but the turnover was negligible in the absence of adequate supply. The internal Dominions were again on the firm side largely as a result of the arbitrage demand in connection with the Imperial Oil offering of International Petroleum stock and partly in sympathy with the strength of free funds. In view however of the approaching decline of large-scale tourist demand for free Canadian dollars and the end of the month deadline of the Imperial Oil arbitrage operation, it is possible that this section of the market has now reached its peak. Stocks were mostly lower in sympathy with the trend in New York but there was continued activity in Western oils following confirmation of the importance of Imperial Oil's new Redwater field. Among the base metals Mining Corporation stock encountered strong demand and the golds after earlier strength eased with the general market.

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George Kranz With Kaiser N. Y. C. Office

Kaiser & Co., members of the San Francisco Stock Exchange, announce that George Kranz, formerly San Francisco manager of their corporate trading department, has been appointed manager of the corporate trading department in the New York office, 20 Pine Street, New York City.

Railroads—Victims of Gigantic Squeeze

By DONALD V. FRASER*
President, Missouri-Kansas-Texas Railroad Co.

Asserting railroads are caught between rising costs on one side and lagging rate rises on the other, rail executive points out need of stabilizing cost of transportation within price bracket public is willing and able to pay. Sees danger in propaganda for rail nationalization, and concludes other industries will face similar situation if we fail to counteract it promptly.

A grave danger is facing our nation today—the danger of socialization, if not eventually communism. The United States stands today about where England stood after the first World War. The second world conflict brought socialization to that country—it could happen here.

D. V. Fraser

There are numerous forces at work in our nation that are trying in every way possible to take power and enterprise away from the individual and place it in the hands of government agencies — which is socialism. Such opinions have been voiced by some leadership which is, no doubt, sincere in its belief that government control would mean better living conditions for all of us.

Yet they fail to realize that they are, in effect, trying to strangle the goose that laid the golden egg. In 150 years this nation became the strongest in the world, the wealthiest in the world, and provided the highest standard of living in the world for its citizens—not a selected few, but for every man who was, and is, willing to give a fair day's work for a fair day's pay. And the country became the power it is through one great medium alone—the fact that men were given the greatest freedom to exercise their abilities, execute their plans, or work on their jobs, with a minimum of government interference. Individual enterprise built this country to its present leadership—government control has failed to provide such leadership or such advanced standards of living for other countries.

I spoke a few minutes ago about problems—the need for a mutual understanding of each other's problems. So I am going to take the liberty today of telling you something about the problems of the railroad industry.

Strange as it may seem, a large part of the public, as well as many within the railroad industry, do not realize the fact that the railroads of our country are today the victims of a gigantic "squeeze play" which threatens the welfare of the greatest of our nation's basic industries. It is a situation that has grown out of prevailing economic conditions on one side and government regulations and controlling influences on the other. It is a situation that demands the deep and sympathetic understanding of the public and of railroad employees in particular. Especially, it is a situation that should concern all industry and particularly that segment that supplies the railroads with equipment and materials, whose very livelihood depends upon a healthy and progressive railroad plant.

The problems of the railroads are peculiar and of an unusual nature. They are intensified today because of the fallacious impressions in the minds of so many people that the railroads are prospering with the biggest peacetime volume of business ever handled in their history. While it is true that the railroads are taking in more money, and showing unprecedented peacetime gross revenues, a quick analysis of the income requirements indicates that earnings are far short of what is needed to support the great transportation plant that exists today.

The railroad plant is valued by the Interstate Commerce Commission at $22 billion—it would cost $35 billion to reproduce it on today's markets. In 1947 this great machine turned out only $9 billion of services (gross income), or a little over one-third of its value. In most industries the producing plants turn out many times their value within a year.

For over 25 years, and in a period which included the war earning years, railroads have earned a return averaging only 3⅔% on invested capital. Out of this meager return they have to meet interest, rents and other fixed charges, finance improvements, and pay dividends if there is anything left for that purpose. Vast capital expenditures have been made by the railroads for modernization and improvements. These expenditures have been financed partly by incurring debts repayable out of future earnings; partly from available working capital, and partly from current earnings.

Debts must be serviced from operating income, both as to interest and amortization payments, and operating income should be sufficient to take care of these charges and at the same time retain a satisfactory working capital, with something left over for the owners of the property. The fact remains, however, that for a long time, even during the peak wartime earning periods, income has not been sufficient to support the financial structure required to build and maintain the existing railroads plant. To provide needed improvements and expansions, the railroads have been forced to reduce working capital alarmingly—in other words, during high production years they have had to dip into savings which should be conserved for low production years. This is not a bright picture, yet it is essential for the welfare of our nation that the railroads continue and even increase their improvement progress.

Current inflationary conditions have hit the railroads hard. Costs of maintenance, repairs, fuel and new equipment, along with wages and salaries of employes, have risen so fast and so high that the increased rates belatedly granted by the Interstate Commerce Commission have proven utterly inadequate. Aiding in this "squeeze" are the powers of government agencies. On one hand, wages and salary adjustments are influenced by the National Labor Boards and Fact-Finding Committees, while the Interstate Commerce Commission alone has the power to authorize rate increases. Unfortunately, there always has been a disheartening lag between advances in costs and in rates, which further saps the earnings of the railroads.

The railroad industry is so basic in its contribution to the economy of our country that its unusual plight must command the respect and understanding of everyone if it is to continue in support of the nation's progress. This plight is accentuated because the time is rapidly approaching, if it is not already here, when the cost of transportation must be stabilized within a price bracket the public is willing to, and can, pay. How can the railroads meet their mounting costs and still hold to a low transportation cost?

The answer depends upon the treatment accorded the railroads by labor, by the suppliers of railroad materials, the government, industry in general, and by the public. There must be some sacrifice of selfish profit motives, a real cooperative spirit, and a genuine sympathetic understanding and support of the railroad industry if it is to survive as a symbol of our free enterprise. The

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*An address by Mr. Fraser to group of Southwestern business men, Wichita Falls, Texas, Sept. 16, 1948.

To Discuss Mid-West Stock Exchange Merger

Representatives of various exchanges to hold first meeting on October 1.

CHICAGO, ILL.—As predicted in the issue of the "Chronicle" of Sept. 9 (p. 23), it has been announced by James E. Day, President of the Chicago Stock Exchange, that representatives from securities exchanges of six mid-west cities will meet in Chicago on Oct. 1 to discuss the plan of merging their organizations into one large exchange. The cities to participate in the discussion are Chicago, Cincinnati, Cleveland, Detroit, Minneapolis and St. Louis. The Chicago Stock Exchange is to be represented by Walter J. Buhler, floor member; John R. Burcick, floor member; Ralph W. Davis, Paul H. Davis & Co.; William A. Fuller, William A. Fuller & Co.; Charles R. Perrigo Hornblower & Weeks; Jess Halsted, counsel, and James E. Day.

James E. Day

Representatives from the other cities will be: Detroit, Armin H. Vogel, A. H. Vogel & Co.; Cleveland, Richard A. Gottron, Gottron, Russell & Co.; St. Louis, John A. Isaacs, Jr., Semple, Jacobs & Co., Inc.; Cincinnati, Joseph B. Reynolds Benj. D. Bartlett & Co.; and Minneapolis, Clifford S. Ashmun, C. S. Ashmun Company.

Mr. Day said the meeting will be of a preliminary nature and it is not expected that a "concrete plan will be developed or voted upon at this time." The committees from the six cities expect to confine themselves to the development of a workable formula that would be used as a basis for effecting a consolidation of all their interests. Mr. Day added "It is anticipated that other meetings will be planned for the near future."

The purpose of the merger proposal is to create a single exchange of sufficient size to furnish a broader market for securities of mid-west corporations and thus keep pace with the growing financial and industrial importance of this region.

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And, So It Is!

"It's quite possible to buy a pair of shoes in Moscow—if, that is, you're a member of the Soviet royalty—a ruling Commissar. But if you happened to be anybody else—one of the 99% of the people—you would find that when you translated the cost of those shoes into wages, it would take you 107 hours of work to get a single pair. The average American worker — note this — the average American wage earner can buy a pair of shoes with seven hours' pay.

Thomas E. Dewey

Here are some other things to think about. For a dozen eggs — if he can get the eggs — the Russian factory worker must use five hours of his earnings. An American worker earns enough to buy these eggs—not in five hours—but in half an hour. And he gets the eggs.

"To buy a suit of clothes the laborer in communism's promised land works 12 days. In three and a half days' work an American worker earns a suit—and it's a good suit.

"It takes a worker under communism 79 minutes of labor to earn a pound of white flour. It's five minutes in America. For a woman's cotton dress a Russian works 13 times as long as an American. For a piece of soap—when there is any soap—the Russian works 18 times as long as the American, and for a lump of sugar 28 times as long."—Governor Thomas E. Dewey.

Governor Dewey's figures may or may not be precisely accurate. The matter is unimportant. The situation, in its essentials, is as depicted—and it is that fact that some Americans do not appear to be able to understand.

NSTA Notes

NSTA NOMINATING COMMITTEE

Edw. E. Parsons, Jr.

According to word received from R. Victor Mosley, Stroud & Co., Inc., Philadelphia, President of the National Security Traders Association, Edward E. Parsons, Jr., of Wm. J. Mericka & Co., Cleveland, has been appointed Chairman of the Nominating Committee to be assisted by:

Jack F. Glenn, Courts & Co., Atlanta; Dayton Haigney, Dayton Haigney & Co., Boston; Josef C. Phillips, Pacific Northwest Co., Seattle; Richard H. Walsh, Newhard, Cook & Co., St. Louis.

The election of officers for the ensuing year will take place at the Annual Convention of the Association which will be held this year in Dallas, Texas, November 14-18. Nomination by the Nominating Committee is not tantamount to election because opposing candidates can be presented after proper procedure by the members.

NEW ORLEANS SECURITY TRADERS ASSOCIATION

The NSTA Convention Specials are to arrive in New Orleans on the afternoon of Nov. 18 and will depart on the afternoon of Nov. 20.

The New Orleans Security Traders' Association are planning entertainment for the delegates. This entertainment, of course, is in the formative stage, details to be announced later.

SECURITY TRADERS ASSOCIATION OF NEW YORK

Michael J. Heaney

On Monday, Oct. 4, 1948 at 4.30 p.m., at the Produce Exchange Luncheon Club, the Nominating Committee of the Security Traders Association of New York, Inc., will receive suggestions from the membership concerning nominees for office for the coming year. Michael J. Heaney, Joseph McManus & Co., is chairman of the committee.

The Outlook for Money Rates

By MARCUS NADLER*
Professor of Finance, New York University

Dr. Nadler contends so long as inflationary spiral continues, interest rates will tend upward. Looks for further rise in short-term rates, but sees no likelihood of changes in long-term government obligations as this is bound to remain a protected market. Predicts higher mortgage rates.

It is impossible to analyze the money market in a vacuum. In order to ascertain with any degree of accuracy the trend of money rates, one has to take into account economic conditions prevailing in the country, the policy of the monetary authorities and the position and needs of the Treasury. These three factors combined determine the trend of interest rates. It is evident that the policy of the monetary authorities will be different in a period of inflation than in a period of deflation and similarly the attitude of the Treasury toward the money market is bound to be influenced to a large extent by the need for refunding and by the budgetary outlook of the Treasury. So long as the Treasury had a large surplus and was able to redeem substantial amounts of government obligations held primarily by the Reserve Banks and the commercial banks, its policy could be different from that which had to be adopted when the Treasury had a large deficit and had to depend on the money market for additional funds.

Dr. Marcus Nadler

Naturally, demand and supply factors play an important role in the money market. However, the fact should not be overlooked that the monetary authorities are in a position to influence both the supply and the demand. Through open market operations the Federal Reserve Banks are in a position to furnish the member banks with all the needed reserves. Similarly, the Federal Reserve Banks through the purchase of government obligations sold by insurance companies not only exercise an influence on the money market, but also provide the insurance companies with funds which can be invested elsewhere. If the Federal Reserve Banks had not been large buyers of obligations sold by insurance companies, the sales of government securities by the latter would have had a depressing effect on prices of high-grade bonds and, conversely, brought about a considerable increase in money rates. Since, however, the Federal Reserve Banks so far have been willing to buy all the long-term government obligations offered by insurance companies and others, they have prevented a material decline in prices of long-term high-grade obligations.

The operation of the trust funds and agencies of the government also exercises a considerable influence on the supply and demand. In periods when the supply of capital is larger than the demand, these agencies are in a position to sell long-term government obligations previously acquired by them. Vice versa, in periods when the demand for capital is great, the trust funds and agencies are in a position to buy considerable amounts of government obligations sold by institutional investors. Obviously, the activities of the trust funds and agencies can be effective only when the Treasury has a balanced budget or a surplus. Bearing the above factors in mind, it is possible to analyze the trends in the money market.

*An address by Dr. Nadler at the 35th Annual Convention of the Mortgage Bankers Association, New York City, Sept. 23, 1948.

Short-Term Rates

The money market has witnessed a moderate firming of short-term rates brought about by the willingness of the Treasury to pay a higher rate on certificates of indebtedness followed by an increase in the bill, note and discount rates. If the inflationary process should continue it is quite likely that a further moderate firming of short-term rates may take place in the not-distant future. The over-the-counter rate, i.e., the rate charged by banks to their customers, has also witnessed a moderate increase and a further firming is in the making partly because the risk involved in granting loans has increased as prices of inventories advanced and partly because many small banks are lent up to the limit and are unable to increase the volume of their loans. While a further firming of short-term rates can be expected, particularly should the reserve requirements be raised, yet the increase in rates can be only moderate. The Treasury is confronted with the task of refunding $50 billion of maturing obligations during the next 12 months and, consequently, will endeavor to prevent a material rise in money rates. Moreover, it is generally conceded that drastic credit restrictive measures which would be accompanied by a material increase in money rates could readily convert the present period of prosperity into a serious depression accompanied by large-scale unemployment.

Long-Term Rates

It is not likely that any significant change will take place in prices of long-term government obligations, particularly those eligible for purchase by the commercial banks. The increase in short-term rates will merely mean the narrowing of the spread between short-term and long-term government obligations. If, however, institutional investors outside of the commercial banks should continue to sell large amounts of long-term government obligations not eligible for purchase by the commercial banks to the Reserve Banks, there is a possibility that the Reserve Banks may lower the peg on these obligations in order to impose a penalty on those institutions which are large sellers of long-term government obligations. The acquisition of large amounts of noneligible long-term government obligations by the Federal Reserve Banks is definitely inflationary in character. The proceeds of the sale enable the insurance companies and other institutional investors to lend and invest these funds and at the same time supply new reserve balances to the member banks.

It should be noted, however, that the decline that may take place in the long-term noneligible government obligations can be only very moderate in character. A repetition of what happened in 1920 in the money market is entirely out of the question.

Furthermore, one may state with a fair degree of accuracy that irrespective of the political changes that may take place toward the end of the year the government bond market is bound to remain a protected market. The only thing that is unknown is at what price the government obligations will be supported.

The fact that the government bond market is supported sets a pattern for rates on all other high-grade corporate obligations. So long as the rate remains at 2½% one cannot visualize the yield on long-term AAA corporate securities much above 3%. It is, however, fairly certain that a further firming in rates of long-term corporate obligations is bound to take place and the same applies to yields on long-term state and municipal obligations.

The rate of interest on mortgages also is bound to firm and in all likelihood in the not distant future the 4% rate will practically disappear, with the common rate being 4½ to 5%. The real estate situation in the United States is highly inflated. While the demand for housing is still exceedingly great and the housing shortage is bound to continue for another several years, yet it is already evident that real estate is not selling as freely as a year ago. Moreover, prices on older property and large houses already have witnessed a decline and the end is not as yet in sight. The fact of the matter is that prices of homes have increased to a point where many people are unable to buy them or to carry them. It is also evident that it is much more difficult to obtain mortgage credit than was the case about a year ago and that lenders of mortgage money have adopted a more cautious policy than was the case only a few months ago.

It is now possible to reach the following conclusions: (1) So long as the present inflationary spiral continues there is bound to be a moderate firming of interest rates. Emphasis, however, should be placed on the word "moderate" since a repetition of what happened in the money market in 1920 is entirely out of the question. This firming in interest rates will be brought about partly by the raising of the reserve requirements of the member banks and by the possibility that the rate of interest on short-term government obligations may be increased. The Treasury appears to be willing to increase the interest rate on the short-term Federal debt in order to fight inflation. While an effort will be made by the monetary authorities to maintain the long-term 2½% rate, yet should insurance companies and other investors continue to sell large amounts of long-term obligations there is a possibility that the peg may be lowered slightly below par.

The second conclusion that one may reach is that once the spiral of inflation has come to an end and a readjustment in the economy of the country sets in, accompanied by a moderate decline in business activity and an increase in unemployment, the credit policies of the monetary authorities will undergo a change and efforts again will be made through credit policy to prevent the readjustment from degenerating into a depression.

The final conclusion that can be reached is that the money market will remain a controlled market, that government securities will continue to be pegged for a long time and that the monetary authorities have the power and will use it to prevent a break in bond prices as occurred in 1920.

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Securities Salesman's Corner

By JOHN DUTTON

If you have been reading the articles each week entitled "If I Were A Retail Salesman" that have appeared in the Mutual Funds column of the "Chronicle," you too must have found them of interest. These articles by men who are the general sales managers of some of the leading Mutual Funds certainly have a right to speak with confidence on this subject of security salesmanship, and I for one have found much of interest and considerable benefit in this series. Last week, in J. K. Brumell's contribution, I was particularly impressed with his analysis of the approach to a sale. He stated, "It is how you say it that counts . . . no approach is the magic elixir," etc. He also gave an example of an approach that he suggested the salesman should put into *His Own Words* (the italics mine).

On this subject of "the approach," so much has been written on this phase of salesmanship that, at times, I think the whole thing is overdone. I've tried about as many different kinds of conversation openers as one could think of during the past 20 years that I have been engaged in the securities business, and quite frankly, I have come to the conclusion that the more simple you make it the better it is. Try and get fancy, or go into a long round-about spiel about what you and your firm would like to do for Mr. Investor and nine chances out of ten he'll start to squirm inwardly even if he is too polite to show it outwardly. The approach that I like the best doesn't try to sell a thing. I make it casual and friendly. I don't believe a good salesman ever has to press for attention. The minute you find yourself doing this you tighten up. I honestly believe that there are mental waves that flow between people. I've followed this selling business too long not to notice this very simple and obvious phenomenon. Poise, confidence and a relaxed attitude immediately is sensed by another. Tension, worry, or lack of confidence can be felt before a man opens his mouth. Some people are more sensitive than others to brain waves but I do believe that they exist. Some day the scientists may tell us all about this peculiarity of people but if you have been a salesman you know of what I speak because you have seen it too.

Here is my pet approach: "Good morning, Mr. Investor, my name is Dutton. I've called to make your acquaintance. I am in the investment business and I thought that possibly we might be able to do some business TOGETHER." (Slight emphasis on the together.) Simple, plain, to the point. The door is open for him to say, "Pleased to meet you but I am not in the market, or don't buy securities, or I am busy, or, well sit down and tell me what you think of the market, or, I have a good broker," or a hundred and one other excuses that everybody puts up when a salesman comes to see them. But that is what you expect isn't it? However, you are in front of your prospect. You haven't rubbed him the wrong way. Then your personality goes to work. I don't mean anyone has to be a charmer but just watch what happens the next time some salesman calls on you to sell you something. If he has a pleasant manner, if he gives you something of interest TO THINK ABOUT—SOMETHING THAT MAYBE MIGHT BE OF PROFIT TO YOU IF YOU LOOKED INTO IT—you are going to let him have an interview, providing, of course, that you have the available time for it.

And timing enters into this approach business too—after you say, "Hello, Mr. Investor, etc., etc.," it is important how you pick up the next remark that he tosses back to you. The beginning of an interview should be developed without fumbles and misses. It is all in the way you relax and develop the conversational theme that presents itself. In conclusion, I don't think there is any approach that is letter perfect. No one can sell them all—no one can see them all—no one should waste time trying to sell those who are tied up with some other salesman to the extent that they just won't talk—no one should think you have to be a magician to sell securities or see people. In the last analysis it is the number of people you see who are qualified investors, or possible prospects, that brings the business. There are plenty of them all round and believe it or not here's a secret. WHERE THERE USED TO BE FIFTY SALESMEN A MONTH CALLING UPON SOME INVESTORS, TODAY THERE ARE ONLY THREE OR FOUR. Under such conditions the approach and the sale itself presents much less of a problem.

N. Y. Savings Banks Deposits Up $12 Million

Reversing the experience of July, net deposits during August in the mutual savings banks of New York State showed an increase of $12,990,614, bringing total deposits to $10,112,266,619, it was announced Sept. 28 by John Adikes, President of the Savings Banks Association of the State of New York and head of the Jamaica Savings Bank, Jamaica, New York. Accounts during August increased by 8,756 for an aggregate of 7,221,699.

These gains are respectively 54% and 75% of the increase in deposits and accounts during August a year ago. However, the savings banks have resumed their record of consecutive gains, overshadowing the decline recorded during July, 1948, of $11,108,403 in savings deposits and 658 in accounts.

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Don't Kill the Fire Insurance Industry!

By SHELBY CULLOM DAVIS
Shelby Cullom Davis & Co.
Formerly New York State Deputy Superintendent of Insurance

Former insurance official warns against allegedly ominous threats implied in McCullough Report of N. Y. Insurance Department. Maintains recommended 4% limitation on fire insurance company dividends or 6% limitation on investment and underwriting earnings would be catastrophic for the industry. Pleads for "forgotten men," the patient insurance company stockholders consisting of endowments, institutions, and individuals, who need higher rather than lower dividends.

Because of its implied threat to the future of the fire insurance industry, I have been asked by a number of institutional investors to review from the investors' standpoint the Second Report of the Sub-Committee of the Fire and Marine Committee, National Association of Insurance Commissioners, on Underwriting Profit or Loss, and the Commissioners 1921 Standard Profit Formla. This is the so-called McCullough Report. I have also studied carefully the Statement of the Committee on Laws of the National Board of Fire Underwriters dated June 3, 1948.

Shelby Cullom Davis

Dividends in the Public Interest

During the past few years no utterance has become more commonplace than that "insurance is invested with a public interest." I would respectfully like to point out that the dividends to which insurance company stockholders are entitled are also invested with a public interest—and with far more public interest than is generally realized. I mention this not facetiously but because too often, it has seemed to me, the interests of stockholders—those who have contributed the capital and bear the risks of the enterprise—have been passed over by those occupying positions of official authority. In a way this is natural because supervisory authority, at least in my experience as Deputy Superintendent of Insurance of the State of New York, is only infrequently brought into contact with insurance company stockholders who therefore have tended to become "forgotten men."

What Is an Adequate Return?

Under a system of free enterprise, which is the only safeguard for liberty and freedom in America, an adequate return on capital in any business is the return at which new capital is attracted to the business. That can be the only criterion in a free society. Under a controlled society, such as in Nazi Germany or in Soviet Russia, one can visualize a government bureau decreeing what rate of return is to be permitted on capital invested in a business and then saying, in effect, that if capital is not attracted at that rate, the state itself will supply the capital under a form of state socialism. In America, the investor's precious freedom of choice—to invest or not to invest his savings—is to be preserved, along with freedom of speech, assembly and worship.

Therefore, it is reasonable to assume that the minimum fair return on capital invested in the insurance business at a certain time is that rate at which new capital can be attracted into the business. I use the word minimum advisedly because obviously an investor would not be attracted by a common stock earning its maximum return but rather at a rate of return which, through good management as well as changing circumstances within the industry, can be increased. This assumes, of course, that capital is being attracted into the business on an even dollar for dollar basis, that is to say that each new dollar invested in the business would buy an even dollar in liquidating and going concern value.

On page 53 of the McCullough Report it is stated that "a return of 6% on the equity capital invested in the business should be an adequate return based on the actual results of the last few years. This would ordinarily allow the payment of a 4% dividend on invested capital with 2%

(Continued on page 42)

The Question of Oil Reserves

By R. J. S. PIGOTT*
Chief Engineer, Gulf Research and Development Co., Pittsburgh

Petroleum expert reviews both pessimistic and optimistic estimates of petroleum resources and recounts new reserve developments in oil recovery as well as improved engine construction. Places minimum estimate of supply at from 20 to 25 years, and maximum of 40 to 50 years. Stresses need for economy in oil consumption through more efficient engine construction and through wiser use of present resources. Looks for use of higher cost synthetic fuel oil sources in future.

In any consideration of the fuels to be used in the future, we must consider what we have now and why these fuels have developed the way they have. The first task is to get some reasonable idea of how much reserve we have in petroleum. We can say at once that no concrete, final answer can be given at present; we can, however, estimate our total reserves with some reasonable accuracy, sufficient for our purpose.

R. J. S. Pigott

A year or so ago some of the pessimists (or maybe they were only short on judgment) put out a very deceptive figure for the life of our supply of petroleum. It was obtained by dividing proved reserves by annual consumption, coming up with a life of about 12½ years.

The simplest way to expose the fallacy of the above figures is to check how "proved reserves" have changed with regard to annual consumption, for the last 10 or 12 years. The published figures show that proved reserves have been increasing at better than the annual consumption rate each year until the war. This means that the expected life by this method of calculation has stayed reasonably constant at about 10 years in 1937, 14 in 1942 and 11.5 years in 1946. It is picking up now, with resumption of war-delayed drilling. We should be justified, then, if such a figure were sound, in assuming that petroleum would last forever, but such an estimate is even more absurd than the first one of 12½ years.

The fallacy is that such a method is oversimplified; it takes no account of (a) unproved reserves, that is, all new, incompletely drilled fields; (b) new discoveries; and (c) improved recovery in old fields.

What Are Known Reserves

The known reserves are simply those which have been more or less completely drilled and in which we know closely the extent of the pools, sand thickness, porosity, etc. We have unproved reserves, that is, new pools that have been only partly drilled, and not too much is known about exact definition of pool, sand body, etc. These reserves have been estimated at equal to the proved, up to 2½ times the proved. Discoveries, as finally proved up, have so far kept pace with consumption, but we know that this state cannot continue for long. Already about all the shallow pools have been found (1,500 ft.) and the average depth of new wells has increased from 3,000 to 4,000 ft. and an increasing part of the discoveries is at 10,000 ft. and deeper. The new pools discovered each year clearly will diminish toward zero and they will continue to average deeper.

For the past generation we have been improving methods of total recovery by such processes as flooding with water to push out the oil, and repressuring with gas produced with the oil and recovered from the separators. Moreover, ever since Kettleman Hills and Oklahoma City flush pools, we have recognized that for best recovery, without the use of secondary methods, the production must be at controlled rates, suited to the character of the pool. In the early days, recovery from a pool has been as low as 10 or 20% of the total oil in the sand; nowadays it is probably 60 to 70%, and with improved primary and secondary methods applied, can go higher.

Taking into account the complete facts would indicate a pessimistic minimum of some 20 to 25 years, a maximum of 40 to 50, and nobody can pin it down any

(Continued on page 43)

*A report prepared by Mr. Pigott for presentation at the National Petroleum Association, Atlantic City, N. J., Sept. 16, 1948.

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Farm Prices

By ROGER W. BABSON

Mr. Babson, in commenting on Wall Street opposition to rising farm prices, says farmers deserve help and upholds agricultural subsidies. Holds government gets back through income taxes half of outlay under price guarantee.

During the past week I have been calling upon friends in New York to get a line as to how they feel about things in general. Here is a brief report. They are fairly unanimous that Mr. Dewey will be elected President. They are sure he will "clean the rascals out" and replace them by men who will give legitimate business a fair break. This especially applies to appointments to such important bodies as the Tax Appeal Board, the Securities and Exchange Commission, the Federal Trade Commission and the various Labor Boards. They also believe Mr. Dewey will appoint very much better judges than Mr. Truman has appointed.

Roger Babson

Wall Street, however, has its fingers crossed as to the outlook for general business and the stock market in 1949 and 1950. They say that Dewey believes there must be a "bust" before 1952 when he would come up for re-election. Hence, he would much rather have the depression come in the early part of his term and "get it over with" than have it come in the latter part. Therefore, Wall Street thinks it very possible that the Republicans may try to deflate prices, wages and money-in-circulation in 1949. This would be what Roosevelt did in 1936; but it got away from him and we had a bad break.

Farmers Are Prosperous

Of course, all my New York City friends are yelling about farm prices. Without doubt they would be much lower today if it were not for the support which the government is giving farm prices. It does seem unreasonable for the government to pay potato growers in Maine $3.50 per barrel and then dump these potatoes in the ocean; while you and I must pay at the rate of over $5.00 per barrel or much more if we buy by the pound. There are 137½ pounds in a barrel. It now looks as if the government would also be obliged to buy considerable corn, wheat and other products and either burn them or sell them at a big loss.

But I tell my Wall Street friends there is another side to this story. It is true that farm net income is now four times as high as the 1935-1939 average; but this average meant foreclosures and intolerable conditions. The total gross farm income for the 1948 crop is estimated at $17 billion compared with $11 billion for the 1935-1939 average. There is no doubt but the farmers are more prosperous than they have been for years.

Farmers Deserve Help

But, according to the 1945 census 60% of all farms grossed less than $2,000 in products, while the gross of 75% was less than $3,000, giving net incomes of only half or two-thirds these figures. Comparable gross income for 1948 may be 25% more than the 1945 figures; but this will be offset by a like increase in the cost of machinery, labor, interest on debt, building maintenance, etc. In other words, even with high prices 75% of the farmers are not netting as much when working 14 hours a day as city bricklayers, painters, carpenters and even common laborers get for working only eight hours. This is not fair.

So that when you divide the government bonuses among millions of farmers there is not much for each one. Furthermore, when you consider how dependent farmers are upon weather, they are entitled to a few good years to take care of them when later crop failures and other disasters come. Therefore, so far as these small farmers go I believe the government guarantees are justified. As to the few big farmers, the government gets back at least half of its guarantee through income taxes.

Something Not to Forget

Let me also say that farmers raise something more than wheat, corn and potatoes. They raise the best children which the nation produces. Most successful employers will tell you that their best executives were born upon farms. They tell me here that not a single president of today's New York City banks was born in New York City. Most bank presidents everywhere were born on farms or else were sons of preachers, doctors or college professors. We need many more such men.

Bogardus Frost Merging With Shearson, Hammill

LOS ANGELES, CALIF. — About Nov. 1, the New York Stock Exchange firm of Bogardus, Frost & Banning, 618 South Spring Street, will merge with Shearson, Hammill & Co., 14 Wall Street, New York City, members of the New York Stock Exchange and other exchanges. The Los Angeles office will continue in operation with D. J. Bogardus as resident partner.

All partners of Bogardus, Frost & Banning will join the Los Angeles office of Shearson, Hammill & Co., with the exception of Mr. Francis D. Frost, Jr., who it is understood will open a Los Angeles office for Shields & Co.

G. H. Walker Absorbs Merrill Co. in Htfd.

HARTFORD, CONN. — G. H. Walker & Co., members of the New York Stock Exchange, announce the acquisition of the business and personnel of Merrill & Co., effective Oct. 1. Arthur H. Merrill, Charles W. Redlund, Francis R. Olmsted and John W. Hamilton, general partners of the Merrill firm, will become associated with the Walker organization. Also joining G. H. Walker & Co. will be Percy S. Combs, Cedric R. Boardman, Roger B. Ladd and Harry A. Axelson, registered representatives of Merrill & Co.

The Hartford office of G. H. Walker & Co. is located at 36 Pearl Street.

Harris President of Assn. Of Customers Brokers

Archie F. Harris, Merrill Lynch, Pierce, Fenner & Beane, has been elected President of the Association of Customers Brokers for the ensuing year. Maurice Glinert, Hirsch & Co., was chosen Vice-President; Milton Leeds, Pershing & Co., Treasurer, and Edmund Tabell, Shields & Co., Secretary.

What To Do About Inflation

By HON. THOMAS E. DEWEY*
Governor of New York

Republican presidential candidate traces causes of inflation to combination of war financing along with foreign aid and New Deal policies. Says there is no trick cure, and remedies available are (1) less waste in government; (2) systematic payment of national debt; and (3) increased production. Attacks Administration as hampering free enterprise and discouraging productivity. Says there are signs current inflation is losing momentum.

We are going to install in Washington an administration made up of the ablest Americans—men and women who are really big enough for the world's biggest job. We are going to give them full responsibility to go ahead and do the job without bickering and quarreling without stepping on each other's toes or getting into each other's hair. We will have an administration that is a team, and knows how to work as a team. The unity we all want for the nation will be practiced in the nation's capital.

Thomas E. Dewey

It will not be easy—this task that lies ahead of us. There is a peace to be won—in a world where aggression is still rampant. There are new goals of freedom, justice and opportunity to be reached—in a world where there is too much prejudice, ill-will and selfishness. These are serious difficulties. But, I firmly believe that, with our faith restored, there are no difficulties which a united America cannot surmount.

High Prices

One of these difficulties—one that every one of us is up against every day—is high prices. Every wife and mother who has been out shopping for her family today has been up against that difficulty. And what a magnificent job of management our wives and mothers have been doing to get the last stretch out of our dollars. If our national Government managed its household affairs half as well, we would have fewer problems today.

High prices are a hard fact for many other people, for white-collar workers, civil servants, teachers, professional people, for our aged who live on pensions, and a great many more whose incomes don't go up when prices do.

The hardship of high prices is not an economic accident. It is the result of definite causes. It is the result of maladjustments in our economy. It is part of the business of government to remedy these maladjustments. We will begin to remedy them when we get a national administration which offers no bag of tricks which knows the difference between sound policies and unsound ones, which can make its sound policies work, which can get the kind of brakes we need on inflation and knows how these brakes should be applied.

Obviously, the present inflationary high prices arose under the leadership of the present administration. But I don't place the whole blame on the government in Washington. That might be the easy thing to do. But high prices are not a political problem. They are an economic problem. I want no part in any effort to play politics with human misfortune. I want no part of any campaign which aims to make personal political profit out of the distress of our people.

I am interested in the welfare of the American people. I want our people to surmount this difficulty so that we can act to remove the maladjustments which have caused inflation and do it without bringing on depression and unemployment as has so often happened in the past.

Now, in order to know where we are going, we need to look at where we have been—to find out what brought about these conditions.

Let's strip this subject of the fraud and demagoguery with which it has been surrounded. Let's take a good, hard, honest look at it. The simple fact is that there are three principal causes for today's high prices.

Causes of Inflation

The first cause is the terrific cost of the war in money and goods. We shot away $300,000,000,000 worth of labor and materials and now we have the long tough job of paying the bill. But our freedom is priceless and every good American is proud of his share in the task. And no good American will try to make political profit out of the sacrifices of our people in the cause of human freedom.

The second cause of inflation is our peace-waging program which we have adopted to help free nations get back on their feet and to strengthen our own national defense. In the two-and-a-half years following the end of the war, we provided some $20,000,000,000 of foreign aid. Much of that money was wasted behind the Iron Curtain — much of it squandered by clear incompetence. But it's done, and now, for the first time, we have a real program. This new program of European aid was passed under the leadership of both parties and it is a sound investment in peace. I firmly believe that every good American is proud that he has this share in waging the peace and reinforcing the world's freedom. And no good American will try to make political profit out of the sacrifices by our people in the cause of human freedom.

The third cause of high prices and inflation is the fact that both before and since the war our National Administration has, for years, been openly, avowedly, deliberately discouraging production and trying to raise prices.

Basic Lack of Understanding

Those policies have reflected the Administration's basic lack of understanding of the simple fundamentals of our economic system and its tragic lack of faith in the future of America. The unhappy results of those policies are continuing even to this very day and they are the sole responsibility of the present National Administration and it cannot pass the blame to anyone else.

This problem of inflation following a war is not a new one. It has happened throughout history. Whether a nation survived it depended upon whether it had a good government, a courageous government and one that understood the economic facts of life. High prices have followed all wars.

In wartime, government spends a lot of money to pay for munitions and supplies. The normal production of all kinds of goods is stopped in order to produce for war. There are fewer things to buy and there is more money in circulation to buy with because the government uses its credit to create vastly increased supplies of money. As a result, what we buy takes more of our dollars. Or, to put it the other way around, the value of a dollar is less.

Then, after the war, there is a huge supply of money and no goods to buy. During our own Revolutionary War, the Continental Congress issued so much paper money—Continental dollars they were called—that when we want to describe something as worthless we sometimes say "It's not worth a Continental."

To pay the costs of the Civil War, the Union printed greenbacks — so many of them that prices soared. That is similar to what happened after the first World War, and now we have it all over again.

The question is what are we going to do about it. After our wars in the past we have some-

(Continued on page 23)

*An address by Gov. Dewey at San Francisco, Cal., Sept. 25, 1948.

This is not an Offer

TO THE HOLDERS OF

City of Bogota
(Republic of Colombia)
8% External Sinking Fund Gold Bonds of 1924
Dated October 1, 1924, Due October 1, 1945

Municipality of Bogota
(Republic of Colombia)
Power and Light Consolidation Loan of 1927
Twenty-Year External 6½% Secured
Sinking Fund Gold Bonds
Dated April 1st, 1927—Due April 1st, 1947

NOTICE OF EXTENSION

The time within which the Offer, dated November 15, 1944, to exchange the above Bonds and the appurtenant coupons for Republic of Colombia, 3% External Sinking Fund Dollar Bonds, due October 1, 1970, may be accepted is hereby extended from October 1, 1948 to October 1, 1949.

Copies of the Offer may be obtained upon application to the Exchange Agent, The National City Bank of New York, Corporate Trust Department, 20 Exchange Place, New York 15, N. Y.

FERNANDO MAZUERA
Mayor of Municipality of Bogota
(Republic of Colombia)

September 27, 1948

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Federal Reserve Bank of St. Louis

LETTER TO EDITOR:

Mr. Wilson Defends His Tariff Views

Answers Criticism of Forrest S. Dunbar

Editor, The Commercial and Financial Chronicle:

May I be favored with space to reply to the "exceptions" in your Sept. 2 issue which Mr. Forrest S. Dunbar, Jr., of Freeport, L. I., has taken to the tariff views expressed in my article "Can America Prosper Without Foreign Trade?" published in the July 29 "Chronicle."

Alexander Wilson

May I say at the outset that Mr. Dunbar's statement to the effect that if we were to lift the tariff on all foreign imports our country would benefit, harks back to the platitudes of Grover Cleveland's days.

In fact, Mr. Dunbar's closing paragraph is as all-inclusive a statement of his free trade theories as anything I might quote from his letter to the "Chronicle" when he says, "The tariff is a perfect example of exploitation of the many for the benefit of the few!"

In the "Can America Prosper Without Foreign Trade" article, I believe I have answered the principal points made by Mr. Dunbar in his letter taking exception to my views on protective tariffs benefiting labor, preserving American standards of living and protecting American industry. It appears, however, that Mr. Dunbar hasn't paid much attention to the points made that refute his arguments and I think the best procedure is to point out to him that he did not give proper consideration to the entire presentation. There are, of course, additional points that might be brought out.

When Mr. Dunbar states "it is true that the tariff permits the protected enterpriser to charge higher prices than he could otherwise charge," he is not following what I said at all, as well as making an erroneous statement. I pointed out that if the tariff were removed, the domestic producer dependent upon it would be forced out of business. Mr. Dunbar later acknowledges this is so, by stating that now is "an excellent time . . . to rid ourselves of these industries." A properly-set tariff merely elevates the price of the imported product closer to that which the domestic producer must charge to enable him to make a profit. If the tariff duties were not there, the domestic producer would have to sell below cost and, of course, this could only last for a brief time.

Moreover, the minute the foreign producer gets a monopoly of our market in any particular product, he charges what the traffic will bear. If foreign competition tends to send down his prices, the foreign producers are quite likely to work out a cartel arrangement to handle the situation.

Mr. Dunbar makes cheapness synonymous with efficiency as do all free trade thinkers. Yet, in the same breath, he differentiates between money wages and real wages. In other words, he understands that our standard of living is based on productivity and not upon any particular level of wages, prices, etc. I have really answered him in my article by stating that it is more imperative that foreign countries raise their standard of living by increasing their production.

As I pointed out, there are many industries in this country where the wage costs are so high that they cannot compete with foreign producers whose wage costs are so much lower. If there were no tariff, China, as Japan did before the war, could flood U. S. with cheap textiles, such as are now produced in the Southern States. Mr. Dunbar appears to think this is an argument that tariffs raise wages in this country, which I do not claim. I merely made the statement, in effect, that the tariff equalizes the difference in wage levels already in operation between the domestic and foreign producers.

When Mr. Dunbar talks about income from the sale of products going to "other factors of production" besides labor, and then argues from this statement that labor is not going to benefit from the continued operation of an industry that, without the tariff, would be destroyed, he is making an arbitrary limit to the distribution of income. It is true that a portion of the income goes to the purchase of raw materials, machinery, power and overhead. However, one step removed from that direct expenditure, labor goes into the production of those goods and services and so ultimately most of the expenditure of industrial income finds its way into wages, both money and real.

For example, suppose that you engaged in the manufacture of fur coats. You would find that the cost of your furs would bear the largest portion of your total costs. But, the reason for that is the amount of labor represented in the raising or trapping of the animals, the transportation, the processing and so forth. You cannot draw the line at any particular point and say that labor does not receive the larger portion of the sales dollar just because labor is a relatively small item of cost in the final manufacturing process.

In answer to my statement, Mr. Dunbar asks how could England engage in free trade for many years with China where labor conditions are not comparable. He might also have asked the same question regarding the United States, which has also engaged in free trade with China for many years, since tea is on the free list. He is revealing a weakness in the free trade argument by these illutrations as they show that trade does not result, per se, in raising standards of living. As a matter of fact, England began going off the free trade basis early this century and now has not only tariffs, but preferences in her Empire group, as well as blocked currency, state trading, and other restrictive and discriminatory practices, the sum total of which is far more of a barrier to trade than the relatively low level of United States tariffs.

Now is the worst time in the world for Mr. Dunbar to talk about tariffs raising prices to consumers. There are a dozen current reasons being given for the high cost of domestic and imported goods, but the tariff is not one of them. In fact, our tariffs have been forced steadily downward and prices have steadily risen. It does not take much of a student to recognize that there are far more important forces that dictate prices to consumers than tariffs which apply to a minority of imports. Last year, for example, the duties collected in the United States amounted to $3.00 per capita. For the record, I should repeat that 61% of the goods imported into this country were duty free.

A final word about Mr. Dunbar's statement that protected industries are "inefficient" and that it would be better to eliminate these industries entirely if they are dependent on a protective tariff by putting the same labor, equipment, etc. to work in "efficient" unprotected industries where "we would all gain from their productiveness."

Such a procedure, in my opinion, is only one of the intellectual vagaries to be expected from a Free Trader and is not the constructive American spirit to be found in this land of boundless opportunity which has been responsible for American enterprise that is now the envy of the world—American enterprises conceived in the sweat and toil of men with minds and hearts that were not afraid to attempt big things regardless of the risks and odds against them.

If Mr. Dunbar had his lifetime savings invested in a carpet and rug industry, I wonder how he would react to the situation that has recently developed in that field.

According to Harvey E. Runner, Editor of the New York "Herald-Tribune's" "Buyers and Sellers" column, exports of wool carpets and rugs from the United Kingdom to the United States were up 423% in square yards and 338% in dollars in the first five months of 1948 while Belgian exports in the same period were up 170% in square yards and 153% in dollars. The combined exports of these two nations for the first five months of 1948 exceed the total exportations of carpets and rugs from all countries in any 12 months period, except 1939 and 1940. Floor coverings from Belgium and Great Britain are being sold in this country at less than competitive American products despite the 30% duty now being paid on all such goods.

Previously, the duty was 40% but since the duty was reduced to 30%, incoming shipments have increased sharply. After paying the 30% duty, domestic manufacturers say that their foreign competitors enjoy a differential in labor costs and are able to produce at a much lower expense ratio than our American mills.

Harvey Runner asks what will happen from such foreign competition a few years hence when the war-created pent up demand for floor coverings has been met. What can American manufacturers do to meet this competition when business really becomes hard to get as, Mr. Runner believes, it eventually will.

This is what is worrying many an American company in that industry today. Should we allow the American carpet and rug industry to be wiped out on the ground of inefficiency as has been suggested by Mr. Dunbar, or will our fact-finding Tariff Commission investigate the differences in domestic and foreign costs of production under the flexible tariff provisions preliminary to rate adjustment and modification by the President?

Frankly, Mr. Editor, I hate to think where this country would be today had its industries operated without the protecting aegis of the 16 Democratic and Republican tariff acts of the past 100 years.

ALEXANDER WILSON

Summit, N. J.
Sept. 29, 1948.

Kevin Keegan Dead

Kevin Keegan, of Field Richards & Co., Cleveland, Ohio, died of a cerebral hemorrhage at the age of 54.

Reports Back Orders Reduced

Business Survey Committee of National Association of Purchasing Agents indicates a falling off of new orders, with back orders noticeably down. Sees momentum of price advances ended.

A composite opinion of purchasing agents who comprise the National Association of Purchasing Agents Business Survey Committee, headed by Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Corporation, New Haven, Conn., in reporting on general business condition states that "The belief that September industrial business activity would show a marked tendency to expansion is not supported by the latest reports of purchasing executives. Production increased during the month, by catching up the slack of July and August vacations. Back orders, however, are noticeably down. 30% of the reports indicate a falling off of new orders. There is still a substantial bolster of back orders in most industries, as 52% report maintaining heavy future orders and 18%, slight increases. Adjusting output and sales to lower priced products is mentioned, with the drying up of demand for high priced and luxury merchandise. Textiles are prominently mentioned in the slow business group. The comment is not pessimistic. Good business in many lines is assured for the immediate future.

Robert C. Swanton

"This month, we asked reporting purchasing agents to make a comparison of purchased inventory turnover rate with that of a year ago. 84% report increases in turnover rate, many of them substantial, proving the wisdom of the cautious buying and inventory policy generally pursued during the past year."

Commodity Prices

"Prices have continued to advance," according to the survey, "as upward adjustments are applied to items that were not immediately affected by the upsurge in July and August. The momentum of that movement now appears to be spent. Purchasing agents look for a period of near stabilization which should trend down, as competition to build up lagging order backlogs becomes more of a factor. Increasing industrial production and high farm crop yields, with lowering demands, are steadily narrowing the margin between supply and demand. Opinion is expressed that demand cannot continue long to support the extreme high of many prices.

Inventories

"The trend is sharply down, continuing the policy of last month. A year ago, industrial purchased inventories had become well balanced. Noncritical supplies had been reduced to the levels of available critical materials. Since then, a consistent effort has been made to reduce them to the lowest possible amount necessary to maintain production schedules. That this has been accomplished is evident in the current comparison of turnover rate with a year ago. 84% report greater turnovers, many 25% to 50% faster. Some report having the highest rate of turnover ever obtained. There is every indication that this cautious attitude will continue.

Buying Policy

"A shorter view on forward commitments is shown by September reports. The trend to not over 60 days is more pronounced. 65% are within these limits; 33% are limiting to 90 days. With little confidence in the top-heavy price structure, some buyers are insisting on price protection for even this short range.

Specific Commodity Changes

"Many prices advanced in September reports reflect the increased cost of basic materials in August, while many of those on the down side are the result of weakness in farm products.

"Up Were: Aluminum products, bichromate, cadmium, capital equipment, chemicals, cutting tools, soybean oil, meat, glassware, glue, lime, phenol, rubber, spiegeleisen, turpentine.

"Noted Down: Alcohol, brass ingots, coal, cornstarch, corrugated boxes, cotton twine, elastic webbing, grains, eggs, sugar, corn, rice, oleic acid, some paper products, imported pulp, wastepaper, shellac, stearic acid, cotton textiles.

"Still Hard to Get: Aluminum, ammonia, cadmium, chain, chromic acid, copper, steel furniture, pig iron, lead, nails, nickel, kraft paper, steel, tin, zinc.

"Easier Are: Containers (except steel), coal, fuel oil, crushed gypsum rock, lumber, paper.

Employment

"The trend to increase, reported last month, has not continued in September. Payroll registration remains about the same, though overtime is disappearing and shorter time is scheduled in several industries, creating an uneasy labor situation. Skilled mechanics and office workers are scarce. Better productivity is noted. Truckers' strike in the East and waterfront strikes in the West are the most disturbing of current labor conditions.

Canada

"Production is steady, back orders holding well, somewhat better than in the States; prices continue uptrend, with tendency to level off; inventories static; employment unchanged; buying policy moving up to 90-day category."

Pasadena Bond Club Again Sponsors Course

PASADENA, CALIF.—The Pasadena Bond Club is again sponsoring a special 17-week course in investments in cooperation with the Pasadena City Schools. The comprehensive course is being offered without charge on 17 consecutive Wednesday evenings, and began Sept. 15, 1948.

The course will cover all phases of the investment of capital funds, such as the Philosophy of Investment, Investment dealers functions, types of securities, etc. Keith Nusbaum, of Pasadena Corporation, is instructor.

The Pasadena Bond Club reports that the registration for this year's course is three times as large as last year.

L. Gilbert Stover With E. A. Clark & Co.

L. Gilbert Stover, formerly proprietor of Stover & Perkins, has joined E. A. Clark & Co., 39 Broadway, New York City.

Frederick J. Meyer Dead

Frederick J. Meyer, retired New York investment banker who for many years had been a partner in Boland & Priem, died Sept. 21 at the age of seventy-four.

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Latin America Demands More U.S. Goods Than Can Be Supplied

President of International Harvester Company advocates producers allocate share of their output for export.

Speaking before the Fourth Plenary Meeting of the Inter-American Council of Commerce and Production at Chicago, on Sept. 22, John L. McCaffrey, President of the International Harvester Company, says present demand of Latin America for American goods, notwithstanding the dollar shortage, is greater than can be supplied by existing production.

John L. McCaffrey

"It is quite understandable that this should be true," Mr. McCaffrey added. "Because of the destruction of a large part of the productive facilities of European industry, many buyers in your countries have found themselves cut off from the sources which, before the war, supplied all or an important part of their requirements of some products."

Continuing, Mr. McCaffrey stated:

"Three things are going on simultaneously at the present time. Industry and agriculture in the United States are expanding their mechanical facilities. Industry and agriculture in Latin America are expanding their facilities. And Europe is seeking to restore its damaged or destroyed industries and increase farm mechanization.

"To obtain their needs, all look to the existing industry of the United States. The resulting demands are enormous. They are beyond the present capacity of the United States to produce in a short period of time.

"Under those circumstances, what can be done? I cannot speak for any United States concern except my own, yet I am sure that many other business organizations in this country have done what we have done. That is: they have allocated a share of their production to export which has been porportionate to their prewar allocations for export.

"Let me illustrate again with an example from my own business. In 1947 we provided for export 14.7% of our total United States production. That was roughly the same—it was a little greater—than the average for our export business in normal prewar times.

"Latin America has actually fared somewhat better than other areas of the world in the distribution of our goods since the war. For example, in 1941, before the war, 30% of our total export sales were made to the nations of Latin America. Last year 35.4% of our total export sales went to your countries. While I am unable to prove it, I believe the facts would be similar for many other companies of the United States. I believe the nations of Latin America have had their fair share of the production of the United States.

"What is the future outlook for a mutually profitable trade between the nations of Latin America and this great productive center of the United States here in the Midwest?

"In spite of present difficulties, I believe the long range prospect is for constantly improved trade relations between us. Your countries are taking steps to increase industrialization. And one of the things that experience indicates is that trade is usually more thriving between nations as both become industrialized. That is naturally true, since industrialization raises the living standards and increases both the desires and the purchasing power of the people.

"I think we must recognize that in order for this increase in trade to reach full growth, there must be a restoration of trade not only between your nations and ours but also between your nations and the United States and the rest of the world, particularly the nations of Europe. Historically, a balance of payments between the United States and Latin America has usually been accomplished not alone by two-way trade between us but by three-way or four-way trade involving several nations, each finding in that way a market for the goods it had to sell and a supplier for the goods it needed to buy.

"I believe also that a lasting, prosperous trade between us must be built primarily by private capital and by business institutions operating within the framework of a competitive economic system. That is the way that has made our hemisphere the productive and prosperous community of nations that it now is.

"Whether the capital is provided by citizens and business firms in Latin America or by citizens and firms in the United States, governments must by their laws and regulations provide a suitable climate for both local and foreign capital.

"As business men, I believe we must recognize that we will have to carry the burden of developing our resources and our trade. I do not believe either you or we should place all our hopes for the future of trade on possible actions by the United States Government or by a combination of governments.

"I say that for this reason: Just as I know the United States cannot at present supply all the goods the world requires, I am equally certain the United States cannot supply all the capital the world requires. A great part of the job must be done by the private enterpriser in every nation.

"There is one other thing I should like to say. I have talked at some length about the ability of this Midwestern section of the United States to supply goods and services which Latin America desires. That does not mean that I as an individual or we businessmen in the Midwest consider trade to be a one-way street in which we sell everything and buy nothing. We know that he who sells must also buy if he expects to be paid.

"Latin America already sends to the United States a large volume of goods. That trade can, and I believe will, be increased as you increase your industrialization, develop and utilize your natural resources and have a greater variety of goods to sell to us. I sincerely hope so.

"But I have noticed one thing. Having spent most of my life in selling goods, I have always found that very few customers came to me. If I wished to make a sale, I have had to select a man who I thought might be a buyer, choose the goods which I thought he might buy, think of a reason why he should buy mine rather than another's goods, and finally, go to see the man and ask him to buy.

"I recommend to you and to all our business friends in Latin America, that if you want to sell more goods to the United States, you choose your customers, select your goods and then visit us and ask us to buy."

Private Industry Can Provide Economically Sound Housing

By JOHN C. THOMPSON*

President, Mortgage Bankers Association of America

President, New Jersey Realty Company

Mr. Thompson, in reporting to his organization for year 1947-48, asserts housing shortage is being reduced, though much remains to be accomplished. Opposes Federal housing subsidy, but approves state and municipal low cost housing projects, when present high costs prevent private industry from doing the job. Holds private industry capable of constructing needed economically sound housing when costs are reduced and when labor is made more productive. Points out mortgage financing is now more available because of increased interest rates.

I shall not report to you in detail the many activities and accomplishments of your Association during the past year. Nor shall I outline each of the legislative and economic developments which have affected the mortgage industry during that period. You have been kept promptly and well informed on such matters through the "Mortgage Banker," the "Washington News Letter," the periodic letters to members from your Washington counsel, and the many special releases of your Association on the important and significant events which directly or indirectly influenced our respective businesses. I shall, however, direct your attention to some of the broad economic factors which vitally affected business generally and more particularly the mortgage financing industry in the past 12 months. Too, I shall recount some of the activities of your many committees and report on the administration of the affairs of your Association since last October. In addition, I shall offer some personal observations and outline some of the hopes and ambitions which I have for the future of your Association.

John C. Thompson

You recall most vividly, I know, the serious problems with which we had to contend in conducting our businesses under wartime conditions. We were then operating in an unprecedented era of necessary restrictions and controls. Too, I know you recall the great distortions in our economic system during the period of reconversion from a wartime to a peacetime economy. Confusion, concern and uncertainty were then part of our daily business lives. During the past three years, and especially during the past year, many of the perplexing problems of the war and reconversion periods have been solved and most of the governmental restrictions and controls have been eliminated. And yet since peace, at least a peace free of active warfare, have come to our country, new and unexpected economic trends and problems have developed. Again, it may accurately be said that we are at the inception of another new economic area. But again, the vision of the operation of the natural forces of basic economic principles appears upon the horizon. Again hope, at least, of the return of a traditional free economy is revived, and again we have the opportunity to unite our forces to combat those who are even today actively and openly seeking to regulate our economic destinies and to advance the cause of a managed national economy and governmental direction of habits of living and working.

To look backward, even into the immediate past, and to recount the highly publicized predictions of government economists that history would repeat itself, and that in 1947 business nationally would experience a recession is now unimportant and unnecessary. To detail the many reasons offered to substantiate those predictions would be simply recording the many uninspired and unsound reasons for what economic history now clearly proves were outstandingly bad guesses. The fact is, as is now well known, that production generally, and building activity specifically, as well as the price level and corporate profits, rose sharply in 1947 and 1948 and exceeded any previous years of our country's economic history. To interpret the many factors which are daily influencing our national economy as a means to predict future economic trends, I know is most dangerous. Only one possessed of the gift of prophecy can accurately foretell the future. But I know we now all agree at least one one point—that we are certain that even the immediate economic future is uncertain.

Housing Shortage Reduced

It is undeniable that many forces are today working for the higher development of our economic prosperity. There are at the same time forces actively working toward economic contraction. When production and the supply of basic commodities are still far below demand and when purchasing power is still at unprecedented heights, it is wrong reasoning to predict an early general recession. At the same time it must be admitted that production of a great many types of goods is now, according to national indices, greater than ever before and shortages of these goods are being constantly reduced. I submit that that is unquestionably true with respect to housing. Based upon a broad general economic observation, despite the fact that it is commonly accepted that our national economy is less robust now than it has been in the past three years, it appears clear that the economic expansion forces, within at least the foreseeable future, will predominate over the contraction forces.

Let us narrow our sights and consider the effect of current economic trends upon the realty and mortgage industries. It is generally granted now that the highly publicized national shortage of homes and housing units is no longer evident in many communities throughout the country. In a great many communities, it is less acute than the ever-active and vocal and persistent advocates of public housing would have us believe, and if current construction levels are maintained, shortages in these communities will disappear within the next year or two. In some large cities, the housing shortage is still serious, but again if construction continues in these areas at present levels, these shortages will end within the next two or three years. Strange as it may seem to some uninformed or misinformed gentlemen, there is visible evidence that in some sections of our country there are now many completed vacant dwellings on the market seeking buyers. Too, there is indisputable proof that in many of the so-termed critical shortage areas there are no longer the long waiting lists of prospective tenants for rental units. There is marked evidence that even in the comparatively few underhoused areas remaining buyers are now shopping for price and quality and are no longer willing to buy poorly designed and constructed homes at exorbitant prices.

We are all willing to admit, I know, that there is much still to be accomplished in housing. Private industry can and will supply it within a reasonable time and as quickly as supplies of materials and essential equipment are available and the productivity of labor permits. Building codes in most communities need both modernization and standardization. To provide an unobstructed market for new building materials and thus realize the savings implicit in mass production standardization of building codes is a vital necessity. The demand for building code reform is widespread and obvious. Once those forces in our communities move to free builders from the shackles of old codes with their obsolete and costly specifications, additional new and lower cost construction will result.

Low-Cost Housing

Perhaps private industry at present costs cannot on a sound economic basis furnish all of the so-called low-cost housing. Such housing needs not only construction cost subsidies, but annual operational subsidization. No informed person will deny that in some cities there is the need for some low-cost-low-income housing. No economically informed person, however, wants the Federal Government to subsidize such housing. If there is to be more public low-cost housing, the State or the local community should devise the means to soundly finance such projects. Some few States and several communities have to date, with the cooperation and to a material extent with the funds of private industry, built sorely needed low-cost housing to house those who previously had lived in slum areas and had experienced the frustration of existence in old-law tenements sharing community sanitary facilities and being plagued by inadequate heating systems. Some of the needed money has come from State-appropriated funds, some was represented by tax forgiveness and outright expenditures by the city. But no matter what the system, whether State, city or Federal housing, or a combination of these, the ultimate cost must be borne by taxpayers. If there is a great deal more public housing financed by Federal, State, or even city funds, our overall economy will suffer. And there is, I assert, no such thing as a "little more" public housing.

(Continued on page 27)

*From the Report of Mr. Thompson, as President of the Mortgage Bankers Association of America, to the 35th Annual Convention, New York City, Sept. 22, 1948.

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Reports Rise in Nat'l Bank Deposits and Loans

Preston Delano, Comptroller of the Currency, reveals assets of national banks on June 30, nearly $2 billion more than year ago.

The total assets of national banks on June 30, 1948 amounted to more than $85,000,000,000, it was announced on Sept. 16 by Comptroller of the Currency Preston Delano. The returns covered 5,004 active national banks in the United States and possessions. The assets were $400-000,000 more than reported by the 5,014 national banks as of April 12, 1948, the date of the previous call, and nearly $2,000,-000,000 more than reported by the 5,018 active banks as of June 30, 1947.

Preston Delano

The deposits of the banks on June 30, 1948 were $79,000,000,000, an increase of more than $500,000,000, or 7/10ths per cent, since April, and an increase of $1,600,000,000, or 2%, since June, 1947. Included in the recent deposit figures are demand deposits of individuals, partnerships and corporations of $45,200,000,000, which increased $70,000,000 since April, and time deposits of individuals, partnerships and corporations of $18,800,-000,000, which increased $64 000,-000. Deposits of the United States Government of $1,365,000,000 were $161,000,000 less than in April; deposits of States and political subdivisions of $5,176,000,000 showed an increase of $268,000,000, or 5%, and deposits of banks of $7,306,-000,000 were $271,000,000, or nearly 4%, more than in April. Postal savings deposits were nearly $3,-000,000, and certified and cashiers' checks were $1.116,000,000.

Loans and discounts at the end of June, 1948 were $22,300,000,000 after deducting reserves of nearly $200,000,000 for possible future losses. The net loans were more than $480,000,000, or 2%, over the amount reported as of April 12, and nearly $3,500,000 000, or 18%, over the amount reported as of June 30, 1947. Commercial and industrial loans of $10,900,000,000 were up 21% in the year, loans on real estate of $5,200 000,000 were up 24%, and consumer loans to individuals of $3,500,000,000, were up 32%, while all other loans of $2,700,000,000, which included loans to farmers, advances to brokers and dealers and others for the purpose of purchasing or carrying securities, and loans to banks, etc., showed a decrease of nearly 5%. The percentage of loans and discounts to total assets on June 30, 1948 was 26.13, in comparison with 22.55 on June 30, 1947.

Investments by the banks in United States Government obligations (including $5,000,000 guaranteed obligations) on June 30, 1948 aggregated $36,231,000,000, which was a decrease of $3,200,000,000, or 8%, in the year. These investments were 42.45% of total assets, compared to 47.27% in June of the year previous. Other bonds, stocks, and securities of $5,310,000,000, which included obligations of States and political subdivisions of $3,200 000,000, amounted to about the same as in April, but were $357,000,000, or 7%, more than in June last year.

Cash of $1,120,000,000, reserves with Federal Reserve banks of $11,326,000 000 and balances with other banks (including cash items in process of collection) of $8,019,-000,000, a total of $20.465,000.000, showed an increase of more than 5% in the year.

The unimpaired capital stock of the banks at the end of June, 1948, was $1 805,000,000, including $24,-000,000 of preferred stock. Surplus was $2,452,000,000, undivided profits, $971,000,000, and reserves, $318,000,000 or a total of $3,741,-000,000. Total capital accounts of $5,546,000,000, which were 7.02% of total deposits, were $237,000,000 more than in June last year when they were 6.86% of total deposits.

Statement Showing Comparison of Principal Items of Assets and Liabilities of Active National Banks as of June 30, 1948, April 12, 1948, and June 30, 1947

(In thousands of dollars)

	June 30, 1948	April 12, 1948	June 30, 1947	Increase or decrease since April 12, 1948 Amount	Percent	Increase or decrease since June 30, 1947 Amount	Percent
Number of banks	5,004	5,014	5,018	— 10	— .20	— 14	— .28
ASSETS							
Commercial and industrial loans	10,967,053		9,043,562			1,923,491	21.27
Loans on real estate	5,270,421		4,228,135			1,042,286	24.65
Consumer loans to individuals	3,536,607		2,669,114			867,493	32.50
All other loans, including overdrafts	2,726,779		2,869,195			— 142,416	— 4.96
Total gross loans	*22,500,860						
Less valuation reserve	197,818		†			†	
Net loans	22,303,042	21,816,341	18,810,006	486,701	2.23	3,493,036	18.57
U. S. Government securities:							
Direct obligations	36,226,156	36,955,647	39,419,227	—724,240	— 1.96	—3,193,071	— 8.10
Obligations fully guaranteed	5,251		6,378			— 1,127	—17.67
Total U. S. securities	36,231,407	36,955,647	39,425,605	—724,240	— 1.96	—3,194,198	— 8.10
Obligations of States and political subdivisions	3,207,888	3,172,597	2,900,981	35,291	1.11	306,907	10.58
Other bonds, notes, and debentures	1,943,659	1,962,559	1,896,733	— 18,900	— .96	46,926	2.47
Corporate stocks, including stocks of Federal Reserve banks	158,271	157,536	155,338	735	.47	2,933	1.89
Total securities	41,541,225	42,248,339	44,378,657	—707,114	— 1.67	—2,837,432	— 6.39
Total loans and securities	63,844,267	64,064,680	63,188,663	—220,413	— .34	655,604	1.04
Currency and coin	1,120,314	1,087,322	988,288	32,992	3.03	132,026	13.36
Reserve with Federal Reserve banks	11,325,863	11,062,360	10,623,726	263,503	2.38	702,137	6.61
Balances with other banks	8,019,321	7,773,739	7,783,534	245,582	3.16	235,787	3.03
Total cash, balances with other banks, including reserve balances and cash items in process of collection	20,465,498	19,923,421	19,395,548	542,077	2.72	1,069,950	5.52
Other assets	1,031,347	939,797	829,049	91,550	9.74	202,298	24.40
Total assets	85,341,112	84,927,898	83,413,260	413,214	.49	1,927,852	2.31
LIABILITIES							
Deposits of individuals, partnerships and corporations:							
Demand	45,203,667	45,134,137	44,751,010	69,530	.15	452,657	1.01
Time	18,830,881	18,767,225	18,556,606	63,656	.34	274,275	1.48
Deposits of U. S. Government	1,365,053	1,526,220	868.049	—161,167	—10.56	497,004	57.26
Postal savings deposits	2,809	2,803	2,804	6	.21	5	.18
Deposits of States and political subdivisions	5,175,811	4,907,268	4,562,716	268,543	5.47	613,095	13.44
Deposits of banks	7,305,787	7,034,821	7,433,963	270,966	3.85	— 128,176	— 1.72
Other deposits (certified and cashiers' checks, etc.)	1,115,980	1,094,772	1,222,001	21,208	1.94	— 106,021	— 8.68
Total deposits	78,999,988	78,467,246	77,397,149	532,742	.68	1,602,839	2.07
Bills payable, rediscounts, and other liabilities for borrowed money	42,871	152,315	27,860	—109,444	—71.85	15,011	53.88
Other liabilities	752,485	769,669	679,571	— 17,184	— 2.23	72,914	10.73
Total liabilities, exclud. capital accounts	79,795,344	79,389,230	78,104,580	406,114	.51	1,690,764	2.16
CAPITAL ACCOUNTS							
Capital stock:							
Preferred	23,898	25,235	28,359	— 1,337	— 5.30	— 4,461	—15.73
Common	1,780,905	1,774,713	1,742,512	6,192	.35	38,393	2.20
Total	1,804,803	1,799,948	1,770,871	4.855	.27	33,932	1.92
Surplus	2,451,488	2,419,482	2,329,951	32,006	1.32	121,537	5.22
Undivided profits	971,091	961,790	874,798	9,301	.97	96,293	11.01
Reserves	318,386	357,448	333,060	— 39,062	—10.93	— 14,674	— 4.41
Total surplus, profits, and reserves	3,740,965	3,738,720	3,537,809	2,245	.06	203,156	5.74
Total capital accounts	5,545,768	5,538,668	5,308,680	7,100	.13	237,088	4.47
Total liabilities and capital accounts	85,341,112	84,927,898	83,413,260	413,214	.49	1,927,852	2.31
Ratios:	Percent	Percent	Percent				
U. S. Gov't securities to total assets	42.45	43.51	47.27				
Loans and discounts to total assets	26.13	25.69	22.55				
Capital accounts to total deposits	7.02	7.06	6.86				

*Beginning June 30, 1948, figures for various loan items are shown gross, i. e., before deduction of valuation reserves, and are not entirely comparable with prior figures.

†Not available.

NOTE—Minus sign denotes decrease.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At the regular meeting of the Board of Directors of **The National City Bank of New York** held on Sept. 26, Harold M. Mills was appointed Assistant Cashier. Mr. Mills will be assigned to the real estate department with which he was formerly associated, having left the National City in 1940 to become Vice-President of The American Savings Bank on West 42nd Street.

* * *

Daniel T. Rowe, President of the **Kings Highway Savings Bank of Brooklyn, N. Y.**, was reelected Chairman of Group V Savings Banks Association at the Annual Meeting of the Group held on Sept. 28 at the Hotel Granada, Brooklyn. This will be the second year that Mr. Rowe has served as Chairman of this Group of 36 savings banks of Brooklyn Queens, Staten Island and Long Island. Joseph G. Munz, Vice-President of the Hamburg Savings Bank, was reelected Secretary-Treasurer. Reelected to serve on the Executive Committee were: John Adikes, President of the Jamaica Savings Bank and President of the Savings Banks Association of the State of New York; Gilbert C. Barrett, President of the Brooklyn Savings Bank; Paul W. Connelly, President of the Fulton Savings Bank Kings County and John J. Hickey, Vice-President of the Greater New York Savings Bank, who was reelected as its Chairman.

Mr. Rowe, commenting on the growth of savings banks in this State and throughout the nation, urged that consideration be given to the expansion of mutual savings banking to states not now being served by these institutions. Mr. Rowe also recommended that savings banks within this State study methods whereby they may better meet the banking requirements of areas not now served by savings banks. August Ihlefeld, President of the Savings Banks Trust Company, discussed the effect of inflation on savings banks and public debt. Thomas G. Grace, New York State Director for the Federal Housing Administration, also addressed the meeting.

* * *

Mrs. Bernice D. Parks, Assistant Treasurer and member of the Corporation, **The Provident Institution for Savings in the Town of Boston**, was elected President of the Association of Bank Women at its annual convention at the Hotel Fort Shelby in Detroit. Other officers chosen it was announced on Sept. 24, were: Vice-President, Miss Marion E. Mattson, Assistant Cashier, Northwestern National Bank, Minneapolis, Minn.; Recording Secretary, Miss Gertrud M. Sundlie, Assistant to the Manager, National Shawmut Bank of Boston, Boston, Mass.; Corresponding Secretary, Miss Elizabeth A. Browne, Assistant Secretary, City Savings Bank, Bridgeport, Conn.; Treasurer, Miss Rebecca Lambert, Auditor, Upper Avenue National Bank of Chicago, Chicago, Ill.

* * *

Benjamin Strong, President of **The United States Trust Company of New York**, has announced that the board of trustees of the institution have appointed William D. Ryan, Assistant Vice-President, and Fred E. Hilgeman, Assistant Secretary of the company. Mr. Ryan was formerly Assistant Secretary.

* * *

Richard L. Maloney, Jr., President of **The New York Savings Bank of New York City** at 8th Avenue at 14th Street, has announced that the bank will increase its dividend to 2% for the quarter ending Sept. 30. It is pointed out that the New York Savings Bank is the first Savings Bank in Manhattan to pay a higher rate of interest to depositors. It will continue to pay dividends from day of deposit, compounded quarterly. Two Brooklyn, N. Y. banks recently announced that a 2% dividend had been declared for the three months' period ending Sept. 30, increasing the rate from 1½%; they are the Kings County Savings Bank and the City Savings Bank.

Reginald Roome, President of the **Excelsior Savings Bank of Manhattan**, has announced that its board of trustees expects, with earnings continuing satisfactorily, to pay for the quarter ending Dec. 31, a dividend at the rate of 2% per annum.

* * *

August Zinsser, formerly President of the **Central Savings Bank of New York**, died at his home in Ridgefield, Conn., on Sept. 26. After engaging in the practice of law, Mr. Zinsser became President of the Yorkville Bank, which was merged with the Manufacturers Trust Company in 1925. He served as a Vice-President of the enlarged Manufacturers Trust for a year before he became President of the Central Savings Bank.

* * *

On Oct. 1, the **Ridgewood Savings Bank of Ridgewood, L. I.**, will open a new office in Laurelton. The new office, located in a shopping center and convenient to parts of Nassau County, will offer a complete savings bank service. The bank, with resources over $105,000,000, serves more than 80,-000 depositors. It also has an office in Forest Hills.

* * *

The absorption of the **Bayonne Trust Company, of Bayonne, N. J.**, by the **Commercial Trust Company of Jersey City, at Jersey City**, became effective on Sept. 13, according to the bulletin issued by the Board of Governors of the Federal Reserve System on Sept. 18. The main office and branches of the Bayonne Trust will be operated as branches of the Commercial Trust Co. An item bearing on the offer by the trust company for the acquisition of the assets of the Bayonne Trust appeared in our issue of Aug. 12, page 617.

* * *

Joseph C. Cotellessa, Vice-President and Cashier of the **Second National Bank of Paterson, N. J.**, died on Sept. 21. Mr. Cotellessa, who was 52 years of age, was also President of the Passaic County Bankers Association. Born in New York City, he had at one time been in the employ of the Mechanics and Metals National Bank of New York.

* * *

Robert C. Caskey, who for 45 years served as Cashier of the **National Iron Bank of Morristown, N. J.**, died on Sept. 23. He retired in 1944, it was stated in Morristown advices to the Newark "News" of Sept. 24, when the bank merged to form the present **First National Iron Bank.**

* * *

The 90th anniversary of the **Corn Exchange National Bank & Trust Company of Philadelphia** was celebrated on Sept. 23. The bank was organized in 1858 with a capital of $130,000; today its assets exceed $280,000,000, while its deposits are in excess of $257,000,-000. The Philadelphia "Inquirer" notes that the bank's name grew out of the fact that it was organized by members of Philadelphia's

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grain exchange, then called the Corn Exchange and known today as the Commercial Exchange of Philadelphia. The same paper also said:

"It began its existence as the Corn Exchange Bank. In 1864 it changed from a State to a National bank and altered its name to Corn Exchange National Bank. On June 18, 1928, title of bank was changed to Corn Exchange National Bank & Trust Co. Expansion through mergers with other banks started in April, 1922, when Corn Exchange acquired Rittenhouse Trust Co. Four years later it was merged with Third National Bank. In 1928 it merged with Oxford Bank & Trust Co. and in April, 1929, with Union Bank & Trust Co.

"Its President is David E. Williams, who has served in the post since 1941 and is the ninth President since the inception of the bank."

* * *

The board of managers of the **Girard Trust Company of Philadelphia** has elected Harley L. Rankin a trust investments officer, effective Oct. 1.

Mr. Rankin has been associated with the First Boston Corp. The President of the Girard Trust Co., James E. Gowen, announced Mr. Rankin's election to his new office.

* * *

Plans for the consolidation of three banks in **Westminster, Md.,** were approved at special meetings of the stockholders on Sept. 17. Details of the merger plans were given in these columns Sept. 2, page 916, and as stated therein the banks which are to unite their interests are the **Westminster Savings Bank,** the **Farmers and Mechanics National Bank of Westminster** and the **First National Bank of Westminster.** The institution to be formed by the consolidation, to become effective Sept. 30, will be designated the **Carroll County National Bank of Westminster.** The Baltimore "Sun" of Sept. 18 said:

"Norman B. Boyle, Secretary-Treasurer, Westminster Savings Bank, and President of the Maryland Bankers Association, is scheduled to become President of the merged bank. Joseph H. Cunningham is slated to be Chairman of the board; Milton P. Myers and Dr. Lewis K. Woodward, Vice-Chairmen, and Theodore F. Brown, Chairman of the Executive Committee.

* * *

The board of directors of the **Old National Bank in Evansville, Ind.,** announced on Sept. 15 the election of Oscar E. Lamble as Director, Oscar H. Eberhart as Vice-President and Walter H. Bischoff as Assistant Vice-President.

* * *

The common capital of the **Uptown National Bank of Chicago, Ill.,** has been increased from $750,000 to $1,000,000 by the sale of $250,000 of new stock, the Comptroller of the Currency reports. The enlarged capital became effective Sept. 17.

* * *

Plans are going forward in Detroit, Mich., for a merger of the **Bankers Trust Company** and the **Equitable Trust Co.** of that city, and it is learned from the Detroit "Free Press" of Sept. 26 that the effective date of the merger is fixed at Nov. 30. Meetings of the stockholders to act on the plans are scheduled for Oct. 20. The name of the institution which will be created through the merger will be **Bankers-Equitable Trust Co.** and its capitalization, it is stated, will be $1,518,000. From the "Free Press" we also quote:

"Stock of the consolidated company will be issued on the basis of one share for each share of Bankers Trust stock and one share for each five shares of Equitable Trust stock. Equitable shareholders also will receive for each of their old shares one share in Equitable Mortgage Co., which will take over all Equitable assets not contributed to the capital of the consolidated company.

"Otto G. Wismer, recently named Chairman of the Board of Bankers Trust in an anticipatory move, will take over the same position with Bankers-Equitable, the announcement said. As such, he will be chief executive officer in active charge of affairs and policies.

"Oliver D. Marcks, President of Equitable for four years, will assume the Presidency of the new firm. John C. Cook, Assistant to the President of Bankers, will step up to the Executive Vice-Presidency of Bankers-Equitable. Other principal officers will include Ralph Nixon, Senior Vice-President; Nelson F. Adams, Vice-President and Trust Officer; Willbur J. Danaher, Secretary, and Olin H. Wyman, Treasurer."

In our issue of Sept. 23, page 1217, we referred to the creation in the Bankers Trust Co. of the office of Chairman of the Board and the election thereto of Mr. Wismer.

* * *

Walter L. Rehfeld, Vice-President of the **Mercantile-Commercial Bank & Trust Company of St. Louis,** was on Sept. 17 elected President of the Robert Morris Associates. It is stated that he will assume the Presidency at the annual conference of the Associates at St. Louis Oct. 24-27.

* * *

The First National Bank in St. Louis has announced the promotion of Frank X. Fuchs from an Assistant Vice-President to a Vice-President, it was made known in the St. Louis "Globe Democrat" of Sept. 22.

* * *

J. Allan Wilson was elected a Trust Officer of the **Citizens & Southern National Bank of Atlanta, Ga.,** on Sept. 17. He had heretofore been Assistant Secretary of the company. The directors also elected as Assistant Cashiers, said the Atlanta "Constitution," the following: Walter H. Gibson, J. Harrison Hopkins and Herbert L. Megar.

* * *

The opening of a new bank in **Dallas, Texas,** namely, the **Empire State Bank,** occurred on Sept. 20. The Dallas "Times Herald" reported that the bank opened with a larger capitalization than any other state bank in Texas, according to State records. It has a capital structure of $1,200,000, consisting of $750,000 capital, $250,000 surplus and $200,000 reserves. On the opening day, Price Daniel, Attorney General of Texas, and Jesse James, State Treasurer, both members of the State Banking Commission, participated in brief ceremonies formally opening the bank. Organized by Ellis C. Huggins, President; Michaux Nash, Executive Vice-President, and their associates, the new bank was granted its charter on Jan 9 by the State Banking Board, the "Times-Herald" reported.

* * *

Effective Sept. 13, the capital of the **Midland National Bank of Billings, Mont.,** was increased to the extent of $100,000 through a stock dividend, raising it from $200,000 to $300,000.

New York Stock Exchange Weekly Firm Changes

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

Henry E. Greene, general partner in Paul H. Davis & Co., becomes a limited partner effective Oct. 1.

Interest of the late William M. Fible in H. O. Peet & Co., ceased Sept. 6.

With Hill, Richards & Co.

(Special to THE FINANCIAL CHRONICLE)

LONG BEACH, CALIF.—Clemens T. Lueker is with Hill, Richards & Co., Farmers & Merchants Bank Building.

Financiers at Meeting Of International Bank

A group of financial and industrial leaders, insurance and banking commissioners, and principal officers of a number of financial associations attended the opening session on Sept. 27, 1948, of the Third Annual Meeting of the Boards of Governors of the International Bank for Reconstruction and Development and the International Monetary Fund.

Among those attending were:

H. Albert Ascher, Wm. E. Pollock & Co., Inc., New York; Frederick W. Barker, President, Syracuse Savings Bank; Newton . Black, Sup't of Banking, Des Moines, Iowa; George A. Bowles, Commissioner of Insurance, Richmond, Virginia; Charles Cain, Jr., Vice-President, Chase National Bank; C. F. Childs, President, C. F. Childs & Co., Chicago, Illinois; Julien A. Collins, Pres., Investment Bankers Ass'n of America, Chicago, Illinois; Christopher J. Devine, President, C. J. Devine & Co., New York; Robert E. Dinneen, Sup't of Insurance Albany, New York; Frederic W. Ecker, V. Pres., Metropolitan Life Insurance Co., New York; Sumner B. Emerson, Morgan Stanley & Co., New York; Walter Frank, Schroder, Rockefeller & Co., Inc., New York; Thomas Graham, President, Bankers Bond Co., Louisville, Ky.; Sheldon Green, Vice-President, Chase National Bank, New York; Murray Hanson, General Counsel, Investment Bankers Ass'n, Washington, D. C.; George L. Harrison, Chairman of Board, New York Life Insurance Co., New York; W. P. Hodges, Commissioner of Insurance, Raleigh, N. C.; Basil Hwoschinsky, Vice-President, Central Hanover Bank & Trust Co., New York; Joseph T. Johnson, The Milwaukee Company, Milwaukee, Wisconsin; W. E. Knox, President, Westinghouse International Company, Pittsburgh, Pa.; Arthur H. Kiendl, Vice-President, Guaranty Trust Company of New York, New York; Aubrey C. Lanston, Vice-President, First Boston Corporation, New York; Samuel D. Lunt, Hamlin & Lunt, Buffalo, N. Y; Shepard Morgan, Vice-President, Chase National Bank, New York; Joseph L. Morris, Robinson - Humphrey Company, Atlanta, Ga.; Edward D. McGrew, Northern Trust Company, New York; James A. McLain, President, The Guardian Life Insurance Company of America, New York; S. Page Nelson, President, The Savings Bank of Baltimore, Baltimore, Maryland; Herbert H. Pease, President New Britain Machine Company, New Britain, Conn.; D. K. Pfeffer, National City Bank of New York, New York; Roland Pierotti, Vice-President, Bank of America, Washington, D. C.; John Redwood, Jr., Baker, Watts and Company, Baltimore, Md.; Dominic W. Rich, President, D. W. Rich Company, New York, N. Y.; M. H. Sandberg, A. E. Weltner & Company, New York; Francis X. Scafuro, Asst. Vice-President, Bank of America, New York; A. E. Scherr, Jr., Dime Savings Bank of Brooklyn, Brooklyn, N. Y.; A. Coster Schermerhorn, Chase National Bank, Washington, D. C.; Leo N. Shaw, Vice-President, National City Bank, New York; Frank P. Shepard, Vice-President, Bankers Trust Company, New York; Jason W. Stockbridge, Director of Public Relations, National Ass'n of Mutual Savings Banks, New York; W. R. Strelow, Jr., Vice-President, Guaranty Trust Co., New York; William A. Sullivan, Insurance Commissioner, Olympia, Washington; Joseph M. Upchurch, Manufacturers Trust Company, Washington, D. C.; Edward H. York, Jr., Drexel & Company, Philadelphia, Pa.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The demonstrated ability of the monetary authorities to keep prices of Treasury obligations within set limits is improving the technical position of the government bond market. . . . There seems to be a lifting of some of the uncertainty that shrouded the financial district following the announcement that reserve requirements of member banks would be increased. . . . Support levels have held in those instances where it was necessary to test them. . . . In other cases quotations of eligible issues have remained above "pegged" prices, and even rallied from the lows of the move. . . . Although fear of lower prices for government securities has not been dissipated by a long shot, there seems to be less concern now that important readjustments are likely to be made in the near future in support levels of government securities. . . .

The government bond market has shown that it has spark enough to move away from support levels, especially in the longer end of the list, with the best performance along these lines being given by the 2½s due Sept. 15, 1967/72. . . . Short covering was no doubt responsible for a substantial amount of the recovery that took place in some of the bank issues. . . . However, traders have in the past been able to sense changes in trends, and who knows but what they may be doing just that again? . . .

STABILITY FACTOR

One of the factors that should be making for more stable government bond prices, and probably is very important in maintaining support levels, is the tangled international situation. . . . If there is danger of armed conflict, will prices of Treasury obligations be allowed to drop below present "pegged" prices? . . . Would another war be financed at higher interest rates than the last one? . . . How could the Treasury sell securities with a government market that is definitely on the defensive? . . . Until the uncertainties of the international picture have been resolved in some measure is it likely that the authorities will let quotations of government securities move down much, if any, from current levels? . . . Financial preparedness is no doubt being considered along with military preparedness. . . .

BONDS ADDED TO "FED" PORTFOLIO

Although the Federal Reserve Banks have been large buyers of long Treasury obligations, the total government security holdings of the Central Banks as of Sept. 22 were still below those of Nov. 12, 1947, when the movement to get rid of the more distant maturities of governments got under way. . . . Nonetheless this shift in positions has had a marked effect upon the government security holdings of the Federal Reserve Banks. . . . Treasury bills, held by "Federal," which were 60% of the portfolio on Nov. 12, 1947, are now but 29% of the total. . . . Certificates which accounted for 32% of the position last November, are presently 22% of the portfolio. . . . Notes have not changed too much, with the current total 8% as compared with 5% on Nov. 12, 1947. . . .

The most important adjustment has been in holdings of government bonds, with the Sept. 22, 1948 report showing that Treasury bonds were 41% of all government securities owned by "Federal," compared with 3% on Nov. 12, 1947. . . . Treasury bonds due in "more than five years" increased from 2% of the total as of last November contrasted with the current position of 33% of all of the government securities owned. . . . Bonds due from "two to five years" moved up from 1% to 8%. . . .

PROFIT PROSPECT

Although liquidity of the Central Banks has been decreased through acquisitions, and the shift from longs into shorts, this should not be of more than passing interest because of the Central Banks' power over the government bond market. . . . Commercial banks, by taking to the shorter maturities, have increased their liquidity in so far as government securities are concerned. . . . However, there will no doubt be a time in the future when the liquidity preference will not be so great on the part of the member banks. . . . Income must be maintained by the deposit institutions and this will most likely entail a reversal of the present trend. . . . Where will the commercial banks get the longer Treasury securities they will be looking for? . . . Federal should be in a position to profit well from a change in confidence and psychology that may not be so long in developing. . . .

ANTICIPATION

The coming year will mean that the first of the "three little sisters," the 2s due June 15, 1949/51, will be callable, and this is creating considerable interest among money market followers. . . . Not only are there discussions about what could be done with these bonds, but ideas are being put forth as to what might be undertaken in order to relieve the pressure of selling by non-bank investors. . . .

However, there seems to be a pretty general feeling among most of these money market analysts that very little change, if any, will be made in the refunding pattern.

Bogota Bond Exchange Offer Has Been Extended

Holders of City of Bogota 8% external sinking fund gold bonds of 1924, due Oct. 1, 1945, and of Municipality of Bogota, Columbia, power and light consolidation loan of 1927 20-year external 6½% secured sinking fund gold bonds, due April 1, 1947, are being notified that the offer of exchange of these bonds and appurtenant coupons for Republic of Colombia 3% external sinking fund dollar bonds, due Oct. 1, 1970, has been extended from Oct. 1, 1948 to Oct. 1, 1949. The National City Bank of New York is acting as exchange agent.

Home Insurance Co. Honors 25-Year Employes

Eight members of the home office of the Home Insurance Company celebrated their twenty-fifth anniversary with the company at a luncheon given in their honor Sept. 23, at the company's headquarters in New York.

The honored guests were John W. Thuman, George Taylor, Charles Lauterbach, and Assistant Vice-President Moore, of the Home's western department; Miss Kathryn Walton, cashiers department; Miss Katherine J. Beck, telephone department; Fred Tietz, suburban department and John A. Milne of the supply department.

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Stone & Webster Securities-White Weld Group Offers 400,000 Shs. Tennessee Gas Common

Public offering of 400,000 shares of common stock of Tennessee Gas Transmission Co. was made Sept. 28 by a nationwide investment banking group headed jointly by Stone & Webster Securities Corp. and White, Weld & Co. The stock is priced at $30.25 per share. The company owns and operates a pipe line system extending 1,364 miles from Texas to West Virginia for the transportation and sale of natural gas.

Proceeds from the sale of additional common stock will be added to the general funds of the company to be used from time to time, together with other cash resources of the company, for the expansion of its pipe line system.

Capitalization giving effect to the sale of the additional shares consists of $112,961,000 of long-term debt; 100,000 shares of 4.10% cumulative preferred stock, $100 par value; 100,000 shares of 4.25% cumulative preferred stock, $100 par value, and 2,500,000 shares of common stock, par value $5 per share.

An initial cash dividend on the outstanding common stock was declared in the last quarter of 1947 and has been continued in the first three quarters of 1948 at the annual rate of $1.40 per share. On Sept. 7 last, the board of directors of Tennessee Gas Transmission Co. provided for the distribution on Nov. 12, 1948, of one additional share of common stock for each three shares held of record Oct. 20, 1948. In this connection directors ordered the transfer on the payment date of $4,166,667 from paid-in surplus (premium on common stock) to common stock capital. The 400,000 shares offered at this time will be entitled to the stock distribution.

Principal customers of the company are the Columbia Gas and Consolidated Natural Gas systems, which systems sell about 60% of the gas sold in the Appalachian area. Operating revenues of the Tennessee Gas Transmission system for the twelve months ended July 31, 1948, totaled $23,220,813 and net income amounted to $5,646,499.

Initially designed to deliver approximately 200,000 mcf of natural gas per day, Tennessee Gas Transmission's daily deliveries have progressively increased by expansion of its pipe line facilities to the present figure of approximately 455,000 mcf per day. The company has been authorized by the Federal Power Commission to increase its capacity to 660,000 mcf daily and expects to reach a capacity of 600,000 mcf daily by the end of 1948.

Applications have been made to the Federal Power Commission to further increase its capacity to 1,060,000 mcf daily and authorization for the increase up to 1,000,000 mcf is expected in the very near future. The added capacity will involve extending the company's pipe line system to make direct deliveries in eastern Ohio, Pennsylvania and western New York State, and the extension of service to the government's atomic energy plant at Oak Ridge. The cost of these new facilities is estimated at approximately $136,000,000. Subject to proper authorization and to unforeseen contingencies, the additional facilities are expected to be substantially completed by the end of 1951.

Warns Canadian Upward Price Trend May Continue

Bank of Montreal sees no justification in belief marked levelling of Canadian money supply and bank credit will check price rise.

In its latest monthly "Business Review," the Bank of Montreal, though noting diminished upward trend in prices and levelling off of money supply and bank credit, warns that this does not necessarily point to stabilized prices.

"Such soft spots in the price structure as have appeared to date do not yet justify the conclusion that the long upward trend of prices has run its full course," the Review states. "Steel, other essential materials and capital goods are still short in relation to demand sustained by buoyant incomes and the unfilled needs of both domestic and export markets. Moreover, with continued tension in world political affairs, the material requirements of defence will probably be large for some time to come. But as food stuffs and other consumer goods appear in more plentiful supply, as specific scarcities become abbreviated, as the present high rate of new capital expansion assumes more normal proportions, and as consumer buying becomes more selective in terms of price and quality, a situation is created in which the pattern may well show a greater diversity than it has for many months past.

"As a determinant of broad and sustained movements in the general price level, monetary influences underlying more obvious surface elements cannot be overlooked. It should be said at once that the course of prices has no precise mathematical connection with the relationship between money and goods. Changes in velocity of circulation, in the public's saving habits, in the distribution of production as between capital and consumer goods and in external influences, all have a bearing on the result. Nevertheless, the trend of prices in Canada since 1939 cannot be dissociated from the fundamental fact that the Canadian active money supply has nearly tripled in the intervening period, an expansion far out of proportion to the concurrent increase in physical volume of production, which has probably been of the order of 80%.

"It is to be noted, however, that since late 1946 when the active money supply reached $4,000 million as against $1,370 million at the end of 1939, the trend has been relatively stable, the money supply averaging $3,822 million in 1947 and $3,957 million in the first seven months of 1948. Dominant influences producing this stability have been, first, the substantial surpluses of the Dominion Government which have drawn more purchasing power out of the economy than has been returned to it through governmental outlays, and secondly, a marked levelling of, since the beginning of 1948, in the volume of bank credit outstanding in the form of loans. It follows that the sharp price increases occurring since 1946 must, from a monetary standpoint, be regarded mainly as a delayed adjustment to a situation previously established. It cannot yet be suggested with any certainty that this adjustment is complete. Nevertheless it is significant that the present money supply of approximately $4,000 million is beginning to bear somewhat the same relationship to the current gross national product valued at present prices around $15,000 million as did a money supply of $1,400 million in 1939 to that year's gross national product of approximately $5 600 million. At the end of 1946, by contrast, the money supply of $4,000 million appeared, by prewar standards, substantially out of line with the then current gross national product of about $12,000 million. In other words, it may be that the increased prices in the past year and a half has by now absorbed much of the inflationary potential inherent in the expanded money supply."

H. P. Goodbody Named For Presidency of S. E. Firms Ass'n

Harold P. Goodbody, one of the managing partners of Goodbody & Co., New York, has been nominated for the Presidency of the Association of Stock Exchange Firms, it was announced when Governors of the Association at the first session of their Fall meeting received the report of the Board's Committee to nominate officers for the year 1949. Mr. Goodbody will succeed Homer A. Vilas, managing partner of Cyrus J. Lawrence & Sons of New York, on Nov. 15 next at the Annual Meeting of the Board of Governors which immediately follows the Annual Election of the Association.

Harold P. Goodbody

Russell E. Gardner, Jr., senior partner of Reinholdt & Gardner, St. Louis, was nominated to serve as First Vice-President; Gardner D. Stout, partner of Dominick and Dominick, New York, as Second Vice-President; and Walter W. Stokes, Jr., senior partner of Stokes, Hoyt & Co., New York, as Treasurer.

Mr. Goodbody, since his graduation in 1927 from Williams College, has been associated with the firm of Goodbody & Co., as an employee and since January, 1934, as a partner. He was a member of the New York Stock Exchange from 1933 to 1938. He was a member of the Board of Governors of the Association of Stock Exchange Firms prior to being commissioned as a First Lt. in the Army Air Forces in 1942. He was again elected to the Board in 1946 following his release from active duty in the Army with the rank of Major. He has been Chairman of the important committee on Business & Office Procedure the past two years.

Mr. Gardner of St. Louis, a graduate of Princeton University in 1912, is a member of the Board of Governors of the New York Stock Exchange as well as of the Association. He served in the Navy in World War I and as civilian head of the St. Louis Ordnance District in the last war. He is active in St. Louis Philanthropic and Civic Affairs.

Mr. Stout is a graduate of Yale University. Like Mr. Goodbody, he was a Governor of the Association of Stock Exchange firms prior to his being commissioned a Lt. in the U. S. Naval Reserve in 1942 from which he was released in 1945 with the rank of Commander. Upon his return to the Street he was again elected a Governor of the Association. He is a Trustee of St. Paul's School.

Mr. Stokes is the senior partner of Stokes, Hoyt & Co., a member of the New York Stock Exchange and a Governor of the Association since 1945. He is a Yale graduate of the class of 1925.

As We See It

(Continued from first page)

and their ilk is passing largely unrecognized and consequently uncombatted or at all events not effectively resisted. It is being repeatedly said by New Deal apologists that the conduct of government officials during the war should be viewed in the light of the fact that Russia was our ally at the time. They might well add that the Commander-in-Chief of our armed forces and the head of the nation was engrossed in his "grand design" of giving Mr. Stalin any and everything he wanted in the hope of appeasing him.

No Excuse, of Course!

None of this, nor all of it, excused or could excuse such conduct as more than one in places of importance during the war have now been accused of. It is the duty and responsibility of "top level" officers to decide what information is to be given to an ally even in war time—and to furnish it. Any others who arrogated unto themselves the role of deciding what information to supply Russian or any other agents and to supply it were patently in the wrong.

But all this is but one side of the situation which developed in this country from 1933 to about the end of the war. What vital information the Russian agents were able to supply the Kremlin during the war or during the years since, we have no way of knowing, but we should be inclined to believe that little of very vital importance as of today fell into the hands of the grasping Moscow government. The degree in which these same agents have been able to make use of such information to organize a "fifth column" or a sabotage system is likewise unknown. Quite possibly only the advent of war will disclose the truth about this matter, but if any such activity should prove particularly troublesome in the event of war, we should not be in a position to find much fault with any one but ourselves —now that we have at least an intimation of what has been going on in this country.

Intellectual Infiltration

It is, however, difficult to avoid a feeling of deep perturbation about the infiltration of Communism and communistic philosophy into the minds of the American people. The New Deal leaders and their hangers-on, consciously or unconsciously, not only undertook a massive appeasement campaign vis-a-vis Russia, but adopted, assimilated and preached with deceptive persuasiveness a very considerable body of ideas which are the hall marks of Communism. They embodied them in various "programs of action" — a term which itself has a definitely communistic flavor. These notions were given other names and defended on grounds which made no reference to Russia or Communism. Indeed, under the leadership of the popularly persuasive President Roosevelt, they were for the time being at least embodied in the American tradition — as inconsistent and contradictory to that tradition as they were—until now they are by many who should know better taken for granted as "long-overdue" social reforms which can never be abandoned by "turning the clock back."

It is rather more than startling to consider the degree in which Americans, heretofore regarding themselves as true disciples of individual self-reliance and haters of paternalism and statism, have adopted, and now regard as their very own, doctrines and ideas of life, of society and of economic ideas which if they did not come to this country directly from Russia certainly have been given the breath of life both here and in a number of other countries by the so-called Russian experiment. One studies the utterances of the candidates for office in the current campaign, whether they hope to be President or members of Congress, in vain to find any that are free from this taint.

An Essentially Communistic Idea

Take the whole concept of "social security," the notion that somehow government should assume the economic risks of life for every mother's son of us from cradle to the grave. It was of just such concepts and such programs that the Kremlin used to do a great deal of boasting in the 1920's. Where, today, can we find a man in public life or aspiring to enter public life who even considers questioning the basic philosophy of "social security"? Indeed, where do we find one who does not pay homage to the "objectives" of such a system? Yet, where would it be possible to find any concept more inconsistent with the system under which this country of ours grew to be the greatest in the world, and, indeed, in the history of the world?

Where is the public official or the influential figure

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who no longer realizes, or who is willing now to remind us, that it is the very insecurity of life which keeps men energetically and resourcefully at work? Or that it is the sum total of such work by millions of individuals which brings economic progress, and, for that matter, any other sort of progress? To ask such a question is to answer it. There is none. Yet here is a situation which is already gnawing at our vitals, and which if long continued and further developed may well be our undoing — and for this blessing we owe a debt of gratitude to Communism and communistic ideas.

Watch All Fronts!

There are many more illustrations which could be cited. The notion that the farmer must be guided in his day-to-day operations by officials at Washington and the risks of his business largely assumed by the taxpayer is obviously another of the same type. The notion of "incentive" taxation or "incentive" operations of any sort by government is another. All the dozens of statutes which aim to limit and restrict, if not to crush, the successful businessman and at the same time take from him the funds to finance statism are, of course, tarred with the same stick. Who can deny that those who have preached and planned such programs have found much of their inspiration in Moscow? And so on, indefinitely.

Let us by all means protect ourselves from the Kremlin, but let us be alert on all fronts—not merely the most obvious.

What To Do About Inflation

(Continued from page 17)

times worked our way out well and sometimes badly. This time we cannot afford to do it badly, and if we are going to do it better we need sober and wise leadership with the courage and the understanding to do the job.

At the end of the war, our Government had one of two simple choices. It could continue price controls for a reasonable time, gradually lifting them as the supply of goods caught up with the demand. The other choice was to abolish all controls, relying upon the play of the free market to bring supply and demand into balance. Each course had its merits. The tragedy is that the Administration fumbled and hesitated and chose neither of those courses.

Instead, it took counsel of its fears and shortly after V-J Day publicly predicted that America was headed for an economic collapse. On Oct. 1, 1945, it announced that by the Spring of 1946 8,000,000 of our people would be out of work. That dire forecast was quoted in a solemn White House prediction that wages would drop $20 billion. That was known at the time as the Henry Wallace thesis. You remember—he was then Secretary of Commerce.

In this way, the Administration officially set the stage for a first-class depression as the left-wingers were licking their chops looking forward to what they could do to the country once it was left to their mercy. There is only on way to get rid of these defeatists in our National Government and that is to have a clean sweep with the election of a Republican Administration next November.

The wonderful thing is that America crossed up the prophets of doom. Our country is so great that it can even survive an Administration which goes on innocently dropping monkey wrenches into the machinery. The depression that some people—and some nations—were counting on just did not materialize.

The country came through. And then, having been mistaken in what it did, and wrong in what it predicted, the Administration's cooks tried to unscramble their badly scrambled eggs. With improvising, indecision and contradiction, they have been trying to unscramble them ever since. And worst of all, the American people have been led to believe that inflation could be curbed by some painless, patented panacea, and that—if only it were not for the Congress—the secret of that cure would be revealed.

No Trick Cure

I propose to be honest with the American people. This inflation cannot be cured in a free country by any trick device. Soviet Russia had a bad inflation following the war, and suddenly, one night, they announced that the government was taking away nine-tenths of the people's money.

That is one totalitarian method. Other police state methods have been proposed in this country. They sound easy. But they are no less painful and would be equally damaging to our free society. Isn't it time we stopped talking in America in terms of totalitarian devices? Let's go to the fundamentals. We know we have a staggering debt to pay and we know we must continue to wage the peace if we are to live in a peaceful world. But we do not have to continue following the unsound and defeatist policies of an administration that got us into the mess we are in.

We can start dealing frankly and honestly with this problem. We can start going to its fundamentals. With sound leadership and courage, we can lick it.

As a first step, I propose that we bring to Washington an administration of able and honest men and women who have the intelligence and the courage to tackle this problem of high prices and inflation and to tackle it effectively.

As a second step, in order to put the brakes on inflation, I propose that we put a brake on unnecessary government spending. Heavy government spending in peacetime sends up prices in precisely the same way as heavy government spending in war. After next Jan. 20, your tax dollar is going to get the most careful attention it has had in a long, long time. Where it is being unnecessarily spent, we will simply stop spending. By every dollar of waste we eliminate, we do that much to stop inflation.

Systematic Payment of Debt

As the third step, I propose that we start systematically paying off our national debt. Every increase in the national debt means an increase of money in circulation. This is the modern equivalent of printing press money. As in the days of the Continental dollar, as the amount of money increases, the things our money buys will decrease. That is inflation. One of the most effective ways to stop inflation is to reduce the national debt.

As a fourth step, I promise you that in your next National Administration there will be no place, high or low, for anyone who will speculate in grain—or any other commodity—at the price of human misery. One of the first things your next administration will do—and I will take considerable pleasure in doing it—is to get rid, once and for all, of those speculating profiteers who are still clinging to the public payroll.

As a fifth step, I propose to bring to Washington men and women of integrity, whose first interest is not self-interest, whose first aim is not to help themselves but to help America, whose loyalty is a single-minded loyalty to our united people, and their progress in every good thing.

Release Initiative of Free Enterprise

As a sixth, and perhaps most important step, I propose that we start vigorously supporting our American system of free opportunity by a government which has faith in it and wants it to succeed. We shall release the initiative, the enterprise and the creative powers of our people in a great upsurge of production. Today there is a vast, pent-up demand for almost everything America can produce. A large part of the answer to inflation is to produce more and still more of the things our people want and need.

The Government can be a powerful aid to that increased production by tax policies which stimulate new ventures, which aim to encourage the investor and the producer, not punish them.

I propose that we bring to Washington an administration which believes in our American system, which understands what makes it click and which is resolved that henceforth the Government of the United States will be an economic asset, not a liability, to the living standard and the creative genius of our people.

There are already signs that the current inflation is losing some of its momentum. The fabulous flow of goods from our factories is making itself felt in many markets.

In the face of the world's great need, God has touched our fields. The farms of America and of much of the world this year are bursting with a harvest such as has never been gathered before. It is a thing of infinite mercy, both to us and to hungry people everywhere. From this year's bountiful harvest should flow hope and courage to ourselves and all the world.

With faith in the rightness of freedom, we have ahead of us, not defeat, but a great adventure. It is the mighty adventure of bringing to fulfillment the promise of our magnificent land. As we go forward, we will leave behind us our doubts, our confusion and our waverings.

We will go forward together and in our new-found unity, we will solve our problems, turning today's hope into the achievement of tomorow.

Rowe Rejoins Plunkett

(Special to THE FINANCIAL CHRONICLE)

WAUSAU, WIS. — Wilfred F. Rowe has rejoined the staff of Raymond J. Plunkett & Co., American State Bank Building. He has recently been with Bell & Farrell and prior thereto was with the U. S Treasury Department.

Decries Marshall Plan for Latin America

James S. Kemper, in keynote address of Fourth Annual Session of the Inter-American Council of Commerce and Production, says inter-governmental loans are bad politically and economically and are seldom governed by sound principles.

James S. Kemper, Chairman of Lumbermen's Mutual Casualty Co., who is President of the Inter-American Council of Commerce and Production, in his keynote address at the opening session at Chicago of the Fourth Plenary Meeting of this international organization, expressed a somewhat pessimistic view of the results of the Marshall Plan in Europe and, at the same time, disapproved of any extension of the Plan to Latin-American nations. In this connection, Mr. Kemper stated:

James S. Kemper

"One hears the idea that the difficulties of balancing trade transactions may be overcome in a wholesale manner by something like a Marshall Plan for Latin America. Let us consider that for a moment.

"Many of us here, I think a great majority of us, are uneasy in our minds about the Marshall Plan for Europe. At the very best, if it works, it will enable Europe to become self-supporting on a plane of living lower than that which we intended for ourselves on this hemisphere. At the worst, it will leave Europe less well off than before and more dependent upon the surplus of this hemisphere, with not enough dollars to buy what she needs unless we go on giving them to her.

"The objections to what may be called the Marshall Plan solution are mainly three: In the first place, the history of loans by government to governments is bad. It is bad both politically and economically. It is not business. It is a transaction that seldom is governed by sound principles. Any government in need that receives a windfall in the form of a grant or an easy loan from another government will find itself under pressure to spend the money for social purposes and for public works. Even though desirable, these projects usually are not self-liquidating, with the final result that you have created a nonproductive debt that will have to be repudiated, with recriminations and ill feeling all around.

"In 1946 the United States Government loaned the British Government $4 billion, which the British said would be enough to see them through four or five years of hard going and put them on their feet again. In 18 months the money was gone and Great Britain financially was worse off than before. Any banker, any businessman, knows how different it might have been if $4 billion could have been loaned to British industry direct, on a strictly business basis, and how much better that would have been for Great Britain in the end.

"In the second place, Marshall Plan solutions contemplate economic arrangements by governments, touching trade, production, distribution, consumption and the employment of capital; and all of this moves us toward a planned world. A planned world is not for this most fortunate hemisphere —not if we wish to be true to our vision of its future. That vision would be superseded, submerged censored and hamstrung. An international authority would say whether or not it was valid and how we could proceed to realize it, not in our own way, but as the authority might decree.

"The resources of this hemisphere, its surplus and its capital, would be distributed according to a world plan. Markets would be allotted and administered by the authority. National tasks would be assigned according to the authority's judgment of what would be a fair division of labor among the nations. Movements of capital no longer would be free; they would be directed. We should not be free to prefer Latin America as an outlet for our capital, and you, as Latin Americans, would not be free to pursue your own development as you wished. Free enterprise would be reduced to the status of agency. Do we want to be planned by a world authority? Or would we rather be free to control our own destiny?

"Please do not misunderstand me. I am not suggesting that the Marshall Plan is all bad. But I do believe that before wishing something similar for Latin America, the European pattern should be thoroughly explored."

Ass'n of S. E. Firms Governors to Meet

The Board of Governors of the Association of Stock Exchange Firms will hold its Fall meeting at the Copley-Plaza Hotel in Boston on Sept. 30-Oct. 1, it was announced by Homer A. Vilas, President.

Lyon Carter, partner of Estabrook & Co. in Boston, and Massachusetts Regional Governor of the Association, is in charge of the arrangements.

The highlight of the two-day business conference of the Governors will be a dinner meeting on Sept. 30, sponsored jointly by the Association and the Boston Stock Exchange. Robert P. Boylan, Chairman of the Board of the New York Stock Exchange; Harry Besse, President of the Boston Stock Exchange, and Mr. Vilas will be the speakers. Dinner will be attended by members of the securities industry in Boston and officials of companies having securities listed on the Boston and New York Stock Exchanges.

Subjects to be discussed by the board at its business sessions will include, among others, an industry-wide pension plan, special and secondary methods of distribution, public relations plans, clearance arrangements, employee relations and other technical business and office procedure matters.

Sutro & Co. Observes Ninetieth Anniversary

SAN FRANCISCO, CALIF. — Sutro & Co., 407 Montgomery Street, members of the New York and San Francisco Stock Exchanges and other leading exchanges, is observing the ninetieth anniversary of its founding in 1858. Its long history spans such outstanding milestones of Pacific Coast progress as the Gold Rush period, the Pony Express, and the five wars from the Civil War to World War II.

Two With Stix & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Leonard I. Smith and Charles A. White have been added to the staff of Stix & Co., 509 Olive Street, members of the St. Louis Stock Exchange.

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G. L. Cross Mun. Mgr. For Dreyfus & Co.

Dreyfus & Co., 50 Broadway, New York City, members of the New York Stock Exchange, announce the opening of a municipal bond department under the management of George L. Cross.

Mr. Cross, who has been in the investment business for many years in the past was manager of the municipal bond department for W. E. Hutton & Co.

John R. Dillon Dead

John Richard Dillon, former partner in Hayden, Stone & Co., died at the age of 58 after a long illness.

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W. T. Kitchen Joins Scherck, Richter Co.

ST. LOUIS, MO. — Scherck, Richter Company, Landreth Building, announces that W. T.

W. T. Kitchen

Kitchen has become associated with them in the St. Louis office. Mr. Kitchen was partner in the Chicago firm of Kitchen & Murphy.

Scherck, Richter Company also announces the installation of a direct private wire to Berwyn T. Moore & Company of Louisville.

Jones, Sinclair With Vilas & Hickey

Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock Exchange, announce that William H. Jones is now associated with them as manager of the Customers' Relations Department, and H. Howland Sinclair is with them in charge of industrial research.

Drew Celebrates 25 Years

Charles H. Drew & Co., 40 Wall Street, New York City, dealers and brokers in bonds and bank and insurance stocks, are this week celebrating their 25th anniversary.

Public Utility Securities

Oklahoma Gas & Electric

Oklahoma Gas & Electric has 890,000 shares of common stock outstanding, of which 750,000 are owned by Standard Gas & Electric and 140,000 by the public, the latter representing a new money offering at $39.50 a share in March, 1947. In connection with its dissolution program Standard Gas & Electric currently proposes to sell 400,000 shares (through a syndicate headed by First Boston and Merrill Lynch) and it is understood that the balance will be retained until a distribution of assets is made by Standard. The stock now sells over-counter around 34, and it appears unlikely that it will be listed until final distribution is made by Standard.

The company is engaged solely in the electric business, serving 225 communities and adjacent areas in Oklahoma and western Arkansas, plus wholesale business with 15 communities and 16 rural cooperatives. About 92% of revenues are obtained in Oklahoma and 8% in Arkansas. Oklahoma City accounts for about one-third of the company's business; Fort Smith and Muskogee are other important cities served.

Oklahoma has a well-balanced economic structure. It is both a major wheat and major cotton-producing state. An average growing season of 213 days and a wide variety of soils promote crop diversification. Several areas are particularly adapted to livestock grazing, and farm income is about equally divided between crops and livestock. The state is a leader in the production of oil, natural gas, lead and zinc; and it also produces coal, gypsum, cement, limestone, glass sand and other minerals. Principal industries are oil refining, meat packing, flour milling, food processing, metal smelting, cottonseed oil milling, and production of glass, oilfield machinery, furniture and building materials.

The company uses natural gas as fuel for about three-quarters of its requirements, but low-cost coal is also available—the state has some 55 billion tons available if natural gas reserves should be exhausted. The company is also able to buy some "dump" hydro power. As a result of cheap fuel the company's operating ratio last year was well below the U. S. average.

Of about $21 million revenues for the 12 months ended June 30, nearly 10% was from the oil industry, divided between well-pumping, pipeline operations and refinery operations. With well-pumping less than 3% of gross, the company does not seem vulnerable to any drop in oil production; refinery and pipeline operations should be more stable. While the state ranks fourth in actual production of oil, it is second in the discovery of new reserves.

Residential rates average about 3.73c and average residential usage is about 1,044 kwh. (These figures are less favorable than the U. S. averages for the reason that cheap natural gas is available for use with appliances.) Voluntary rates reductions were made in each of the years 1943-47. The return on the estimated rate base is about 6.6%, or 6.1% after allowance for estimated working capital. The company has enjoyed good relations with the State Commission and has had no rate cases in the past 25 years.

$3.66 per share on the common stock was earned in the year ended June 30, and calendar year earnings are estimated at $3.50 a share after allowance for the proposed sale of 89,000 shares of common stock for "new money." These earnings are stated before amortization of electric plant acquisition adjustments and preferred stock premiums, which is charged to earned surplus. The upward trend of earnings is expected to continue in 1949.

Regarding dividend policy, due to cash demands for construction proposes the current payout is only about 60% ($2.20 out of $3.66). With completion of a financing program next year, however, it is possible that the company might be more liberal.

Proposed new financing for construction will include issuance of common stock on a 1-for-10 subscription basis, sale of $14 million mortgage bonds next year, and issuance of $4.5 million notes to refund the present issue due at the end of 1949.

The stock at its current price around 34 returns a yield of about 6½%, and the price-earnings ratio is 9.3.

Doherty to Open Dept. For Rutberg & Co.

William Doherty, formerly of C. E. de Willers & Co., has become associated with Rutberg and Co., Inc., 31 Nassau Street, New York City, to open an unlisted securities trading department.

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Capital Outlays in 1948 Nearly $19 Billion

SEC and Commerce Department hold, however, peak of 1947 will not be exceeded.

American business, exclusive of agriculture, expects to spend a total of $9.6 billion in the second half of 1948 for the construction of new plant and the purchase of new equipment, according to the quarterly survey made public jointly today by the Securities and Exchange Commission and the Department of Commerce. Planned expenditures for the fourth quarter of 1948 are estimated at about $4.7 billion, $250 million lower than the actual expenditures for the last quarter of 1947 but much higher than the corresponding estimate of planned expenditures for that quarter made at this time a year ago. Ever since the fourth quarter of last year, when plant and equipment outlays reached an all-time high, they have remained relatively stable at their new peak except for seasonal influences.

Including outlays of $9.0 billion actually realized in the first half of the year, the $18.6 billion now estimated for total plant and equipment expenditures during 1948 is approximately the same as the preliminary estimate based on reports submitted by business early this year and $2.4 billion more than the 1947 total. Manufacturing companies expect to spend substantially more during 1948 than they had planned at the beginning of the year, as do electric and gas utilities and mining companies. On the other hand, railroads, other transportation companies, and commercial and miscellaneous companies expect to spend less than anticipated in their earlier reports.

The actual expenditures of $9 billion during the first half of this year are approximately the same as the amount spent by business for new plant and equipment in the last half of 1947 and considerably higher than the $7.1 billion of expenditures in the first half of 1947. The record expenditures of $9.6 billion planned for the second half of 1948 reflect some increases in costs over the same period of 1947, and probably indicate about the same physical amount of plant and equipment to be purchased by business.

Actual expenditures of $4.8 billion for the second quarter of 1948 were about $100 million larger than previously anticipated by all business. Similarly, the revised estimate of $4.9 billion of expenditures planned for the third quarter exceeds the original estimate by almost $400 million, with the manufacturing group accounting for $300 million of the change.

During the fourth quarter of 1948 manufacturing companies expect to spend somewhat less than in the third quarter, as do mining companies, transportation companies other than railroads, and commercial and miscellaneous companies. Railroads and electric and gas utilities, on the other hand, anticipate a larger amount of expenditures in the fourth quarter.

The above analysis is based on estimates of new plant and equipment expenditures for industry groups compiled by the Commission. The basic data for this release were derived from reports submitted by most corporations registered with the Commission and from a large sample of unregistered manufacturing companies, unincorporated as well as corporate, reporting to the Department of Commerce. The data, collected during the third quarter of 1948, included actual plant and equipment expenditures for the second quarter and anticipated expenditures for the third and fourth quarters. All figures presented in this release are estimates for the whole of American industry based on the sample data.

Foresees Million House Units Started This Year

Samuel E. Neel, Counsel for Mortgage Bankers Association of America, reports, because of higher interest rates, applications for mortgage insurance under FHA have increased, despite decline in veteran loans. Lauds Federal housing legislation of 80th Congress.

Samuel E. Neel, Washington, Counsel of Mortgage Bankers Association of America, in reporting on developments during the last year to the National Convention of the Association, expressed an optimistic view of trends in housing and mortgage lending under the terms of the revised housing legislation of the Special Session of the 80th Congress. In this report, Mr. Neel stated:

"From a period prior to 1945 when the mechanics and peculiarities of housing were subjects of interest only to technicians and members of the profession, we have come a long way to 1948 when the subject of housing appears with regularity on the front pages of newspapers and even becomes a main reason for a Special Session of Congress. In fact, in view of all the charges and counter-charges over housing, it is a matter of some astonishment that the last 12 months have gone by with so few real upsets and almost no radical changes in the Mortgage Banking Industry.

"We are still a private business—and a vigorous one—in spite of predictions to the contrary; and we are helping to produce housing at a rate more rapid than at any other period in our history.

"It was predicted by many that this year, 1948, was going to be the forerunner of a depression era eventually to sweep over the country, and that the construction industry was, in 1948, going to lead the way into this morass.

"The reverse has been true. It is true that in home building there has been a shift in emphasis from one program to another. Most noticable is the decline in the loans guaranteed or insured under the Servicemen's Readjustment Act and the increased volume of business done by FHA. But in all construction, and in the mortgage field particularly, the results of 1948 to date are remarkable. Mortgage recordings for the first five months of the year were higher than any other first five months on record. The total volume of nearly $4.7 billion was 7% higher than the similar period in 1947 and only slightly less than the volume of mortgages recorded in the entire year 1941.

"Throughout the year VA loan operations continued to fall off sharply. By June 1948, home applications were down to 30,199 from a high of 52,695 in June 1947. Loans closed also showed a similar decline with 29,780 loans closed for $150,606,000 in June 1948 vs. 47,638 for $293,733,000 in June 1947. Obviously this decline indicates not alone a lessening of demand, but also reluctance on the part of veteran purchasers to pay current purchase prices and further the unattractiveness of a 4% interest rate in a period of rising rates.

"That the interest rate is of great significance in this picture can be shown by the steady increase in the number of units covered by applications for mortgage insurance under FHA Section 203 in the same period when VA applications were declining. Units covered by FHA Section 203 applications for the first six months of 1948 totaled 60,384, well over twice the number of units in 203 applications for the last six months of 1947.

"1948 then looks like the banner year which will see a million housing units started.

"Over 90 bills concerning housing and home finance received some sort of attention during this last session of Congress. At various times it seemed either (a) that all mortgage lenders would shortly be completely out of business or, conversely, (b) that new liberalized forms of credit and government subsidies were practically free for the asking.

"None of this was calculated to put a lender in a particularly restful frame of mind. But it certainly indicates the usefulness of a reporting and legal office for the Association.

"Our industry remains in private hands and free to do business on a sound basis because our Association has, on frequent occasions, asserted itself vigorously and forthrightly on behalf of it members. Vigilance is still the price of liberty in domestic affairs as well as abroad."

Richard R. O'Neil Is With Edgerton, Wykoff

LOS ANGELES, CALIF.—Richard R. O'Neil has joined the trading department of Edgerton, Wykoff & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange. Mr. O'Neil was formerly manager of the trading department for Oscar F. Kraft & Co. and prior thereto was with Fairman & Co. and M. H. Lewis & Company.

Richard R. O'Neil

Pierce, Others Directors of Better Business Bureau

Edward Allen Pierce, a senior partner of Merrill Lynch, Pierce Fenner & Beane was elected as a Director of the Better Business Bureau of New York City, Inc. at its twenty-sixth annual meeting. Re-elected to the Board were:

James C. Auchincloss, Robert E. Blum, Louis Broide, Sheldon R. Coons, David M. Freudenthal, Edwin S. Friendly, Sylvan L. Freelich, Henry R. Hayes, William M. Holmes, Ralph E. Ladue, Elliott H. Lee, Mead A. Lewis, Edmund R. Livingston, William E. Robinson, William D. Scholle, H. Boardman Spalding, Arthur Stelzer, Bert L. Thompson, John C. Wood and John A. Zellers.

The report of the General Manager, which was submitted at the meeting, reveals that during the past year, the volume of Bureau service to the community has increased over 45%. One hundred additional business concerns have been elected to membership. The report also reveals the Bureau to be in sound financial condition.

Sheldon R. Coons, President of the Bureau, expressed gratification that the Bureau will, from now on, have the benefit of the services of Mr. Pierce. "He has for years," says Mr. Coons, "been an earnest advocate of investor education. His services will be invaluable to the Bureau in its various investor protective activities."

Railroad Securities

Day by day or even week by week price fluctuations of individual stocks mean little, or nothing, in markets of the type we have been having these past few months. The market as a whole has been almost entirely dominated by the developments abroad. In this atmosphere of fear, fundamentals have been disregarded. Price fluctuations are wide and sharp declines occur even with a complete absence of any real selling pressure. One stock acts worse than another, even of poorer quality, for no other apparent reason than that potential buyers are content to sit on the sidelines. Under such conditions it is difficult for the analyst to keep from being disappointed constantly.

One of the stocks that has been giving a sorry account of itself is Northern Pacific common, which earlier this year was being fairly widely recommended. There was presumably some disappointment over the fact that a more liberal dividend policy has not been adopted. In recent years the company has been making one distribution of $1 a share each year. These dividends have been declared at the November meetings, payable the beginning of February of the following year. It had been hoped in many quarters that the management might this year get around to a semi-annual basis, bringing the yearly rate to at least $2 a share. When this was not done the feeling grew that there was little hope that the one annual payment would be liberalized this year.

One element of strength in the Northern Pacific picture has been the set-up of its debt structure, with its lack of maturity problems. There is one small divisional of $1,000,000 due in 1968 and a Collateral Trust issue due in 1975. The latter, outstanding in the amount of $50,480,000 as of the end of last year, has a sinking fund, contingent on earnings, sufficient to retire the entire amount by maturity. The balance of the debt, aggregating roundly $192 million, has from 48 to 99 years to run to maturity. Obviously, this schedule is no deterrent to larger dividend disbursements. Nor is the road's financial condition. Net working capital as of the end of June stood close to $43 million.

Disappointment over the failure to pay a mid-year dividend hardly seems an adequate reason for the poor market action of the stock. Other rail issues that have not even been making any payments have fared better during this period. Basically, there appears to be no reason for the poorer-than-average action and on this basis many railroad analysts are again recommending that advantage be taken of the present opportunity to accumulate the stock. Even with only a $1 dividend the shares afford an attractive income return and that dividend, at least, seems well protected.

The road was not among the leaders in debt retirement at the outset of the high earnings period. The management elected first to build up its financial position and spend money on property and equipment additions and betterments. Nevertheless, considerable progress has been made in this respect in recent years. Also one lower coupon refunding operation was completed. As a result, fixed charges are down to an annual rate of less than $10.3 million compared with over $15 million in 1940. The saving is equivalent to $1.95 a share on the common stock, before Federal income taxes. The trend will naturally continue downward by virtue of the operation of the sinking fund on the Collateral 4½s.

Last year earnings on the stock amounted to $5.40 a share, compared with $3.58 in the preceding year and a ten year average of $3.81. Gross revenues for the first seven months of 1948 were somewhat higher than a year ago but expenses increased more rapidly with the result that common share earnings for the period declined about $1. Comparisons in the seasonally better months from now to the end of the year should be at least moderately more favorable. For the year as a whole, then, earnings should at least equal the 1947 showing. It is possible, depending on management policies with respect to non-operating income, that they may even be higher than those of last year.

Courts & Co. Admit Means, Nunnally, Sites

ATLANTA, GA. — James W. Means, McKee Nunnally and Frank B. Sites have been admitted as general partners in Courts & Co., 11 Marietta Street, N. W., members of the New York Stock Exchange, effective Sept. 23.

Mr. Means joins Courts & Co. from vice-presidency of the Trust Company of Georgia in charge of the investment department. He will manage the municipal department of Courts & Co. Under his direction, the company plans to expand facilities for serving institutional accounts. Mr. Means is chairman of the Southern Group of the Investment Bankers Association of America; chairman of the Southern Group's Municipal Committee, and a member of the Investment Bankers Association's National Municipal Securities Committee. With many years experience in institutional investment, he is one of the outstanding men in the municipal bond field. He had been associated with the Trust Company of Georgia since 1922.

Mr. Nunnally has been associated with Courts & Co. since 1941. He returned to the firm in 1946 in the brokerage department, following service in World War II with the Civil Air Patrol and the U. S. Navy.

Mr. Sites has been with Courts & Co. since 1928 in varying capacities, including manager of the Atlanta office. He has a wide background in investment securities, as well as the petroleum, creamery, and refrigeration industries.

The admission of new partners marks another step in a program of expansion recently inaugurated by Courts & Co. to augment facilities of its offices through the South, to supplement clearing operations and to service Eastern connections.

The firm recently moved its New York office to 52 Broadway, where larger space was available for more comprehensive facilities.

Courts & Co. has also installed a new system of clearing arrangements on some of the exchanges. Under the new system, orders are being carried directly from the company's offices to the floor of the New York Cotton Exchange, the New Orleans Cotton Exchange, and, for odd lots, directly to the floor of the New York Stock Exchange. This makes direct connections with the exchanges available to the South for the first time.

The Atlanta firm maintains branch offices in principal cities throughout the South.

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The Surrender to Inflation

(Continued from first page)
not stopped because the people who counted politically did not want to stop them."

He then went on to say:

"It is common knowledge that something of this kind is now going on in America. Our inflation problem is serious only because neither politicians nor the politically important interests take it seriously. In itself it is relatively easy to solve . . . (but) all really effective measures are unpopular.

"Any cure will inevitably produce what is more unpopular still, a temporary depression, because, so soon as inflation ceases, there will be readjustments in prices and production that will mean losses and unemployment, though neither need be serious. Everyone feels that and is afraid of it, especially in an election year. So inflation runs on by common consent."

Will We Continue This Drift?

The important question is whether we will continue this drift or whether we will arrest it.

It appears unprofitable at this stage of events, though it doubtless could be made interesting, to describe what forces, governmental policies and people have done most to bring about our present high prices and depreciated currency, what the various manifestations of this economic disease are, and who have been consistently correct in foreseeing these events and in issuing warnings that the course being pursued would lead us to our present difficulties, and, if not ended, should lead to still greater problems.

If the present voluntary surrender by the government and the enforced surrender of the people of the United States to high, and perhaps to higher, prices is to be brought to an end by the application of the best remedies thus far known, two facts must be established: (1) Who could stop the present drift into possible severe economic reaction, and (2) What are the proper steps to be taken insofar as present knowledge provides guidance?

Who Could Stop Our Drift With the Current?

Dr. Schumpeter has correctly placed the chief responsibility for our high prices on the people who count politically. It is also the politically important people, and they alone, who can end our lethargic drift. There is practically nothing significant that private enterprisers can do to combat high or rising prices generated by forces over which they have no direct or immediate control. What they do, and must attempt to do, is to respond to, and to protect themselves against, those forces as best they can.

The Proper Course to Follow

(1) One of the most fundamental steps that should be taken is the adoption of an honest monetary system. One does not find an honest money in an irredeemable paper currency and in a type of reserve structure in our central banking system in which the reserves cannot be paid out domestically.

Promises to pay are good and honorable only when redeemable, and redeemed, in things having intrinsic or objective value, such as gold or silver. These metals represent stored labor, they are relatively scarce and have many uses, the demand for them is persistent and worldwide. Promises to pay are merely matters of penmanship or the printing press, and their value tends, in the end, to be determined by their redeemability in metallic moneys which do not involve promises to pay but are themselves the embodiments of value.

Today, all our paper money, except silver certificates, is irredeemable. All our bank deposits are redeemable only in irredeemable paper money except in so far as silver and minor coin are employed. This is also true of the reserves of member banks of the Federal Reserve System. None of the reserves of the Federal Reserve banks can be paid out domestically.

Our Federal Reserve banks issue notes which they do not redeem, do not intend to redeem, and, under our laws, cannot redeem.

Aside from silver certificates, all paper money issued by our Treasury is irredeemable.

There is apparently no valid ground on which one may justify as an honest procedure the issuance of promises to pay which are irredeemable.

Similarly, there appears to be no valid defense for a reserve structure in a banking system in which the reserves cannot be paid out domestically or be used to redeem the promises against which these reserves are said to be held. It is paradoxical to describe as a reserve something that cannot be used.

Since the people of the United States have been unable to redeem their paper money and to draw down the reserves of gold in the Treasury and Federal Reserve banks, both institutions have been able to issue and to keep in circulation a much greater volume of promises to pay than would have been possible had they been redeemable. The banking system has been able to monetize a much greater portion of the Federal debt by the creation of deposits against it than otherwise would have been possible.

One result has been a pronounced depreciation in the value of our currency in terms of goods and services despite our great productive activity.

A return to an honest money system should have beneficial effects in arresting the depreciation of our currency.

The factor of increased confidence in our currency should serve to encourage production and to keep demands for redemption to a relatively low level.

But irrespective of what the demands for redemption might be, there cannot be valid arguments for not providing the people of the United States with an honest money and bank reserve system. Heavy demands for redemption are merely evidence that the people believe something is wrong with the promises of the banks or government. Such demands do not reveal a defect in a gold standard system; they are, rather, proof of its superior quality. If credit is properly managed, the gold standard functions well. But it is a taskmaster that compels men to keep their promises to pay within the limits of redeemability, even under highly adverse conditions.

We should take careful note of the fact that our government has granted to the Treasury and Reserve banks authority to issue promises to pay and at the same time has freed them from responsibility for redeeming their promises. This is a case of granting special privilege without exacting a corresponding and appropriate responsibility. Privilege without a corresponding responsibility apparently has no justification and does not conform to the best traditions of the people of the United States.

In the light of our experience as a nation, our gold stocks are more than adequate to permit resumption of gold redemption. The ratio between our gold and our paper money (omitting silver certificates) and deposits in Federal Reserve banks and all commercial and savings banks and trust companies was over 13% as of June 30, 1948. This compares with an average of less than 8% for the years 1915-1932, inclusive.

If the United States is ever to restore redemption of promises to pay, and thus return to standards of integrity in respect to the fulfillment of promises, now is a most favorable time in which to effect this much needed reform. The most favorable time was in 1940 when the ratio of gold to money and deposits was 25%.

In addition to restoration of a proper standard of integrity, such reform would end the discrimination against our people in favor of foreigners in the exercise of claims against our gold.

It should be an important factor in providing confidence in the future of our country because of the greater reliability of our medium of exchange.

It should invite the making of long-term commitments, a great and sustained production, and general economic health insofar as a good monetary system can contribute to these things.

It should act as an important brake on further issuance of promises to pay.

It should be an aid to foreign countries and an effective invitation to them to pursue a similar course.

It would restore to the people of the United States the controls over the public purse which they lost when they were improperly deprived of the right to require the Treasury and banks to redeem their promises to pay.

It should relieve, in high degree, the almost inescapable needs of Congressmen to yield to the demands of important pressure groups, with such great cost to the helpless taxpayer. There are thoughtful Congressmen who believe it hopeless to attempt to reduce Federal expenses in any important degree until Congressmen can be freed from the drives of the pressure groups which in recent years have held both Congressmen and taxpayers within their grip, and that the needed changes can only be effected by returning to the people that control over the public purse which a gold coin monetary system provides.

Reconstruction of Federal Fiscal Affairs

(2) Along with the restoration of redeemability of our money should come a reconstruction of the fiscal affairs of our Federal government.

(a) While market rates of interest are still low, the miscellaneous Federal debt—exempting much of the short-term debt in the form of Treasury certificates, bills, and possibly notes—should be funded in the form of a perpetual consolidated debt, similar to the British Consols, to bear an interest rate sufficiently high to induce nonbank savers and investing institutions to absorb most of it. They should have first opportunity to place their bids for it, after which the commercial and Federal Reserve banks might be allowed to absorb it in sums equal to their respective capital accounts plus, perhaps, for the commercial banks, half their time deposits. Allotments could be made by the Treasury and Federal Reserve authorities in accordance with some such principle as the one suggested here with such modifications as greater wisdom and the characteristics of our various financial institutions might indicate are necessary or desirable.

It seems reasonable to suppose that at an interest rate of 3% such funding could be accomplished, and that most of the long-term debt would be absorbed by nonbank savers and investors, thus reducing sharply the amount that would serve as a basis for the issuance and creation of money and deposits in commercial banks.

A higher interest rate would have great virtues: It would provide the people with another brake on the government's spending beyond the proper administration of the public debt. It would provide a better return to savers and inject a new and badly needed element of health into the incomes of hospitals, endowments, and other savers and investors who seek security in the use of their savings. Even this small increase from the present typical 2½ to 3% on long-term debt would not begin to repair the great damage done to this class of savers and investing institutions caused by the recent and current artificially low interest rates and currency depreciation arising chiefly from our government's fiscal and monetary policies and practices.

With the consolidated debt absorbed by real savers, taxes could then be reduced, provided government expenditures are contracted, and a further desired stimulus should, as a consequence, be given private initiative and productive activity.

As unexpected surpluses occur as a consequence of the underestimation of receipts as against expenses, the surplus should be used to retire a corresponding amount of the perpetual debt.

As between reducing taxes on private enterprise and reducing the national debt it seems reasonably clear that the greater social gain lies in tax reduction.

Federal Reserve Powers

(b) As a part of the reconstruction of the fiscal affairs of our Federal government, the Federal Reserve authorities and Reserve banks should be enabled to separate themselves more completely from the policies and activities of the United States Treasury and to return to their principal and basic peacetime functions of administering our central banking system as a commercial banking enterprise, accommodating agriculture, commerce, and industry as provided in the Federal Reserve Act.

It would seem, considering the nature and functions of the Federal Reserve System, that the approximately one dozen qualitative and quantitative instruments of credit control provided the Federal Reserve authorities should in the main be ample if used and used properly. These instruments are supposed to be used to promote harmonious relationships among the various segments and activities of our economy insofar as such instruments can accomplish such purposes and insofar as the Reserve authorities are able to ascertain how and when one or more of these instruments should be employed.

Apropos the Reserve Board's recent requests for new powers, it would seem that, under its power to refuse to extend credit to any member bank that is not proceeding in harmony with the best judgment of the Reserve authorities, these banks, individually and collectively, could be held in check. For example, a Reserve bank could refuse to make advances to, or rediscount for, any member bank that is lending too freely, for example, in the fields of consumption or mortgage credit, or is investing too heavily in government securities. It seems reasonably clear that this power is not being employed, at least not in any important way.

The recent grant of authority to increase reserve requirements of member banks of the Federal Reserve System probably points in the proper direction although the value of this authority is limited by the fact that member banks can enlarge their reserves quickly by selling government securities to the Reserve banks and by the further fact that general increases do not recognize the problems of individual banks and do not apply to nonmember banks.

Similarly, the revival of the specific authority of the Reserve Board to impose consumer credit controls adds to its conventional powers and will permit it to impose some apparently desirable restrictions not otherwise possible despite the authority of a Reserve bank to refuse to extend credit to any member bank whenever it sees fit.

The proposals to freeze government securities in banks as a "special reserve" appear to have little justification. The frozen assets would not be reserves; such a program would simply carry into still more extreme form our present system of so-called reserves which are not in any proper sense reserves because they cannot be paid out.

It would seem that the best plan is for the Reserve authorities to use direct pressures on member banks—that is, warnings, consultations, directions, and refusal to advance any Reserve credit unless these banks exercise caution, loan only for productive purposes, and keep mortgage, consumer, and all nonproductive loans at a minimum.

In times like these, particularly, there should be an unusually cautious use of credit in all lines of endeavor, and a steady increase, where possible, of margins of safety against all extensions of credit.

Both the Treasury and Reserve authorities should let interest rates find their natural levels.

Finally, in principle, the Reserve authorities are supposed to operate objectively and as an independent agency in the interests of the whole economy; it is not appropriate for them to act as an arm of the Administration to help promote its political fortunes.

Were these standards adhered to, the Reserve authorities should be able to accomplish much in promoting more harmonious relationships in our economy, in fostering real advances in commerce, agriculture, and industry, and in preventing a dilution, over-expansion, and depreciation of our currency.

But the administration of our banking and credit structure, even with the application by the Reserve authorities of the best principles known, can never be all that it could and should be until we have a unified banking structure. All banks should be made members of the Federal Reserve System and Federal Deposit Insurance Corporation.

Reduced Government Expenditures

(3) Government expenses should be cut radically. This can be done. Instead of an Administration defending the extravagant level at which they stand, it should go to work in earnest to eliminate all that are not definitely in the general interest. Those expenditures resulting from efforts to placate and to obtain support of pressure groups should be ended as promptly as possible except where the general welfare is clearly involved. In principle, every subsidy should be abolished except where matters of national defense are involved. All price-parity and price-maintenance laws should be repealed. There is no valid economic defense for those.

It probably is a good guess that all departments of government, excepting perhaps those of national defense at present, could cut staffs and expenses 50% and at the same time, if so disposed, maintain the same total efficiency and usefulness. Of course, the wastes in defense and war expenditures are notorious and they should be eliminated insofar as possible. Then the prevalent tendency to dissipate our national patrimony, to give away our real wealth, should be ended. Our national patrimony calls for preservation and enlargement, not dissipation.

(4) Taxes on both business and

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individuals should be cut sharply. The dollar retained by the person who earned it and who was compelled to meet the squeezing forces of costs and prices in open markets is more efficient in his hands than in those of government which escapes the requirements for efficiency and the pressures of costs, prices, and possible losses.

This can be illustrated in part by the fact that in 1928-1929, for example, when government spending was a relatively small portion of the spending in this nation, a billion dollars, chiefly in private hands, was doing approximately $45 billion worth of business per year, whereas after 1933, when government spending became a much larger proportion of our total spending, the velocity of deposit currency dropped rapidly and far, until in 1940, for example, a billion dollars was doing only $13 billion worth of business per year. This was at a time when the government was spending huge sums of money and after seven years of such spending. In other words, the dollar in the hands of private enterprise in the late 1920's was 3½ times more effective than was the dollar in 1940 when such a large proportion of the dollars spent was government dollars.

Since a dollar in government hands is a notoriously inefficient and non-productive dollar, tax cuts for the purpose of leaving every dollar possible in the hands of private enterprise are wise except, of course, where matters of national safety and of general welfare demand that the government use some of these dollars despite the general inefficiency of government activities.

In principle, tax reduction should be directed toward the encouragement of saving and investment in capital goods. It is a mistake for government to remove people in the lower income tax brackets from direct pressure of the income tax payments. Every adult income earner should have the experience of making out an income tax form and of contributing at least something in this manner toward government, since both experience and contribution should reduce his desires to ask the government to increase its expenditures. The fact is important that "Liberalism" in this country means little more, practically, than being liberal with other people's money.

Encouraging Private Enterprise

(5) A much healthier economic and social system should prevail and thus contribute much toward greater economic harmonies if the government were to do all things possible to encourage private enterprise and the operation of the forces of free and fair competition, if it were to regulate monopolies in accordance with the objective standards provided by free and fair competition, and if, in its efforts to advance the general welfare in those areas in which private enterprise cannot function, it were to make certain that it is operating in the interests of the people as whole, with their consent and approval, and in accordance with the same cost accounting principles employed by private enterprise. The attempts to establish a governmentally managed economy and a governmentally managed, irredeemable paper money have contributed much to high prices and to a depreciated currency, and should be ended. The simple fact should be faced that a governmentally managed economy is destructive in nature and leads rapidly to economic and social retrogression. At no time should the government, because of its general inefficiency, attempt to do what private enterprise can and will do. The government operates best as a regulator of private enterprise: it should not attempt to manage it or to compete with it.

Pursuit of the recommended course should bring greater economy in the government's use of the people's wealth, greater productivity and greater harmony in our economic and social system, and it should reduce its tendency to contribute so much to high prices.

(6) Attacks on symptoms, rather than a study of causal factors and the employment of programs that deal properly with causes, should be abandoned. Such procedures as price fixing and rationing in times of peace are improper and injurious.

Prices are usually high because the demand is relatively great as against the available supplies. The correct procedure lies in analyzing accurately the factors causing this inordinate demand and those responsible for the relative scarcities of goods and services. The next step is to see how demand can be decreased and supply increased. The government has done, and still is doing, much to enlarge this demand beyond what it otherwise would be while it condemns high prices. It has done, and still is doing, many things that interfere with greater and better production. The distortion between demand and supply has been aggravated greatly by the government's dilution, expansion and depreciation of this nation's money.

The resulting symptoms naturally revealed in the form of high prices should not be attacked as causal factors. Price symptoms are guides to people; and one of the best cures for high prices is high prices. To attempt to remove this fine indicator and helpful cure of the underlying causal factors is merely to remove the reliable guide, to create confusion, and to make matters worse. All this is an old, familiar story, and government officials should not for a moment suppose that they can with impunity ignore its validity.

(7) It is useless to expect private enterprisers to do much, in the corrective sense, regarding great demand, relative scarcities, and high prices.

Most of the factors causing high prices and responsible for our depreciated currency lie outside the private enterprise system. They lie chiefly with the government and the central banking authorities, and it is from them that the major correctives must come.

About all that concerned businessmen can do constructively, aside from running their businesses as best they can in the face of the forces with which they are confronted, is to determine to the best of their ability what the proper course is for the Federal Government and Reserve authorities to pursue and then to urge that they follow it. No individual business, no matter how large, and probably no large group of businesses, could accomplish anything important by cutting prices, or by doing anything else of that general nature. The job of the individual businessman is to watch the signals, to interpret them, and to respond as best he can to them while estimating what the next ones are to be.

Claims by large associations of businessmen that they can combat high prices or overcome a depreciating currency or prevent a business recession and heavy unemployment are without any foundation in fact so long as the major causes of the great demand and relative scarcities of goods and services originate in governmental policies and actions.

The individual businessman and representatives of groups of producers can, of course, cease running to Washington for subsidies and other favors—and they should end this practice if they really believe in the virtues of the private enterprise competitive system, and if they wish to contribute something directly to the reduction in governmental expenses.

The voluntary credit control program of the American Bankers Association has positive virtues, but the fact still remains, apparently, that its success will be limited because of the weakness in self admonition. Therefore, it must be supplemented by other programs of the type suggested here in which outside authority can compel obedience.

Will Our Federal Government Take the Proper Course?

If the preceding analysis is accurate then it naturally follows that the course pursued and recommended by our present Federal Administration is wrong in most of its principal features. It seems reasonable to suppose that if the present Administration should be returned to power the same general course would be recommended and followed unless Congress should be strong enough and wise enough to override those so-called corrective recommendations of the type that have been offered by the present Administration in respect to the current inordinate demand, relative scarcities of goods and services, high prices, a good currency, appropriate central banking practice, good management of our nation's fiscal affairs, and the proper relation of government to private enterprise.

The next question is what a Republican Administration and Congress would do should both be elected. It would seem to follow, as a matter of course, if the proposed program outlined here is correct, that to the extent the Republicans should deviate from it, they too would be inflicting injury upon the people of this country.

What We May Expect

If it be assumed that the program recommended here is the best that can be produced, and if it be assumed further that the Republicans follow it, the question arises as to what we may expect the consequences to be.

Will such a program cause or invite a business recession, or will it prevent it?

The answer would seem to be this: The act of arresting the diseases in our midst must of necessity, it would seem, bring some changes and readjustments. Experience suggests that these changes should be less severe than if the present unsound forces were permitted to run their natural course, and that economic health should be restored more promptly and with less distress than otherwise should be expected.

The effects upon the patient of a change from a doctor with an outwardly sympathetic bedside manner, who has given pacifying and somewhat intoxicating pills and has endeavored to say what he has supposed the patient wished to hear, to a competent physician who will tell the patient precisely what ails him, what the proper treatment is and is going to be, and that it will hurt in many respects, depend, apparently, upon the quality of the patient. If he has pluck, initiative, self-reliance, self-respect, and ambition, he should respond well. If these qualities have been seriously impaired by the doctor who has preceded, then the reaction might be surprisingly sharp.

But whatever the patient's reaction may be, the need for an experienced, honest, and stern, but understanding, physician is necessary. The need is for a competent surgeon who knows the sources of our ills and will cut through to them and drain away the accumulated poisons.

The people of the United States need badly to be told the harsh truth and nothing but the truth. They need statesmanship in lieu of the evasions and deceptions of the politician who is willing to engage in personal profteering at the expense of the general welfare.

There are few if any questions as important to the welfare of this nation, aside from those of war and peace, as those involving provision for a sound currency, the institution of correct methods of managing our fiscal affairs, the attainment of the proper relation of government to private enterprise, and the others treated so inadequately here.

It will be a fortunate day for the people of the United States if in this political campaign it should become clear that we have at least one Presidential candidate who will avoid the role of deception and substitute for it straight, honest, and informed explanation, and if out of such a campaign the people should elect as President an honest, tough surgeon who will proceed to do the things that need to be done though they make us temporarily uncomfortable.

It seems reasonably clear that only in this way can we expect to bring to an end our surrender to inflation and to start ourselves on the better course which leads to greater economic and social health and prosperity.

Private Industry Can Provide Economically Sound Housing

(Continued from page 19)

If the program still contemplated by our present Federal Government and some of our widespread public housers ever gets under way the magnitude of Federally financed housing projects will compare with the public housing built so far as a tiny ripple compares to a tidal wave.

Private Industry Can Provide Sound Housing

Private industry is committed to provide all the economically sound housing needed and there is every indication that within a comparatively reasonable time increased production of building materials of all kinds and the availability of such materials in the traditionally free and competitive market will substantially contribute to lower construction costs and stimulate building. The promised and hoped-for increased productivity of labor will in turn accelerate construction and contribute in reducing costs. As I have before suggested, the realistic modernization of building codes, too, is of critical importance.

The accomplishments of the construction industry in 1947 and to date in 1948 are now a matter of record—an amazing record, I assert, on the part of private industry to supply on a sound economic basis critically needed housing. The pace of the almost unbelievable high record of new construction will, from all present indications, continue and will provide positive and conclusive evidence of the capacity of private industry under the private enterprise system to meet the demands for housing.

You are fully informed, I know, of the current availability of mortgage credit and of prevailing interest rates. You know, too, that after an unwarranted extended period when interest rates were artificially fixed, interest rates during the past 10 months have, by virtue of the law of supply and demand exercising its influence, risen so that mortgage moneys continue to be readily available for all economically sound realty projects. If interest rates on mortgage credit are free of artificial controls and a competitive money market prevails, I know you will agree that we as mortgage bankers, whether we directly or indirectly invest in mortgages, can and will supply all the needed and justifiable mortgage credit.

I consider myself singularly fortunate to have been the President of your Association—an Association which commands the respect and enjoys the confidence of other trade associations engaged in producing and marketing real estate. Your Association, too, is most highly regarded and its advice is frequently sought by governmental agencies charged with the responsibility of supplying insurance to mortgage lenders who are constantly and actively engaged in sincere and effective efforts in supplying the credit which plays such a vital role in our national housing program.

As President of the Mortgage Bankers Association of America, I have had no delusions as to my position. I was not its sole policy-maker. I was not its sole spokesman. I regarded myself simply as its temporary chief administrative officer, directed and guided in my activities by a most serious and capable board of governors comprised of 58 conscientious mortgage bankers whose primary objective has been to serve the membership of the Association in a way which would contribute to the continued sound development of the mortgage credit industry.

COMING EVENTS

In Investment Field

Sept. 30-Oct. 1, 1948 (Boston, Mass.)
Board of Governors of Association of Stock Exchange Firms Fall Meeting at Copley-Plaza.

Oct. 1-2, 1948 (Chicago, Ill.)
Midwest regional exchanges preliminary meeting to discuss consolidation.

Oct. 1, 1948 (Cleveland, Ohio).
Bond Club of Cleveland Fall Party at the Kirtland Club.

Oct. 11, 1948 (St. Louis, Mo.)
Tentative date for annual election party of Security Traders Club of St. Louis.

Nov. 13, 1948 (Chicago, Ill.)
Bond Traders Club of Chicago Luncheon for members of NSTA passing through Chicago on way to the Convention.

Nov. 14-18, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

Nov. 18, 1948 (New Orleans, La.)
New Orleans Security Traders Association entertainment for delegates coming from NSTA Convention—details to be announced later.

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

Dempsey-Tegeler Co. Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Joseph L. Rehme, Jr. has become affiliated with Dempsey-Tegeler & Co., 407 North Eighth Street, members of the New York and St. Louis Stock Exchanges. He was previously with the Mississippi Valley Trust Company.

With Charles E. Bailey Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Roland T. Chickering has become associated with Charles E. Bailey & Co., Penobscot Building, members of the Detroit Stock Exchange. In the past he was with J. E. White & Co., and Martin, Smith & Co.

Joins Lincoln McRae

(Special to THE FINANCIAL CHRONICLE)

ROCKLAND, MAINE — Carl D. Griffith has joined the staff of Lincoln E. McRae, 449 Maine St.

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A "New Look" in Oil

(Continued from first page)

more and better gasoline to meet the growing needs of a nation on wheels. Today it becomes increasingly clear that people expect us to take a bigger share in the biggest job we have ever had. We are called upon supply energy for the growing needs of civilization as a whole.

During the past thirty-five years the steady rise in the use of machines of all kinds has pushed the world's total consumption of energy up almost 70%. Today, more than 79,000 trillion B. t. u. are needed each year to keep the world running.

Coal has traditionally been the world's main source of energy. But now oil and natural gas are dramatically challenging the position of coal as the major energy supplier. Coal supplied 76% of the world's energy requirements at the end of World War I. At the end of World War II the proportion supplied by coal had dropped to 57%. In this country, which enjoys incomparably higher standards of living than the world at large, oil consumption is much higher. Today oil and natural gas provide more of this nation's energy than coal — a phenomenal fact.

Even a passing reflection on the amount of energy the world will require, as standards of living increase, shows the size of the job ahead for the oil industry. Let us look at the present distribution of energy uses in our own country. And by energy I mean that from all sources—coal, water power, natural gas, petroleum and all others.

It surprises many people to learn that the multitudes of automobiles, trucks and busses which crowd our city streets and highways are not the largest consumers of energy in our country. They use only 10% of the nation's total energy consumption. Our great network of railroads, spanning the continent from coast to coast and border to border, utilizes no more than 11% of the nation's energy. Our merchant ships take just 2%. All of the planes which dot our skies — commercial, private, and military together — consume less than 1%.

Three other groups are the really big energy consumers in the United States. One of these consists of our public utility companies, producers of electricity and manufactured gas. In total this group accounts for some 37% of the nation's total energy consumption.

Another major group comprises mostly those who use energy in the manufacture of a wide range of industrial products. This accounts for some 16% of the nation's total use of energy.

The third major group, and one of growing interest to all of us here, is that which uses energy primarily to heat enclosed space. For the most part, this group comprises the American home owner and apartment dweller. In heating their dwelling and working places these people account for 24% of the nation's total energy consumption.

Oil as Source of Energy

Our concern is principally with the use of oil as a source of energy. Consumption of oil by all these last three major classifications has expanded to such a point that today practically none of the components of crude oil can be regarded as by-products. For example, as is well known to most refiners, it is burning oils as a group that have been relentlessly crowding gasoline's position as the principal end product of petroleum. The use of oil for space heating alone has gone up nearly one-half in just the past two years to reach an estimated annual consumption of more than 320,000,000 barrels. Space heating represents now some 16% of the nation's total petroleum consumption.

In reviewing important uses of petroleum we should, of course, not forget the lubricants and particularly chemicals being derived increasingly from that source. While these do not consume a large per cent of the total petroleum production, they have increased markedly not only in volume but in their economic importance as valuable and useful products.

A full realization of the implication of this rapid expansion of the outlets of petroleum shows that some pretty basic new concepts of our business are being formed.

Possibly the first of these is that, at least for some time to come, there is little likelihood of our again having a lot more to sell than our existing customers can readily consume. For years all of us have tried to find new outlets and work out more economical ways of disposing of products for which demand seemed far short of supply. Now we find ourselves faced with the fact that practically everything we have to sell has a ready market. We are being pressed on every hand to meet growing needs for all of our products. The talk of "shortages" was understandable during the war periods. But this situation has extended far into the peacetime period. Not until the last few months could we see definite evidence of working our way out, and this only by breaking record after record in production and supply, and with little prospect for any let-down.

Here, then, to begin with, is a new area of thought for us—one in which our conduct will be of great importance. Of course our major job, and one which the industry is tackling in a manner that should make all of us proud, is to go at the supply situation hammer and tongs, and continue to do the very best we can to lick it and keep it licked. The progress already made in the face of what seemed insurmountable obstacles has been little short of extraordinary.

We have been witnessing an outstanding example of what a free, competitive, responsible industry can do in the face of a public need. In this striving to expand supplies, though, we cannot be forgetful of the fact that apprehensive and in many cases critical eyes are focused on us. The possibility of our falling short of needs has become a matter of great public concern.

To the public, a shortage is a shortage. They do not think in terms of "tight supplies" and "local situations." Last Winter gave us an excellent example of how apprehensions on the part of consumers can rapidly mount into a crisis. The opinion polls show clearly that far more people claimed they had suffered real hardship than could possibly have been seriously short of fuel. This experience taught us how important it is to find ways, somehow, to maintain at least the minimum margin of supply over demand necessary to keep distribution facilities working smoothly.

Trend from Coal to Oil Cannot Continue

As major contributors to the basic energy supply of the country, we cannot fail to consider the changing relationships between principal energy sources. Plainly, the trend of the last two decades from coal toward oil and gas cannot continue indefinitely, especially since our ultimate resources of coal are much greater than of oil. The increasing penetration of oil into the broad energy field is certain to bring about new price relationships reflecting the competition between energy sources and the available supplies. The effect of rising prices in slowing the trend from coal to oil has already been felt. The development of the economic relationships between coal, oil, natural gas and other energy sources—not to forget nuclear fission—lies ahead. It will surely have new and important effects on our business. In the ultimate economic picture, of course, lies the part to be played by liquid fuels synthesized from coal and shale. They are technically possible today, but are still beyond our economic reach.

In the change from a situation where supply was greater than current demand to one where potential demand is greater than the readily available supply, we are subjected in many cases to completely new economic conditions.

There could be a tendency, for example, to take advantage of a short supply situation and let the prices of our raw materials and of our products get into an inflationary spiral. To their credit, it seems to me that great restraint has been displayed by most of the units in the industry. In this they have shown their concern for enduring consumer goodwill. Obviously, there is no way of evading the impelling pressure of prices when consumers insist on and readily offer to pay more for products which they find hard to get. Basic economic laws are bound to be the ultimate controlling factors in any situation depending upon relationship between supply and demand. The danger, however, is that of prices getting into a series of spurts and collapses. This would bring about serious dislocations in the industry, together with public criticism, loss of confidence, and regulation of one sort or another. The three factors of supply, demand and price are obviously inter-connected and are in dynamic movement relative to one another. Let us hope, though, that the equilibrium will be reached by sound, orderly progress, rather than through wild swings and stifling controls.

Must Push Ahead With Research

Another danger in this new situation would be to relax in the activities which have pushed our industry ahead. Our industry cannot risk the loss of confidence which would result if we failed to push forward soundly in the field of product quality, development of new products, and new applications of old products. We cannot relax in our expenditures and efforts in scientific research of all kinds.

The growth of the industry has been based on aggressive progress, and active competition in all lines of our work. Increasingly we are competing, not only among ourselves, but with other industries. Obviously that competition is not manifested by price alone. The quality of our products and the service with which we provide them will be no less important in this growing inter-industry competition than they have been as we worked to hold and gain business in the oil energy field itself. This industry cannot relax in its tradition of quality, service and economy.

Oil Importing

There is another basically important part of this "new look" in our industry. This year we seem to be making the change, on balance, from an oil exporting to an oil importing nation. To date, this country has supplied 60% of all the oil used in the world. Our country is still overwhelmingly the greatest consumer and producer of oil. But recently the country's needs have been rising faster at times than it has seemed possible to increase our capacity to produce oil economically and without undue waste. And demands for oil world-wide have been swelling at a rate even greater than here.

Gradually the amounts exported from the U. S. have decreased and the amounts imported have increased. Last year only a trickle, in net amount, went abroad. This year, so far, that trickle has reversed. Despite the greatest projected activity and expansion in our domestic industry ever visualized, that inward trickle seems likely to persist and enlarge. The U. S., like all other major industrial nations, is now a net importer of oil. Oil developed abroad has a new significance—the more of it there is, the less pressure there will be on us to supply the needs of other nations, and the more of it will be available here to help meet our own nation's mounting needs for oil.

The U. S. oil industry has crossed the bridge of possible isolationism. Today we are becoming dependent on the rest of the world, even as they are dependent on us. With the oil business truly a world business, American oil men will be increasingly engaged in activities in many foreign countries. Perhaps more than any other commercial representatives, U. S. oil men are becoming the industrial ambassadors of our country. They will have an increasingly important effect on the regard for and understanding of our country abroad.

There is still another aspect of great importance in this "new look." Clearly, we are well into an age of great technological activity—activity which may be of high significance to every one of us exercising management responsibilities in our business. Let us accept the premise that there will be a widening margin between consumer demand in this country and our ability to find, develop, produce, and refine petroleum with maximum efficiency and without excessive waste. Plainly, then, the pressure for more efficient producing and refining equipment of all kinds, and for ways in which our products can be used more efficiently, will be greatly intensified. Very large sums of money will be spent in coming years for new equipment of all kinds. Here, perhaps, will be involved the greatest test we operators have ever faced. Our individual abilities to hold our competitive positions, and the nation's ability as a whole to produce and use oil products ever more efficiently, will be dependent upon the degree of technical skill which can be achieved in the design, installation and operation of that new equipment.

The widening technological field extends even beyond these familiar avenues toward expansion of natural petroleum supplies. More and more frequently today we hear of synthetic oil plants to supplement, from natural gas, coal and oil shale, our domestic natural petroleum supplies.

Synthetic Oil Products

Few people seem to realize, however, that supplying any quantity of synthetic oil products from natural gas, from coal, or from oil shale would be, by any standards, a mammoth industrial undertaking. The millions of dollars which have already been spent by this industry in research, and in pilot plant operations in the synthetic field, are probably small in comparison to expenditures which will still be made by the industry before these processes can approach commercial realities. The technical possibilities of these processes are proven beyond doubt. The economic possibilities, unless cost and material requirements can be substantially reduced, or unless subsidies are provided, seem still beyond reach for other than possibly a few local areas. But once the cost limitations are overcome, either through process improvements or through general economic developments, a whole range of technical problems lies beyond. We will face questions of location, construction, and operation of giant plants which will constitute a whole new industry.

Such technological problems are inspiring. It is hard to imagine a field of greater activity and endeavor—or one of greater potential achievement. Bear in mind, too, that our technical activities extend into fields which the public does not ordinarily associate with ours. In the past we have played an important part in improving the efficiency of consuming equipment — automobile engines, jet propulsion engines, oil burners, prime movers and the like. The possibilities in improved efficiency in use of oil products are so great that these efforts must continue and expand.

Responsibility of Industry to Public

But there is still another feature of our new look. It is just as important as all the others. I might call it the growing consciousness of responsibility by our industry toward the public as a whole. Most of us have grown up in the oil business. Not many of us have stopped long enough to gain a perspective on the really broad significance of this business we are in. We accept as a matter of course the fact that ours is the largest industry in our country—second in investment only to that of agriculture itself. But that is enormously important especially when we realize that ours is growing at a rate far greater than any other major industry in the world.

With this size and importance come responsibilities extending beyond simple business or economic considerations. The eyes of the world are focused today on the oil industry. How well it meets its responsibilities toward people everywhere will determine, in large measure, the degree of freedom which the industry will continue to enjoy in the conduct of its affairs. So far, the American oil business has been an outstanding example of the benefits of free, aggressive, competitive enterprise. It has accomplished, on its own initiative, things which certainly would have been far beyond the comprehension of a state or government planner. These things it has done in the ordinary course of its business. In doing so it has not only met the phenomenally rising demands for oil, but has supplied continually better products at continually lower costs in relation to other basic commodities.

All of us want the industry to continue as an outstanding example of what free men, with incentive and encouragement, can do. But its continuance on such a basis depends very largely on how well we succeed, not alone in our material achievements, but in gaining and holding the confidence of people everywhere. We must continually demonstrate that our kind of business does more good for more people than any of the substitutes for competitive, private enterprise which are devised or proposed.

The petroleum industry is one of the greatest industrial forces for good in the world. I am confident that it will continue to be just that. But it must be done through the continuing exercise of the aggressive, competitive methods which have characterized it from its beginning.

What Standard Oil Is Doing

In the case of my own company, most of you know the policies we have adopted and of our activities in meeting the present problems and those we see ahead. Just to summarize:

First, we are expending our maximum efforts within the U. S. to find, produce and refine more oil for our customers. We have the greatest possible confidence in the long term, healthy, progressive, expanding future for the U. S. domestic oil industry and all of its branches.

Second, we are making heavy

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investments and substantially expanding our efforts to find and develop crude oil production abroad, and to refine it and transport it to those areas where rising needs are bringing heavy pressures for greater supplies of oil products. We are doing this because of our conviction that the problem of oil is worldwide. We are convinced that people all over the world need and are insistent upon having increasing supplies of oil. No one area can for any period of time advance itself in the use and benefits of oil if it is done to the detriment of other people. The only answer to insistent pressures for greater consumption of oil is a greater supply of oil.

Third, we are spending large sums of money in extensive and continuing research. We believe the promise of technology in its benefits for people everywhere is far greater today than it ever has been. We are determined to keep ourselves ahead of needs and developments in these fields.

Of course these are competitive efforts. We know we are competing tooth and nail with everyone of your in some or all of our fields of activity. We know, too, that some of you are going to do a better job in some of these things than we. We hope you will; because that is how we all gain from aggressive competition. Everyone benefits—our industry, our consumers, our stockholders, and the public at large.

In my feeling that the oil industry is one of the great industrial forces in the world, I have in mind, too, the fact that our industry can be one of the potent forces to aid in bringing peace to the world.

The development of better living standards everywhere is one of the cornerstones of world peace. With them come more hopeful conditions of manufacture and trade—of agriculture and industry and transportation. But better living standards depend, in large measure, upon adequate supplies of oil. With expanding supplies of oil products can, and I believe will, come significant progress in the satisfaction of the basic wants of people everywhere. As these wants are met the conditions of dissatisfaction which are the breeding ground for war are lessened. I cannot say that an able, effective oil industry world-wide will bring world peace. But with our contribution to better living the course toward peace is more comprehensible.

These are all elements of the "new look" in the oil business. I think we should all take heart in them. They should give us great inspiration to drive forward. Nothing has ever been too much for this industry. We are used to getting things done.

With Daniel F. Rice & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Russell J. St. Clair has become associated with Daniel F. Rice & Co., Board of Trade Building, members of the New York and Chicago Stock Exchanges.

Joins Sills Minton Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Walter F. Kusay has been added to the staff of Sills, Minton & Co., Inc., 209 South La Salle Street, members of the Chicago Stock Exchange.

Joins Herrick Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—James R. Nugent is now with Herrick, Waddell & Reed, Inc., 1012 Baltimore Avenue.

With W. H. Heagerty & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA.—Oscar J. Cordray has been added to the staff of W. H. Heagerty & Co., Florida Theatre Building.

The State of Trade and Industry

(Continued from page 5)

duced this year—an increase of 85% over 1939 and more than was produced in the peak year of 1944.

Steel ingot production, this trade authority points out, will approach 88,000,000 tons this year, or about 1,500,000 tons less than 1944, an all-time record. But ingot output is no longer the real story. Finished steel output tells more. A greater part of the steel ingot is finding its way into finished steel products. That's why this year will be a banner one and next year much more so.

Part of the credit for the increased percentage of the ingot going into finished steel belongs to the converter, the magazine adds, since had it not been for large and small companies which bought ingots and took them elsewhere for conversion into finished steel items, less steel would have been available. Conversion is now a big business since it has shown how available equipment in one area can process products from other districts.

Furnaces now on order, being modernized or in the planning stage, will add at least 750,000 tons to electric furnace annual steel capacity before the end of 1949.

There is no slackening in steel demand anywhere. Some large steel buyers are so wrought up over the possible breakdown of voluntary allocations, "The Iron Age" concludes, that they are increasing their conversion deals—where possible.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 96.4% of capacity for the week beginning Sept. 27, 1948, the highest since the week of May 24 when the rate was 96.8%. A month ago the indicated rate was 95.2%.

This week's operating rate is equivalent to 1,737,600 tons of steel ingots and castings compared to 1,732,200 tons one week ago, 1,716,000 tons a month ago, 1,651,900 tons, or 94.4% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

ELECTRIC OUTPUT MAKES FURTHER GAINS

The amount of electrical energy distributed by the electric light and power industry for the week ended Sept. 25, was 5,460,609,000 kwh., according to the Edison Electric Institute. This was an increase of 34,362,000 kwh. over output in the preceding week, and an increase of 504,194,000 kwh., or 10.2% higher than the figure reported for the week ended Sept. 27, 1947. It was also 942,735,000 kwh. in excess of the output reported for the corresponding period two years ago.

CAR LOADINGS SHOW GOOD RECOVERY AFTER HOLIDAY WEEK

Loadings of revenue freight for the week ended Sept. 18, 1948, totaled 909,733 cars, according to the Association of American Railroads. This was an increase of 121,033 cars, or 15.3% above the preceding week this year, which included the Labor Day holiday, but a decrease of 21,339 cars, or 2.3% under the corresponding week in 1947. However, when compared with the similar period in 1946 an increase of 10,681 cars, or 1.2% is shown.

AUTO OUTPUT HIGHER AND INDUSTRY'S PROSPECTS BRIGHTEN AS STRIKE ENDS

Production of cars and trucks in the United States and Canada increased to 97,424 units from 94,410 (revised) units the previous week, according to "Ward's Automotive Reports."

With partial resumption of operations by Chrysler divisions on Friday, last, Ward's estimated that production of 45,000 cars was lost to the industry as a result of Briggs Manufacturing Co.'s plant guards' strike, which was finally settled Thursday.

Output in the similar period a year ago was 106,894 units a year ago and 77,035 units in the like period of 1941.

This week's output consisted of 66,499 cars and 24,740 trucks made in the United States and 3,944 cars and 2,241 trucks made in Canada.

BUSINESS FAILURES ADVANCE IN LATEST WEEK

Commercial and industrial failures rose to 101 in the week ending Sept. 23 from 84 in the preceding week, reports Dun & Bradstreet, Inc. This compared with 77 in the corresponding week of 1947 and with 28 in 1946. It was below the prewar level; total failures were 264 in the comparable 1939 week.

Failures involving liabilities of $5,000 or more numbered 79 compared with 71 last week and 65 a year ago. Six had liabilities in excess of $100,000 with two above $1,000,000. Small failures with liabilities under $5,000 rose to 22 from 13.

Retailing failures were the greatest in number at 52, followed by manufacturing with 21. Eleven casualties in wholesaling and less than 10 each in construction and commercial service.

The Middle Atlantic States reported 32 failures, or about one-third of the week's total number; this was almost two times as many as a year ago.

WHOLESALE FOOD PRICE INDEX OFF SHARPLY FOLLOWING MODERATE RISE

The general trend in foods was downward last week in contrast to the upward movement of a week ago. The Dun & Bradstreet wholesale food price index recorded a 13-cent drop to $6.82 on Sept. 21, from $6.95 a week previous, bringing the current level to the lowest since April 27, when it stood at $6.76. This week's index shows a decrease of 1.3% from the $6.91 of a year ago when the trend in foods was also sharply lower.

WHOLESALE COMMODITY PRICE INDEX SHOWS DOWNWARD TREND FOR WEEK

Following a slight upturn early in the preceding week, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., moved steadily lower during the remainder of the period to close at 278.72 on Sept. 21. This compared with 280.78 on Sept. 14 and with 278.66 at this time a year ago.

Movements in leading grain markets were mixed. Liquidation and wide fluctuations continued in the September corn contract which declined sharply for the week. Demand for cash corn was limited and prices also fell sharply from a week ago. Wheat was firm and prices rose moderately, aided by a continuing brisk demand for cash wheat by the CCC. Milling demand for cash wheat was only fair, reflecting slow domestic demand for flour. Lard prices were easier in sympathy with weakness in cottonseed oil. Hog prices, on the other hand, displayed a firmer tone, while steers and lambs trended lower.

Cotton markets were somewhat irregular last week with price movements continuing in a narrow range.

Spot quotations averaged higher during most of the period but turned downward in late dealings and closed with slight net losses for the week. Although the movement of cotton into the 1948 loan stock continued to expand, farmers in some areas were reported to be selling more freely.

Total sales in the 10 spot markets increased sharply to 155,800 bales last week, from 107,500 bales in the preceding week. Volume, however, was considerably under the 198,400 bales reported sold in the corresponding week a year ago. Domestic consumption of the staple, according to the Bureau of the Census, rose from 628,000 bales in July to 729,000 bales in August, which compared with 713,000 in August, 1947. On a daily basis, however, consumption in August averaged 33,100 bales. Although up from the July rate of 29,900, this was slightly less than the August, 1947, average of 34,000 bales, due to the fact that there was one more working day this year.

Volume of trading in the Boston raw wool market remained very small and quotations continued nominally firm. Small weights of apparel wools for piecing out purposes were reported sold. In foreign wool auctions, prices were easier for good fleece wools, with United States buyers continuing to show little interest. Imports of apparel wools received at Boston, New York and Philadelphia in the week ended Sept. 10 declined to 1,727,100 clean pounds, from 5,693,-800 the week previous.

RETAIL AND WHOLESALE TRADE MAINTAINED AT HIGH RATE —QUALITY AND MODERATE-PRICED GOODS SOUGHT

The volume of retail trade in the past week was slightly above the level of the preceding week and moderately above that of the corresponding week a year ago, Dun & Bradstreet, Inc., reports in its current summary of trade. Resistance to high-priced merchandise and insistence on quality continued to characterize consumer purchasing.

Continued cool weather in many parts of the country favorably affected consumer response to promotions of Fall merchandise.

Consumer interest in Fall and Winter apparel increased moderately. Women's Fall suits and dresses continued to receive considerable attention in many localities. Women's tweed and sueded wool coats were very popular along with zip-in lined coats which remained in large demand. Consumer purchases of furs were limited. There was some increased demand for men's coats and suits with worsted and gabardine the favored materials. Men's furnishings were generally in larger demand than a week ago.

Retail food volume increased slightly during the week. While the demand for fresh fruits and vegetables varied considerably in different localities, the over-all demand compared favorably with that of the preceding week.

There was a moderately increased demand for meats with less expensive meat cuts continuing to be favored.

Meat and butter substitutes were frequently requested. The retail volume of canned and frozen foods rose moderately in many parts of the country.

Consumer demand for furniture and household appliances was slightly above last week's level. Instalment purchases increased moderately, although instalment promotions prior to the recent restriction were not as well attended as had been expected. Consumer purchases of radios were limited and retail volume of paints and building materials declined fractionally.

Retail volume for the country in the period ended on Wednesday was estimated to be from 2 to 6% above a year ago.

Regional estimates compared with those of a year ago by the following percentages: New England up 5 to 9, East 1 to 5, South 2 to 6, Middle West and Southwest 3 to 7 and Northwest 6 to 10, while the Pacific Coast was down 0 to 4.

Total wholesale order volume was sustained at a high level during the week with dollar volume fractionally above that of the corresponding 1947 week. Although there were increased new orders for future delivery, buyers generally confined their purchases to merchandise for prompt and nearby shipments. Many buyers continued to request accelerated deliveries on current re-orders. Good quality, moderately priced merchandise was in large demand.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Sept. 18, 1948, increased by 11% from the like period of last year. This compared with a decrease of *2% in the preceding week. For the four weeks ended Sept. 18, 1948, sales increased by 4% and for the year to date to 7%.

Retail trade in New York advanced last week with department store volume showing an increase of about 5% ahead of the corresponding period of a year ago.

Colder weather expanded consumer demand for Fall apparel and promotional sales further served to encourage brisk consumer response.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Sept. 18, 1948, increased 10% above the same period last year. This compared with a decrease of *5% (revised) in the preceding week. For the four weeks ended Sept. 18, 1948, sales registered no change, but for the year to date increased by 5%.

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*In using year-ago comparisons for the weeks ending Sept. 11 and Sept. 4, allowance should be made for the fact that in observance of the Labor Day holiday stores in many cities were closed this year during the week ending Sept. 11, whereas last year they were closed during the previous week.

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Price Trends and Capital Demand and Supply

(Continued from page 2)

out the severe depression of the '70s.

In partial explanation of the *laissez faire* policy of the government toward the decline in prices after the great wars of the past should be mentioned the fact that these declines did not necessarily create serious problems—though this was hardly true of the '70s. The public debt (even at the end of the Civil War) was low relative to the national income, and population and production were rapidly expanding. It is unrealistic to assume that the United States today with an enormous national debt would tolerate as large a decline in prices as followed the Napoleonic Wars, the Civil War, or the First World War.

(5) The government today has far more effective instruments to combat a decline in prices than it possessed in the past. For example, even as late as 1930 the expenditures of the Federal government were less than 5% of the national income. In 1900 they were 3.2% of the national income; in 1880, 3.7%; in 1830, 1.5%. Even if the Federal government in the 19th century had desired to use fiscal policy to influence prices, employment, and production, it would not have been in a favorable position to have done so.

The Federal budget is now about one-fifth of the national income and the budgets of all governmental units are over one-fourth of the national income. Expenditures for military purposes will remain high during the indefinite future. Various groups are achieving more and more success in obtaining large expenditures from the government, and politicians of all parties are becoming more and more interested in using appropriations to win favor from the public. It is doubtful whether the Federal expenditures after 1949 will ever fall below $40 billion a year, and they are soon likely to be considerably higher. During the last 160 years the Federal budget was in the red in about two years out of five. It was possible to finance Federal expenditures in most years almost entirely by duties on imports (which were popular with most Americans) and with a few excise taxes. With expenditures far larger in relation to the national income than in the past and with the necessity of levying heavy taxes to meet them, the budget of the Federal government is likely to be in the red even more frequently than in the past. Certainly the influence of the budget is certain to be considerably greater in the future than in the past, whether the community intends this result or not. And the large size of the Federal budget assures that there will be a considerable segment of expenditures which will not drop when business prospects become unfavorable and that the government will have no difficulty in running a sizable deficit whenever one seems to be needed. Indeed the difficulty is likely to be one of avoiding deficits at times when restrictions on spending are needed.

(6) The money supply and hence the volume of private spending may be expected to be far less susceptible to a drop in private business than in the past. The reason is that private credit today is a far less important source of money supply than in the past. Hence fluctuations in the volume of private credit have less effect upon the volume of money. As late as 1929 the volume of private loans of commercial banks was almost 66% as high as all privately owned bank deposits and money outside of banks. Today the loans of commercial banks are less than one-fourth as high as the privately owned money supply. The government security holdings of all commercial banks are about 63% larger than their loans. Hence there is no immediate prospect that private credit will become as important a source of money supply as it was during the '20s.

(7) The long-run trend of prices will be affected by the large and powerful trade union movement which has grown up in the United States during the last 15 years. The trade unions of the United States are the most powerful that the world has ever seen and they are aggressive in pressing economic demands. They have made an almost revolutionary change in the American economy. During the last hundred years output per manhour in non-agricultural industries increased nearly 2% a year. The rapid growth of industrial research gives reason to hope that the increase in the future will be more rapid. Perhaps it will be as much as 3% or 4% a year—which would be a considerable improvement over past performance.

Are powerful trade unions likely to be content with putting up money wages no more than 3% or 4% a year? No one knows, but it is probable that they will not. If the unions push up wages faster than technological progress raises output per manhour, a compensating rise in prices will be needed to prevent a growth in unemployment. Even if the unions do not push up wages fast enough to require a rise in the price level, they are likely to push them up fast enough to prevent a drop in the price level—not fast enough to prevent a drop in the industries where technological progress is most rapid, but fast enough to prevent a general drop in prices. This means, of course, that nearly all of the gains of technological progress will go to people in their capacity as employees rather than in their capacity as consumers. The most probable result, in my judgment, is that collective bargaining will push up wages fast enough to require at least a slow increase in the price level. Eventually the community will wake up to the fact that a slow rise in prices is to be expected. Such an expectation has not previously influenced economic decisions except for short periods during booms and times of inflation when a short-run rise in prices was anticipated. It remains to be seen how the operation of the economy will be affected by a general expectation of a long-run rise in prices. Why should any one wish to own a 2% bond if the principal is going to drop in purchasing power about 2% a year?

III

What are the prospects for the long-run demand for capital? Between 1879 and 1947, plant and equipment in the United States (valued in dollars of constant purchasing power) increased almost eight-fold. Is the rate of increase likely to be as rapid in the future? During this period about 9% of the national product was devoted to increasing the capital of the country.

The underlying determinants of the demand for capital are the rate of population growth (which in the main determines the size of the labor force) and the rate of technological change. During most of the life of the United States, population has been increasing rapidly. This has required that a very large part of new capital be used to provide the increased labor force with the average amount of plant and equipment. Indeed, between 1879 and 1947 about two-thirds of the growth of plant and equipment is attributable to the expansion of the labor force. In the future this source of demand will be much less important than in the past because the growth of population is declining. Indeed, by 1970, the population of the United States will probably be only about 12% above the present level. During the next 20 years the increase in population will probably require less than one-fourth of all capital formation. The precise proportion will depend, of course, upon the rate at which other conditions cause capital to grow.

Technological change has produced a growth in capital of about 2% per worker per year—measured in dollars of constant purchasing power. The influence of technological change upon the demand for capital will be greater than in the past. The predominant type of invention will undoubtedly continue to be the kind which increases capital per worker because inventions consist very largely of changes which enable one worker efficiently to manage more and more apparatus. Economists call such inventions labor-saving inventions because they enable goods to be produced with a smaller ratio of labor to capital. Expenditures on industrial research are rapidly rising. They were nine times as large in 1940 as in 1920 and they were twice as large in 1946 as in 1940. To these expenditures should be added the rapidly growing outlays of the government on research because this research has many industrial applications. During the next 20 years it would not be surprising if technological change were to increase plant and equipment per worker by as much as 3% a year. Plant and equipment per worker by the end of 20 years in terms of 1948 prices would be roughly $8,400. The total amount of plant and equipment would be about $561 billion—an increase of $274 billion above the present level of roughly $278 billion.

The increase in the national product might not be in proportion to the rise in plant and equipment because the output of goods would be accomplished by the use of relatively more capital and relatively less labor. In the past, however, the national income has increased slightly faster than plant and equipment. Let us assume, therefore, that the rate of increase in income is the same as the rate of increase in plant. In 20 years, if per capita income increased at 3% a year, income per capita would be up about 80.6%, to $2,602 instead of $1,435 as in the middle of 1948, and the total annual national income would be about $421 billion. During the 20-year period the total national income produced (in 1948 dollars) would be about $6,-390 billion. In order to accomplish the necessary increase in capital formation, about 4.3% of the national income will be required. In the period 1879-1929 increase in plant and equipment represented about 8.7% of the net national income. Consequently the demand for investment-seeking funds in the future may be expected to be somewhat less relative to incomes in the future than in the past.

The demand for investment-seeking funds will be abnormally high for some years to come (perhaps for as long as 10 years) because of failure of most concerns to make capital expenditures at the usual rate during the great depression and the war. In fact, for a considerable part of the period, the expenditures on plant and equipment were not sufficient to offset consumption of plant and equipment. In the meantime, there has been a large increase in the labor force—about 12 million between 1929 and 1947. This is about twice as large as the entire labor force of Canada. Little has been done, however, to provide this increased labor force with new plant and equipment. As a result, at the end of 1947 there was about 9% less plant and equipment per worker in the United States than in 1929. The normal rate of increase in plant and equipment per worker has been about 2% a year. Had this normal increase occurred between 1929 and 1947, plant and equipment per worker at the end of 1947 would have been almost one-third larger than it was. An expenditure over $90 billion at present prices would be necessary to bring plant and equipment per worker up to the level that would be normal in view of the long-run trend.

IV

What is the outlook for the supply of investment-seeking funds? Does the prospective decline in the demand for capital relative to income mean that after the large accumulated shortages of the war and the depression have been met, the country will be confronted with a surplus of investment-seeking funds?

I think not. The American people have never been willing to save enough to meet the need of industry for investment-seeking funds. Hence a large proportion of the capital requirements of industry have been met by plowing back earnings. During the period 1910 to 1929, for example, corporations raised $56.6 billion of capital by public issues of stocks and bonds but plowed back into the business $37.3 billion of profits. In 1947 the retained profits of corporate industry were twice as large as the net new security issues. Even plowed-back earnings have been insufficient to meet the capital needs of industry during periods of expansion. The deficiency has been made up by borrowing from banks. In 1947, for example, corporations obtained about $2.9 billion from short-term and long-term bank loans.

One reason why the personal savings of the American people have been insufficient to meet the needs of the corporate part of industry is that a large fraction of personal savings are used to buy homes or to increase the plant and equipment of farms or other unincorporated enterprises. For example, in 1947, $3.5 billion of personal savings was used to increase plant and equipment on farms, $4.1 billion to increase plant and equipment of unincorporated enterprises, and $4.8 billion to purchase non-farm residences. Individuals made available to corporate industry only $1.0 billion by the purchase of private securities and $3.3 billion by the purchase of insurance. In other words, considerably less than half of the net savings of individuals and less than one-fourth of their gross savings in 1947 were available to corporate industry.

There is no prospect in the foreseeable future of a large increase in the supply of investment-seeking funds from individuals. For several generations at least, there has been a slow tendency for American people to become less thrifty. The rise in per capita incomes has been sufficient to prevent a drop in the proportion of savings to personal incomes after taxes, but the decrease in thriftiness has also been sufficient to prevent a rise over the long-run in the ratio of savings to incomes. The very rapid rise in real per capita incomes since 1929 or 1940, it is true, has caused during that period a small rise in the ratio of personal incomes after taxes, but even at the present time personal savings are only about 6% of personal incomes after taxes. After individuals have spent part of their savings on housing and invested part in owner-operated enterprises and part in the bonds of local and state governments, this does not leave enough to meet the needs of corporate industry. In a considerable fraction of years the Federal budget will probably be in the red and some personal savings will be needed to finance the expenditures of the national government. During the last eight years there has been a seven-fold increase (between $17 billion and $18 billion per year) in income tax payments. This increase falls largely upon the persons who do the most saving and thus severely limits the capacity of the community to save. In fact, persons with incomes of $25,000 or more a year have as a group considerably less income after taxes than before the war. The financial needs of the Federal government, as I have pointed out above, will continue to be large and will prevent any substantial reduction in taxes. Consequently, one must expect corporate enterprises to continue to rely for investment funds in considerable measure upon plowed-back earnings and bank credit.

Does the limited ability and willingness of individuals to save mean that one should expect over the long-term a substantial rise in interest rates? I think not. Some rise in interest rates above the low levels of recent years would not be surprising. The tendency for interest rates to rise would, of course, receive a considerable impetus from general acceptance of the view that the long-run trend of prices is upward—in other words, from acceptance of the view that the purchasing power of the principal of fixed-income securities must be expected to drop a little bit each year. The public, however, will probably require some years to become convinced that the long-run movement of prices is upward. Furthermore, the rise of interest rates will be retarded by the increasing use of bank credit to meet the capital needs of business. The growing reliance upon bank credit instead of the planned savings of individuals to meet the fiscal needs of business and government has been one of the most striking developments of the economy during the last century. Today the country is far better prepared than ever before to meet capital needs by the use of bank credit. The competition of bank credit with planned savings will prevent for some time to come a substantial rise in interest rates.

V

What about the short-term outlook for business? Previous wars have been followed first by a brief but pronounced boom and then by a sharp, though short, depression. The boom following the Second World War is now nearly three years old. Is not the postwar recession overdue?

Throughout the boom, predictions by economists of an early recession have been numerous. At the time of V-J Day, government economists predicted 8 million unemployed in the spring of 1946. In the fall of 1946 a group of economists, meeting under the auspices of the National Industrial Conference Board, reached a consensus that there would be a recession in 1947—some said in the spring, others in the fall. In the fall of 1947, 75 out of 100 economists polled by the F. W. Dodge Corporation predicted a recession in 1948. February and March were the months most frequently mentioned as the beginning. In March, 1948 the consensus of 75 economists polled by Montgomery Ward and Company was that the postwar boom would end in the fall of 1948. This year's bumper crops have greatly increased the supply of grain products relative to demand, and promise within 12 months a sizable gain in the supplies of meat and dairy products. Does not this indicate an early reversal of price trends and hence of buying policies?

There are plenty of signs that the postwar boom is leveling off. These signs are found in the slackening rate of increase in spending, in the slower rise in prices and wages, in the halt of the increase in bank credit, and in the drop in the net export surplus. It is instructive to compare changes between the second quarters of 1946 and 1947 with changes

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between the second quarters of 1947 and 1948. In the former period, total spending increased 12.5%; in the latter, 8.3%. In the former period the wholesale price level increased 28.8%; in the latter, 13.9%. In the former period the consumers' price index increased 17.8%; in the latter, 9.3%. In the former period, the hourly earnings of factory workers increased 13.1%; in the latter, 7.6%. In the former period private bank deposits and money outside of banks increased 4.0%; in the latter, 0.7%. In the second quarter of 1948 the net export surplus of the United States was about 60% less than in the second quarter of 1947. The boom now depends only to a small extent upon the net export balance.

Not only is there abundant evidence that the boom is leveling off but the economy during the last year has become more vulnerable to unfavorable influences. This is a result of the increase in the relative importance of business spending. In the second quarter of 1947, gross private investment was about 11.6% of the gross national product; in the second quarter of 1948, it was about 15%. Private investment is the type of spending which is most sensitive to favorable and unfavorable influences. If the boom is leveling off, if important uncertainties are developing with respect to the immediate future of many prices, and if the boom is dependent upon a large volume of business spending, must not an early recession be expected? Certainly an early drop in the high rate of business spending is a probability and, if it occurs, will there not be a recession?

I agree that an early drop in business spending is a probability, but I do not believe that it will go very far or that it will produce a recession. It will be promptly offset by a rise in consumer buying and in government buying. The rise of consumer spending and government spending will limit the drop in business spending.

A drop in business spending would produce a rise in consumer spending because it would make more goods available for consumers to purchase. Consumers are not yet buying at a normal rate. This is shown by the fact that personal holdings of cash and bank deposits are still high in relation to expenditures for consumer goods by prewar standards. In 1939 the annual rate of expenditures for consumer goods was about 1.90 times personal holdings of cash and bank deposits; today it is about 1.70 times personal holdings of cash and bank deposits. Hence output and prices are not yet high enough to give the output of industry a value equal to the amount which consumers are willing to spend.

A drop in business spending would also be offset at least in part by a rise in government buying. State and local governments have great needs which they have been unable to meet because of shortage of men and materials. Their expenditures on goods and services in the second quarter of 1948 were running 19.3% above the corresponding quarter of last year and will continue to increase if men and materials can be obtained. The expenditures of the Federal government for goods and services reached a postwar low in the last quarter of 1947. By the second quarter of 1948, the seasonally adjusted annual rate was 14.1% above the last quarter of 1947. The military needs of the government are growing and meeting these needs cannot be indefinitely postponed. Consequently the military expenditures of the government must be stepped up during the next six months. The durable goods industries are already producing at capacity. If business and consumers do not voluntarily reduce their expenditures for durable goods, the government, through tighter credit policies or priorities or both, will undoubtedly have to force some curtailment of private buying of durable consumer goods and possibly even of industrial equipment.

VI

How good a job has the United States done in controlling the postwar boom and in keeping the economy stable? This question can be better answered two or three years from now when the consequences of recent decisions (or of recent failures to face issues) are plainer. Nevertheless, it is useful to take stock at the present time.

After three years of boom the country on the whole is in a remarkably strong position. Despite the large expansion of production and the rapid rise in prices the economy has developed few serious weaknesses. Indeed, there has never been a boom of comparable magnitude accompanied by so little reckless speculation. Perhaps the prices of agricultural products cannot drop from their present high levels without sooner or later giving the country a bad 12 or 18 months. In two or three years or less, the community may regret that the farmers had so many "friends" in 1948. By and large, however, the condition of the economy after three years of boom is remarkably sound.

This fortunate result, I think, has been more the consequence of happy accidents than of wise and courageous policy. Let us review briefly the contribution of the principal groups of the community (trade unions, farmer organizations, businessmen, and government officials) to the problem of stabilizing the economy.

(1) **The trade unions** — The trade unions have had no planned policy of contributing to stability. In fact, each union is too small a part of the community to be easily persuaded to consider the general effects of its policies. The rapid rise in wages has greatly increased consumer incomes and thus has contributed to higher prices and has also helped to raise costs and thus to assure that many prices will never drop far toward their prewar levels. In my judgment this result on the whole is good. It will help the country in the long-run obtain a greatly needed increase in imports, it will reduce the burden of debts—perhaps unfairly, but this result is favorable to production. High wages of city workers will probably make the troublesome problem of farm prices less difficult. These results of union policies, favorable though they may have been, cannot be credited to a deliberate attempt to promote national stability.

(2) **The farm organizations** — The influence of these organizations seems to me to have been more bad than good. Strong incentives to increase agricultural output have been needed and are probably still needed. Nevertheless, reasonable incentives could have been provided without compelling the government to support the prices of potatoes, eggs, turkeys, and other surplus commodities at unreasonably high levels.

(3) **Businessmen**—Business concerns, like the trade unions, have no way of adopting and enforcing policies designed to represent the interest of all business concerns in economic stability. The record of individual concerns, however, has on the whole been good. Sellers have shown remarkable restraint in raising prices when it became evident that demand exceeded supply. Although a substantial rise in the price level above wartime levels is in the national interest, it is desirable that this rise occur slowly so as not to detonate speculative buying. Business concerns have also shown considerable restraint in raising dividends and have plowed back a high proportion of profits into the business. This is the least inflationary way of financing capital expansion. Inventory policies of business concerns have been conservative and so also, on the whole, have the credit policies of both borrowers and lenders. The change in the lending policies of the banks after the second-half of 1947 is particularly commendable. Bad items in the record of businessmen have been the demand of many managers for the termination of controls of consumer credit in the fall of 1947, opposition to the control of stock market credit by the Federal Reserve System, and the demand for tax reductions in 1947 and the winter of 1948.

(4) **The government**—The government is not separate from the people of the country whose views and prejudices help mold public policy. Nevertheless, the men in the several agencies make important contributions to policy. The Federal Reserve System has undoubtedly been the strongest anti-inflationary influence in the government, though its policy has been cautious. The influence of Congress has been almost completely inflationary—except in the summer of 1948 when it was forced reluctantly to authorize some anti-inflationary steps. It has reduced taxes, it has maintained the farm support program, it has encouraged the expansion of credit for the purchase of housing, and, in the fall of 1947, it refused to authorize an extension of consumer credit control. The Treasury opposed tax reductions in both 1947 and 1948 (an anti-inflationary stand), but its influence on credit policy has been inflationary. The government has had many policies, but no general policy of promoting economic stability has commanded acceptance throughout the government.

Since the present strong position of the economy is not the result of planning, how can it be explained? It is partly the result of the fact that the boom started with huge accumulated needs for goods, with debts low, with individuals and enterprises in possession of enormous quantities of liquid assets, and with tax rates high. For these conditions the country may thank the long depression of the thirties and the Second World War. Even three years of high production and rapidly rising prices have not been sufficient to eliminate these elements of strength. This explanation, however, is obviously incomplete because the conditions which I have enumerated might easily have given rise to an enormous amount of unhealthy speculative buying. The reason that this has not yet happened is the memory of the collapse of 1921 after the First World War and of the depression of the thirties. These experiences have imbued the whole community with a pronounced spirit of caution. Indeed there has never been a boom of substantial magnitude accompanied by less optimism and, as I have said, with less speculative buying. To 1921 and the depressed years of the thirties, the country may attribute its ability to experience three years of boom while developing few serious weaknesses in the economy. The American people have not yet been required to face squarely the question of how well they understand the conditions of stability and of how far they are willing to go in enforcing a policy of stability upon reluctant special-interest groups.

With Cartwright & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—Charles A. Ault has become connected with Cartwright & Co., Inc., Union Central Building.

With Morrow & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO. — Adelbert R. Schwede has joined the staff of Morrow & Co., Hanna Building members of the Cleveland Stock Exchange.

Inflation—More Than A Monetary Problem!

(Continued from page 4)

ernmental standpoint is the maintenance of a Treasury surplus. Such a surplus means that more money is removed from the spending stream than our national expenditures put back into it. The difference, if used to retire that part of the debt held by the Federal Reserve System, reduces the money and credit pressures more directly than any other move. The Treasury had an excess of cash income over cash outgo of $9 billion in the fiscal year 1947-48. But the prospects for the current year are for only a fraction of this amount. This difference in the surplus reduces considerably the most important anti-inflationary influence in this situation.

I know there are many in this audience who would like me to say something about our price support of government bonds. I will here repeat what I told the House Banking and Currency Committee on August second:

"It is my view that the System is obligated to maintain a market for government securities and to assure orderly conditions in that market, not primarily because of an implied commitment to wartime investors that their savings would be protected, nor to aid the Treasury in refunding maturing debt, but because of the widespread repercussions that would ensue throughout the economy if the vast holdings of the public debt were felt to be of unstable value."

When you consider that the public debt is one and a half times all other debt in the country combined, it seems obvious to me that the market for the Government debt securities must be one where investors can deal at all times with confidence. I remain of the conviction that for the foreseeable future the support program should be continued. This conviction is shared by all the members of the Board of Governors, the members of the Federal Open Market Committee, and by the Treasury. It is also supported by the weight of financial opinion in the country.

During the past three months, nonbank holders of Government bonds—insurance companies, savings institutions and others—have greatly complicated our problem in this regard for they have sold over $2 billion of these securities, thereby creating additional bank deposits and reserves of that amount. One of the results of the recent increase in reserve requirements of commercial banks will be to take up those additional reserves so that they will not be the basis of multiple credit expansion at this time when our credit volume is already out of proportion to the amount of goods available.

Less Spending Advocated

The problem of inflation is so vast in its causes, as well as in its effects, that it is everybody's duty to help in the solution. The welfare of our entire economy is at stake. Each of us must exercise real restraint in the use of money already in existence, and not bid for the scarce articles if purchases can be deferred. The hard fact is that we simply do not at this time have enough real resources to provide all the things we would like to have. If we insist on trying to acquire them anyway, we shall end by dissipating our resources through higher prices. The gospel of restraint in the spending of money should be taken to heart by every individual and by every organized group, public and private. The greatest possible economy should be practiced by the Government, not only in direct spending, but also in the extension of credit by or under guarantees of governmental agencies.

Commercial banks have embarked on a program of voluntary restraint in the extension of credit, under the auspices of the American Bankers Association. This is an excellent example of teamwork and sets a pattern for cooperative effort which might be copied with profit by many other enterprises and organizations. And let me say right here that this nation owes a debt of gratitude to commercial bankers for their task in assisting with the financing of the war and for their general cooperation with the supervisory authorities in combating credit inflation.

Few anti-inflationary moves are popular. In fact, checking inflation is a very unpopular pursuit. Each of us is inclined to feel that inflation is wrong and certainly something should be done about it—by someone other than himself. The Federal Reserve System has a responsibility to the country to use its statutory authority to the best of its judgment. Certainly we would be derelict in our duty and would violate our oaths of office if we did not "call them as we see them" and act accordingly. But the problems which now face the country are not the exclusive problems of the Federal Reserve or the commercial banking system. 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 nonmonetary causes. A great responsibility rests upon every citizen, upon every group or organization of citizens, upon the housewife, labor, industry, business and financial institutions of all character to unite in combating inflation and by cooperative effort accomplish the objectives which all recognize as essential to our well-being.

Egan Dir. of Chase Bank

Joseph L. Egan, President of the Western Union Telegraph Company, was elected a director of the Chase National Bank on Wednesday, it was announced by Winthrop W. Aldrich, Chairman of the bank.

Mr. Egan succeeds Newcomb Carlton, Honorary Chairman of Western Union, who has the distinction of being senior member of the Chase Board, having served for more than 31 years prior to his resignation yesterday. In accepting Mr. Carlton's resignation, the Chase Board passed a resolution of appreciation for his long and valued service to the bank.

Mr. Egan, a native New Yorker, has been associated with Western Union for 36 years, having joined the company as an attorney in 1912. Elected Vice-President in 1939, he organized the public relations department and has taken a leading part in directing the company's relationships with governmental agencies, stockholders, other companies and the public. He became President in 1945.

Mr. Egan attended Columbia University and graduated from the New York Law School in 1909.

With A. Lepper & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Lloyd I. Miller has been added to the staff of A. Lepper & Co., First National Bank Building, members of the Cincinnati Stock Exchange.

Mutual Savings Banks, Inflation And Public Debt Policy

(Continued from page 5)

crease in interest rates payable by private borrowers is a traditional weapon for combating an inflationary boom.

Stake in Public Debt Management

Our banks and their depositors have a very great stake in public debt management policy, in view of their very large holdings of government bonds. All are vitally interested in the current debate over continued stabilization of the government bond market through the purchase of government bonds by the Federal Reserve banks at existing support prices, commonly characterized as "pegging the market."

A disorderly market for government bonds would be bad for savings banks and bad for the country. Sharp declines in prices, even if temporary, would disturb depositors in banks, policyholders in insurance companies and individuals holding savings bonds. They would be disturbed all the more because other classes of bonds would decline along with governments, causing depreciation in the market value of the entire portfolios of financial institutions. There is also the distinct danger that a disorderly government bond market would lead to restrictions on sales of Treasury obligations by financial institutions and once such controls have been imposed by Act of Congress or otherwise, it might prove quite difficult to get rid of these restrictions.

A considerable decline in governments might also open the door to unsound competition among financial institutions for the people's savings in the future. Those institutions that have new money to invest would obtain higher yields on new investments, and so could pay more interest on savings. The institutions that are not growing, by contrast, would have suffered considerable depreciation on their bond accounts, and perhaps on low-interest-rate mortgages as well, and would be under pressure from the supervisory authorities to pay out less to depositors. All past experience tells us how unhealthy is competition for savings among financial institutions paying widely varying rates of interest on deposits.

Were pegs under government bonds to be removed entirely and a disorderly market to result, the Federal Reserve banks would doubtless intervene and resort to easy money measures, such as reducing bank reserve requirements, to check the liquidation of Treasury obligations. Such a return to easy money would rally the government bond market. But what would then have been accomplished by unpegging the market in the first place? We would confront all over again the danger of further inflation due to easy money policies of the Federal Reserve banks.

Should the 2½% Rate Hold

I do not believe that the really decisive issue in public debt policy is the pegging program which is now the subject of so much controversy. There are other things that the Federal Reserve banks and the Treasury can do to check inflation at this time without disrupting the government bond market. Over the longer run, however, the question is whether we are to be bound forever to a 2½% long-term government bond rate. Conditions may arise in the future that would make a higher rate more desirable economically. We should conduct our public debt policy in such a way, therefore, as to make possible an eventual change in the level of long-term interest rates without running the risk of creating a disorderly government bond market in the process.

The twin objectives of checking inflation now and of gradually restoring flexibility in long-term interest rates, without disrupting the market for government bonds in the process, are attainable. I consider that a good start has been made on the road leading to both these objectives.

The immediate inflation danger is being combated by increases, as needed, in the legal reserve requirements of member banks. Member bank reserves are being increased, under present conditions, by market support purchases of government bonds, gold imports and some return of currency from circulation. But through raising legal reserve requirements for member banks, these additional reserves become impounded and may not be used as a base for additional commercial bank credit expansion.

A Higher Short-Term Rate Advocated

Inflation could be combated also by raising the interest rate on Treasury one-year obligations from the present level of 1¼% to 1½%, or even more. This would cause commercial banks to charge higher interest rates on loans to their customers. The resulting increase in bank earnings would lessen the eagerness of commercial banks to make new business loans or investments that would raise the ratio of risk assets to their capital funds. We would thus have higher interest rates without the severe squeeze on credit that has accompanied past efforts to combat inflation by monetary means.

Through increases in member bank legal reserve requirements when needed, and higher short-term interest rates, it is possible to prevent further inflation of the money supply while keeping the government bond market orderly through Federal Reserve bank support. But that leaves to be solved the long-run problem of regaining flexibility in long-term interest rates.

A Proper Debt Refunding Policy

We can gradually restore a flexible long-term interest rate structure and a free market for Treasury securities, automatically, while keeping the government bond market stable and orderly, by means of a proper debt refunding policy by the Treasury. Actually the Treasury has been pursuing just such a policy as will make possible a gradual return to a flexible long-term interest rate structure and a free market for government bonds, but I am not aware that it is receiving the credit it deserves for what it is doing.

The United States Treasury has not offered a new long-term marketable bond issue since the Victory Loan was floated in December, 1945. With every year that passes, the maturity of outstanding long-term issues is being shortened. The longest-term marketable government bond is now the Victory 2½s of December, 1967-72, callable in 19 years and maturing in 24 years. If the Treasury were to refrain from selling a new long-term marketable issue, maturing in 1972, until 1952, it could then sell a 2½% bond and actually raise the long-term interest rate by means of shortening the maturity by seven years as compared with that of the Victory bonds on their date of issue. If the offering of a new marketable bond falling due in 1972 were delayed until 1957, the Treasury would have shortened the maturity on its new 2½% issue to 15 years. And if it waited until 1960 to put out a 2½% bond issue falling due in 1972, it would have shifted the 2½% rate from a 27-year to a 12-year obligation.

But please note that outstanding long-term marketable bonds would all have the same maturity, or a maturity shorter than, the new offering and so would not be depressed marketwise by this process of shortening the maturity on long-term governments while maintaining the 2½% coupon. It would thus be entirely possible to continue to peg long-term government issues at or somewhat above par while this change is taking place.

The Treasury can obtain funds from several sources to refund its maturing bond issues, pending the time when it will again offer long-term marketable bonds. It will be selling non-marketable bonds to investors. It will be selling special issues of its obligations to the trust funds and agencies. It is to be hoped that it will obtain funds for paying off maturing debt from budget surpluses. And it can offer intermediate-term obligations from time to time for refunding purposes.

Such a refunding policy of postponing offerings of new long-term marketable bonds and utilizing funds from other sources to pay off maturing obligations provides an automatic means for restoring a large measure of flexibility to the long-term interest rate structure, and an eventual return to a freer market for government bonds.

It is thus apparent that we can realize desirable objectives sought by advocates of unpegging government bonds at this time, without incurring the many grave dangers of a disorderly market for Treasury securities. Mutual savings banks and their depositors have a great stake in the adoption of such a "safe and sane" public debt policy, in place of the fireworks that are being advocated in some quarters.

Snyder Reviews World Bank and Fund

(Continued from page 13)

not provide all of the needed finance nor can it, on its own initiative, take many of the steps which are necessary for sound investment programs. To a large extent, the member countries must play their own part, and this includes the countries able to export capital as well as those which seek to import it.

International Exchange Problems

With your permission, Mr. Chairman, I would like to turn for a moment to the international monetary and exchange problems which are the concern of the Fund. It was a significant step in international cooperation when the member nations submitted their par values and exchange rates to the scrutiny of an international body. Moreover, from time to time, various member countries have consulted with the Fund about their exchange policies in matters other than rates. Problems of discrimination, multiple rate systems, and related devices were discussed. The Fund has given valuable advice to its members. It has recognized that the problems of foreign exchange cannot be separated from the problems of domestic monetary and fiscal policy and of the international trade situation. Most of the Fund's suggestions are accepted, and this is also important as a stage in international cooperation. There have, unfortunately, been some contrary experiences. We hope that soon all of the member nations will have reached conditions which will enable them to establish and maintain stable par values for their currencies. The Fund will then use its resources to provide temporary assistance, when needed, to maintain exchange stability.

When the original par values were agreed with the Fund, it was recognized both by the Fund and by the member nations that the declared pars could, at best, be tentative. Conditions were not ripe for the establishment of equilibrium rates of exchange which could be maintained over an indefinite period without unduly making use of the Fund's resources. Measured in terms of relative prices and other factors, there may be currencies today which are over-valued, and an orderly adjustment must be made in the future to bring about stability and to facilitate the expansion of international trade. The Fund's resources should not be used to support untenable rates or to meet deficits on international account which are fundamental and which can be met only through large-scale international assistance and the adjustment of exchange rates. With the help of the European Recovery Program we may expect that substantial equilibrium will be reached in the international accounts of most of the participating countries. In this connection, the Fund has an important role. It can deal with questions of monetary and fiscal policy and of international exchange without the suspicion of any special bias in favor of any one country. It has available to it a vast store of technical information. It is studying the experiences of each country. Its views, therefore, should be regarded with great respect by the member countries.

Long-Run Objectives

Both the Bank and the Fund were created with certain long-run objectives in view. They were not intended to deal with some of the immediate problems of reconstruction. It became clear after the end of the war that the most fundamental problem, of the European countries at least, was their inability to balance their international accounts. Their needs for goods, foodstuffs, industrial raw materials and supplies, far exceeded the amount which they could earn from their exports and other services at the prevailing levels of output.

It is clear now that these balance of payments deficits far exceed the Fund's resources in dollars or other currencies needed to purchase supplies. The Bank also could not finance these balance of payments deficits, considering the terms of its Articles of Agreement and its available resources. We must bear in mind that the Bank has a function to perform for many years to come and that its charter obligates it to use its funds "exclusively for the benefit of members with equitable consideration to projects for development and projects for reconstruction alike." The Fund, on the other hand, "is not intended to provide facilities for relief or reconstruction, or to deal with international indebtedness arising out of the war." Thus, if these international institutions are to serve their long-run purposes, other ways had to be devised for financing the postwar deficits.

The people and Government of the United States have realized that they had an important role in the restoration of the economies of the world dislocated by the war. The United States provided assistance to foreign countries in the form of relief grants, loans and property credits of approximately $15 billion between July 1, 1945 and Dec. 31, 1947. Under the European Recovery Program the United States has provided over $5 billion for the current year, and it is expected that if conditions warrant, further appropriations will be made in future years for the economic reconstruction of Europe.

East-West Trade

In speaking of the Economic Recovery Program for Western Europe, I would like also to draw attention to East-West trade within Europe. Such trade already exists, but all that can reasonably be done to maintain its flow is to the interest of all.

The people of the United States have not been unmindful of the needs of other areas. They have provided for direct aid to China, and they have expected that large benefits would accrue indirectly to other countries from the European aid program. The needs of Europe have been most acute and we have recognized that the economic recovery of Europe is essential to the well-being of the other continents as well. Other countries, too, have, in proportion to their abilities, supplied aid in the form of loans or trade credits which have made significant contributions toward the restoration of high levels of production abroad.

Assistance abroad in this large volume was necessary under the prevailing circumstances. It should go far toward restoring levels of production and fostering trade patterns which will make possible that balance growth of international trade which is among the prime objectives of the Fund and the Bank. The resources of the Fund should be used to deal only with problems of temporary disequilibrium in the balances of payments of member countries. With the most pressing requirements for international finance satisfied, at least in part, by postwar programs, the Bank will be in better position to fulfill its functions in providing needed international credits and facilitating the expansion of international investment. In the coming years we can look forward to having these institutions realize more fully the ideals contemplated for them by the United Nations Monetary and Financial Conference of 1944.

With Walston, Hoffman Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — James J. Bach is with Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

Two With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — James A. Hochstettler and John C. Neff are now with Merrill Lynch, Pierce, Fenner & Beane, Board of Trade Building.

With E. D. Baring-Gould

(Special to THE FINANCIAL CHRONICLE)

SANTA BARBARA, CALIF. — John C. McCarthy has become associated with E. D. Baring-Gould, 19 East Canon Perdido Street. He was formerly with Bourbeau & Douglass and C. A. Botzum Co.

With F. H. Breen & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — W. Porter Reno has become connected with F. H. Breen & Co., 609 South Grand Avenue.

Conrad, Bruce & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—John C. Stricker is with Conrad, Bruce & Co., 530 West Sixth Street.

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Money, Credit and Inflation

(Continued from page 9)

error, it seems to me, lies in our failure to understand the fundamental nature of the economic phenomena involved in the inflationary spiral. This spiral results from the simple fact that a cause today becomes an effect tomorrow and tomorrow's effect, in turn, becomes a cause the following day. It seems to me that we bankers, along with many others, beg the question when we assert that rising bank credit is clearly a result and never a cause of inflationary pressure.

Underlying Cause

If we wish to point to the underlying cause of our postwar inflation we can do so with much more assurance. It has been said that the beginnings lie in 11 consecutive years of peacetime deficit financing before the war followed by the unavoidable deficits of our government during the war. True enough, we had Federal government deficits for 11 peacetime years—from 1930 to 1941. However, the increase of government debt placed with the banks was offset to a large degree by the shrinkage of private loans held by the banks and, as a result, the net increase in the nation's money supply, as a result of peacetime deficit financing, was neither great nor an important source of inflationary pressure prior to the beginning of World War II. The huge influx of gold in the thirties was a prime factor in increasing the money supply of that period. It was the really great deficit financing of the war years and more particularly the large amount of government debt placed with the commercial banks between 1941 and 1945 that far outshadowed the peacetime deficit financing and brought on our current dilemma.

Increasing bank-held government securities by some $75 billion in the four years of 1941-1945 simply resulted in the generation of a like quantity of purchasing power in the form of bank deposits and currency in circulation. This huge quantity of purchasing power, like water impounded behind a dam, was held back from the market by wartime restrictions and scarcities. In the early years of a boom the pressure of pent-up purchasing power is not immediately relieved by free spending because spending itself stimulates production and production, in turn, generates additional quantities of spending power. This being the case, the only hope of slowing down a boom lies in deferring the spending of money and speeding up the production of goods and services. Bank credit may be used to make unnecessary purchases and to withhold scarce goods from the market as well as to increase production. By and large, in my opinion, most of the expansion in bank credit up to now has been helpful to the economy. On the other hand, it must be quite obvious that some part of the money borrowed has, and is, adding to inflationary pressures. As a matter of fact, after the physical facilities for production, including the labor force, reach capacity beyond which expansion of production becomes impossible, then all increases in bank credit—for any purpose whatsoever—are inflationary.

If, as I have tried to demonstrate, bank loans are not dangerously high and have not yet been a major cause of inflation, why are we concerned about the trend? This is really the $64 question, because clearly we come to the crux of the problem when we ponder the questions—when and where will the increased use of credit stop and who has the power and responsibility for putting on the brakes? The background for this problem lies in the fact that under present day conditions the commercial banks of the country can continue to expand credit until it reaches fantastically dangerous proportions. Their power to do so lies in their ability to replenish their cash reserves practically at will by selling government bonds in a market where the Federal Reserve banks are virtually the only buyers.

The pattern established in financing World War II has created a serious dilemma in the postwar management of our monetary affairs. During the war the banks were called upon to absorb about one-third of the more than $200 billion borrowed by the Federal Government. How could banks buy $75 billion worth of additional government bonds between Dec. 31, 1941 and Dec. 31, 1945 when, on Dec. 31, 1941, they had only $82 billion in deposits plus some $8½ billion of capital and, of this total in resources, only $27 billion in cash? They did not liquidate loans, in fact, they increased loans from $26 billion 600 million to $30 billion, 300 million in the four year period. The process was relatively simple. When the banks bought bonds from the United States Treasury they simply gave the Treasury credit on their books—not cash. The Treasury drew against these credits but the funds did not leave the banking system because they were redeposited by those to whom the Treasury made its disbursements. The net result was that as the banking system's holdings of bonds grew so did its deposits, and money in the form of cash was not needed until the cash reserves of the banks began to shrink below that percentage of deposits required by law. As this problem came up it was solved by the simple device of having the Federal Reserve Banks buy enough government bonds from the banks to give them the cash reserve they needed. With reserve requirements of approximately 20% of deposits the banking system could sell $100,000 worth of bonds, acquire that amount of reserves and then proceed to buy bonds of five times $100,000, or $500,000, and again swell its deposits to the limit. This process went on and on and did not stop with the ending of war. It did not stop because the Federal Reserve System has seen fit to continue to support the market for government bonds at levels of par or above. The banking system — postwar — has continued to acquire reserves but instead of buying government bonds has made loans.

Banks Have Possibility of Excessive Credit Expansion

This situation, unique in our monetary history, can only mean that the nation's 15,000 privately owned and managed banks are in a position to keep on expanding credit as long as they own government bonds and the Federal Reserve Banks are able and willing to buy them. At the present time the commercial banks own more than $65 billion of government bonds and it is estimated the Federal Reserve Banks could absorb $40 billion of additional bonds without any change in the present laws. Following the reasoning outlined above, $40 billion in cash reserves could support credit expansion of five times $40 billion, or say, $200 billion. Maybe there is no cause for alarm in the total of $43 billion in loans outstanding at Dec. 31, 1947 nor in the doubling of loans since 1939, but alongside these figures the potential $200 billion really becomes a nightmare. Now, no one with any sense of responsibility would suggest such a figure as a serious possibility. In using it I only wish to point the limits of the problem and the real reason for concern over the trend in bank credit.

The fourth question I raised at the beginning of these remarks was this—if our concern over the trend of bank credit is well founded, what can be done about it? Clearly, either the banks acting voluntarily will achieve a proper measure of restraint or the central banking authorities must be granted additional powers. The American Bankers Association recognized this choice clearly when it launched its anti-inflation or credit control campaign in January, 1948. The bankers of the country were urged to adopt measures of restraint, to weigh all loan applications in the light of their effect on the nation's economy. They were urged to preach the need for thrift and for deferring all unnecessary purchases in their communities. While it is too early to judge, and it is probably unwise to single out this campaign as the sole force at work, it is a fact that the rate of loan expansion by all banks in the United States has been decelerated so far in 1948. The trend in recent weeks again points upward.

Time alone will tell how successful a voluntary program of self-restraint can be. Competitive pressures in banking and from loaning agencies outside banking, plus the understandable tendency of bankers to meet local problems at the local level regardless of the nation's over-all problems, has led to considerable discussion concerning measures the government might and should take if the bankers cannot work out a sound solution among themselves.

In this field of government control a controversy has arisen concerning the need for additional power to be granted the Federal Reserve Board as the country's constituted central banking authority. The chief objectors to additional authority all seem to say the Federal Reserve Board and the Treasury Department have enough power now if they would only use it and they generally end up by suggesting that money rates should be allowed to rise and more or less seek a natural level. This end could be achieved by a variety of means but all plans contemplate either dropping support for government bonds or allowing their price to drop some points below par. Historically, the device of allowing, if not encouraging, money rates to rise somewhat precipitately has been used to stop inflation. In fact, the use of this device by the Federal Reserve System has been pointed out as a primary force behind the deflation that occurred in 1920-21, in 1929-32 and 1937-38. It may very well be that the action of the Federal Reserve System did bring an end to the inflationary trends under way prior to the dates mentioned. However, it should be noted that the excesses leading to corrective action were not brought on by the monetary authorities and someone had to force a correction before the excesses of the times led on to even more disastrous results. Of course, no one wishes to be held responsible for bringing on serious deflation and everyone agrees that bringing on a mild or healthy deflation is like courting a mild case of leprosy. This is why the political leaders of both parties shy away from meeting the problem head-on.

Facing Serious Situation

Aside, however, from this delicate problem of stopping inflation without causing serious deflation, there are even more grave problems to be faced in 1948-49. A situation without parallel faces the nation with a debt of $250 billion upon which the annual interest bill, at the low rates now prevalent, is over $5 billion. Increasing the interest bill of the Federal Government raises a controversial social question, to wit: shall we take more funds from taxpayers in order to pay higher returns to those who own government securities? The answer to this question cannot be an unequivocal no when we consider what is happening to those who must live from a fixed dollar income. Aggravating the overall problem of a huge debt and its colossal cost is the fact that some $51 billion of the total is in the form of E, F and G bonds that are redeemable on demand at the holder's option. If United States bonds bearing interest of 2½% per annum are allowed to drop marketwise, they could reach a price placing their yield on a basis higher than E, F and G bonds. Would not the holders of E, F and G bonds be tempted to exercise their option to demand payment so as to reinvest in the more attractively priced marketable bonds? This raises the ever-interesting question—Where would the United States Treasury obtain the funds to meet any substantial part of this potential demand upon it? Aggravating the problem is the fact that the commercial banks of the country with about $10 billion in capital funds own approximately $66 billion of government bonds. Simple arithmetic will show that theoretically a drop of 15 points below par would wipe out all of the capital structure upon which $137 billion of deposits rest. Now, indeed, this application of simple arithmetic is dramatic in making a point, but it does depart somewhat from the truth because a substantial portion of commercial banks' holdings are short and intermediate term bonds which would not follow the same price pattern if government support were abandoned.

Perhaps I sound alarmist—perhaps I haven't taken into account all of the pertinent factors in this brief look at a complex problem. If so, remember that I am undertaking to outline the problems and not necessarily give the correct answers.

If no one cares to take the responsibility for precipitating a serious deflation by the time-tested method of drastically tightening the money market, what else can be done in the monetary field to prevent continued inflationary pressure?

The suggestions advanced by the Federal Reserve Board in the past two years are all in the direction of tightening the reins on the money market without bringing it to a dead stop. This would be done by regaining for the central banking authority control over the lending policies and reserve position of the commercial banks—a control that was lost as a result of the wartime financing of the Federal Government.

The controls are qualitative in nature and quantitative. A so-called qualitative control over bank lending exists today in the form of Regulation "U" of the Federal Reserve System which sets the percentage a banker may loan on listed securities in all cases where the proceeds of the loan are used to carry or purchase listed securities. A second qualitative control is that over Consumer Credit which is shortly to be resumed, after a lapse since November, 1947, as a result of laws enacted by Congress last month.

In the quantitative field Congress took mild action last month when it gave the Federal Reserve Board power to raise member banks' reserves by 4% on demand deposits and 1½% on time deposits. In trying to solve the problems of control over credit by merely increasing the amount of required reserves some really ticklish problems are encountered. In fact, results somewhat the opposite of those desired may actually be achieved.

For instance, there is the problem of bank earnings. Obviously, if banks are forced to immobilize a larger and larger portion of their funds in reserves that earn no return, they might conceivably really start reaching for loans which carry higher rates of interest than government bonds. If banks are pushed too far in this direction they may cease to be a reliable market for the United States Treasury which, in the event of a return of deficit financing, may suddenly need a cheap market for new security issues.

Effectiveness of Increased Reserves

Again, with the commercial banks owning some $65 billion of government bonds, it is hard to see how the power to increase reserve requirements by a mere $3 to $4 billion—which is the increase likely to be achieved by the use of the power granted by Congress last month — can be really effective. Aside from the psychological impact of such a move it would probably have no appreciable result other than to cause the transfer of government bonds from the commercial banks to the Federal Reserve Banks. It is more realisitic to conclude that the authority to increase reserves is a stop-gap measure offering a breathing spell while we observe the course of business in the several months ahead. Obviously, if it becomes evident that inflation has run its course no further action need be taken. If it hasn't, then only time has been gained and the fundamental problem remains.

These and other reasons, such as the continued inflow of gold from abroad and the ever possible return to the banks of excessive currency from circulation, have led some of the experts, including Marriner Eccles, to suggest that the banks be required to keep a secondary reserve which, at the option of the banks, could be invested in short-term government bonds. This suggestion has been vigorously opposed because for the first time in our history it puts the government in a position virtually to force banks to buy and own its securities bearing whatever rate of interest the government chooses to pay.

One final observation concerning control over the money and credit mechanism of the country is this: the country's commercial banks are not the only institutions with the power to add to the spending stream—almost at will—by selling government bonds to the Federal Reserve Banks. The large institutional owners of government bonds — particularly the insurance companies—are in the same position as the banks except they lack the ability to use the funds several times over—an ability peculiar to banks because of the operation of reserves.

It seems quite clear that plausible objections will be raised to any plan looking to taking control away from bankers and giving it to duly constituted authorities. In banking, as in many fields of private enterprise today, we still hope to find some means by which we may "eat our cake and still have it."

To summarize, it is my belief that we Americans have been temporizing and compromising in the face of a dilemma—because we still fear the possibility of deflation more than the consequences of inflation. Time now runs against the likelihood of this course proving to be a happy one. We had better begin contemplating the wisdom of taking unpleasant medicine before we are the victims of a serious illness. The prescription is simple: "do any and all things that will curb or postpone spending by government or private buyers in the market place until and unless real production—not production measured by dollars of decreasing value—begins to catch up with the demands of an over-eager world."

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The Groundwork for Foreign Investments

(Continued from page 10)

vana, where the ITO charter was drafted.

It is easy to criticize the early results of these first efforts to obtain international cooperation in the field of foreign investments, and it is true that the results have not been too impressive; but it is hardly to be expected that misconceptions and abuses of long standing can be corrected overnight by voluntary agreements, made at the political level, by representatives of nations in various stages of economic development, of diverse social traditions and political philosophies. I am sure that progress is being made, however, and the effort is well worth while, if only to clear the air of some of the confusion on foreign-investment matters that these international conferences have brought into the open.

Businessmen who were present as participants or observers at these conferences were frankly appalled at the confused and muddled thinking on foreign investments exhibited by men in positions of political responsibility. It was all too apparent that there were fundamental misconceptions as to the nature and meaning of free enterprise, the process of capital formation, the potentialities of various countries for industrialization, its benefits, and its limitations in specific situations; and that there was too much faith in the ability of governments to create wealth by legislative decree through the use of public funds.

I believe it would be worth while to review the difficulties met by the drafters of the ITO Charter in their efforts to write an acceptable Article on International Investment for Economic Development. This Article, the controversial Article 12, began at Geneva as a simple statement of the value of foreign investments in promoting economic development and social progress, with an agreement by participating nations to provide the widest opportunities and the greatest security for such investments, consistent with the obligation of investors to refrain from interference in the internal affairs of the receiving country. An agreement along these lines, faithfully respected, would undoubtedly have been of great value. When it finally emerged from committee, however, this agreement was so modified as to provide full dispensation for governments who desired to continue to discriminate against existing investments or even to seize them for themselves or for their nationals. True, there was an obligation to provide "just compensation," but this was nullified by defining "just compensation" as payment in local currency, with no obligation to allow its transfer abroad.

Muddled Thinking and Distrust

This was certainly enough to turn an investor's hair grey but, unfortunately it is illustrative of the muddled thinking responsible for the distrust with which foreign investments are regarded. There is no deterrent to foreign investors as strong as the fear of expropriation when unaccompanied by prompt, adequate, and effective compensation (which means compensation in a currency that is acceptable to the investor); but it proved impossible, both at Geneva and at Havana, to obtain an outright commitment on this all-important matter. To be sure, the investment provisions of the Charter as rewritten at Havana, do away with some of the absurdities of the Geneva Draft, including the definition of "just compensation" and the exceptions to the rule of nondiscrimination. There now is an excellent provision in Article 12 requiring members to consult with one another and negotiate bilateral and multilateral agreements on foreign investments. Article 11, which also deals with foreign investments, is a good, well-balanced article; and it is possible that, through the years, the investment section of the Charter may evolve into something worth while. What seems most significant to many investors, however, is that the new Article 12, designed to reassure investors and revive the international movement of private capital, calls attention to the rights of sovereign states to take safeguards against foreign investments; to determine whether to accept them or exclude them; and to "prescribe requirements as to their ownership." In the absence of any requirement for the payment of prompt, adequate, and effective compensation, this statement of the "rights" of capital-importing nations is, indeed, disquieting. It is not that investors doubt the right of sovereign nations to nationalize foreign property, upon the payment of satisfactory compensation; but it seems the height of absurdity for nations which need and seek the aid of foreign capital to say to the foreign investor:

"We need your capital to assist us to develop our resources, promote our industrialization, increase our productivity. Come to us with your skills, your enterprise, and your money. Go into our mountains and jungles and uncover the wealth of our subsoil, which has lain dormant since the beginning of time. Build us factories to furnish employment for our people. Help us clear our forests and tame our rivers. Bring light to our cities, roads to our hinterlands, and the hope of a better way of life to many who have never known the comforts of modern living. Of course, you must respect our sovereignty. We know you understand that; but we must also inform you that after the mines are producing, the wells are pumping oil, the factories are constructed, the turbines are turning: we shall feel free to seize your enterprises, in whole or in part, compensate you in pesos or dollars, and allow you to take the compensation home or not, as dictated by our foreign exchange policy of the moment. Furthermore, we may set up government-owned enterprises to compete with you. They will be tax free, and their capital will be interest free; and we need not concern ourselves as to their efficiency and economy, as their expenses will be met from the public purse. We will, in the words of the Havana Charter—quote — give due regard to the desirability of avoiding discrimination as between foreign investments — unquote—but we reserve our right to practice other types of discrimination. Perhaps our past record has not been good, but be reasonable, and cooperative, and trust us, and you will not regret it."

This may seem an extreme interpretation of the views of countries in need of foreign capital, as expressed by their representatives in public debate at Geneva, Havana, Bogota, and elsewhere; but unfortunately for the hopes of the millions to whom foreign investments offer the best prospect for material improvement of their condition in life, this is how it seems to many, many prospective investors. To make my point clearer, I should like to read to you from a translation of an editorial which appeared last year in one of the excellent daily newspapers of a Latin American country: "If the foreign capitalists receive an invitation to invest money in our country and listen to the official promise that our country will be exceedingly pleased to respect the enterprises they establish, they must think of the legendary song of the sirens who, as the fable relates, lured the sailors of old with melodious voices, only to shipwreck them and destroy them on the reefs of the Straits of Sicily. It would not be diplomatic, nor wise, nor human, but it would be frank and honest to tell them . . . we have laws which enable the government to take over the enterprises . . . when it considers it convenient. We have a greedy bureaucracy, disrespectful of property, and leaders of syndicates who want possession and administration of the businesses, though they may be incapable of managing them properly."

These are plain words, cynical words, perhaps brutal words; and I was hesitant to include them in my talk today. I know that you gentlemen are not responsible for the mistreatment that foreign capital has suffered, and I know that the great creditor countries, including my own, have been guilty of mistakes in commercial and financial policy which have affected the security of the foreign investments of their nationals. I regret that my country has had its share of narrow-minded, isolationist politicians who do not see that when you injure your neighbor's business, your own suffers to an equal degree. My country has had, and still has, its share of starry-eyed but misguided idealists and planners who, in promoting their dream of an omniscient and all-powerful state, have found it convenient to ignore the social and industrial miracles wrought by free men under our system of democratic capitalism.

Time Has Come for Plain Words

But the time has come for plain words. We who believe in private enterprise free to venture where it will, to seek and find new and better ways to perform old tasks, to build, to grow, to make a profit commensurate with its service to mankind — we must make ourselves heard above the persuasive voices of the false prophets of the socialist millennium if we are to stem the advancing tide of state enterprise which has engulfed so much of our world. I know that there is a curious but widespread belief that underdeveloped countries, in particular, require an unusual amount of governmental intervention in business, as compared to the older industrial countries, whose development was more leisurely. As a firm believer in private enterprise, I say that this belief is false. It is true that industrialization under private enterprise cannot be accomplished overnight. It was not so in my country, in England, in Switzerland, or any of the other advanced industrial nations. I believe the reasons are obvious. Private, competitive enterprise, which must be efficient, productive, and economic, if it is to survive and return a profit to its owners, has to proceed with some caution. It must investigate carefully, buy wisely, build soundly, and operate efficiently. It cannot invest in ill-conceived, high-cost projects with no real economic justification, unless protected by high tariffs or other artificial trade barriers, which represent an indirect tax on the consuming public. Private enterprise must consider such things as raw material sources, the availability of fuel and power, the quality and supply of labor, the nearness of consumer markets, the transportation facilities, and the relative efficiency of producing a product at home or importing it from some relatively low-cost producer.

Private Enterprise Builds Soundly

But wherever private enterprise is truly competitive, it builds soundly; it has the know-how to do things well; it does first things first. It produces for the home market before it seeks to sell its wares abroad; it processes locally-produced materials rather than costly imported commodities; it does not construct airplanes where the public needs clothing, farm implements, and building materials, but has neither the funds nor the desire to buy airplanes. It does not construct a steel mill where there is no nearby source of coal or iron, or even an established market for the finished product.

This is not to say that private enterprise lacks foresight or vision—that it is not willing to venture. Call the roll of man's greatest achievements—his discoveries, inventions, and scientific miracles; list the great commercial organizations, industrial establishments, and financial institutions which carry on so much of the world's work. These are monuments to private enterprise. They represent the eagerness of men to venture, to discover something new and useful, to do something better, to build more economically than before. These discoveries have been made and these enterprises have been built by men who have carefully calculated the risks involved, under the stern compulsion of competing with other men and earning a profit.

Despite the achievements of private enterprise and the conspicuous failures of government enterprise, past and present, a fallacy still persists that governments, because of their resources and initiative, can do more for the people, and more quickly, than can the people themselves. But what resources, what initiative does a government possess that comes not from the resources and the initiative of its citizens and the business concerns which they have built? Governments do not, and cannot, have any capital other than what they take from their subjects. My money and your money is in these government enterprises. If they are unable to operate at a profit, it is your loss and my loss; and if, being high-cost producers, they need high tariffs, you and I must pay the difference.

Let those who prefer government to private enterprise ask themselves these questions: If I had free choice, would I consider this enterprise a suitable investment for my savings? Would I willingly entrust its operation and management to political appointees? How will this enterprise, and other like it, affect the buying power of my wages? Will it be able to sell a product of equal quality more cheaply than private enterprise, and will my money buy as much after the inevitable inflation which results when governments spend and build faster than their peoples can save and produce? And they may well ask —what price government enterprise and what price industrialization if achieved at such a cost? What price in inflated living costs? What price in a future mortgaged by debt? What price in a constant narrowing of the opportunities for private enterprise? What price in the encouragement it gives to the exponents of the Godless doctrine of the all-powerful State, where the common man has neither enterprise, nor freedom, nor individual dignity?

I trust that you will understand the spirit in which I ask these questions. I do not wish to be captious, or unduly critical. I am in full sympathy with the natural desire of every nation to make the most of its resources, and I would be the last to decry the benefits of sound industrialization. I have devoted the greater part of my life to the development of the electric power industry in Latin America—a key industry in the process of industrialization, and one which is largely dependent on industrialization for its well-being; but out of this experience I have learned that industrialization which is basically unsound, or pushed at too rapid a pace, can bring only disillusionment and heartache. It is this impatient urge to industrialize that frequently leads to government participation or intervention in industry. I know that these government activities often are motivated by a sincere desire to bring quickly to the people the advantages deriving from an increased productivity; and I know that there are instances, in my own country and elsewhere, of enlightened governments which have cooperated successfully with their citizens in providing some of the funds needed to finance projects requiring a high capital investment and which are basic to the industrial progress of the nation; but I also know that where this has been done most successfully, it has been done in cooperation with private industry, with the management and direction remaining in private hands.

Private Investor Fears Government Participation

It is not then, the simple fact of government participation that the private investor fears. It is right that government should be concerned about the welfare of the citizen, that it should assist and encourage private capital in developing the nation's natural wealth so that it can be made available to all who earn the right to share in it. It is not right for government to squander the national patrimony on uneconomic projects, or projects which can be carried out to better advantage by private enterprise. It is right for government, in its concern for the general welfare, to place restrictions on monopolistic business practices which withhold from the citizen the benefits he would receive under competitive conditions; and it likewise is the part of government to enact democratic measures for the regulation of industries which are natural monopolies — industries in which the element of competition does not exist. But it is not the part of government to intervene directly in the management or control of an industry which is law-abiding and productive, and it is not right to justify such intervention by the enactment of deliberately prejudicial legislation or by otherwise creating conditions under which private operations are unprofitable.

Must Create Safe Atmosphere

If we believe in these principles, and I am sure we do—if we want to create an atmosphere in which all investments, both domestic and foreign, can be productive and profitable—we must stand ready to defend them at all times, in all places, with all the vigor and cogency of argument of which we are capable. We must concern ourselves more with the processes of government—participate more in the councils of state and in the various international organizations — wherever policy is being made, wherever the democratic process is being followed. If the specious arguments of the apologists of state enterprise, who regard foreign investments as an obstacle in the way of achieving their ultimate goal, do prevail in our legislative assemblies, in the conferences of the American states, and in the halls of the United Nations, we shall be partly to blame. We have given inadequate expression to our faith in private, competitive enterprise; and we have not always practiced what we have preached.

Those who deprecate the achievements of private enterprise are aided, unwittingly, by businessmen who, in their disregard for the public welfare, provide the evidence for their own arraignment before the bar of public opinion; and it is indeed unfortunate that the innocent must suffer with the guilty. Of course, the guilt is not all on one

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side; but it is a fact that foreign investors are haunted, not only by the past misdeeds of the exploiters of other generations, but by the fear of violent public reaction against the present-day excesses of local capitalists. In some of the underdeveloped countries, where the general standard of living is deplorably low, the public receives little or no benefit from such industrialization as has taken place. Wages paid by local industries have failed to keep up with the soaring cost of the necessities of life, produced in part by these same industries and made unnecessarily costly by unreasonable profits. Furthermore, these profits, to which are added those of retailers and other distributors, may be protected by tariffs and other barriers, erected to keep out competing products, produced at lower cost, in other countries.

In a country where local industries are accustomed to annual profits of from 25% to 50% or more on invested capital, and retail mark-ups of 100% to 200% are common, true competitive conditions, the hallmark of private enterprise in the more developed countries, do not exist; and the future of all private business, domestic or foreign, is jeopardized. One of the ironies that the foreign investor sometimes faces in these situations, especially if his investment is in a public service industry whose rates are subject to political control, and I speak feelingly on this point, is that the foreign-owned industry, which may be hardput to earn even a nominal return on its capital, is made the scapegoat for the incidence of high living costs and public unrest, for which it is not responsible. It is always easy for unscrupulous agitators to divert public unrest into resentment against the foreigner, and demands for higher wages and social benefits often bear more heavily on foreign enterprises which may pay their workers higher wages than domestic enterprises whose rate of profits is much greater.

I am not indicting any one nation or group of nations with these excesses of economic nationalism, which add so much to the hazards of foreign investment. My only purpose is to present to you, as frankly as possible, the unfavorable aspects of foreign investments, as they appear to investors in my country. Many of the nations represented here have had an admirable record in their treatment of foreign capital, but, unfortunately, the prospective investor does not always distinguish between country A and country B. For example, if both are Latin American nations, expropriation of foreign-owned property in country A raises questions not only as to the safety of all foreign property in country A, but as to the safety of all foreign investments in Latin America. That is why it is so important to persevere in our efforts to obtain as wide an acceptance as possible of an International Code of Fair Practice relating to these foreign investments.

The Bogota Agreement

I believe that the American nations are to be congratulated for the progress that was made at Bogota in writing such a code and I regret that some nations, because of constitutional or other reasons, have felt it necessary to enter reservations on specific articles of the investment section of the Bogota Agreement. It is particularly noteworthy that a provision was written into this section for prompt, adequate and effective compensation in cases of expropriation. It is also encouraging to note that bilateral negotiations have recently been initiated between several of the American republics for the purpose of writing reciprocal agreements on commercial and financial policy, including the treatment of foreign investments. Progress must, indeed, be made on all fronts simultaneously. Bilateral agreements, regional agreements and international agreements are all to the good.

Even more important, however, is educational work. It is essential that the proper "ambiente" be created for foreign investments. It is useless to legislate and pass resolutions if prospective investors are not convinced of the advantages of exporting their capital and if the general public in the importing country is not convinced of the desirability of receiving and safeguarding it. The greatest service that we, as business men and patriotic citizens, can render to our respective countries in the field of foreign investments is to assist in this educational work.

During the course of the two decades and more of my close association with the electric power industry in 11 Latin American countries, I have found friends, in all walks of life; and their confidence and friendship are among my most cherished possessions. I know that they are as distressed as I at the misunderstandings which sometimes arise between these countries and North American investment interests, frequently resulting in agitation against foreign-owned enterprises. Out of innumerable discussions with my friends and business associates on these investment problems, I have reached the conclusion that the only real remedy lies in a wide dissemination of the fundamental facts that underlie the relationships between the investor, the industry in which his capital is invested, and the public it is designed to serve. I would like to suggest some of these fundamentals to you.

Fundamental Facts

First, as to the nature of investment capital and the processes of capital formation. In the popular mind, capital means money—actual currency, checkbook money, or borrowed money—and it comes from one of two sources from the accumulated fortunes of the rich, or from the coffers of the government which, in turn obtains its funds by borrowing or by levying taxes against these same wealthy corporations and individuals. That is the popular belief. But capital, as we know, is not money; it is machines and tools and equipment, representing the expenditure of human energy in productive work and the willingness of untold numbers of hard-working, thrifty people to consume less so that they may save and invest more. New capital comes only from the savings of the people who, out of choice or necessity, forego for a time the enjoyment of the good things that these savings might buy, in the hope of enjoying them later, in greater measure. I use the expression "out of choice or necessity" advisedly, to distinguish between private investments and government loans. When new capital is represented by government loans or investments, it only means that the government decides for its citizens what shall be done with their present savings and, too often, with the savings of millions yet unborn. It should be obvious, therefore, that the investor who, in the final analysis is not a heartless or soulless corporation or an impersonal government, but an individual with human needs and desires, will not willingly forego the present enjoyment of the fruits of his labors unless he is assured that they will be returned to him with profit.

No Substitute for Profit Motive

It is one of the peculiar anomalies of our time that those who are least in sympathy with the need for encouraging private foreign investments are most vigorous in their sponsorship of government developmental programs financed from government borrowings. No one with any knowledge of the subject would seriously argue that governments can do a better or more efficient job of financing, building or producing than can private enterprise. There just is no substitute for the profit motive in making men productive and efficient and there is no substitute for the experience and know-how which private enterprisers bring to their tasks. It must be, then, that this preference for government programs of economic development, financed by borrowing, is built on the illusion that government capital is easier to get, easier to service and easier to repay. Now how can government capital be easier to repay or to service than private capital unless, by producing more efficiently, it adds a larger increment to the national wealth? I will concede that, during recent years, government capital may have seemed easier to obtain. However, the illusory nature of the belief that government loans and credits, largely of United States origin, can meet the world's needs for new capital already is becoming apparent. Not only the willingness but the ability of the people of the United States through their government, to continue to generate and supply the vast amounts of capital required for world reconstruction and development needs, is wearing very thin. Furthermore, all the funds presently available to the various international lending institutions, which, after all, were set up as emergency measures, represent only a small fraction of the world's accumulated requirements. New capital required in the United States alone to replace worn-out and obsolete plant and equipment and provide for necessary industrial expansion has been variously estimated at between $35 billion and $45 billion a year, for the next five years, an amount considerably in excess of the estimated capital formation or total savings in the United States for that period.

U. S. Has No Surplus Capital

The belief, which seems to be quite general, that the United States has a huge surplus of capital and capital goods beyond its own needs, which it is under some sort of economic compulsion to export on terms set by the recipients, is very far from the truth. The direction of the flow of international investment funds is governed, normally, by the principle of comparative advantage, and any deviations from that principle, resulting from emergency acts of governments, are bound to be short-lived. With an abundance of profitable investment opportunities at home, the hard-working, thrifty individuals whose savings, invested in banks, insurance policies and securities, constitute the real source, and only dependable source, of capital for new investment, must be shown an advantage in risking their capital in foreign lands. The memory of previous unfortunate experiences has made many of them wary. Yet if they can be shown an enterprise that has a sound economic basis, managed by men who know their business, and located in a country which will permit the enterprise to operate on business principles, earn a profit, and transmit the earnings to its owner, this natural hesitancy can be overcome.

I know that few nations deliberately create conditions which make it impossible for foreign enterprises to operate profitably. The few that do, inevitably suffer the economic penalties of their misguided nationalism. Usually, the difficulty lies in fundamental balance of payments problems, or in persistent errors in financial and economic policy. Reduced to its simplest terms, it comes to this: nations, like individuals and corporations, need to have a definite knowledge of the nature and extent of their resources. While constantly alert for means to develop these resources and add to their productivity, they, like individuals, need to budget their income and expenses carefully so that excessive capital expenditures and inability to meet current bills will not endanger their credit standing. It is better to take the time required to build soundly and surely than to risk bankruptcy by over-expanding with borrowed money.

Finally, and this is fundamental: neither nations nor men can live unto themselves alone. If we wish to sell, we must buy; if we wish to prosper, we must be concerned about the prosperity of our neighbors; if we want our neighbors to cooperate with us, we must be ready to cooperate with them.

Here in our free America, this hemisphere which Providence has endowed with untold riches of field and forest and mine, there should be no horizon to man's aspirations — no limit to his achievements. Posterity will hold us to account if we are content to rest while any of our resources of men and materials remain dormant and unproductive. We who represent the commerce and industry of America, in these critical years of economic strain and social ferment, have a unique responsibility to our own and future generations. Here in America is man's best, perhaps his only hope to keep alive his age-old dream of a place where men can work in freedom, live in peace and dignity with their fellows, and enjoy with them the good things which their combined labors have produced. Working together, with all the energy, the enterprise, and the will of free men, we can help to make this dream come true, and the benefits, of necessity, will spread throughout the world.

Railroads—Victims of Gigantic Squeeze

(Continued from page 14)

industry cannot be bled white, and at the same time expected to build for the future and continue to package its services at a price that will encourage rather than hamper the free flow of commodities and travel within our country.

Dr. George S. Benson, President of Harding College, Searcy, Arkansas, a great educator and a recognized authority on the subject of economics, in a recent speech entitled "Make Mine Freedom," made the statement that it was industrial profits, not wages, that provided the worker with efficient tools to ease his job, increase his production, and shorten his working hours. He stated further that in 1947 wages paid to workers totaled $100 billion, which was about 18 times as much as was paid to the owners of the tools—yet the tools did the majority of the work. If there is any actual unfairness when the facts are all before us it would appear that the owners of the tools are getting too little. If they are getting too little, it will ultimately decrease investment in tools, decrease production of the worker and thereby decrease wages, thus injuring the entire economy of the nation. No doubt many of you find that this description fits your own immediate problems.

Perhaps some of you believe I am painting too pessimistic a picture. I am certainly not a pessimist. In fact, I am just the opposite. But I do believe in facing the facts.

We on the Katy, despite these problems, and many others have the greatest confidence in the future of the Southwest, of Texas, of Wichita Falls and other cities, and of our railroad. We believe that the energies and thoughts of the citizens of our great nation will eventually solve the problems which are at present threatening our very democracy. Surely a country that has become as great as we are in less than two centuries can cope with the dangers which are arising on every hand. It will take the united efforts of all of us, individually and collectively, but we can do it.

In this connection, I wish to read to you an editorial taken from "Harper's Weekly": "It is a gloomy moment in history. Not for many years have there been such grave problems—In France the political cauldron bubbles with uncertainty; Russia hangs as usual, like a cloud, dark and silent, upon the horizon of Europe; while all the energies, resources and influences of the British Empire are sorely tried. It is a solemn moment, and no man can feel indifference. Of our troubles no one can see the end." This editorial was printed in "Harper's Weekly" on **Oct. 10, 1857.** So you see, people in all ages have their troubles, but always hard work, understanding and faith have led them from the shadows into the light.

Threat of Nationalization

I do wish, however, to leave what I consider a vital thought with you. Because the railroads are the most basic and vital industry in any country, any attempt at nationalization would likely be first focused on that industry. Once this should happen, then the path would be made easier for government control of other industry. We have seen this happen in England — where democratic government was born — yet we still say that it cannot happen here.

One thing is certain—we must be alert—we must not submit to this insidious invasion of our rights as free men—and I say again that forces are at work within our democracy aimed to bring about just such a catastrophe. The problem facing the railroads is a problem that will face all industry if we fail to act and act promptly.

The problem belongs to all of us.

Let me repeat that the Katy believes in the future of the nation and of the territory we serve, and we do believe that democracy in this country will prevail. As evidence of our confidence in the future, I would like to remind you that the Katy is constantly making plans for new equipment, improved facilities, better roadbeds, more rolling stock, signal and radio control. We have spent and are spending millions of dollars on these improvements, all of which adds to the efficient and safe operation of the railroad. We hope to continue these programs, and continue to serve Wichita Falls and the Southwest as a stable and free enterprise.

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — Arthur M. Baumgart has been added to the staff of Herrick, Waddell & Reed, Inc., 8943 Wilshire Boulevard.

Joins C. E. Abbett Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Edward A Fitzgerald has joined the staff of C. E. Abbett & Company, 3277 Wilshire Boulevard.

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The Theory of Relativity In Selecting Railroad Bonds

(Continued from page 8)

would not have qualified under the standards set up by statute.

New Jersey, in 1946, and Massachusetts this year, amended their laws governing savings bank investments in railroad bonds. Unlike Pennsylvania, Vermont and Connecticut the new laws continued to specify definite yardsticks but yardsticks which automatically changed with the changing conditions. When I was asked to work on changes in the New Jersey law it soon became apparent to me that providing for a coverage of fixed charges of say, two times, would keep out too many roads in a period of depression and let in too many roads in a period of prosperity, and that what was needed was a yardstick which would automatically adjust itself to changing conditions. In the railroad industry such a yardstick is readily available—the average for all Class I railroads. In periods of prosperity the Class I average will be up and in periods of depression it will be down. I suggested, therefore, that the law provide that a road to qualify must do better than the Class I average. As specific yardsticks I chose the coverage for fixed charges and the percentage of gross remaining after the payment of fixed charges, both figured before Federal income taxes.

The "Fixed Charges" Coverage

The coverage for fixed charges is a yardstick with which you are all familiar. The other yardstick is the "margin of safety" or the percentage of gross remaining after the payment of fixed charges. The coverage for fixed charges is a very important yardstick but it does not tell the whole story. If fixed charges are very low in relation to gross revenues a road may show a large coverage in periods of prosperity and then fail even to earn operating expenses with a falling off in traffic. For instance, it the fixed charges of a road amount to only 1% of gross revenues, it could show a fixed charge coverage of one and one-half times, the ratio formerly used in your law, and still have only one-half of one percent of gross remaining after the payment of fixed charges. Such a road obviously would be extremely vulnerable to any decline in traffic or increase in costs. The inclusion of the second yardstick would have been advisable even in the pre-depression days. It has now become vitally important by reason of the drastic scaling in the fixed charges of many roads through reorganization. Many of the reorganized roads have fixed charges amounting to only 1% to 2% of gross revenues.

There are many tests that might have been used but the provisions of a statute of this kind must be kept relatively simple and it seemed impractical to use more than two yardsticks. I think the two chosen are the most important ones.

I do not wish to imply that the relatively simple requirements which are all that can be set forth in a statute are entirely sufficient to comprise a workable standard under any conditions. On the contrary I think there should be a provision such as you have in Section 15c of the Massachusetts law giving the banking authorities power to waive the provisions of the law at their discretion. I think that this provision, however, should be sparingly used and I am sure that it will be. For example. I think it should be used to qualify the bonds of a road which, through some extraordinary event, such as losses sustained by reason of a flood or hurricane, fails to qualify in a given year although it has a long previous good record.

The Mortgage Position

Some of you may wonder why I have said nothing about mortgage position. The experience of investors in the depression of the nineties, when there were a considerable number of railroad bankruptcies, had been that even in case of bankruptcy sound underlying bonds proved very satisfactory. Not only were these bonds undisturbed in the reorganization plans adopted but during the period of bankruptcy there was in most cases no interruption of interest payments. This same experience was repeated in some of the railroad receiverships of later date, notably in the case of the Chicago, Milwaukee & St. Paul in 1925 when the General Mortgage bonds, the principal underlying issue of the System, were undisturbed and paid interest regularly during the receivership. However, the experience of investors with underlying bonds of bankrupt railroads during the depression of the 1930's was very disappointing. Rock Island Generals, North West Generals and others which in 1930 were considered well secured underlying bonds and carried Moody's highest ratings all went into default, and in reorganization received stock or contingent interest bonds for a substantial portion of their claim. In a number of cases even small underlying issues which had been considered proof against any possible vicissitude went into default and remained in default for long periods. The reason why some of these strong issues were in default for years lay in the fact that net earnings of some of the bankrupt systems declined to such a point that the bankruptcy trustees were compelled to use the surplus earnings of the profitable segments covered by these bonds to make up operating deficits on other parts of the System.

There are other considerations besides the poor record of underlying bonds in recent receiverships. One is the difficulty of differentiating in a law between good underlying, divisional, or leased line bonds and poor ones. For instance, in 1930 Old Colony bonds were legal in Massachusetts and Harlem River & Port Chester 4s were not. How divisional liens will fare in reorganization depends to a considerable extent on segregation and severance studies which are not made until the road is in trouble. Although there are exceptions, my general feeling is that if a road cannot meet the requirements of the law savings banks are just as well off avoiding all of its mortgage bonds and if it can meet the requirements then it is up to the individual institution to determine whether it wants the added protection of an underlying mortgage. In any event the question of underlying bonds today is far less important than it formerly was as most of the recently reorganized roads have only one fixed interest mortgage.

It is evident that your law restricts purchase to the bonds of railroads which have done better than the average of the railroad industry. For this reason even in times of prosperity when practically all the railroads are making money it still excludes the bonds of the weaker systems. Under a rigid standard of coverage for fixed charges these weaker systems might qualify in a time of great prosperity. Under the flexible standard, although they may have covered their fixed charges two or three, or even four times over, the strong roads are doing so much better that the weaker roads are still below the average. Their bonds, therefore, fail to qualify for savings bank investment. So one of the troubles which the old rigid standard type of savings bank law brought about is eliminated. On the other hand, in periods of depression, when the old rigid standards disqualify all but a few roads the elastic standard allows savings bank investment officers to choose from a reasonable number of roads. In fact, the number of eligible roads shows suprisingly little change in a period of depression as compared with a period of prosperity.

To make both these points clear, let us see what would have happened if the provision now in the law had been in force in Massachusetts in 1930 and thereafter. In 1930, the bonds of 18 roads would have qualified and in 1933 16 roads would have met the test. Of the 18 roads qualifying in 1930 none got into trouble and of the 16 qualifying three years later the only casualty was the New Haven. In other words, in 1930 you would have been immune to trouble and in 1933 you would have had plenty of opportunity to buy sound bonds at bargain prices.

This record shows that the provisions of your new law would have worked well in the past. It should work equally well in the future. Its provisions are fitted to the peculiar characteristics of the railroad industry. Two of the outstanding characteristics of the industry are first, the cyclical character of railroad earnings and second, the interdependence of the railroads which, paradoxically, makes the weak roads protect the strong. In explanation of this, I shall have to say something about the railroad industry. My time is so limited that I must make the explanation as brief and simple as possible, even though I run the risk of over-simplifying a problem which has at least its full share of complications.

Railroad Industry Is Cyclical

That the railroad industry is now cyclical is well recognized. Gross revenues for a number of years past have fluctuated with fluctuations in the volume of the heavy industries. I think it is safe to assume that this will be the case in the future and that there will be cycles in production and business as there have been in the past. In a period of prosperity railroad wages are increased and costs generally tend to rise. The ensuing depression brings a falling off in traffic, the extent of the decline depending upon the severity of the depression. Because the margin of profit of the railroads is relatively narrow and because a substantial proportion of expenses is more or less constant and varies little if at all with traffic, railroad net earnings during a depression tend to decline considerably faster on a percentave basis than gross. If the decline in gross is not too severe the roads may be able to absorb it without any upward adjustment of rates or downward adjustment in unit costs. If the decline is severe relief in some form become necessary. But there is an unavoidable time lag between the falling off in earnings and the relief, whatever form the latter may take. It is during this period that conservative institutions like savings banks are glad to be invested in the bonds of the stronger lines.

While I expect business generally, and railroad traffic and earnings to fluctuate much as they have in the past I have some hopes that the down swings will bring fewer railroad bankruptcies than they have hitherto. If my hopes are well founded it is possible that the standards embodied in your new law may prove to be somewhat too strict. If this should be the case it would be very simple to modify them slightly without changing the fundamental concept, namely the variable yardsticks. However, until events have proven that my hopes are well founded I would prefer, in the matter of savings bank investments, to err a little on the conservative side.

Interdependence of Railroads

The other peculiar characteristics of the railroad industry, as I have said, is that the interdependence of all the railroads results in the weaker roads protecting the stronger roads. Although our railroad system is made up of a number of independently owned and operated railroads (there are some 130 Class I roads at the present time), each of these roads is in a sense dependent on all the others and on the other hand, competes with all the others.

The close relationship which exists between the various railroads is not found in other industries. The situation in the utility industry, for example, is quite different. Electric light and power companies do not as a rule compete with one another and except for interconnections which permit exchange of power under certain conditions, the various systems are virtually independent. The fact that utility company B is not earning its operating expenses is no protection to the stronger utility company A. B's position can be strengthened without any effect on company A. However, if railroad B in a similar predicament is to be strengthened, the stronger railroad A is necessarily helped at the same time. A rate change by one utility company is not likely to have any effect on another company even though it may be located in adjacent territory.

Not so the railroads. Comparatively little freight traffic moves over only one railroad. Most of it moves over more than one, much of it over several different roads. Freight rates cannot be reduced on a strong railroad which is showing substantial earnings without at the same time reducing rates on a number of weak roads whose earnings showing may be very unsatisfactory. Neither can the rates of the weak roads be raised, no matter how much they need increased revenue, without raising the rates on strong roads which have no need of higher revenue. One of the most striking examples is the position of the so-called Pocahontas roads—the Norfolk & Western, Chesapeake & Ohio and Virginian. A large part of the traffic of these roads is bituminous coal and they have been for many years extremely prosperous. Even during the worst years of the 1930's they not only earned their fixed charges by a wide margin but were able to pay substantial dividends on their common shares. Obviously none of these three roads is in need of increased revenue in the form of higher freight rates. Nevertheless, in each of the several freight rate increases which the Interstate Commerce Commission has granted it has been compelled to order rate increases for these roads in order not to give the producers of Pocahontas coal an advantage over coal producers on other coal carrying railroads which needed the higher rates.

If the country is to continue to have a railroad system under private ownership, and I think the last few years have conclusively proven that an efficient railroad system is absolutely necessary in either peace or war, and that private operation during World War II was more efficient than government operation during World War I, the weak roads must be permitted to charge rates which will at least permit them to operate. Even if the rate structure permits only the weak roads to earn operating expenses there are many strong roads which will enjoy a very fair degree of prosperity. For this reason, and because the railroads are obviously essential to the life of the country, I believe the bonds of the better roads are excellent savings bank investments.

If private ownership under government regulation does not survive and the government has to take over the railroads, certainly the holders of bonds of the strong roads, outstanding at a very moderate amount in relation to the property on which they are secured, should be fully protected.

In conclusion, I want to say that all laws of this type are necessarily restrictive. An institution free to invest without restrictions may make a better record than one which is compelled to stay within the provisions of a statute. It may make a worse record. The results will depend upon the judgment of its responsible officers. Yardsticks or standards of any type must be based on past performance, not on estimates for the future. The use of statutory standards in the railroad field has the disadvantage of preventing the purchase of the bonds of a road which has done poorly in the past but which may do well in the future. However, it also has the advantage of preventing the purchase of the obligations of a road which has done poorly in the past but which some investor thinks will do better in the future but which, as a matter of fact, never does do any better. But if we are to have restrictions on the investments of savings banks I believe that the provisions embodied in your revised law are a great improvement over those formerly employed, and I hope and believe they will work out satisfactorily.

McCloy Reports on World Bank Progress

(Continued from page 13)

ing to raise production levels and living standards throughout the world."

The Situation in Europe

Loans which the Bank has already made to Europe, by permitting the borrowing countries to sustain for a time the necessary volume of essential imports, according to the report have helped prevent a disastrous drop in production and possible economic collapse. The Bank has been fully aware, however, that these loans, vital as they were, provided only a partial solution to Europe's problems. It has been clear for some time that United States financial assistance to Europe, in the form of the European Recovery Program, would greatly exceed for the time being any amounts which the Bank might lend.

ERP funds are being used primarily to furnish urgently-needed food, fuel and raw materials. The report points out, however, that the fundamental need of Europe is for a far-reaching reorganization of its economy. It will not suffice, the report says, to restore European production and trade as they existed before the war. The magnitude of Europe's problems makes thinking in prewar terms unrealistic. New and bold concepts are required if Europe's fundamental weaknesses are to be corrected and new sources of strength provided. The volume of production must be greatly increased, the costs of production substantially reduced, and there must be a reorientation of Europe's trade channels to conform to the fundamental changes which have taken place in world conditions. The basic objective of ERP, the report says, is to enable Europe, by its own efforts, to achieve

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a fundamental readjustment in the structure of its economy.

The report continues: "The effect of ERP cannot, therefore, be measured either by the particular types of goods it enables Europe to import, or by the specific uses to which those particular goods are put. The test is a much more fundamental one. It is whether the European countries participating in the program, during the period while ERP funds are available to help support their consumption standards, will be able to use the opportunity thus afforded to expand, modernize and reorganize their productive mechanisms and to effect the necessary changes in the pattern of their trade."

Reduction of the balance of payments deficits of ERP countries by 60% to 75% by 1952—which is the stated goal of ERP—may well appear difficult, the report says, but is a minimum requirement. If by the end of the ERP period these countries are to become independent of extraordinary outside aid, the report states, more must be accomplished than has yet been faced up to. The measure of accomplishment must be what is necessary, rather than what has been possible in the past.

Among difficulties facing Europe the report lists the "plague" of world-wide inflation, shortages of goods, governmental expenditures for purposes not directly productive, and lack of firm financial policies. It says substantial opportunities exist to increase industrial output through better management techniques, the standardization, concentration and specialization of production, removal of unnecessarily restrictive trade union practices, and in some cases longer hours of work.

There is also need for a substantial program for modernization and expansion of Western Europe's plant and equipment. This cannot be accomplished, the report says, without the continued diversion of a considerable part of production from consumers' to producers' goods; and while such a policy is severe, ERP countries cannot become self-supporting by 1952 unless they maintain the discipline necessary to carry it out.

The report stresses the importance of freeing intra-European trade. Trade barriers in whatever form, it says, tend to breed productive inefficiency, and unless the markets for European products can be broadened and greater freedom of intra-European trade atttained, the hope for ultimate European recovery will be dimmed and the opportunity afforded by ERP will be lost.

It continues: "Unless the Western European countries can, by union or otherwise, find the key to unlock the gates which now obstruct the free flow of goods, manpower and capital among them, there is grave doubt whether they can in the foreseeable future sustain their peoples at a standard of living approaching prewar levels."

With regard to the problem of Germany, the report says that the low level of production in Bizonia—still only about 50% of prewar levels—has been due primarily to chaotic monetary conditions, the almost complete disruption of trade connections, and the over-all political uncertainty. It says that the condition of Germany has direct and immediate repercussions on the economic situation in the rest of Europe.

The shift in world trade patterns is another factor which affects Europe. Before the war Western Europe normally depended on its trade with the Far East, particularly Southeast Asia, to provide it with dollars to finance its import surplus from the Western Hemisphere. The report points out that this situation no longer obtains, and says that the long-run need is clearly for Europe both to increase its exports to the dollar area and to decrease its imports from that area. As to the Bank's proper role during the ERP period, the report states that two points furnish a significant indication of this. The first is the necessity that the ERP countries maintain as high a rate of investment as is compatible with monetary stability. The second is the insufficiency of ERP funds to meet all of Western Europe's investment requirements. It was expressly assumed, in determining the amount of United States aid, that the Bank would advance substantial credits to Western Europe during this period. The report continues:

"It seems clear, therefore, that there is a real need for Bank financing in addition to the financial assistance made available by the Economic Cooperation Administration. Furthermore, since the first claim on ERP funds will be necessarily for those imports most immediately essential, the long-range investment field seems obviously the one most appropriate for Bank assistance."

The Bank intends to supplement ERP, the report says, to the extent that the Bank's resources and the credit standing of ERP countries permit, primarily by financing projects which involve permanent additions to Europe's productive capacity, and which will stimulate trade. It will also ensure that such projects are consistent with any over-all investment program formulated by the Organization for European Economic Cooperation. It is not possible to estimate the extent of possible Bank assistance at the present time. To the extent that ERP funds are made available in the form of grants rather than loans, and that loans out of ERP funds are made on terms which do not interfere with Bank financing, ERP aid will facilitate rather than impede the Bank's operations in ERP countries.

The report states that the Bank believes there are substantial opportunities for the development of the productive resources of its member countries in Europe which are not participants in ERP. It is unfortunate but nonetheless true, it continues, that existing political difficulties and uncertainties which may have a direct effect on the economic and financial conditions in those countries present special problems which have thus far prevented the Bank from making loans in those countries. The Bank hopes, therefore, that the existing uncertainties can be clarified to an extent which will enable it to render financial assistance in the development of such countries, which will be of benefit not only to them but to Europe generally.

There is a clear interdependence, the report says, between European recovery and economic progress in the rest of the world. The rehabilitation of Europe, by providing both an increased source of supply for the goods needed for development and further industrialization of such other areas as Latin America and Asia, and an increased market for their products, will contribute substantially to their prosperity. Equally, the further development of other areas of the world, as both a market and source of supply, is essential to the long-run economic well-being of Europe.

Latin America, Asia, Africa, Middle and Far East

The Bank's continued interest in assisting European recovery has not prevented a definite increase in its activities in other parts of the world during the past year. In the long run the report states, the problems of the Bank's underdeveloped member countries will undoubtedly constitute its primary concern.

Apart from the two loans to Chile for hydro-electric and agricultural development, several other development loans are in an advanced stage of negotiation, and discussions are in progress with regard to other projects in many different countries. Nevertheless it remains true that the number of sound, productive investment opportunities thus far presented to the Bank is substantially smaller than was originally expected.

The report attributes this fact in part to the length of time required to complete engineering and other technical studies necessary to bring projects up to the point where they are ready for financing. In large measure, however, it reflects other specific difficulties: the lack of economic, financial and in some case political stability; lack of local capital; lack of technical skills and and trained managerial personnel; lack of planning. It shows clearly that sound development requires much more than simply making available large sums of money.

For almost all underdeveloped countries, the report says, it is necessary to secure help from foreign technicians and also to institute programs of technical training to build up an adequate local supply of skilled personnel. Direct investment by foreign business enterprises has the special advantage of supplying technical and managerial skills, as well as capital.

Bank's Role in Development Field

Defining the Bank's role in the development field, the report states:

"The Bank is convinced that its resources cannot be used effectively to expand production and to raise living standards unless they are invested in well-prepared and well-planned projects. It is also convinced that sound development is best promoted, not by sporadic injections of large amounts of capital, but rather by a steady flow of capital in moderate amounts. The Bank's approach to its underdeveloped member countries has been framed accordingly. That approach is one of willingness to help its members to analyze their development problems, to work with them in mapping out the broad lines along which their development may be advanced most soundly and rapidly, and whenever possible to select for initial financing those projects which seem most likely to contribute to such advance. Where economic or financial conditions in the borrowing country are such that they endanger the productive purposes and the repayment prospects of a Bank loan, such a loan will normally be conditioned upon measures designed to bring about financial and monetary stability and, where necessary, reestablishment of the country's credit. This approach by the Bank necessarily varies from country to country."

It is important for an underdeveloped country, the report states, to work out an over-all development program in order to minimize spotty and wasteful investment. Such a program should be based on the existing natural resources, the country's location, climate and type of population, and the financial and administrative resources available. It should attempt to balance the increase of production to meet essential domestic needs with the development of exports to accessible markets. The program should favor the application of the limited supplies of capital to projects which will result in the greatest increase in production and trade in relation to the size of the investment.

Primary development needs may be for improvement in transportation and communication facilities; for power projects; for water systems and other public utilities; for improved techniques in the production and processing of agricultural products; for industries, irrigation projects or resettlement programs—to list but a few of the forms which the report points out development projects may take.

In almost every case, the report says, the establishment or expansion of appropriate manufacturing and processing industries is an essential aspect of sound development. It will normally be advisable to lay initial stress on light consumer goods and processing industries which employ small amounts of capital equipment per worker and can build upon traditional skills in the introduction of mechanized techniques.

The report continues:

"The Bank is not, of course, interested in promoting any particular pattern of development nor has it formulated any detailed policies regarding the types of projects which it is willing to finance. Nonetheless, there are certain broad general principles which must guide its action. First, because the Bank's resources are limited in relation to the total development needs of its member countries, it must emphasize those strategic projects which will eliminate production bottlenecks or generate increased output of related goods or in related areas. Second, as an international agency, the Bank is particularly interested in projects which are likely to contribute to a better balance in world trade. Third, the Bank's Articles of Agreement provide that 'the most useful and urgent projects, large and small alike' must be dealt with first; the Bank must satisfy this requirement either by financing such projects itself or by helping to promote conditions necessary for their financing from other sources. And finally, the Bank's loans must be confined to projects for which financing through private or other channels is not available on reasonable terms."

If the Bank is to play its role of encouraging and supplementing private international investment the report says, it must emphasize those basic undertakings which on the one hand are relatively less attractive to private capital, and on the other, will help to promote the flow of such capital into other sectors of the economy.

Since successful development in most cases depends just as much upon the provision of technical assistance from abroad as upon the availability of foreign capital, the report terms it an important concern of the Bank not only to provide financial help, but also to ensure that adequate technical assistance is available to define the shape of a sound over-all development program. The Bank avoids any gratuitous interference in the internal affairs of any country, but is prepared to undertake, upon request, a broad investigation of conditions in any underdeveloped member. The Bank is also ready to recommend, upon request, qualified independent experts to advise member countries in such fields as agriculture, engineering, finance and taxation.

The granting of loans by the Bank, the report says, need not await formulation by the borrowing country of an over-all development program or adoption by it of all necessary economic, financial and administrative measures. To the contrary, it is hoped that it will frequently be possible for the Bank to select particular meritorious projects for financing concurrently with the initiation by the borrower of such measures.

The major effort in the development of any country, the report says, must be made by that country itself. Therefore, while foreign assistance may be essential, the labor and the greater part of the capital must be supplied locally. Some part of the necessary foreign capital may be obtainable from public sources, through inter-governmental lending and International Bank loans. In the long run, however, sound development requires financial assistance in amounts which only the free flow of private capital can provide.

It is desirable that a considerable part of the foreign capital employed for development purposes be in the form of equity investments. The report points out that such investments would tend to avoid an undue burden of fixed charges which might impair the credit of the borrowing country or intensify its balance of payments problems during a period of declining trade or falling prices.

In cases where development projects which come to the attention of the Bank appear suitable for private financing, the Bank may be able to suggest possible sources of capital, or bring the projects to the attention of investing groups, or otherwise assist in arranging the necessary financing. The Bank may sometimes also be able to facilitate the raising of private capital for meritorious projects, the report says, by making loans to cover part of the capital cost.

In addition, the Bank itself can assume the risk of loans made from private funds through the use of its guarantee powers. Such loans, the report points out, establish a direct relationship between the private lender and borrower which may lead to other credit operations without the Bank's intervention. The Bank also is examining the possibilities of granting limited guarantees — for example a guarantee of transfer of interest — to reduce the special risks involved in international financing without eliminating the private character of the investment.

In general, the Bank may be able to contribute to the flow of private capital by encouraging the development of principles and practices fair to capital-exporting and capital-importing countries alike. Many of the Bank's policies are designed to help overcome some of the existing obstacles to private international investment.

The real measure of the Bank's effectiveness, according to the report, will not be so much the number or amounts of its loans and guarantees, significant as they may be, but rather its success in influencing attitudes—in promoting a realistic, constructive approach to development problems on the part of its members, and in fostering a greater degree of confidence among investors.

Halsey, Stuart Group Offers South. Ry. Eqps.

A group headed by Halsey, Stuart & Co. Inc. won the award Wednesday of $8,700,000 Southern Railway equipment trust, series OO, 2¼% serial equipment trust certificates, maturing $435,000 semi-annually from April 15, 1949, to Oct. 15, 1958, inclusive. The certificates, issued under the Philadelphia plan, were immediately re-offered by the group, subject to Interstate Commerce Commission authorization, at prices to yield from 1.50% to 2.50%, according to maturity.

The certificates will be issued to provide for not more than 75% of the cost, estimated at $11,600,000, of the following new standard-gauge railroad equipment: 11 1,000-hp. Diesel-electric switching locomotives; 34 1,500-hp. Diesel-electric road freight locomotive lead units; and 30 1,500-hp. Diesel-electric road freight locomotive booster units.

Other members of the offering group were R. W. Pressprich & Co.; Bear, Stearns & Co.; Equitable Securities Corp.; Gregory & Son, Inc.; Hornblower & Weeks; Otis & Co.; L. F. Rothschild & Co.; First of Michigan Corp.; Graham, Parsons & Co.; Wm. E. Pollock & Co. Inc.; R. L. Day & Co.; Freeman & Co.; Hirsch & Co.; McMaster Hutchinson & Co.; and Thomas & Co.

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Monday selling due to weekend war talk. Basis for rally now being formed.

I became so involved last week in trying to get into somebody else's argument that I forgot my own business. So, look what happened. While I was looking the other way the market tripped over something and went kerplunk.

* * *

The motivating reason, at least it's the one everybody likes, is the gathering war clouds. I've been out on a limb lots of times in the past and I'm going out on one again. I don't think there'll be a shooting war in the immediate future.

* * *

But because I don't think so, I don't belittle the selling that comes from such fears. A nervous public can make its own market; can kick it down and raise it up. It depends on how it interprets the news or how newspapers slant it for them. The weekend war talk was undoubtedly responsible for much of the Monday selling. What was more significant occurred in a field that required more than scare headlines to interpret properly.

* * *

The worst acting stocks for the past few weeks have been the oils. Future cuts in crude prices were generally accepted. On this picture of gloom one of the major oil companies made a bid for crude above the prevailing price and the oil stocks started going up again. The rest of the market followed along.

* * *

While all this is interesting to report, it doesn't detract from the fact that we have been long of various stocks which penetrated their stop levels during Monday's reaction. Such a reaction is one of the reasons why stops are not always the best insurance in the stock market. But until something better comes along, a column written in advance of the market which has to stand up for a full week, must have some kind of safety factor.

* * *

I say this because I feel that the current break will be wiped out in a new rally. There's nothing more sickening than to be sold out just before a new rally. I know. It's happened to me.

* * *

Of the list of stocks recommended here, seven in all, only three managed to stay above their stops. And they escaped breaking them by just fractions. These are: **Allegheny Ludlum,** bought 29-30, stop 27; **American Airlines,** bought 7½-8, stop 6, and **Loew's,** bought 16-17, stop 15. The other four stocks were sold at losses.

* * *

Now what to do, is the big question. I suggest holding what you have but despite the fact the stops aren't the best in the world, I recommend observing them. I also would add a few oils if obtainable at specific prices. These would be as follows: **Pure Oil,** 30-31, stop 28; **Standard Oil of New Jersey,** 70-72, stop 68; **Standard Oil of Ohio,** 25-26, stop 24, and **Richfield Oil,** 30-31, stop 28.

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

Inflation As It Affects Middle Classes

(Continued from page 7)

trades; strikes in key industries; artificially supported farm prices; the construction of public works which might have been postponed; and heavy outlays for military purposes and foreign aid. Steeply graduated income taxes and low return on investments have complicated the situation still further for the middle class.

The Middle Class

What is the middle class? As I employ the term, it includes professional people; farmers—especially those owning their own farms; businessmen who own and operate their own businesses; executives and other salaried employees of corporations; pensioners and people of modest means living on their investments; and, finally, skilled wage earners in the higher paid brackets. These are the groups who have provided stability for the American system in the past. And no lover of our free institutions can look with complacency on their demoralization under the impact of the inflationary forces which are now weakening their relative position in the national economy. For these are the groups that have a real stake in America. Their economic status is *prima facie* evidence of the fact that they have had the initiative, thrift and foresight to look beyond the present into the future and to weigh governmental policies accordingly. They stand in marked contradistinction to the so-called proletariat who, due to lack of ability or enterprise, live from day to day with little or no thought of the future. As Edward Armstrong wrote in describing the death of political liberty in the mediaeval Republic of Florence:

"The masses care little for the form of government. Their main interest is necessarily economic rather than constitutional. Their support is given to the government which can raise their standard of comfort and provide diversion from their toil. . . . The material results of the Medicean tyranny gratified the populace. They did not heed that the theory of government was being changed."

It is significant that no civilized country in the world has ever voluntarily adopted the extreme philosophies of either fascism or communism, unless the middle class was first liquidated by means of inflation. The middle class of Germany was brought to despair by the catastrophic inflation in that country during the early '20's. The Nazi Brown Shirts were recruited principally from the middle class which had been pauperized by the printing press mark. In Italy the Black Shirts had in large measure the same origin. Thus far, communism has never developed in any country which was not first subjected either to inflation or to invasion by the Red Army. The conclusion is obvious. The liquidation of the middle class by inflation is a major step on the road to dictatorship.

I do not like to cast myself in the role of a Cassandra but I confess that the present situation in America bears too close a resemblance to the events that have preceded the destruction of previous attempts at popular self-government to give me any solace or comfort. The reasons for my concern about the future become clearer when we explore more specifically what inflation has done and is doing to our middle class.

The dissipation of past savings through the inflationary price rise has been astounding. Prior to the war most of the productive savings of America were contributed by the middle income groups. Not only have these groups suffered a decline in the purchasing power of their current income but their past savings have, in good part, been liquidated through the price rise. The prewar middle class was willing to invest part of its savings for risk capital purposes. Those elements in the population whose incomes have increased most markedly in the last eight years are unfamiliar with the productive purposes of savings and to a large measure restrict their savings to relatively riskless forms, such as government bonds, life insurance and savings bank accounts.

Effects of Inflation on Savings

The holders of the $40 billion prewar public debt have already had the value of their holdings in terms of buying power cut by 40%, or $16 billion. A dollar saved five years ago has lost 27c of its purchasing power.

A booklet entitled, "Treasured Possessions," published by the United States Treasury Department about 10 years ago to help the sale of United States Savings Bonds, opens with a signed statement by Mr. Henry Morgenthau, Jr., Secretary of the Treasury, "Savings Bonds are treasured possessions in more that a million American homes," and then goes on to state:

"Men and women in the small income groups, with their children, have purchased the great majority of Savings Bonds. Through ownership and beneficial interest in these bonds, great numbers of boys and girls are now not only assured of college educations but also of essential help at the threshold of their business and professional careers, and many aging people will remain self-supporting and self-reliant."

How ironical this statement must sound when the purchaser of a Savings Bond finds that $100 realized today from a $75 bond purchased in 1938 will buy less than $75 would have bought in that year!

I do not want to bore you with too many figures. Personally, I detest statistics in an after-dinner address, but in this instance their use seems unavoidable. Perhaps you can regard them as intellectual roughage to stimulate your mental disgestive apparatus.

Possibly you may find the life history of the first 20-payment life insurance policy that I secured after I was married almost as interesting as I did as I worked it out with the help of our company economist, Mr. Wilson Wright.

I took out this little policy for $3,500 in 1910 when I was 26 years old. The premium was $55.62 a year. The first three annual payments were made in what I shall call MacVeagh dollars—Franklin MacVeagh being then Secretary of the Treasury. The next payments were made in McAdoo dollars. The next one in Glass dollars, Mr. Carter Glass having been Secretary of the Treasury in 1919. The next one was in Houston dollars and the final nine premium payments were made in Mellon dollars. The total premium payments amounted to $1,112.44. The 166.36 MacVeagh dollars that I paid in are now worth 65.24 Snyder dollars; the 333.72 McAdoo dollars are now worth 157.63 Snyder dollars; the $55.62 Glass dollars are equivalent to 39.64 Snyder dollars; the 55.62 Houston dollars to 45.89 Snyder dolllars. The 500.58 Mellon dollare are now worth 351.04 Snyder dollars. In other words, my original investment of $1,112.44 is today worth 659.44 Snyder dollars—a shrinkage of 41%.

The cash value of the policy when it matured in 1930 was 1,799 Mellon dollars. Those 1,799 Mellon dollars are now worth 1,236 Snyder dollars. If I had died in 1930 my wife would have received 3,500 Mellon dollars. Those 3,500 Mellon dollars would have shrunk to 2,405 Snyder dollars today—a decline of 31.25%.

If I had died in 1930, my beneficiary might have invested the 3,500 Mellon dollars at 5% and received $175 annual income. Today, 3,500 Snyder dollars invested at 3% will yield 105 Snyder dollars with a purchasing power of only 74 Mellon dollars! In short, my effort to protect the future of my family through self-restraint and saving over a period of twenty years has been largely defeated by the shrinking value of the dollar. To the thousands of individuals whose sole income in old age will be from insurance, that defeat is a tragic one indeed!

Clerical and Professional Groups

Of all the groups that constituted the prewar middle class, none has suffered more than the clerical and professional group, whose real earnings are in many instances lower than they were prior to 1940. Many individuals in this group are now down in the lower third of our income brackets while the average wage earning family has moved into the middle income group. The National City Bank of New York published an interesting compilation in its monthly letter for July, 1948, showing the extent to which persons engaged in different vocations are better or worse off than they were in 1930 after allowances for federal income taxes and adjustments in the net income for changes in the cost of living. Taking the 1930 living standard as 100, the coal miner's 1947 index was at the top of the list, 191; the textile worker, 139; the railway worker, 122; the railway executive, 78; the congressman, 74; the average pensioner, 65; the bondholder, 38; the small stockholder, 79.

At no time in our history has the propertied group in the United States, which, of course, consists primarily of the middle class, received less for the use of its property than in 1947 when about one-eighth of our national income went for interest, rents and corporate profits. Contrast this with 1929, when owners of property received about 25% of the national income. Interest rates have been rigidly controlled while other prices have risen. Rents have been frozen at or close to prewar levels despite the inflationary price rise. As a result those members of the middle class who are dependent upon interest or rent for their income can buy less and less in terms of postwar prices.

The difficulty of raising equity capital compels corporations to hold on to a larger pecentage of their earnings to provide additional fixed and working capital than would otherwise be necessary. Due to inflation and an unwise tax system the sources of equity capital have largely dried up.

In the year 1947 the total investment in new common stocks in this country was only .4 of 1% of the national income against .8 of 1% in 1925 and .9 of 1% in 1926. I have picked these years for comparative purposes because 1925 and 1926 were years in which the domestic economy was in fairly stable balance. I purposely have avoided 1929 because at the height of speculation during that year no less than 5.8% of the national income went into common stocks.

The Federal Reserve Board's figures for 152 large industrial corporations show that whereas for the period from 1932 to 1941 these corporations felt safe in paying out 83.8% of their earning after taxes, the same companies distributed only 56.9% of their earnings in dividends in 1946-47.

If one couples the results of inflation with high taxes and low interest rates, it can readily be seen that the former independent status of the American middle class has already been seriously undermined. Incentives for the rising generation have been notably curtailed. No young man starting from scratch today can hope to win a competency for his own old age and that of his dependents. Even a man earning a salary of $15,000 a year here in New York, living modestly without allowing anything for life insurance, would take 22 years to save enough to leave a net estate of $50,000. Invested at 3% this sum would give his family an income of $1,500 a year before taxes and we all know how far that munificent sum will go in providing a living for even one person at current prices.

All of these matters have a deep political and social significance. The financial competency of the individual citizen is an essential ingredient of popular self-government. The preservation of a representative democracy hinges directly on the willingness of the people to decide public questions on the basis of the general national welfare — not on narrow considerations of individual or group selfishness. If men are not themselves economically competent but are the wards of the state, how can they avoid dealing with public questions on the basis of self-interest? Furthermore, without a fiancially compe-

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tent citizenry, how can we hope to maintain our two-party political system? The party in power is in position to use public funds for political propaganda. Financial support for the opposition can come only from private citizens, and without intelligent opposition the democratic process is self-defeating. Obviously also, private business cannot exist without constant accretions of new capital. Unless the financially competent are in position to furnish it, the state must supply it; and, when government becomes the primary source of capital funds, national socialism automatically displaces representative democracy. The church and our private educational and philanthropic institutions would be lost without the support competent individual citizens furnish them.

The Real Forgotten Man

So it seems to me that it is high time for everyone who has the future of America at heart—particularly our political leaders—to put in a rousing word for the middle class American—the real forgotten man described by old William Graham Sumner: the quiet citizen who paddles his own canoe day in and day out, marries and raises a family, meets his bills promptly, pays his taxes, supports his church, contributes to the community chest, fights for his country when need arises, asks nobody to protect him from "the cradle to the grave," and thereby does his quiet bit to maintain the American Republic for his children and his children's children!

What Should Be Done

Well, you ask, what can be done about the situation? Can the Leviathan of Inflation be gotten under control or must we sit by helpless while the foundations of our free institutions are undermined? Frankly, I do not believe that we can cure inflation. But we can ameliorate its destructive effects if we are willing as a nation to accept the rigorous corrective measures that will be required. Unfortunately, almost everything that is needed to combat inflation runs counter to human nature and political expediency. "Doin' What Comes Natur'lly" is so much easier than the hard discipline the emergency requires. Personally, I cannot be too optimistic over the needed measures being adopted but at least it is better to try than to sit supinely and let nature take its course.

Raising reserve requirements and rediscount rates, and installment credit controls will no doubt help. I shall leave these points to the fiscal experts who are with us tonight. Ultimately, I think we should endeavor to restore the coinage of gold. Such action probably would have a salutary effect on government fiscal policies although I realize fully that the government could always backtrack and take gold out of circulation if it decided that a financial emergency required such action. Nevertheless, if gold coin was available, the hoarding of such coin by the public would be a danger signal that would serve at least as a minor check on government extravagance and deficit spending.

As for other steps that might be taken to check present inflationary tendencies, let me say in the first place that we should forget price controls and allocations, except perhaps on a few scarce commodities required for the national defense program. Controls of this nature will only prolong the agony, lead to less production, and ultimately to the regimentation of the nation's economic life. This, in turn, if continued long enough, will culminate in state socialism. For one economic control begets another, as the businessmen of Great Britain are finding out to their sorrow today.

The greatest ameliorative factor would be to increase the supply of goods and services to a point where the enlarged demands of our increased population with enhanced purchasing power will be met. To do this we must add productive facilities where needed and leave no stone unturned to improve our technical efficiency. We must use existing facilities more fully wherever possible. This would mean for one thing a longer work week. A work week of 45 or 48 hours would not hurt anybody. The work week was shortened 10 or 15 years ago in order to spread work when employment was slack. What could be more logical than to lengthen the work week now when jobs are plentiful and greater production is so urgently required? In this connection we must remember that over 40 million persons in our population are now in school, with no less than 2½ million young people in our colleges and universities. This is a fine thing but it means that those of us who are presently carrying the economic burden of the country will have to work just that much harder until we can make up the shortages occasioned by the war.

In certain segments of the economy, notably in the building field, the scarcity of skilled craftsmen presents a peculiarly serious problem. The Apprentice Training Service of the Department of Labor estimates that there are only 200,000 apprentices now in training, half of them in the building trades. On the other hand, to maintain the 1940 level of 5,400,000 skilled craftsmen, 619,000 apprentices must be kept in training continuously year after year. The reduced differentials that now exist between the earnings of unskilled workers and of those in the skilled trades tend to eliminate incentives for learning trade skills. Unless these obstacles can be overcome and more skilled workers trained speedily, the fight for more production to combat inflation will be decidedly hampered.

Another factor that would help substantially in combating inflation would be the elimination of all make-work rules and featherbedding practices by our labor organizations. If I can believe the reports that come to me, restrictions on output have grown in recent years, notably in the building trades. During this inflationary crisis, certainly every patriotic citizen should do his level best to turn out just as much work as he can.

Recognition of social responsibility is the keystone of liberty. There was never a time when it was more essential that businessmen should exercise wise stewardship in determining price levels, and when labor leaders should exercise moderation in their demands for increased wages, than at this juncture when the Leviathan of Inflation is hard upon our heels.

Obviously, there should be a determined drive for economy in government at every level—local, state and national. Every unnecessary public service should be eliminated and the number of government employees sharply curtailed. The United States Bureau of the Census estimated that in April, 1948, there were 5,900,000 public employees in the United States—more than one out of every ten persons gainfully employed. Their compensation reached the enormous total of $1,228,500,000 per month. In the Federal establishment the number of civilian employees today is actually higher than it was six months ago.

Needless to say, a balanced budget must be maintained at all hazards. To accomplish this end, it would be wise, it seems to me, to defer the broadening of social security coverage and all new social ventures for the present—no matter how desirable they may be from the long-range viewpoint.

Particular attention should be devoted to curbing waste and unnecessary expenditures in the military establishment. Every sane American wants the nation to maintain adequate defenses, but I am equally sure after what I saw in Hawaii last spring that there is an enormous amount of waste that could be avoided. It is hard too for a layman to understand, for example, why the Army should seek to have one doctor for every 165 men when the civilian population gets along with one doctor to 780 persons. Four and one-half times as many phycians in time of peace for the predominately young men that comprise the Armed Services seems to a civilian to be going rather strong! Perhaps such a medical set-up is required. Perhaps much of the apparent waste is necessary. Nevertheless, it seems to me that as a part of our effort to combat inflation, a commission composed of eminent American civilians should be set up to study the whole military establishment and make recommendations as to where economies could be effected without affecting the nation's defense.

Tax Policy

The tax policy should be revamped in order to create more venture capital and to restore incentives to the middle class. The liberal "London Economist" in analyzing Britain's difficulties not long ago offered this comment:

"Beyond very much question, the most fundamental problem of the long run that faces the British economy is the rate at which it will create capital."

If business is to keep pace with the increased requirements of our growing population with its expanding demand for goods and services, industry and commerce should not be forced to secure additional fixed and working capital solely from borrowings or plowed-back earnings but should have ample risk capital at its disposal. The old sources for such venture money have been largely dried up in recent years by steeply graduated income taxes, which have the further effect of destroying incentive. A college undergraduate who had a vacation job at one of our factories told me on the 1st of August that he was quitting because his father would have to pay additional income taxes if he, the boy, earned any more money this summer! What a sad contrast to the old spirit of enterprise that made America great!

It seems obvious to me that when the tax structure is revamped, serious consideration should be given to securing a larger portion of Federal revenue from excise taxes rather than from income levies. Income taxes are evaded or reduced with relative ease by those elements in the population whose income is received largely in cash. With a high progressive income tax already in operation, the argument that excise taxes place an undue burden on the lower income groups largely falls to the ground. Excise taxes tend to spread the tax burden equitably among all of our citizens, and they have the added virtue of being very difficult for anyone to avoid.

Another step that should be taken in the fight against inflation is to revise the present subsidies and price supports on farm products. Food prices have moved up far more than those of manufactured goods. They constitute as we know the chief element in the cost of living for the mass of our people. We want our farmers to remain prosperous but political jockeying should not be allowed to prevent the prompt overhauling of our present system of agricultural subsidies.

All government units should defer public construction wherever possible. Many public works that are very desirable in themselves are now going forward which might well be postponed until urgently needed housing and industrial building have been completed. This is particularly true of state and local projects.

Finally, in the fight against inflation we sorely need to encourage broader interest in and study of political and economic problems. After all, self-government means literally what it says: Not government by some superman or group, but government by ourselves. And if the free citizen is not interested enough to look after his governmental interests, you can be sure that some power-seeking politician will soon step in and do it for him. The apathy of the individual citizen has always been one of the prime difficulties of maintaining a free society. As John Adams said 150 years ago: "I know not how it is but mankind has an aversion to the study of government." I might add economics as well. Yet as Carl Van Doren says in describing the development of the Federal Constitution: "In those days (1789) almost every American was a politician." The fight against inflation cannot be carried to a successful issue without a great revival of popular interest in public affairs.

The weakening of the status of the middle class presents a critical problem. In fact, Professor A. N. Holcombe of Harvard University in his book, "The Middle Classes in American Politics," goes so far as to say that: "The insurance of domestic tranquillity will be bound up with the practical capacity of the urban middle class to maintain the balance of power." So this is certainly no time for Pollyanna optimism—the assumption that in some way or other we will eventually muddle through.

Unfortunately there is little likelihood that many of the austere remedial measures that I have recited will be adopted. Both psychologically and mathematically, the chances are against that eventuality. If you put 10 marbles in your pocket numbered from 1 to 10 and draw them out at random, the chance of drawing number 1 is one in 10. If you do draw number 1 and then put it back into your pocket, the chance of drawing number 2 is one in a hundred; the chance of drawing 1 to 5 in sequence is one in 100,000; and the chance of drawing all 10 marbles in order is one in 10 billion! But even with the dice of public apathy loaded against us, unmitigated pessimism of the type of an old British friend of mine who said that when it came to a choice of two evils, he always took both, would certainly be the acme of folly.

The issue we face presents a rare opportunity for inspired business and political leadership. When you hear a demagogue on the radio, think of what a George Washington or an Abraham Lincoln might accomplish on the air by preaching the old American doctrines of self-discipline, self-reliance, personal initiative, thrift and unselfish devotion to our country's service. Ideas, not things, rule the world. Public action is almost always the result of emotional conviction rather than specific knowledge of complicated facts.

But we must not wait for an inspired leader to do the job for us. Each of us must play his part. Marshall Foch said that: "The most powerful weapon on earth is the human soul on fire." A million men like those in this room with spirits incandescent in their country's service can yet turn the tide.

Foreign Aid Programs And U. S. Foreign Trade

(Continued from page 6)

dollar financing involved in the postwar recovery effort may well reach a total of over $15 billion by 1951. This includes Export-Import Bank credits of about $3 billion; the British loan of $3¾ billion; surplus property and post V-J Day lend-lease credits of perhaps $3 billion; a four-year European Recovery Program loan and guarantee total of perhaps $4 billion; and International Bank and non-guaranteed private loans and direct investments abroad of indeterminate magnitude.

Long-term dollar lending of the magnitude will mean average annual service charges of around $1 billion throughout most of the 1950's and 1960's. This creates a major policy problem for the United States. From the standpoint of the borrowing countries, it means that they will have to develop an export surplus of approximately the same amount to meet the service charges unless this country provides them with the necessary dollars through continued private lending and direct investments abroad on a corresponding scale. From the standpoint of this country, it means that unless borrowing countries can develop such an export surplus they will either have to default on their obligations to us or drastically curtail their future imports from this country.

Two Patterns of Policy

There are, basically, two patterns of national behavior on the part of the United States, the choice of which will largely determine whether or not and to what extent our loans will be paid back.

First: We can continue indefinitely to lend abroad and in this fashion provide dollars on a scale sufficient to avoid a net repayment problem and thus postpone the day of reckoning.

Second: We can encourage the development of an increased flow of imports into this country sufficient to enable the borrowing countries both to meet the service charges on their long-term obligations to us and also to continue to buy the products of this country on a scale essential to their and to our welfare.

I find it hard to believe that many Americans would consciously favor sacrificing our export interests, or encouraging an indefinite continuance of foreign lending with little prospect of eventual repayment, merely to curtail an increased flow of imports into this country. The only real hope I see for a revival of true world trade, the reestablishment of an effective multilateral trading system, and the solution of the dollar repayment problem lies in the expansion of this country's foreign trade, both on the import and the export side, and the eventual development of a normal import surplus. Our foreign trade percentagewise may be small. It may be only 5, 7, 9% but, it is my conviction that it represents the marginal difference between full employment and a rising standard of living, or going backwards to a period of a lower standard of living with less production of goods and substantial unemployment.

Increase of Imports Essential

The Board of Directors of the Export-Import Bank is of the opinion that this repayment problem makes an increased volume of imports an absolute essential element of a healthy, thriving United States postwar foreign trade. The Bank has a very spe-

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Foreign Aid Programs And U. S. Foreign Trade

(Continued from page 39)

cial interest in this matter by reason of the specific requirement in our statute that we have reasonable assurances of repayment before making a loan. It is the opinion of the Board of the Bank that, if the whole broad postwar effort to revive world trade and reestablish an effective multilateral trading system succeeds, the countries to whom we have made the two-odd billion dollars of emergency reconstruction loans should be in a position to repay these loans. It is our practical judgment that the greatest hope for a solution of the repayment problem lies in an appropriate expansion of imports into this country; indeed, in the absence of an indefinite continuation of official U. S. foreign aid, this is the only way in which the borrowing countries will be able to meet the service charges on their obligations and continue to buy the products of this country essential to their welfare.

The question that immediately comes to mind is: Will it be necessary to take positive steps to ensure an appropriate expansion of imports or will such an expansion take place more or less automatically during the postwar period?

There are several factors operting toward an automatic increase in imports:

First, travel expenditures abroad should increase substantially in the postwar world if for no other reason than the fact that our national income has risen so substantially above prewar levels. Some argue that this factor alone will solve our import problem; in any event, it seems very likely that this will turn out to be the most important single source of extra dollars for foreign countries.

Secondly, imports of raw materials should be at substantially higher levels as a result of higher national income and the wartime depletion of domestic supplies of many such items. Who would have thought, for example, that copper, lead and zinc would ever have been in short supply in the United States?

Thirdly, imports of luxury and semi-luxury items, non-competitive or only partially competitive with United States products, may rise substantially with continuing high national income here and progressive recovery abroad.

As against these considerations —although they clearly presage a larger total volume of imports in the postwar period than in the past—we must bear in mind the fact that the same circumstances of high United States national income and demand for foreign products will set in motion as great or even greater demands in foreign countries for United States products. Experience has already demonstrated that foreign customers will buy American goods up to the full limit of their dollar resources. It has been the relative shortage of dollars abroad and not lack of demand for American goods which has operated since the late 20's to restrict the vigor and growth of our natural export industries. Indeed, foreign countries have consistently tended since 1945 to buy United States goods beyond the limit of prudent financial management. The pressure to do this will be greater than ever until the ravages of war have been fully repaired.

Export-Import Bank Policy

Because of the above considerations, it is my conviction that we cannot afford to sit back and rely upon a fortuitous combination of circumstances to bring about an increase in imports sufficient to achieve equilibrium in our international balance sheet. I feel, instead, that we should take whatever positive measures are possible to develop an import surplus sufficient to enable foreign countries to service their dollar obligations and still continue to buy our exports in large volume. However, I am quite certain in my own mind that it is private industry and not government which must undertake the leadership in the expansion of imports. For its part, the Export-Import Bank has devoted, and will continue to devote, a great deal of attention to the import aspects of all the loan applications before it. In the case of all the Bank's general developmental and reconstruction loans, the direct connection of the proposed loan with the creation of additional foreign exchange has always been studied. The contribution of any loan to the solution at least of its own foreign exchange problem has always been a factor present in its consideration. In its appraisal of loans the Bank regards financing of the production of commodities suitable for export from the foreign country to the United States as a consideration just as important as the promotion of exports from the United States. But the contribution that the Bank can make in the import promotion field is, of practical necessity, quite limited. Foreign trade, because of its pioneering and romantic nature, lends itself to the best in the American tradition of private enterprise. It is in this field, perhaps more than in our domestic production, that the United States opportunity lies to demonstrate to the world the true achievements of the American way of life.

I think that the principal single step that can be taken in this direction is for us promptly to reduce our tariff barriers within the framework of the Trade Agreements legislation. This reduction must be undertaken on a scientific and impartial basis and should be directed toward achieving a greater volume of imports than we now have with due regard for the rights and property of our existing enterprises. I realize the many problems involved in such action, but there will never be a more appropriate time for tariff reduction than now at the outset of the European Recovery Program. The sooner such tariff reductions are undertaken, the more effective in promoting imports they are likely to be. Moreover, the effect of tariff reduction in this period is likely to be, not to contract current domestic production but rather to minimize expansion of capacity in our less efficient industries. Our protected industries would, in my opinion, benefit from a move which caused them at this opportune time of high national income to diversify their production and direct their plans for expansion toward new lines of output.

I certainly do not mean to imply that merely lowering tariffs will correct the disequilibrium created by our production superiority. The problem is more fundamental and complicated than that. Such a step can only help a little. There is no more vital economic issue of our time, however, than this repayment problem and the development of real two-way foreign trade. The hopes and well being of virtually all the peoples of the world depend, at least in part, on the progress we make toward understanding these facts.

The United States is the greatest economic power in the world today and the great creditor nation. I am sure all of us look forward to an early end of United States assistance on a grant basis. No one likes to give away money indefinitely, nor do worthwhile people enjoy receiving on such basis. The goal of our foreign aid programs is a self-supporting Europe by 1952, but let us not forget that our world position requires us to continue to invest heavily abroad for a long time to come and import the goods and services our capital will make possible. I hope this investment will be private and not governmental, but again let us have no misunderstanding of its vital necessity. Investment of European funds was the keystone in the arch of an expanding world trade pattern in the Nineteenth Century and investment of United States funds must now take over this role.

World War II has brought about fundamental changes in the structure of world trade. These changes were probably started before World War I, but they are now complete and far reaching. If we are to prevent the serious depression in this country on which the Russian Government is counting so heavily, we must recognize the changed character of the world economy. Foreign trade has assumed a new importance. Failure to recognize this, will, in my judgment, prove a great tragedy for our people.

Managed Economy Worldwide Keynote

(Continued from first page)

tion; the occurrence of such unanticipated world events being officially regretted here by the Finnish as well as the United States, Chinese and British Governors.

The British Economy and the Pound

The leading managed economy experiment is occurring in Great Britain, a nation making great progress in setting its fiscal and economic house in order (the supporting statistics being authoritatively and vigorously endorsed by Sir Stafford Cripps). Inquiry into the justification for the maintenance of the rigged valuation of her currency reveals this as merely one of many measures inextricably bound together in over-all direction of her economic life. And like the public's reception to the institution of socialized planning by the citizens within a nation, its increasing encroachment and permanence are being accepted blandly, if not approvingly, by United States officials as well as the Europeans themselves.

As American government officials view the British problem, currency freedom now is impossible there as well as anywhere in Europe. Export of capital would prevent "essential" consumption, whose volume is now calculated at 77% of prewar imports. Domestic rationing being deemed necessary, exchange control is indispensable to support it.

Regarding the possible devaluation of the pound to a realistic level, our Mr. Snyder gives lip-service to the "orderly adjustment *in the future*" of currencies which "may" be overvalued; but the American position is just as adamant as is Sir Stafford Cripps' in opposing the promotion of realistic revaluation now. They argue that the only reason for lowering a country's exchange rate is if and when it has more goods to export than it can sell at the prevailing price—to get the benefit from liquidating an export glut. In contrast to such a situation, it is pointed out that Britain has been remarkably increasing her exports and has no more goods for sale at present prices—so why reduce them?

Goods in current quantities are needed at home for consumption and capital investment; import surpluses are required for the nation's reconstruction; and price is not the governing factor. It is held to be not a question of exchange rate, but of the aim of blocking capital exports.

Also it is pointed out as a devaluation difficulty that about 20 countries have sterling balances in London.

But the chief argument justifying the present high pound rate is geared to the direction of domestic recovery; to the need for goods for home consumption and capital investment; to the underlying policy of adjusting the exchange rate to the amount of imports required for, and the amount of progress achieved toward, economic recovery.

Likewise, present domestic policies regarding inflation are seen as requiring the maintenance of exchange controls. Price controls and rationing at home need the accompanying support of exchange control. Devaluation, in spurring exports, enhances domestic inflation.

Dangerous Implications of Present Policies

All this philosophy is most dangerous because it entails the direct practice of *collectivism*—of the domestic and international brands—some of it realized but some generally unrealized as to extent and likely duration.

The determination of "essential" consumption and the observance thereof, presuppose not only uncanny management wisdom, but the institution of collectivism by the British Government to dictate who can sell and buy abroad, and how much. A high degree of socialism is certainly necessary for the attuning of the economy to the degree and balance between consumption and domestic capital investment, as described above. The above outlined justification of rigged monetary exchange at artificial prices is to follow, on an international scale, the domestic credo that as long as we have price-fixing, we must have rationing, and so we must have both. Before we know it, there has been such a wide extension of controls imposed, and such an interdependence among them established, that even recognizedly objectionable ones among them cannot be removed.

Repressed Inflation

Those who justify currency over-valuation as avoiding the domestically-inflating effects of exports, further the commonly-overlooked process of *repressed* inflation; that is, that most dangerous course of covering up the manifestations of a sick condition by the institution of all kinds of controls. The maintenance of unwarranted exchange rates and the institution of multiple currencies (as has been assented to by the Fund), and repressed inflation are inter-acting.

Of course, there can be no denying that the threat of war and the exigencies of international politics are pervading international economic relations, as is so highlighted here. But the extent of collectivism and its implications should all the more be realized. Let it be understood that, despite our nation's life-and-death political struggle for freedom versus communism, we are financing the building-up of collectivism. If we but recognize this, it will limit its duration.

Whether it is necessary or not, let us at least realize that our ECA funds in the form of farm products as well as capital goods are determining the amount of our beneficiaries' exports as well as imports.

Not realized, particularly by the British, is the spuriousness of the continually-repeated complaint of foreigners of the raised prices that they must pay for their imports from us because of the rise in our price level. This neglects the fact that the concomitant of those high prices is the very high state of our industrial activity which enables them to make their large exports to us; and our accompanying scarcities, which is the sole reason for us temporarily taking a large quantity of British automobiles, for example. What they really need is the miracle of an American boom demand at low prices!

Just another straw in the wind of our furtherance of unsound economics abroad is found in France's decision to use the so-called "counterpart funds" for capital expenditure in expanding mine capacity, shipping and power plants. While this action does not constitute an infraction of its agreement, the original intent was to keep such funds immobilized. Such capital expenditure, it was explained by M. Mendes, France's Governor of the Fund, here today, will be carefully directed along lines mutually satisfactory to the French and United States Governments. *Such rigid direction and control of expenditure, this time under bilateral auspices, manifests another example of the increasing degree of state management of the economy.*

Organization's Set-up Vital

In appraising the status and functioning of the Fund, we must bear in mind that its original foundation is fully as important as are its present detailed policies and executive decisions. Both the Annual Report of the Fund and of its Managing Director, Mr. Gutt, clearly stress the need for measures like expanded output and efficient production to place national economies on a sound basis; but there is little they can do to impose their wills. Moreover, in the promotion of exchange stability there must be two-sided voluntary cooperation.

A free market for a currency internally is actually barred by the Fund's Articles of Agreement as adopted at Bretton Woods. Article IV, sec. 3 thereof prescribes that: *"The maximum and the minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from parity: (i) in the case of spot exchange transactions, by more than one percent; and (ii) in the case of other exchange transactions, by a margin which exceeds the margin for spot exchange transactions by more than the Fund considers reasonable."*

The fundamental difficulty in the Fund's overall effectiveness is of course, to be found in the fact that, even more so than in the conceivable that any body of men case of planning and controls within a nation's borders, it is incould possess the judgment needed for economic management on a worldwide scale.

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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)	Oct. 3	96.4	96.1	95.2	94.4
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 3	1,737,600	1,732,200	1,716,000	1,651,90(
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Sept. 18	‡5,294,350	‡5,346,050	5,521,300	5,199,90(
Crude runs to stills—daily average (bbls.)	Sept. 18	§4,680,000	§4,825,000	5,591,000	5,280,000
Gasoline output (bbls.)	Sept. 18	§15,023,000	§15,373,000	17,742,000	16,388,00(
Kerosene output (bbls.)	Sept. 18	§1,984,000	§2,038,000	1,988,000	1,993,000
Gas oil and distillate fuel oil output (bbls.)	Sept. 18	§6,401,000	§6,482,000	7,338,000	6,275,00(
Residual fuel oil output (bbls.)	Sept. 18	§6,025,000	§6,828,000	8,642,000	8,772,00(
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Sept. 18	§79,200,000	§80,074,000	95,132,000	81,987,00(
Kerosene (bbls.) at	Sept. 18	§24,613,000	§23,553,000	22,497,000	22,254,00(
Gas oil and distillate fuel oil (bbls.) at	Sept. 18	§59,567,000	§57,355,000	63,524,000	59,283,00(
Residual fuel oil (bbls.) at	Sept. 18	§36,608,000	§36,066,000	69,379,000	56,934,00(
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Sept. 18	909,733	788,700	900,572	931,072
Revenue freight rec'd from connections (number of cars)	Sept. 18	700,591	628,440	696,421	712,316
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Sept. 23	$100,303,000	$183,280,000	$95,191,000	$135,183,00
Private construction	Sept. 23	42,009,000	104,449,000	39,974,000	83,105,00(
Public construction	Sept. 23	58,294,000	78,831,000	55,217,000	52,078,00(
State and municipal	Sept. 23	37,922,000	66,050,000	48,458,000	43,802,00(
Federal	Sept. 23	20,372,000	12,781,000	6,759,000	8,276,00(
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Sept. 18	11,900,000	*10,830,000	12,315,000	12,235,000
Pennsylvania anthracite (tons)	Sept. 18	1,228,000	952,000	1,170,000	1,260,00(
Beehive coke (tons)	Sept. 18	146,800	*125,400	146,800	139,800
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Sept. 18	335	285	271	301
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Sept. 25	5,460,609	5,426,247	5,477,741	4,956,415
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Sept. 23	101	84	96	77
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Sept. 21	3.75255c	3.75255c	3.75255c	3.18925c
Pig iron (per gross ton)	Sept. 21	$44.74	$44.74	$44.52	$36.93
Scrap steel (per gross ton)	Sept. 21	$43.16	$43.16	$43.16	$37.75
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Sept. 22	23.200c	23.200c	23.200c	21.225c
Export refinery at	Sept. 22	23.425c	23.425c	23.425c	21.350c
Straits tin (New York) at	Sept. 22	103.000c	103.000c	103.000c	80.000c
Lead (New York) at	Sept. 22	19.500c	19.500c	19.500c	15.000c
Lead (St. Louis) at	Sept. 22	19.300c	19.300c	19.300c	14.800c
Zinc (East St. Louis) at	Sept. 22	15.000c	15.000c	15.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Sept. 28	100.71	100.69	100.71	103.8
Average corporate	Sept. 28	111.44	111.44	111.44	115.0
Aaa	Sept. 28	116.41	116.22	116.22	120.0
Aa	Sept. 28	114.46	114.27	114.46	118.0
A	Sept. 28	110.52	110.70	110.34	115.0
Baa	Sept. 28	104.83	104.83	105.00	107.8
Railroad Group	Sept. 28	107.27	107.27	107.09	110.1
Public Utilities Group	Sept. 28	112.00	111.62	111.81	116.6
Industrials Group	Sept. 28	115.24	115.24	115.43	118.6
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Sept. 28	2.45	2.45	2.45	2.2
Average corporate	Sept. 28	3.09	3.09	3.09	2.9
Aaa	Sept. 28	2.83	2.84	2.84	2.6
Aa	Sept. 28	2.93	2.94	2.93	2.75
A	Sept. 28	3.14	3.13	3.15	2.90
Baa	Sept. 28	3.46	3.46	3.45	3.29
Railroad Group	Sept. 28	3.32	3.32	3.32	3.16
Public Utilities Group	Sept. 28	3.06	3.08	3.07	2.82
Industrials Group	Sept. 28	2.89	2.89	2.88	2.72
MOODY'S COMMODITY INDEX	Sept. 28	415.6	420.6	425.8	429.5
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Sept. 25	244.8	245.6	245.6	231.4
Fats and oils	Sept. 25	213.0	229.9	209.4	234.1
Farm products	Sept. 25	267.6	268.3	269.5	258.6
Cotton	Sept. 25	295.6	297.1	292.6	294.6
Grains	Sept. 25	217.4	221.1	219.7	274.3
Livestock	Sept. 25	284.8	284.5	289.3	256.5
Fuels	Sept. 25	233.8	233.8	233.8	190.0
Miscellaneous commodities	Sept. 25	169.8	169.7	169.3	167.5
Textiles	Sept. 25	194.3	195.1	195.0	214.5
Metals	Sept. 25	187.3	187.3	187.4	159.1
Building materials	Sept. 25	235.4	235.4	233.3	226.5
Chemicals and drugs	Sept. 25	155.6	155.6	155.3	149.0
Fertilizer materials	Sept. 25	140.8	140.9	140.9	132.2
Fertilizers	Sept. 25	149.8	*149.8	147.5	135.7
Farm machinery	Sept. 25	144.5	144.5	144.5	127.1
All groups combined	Sept. 25	225.6	226.3	226.4	211.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Sept. 18	173,044	162,353	175,762	152,814
Production (tons)	Sept. 18	192,334	144,410	185,537	181,483
Percentage of activity	Sept. 18	97	76	93	101
Unfilled orders (tons) at	Sept. 18	386,808	410,240	362,761	440,769
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Sept. 24	143.6	144.2	144.3	143.3
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Sept. 18	169.4	168.0	169.2	158.1
Farm products	Sept. 18	190.1	188.1	191.0	189.8
Foods	Sept. 18	189.9	185.9	189.5	182.3
Hides and leather products	Sept. 18	188.2	188.8	189.6	185.5
Textile products	Sept. 18	147.2	147.5	148.0	140.7
Fuel and lighting materials	Sept. 18	137.7	137.6	137.3	115.0
Metal and metal products	Sept. 18	172.4	172.0	171.5	150.3
Building materials	Sept. 18	203.2	203.1	202.0	180.9
Chemicals and allied products	Sept. 18	132.5	133.2	131.7	122.2
Housefurnishings goods	Sept. 18	147.8	147.7	146.8	131.9
Miscellaneous commodities	Sept. 18	120.3	119.9	118.7	115.1
Special groups—					
Raw materials	Sept. 18	182.0	180.9	182.8	173.6
Semi-manufactured articles	Sept. 18	158.6	158.6	159.3	150.9
Manufactured products	Sept. 18	165.7	163.9	164.9	152.7
All commodities other than farm products	Sept. 18	164.7	163.4	164.3	151.1
All commodities other than farm products and foods	Sept. 18	153.7	153.0	153.1	138.0

*Revised figure. ‡Reflects effect of strike in California. §Excluding California figures which were unavailable due to refinery strike.

	Latest Month	Previous Month	Year Ago
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FED. RESERVE BANK OF NEW YORK — As of August 31:			
Imports	$142,723,000	$150,910,000	$132,792,000
Exports	39,877,000	46,693,000	46,762,000
Domestic shipments	9,118,000	9,374,000	8,407,000
Domestic warehouse credits	10,686,000	9,937,000	11,350,000
Dollar exchange	1,179,000	674,000	1,100,000
Based on goods stored and shipped between foreign countries	17,196,000	17,762,000	5,896,000
Total	$220,779,000	$235,350,000	$206,307,000
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of August (in thousands)	$97,940,000	$102,942,000	$84,427,000
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. — U. S. DEPT. OF LABOR — Month of June (three 000's omitted):			
All building construction	$685,772	*$657,480	$489,376
New residential	371,744	*358,071	261,566
New non-residential	213,112	*205,619	141,929
Additions, alterations, etc.	100,916	*93,790	85,881
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC. — 215 CITIES			
Month of August:			
New England	$19,641,669	$18,671,510	$14,611,202
Middle Atlantic	61,117,344	64,550,181	62,011,404
South Atlantic	29,000,958	32,744,718	31,436,642
East Central	78,650,851	78,546,812	67,009,238
South Central	41,474,487	47,886,574	35,685,062
West Central	20,812,364	19,731,192	16,898,035
Mountain	12,126,964	10,965,371	9,207,108
Pacific	94,356,501	72,308,991	52,964,820
Total United States	$377,081,138	$345,405,349	$289,823,511
New York City	49,784,960	35,561,273	31,507,404
Outside of New York City	327,296,178	309,844,076	258,316,107
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters) prior to Sept. 16	2,800,668	------	1,745,967
COTTON SPINNING (DEPT. OF COMMERCE)			
Spinning spindles in place on August 31	23,805,000	23,798,000	23,807,000
Spinning spindles active on August 31	21,352,000	21,328,000	21,197,000
Active spindle hours (000s omitted), August	9,384,000	7,923,000	9,034,000
Active spindle hours per spindle in place, August	421	356	379
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of July (000's omitted)	19,367,345	19,297,128	17,307,950
Revenue from ultimate customers—month of July	$348,135,800	$344,778,500	$305,854,600
Number of ultimate customers at July 31	39,726,494	39,555,213	37,419,113
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935-39 AVERAGE=100—Month of August:			
Sales (average monthly), unadjusted	190	*185	*181
Sales (average daily), unadjusted	187	181	*178
Sales (average daily), seasonally adjusted	256	266	*244
Stocks, unadjusted as of August 31	242	215	215
Stocks seasonally adjusted as of August 31	232	228	*207
LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS—INSTITUTE OF LIFE INSURANCE—Month of July:			
Death benefits	$116,083,000	$131,323,000	$115,958,000
Matured endowments	32,185,000	36,316,000	30,997,000
Disability payments	7,711,000	8,353,000	8,509,000
Annuity payments	20,337,000	21,685,000	19,098,000
Surrender values	36,569,000	43,511,000	32,522,000
Policy dividends	40,555,000	52,675,000	40,119,000
Total	$253,440,000	$293,863,000	$247,203,000
NON-FERROUS CASTINGS (DEPT. OF COMMERCE) — Shipments, month of July:			
Aluminum (thousands of pounds)	28,944	35,822	30,197
Copper (thousands of pounds)	71,803	84,817	70,603
Magnesium (thousands of pounds)	554	709	490
Zinc (thousands of pounds)	32,459	37,136	31,313
Lead die (thousands of pounds)	861	1,183	1,013
NEW YORK STOCK EXCHANGE—			
As of August 31 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$572,784	$608,151	$550,116
Credit extended to customers	54,395	73,614	76,590
Cash on hand and in banks in U. S.	343,111	345,443	398,884
Total of customers' free credit balances	551,393	577,077	655,900
Market value of listed shares	70,862,046	71,055,687	68,184,122
Market value of listed bonds	131,610,120	131,644,996	141,235,834
Stock price index, 12-31-24=100	77.7%	78.2%	78.3%
Member borrowings on U. S. Govt. issues	$83,814	$115,115	$150,779
Member borrowings on other collateral	239,675	259,987	184,631
REAL ESTATE FINANCING IN NON-FARM AREAS OF U. S. — HOME LOAN BANK BOARD—Month of July (000's omitted):			
Savings and Loan Associations	$322,524	$334,343	$316,093
Insurance companies	83,710	80,986	71,622
Banks and Trust Companies	221,489	234,804	254,765
Mutual Savings Banks	73,074	70,988	50,564
Individuals	186,794	187,409	166,541
Miscellaneous lending institutions	130,806	141,061	135,202
Total	$1,018,397	$1,049,591	$994,787
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission) (Month of June):			
Net railway operating income	$124,972,864	$90,178,066	$61,249,092
Other income	24,248,471	15,331,899	24,474,386
Total income	149,221,335	105,509,965	85,723,478
Miscellaneous deductions from income	14,934,404	4,249,721	2,782,604
Income available for fixed charges	134,286,931	101,260,244	82,940,874
Income after fixed charges	97,288,833	66,924,922	46,274,227
Other deductions	3,218,247	3,210,407	2,863,463
Net income	94,070,586	63,714,515	43,410,764
Depreciation (way & structures & equip.)	31,050,032	31,090,411	29,487,439
Amortization of defense projects	1,371,679	1,362,078	1,357,236
Federal income taxes	52,253,433	28,136,690	20,167,672
Dividend appropriations:			
On common stock	11,029,522	26,700,522	11,562,292
On preferred stock	2,261,056	12,053,517	799,806
Ratio of income to fixed charges	3.63	2.95	2.26

*Revised figure.

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The Latin American Exchange Situation

(Continued from page 9)

tory solution. Frankly, the only reason for multiple currency rates on imports is to avoid exchange depreciation, at a time when inflationary forces are as strong as they are now in much of Latin America.

If the inflation becomes more severe in Latin America it will probably be impossible in many countries to avoid exchange depreciation. So long as exporters can benefit from very favorable prices in foreign markets, it is possible to continue the old parity by rigorous restrictions on imports. But once prices begin to fall in foreign markets, as they have for some commodities, and domestic costs continue to rise, exports are bound at some stage to become unprofitable. At such a time exporters will have to be given an exchange rate that will make it possible for them to maintain their exports. Any other policy would choke the trade of Latin America.

While such measures as depreciation, multiple rates, and exchange controls can meet the immediate situation, although not in an entirely satisfactory way, they are not a solution to the fundamental problem of exchange policy in Latin America. I take it that there is general agreement, that the well being of all countries, and that includes Latin America, would be furthered by a general policy of stability and order in exchange arrangements. The question is by what means can such a policy be achieved.

Inflation in Latin America

As I have said, the principal cause of the present difficult exchange situation is the inflation of prices and costs in Latin America. With few exceptions, prices in Latin American countries, even when adjusted for the change in the value of their currencies in terms of the dollar, have risen more than in the United States. That means that in these countries money incomes have risen rapidly. It means that these countries find dollar goods from the United States a better bargain than domestic goods. A country cannot follow a policy which permits prices to rise indefinitely without endangering the stability of its exchange system. And that is the situation in much of Latin America today.

There is no easy explanation of the inflation in Latin America. Part of it is a reflection of the world-wide forces of inflation. Higher prices for their export goods raise incomes in Latin America; higher prices for their import goods raise costs in Latin America. That is part of the reason for the Latin American inflation. Much more in my opinion is the inflation which is the result of domestic policy—budget policy and credit policy.

The Latin American members of the International Monetary Fund are eager to develop their productive resources, to get for themselves the modern means of production. That is the only way in which real standards of living can ultimately be raised in Latin America. The objective of development is a worthy one which every government must take into account. The real problem is how that development should be financed. To the extent that direct investments come from abroad or foreign loans permit domestic investment, development can be undertaken without inflation. And in all Latin American countries there are some local savings which can be used for development, however modest this may be.

The difficulty arises when governments are determined to carry on development without adequate regard to the consequences on the balance of payments position of the country. When governments run large deficits, to finance the ordinary budget or to undertake big development projects, incomes and prices inevitably rise. This rise in prices and incomes results in a big demand for imports. No matter how restrictive the import policy is made, there cannot be enough exchange receipts to pay for an inflated import demand.

Bank Credit Expansion

It would be a mistake, however, to assume that all of the inflationary difficulties in Latin America arise from government deficits. Along with these government deficits there has been a steady expansion of bank credit to finance private investment. Too many businessmen in Latin America feel they have a right to secure credit for any project which is likely to be profitable. There is a natural feeling that credit must be the servant of business. The difficulty, however, is that too much credit is a bad servant. Even in countries in which inflation has progressed very far and in which the credit policy of the banking system is on the whole quite generous, there are complaints now that not enough credit is made available for business.

As businessmen, you must realize the responsibility that rests with you. Investment undertaken to increase the capacity of your countries to produce can be of immeasurable value in developing and modernizing the economy of your country. But too much credit will inevitably mean inflation and inflation means unwise investment. It means investment at a great social cost to the consumption of the people. I do not say that it is better for a country to stagnate than to take the risks of developing a country by means of credit. I do say that a middle ground must be found in which development will be possible without inflation.

It seems to me that in every Latin American country the wiser policy would be to attempt to relate public and private investment to a level that is consonant with the savings of the community and the availability of foreign capital. This is a national and an international responsibility — a national responsibility on credit and fiscal policy, an international responsibility in securing a normal flow of foreign capital. If this were possible chronic exchange difficulties in Latin America could be avoided. The assurance of exchange stability, the availability of exchange to make payments abroad, the steady service of foreign investment, would be a great encouragement to the provision of adequate capital for productive purposes.

The development of the economy of Latin American countries is important for its own sake. It is important for the well being of the people of these countries. I think, however, we ought not to overlook the broader implications. During and since the war the Latin American countries have played a vital role in the world economy. They have shown their capacity to supply goods on a scale far larger than before. In 1938 the Latin American countries together provided about 8½% of total world exports. In 1947 these same countries provided about 14% of the total. In 1938 the total exports of the Latin American countries were less than 20% as large as the total exports of all Europe. In 1947 the total exports of Latin American countries were more than 40% as large as the total of all Europe.

If the world economy is to be placed on a self-sustaining basis, it will require greatly expanded trade. It will mean that the Western Hemisphere countries, and I mean particularly Latin America, will have to produce and export more. It will mean that the Western Hemisphere countries will have to import more. We place great stress on the development of Latin America as an important element in this general expansion of world trade which is necessary to enable a better balance to be established in international payments.

Must Have Better Exchange Policies

If Latin America is to play an important role in the world economy, it will have to have more suitable exchange policies. Frankly, exchange controls in many Latin American countries have not been efficient. They have not been conducted on a businesslike basis. The supply of exchange to importers and to foreign investors is too often subject to administrative regulation in which the businessman is left uncertain as to what he can do and what he can expect. The consequence is that international business in some Latin American countries is a risky undertaking and discourages trade and investment.

In some Latin American countries exchange controls are suddenly imposed which act retroactively and make payment to foreign exporters and foreign business firms uncertain and hazard. The effect on the Latin American businessman, who is scrupulously meeting his obligations, is to impair his credit abroad, not because of anything he has done, but because of the unpredictable policies of his government.

In my opinion, the foreign exchange policy of Latin America must become more orderly. This is an essential basis for expansion of trade and investment in Latin America. The foreign exchange authorities must think in terms of commitments on foreign exchange which their people undertake. They must make allowance for the fact that obligations payable in foreign exchange must be met with the same diligence as obligations of businessmen and banks to each other at home. This is not as difficult a policy as it may seem. It does require greater care in undertaking commitments and a greater feeling of responsibility in meeting them.

As the business leaders of your community engaged in international affairs you are in a position to make sure that your governments realize the responsibility that rests with them and you. As businessmen you determine in great part the economic strength and stability of your countries. It is your job to see that domestic financial policy is consonant with a strong balance of payments, with financial stability, and orderly exchange arrangements. That is the best way of assuring the well-being of your countries now and their progressive development in the future.

Don't Kill the Fire Insurance Industry!

(Continued from page 16)

left to plow back into the business."

Examination of Recent Offerings

An examination of the fire insurance company stock offerings to stockholders within the past year reveals that in no case was a return of 4% sufficient to attract new money. Indeed, the rate of return which was necessary to attract new money, in times when interest rates were somewhat lower than today, ranged from 4.5% to close to 6%. That is indeed a far cry from 4%. Furthermore, I know of only one offering, the first, which was accomplished on a 4.5% basis. Most of the offerings were at 5%. One of the largest was at 5.4%. The difference between a return of 4% and one of 5% is a margin of 25%. An additional income of 25% for a university or a hospital or a pension fund for retired missionaries and ministers can easily mean the difference between a decision to supply the new capital or not to supply it.

However, there could be no greater misunderstanding than to believe that new capital was attracted to the fire insurance industry on the basis of a 5% yield alone. That was only one of the inducements offered to the investor. Even more important, he was afforded the opportunity of purchasing marketable assets at discounts ranging up to 45%. Furthermore, these discounts up to 45% were discounts on liquidating value of marketable assets only. They gave no consideration whatsoever to going concern value. And yet, as every one recognizes, this going concern value is the very lifeblood of the companies, their agency plants and good will, their long record of fair dealings, all of which could not be duplicated today and which is worth millions and millions of dollars. Therefore, it is fair to say that the discounts from liquidating and going concern value exceeded 45% by a wide margin.

It was only under these conditions, probably the greatest "fire" sale in history, that fire insurance company stockholders could be induced to invest their savings in these new offerings. Yet even with these inducements — 5% yields and discounts exceeding 45% from liquidating and going concern value—the hard fact is that many stockholders did not subscribe to the new stock. Far fewer old stockholders subscribed than is generally supposed.

New Stockholders Necessary

For example, one fire insurance company had a total of 1,082 stockholders just prior to its stock offering. No less than 497 of these stockholders or 46% failed to subscribe to the new stock. A total of 368 new stockholders (actually probably substantially more because of the large amount of stock still registered in brokers' or so-called "Street" names which will ultimately be split up into individual holdings) had to be found to purchase the stock which old stockholders declined to buy.

In the case of another large fire insurance company no less than 45.3% of the stock offered to its stockholders was unsubscribed and had actually to be purchased by the underwriters. In this case as in the other, the yield to stockholders was 5% and the discount from liquidating value heavy. Figures are not available to show how much of the 54.7% of the stock subscribed was taken by old stockholders and how much by new. From the activities of our own office it is known that a substantial number of rights was sold by old stockholders to new stockholders who then did exercise the rights. Certainly far less than 50% of the stock was subscribed by old stockholders.

4% Grossly Inadequate

From the foregoing it should be plain that from a practical standpoint "the payment of a 4% dividend on invested capital," as recommended in the McCullough Report, would be grossly inadequate. The result of such a policy would be to choke off the sources of private capital that would otherwise be available to the fire insurance industry. Left without private resources, the fire insurance industry would become dependent upon government capital. That would be the first step of a series leading inevitably not only to government control of the industry but eventually, as in Nazi Germany and Soviet Russia, to the loss of freedom in this country.

We are discussing here issues of fundamental importance not only to the fire insurance industry but to the people of America.

6% Far Too Low

On page 53 of the McCullough Report it is submitted "that a return of 6% on the equity capital invested in the business should be an adequate return based on the actual results of the last few years. . . . But this 6% should be the total profit of the companies whether it comes from what is now considered the investment end of the business or from the so-called underwriting end."

These statements require serious examination. I note first of all the suggestion that a 6% return "should" be adequate "based on the actual results of the last few years." This is like saying a man suffered from malnutrition for the last few years "should" be satisfied with a few crumbs from the table. The "actual results of the last few years" have been so meagre that it is now difficult to inspire confidence in investors that better days may ultimately lie ahead. Underwriting profit margins which existed for a number of years prior to World War II became non-existent during the war years. I repeat: during this greatest of all business booms in America I know of no other industry whose operating profit margin (during the past six years, 1942-47) has averaged as low when compared with prewar.

Let us examine now the contention on page 53 referred to previously that "this 6% should be the total profit of the companies whether it comes from what is now considered the investment end of the business or from the so-called underwriting end." If such a contention were to be accepted, I am convinced that very little private capital would ever be invested in the fire insurance business.

Recently the dividend yield on the Barron's 50-stock average, a conservative list of investment stocks compiled by Barron's magazine, the national business and financial weekly and widely used by investors, was 5.85%. In other words, an investor could receive a return of 5.85% on his savings invested in this blue chip cross section of American industry. That is actual dividend return. Now the recommendation of the McCullough Report is not for a:

(a) 6% dividend return on the investment end of the business, although as has been shown funds invested in high grade common stocks yield close to 6% today; or for a

(b) 6% earnings return on the investment end of the business, although shares of leading investment trusts can be purchased today where the earnings return is well above 6% without any of the hazards whatsoever of the insurance business, without the risks of Texas City, Florida hurricanes, Maine fires or just downright poor underwriting experience.

Either of these recommendations would have been more understandable although why dividend or earnings return on the investment end of the business should be limited at all is not clear to me. I would oppose either limitation as a needless strait-jacket to progressive management.

What has been proposed is a

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6% total profit from investment as well as from underwriting. When actual dividends of 5.85% can be received from a blue chip cross section of American industry today and earnings of more than 6% from shares of leading investment trusts — neither of which bear any of the hazards of the insurance business—I can not for the life of me see why anyone should want to invest in a fire insurance company under such provisions.

These are practical considerations of the first importance particularly at a time such as the present when the industry is studying its capital needs.

The investment end of the fire insurance business is separate unto itself. It also is a hazardous business. Should not the company which, through intelligent investment research and judgment, succeeds in securing a far better return than the company which, in effect, "buries its gold," receive more reward for its effort? Otherwise what incentive would there be other than to hold all assets in cash?

Similarly, the underwriting end of the fire insurance business is separate. That is the business of insurance. That is the effort toward which the companies are organized. It too is a hazardous business, entitled to ample reward because it is so hazardous. May I repeat just how hazardous it is: Close to 850 fire insurance companies have retired from business during the past 25 years.

Certainly as long as reward is in accordance with risk and effort in America—which is to say, as long as America is America—the profit incentive to a great industry will have to be far greater than recommended in the McCullough Report. The report, in effect, would allow no profit to the insurance end of the business at all for capital invested in sound common stocks today will earn more than is suggested should be the combined earnings of both the investment and insurance ends.

In my opinion a profit limitation on investment and underwriting earnings combined would not only erect an almost insuperable obstacle toward attracting new capital into the fire insurance business. It might well also begin a disintegration in the fire insurance business itself since some companies might elect to abandon the insurance side and pursue the investment side alone without the various hampering restrictions of regulatory authority. From a purely financial standpoint such a course would have definite merit and might well appeal to boards of directors who after all are not eleemosynary officials but have responsibilities toward their stockholders. I am sure it is furthest from the thought of the author of this Report to turn the fire insurance business into the investment trust business but very conceivably that might happen. As a former treasurer of an investment trust, sponsored by some of the Du Pont interests in Wilmington, I am not unfamiliar with this field. I say in all seriousness: if investment and underwriting earnings are considered together for rate making purposes, "it could happen here."

This letter is already long and I have covered my two most serious objections to the Report, recommendations as to a 4% dividend limitation and to a 6% earning limitation on combined income from underwriting and investments. If either or both of these recommendations were to be accepted by the National Association of Insurance Commissioners not only would—

(a) little or no new capital flow into the fire insurance industry, thus bringing about a situation favorable to a state-controlled industry similar to those in the controlled states of Nazi Germany or Soviet Russia;

(b) existing fire insurance capital might decide either to liquidate or abandon its underwriting function, thus becoming investment trusts and free of insurance regulatory authorities. The capacity of the industry would be thereby decreased thus also bringing about a situation favorable to a state-controlled industry similar to those in the controlled states of Nazi Germany and Soviet Russia.

Prepaid Expenses

Finally, I want to discuss briefly prepaid expenses. The author of the Report stresses the fact that many of the recent prospectuses issued in connection with the offerings to stockholders by the fire insurance companies have taken an equity in the unearned premium reserve into account in evaluating stockholders' equity.

However, a little reflection will reveal the very considerable risk one takes in adjusting statutory results by 40% (for fire) or 35% (for casualty) of the increase in the unearned premium reserve. In effect, one is saying that business written now—in 1948—will mature, assuming five-year term, in 1953 with a loss ratio of 60% or better. This seems to me an exceedingly slender foundation on which to base earnings.

Wide fluctuations in loss ratios (and conversely in the equities in the unearned premium reserves) have taken place. For example, although the 10-year average equity in the unearned premium reserve for a casualty company was 37.9% and thus slightly above the traditional 35% used for casualty, in 1946 the equity was only 13.5%. How illusory were the earnings reported in 1945 and 1946, based upon an equity of 35% of the increase in the unearned premium reserve when the business as it matured in 1946 had an equity of only 13.5%. During 1946, the unearned premium reserve increased by $681,000 so that an overstatement of earnings by 21.5% meant an overstatement of $146,000 or $0.73 per common share.

It simply is not possible to predict how business put on the books now will run off three or five years hence. The unearned premium reserve, in other words, is like that famous pie in which Little Jack Horner put in his thumb—except that one can never be certain what one will "pull" out of the unearned premium reserve.

It would be a mistake in my judgment to alter the present more conservative statutory method. Conservatism in finance should be the guiding policy of financial institutions.

Similarly the so-called equity in the unearned premium reserve is an "ace in the hole" which not infrequently has meant the difference between solvency and financial embarrassment for fire insurance companies. Admittedly it is a rigid requirement— to set up 100% of the premiums as a liability. But it is certainly a requirement in the best interests not only of the companies themselves but of supervisory authority. More than most provisions in the Insurance Statute does this 100% reserve requirement safeguard solvency. It thus helps carry out the duties of supervisory authority whose responsibility above all is to maintain solvency.

In these times of stress and strain within the industry it would surely be unwise to remove one of the bulwarks of solvency which has served the fire insurance companies and the commissioners well for many years. Abandoning statutory methods of computing underwriting earnings now, because of a temporary advantage, would be shortsighted indeed and similar to that Biblical character who sold his birthright for a pot of porridge.

Summarizing, and in order to make my position clear, I am—

(1) For the "forgotten men," the patient insurance company stockholders—endowments, institutions and individuals, who need encouragement (rather than discouragement) for higher dividends, to say nothing of these higher dividends themselves;

(2) Against a 4% limitation on dividends;

(3) Against a 6% limitation on combined investment and underwriting earnings. Either or both of these limitations would have the most farreaching and catastrophic results for the industry;

(4) Against taking into consideration for rate-making purposes the alleged earnings on the unearned premium reserve, which in my opinion, are largely illusory if not negative;

(5) For the present conservative method, without change, of computing statutory underwriting earnings and in general endorse the findings of the Committee on Laws of the National Board of Fire Underwriters as contained in its Statement of June 3, 1948.

The Question of Oil Reserves

(Continued from page 16)

closer. These figures include, for the maximum, consideration of increased efficiency in use of petroleum fuel in engines.

One thing is certain—whatever this country had as original oil, it has developed its resources at a very much higher rate than the rest of the world and therefore now has much less of its original supply than any other country. This country has supplied more than 60% of world consumption the last few years.

Engines of Future

Before considering what other liquid fuel sources are possible of development, it would be well to consider the possible engines of the future, some of which will be in our laps by 1949.

The obvious move for improvement in any engine efficiency is to improve the cycle on which it operates, that is, raise compression (and expansion) ratio. The move, as you are aware, is already under way, and 1949 probably will see engines of somewhat higher compression ratio. These engines, rather carefully designed for better cooling than has been usual, will run on the present 85 to 92 Research octane premium fuels. For example, the saving by the ideal cycle for 7.75 C.R. is approximately 9% over 6.5 C.R. but the actual saving in the vehicle as operated is much higher—twice as much. The reason is that subsidiary savings can be accomplished. The rise in C.R. increases I.M.E.P., but the breathing and other engine losses do not increase, so that engine mechanical efficiency increases quite noticeably. In addition, if designed for the same bhp., the engine is smaller and so are these engine losses. Further, the reduction of exhaust dilution by higher C.R. improves part-throttle efficiency. The purpose is, if possible, to move up to 12.5 C.R. as fuel becomes available. Experimental engines so far built need about 100 octane Research at 12.5 C.R., not available yet, and not likely to be, in large volume. The operating gain for this ratio is 35 to 40% over 6.5 C.R., worth trying for.

However the increased octane value is only required if we increase compression ratio in a single stage, present cylinder, and do nothing else. There are several ways in which the need for higher octane gasoline can be avoided. One is to employ the dual fuel idea offered in several forms. One form, the use of alcohol and water, is presently preparing for full-scale commercial trial, chiefly for trucks. Compression ratios of 8:1 or higher can readily be handled with this supplementary fuel, using 4 or 5% for peak octane demand.

Another path is to extend the turbo-supercharger idea. If more power only were needed, supercharging as at present will get that easily; the real C.R. is the product of the boost ratio times the cylinder C.R., and unless something else is done, would require about the same octane value as the cylinder compression alone at 12.5 C.R. But since the compression is two-stage, with a supercharger, it is possible to apply an aftercooler between supercharger and engine, greatly reducing the octane demand of the engine by cooling the charge. We have proof this is so; a racing engine built 10 years ago was supercharged to 2.25 C.R. (17 p.s.i. gage), cylinder ratio 6, overall therefore 13.5. The aftercooler dropped temperature at engine inlet 60 deg. and the unit ran on an 82 ASTM octane gasoline (of low sensitivity) without detonation. To get economy it would be necessary to increase expansion ratio equally, possible by extending the turbo-supercharger idea and putting on a gas wheel big enough to use all the exhaust gas energy, which is more than that required to drive the blower. The set must be geared to the engine. In effect, this is two-staging the expansion which is needed to get the economy; in supercharging only, the C.R. is raised but the expansion ratio remains that of the cylinder only, so there is no gain in economy.

It is quite possible that such a unit could be built cheaper than the same capacity unit without supercharger. The blower unit ought obviously to be cheaper per cubic inch of displacement than the much more complicated structure of the engine.

Another method of raising C.R. without raising octane demand has been proposed, but only developed so far in an experimental single cylinder unit. The proposal uses the Diesel method of injection, adding a controlled swirl in the cylinder so that no unburned mixture is ahead of the flame front, and detonation is not possible. This method has its attractive features, but it is not likely to give higher brake mean effective pressure than present Diesels, and will therefore be fairly high weight per horsepower.

The best of the present engines for road-vehicles does not exceed 0.55 bhp. per cu. in., unsupercharged aviation engines 0.70, supercharged aviation engines a little over 1.0; the racing engine mentioned above, 1.5. This shows what is in the wood if we want to get it. Obviously reduction of weight per horsepower, which accompanies increase of horsepower per cubic inch (or BMEP, same thing, nearly), is valuable in permitting a reduction of weight in the whole chassis carrying the engine. There are more miles per gallon in lugging 2,500 lbs. dead weight around than 3,000.

Other Economies in Oil Consumption

Other economies of a quite dissimilar nature are likely to be forced by the economic situation when petroleum becomes scarcer and more expensive. There has never been any reason for burning oil or natural gas in a central station except that these were cheaper than coal at the locality. About 3.8% of the electric power of the country is generated by fuel oil; about 10.3% by natural gas; 25% by water power; and 61% by coal. The elmination of the power generation from petroleum consuming would add about 10% to the present automotive total.

Another and appalling thought to the home-owner is that fuel oil and natural gas are likely to get tight enough in the future to force a return to coal for house heating; fortunately we have automatic stokers available now that are as efficient as oil burners, and the only additional trouble is that of removing ashes. If such a change did take place it would be over a long enough time to allow a more or less comfortable adjustment.

The present trend toward railroad Diesel engines instead of coal-fired steam can have an enormous effect on the supply of fuel oil for other purposes. The railroads now use 24% of the coal produced and 8.5% of the petroleum fields, so that a complete substitution of oil for coal ultimately might mean 44% of the total fuel oil and anybody can see what effect that would have on the other users of fuel oils, to say nothing of the supply needed for the Army and Navy if we have another war.

We can now take a look at the other possible sources of energy supply. It is an astonishing fact that more total fuel is used for heating than for power, exclusive of automotive and shipping. Another astonishing fact, little discussed, is that the use of electric power is increasing faster than the use of petroleum products.

Without going into details or any discussion of the authority of estimates, we can take a look at our present consumable sources of power and heat.

	Years Reserve at 1947 Total Consumption	
	Maximum	Minimum
Coal	1700	170
Petroleum	16	5
Natural Gas	12	5
Oil Shale	32	8
	1760	188

This table is prepared on the basis of each of the fuels being used for the whole energy supply for heat and power for 1947, so the whole can be added to arrive at a total energy supply. The huge difference between the maximum and minimum estimates is due principally to two factors: first, we have in many cases greatly reduced the estimated reserves in coal by recent surveys; second, the minimum estimates take into account recovery of these reserves, which is never 100%. Coal used to be about 50%, is now nearer 70% and may improve; oil was 10 to 20%, now nearer 70% and in some cases has reached 85%.

We do not know the ultimate reserves in oil, natural gas or oil shale because they have not been all discovered yet. In the case of oil shale, we do not know the efficiency of recovery.

Maintaining Balance Between Solid and Liquid Fuels

One thing is certain; the safest estimate of resources will be down toward the minimum, and in any case petroleum, natural gas and oil shale are relatively small in both estimates. It is therefore quite plain that if we are to maintain a balance between the liquid and solid fuels, efforts should be directed to accomplish the following:

(1) Designers should consider the transfer of all energy use possible to the solid fuel, from liquid; reserving liquid and gaseous fuels for those operations that cannot do without them.

(2) Raise the efficiency of all heat and power transformations; the automobile has 5% efficiency; utilities power generation is now 20%; steam locomotive 5%— pretty bad, but we know these can be raised and in many cases they are being raised now.

(3) Determine the best methods for supplementary supply of liquid fuels, at the nearest to reasonable

(Continued on page 47)

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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. Postponed indefinitely.

● **American Policyholders' Insurance Co., Boston, Mass.**
Sept. 22 (letter of notification) 10,000 shares ($20 par) capital stock. **Price**—$30 per share. No underwriter. To be added to capital account and surplus.

American Steel & Pump Corp. (10/14)
Sept. 21 filed 200,000 shares ($2 par) convertible class A stock. **Underwriters**—Herrick, Waddell & Reed, Inc. and Sills, Minton & Co., Inc. **Price**—$8 per share. **Proceeds**—To retire indebtedness and for working capital.

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.

● **Barton-Mansfield Co., Jonesboro, Ark.**
Sept. 23 (letter of notification) 1,000 shares ($100 par) first cumulative preferred stock. Price, par. **Underwriter** — Hill, Crawford & Lanford, Inc., and Southern Securities Corp., Little Rock, Ark. Stock being sold by E. C. Barton, President.

Berry Motors Inc., Corinth, Miss.
Sept. 20 (letter of notification) 25,000 shares ($10 par) 5% cumulative class B preferred stock. **Underwriter**—Gordon Meeks & Co. For working capital.

Bigelow-Sanford Carpet Co., Inc.
Sept. 15 filed 30,000 shares (no par) cumulative second preferred stock. **Underwriters**—F. S. Moseley & Co. and Kidder, Peabody & Co. **Proceeds**—For additional working capital. Issue to be withdrawn due to market conditions.

Blair Holdings Corp., New York
Sept. 7 (letter of notification) 15,000 shares of common stock (par $1). **Underwriter**—The First California Co., San Francisco. Stock being sold by Dardi & Co. **Price**—$4.25 per share.

Borderminster Exploration Co. Ltd., Ottawa
June 2 filed 500,000 common shares ($1 par). **Underwriter**—Mark Daniels & Co. **Price**—40c per share Canadian funds. **Proceeds**—For exploration of properties.

Brockton (Mass.) Edison Co.
Sept. 3 filed $4,000,000 first mortgage and collateral trust bonds, due 1978. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co.; Equitable Securities Corp. **Proceeds**—To pay $2,625,000 of promissory notes and to finance additional costs and corporate needs. Bids were expected to be received Oct. 5 but may be delayed.

California Water & Telephone Co.
Sept. 9 (letter of notification) 12,800 shares ($25 par) common stock. **Price**—$23 per share. No underwriter. For construction.

● **Central Arizona Light & Power Co.**
Sept. 28 filed 300,000 shares (no par) common stock. **Underwriters**—The First Boston Corp. and Blyth & Co., Inc. **Proceeds**—To be applied on currently outstanding construction loans of $3,000,000 obtained during 1948 from Mellon National Bank & Trust Co. of Pittsburgh.

Central Electric & Gas Co. (10/6-8)
Sept. 9 filed 30,000 shares of $2.50 cumulative convertible preferred stock (stated value $50 per share). **Underwriters** — Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. **Proceeds**—May be used in making additional investments in common stock equities of its telephone subsidiaries and may be applied in part for its own construction program or for other general corporate purposes.

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 Electric Co., St. Louis, Mo.
August 23 (letter of notification) 25,000 shares ($10 par) common stock. **Offering**—Common stockholders of record Sept. 7 will be given right to subscribe on or before Oct. 29 on basis of one new share for each 21 shares held at $12 per share. No underwriter. To increase working capital.

Chieftain Products, Inc., Brooklyn
Aug. 3 (letter of notification) 25,000 shares of common stock and 20,000 warrants. **Offering**—10,000 shares and 15,000 warrants to be offered in units (one common share and 1½ warrants) at $2.75 per unit, the balance of 15,000 shares being reserved for exercise of 15,000 warrants, purchasers of which will have the right for four years to purchase shares at $2.75 per share. General corporate purposes. **Underwriter**—Dunne & Co., New York.

Clarostat Mfg. Co., Inc., Brooklyn, N. Y.
Aug. 26 (letter of notification) 37,400 shares of 50¢ cumulative convertible preferred stock. **Underwriter**—Cantor, Fitzgerald & Co., Inc., New York. **Price**—$8 per share. Working capital, etc.

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.

Coleraine Asbestos Co. Ltd., Montreal, Canada
Aug. 16 filed 200,000 shares of capital stock. **Price**—50 cents per share in Canadian Currency. **Underwriter**—P. E. Frechette. **Proceeds**—For drilling operations.

Colonial Candy Corp., Morgantown, W. Va.
Sept. 17 (letter of notification) 100,000 shares ($1 par) common stock. **Price** — $2 per share. **Underwriter**—Grubbs, Scott & Co., Inc. To pay past expenses and for new equipment.

Columbia Gas System, Inc., New York
Sept. 16 filed 1,223,000 shares (no par) common stock. **Offering**—To be offered for subscription by holders of 12,229,874 outstanding shares of common stock of record Oct. 5 in ratio of one new share for each 10 shares held. Price, by amendment. Underwriting, none. **Proceeds**—For general funds to be used for construction.

Columbia (Pa.) Telephone Co.
Sept. 21 (letter of notification) 3,000 shares of common stock (par $25). **Price**—$40 per share. Stock will be offered to stockholders on Oct. 1 and rights will expire Nov. 1. Three of the officers have agreed with company to purchase ⅓rd each of unsubscribed shares at $40 per share. Conversion to dial telephones, expansion, etc.

● **Consolidated Eureka Mining Co., Salt Lake City, Utah**
Sept. 20 (letter of notification) 1,339,544 shares of common stock. **Offering**—To be offered stockholders at 9¢ per share, in the ratio of one share for each two shares held on Sept. 25. No underwriting. For development and exploration work of mining properties.

Consolidated Molybdenum, Inc., Seattle, Wash.
Sept. 10 (letter of notification) 1,470,000 shares of common stock (par 10¢). Price, par. No underwriter. For the expenses of mining operations.

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.

● **Cowles Chemical Co., Cleveland, Ohio**
Sept. 20 (letter of notification) 6,965 common shares (no par). **Price**—$13.50 per share. **Underwriters**—Prescott & Co.; Cunningham & Co.; The First Cleveland Corp., and T. H. Jones & Co. **Proceeds**—To increase working capital.

Crosbie Co. of Washington, Inc.
Sept. 7 (letter of notification) 50,000 shares of class A common stock ($1 par), 25,000 shares of class B common stock (10¢ par). **Underwriter** — James T. DeWitt Co., New York and Washington. To be offered in units of two shares of class A and one share of class B at $5 per unit. To reduce or pay in full present borrowings from the Manufacturers Credit Corp., to reduce the present current liability position and to provide additional working capital.

Delaware Steel Fabricating Corp., Wilmington, Delaware
Sept. 13 (letter of notification) 750 shares of preferred and 1,250 shares of common. To be offered in units of three shares of preferred and five shares of common at $400 per unit. **Underwriter**—Laird & Co. To retire outstanding bank loans and to provide working capital.

Douglass Manufacturing Co., Inc., Portland, Maine
Aug. 16 (letter of notification) $100,000 of 5-year 5% convertible debentures, with non-detachable stock purchase warrants; 10,000 shares of common stock ($1 par) reserved for conversion of debentures, and 10,000 shares ($1 par) common stock reserved for exercise of warrants. **Underwriter**—Minot, Kendall & Co. For working capital.

Dynacycle Manufacturing Co., St. Louis, Mo.
Sept. 3 filed 100,000 shares (80c par) common stock. **Underwriter**—White & Co., St. Louis. **Price**—$5 per share. Proceeds, plus an additional amount which may be obtained from the sale of franchises (estimated at $100,000), will be added to company's general funds. About $230,000 would be used to purchase equipment and $185,000 for working capital.

● **Ekco Products Co., Chicago**
Sept. 24 (letter of notification) 12,000 shares ($2.50 par) common stock. **Price**—$25. For general treasury funds and additional working capital. No underwriting.

● **Electric Steam Sterilizing Co., Inc., New York**
Sept. 23 (letter of notification) 150,000 shares of common stock (par 10c). **Price**—50c per share. Finance manufacture of toilet seats. **Underwriting**—None.

Electrical Products Securities Corp., Houston, Texas
Sept. 13 (letter of notification) 400 shares of preferred stock, $100,000 9-year cumulative 8% bonds, $50,000 10-year 8% convertible bonds and 500 shares of common stock. **Underwriter** — Trustee Securities Co. To purchase chattel mortgage notes, or conditional sales contracts, secured by a first chattel mortgage on electrical equipment of various kinds.

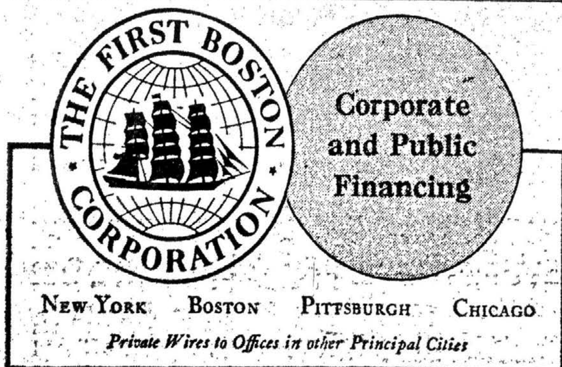
● **Employees Credit Corp., New York**
Sept. 24 filed 20,000 shares of $1.50 prior convertible preferred stock, series A (no par) and 20,000 shares of Class A common stock ($2 par). **Underwriter**—E. H. Rollins & Sons, Inc. **Proceeds**—To retire 2½% term loan, amounting to $225,000, held by Marine Midland Trust Co., New York, and balance for general funds.

Eureka Williams Corp., Bloomington, Ill.
Aug. 9 (letter of notification) 4,700 shares ($5 par) common stock. **Price**—$6.25 per share. No underwriter. For working capital.

Family Finance Corp.
Sep. 2 filed 25,000 shares of 4½% cumulative preference stock, series A (par $50) (convertible to and including Aug. 1, 1956) and 97,580 shares ($1 par) common stock to be reserved for conversion of the preferred stock. **Underwriter**—E. H. Rollins & Son, Inc. **Proceeds**—To reduce outstanding bank loans and commercial paper. Temporarily postponed.

Ferro Enamel Corp., Cleveland, Ohio
Sept. 17 filed 79,080 common shares ($1 par). **Offering**—To be offered for subscription by stockholders of record Oct. 5 in ratio of one additional share for each four shares held. Rights expire Oct. 21. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—Company and subsidiaries will use the funds for general corporate purposes.

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



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NEW ISSUE CALENDAR

October 4, 1948

Illinois Central RR.________________Equip Trust Ctfs.

October 5, 1948

Pacific Gas & Electric Co., 8:30 a.m. (PDT)__Bonds

October 6, 1948

Central Electric & Gas Co.______________Preferred

Chicago & North Western Ry., Noon (CST) ________________Equip. Trust Ctfs.

Pennsylvania RR., Noon (EST)__Equip. Trust Ctfs.

October 11, 1948

Official Films, Inc.__________Preferred & Common

October 14, 1948

American Steel & Pump Corp.____________Class A

Virginian Ry. ___________________________Bonds

for conversion of the preferred.) **Underwriter**—None **Price**—$25 a share for the preferred and $10 for the common.

● **First Investors Corp., New York**
Sept. 27 filed $7,500,000 of securities to be offered under three plans. Operators of periodic payment and fully paid plans for the acquisition of shares of Wellington Fund.

Fission Mines Ltd., Toronto, Canada
April 16 filed 200,000 shares of treasury stock. **Underwriter**—Mark Daniels & Co., Toronto. **Price**—$1 a share

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.

Gauley Mountain Coal Co., New York
Aug. 13 (letter of notification) 6,093 shares of capital stock (par $10). Price, par. Stockholders of record Sept. 1 will be given right to subscribe at rate of one new share for each five shares held. Rights expire Oct 15. **Underwriting**—None. General improvements, etc.

● **Goldsmith Bros. Smelting & Refining Co., Chicago**
Sept. 27 filed 100,000 shares ($3.50 par) common stock, of which 54,000 shares will be sold by the company and 46,000 by selling stockholders. **Underwriter**—A. C. Allyn & Co., Inc. Price by amendment. **Proceeds**—Company's proceeds for working capital.

Hall (C. M.) Lamp Co., Detroit
August 2 (letter of notification) 53,770 shares of common stock (par $5). Offered for subscription to stockholders of record Aug. 30 on basis of one new share for each five shares held. Rights expire Oct. 1. **Price**—$5 per share. For advances to a subsidiary, Indiana Die Castings, Inc., and to improve shipping and storing facilities. No underwriting.

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.

● **Henderson & Ervin, Charlottesville, Va.**
Sept. 24 (letter of notification) $110,000 first mortgage bonds. **Underwriter** — C. F. Cassell & Co., Inc., Charlottesville, Va. To retire bank loans.

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.

● **Hightower Petroleum Corp., Denver, Colo.**
Sept. 22 (letter of notification) 3,000,000 shares (10¢ par) common stock. Price, par. **Underwriting** — James Thomas Chiles, Denver. To drill two oil wells in Jack County, Texas.

Hygenic Service Co., Boulder, Colo.
August 16 (letter of notification) $50,000 first mortgage 5% 20-year (closed) bond issue. **Underwriter**—E. W. Hughes & Co. For new plant construction and improvement of existing plant.

● **Ice-Flo Corp., New York**
Sept. 23 (letter of notification) 80,000 shares of common stock (par 5c). **Price**—$2 per share. General working capital. No underwriting.

Idaho-Montana Pulp & Paper Co., Polson, Mont.
May 17 filed 100,000 shares of 4% cumulative preferred stock ($100 par) and 500,000 shares ($10 par) common stock. **Underwriter** — Tom G. Taylor & Co., Missoula, Mont. **Price**—$300 per unit, consisting of two shares of preferred and 10 shares of common stock. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

Interstate Power Co., Dubuque, Iowa
Sept. 10 filed $5,000,000 first mortgage bonds, due 1978. **Underwriters**—Names will be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Smith, Barney & Co. **Proceeds**—Of the proceeds, $2,400,000 is to be applied to prepayment of promissory notes, $1,400,000 will pay in full the $724,446 balance on a lease and purchase agreement and for property additions; and $1,200,000 will deposited with corporate trustee under bond indenture, available for withdrawal against property additions.

● **Iowa Public Service Co., Sioux City, Iowa**
Sept. 24 filed $3,000,000 first mortgage bonds, due 1978, and 109,866 shares ($15 par) common stock. **Underwriters**—Bonds will be offered under competitive bidding. Probable bidders: Glore, Forgan & Co.; Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; White, Weld & Co.; A. C. Allyn & Co; Harriman Ripley & Co.; Salomon Bros. & Hutzler; Otis & Co.; The First Boston Corp. **Offering**—The stock will be offered for subscription by common stockholders of record Nov. 4 at rate of one-sixth of a new share for each share held. Price of stock will be no less than $15. Sioux City Gas & Electric Co., owner of 61.2% of the stock, will purchase its pro rata share of the new stock and take all unsubscribed shares. **Proceeds**—For construction program.

Kansas Soya Products Co., Inc.
Aug. 2 (letter of notification) 78,000 shares (25c par) common stock and 1,925 shares of $5 cumulative preferred stock. **Underwriter**—Kenneth Van Sickle, Inc. For additional working capital.

Kold-Hold Manufacturing Co., Lansing, Mich.
Aug. 6 (letter of notification) 36,666 shares ($1 par) common stock. Shares will be issued to H. B. Johnson and J. J. McQuaid on conversion of $55,000 of 5% convertible debenture bonds, due 1955. **Underwriter**—Buckley Securities Corp.

Lamex Chemical Corp., Birmingham, Ala.
Aug. 23 (letter of notification) 25,000 shares ($5 par) 6% preferred and 25,000 shares (10¢ par) common. To be sold in units of one share of common and one share of preferred at $5 per unit. **Underwriter**—Mallory Securities Corp., Birmingham, Ala. For working capital and the payment of bills.

Michigan Bell Telephone Co., Detroit
Sept. 17 filed $75,000,000 40-year debentures. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Proceeds** — To repay advances from American Telephone & Telegraph Co. (parent), which are expected to be about $81,500,000 by Oct. 19. These advances were used for general corporate purposes, including construction, additions and improvements.

● **Mineral Investment Corp., Midland, Tex.**
Sept. 20 filed 302 shares (no par) common stock. **Price**—$100 per share. No underwriter. To furnish capital for new organization.

Monarch Machine Tool Co.
Sept. 13 filed 26,000 shares of common stock (no par). **Underwriters**—F. Eberstadt & Co., Inc. and Prescott, Hawley, Shepard & Co., Inc. **Proceeds**—Stock being sold by certain stockholders. Offering indefinitely postponed.

● **Monterey County Security Co., Salinas, Calif.**
Sept. 23 (letter of notification) 5,000 shares (no par) common stock. **Price** — $10 each. To increase capital. No underwriting.

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 Benefit Insurance Co., Des Moines, Iowa**
Sept. 20 (letter of notification) 5,000 shares ($10 par) common and 15,000 shares ($10 par) preferred. **Price**—Preferred, $30 per share and common, $10 per share. No underwriter. To finance the transformation from an assessment accident and health association to a legal reserve stock life insurance company.

● **Nevada Turf & Kennel Club, Los Angeles, Cal.**
Sept. 20 (letter of notification) 1,000 shares of common stock. **Price**—$100 per share. No underwriters. To set up a greyhound race track.

● **New Orleans Public Service Inc.**
Sept. 23 filed $10,000,000 first mortgage bonds, due 1978. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; The First Boston Corp.; Lehman Brothers; Harriman Ripley & Co. **Proceeds**—Will be used for construction and other corporate expenses.

Northern Enterprises Co., Inc. (Philippines)
Sept. 2 filed 500 shares of class A stock and 1,500 shares of class B stock. **Price**—Class A, $102.50 per share and class B $100 per share. **Underwriting**—None. **Proceeds**—For sawmill machinery and equipment, purchase of general merchandise and hardwares, etc.

Nuera Products Co., Denver, Colo.
Sept. 16 filed 100,000 shares ($1 par) common stock in connection with the company's offering of 100,000 shares of $10 par preferred stock, registered in July, 1948. With each share of preferred stock, subscribers will have the right to buy one share of common. **Proceeds**—For organizational expenses.

Official Films, Inc., New York (10/11)
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.

Oklahoma Gas & Electric Co.
Sept. 13 filed 400,000 shares ($20 par) common stock. **Offering**—Standard Gas & Electric Co. which owns 750,000 shares of company's common will receive the proceeds. **Underwriters**—The First Boston Corp. and Merrill Lynch, Pierce, Fenner & Beane. Offering postponed due to Otis & Co. protesting exemption from competitive bidding.

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.

● **O'Sullivan Rubber Corp., Winchester, Va.**
Sept. 27 filed 325,000 shares ($1 par) common stock. **Underwriters**—There are no underwriters but C. F. Cassell & Co., Inc., Charlottesville, Va., and Gearhart & Co., Inc., New York, will solicit subscriptions from common stockholders. **Offering**—Of the total 278,318 shares will be offered to common stockholders at rate of two new shares for each one held on Oct. 7. Price, by amendment. **Proceeds**—To defray cost of new plastic plant, restore working capital and provide new working capital.

● **Otter Tail Power Co., Fergus Falls, Minn.**
Sept. 27 filed 141,490 shares ($5 par) common stock. **Underwriting**—Names by amendment. **Proceeds**—For retirement of $2,500,000 of loans owing to the First Nation Bank of Minneapolis and for betterment of facilities.

● **Ozonaire Corp. of America, Menomonee Falls, Wisconsin**
Sept. 23 (letter of notification) 65,000 shares ($1 par) common stock. Price, par. For working capital. No underwriting.

Pacific Gas & Electric Co. (10/5)
Sept. 10 filed $75,000,000 first and refunding mortgage bonds, series R, due June 1, 1982. **Underwriters**—Names determined through competitive bidding. Probable bidders; Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.; The First Boston Corp. **Proceeds**—To retire $12,000,000 bank loans and pay for part of company's construction program. **Bids**—Bids for purchase of bonds will be received at company's office, 245 Market Street, San Francisco, up to 8:30 a.m. (PST) Oct. 5.

● **Palmer Stendel Oil Corp., Santa Barbara, Cal.**
Sept. 20 (letter of notification) 100,000 shares of non-assessable stock ($1 par). **Price**—38 cents per share. **Underwriters**—Morgan & Co., Los Angeles, and F. F. Fox & Co., New York. These securities are being sold for the benefit of certain present holders which include banks and trust companies. Effective Sept. 29.

● **Pennsylvania Power & Light Co., Allentown, Pennsylvania**
Sept. 28 filed 63,000 shares ($100 par) preferred stock. **Underwriters**—Drexel & Co., Philadelphia and The First Boston Corp., New York. Price and dividend rate will be filed by amendment. **Proceeds** — To be applied toward $100,000,000 construction program.

● **Peoples Gas Light & Coke Co.**
Sept. 24 filed $16,400,000 3% convertible debentures, due Dec. 1, 1963. **Underwriters**—Competitive bidding will determine the names of the underwriters who will purchase unsubscribed debentures. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co. **Offering**—To be first offered for subscription by stockholders in ratio of $100 of debentures for each four shares held of record Oct. 22. Rights will expire Dec. 1. Price, par. **Proceeds**—For construction and for the purchase of additional capital stock of certain natural gas companies.

Petroleum Engineers Producing Corp., Tulsa, Oklahoma
Sept. 7 (letter of notification) 3,400 shares ($25 par) preferred stock and 1,700 shares of common stock. **Offering**—To be offered in units of two shares of preferred and one share of common (each unit to have one warrant entitling the holder to buy two additional shares of common at $30 per share). **Underwriter** — Central Royalties Company. To purchase and develop additional oil properties.

Public Service Co. of Colorado
Sept. 17, filed $10,000,000 first mortgage bonds, due 1978, and 66,000 shares of cumulative convertible preferred stock ($100 par). **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp. (bonds only); Glore, Forgan & Co. and W. C. Langley & Co. (jointly on both); Harris, Hall & Co. (Inc.) (bonds only); Lehman Brothers (bonds only); Eastman, Dillon & Co. (stocks only). **Proceeds**—To provide part of the costs of construction.

Public Service Co. of New Hampshire
Sept. 9 filed $7,000,000 first mortgage bonds, series D, due 1978. **Underwriters** — Names will be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly). **Proceeds**—Of the proceeds, $3,600,000 will be applied to the reduction of outstanding short-term bank borrowings. $3,400,000 will be deposited with the indenture trustee, available for withdrawal against property additions.

(Continued on page 46)

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(Continued from page 45)

Public Service Electric & Gas Co.
June 11 filed 200,000 shares ($100 par) cumulative preferred stock. **Proceeds**—For property additions and improvements. **Underwriting**—The company rejected bids submitted Aug. 4. The SEC on Aug. 23 exempted the proposed sale from the competitive bidding rule. Sale on agency basis being discussed.

Quebec Oil Development Ltd., Montreal, Can.
Aug. 4 filed 2,000,000 shares of capital stock, ($1 par Canadian funds). **Underwriter**—Hiscox, Van Meter & Co., Inc. Price, $1 per share (United States funds). For each 20,000 shares of stock sold, the company will deliver to the underwriter stock purchase warrants entitling the holder to purchase, on or before Sept. 1, 1950, 1,000 shares of capital stock of the company at $1.50 per share. **Proceeds**—For drilling operations.

Realty Co., Denver, Colo.
Sept. 8 (letter of notification) 1,000 shares of non-assessable capital stock ($1 par). To be sold at $27 per share. **Underwriters**—Ralph S. Young and J. A. Hogle & Co. For working capital.

Remington Corp., Cortland, N. Y.
Aug. 31 (letter of notification) 5,620 shares of common stock (par $5). **Price**—$7.25 per share. **Underwriters**—Eastman & Co. and Grabau-Buchman, Syracuse, N. Y., will act as selling agents. Development of air-conditioning units, etc.

Reynolds (R. J.) Tobacco Co.
Sept. 15 filed 260,000 shares of preferred stock (par $100). **Underwriters**—Dillon, Read & Co. Inc. and Reynolds & Co. **Offering**—Holders of the common stock and new class B common stock of record Sept. 29 are given the right to subscribe to the preferred stock at the rate of one preferred share for each 37.6923 shares held. Rights expire Oct. 13. **Proceeds**—Will be applied to the reduction of short-term notes.

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. Indefinite.

● **Sightmaster Corp., New Rochelle, N. Y.**
Sept. 24 (letter of notification) 99,000 shares of common stock (par 25c) and options for the purchase of 25,000 shares (owned by Michael Kaplan) at end of 13 months after public offering of 99,000 shares. **Underwriter**—Willis E. Burnside & Co. **Price**—$3 per share. General corporate purposes.

Sioux City (Iowa) Gas & Electric Co.
Sept. 21 filed 71,362 shares of common stock (par $12.50). **Underwriting**—None. **Offering** — Holders of common stock of record Oct. 15 will be entitled to subscribe to the new shares in the ratio of one-fifth of a share of additional common for each share held. **Proceeds** — To provide a portion of the sums required to make a further investment in the common stock of Iowa Public Service Co. and to pay in full or reduce a $1,800,000 note to Bankers Trust Co.

Southwestern Associated Telephone Co.
Aug. 24 filed 22,000 shares of $2.60 cumulative (no par) preferred stock. **Underwriters** — Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp.; Rauscher, Pierce & Co. Price by amendment. **Proceeds**—To pay, in part, bank loans used for construction purposes. Indefinite.

Squankum Feed Supply Co., Inc., Farmingdale, New Jersey
Aug. 4 (letter of notification) $150,000 20-year 5½% sinking fund debentures. **Price**—102. Working capital, etc. **Underwriter**—Fidelity Securities & Investment Co., Inc., Asbury Park, N. J.

Standard Cable Corp., Westerly, R. I.
Sept. 17 (letter of notification) 94,000 shares (25¢ par) capital stock. **Price**—$1 per share. **Underwriter**—Sterling, Grace & Co. To move the plant and purchase additional machinery.

● **Steel City Supply & Equipment Co., Pueblo, Colo.**
Sept. 22 (letter of notification) 20,000 shares ($10 par) common stock. Price, par. For operating capital, warehouse, equipment, and payment of current obligations. No underwriting.

● **Stowe Center, Inc., Stowe, Vt.**
Sept. 27 (letter of notification) $100,000 5-year 5% debentures. No underwriter. For construction and 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. Indefinitely postponed.

● **Union Plaster Co., Los Angeles, Calif.**
Sept. 22 (letter of notification) 25,000 shares of 60-cent cumulative preferred stock, series A ($10 par) and 100,000 shares (85¢ par) common stock, issuable upon conversion of the preferred stock. Preferred will be offered at $12 per share. Each preferred share is to be convertible into four common shares. **Underwriter**—Bourbeau & Douglass, Los Angeles. For construction of a gypsum wallboard and lath plant in Phoenix, Ariz.

United Utilities & Specialty Corp.
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. **Offering**—Temporarily postponed. Possible change in underwriters.

Washington Gas Light Co.
Sept. 10 filed 102,000 shares (no par) common stock. **Offering**—To be offered common stockholders of record Sept. 29 in ratio of one new share for each five shares held. Rights expire Oct. 13. **Underwriting**—Unsubscribed shares underwritten by The First Boston Corp. and Johnston, Lemon & Co. **Proceeds**—For construction and other purposes, including the repayment of $2,000,000 of bank borrowings.

● **Wiegand (Edwin L.) Co., Pittsburgh**
Sept. 28 filed 200,000 shares (no par) common stock. **Underwriter**—Hemphill, Noyes & Co., New York. Price, by amendment. **Proceeds**—Will go to selling stockholders. **Business**—Manufacturer of electrical heating elements.

Yankee Fiber Tile Mfg. Co., Detroit, Mich.
Sept. 15 filed 100,000 shares ($1 par) common stock, of which 20,000 will be sold by company and 80,000 by four stockholders. **Price** — $5 per share. **Underwriter** — Baker, Simonds & Co. **Proceeds** — To replace part of working capital for past expenses.

● **Yankee Skylines, Inc., Burlington, Vt.**
Sept. 24 (letter of notification) 60,000 shares ($5 par) common stock. Price, par. For equipment, working capital, and expenses of C. A. B. certification. No underwriting.

● **Youse (E. S.) Co., Inc., Reading, Pa.**
Sept. 27 filed 57,000 shares ($2 par) common stock, of which 12,000 are being offered by the company and 45,000 by three stockholders. **Underwriter** — Suplee, Yeatman & Co., Inc., Philadelphia. **Price**—$7.62½ each. **Proceeds**—From company's offering will be used to pay for opening a new branch store in Lancaster, Pa. **Business**—Merchandising in automotive parts.

Prospective Offerings

● **Armour & Co.**
Sept. 27 reported company plans to raise approximately $50,000,000 by the sale of debentures. Negotiations, it is said are being carried on with Kuhn, Loeb & Co. Proceeds of the issue will be used to retire bank loans.

● **Black Hills Power & Light Co., Rapid City, S. D.**
Sept. 23 company applied to FPC for authority to issue 5,000 shares of cumulative preferred stock (par $100) and 33,730 shares of common stock (par $1). Company plans to arrange with Dillon, Read & Co. Inc. to underwrite the preferred and any unsubscribed common shares.

● **Detroit Edison Co.**
Oct. 26 stockholders will vote on a proposal to authorize directors to issue approximately $47,000,000 of convertible debentures. If approved, such debentures will be offered to stockholders for subscription at the rate of $100 for each 15 shares of stock held. Final terms as to interest, redemption and conversion are to be determined later. Debentures will be convertible into stock not later than two years after issue date. Proceeds will be used to retire interim bank loans which have temporarily financed construction to date and will, it is believed, enable the company to finance its $100,000,000 construction program until the fall of 1949 when further financing may be necessary. If offering underwritten probable bidders: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Dillon, Read & Co.; Coffin & Burr, Inc., and Spencer Trask & Co. (jointly).

Chicago & North Western Ry. (10/6)
Bids for the purchase of $5,325,000 equipment trust certificates will be received up to noon (CST) Oct. 6 at office of R. L. Williams, President, Room 1400 Daily News Building, 400 W. Madison Street, Chicago. Bidders at the sale will have the option of submitting proposals either for certificates maturing in 1-to-10 years or for certificates maturing in 1-to-15 years. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Illinois Central RR. (10/4)**
The company has issued invitations for bids to be received Oct. 4 for the purchase of $3,240,000 equipment trust certificates series Y. The certificates are dated Aug. 1, 1947, and will mature $180,000 on each Aug. 1 and Feb. 1 from Feb. 1, 1949 to Aug. 1, 1957. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

Pennsylvania RR. (10/6)
Bids for the purchase of $9,675,000 equipment trust certificates, series U, dated July 1, 1948, and due in 15 annual instalments of $645,000 July 1, 1949-1963, will be received by company at Room 1811 Broad Street Station, Philadelphia, up to noon (EST) Oct. 6. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

● **Pressed Metals of America, Inc.**
Sept. 15 stockholders voted to create an issue of 67,500 shares of 5% cumulative convertible preferred (non-participating) stock (par $20) and voted to increase authorized common to provide preferred conversion. Probable underwriter Paul H. Davis & Co.

● **Public Service Electric & Gas Co.**
Sept. 24 company announced that it will soon file a registration statement with the SEC and seek approval of Board of Public Utility Commissioners of New Jersey for authority to sell $50,000,000 unsecured debentures through competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kuhn, Loeb & Co. and Lehman Brothers (jointly).

● **Upper Peninsula Power Co.**
Sept. 29 Consolidated Electric & Gas Co. and Middle West Corp. asked SEC permission to sell at competitive bidding 120,000 shares and 34,000 shares, respectively, of company ($9 par) common stock. Invitation for competitive bids also will cover 34,800 shares of Upper Peninsula common stock owned by Copper Range Co. and so many of the remaining 11,200 outstanding shares as the several individual owners may select to offer for sale.

● **Virginian Railway (10/14)**
Sept. 23 company asked ICC authority to issue $15,948,000 first lien and refunding mortgage bonds, series C. Of the total $9,500,000 will be issued and sold under competitive bidding. The remaining $6,448,000 will be issued nominally, and may thereafter be pledged from time to time as collateral securities for short-term notes. Proceeds from sale of the $9,500,000 of bonds will be used to pay off short-term bank notes and to restore working capital. Invitations for bids on the offering will go out about Oct. 1 and the bids will be opened Oct. 14. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; Shields & Co.

Dillon, Read & Co. Inc.-Reynolds & Co. Group Offers Reynolds Tobacco Co. Securities

Dillon, Read & Co. Inc. and Reynolds & Co. head a nationwide group of 134 underwriters that is offering to the public today (Sept. 29) a new issue of $60,000,000 R. J. Reynolds Tobacco Co. 3% debentures, due Oct. 1, 1973, and 260,000 shares of new 4.50% preferred stock. The debentures are priced at 100% and accrued interest, and the preferred stock at $100 per share and accrued dividends.

The company at the same time is offering the preferred stock for subscription at $100 per share to holders of its common and class B common stock at the rate of one share for each 37.6923 shares of common stock held of record on Sept. 28, 1948. Subscription warrants for the new preferred stock will expire at 3 p.m. on Oct. 13, 1948.

Proceeds of the financing will be applied to the reduction of the company's short-term notes of which $90,000,000 were outstanding as of Sept. 22, 1948. In connection with the financing, the prospectus points out that due to higher costs and the necessity of maintaining larger inventories to provide for the company's expanded business, its inventories, consisting chiefly of leaf tobaccos, increased from $172,802,711 on Dec. 31, 1942, to $400,002,999 on Dec. 31, 1947. On June 30, 1948, the company's inventories amounted to $377,610,943. Shipments by the company, totaling 105,739,170,000 cigarettes in 1947 were 82.47% greater than in 1942.

Our Reporter's Report

Sustained popularity of tobacco company issues was indicated this week by the reported brisk preoffering inquiry for the $60,000,000 of new debentures which bankers were slated to bring out today for the R. J. Reynolds Tobacco Co.

Carrying a 25-year maturity this issue had all the earmarks of virtually immediate placement and probable substantial over-subscription even before the sponsoring syndicate opened the books to investors.

The 260,000 shares of new preferred stock ($100 par) being offered to common and class B stockholders in the ratio of one new share for each 37.6923 shares held, should provide an interesting insight into the current thinking of company shareholders.

"Rights" accrue to shareholders of record last Tuesday and will expire at the close of business on Oct. 13 next. At that time any unsubscribed portion will be taken up by the underwriters.

Proceeds will be applied by the company to the reduction of the total of short-term notes outstanding under a stand-by credit agreement. At the start of September there was an aggregate of $80,000,000 of such notes, but it was expected at that time that the total would be increased before funds from the current financing became available to the company.

Oklahoma Gas Postponed

The projected sale of 400,000 shares of Oklahoma Gas & Electric Co. common stock for the account of Standard Gas & Electric Co., has been deferred, it developed today.

The undertaking ran into a technical snag a week or so back when Cleveland bankers protested vigorously to the Securities and Exchange Commission against allowing the business to go through on a negotiated basis.

The Federal agency held a hearing on the matter yesterday, but that was not the direct cause of the decision of prospective underwriters to delay the offering. Rather feeling was that the cur-

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ent heaviness in the market made such action advisable.

Two More "Rights" Issues

Two more public utility companies have decided on financing plans which will require the offering of the new securities to stockholders on a priority basis.

Detroit Edison Co. shareholders will vote, on Oct. 26, to authorize $47,000,000 of new convertible debentures, which if approved will be offered first to such holders in the ratio of $100 of debentures for each 15 shares of stock held.

Meantime Peoples Gas Light & Coke Co., Chicago, has projected a similar offering of $16,400,000 of 3% convertible 15-year debentures to shareholders in the ratio of $100 of new debentures for each four shares held.

Proceeds in both cases would be used to finance new construction.

Makes Third Try

Public Service Electric & Gas Co. (successor to the Public Service Corp. of New Jersey) has decided to make a third try at obtaining new capital funds, this time through the medium of unsecured debentures.

Back on July 7 the company cancelled its scheduled sale of $20,000,000 of preferred stock without opening the two tenders received. Again on Aug. 4, after failing to obtain exemption from competitive bidding, it turned down a pair of bids for the stock, the better of which was 100.90 for a 4% coupon.

Subsequently the SEC permitted the company to "shop around" but apparently bankers then were not interested. So now the company is planning to call for bids on perhaps as much as $50,000,000 of debentures, and it is indicated that four banking groups may seek the issue.

Big Stock Issue

Tennessee Gas Transmission Co.'s 400,000 shares of new common stock met a favorable response when brought out earlier this week by bankers at $30.25 a share.

The operation was not by any means an "out-the-window" proposition, but considering its dimensions, it was not counted upon to prove that sort of deal.

However, while dealers reported "stock around" yesterday, it was observed that the issue was moving out in a satisfactory manner.

The Question of Oil Reserves

(Continued from page 43)

economic production and permanence. Much is being done on this now.

Permanent Power Sources

In addition, because there will be more time, we must study the replaceable or permanent sources of power; sun, air, water, earth-heat and wood.

Let us look at the permanent sources a moment. Collection of the heat of the sun has been experimentally developed and successful small plants are in operation. Such a source is intermittent and introduces the problem of heat or power storage, quite a difficult matter. Such plants as have been built or proposed involve a heavy initial cost that prevents economic soundness at present, except for a few special cases. The Sahara desert has lots of heat, no water, no fuel; here even now, sun-collectors are justified. Tide and wave power has been the plaything of inventors for a century; even Presidents get bitten, not to mention the public. You have heard of Passamaquoddy—the initial investment is what licks such propositions until fuels are much more expensive. The tide and wave power source does not look promising at present. A few such plants exist, leading a very precarious existence.

The ordinary hydro-electric plant is familiar, and expansion can undoubtedly proceed here. We have a total capacity in the country of about 50,000,000 kw., of which some 10,000,000 kw. has been built and is running. We can build the other 40,000,000 kw. any time that the price of fuel makes the hydro competitive with the steam station. The reason no more hydro plants have been built is that, as in all the foregoing cases mentioned, the initial investment is much higher than that for a steam plant, enough so that unless the load factor exceeds 65% or so, the hydro total costs (operating and fixed charges) exceed those of a steam plant. You are all aware of the Buffalo General Electric Huntley Station built at Niagara Falls in connection with the largest hydro development in the country and which has been enlarged several times since it was first built. Southern California Edison Company is another example. The major fact is that hydro-power cannot exceed 50,000,000 kw. capacity—that's all there is.

Referring to wind power, one fairly elaborate plant is being built to get operating data and performance. Again, investment and discontinuous operation are the present stumbling blocks.

All of the foregoing assist the electric power situation, but have no bearing on automotive fuel supply.

We come now to wood, a replaceable source. Wood represents only 6% of the total energy used, mainly as space heating, and such power supply as can be conveniently obtained from wastes (sawdust, ends, bark) in the lumber processing and tanning industries. There is little doubt that much more power could be obtained from this source, waste products not only from lumber but paper and agriculture. Of course we never have had any kind of adequate reforestation program even for replacement of straight lumber. Also, it should be pointed out that the use of agricultural products for fuels might serve to deplete our soil fertility.

Synthetic Liquid Fuels

Coming now to synthetic liquid fuels, the war and our own previous research have shown that we can produce gasoline from natural gas or coal. The major difficulties are cost and low conversion efficiency. At present, gasoline from natural gas or coal would represent only 40 to 50% of the heat energy of the materials used to produce it, a tremendous loss of energy. Up to the present, we have not devised any method of synthesis of gasoline that does not cost considerably more than the cost of gasoline from petroleum. Two changes for the better can be expected, as ordinary technological development; the conversion efficiency will be improved, and the cost of the process reduced, gradually rendering the process more justifiable.

From the limited supply of natural gas, it seems inadvisable to load a low-efficiency conversion on top of present normal demand and growth. Gas is too valuable as gas to waste in this manner, and the complete depletion would only occur more quickly. Our other major reserve, coal, looks much the better supply for synthetic fuel. As mentioned above, wood is also a source of liquid fuel (as well as unconverted gaseous) and it has the supreme merit of being replaceable.

It will be noticed that nothing has been said about importing petroleum, particularly from the huge supply of the Near East. Undoubtedly we shall be importing greatly increased quantities of this crude in the next few years, but since another world war would, we must assume, cut off this supply completely, we cannot afford to base our domestic supply on this external source, but must be sure we can provide from within the country. Even South America, while safer than the Near East, cannot be regarded as a sure source, since it must ship by water or non-existent rail or pipe line. The shipment of any oil from foreign sources can be regarded only as easing our main problem, not solving it.

Shale oil is in much the same position as synthetics—low conversion efficiency, high cost. Even the optimistic estimates do not make our reserves of shale oil look much more than three times our original petroleum reserves and consideration of probable recovery would not justify much more than equal to oil; in fact, another relatively short-lived reserve.

Summary

Summing up, we must supplement our petroleum production with other sources, not tomorrow, but within a moderate space of years—10 to 20 say. Synthetic production cost will undoubtedly come down and petroleum products may go up. Consequently within a few years, schemes of synthetic production which now cost too much, may approach economic feasibility.

Shale oil and synthetics from coal, since they have both been worked on for 25 years and have reached a possible production state, should receive the major development effort. This effort should be paralleled by development of synthetics from vegetable waste (lumber and other) and a reforestation program worked up to make the supply permanent. By this time, we should expect sun and wind power to be developed enough to take some of the load off coal, for diversion to synthetics.

In the interest of economy, we look to increase of compression and expansion ratio. The important question then arises—what effect will this increase have, not only on fuel, but on lubrication?

It has been shown above that the new single stage compression engines at 12.5 C.R. would require 100 octane Research. We can't make present full volume that high yet, so the refining chemists tell us. At any rate we have two methods — dual fuel and after-cooled supercharging—which can run this high compression on the present gasoline. So we may feel this situation is under control.

The present Diesel engines are running at compression ratios of 12.5 and higher; the ring belt conditions are a trifle severer than most of the heavy-duty gasoline engines, but we are lubricating both quite successfully now. Diesel engine bearings are giving, if anything, less trouble than heavy-duty spark-ignition engines. It is thought that this is mainly due to the much more general use of oil-coolers. After looking over the whole trouble sheet, we cannot but arrive at the conclusion that the engine designer has control of the severity of the lubrication conditions in his design and we think he knows what to do. For octane demand (aside from supercharger aftercooling), a better job of jacket cooling, especially in controlled flow around exhaust valves; better cooled exhaust valve, probably sodium filled; cooler intake—all these are desirable and perfectly attainable. For safer lubrication, oil-cooled pistons, and a calculated lubricating system flow; more rigid structure to avoid misalignment and roughness—these give the rings and bearings a calculated life-expectancy and not an uninsured risk. In our opinion, the oils we have now will handle the higher compression engines of the future because the designers no longer expect a miracle oil to correct an inadequate design. It seems to us that the war accomplished one good thing—it showed both designers and oil producers more nearly where the effort should be spotted to make a design and a lubricant team up well.

SITUATIONS WANTED

BANKERS ATTENTION!!!

Married veteran, 29, college graduate, desires banking connection with possibility of acquiring interest in future. Compensation secondary to opportunity to learn general banking as lifetime career. Experienced in real estate, insurance, and property management. Town west of Missouri River preferred. References. Box S-23, Commercial and Financial Chronicle, 25 Park Place, New York, 8.

Secretary

Thorough Wall Street experience; capable of acting in capacity of principal's assistant, teletype, plugboard, cage work, handle own correspondence, available for small over-the-counter house. Particularly adapted for one-girl office. Box B 929, Commercial & Financial Chronicle, 25 Park Place, New York 8.

DIVIDEND NOTICES

CONSOLIDATED TEXTILE CO., INC.

September 15, 1948

NOTICE OF DIVIDEND No. 12

The Board of Directors of Consolidated Textile Co., Inc., at a meeting held on September 15, 1948, declared 40¢ per share as a regular quarterly dividend on the Capital Stock of the Corporation, payable October 11, 1948, to stockholders of record September 27, 1948.

R. W. GLEASON, *Secretary*

GOODYEAR

DIVIDEND NOTICE

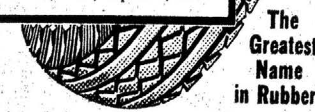
The Board of Directors has declared today the following dividends:

$1.25 per share for the fourth quarter of 1948 upon the $5 Preferred Stock, payable December 15, 1948 to stockholders of record at the close of business November 15, 1948.

$1.00 per share upon the Common Stock, payable December 15, 1948 to stockholders of record at the close of business November 15, 1948.

The Goodyear Tire & Rubber Co.
By W. D. Shilts, *Secretary*
Akron, Ohio, Sept. 27, 1948

The Greatest Name in Rubber



SOUTHERN STATES Iron Roofing Company

SAVANNAH, GEORGIA

Dividend on Common and Preferred Stock

A quarterly dividend of thirty-one and one-quarter cents (31.25¢) per share on the Preferred Stock and twenty-five cents (25¢) per share on the Common Stock of this Company has been declared, payable on October 1, 1948 to stockholders of record at the close of business on September 15, 1948.

ROSS G. ALLEN
Secretary and Ass't Treasurer

DIVIDEND NOTICES

The Weatherhead Company

A quarterly dividend of $1.25 per share has been declared by the Board of Directors on the outstanding Preferred Stock of the Company, payable October 15, 1948, to stockholders of record at the close of business on October 2, 1948.

MORRIS H. WRIGHT, *Treasurer*
September 15, 1948
Cleveland, Ohio

NATIONAL DISTILLERS PRODUCTS CORPORATION

The Board of Directors has declared a quarterly dividend of 50c per share on the outstanding Common Stock, payable on November 1, 1948, to stockholders of record on October 11, 1948. The transfer books will not close.

THOS. A. CLARK, Treasurer
September 23, 1948.

THE TEXAS COMPANY

EXTRA DIVIDEND

An extra dividend payable in capital stock of this company of one (1) share for each forty (40) shares outstanding has been declared this day, payable on November 15, 1948 to stockholders of record as shown by the books of the company at the close of business on September 27, 1948. No fractional shares will be issued. Scrip certificates will be issued in lieu thereof. Stock and scrip certificates will be mailed.

L. H. LINDEMAN, *Treasurer*
September 17, 1948

Colonial Mills, Inc.

498 Seventh Avenue
NEW YORK 18, N. Y.

The Board of Directors of this Corporation has declared a regular quarterly cash dividend of 25 cents per share, an extra cash dividend of 25 cents per share and a stock dividend of 5% on the capital stock outstanding, all payable October 28, 1948 to stockholders of record October 11, 1948.

Payment of fractional shares is to be made in cash based on the closing price as of October 11, 1948.

COLONIAL MILLS, Inc.
EDWARD A. WERNER, *Treasurer*
September 24, 1948

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Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Should Tom Dewey make the grade next Nov. 2 for a four-year lease on the more or less white mansion at 1600 Pennsylvania Avenue, one thing seems to be pretty sure: the position of the Presidency will revert to its more traditional role or there will be one sweet bust-up in the "Dewey Administration."

This is for the benefit of those imminently retiring New Dealers who are suspected of spreading the word you hear around the cocktail bars now-a-days, and which occasionally gets into print, that when Mr. Dewey gets to be President he will have one tough time getting Sen. Robert Alphonso Taft to go along with him. This word is spread with more or less glee, as though its retailers were deriving what solace they could therefrom.

In one sense this speculation is true. Bob Taft is nobody's stooge. He rates far above the average member of Congress among old-timers here for the quality of his mental integrity. He is going to take no President's program on a silver platter and go down the line to get it shoved through the Senate—unless he has been consulted in advance and has helped shape up the program. Neither Sen. Taft nor any birdie whispered this into anybody's ear, least of all those who have gone into print predicting friction. It is inherent in the Ohio Senator's make-up.

* * *

Sen. Taft, however, while the outstanding independent, is not the only independent among Republican leaders. Chairman Harold Knutson of the House Ways and Means committee is not going to let the next year's tax bill be written by the Treasury boys—even Republican Treasury boys. Same for Gene Millikin, Chairman of the Senate Finance committee. In the Senate Chairman Bridges and in the House Chairman Taber of the appropriations committees, are going to have a great deal to say how much money is spent where and for what purposes. Speaker Martin is no dope about political affairs even if he is belittled by the professional "liberals." Chairman Wolcott of the Banking committee is not suddenly going to turn tail on his opposition to public housing and pass a bill like the late WET bill, whereby the government, through a cumbersome accounting hocus-pocus, provides big cities with lovely housing projects practically free.

And so on.

* * *

What is likely to happen in the event of Mr. Dewey's election is that the President will become politically the leader, not the boss, of his political party. He may be expected to consult with Congressional leaders before committing himself to a line of general action—certainly before committing himself to the details of a legislative program.

Republicans have their own shades of opinion and dissension, even if these are not at the moment as apparent as the quarrels among the Democrats. You get somewhere with a legislative program traditionally by threshing it out in advance by conferences of the leaders. The product put forward necessarily is a compromise. It is not a White House draft, it is not a Department of Agriculture draft, it is not a Treasury-written bill.

* * *

If you are a new President and you try to ride your new white horse through Congress, you can get away with it normally for just about three months after inauguration. Even if Mr. Dewey, due to Wallace and the Dixiecrats, winds up with nearly all the electoral votes including those of Virginia, North Carolina, and Texas, he couldn't be expected to ride hard over the Capitol boys much more than three months. That is about as long as they will hold their fire, normally, out of fear of the popularity of a new President elected overwhelmingly by the people.

* * *

Actually, Gov. Dewey gives every sign of recognizing that his role will not be that of a Roosevelt, cowering a scared Congress in the midst of a financial calamity, using the duress of vast new spending programs, or kicking them into line for the sake of the war. Gov. Dewey means to say he will take the more traditional and normal role of leader and not boss, when he says to the country that he will get along with Congress.

And he has assured Congressional leaders of this privately as well. One hears them spontaneously talk about how they will get together next year at the White House and settle their problems in advance.

The New Dealers, who see signs of dissension, disclose how deeply rooted is their unconscious attitude of depending upon the man in the White House to tell them what to do. Even though President Truman has not been the political power of his late predecessor, he has assumed the role of the demander of this and that in the face of a de facto Congressional opposition during his first two years and an open opposition during his second two years.

Congressional GOP leaders simply do not fit into the mold of the complaisant Sen. Barkley, the much respected if ineffective (in the face of opposition) John McCormack, or the sour but White House 100 percenter, Sam Rayburn.

* * *

Few here would predict that because Gov. Dewey means to get along with Congress and plans to try to get along with Congress, that White House-Congressional harmony is guaranteed. The ability to devise workable compromises with Congress is the most fundamental test of a President's political ability. It may have been the greatest weakness of former President Hoover, otherwise a mental giant as Presidents come. All that is known is that Mr. Dewey understands the problem of his relationships with Congress and means to work them out.

If you are an insurance company executive and you just happen to hear an informal crack from somebody from around Washington to the effect that it's a shame you are selling your long-term governments at the pegs at this time when the credit screws are being turned on the commercial banks, you can take it for pure conversation, unless you are minded enough to spare the sensibility of the government's monetary managers.

There is a little polite grumbling behind the scenes that at the very time that banks are required to kick in some higher reserves, the insurance companies are cashing their long-terms and are free to use their proceeds to expand their loans. It is only polite grumbling, however, and thus far at least not even a formal plea by officials to insurance companies to go easy for a while is contemplated.

It is not just that officials, as they do, sympathize with the commercial banks, which got singled out in the alleged "stop inflation" drive of Mr. Truman. Officials naturally feel a little frustrated to see how clearly it is working out as Sen. Taft and certain other opponents of the Administration predicted — that credit overall cannot be hitched or tucked in so long as the government is committed to maintaining the low long-term interest rate.

One may put it in his hat that this Administration will not, as some commentators have suggested, recommend any measures which in any direct way would put the Federal government to regulating the life insurance business. During the 30's, many of the bright New Deal boys privately eyed what they called "these vast monopolistic aggregations of capital," meaning the insurance companies. However, they did not have the great hardihood to drive directly for controls.

Incidentally, insurance company sales of governments were said to have made it possible for banks to avoid a great deal of selling of governments from their own portfolios. Only when the additional drain of taxes came around were they observed selling in any considerable volume.

* * *

It's only small potatoes, but this big Administration which has been talking such a good fight against inflation was, until a few days ago, charging premium above-market prices on its royalty oil. This is the oil the government gets as owner of oil-bearing land.

From time immemorial, the government was selling its royalty oil to the highest bidder, just like other government business is conducted. In these times of shortage, refiners were having to pay big premiums over the field price to get the oil, under the competitive bidding arrangement.

Somebody realized it was inconsistent with the government drive against high prices to sell at premiums when officials were trying to figure out a way to administer a two-year-old law providing that small, independent refiners without sources or with inadequate sources of oil, should get preference for the government's supplies of crude. They decided simply to drop the premiums and also to allocate supplies at the field or market price to those small refiners.

BUSINESS BUZZ

"Of course I know you can't afford this ring, dear—that's why I charged it!"

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ARGO OIL CORPORATION

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EMPIRE STATE OIL COMPANY

Capital Stock

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INCORPORATED

Members National Association of Securities Dealers, Inc.

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120 Broadway, New York 5

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Bond Club of New Jersey Annual Outing

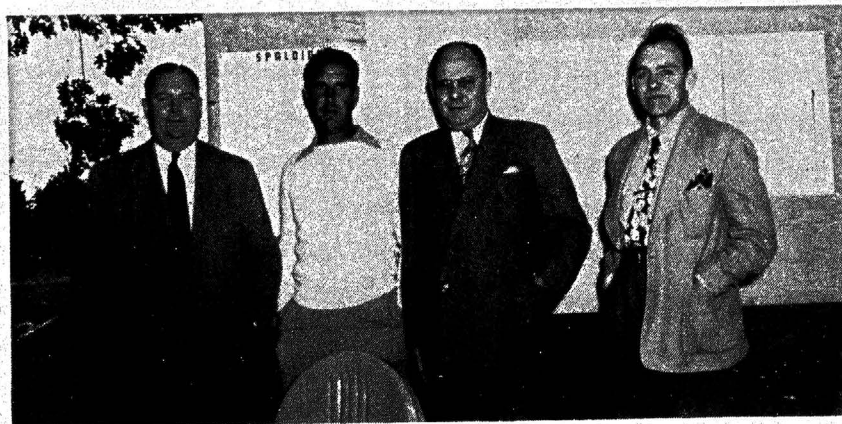
Hal Murphy, *Commercial & Financial Chronicle;* Austin Patterson, *Julius A. Rippel, Inc.*, Newark; Robert W. Lane, *MacBride, Miller & Co.*, Newark; Robert M. Hinchman, *Ira Haupt & Co.*, New York City

R. M. Keator, *Lord, Abbett & Co.*, New York City; John J. O'Kane, Jr., *John J. O'Kane, Jr. & Co.*, New York City, President of the Security Traders Association of New York; O. D. Griffin, *Lord, Abbett & Co.*, New York City

Stan Weissenborn, *Parker & Weissenborn*, Newark, President of the Bond Club of New Jersey

Harry D. Miller, *Nugent & Igoe*, East Orange, Chairman of Field Day Committee

Jim Musson, *B. J. Van Ingen & Co.*, New York City; Russ Ergood, *Stroud & Co.*, Philadelphia



Bill Roos, *MacBride, Miller & Co.*, Newark; Bob Pyle, *Hornblower & Weeks*, New York City; Carl Preim, *R. W. Pressprich & Co.*, New York City; Charles H. Henninger, *Nugent & Igoe*, East Orange, N. J.

Frank Bartow, *Bartow, Leeds & Co.*, New York City; Roy A. Hitchings, *Irvington National Bank*, Irvington, N. J.; Ludlow Van Deventer, *Van Deventer Bros.*, Newark, N. J.; P. Scott Russell, *Glore, Forgan & Co.*, New York City

Alex Seidler, Jr., *National State Bank of Newark;* Arthur Robinson, *Fidelity Union Bank & Trust Co. of Newark;* Joe Cantlie, *Campbell & Co.*, Newark

Alex Godfrey, *Seminole Oil & Gas Co.;* Felix Restino at the accordion; Harold Smith, *Pershing & Co.*, New York City, giving with "The Eyes of Texas Are Upon You", and appealing for all to attend the Dallas Traders party at the NSTA Convention November 14-18

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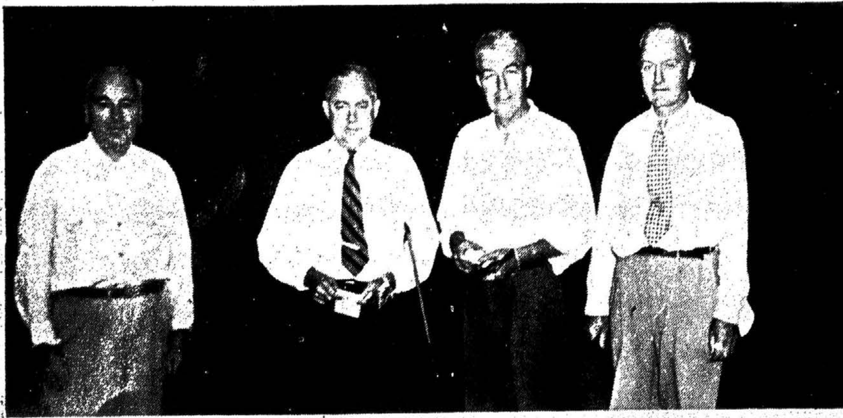
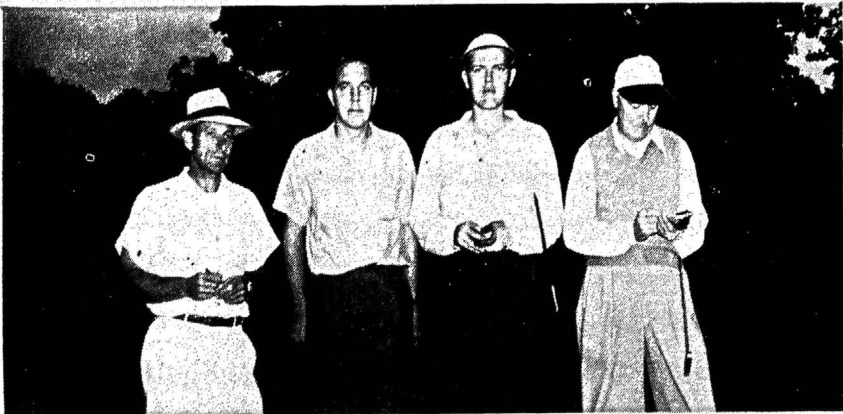
At Echo Lake Country Club, September 23



Dr. P. A. Cassedy, guest; C. W. Smith, *Smith, Barney & Co.*, New York City; G. M. Lethbridge, guest; C. S. Moreley, New York City

Russell Williams, *Public Service Corp.*, Newark, N. J.; J. M. Byrne, Jr., *J. M. Byrne & Co.;* Richard H. Monaghan, Newark; Robert Zachary, *Public Service Corp.*, Newark



Chas. W. Clark, *Fidelity Union Trust Co.*, Newark; Raymond B. Weatherby, *Fidelity Union Trust Co.*, Newark; Cliff Hemphill, Jr., *Hemphill, Noyes & Co.*, New York City; Frederick Brown, *White, Weld & Co.*, New York City

W. T. Fields, guest; S. M. Swenson, *S. M. Swenson Sons*, New York City; G. Norman Scott, *Estabrook & Co.*, New York City; Foy Porter, *Estabrook & Co.*, New York City

Daniel E. Fitzpatrick, *Phelps, Fenn & Co.*, New York City; Bus Browne, *B. J. Van Ingen & Co.*, New York City; Walter Dempsey, *B. J. Van Ingen & Co.*, New York City; W. E. Bachert, *Bank of New York*

W. H. Campbell, *Campbell & Co.*, Newark; Frank R. Cole, *F. R. Cole & Co.*, Newark; Felix, accordion player; Fred Baker, guest; T. A. Von Glahn, *Salomon Bros. & Hutzler*, New York City; Jack Semple, guest

Jack Sachau, *Blyth & Co.*, New York City (in background); Craig Mitchell, *Blyth & Co.*, New York City (putting)

Ben Fairbanks, President of *U. S. Savings Bank of Newark;* Russ Adams, *J. S. Rippel & Co.*, Newark; Thomas Loughlin, *U. S. Savings Bank of Newark;* Dr. W. Reiter, *Mutual Benefit Life Insurance Co.*, Newark, N. J.

Tom Jones, *Hornblower & Weeks*, New York City; Richard D. Nelson, *Equitable Securities Corp.*, New York City

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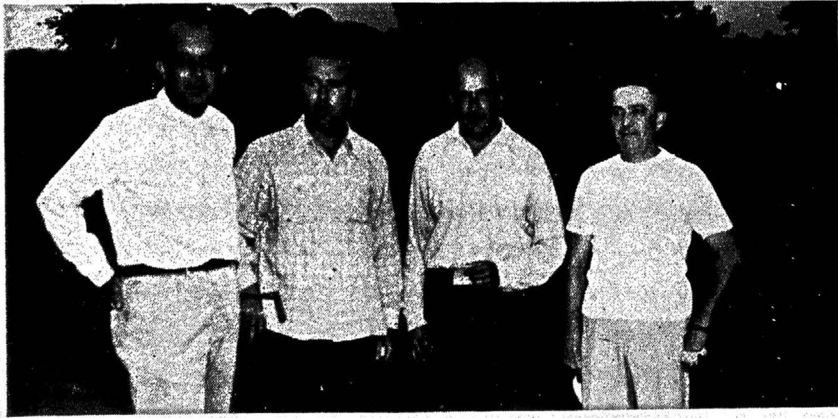
Attended By 175 Members and Guests



R. S. Nichols, Jr., *Peoples Bank & Trust Co.*, Westfield, N. J.; Ned Byrne, *Byrne & Phelps*, New York City; H. L. Rost, *Peoples Bank & Trust Co.*, Westfield, N. J.; T. G. Kenyon, *Cartaret Bank & Trust Co.*, Cartaret, N. J.

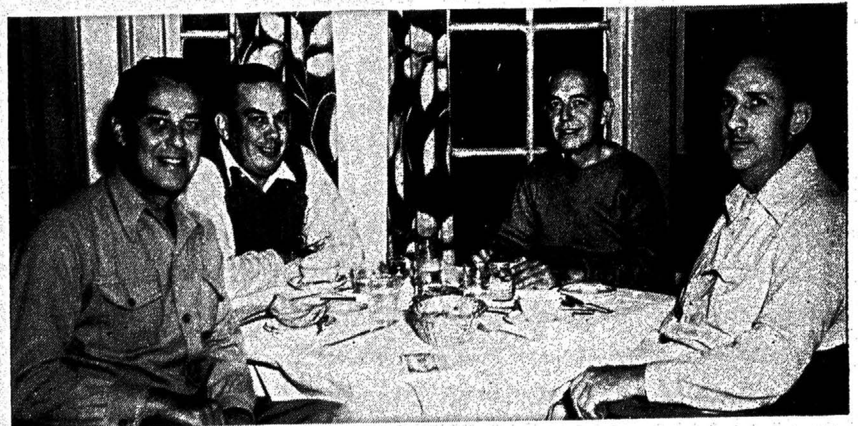
John F. Hoffman, *Shields & Co.*, New York City; Walton R. Dunn, *Mackey, Dunn & Co., Inc.*, New York City; Robert C. Winfield, *A. G. Becker & Co.*, New York City; Harold Leaf, *R. D. White & Co.*, New York City

Chet Bardsley, *Salomon Bros. & Hutzler*, New York City; Ted Von Glahn, *Salomon Bros. & Hutzler*, New York City; Jim Duffy, *First Boston Corp.*, New York City

John P. Ryan, *Goldman, Sachs & Co.*, New York City; Norman Brassler, *Paterson Savings & Trust Company*, Paterson, N. J.

Kenneth Spear, *J. A. Rippel & Co.*, Newark, N. J.; Albert Leek, *Coffin & Burr, Inc.*, New York City; Felix Restino tickling the keys

John W. Hand, guest; Wm. A. Fiedler, *H. M. Byllesby & Co.*, New York City; K. D. McLaren, *Corporation Trust Co.*, New York City; H. C. Sturhahn, *Delanoy, Kipp & Sturhahn*, New York City



Harry D. Miller, *Nugent & Igoe*, East Orange, N. J.; Norton Rogers, *Rogers, Gordon & Co., Inc.*, New York City; E. M. McLaughlin, *Paine, Webber, Jackson & Curtis*, New York City; Wm. C. Rommel, *J. S. Rippel & Co.*, Newark, N. J.

Ed Purcell, *Commercial Trust Company*, Jersey City, N. J.; Harry Zimmer, *Commercial Trust Company*, Jersey City, N. J.; Chick Spring, *Outwater & Wells*, Jersey City, N. J.; Warren K. Van Hise, *Parker & Weissenborn*, Newark

J. Ryan, *C. J. Devine & Co.*, New York City; Dick Rand, *Rand & Co.*, New York City; Bill Burke, *Bacon, Stevenson & Co.*, New York City; Jack Clark, *Chase National Bank of New York*

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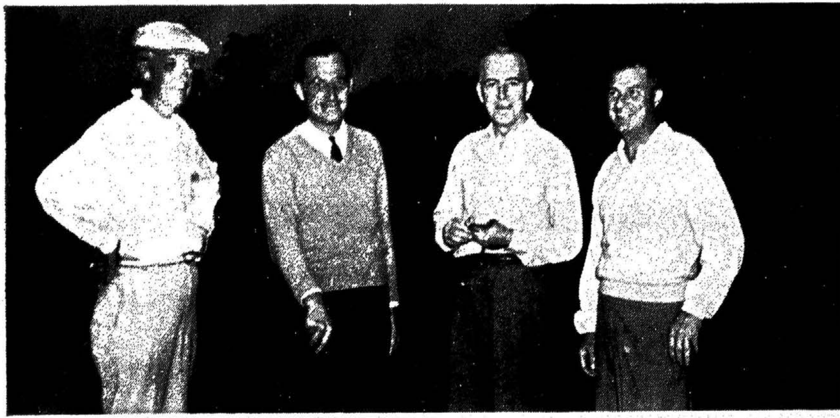
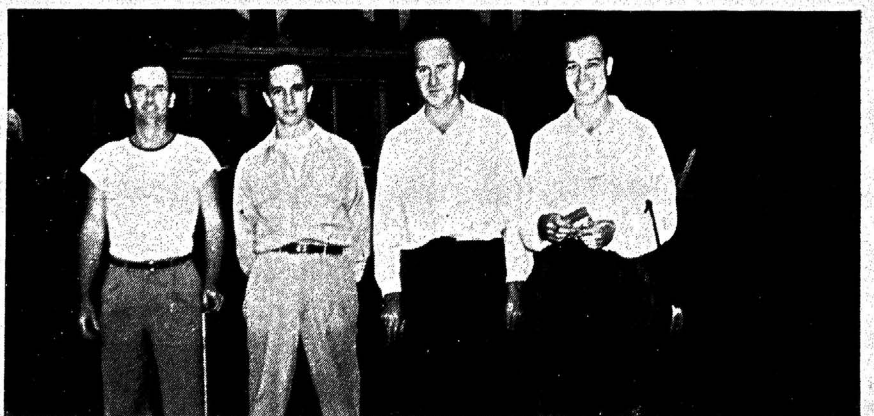
Pronounced Huge Success



R. R. Ballinger, guest; R. C. Fowler, guest; W. A. Kenny, guest; J. Albert Williams, *Nugent & Igoe*, East Orange, N. J.

Harry D. Miller, *Nugent & Igoe*, Chairman of the Committee, working up an appetite for those luscious steaks

John J. Roe, *Hudson City Savings Bank*, Jersey City; Charles B. Schubert, *Emanuel, Deetjen & Co.*, New York City; Albert P. Luscombe, *Peoples National Bank & Trust Co.*, Belleville, N. J.; B. Thomas Aitken, *Peoples National Bank & Trust Co.*, Belleville, N. J.



James Johnston, *Bramhall, Barbour & Co.*, New York City; Joe Vandernoot, *R. W. Pressprich & Co.*, New York City; Court Parker, *R. W. Pressprich & Co.*, New York City; Paul Welzmiller, *C. F. Childs & Co.*, New York City

Bob Wehrheim, *Philadelphia National Bank*, Philadelphia; Paul Frederick, *Paul Frederick & Co.*, New York City; Robert A. Bivins, *Chase National Bank of New York;* Glenn D. Thompson, *National State Bank*, Newark

Ed Kezer, *B. J. Van Ingen & Co.*, New York City; Al Johnson, *Federal Trust Co.*, Newark; Stan Weissenborn, *Parker & Weissenborn*, Newark; Jack Duerk, *Howard Savings Bank*

Harry P. Schaub, Jr., *Harry P. Schaub, Inc.*, Newark; Wm. Conway, *Hudson County National Bank*, Jersey City, N. J.; Harry Casper, *John J. O'Kane, Jr. & Co.*, New York City

C. R. Sandford, *Elizabethport Banking Co.*, Elizabeth, N. J.; Jack Coman, *C. J. Devine & Co.*, New York City; Sam Revits, *C. J. Devine & Co.*, New York City; R. W. Crum, *U. S. Trust Co.*, Newark, N. J.

George Waldmann, *Mercantile Commerce Bank & Trust Co. of St. Louis*, New York City; Jerry Tripp, *Tripp & Co.*, New York City; Roal Morton, *The Blue List*, New York City; David H. Callaway, *First of Michigan Corp.*, New York City

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