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A United Europe

By WINTHROP W. ALDRICH*
Chairman, Board of Directors, The Chase National Bank of the City of New York

Urging a united Western Europe, prominent New York banker stresses moral and political values of Marshall Plan. Calls for U. S. aid in defense of free institutions, and advocates U. S. enter into lend-lease agreements with Western Europe.

The other day, in looking through Miss Barbara Ward's stimulating book, "The West at Bay," I found on the title page this line from Edmund Burke, "When bad men combine, the good must associate." Benjamin Franklin, on the occasion of the signing of a document which can be brought to mind at this time without embarrassment because of the strong ties of friendship which now unite our two countries, put the same idea in a homelier phrase


W. W. Aldrich

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*From an address by Mr. Aldrich at the Dinner of the Pilgrims of the United States, New York City, Oct. 13, 1948.

PICTURES taken at recent party held by the Security Traders Club of St. Louis appear on page 10.

Futility of Establishing Exchange Rates by International Agreement

By WILLIAM CHAMBERLAIN*
Former President, United Power and Light Company

Holding scheme of exchange stability as provided by International Monetary Fund is predicated upon false concept both as to money and as to value, Mr. Chamberlain says it is like attempting to quiet waves without first controlling the winds. Points out International Monetary Fund hampers trade by attempting to give paper mediums of exchange a value in international trade which they do not possess at home.

I

The operating mechanism of exchange control established by International agreement and implemented by the local laws of the signatories is the International Monetary Fund. The designed function of this International agency is to establish by agreement and maintain by force of law arbitrary ratios at which the inconvertible paper currencies of the various members are to be exchangeable one into the other. Under the plan adopted the unit of currency of each member country is declared to be equivalent in value to a stated amount of gold. This is a naked declaration of value having no support in reality since the paper moneys are inconvertible. Exchange at the decreed rate is made mandatory and all persons purchasing goods within the member countries for export or import must prove that they have made the necessary monetary conversions at the re-


William Chamberlain

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*Contents of a letter written by Mr. Chamberlain to a friend and copy furnished to the "Chronicle."

Stymying Germany by Monetary And Fiscal Methods

By MELCHIOR PALYI

Holding for three years Germany has been strangled by destroying its currency and by deindustrialization, Dr. Palyi analyzes recent currency reform in Western Germany. Points out it is purely fiat money and, though its success seems spectacular, it can last only if quantity issued can be held under strict control. Says money in Western Germany is plentiful but credit short. Calls occupational administration wasteful, corrupt and hampered by red tape, and criticizes Western Germany's present tax system.

I

It is imperative that Congress take a look at Western Germany —at the occupation policies which strangulate the economic life of a country ravaged by war, plundered in peace, and flooded by more than 10 million refugees. Who is responsible for the catastrophic mismanagement? Nominally, General Clay is in charge, of course, but he does not formulate the dismantling and "level of industry" mischiefs, still less does he control French practices in their zone. He seems to have little if any influence even over Bizonia's economics and finances which are under the arbitrary rule of quasi-independent, joint Anglo-American agencies. An inquiry into how those gentlemen discharge their duties should not be dismissed, as it has been time and again, with the flimsy excuse that new policies


Dr. Melchior Palyi

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EDITORIAL

As We See It

One of the Problems

One of the problems which the new national Administration (one must almost assume that there is to be a new national Administration early next year) must face is that of the management of the Federal debt. Possibly in the whole long list of blunders, or worse, of which the Roosevelt and Truman administrations have been guilty, none is costing us more at this moment than the way in which the huge deficits, first of the era of New Deal profligacy and then of the war have been dealt with. So long has this situation been permitted to continue, and so deeply has it penetrated the processes of our economic system, that no one can say easily, or lightly, precisely what the remedy is or how it can be applied.

But no such difficulty is encountered in determining the principles to be applied or the ultimate ends to be sought. It is, of course, impossible to say just what the beliefs of Governor Dewey or of his advisers are on the subject, but one must hope that they all fully under-

(Continued on page 33)

Another Look at Inflation

By CLIFFORD S. YOUNG*
President, Federal Reserve Bank of Chicago

In pointing out our basic economic problem is still inflation, and, despite current prosperity, our shortcomings in economic literacy have never been more apparent, Mr. Young analyzes recent efforts to limit credit expansion as well as business prospects ahead. Concludes, notwithstanding recent price weakness, there is no reason to relax concern about further inflation and sees danger in economic complacency.

By almost any accepted measure present business conditions must be judged as the most prosperous in our nation's history. Yet, for most of us these are very unsettled times—with widespread uncertainties about international developments and mixed optimism and pessimism in business. There is great temptation under such circumstances to concern ourselves with the pressing work at hand and largely to disregard the many far-reaching changes taking place around about us which may have important indirect, if not direct, effects upon our business and personal lives.


C. S. Young

Never has the old adage "what we don't know won't hurt us" been less true than today. Powerful economic forces are currently operative which prudent business managements cannot ignore. The need for heightened public understanding of the basic problems which our nation and our business enterprises face is great; our shortcomings in economic literacy probably have never been more apparent. We can be swayed first in one direction, then in another, depending upon the tone of the last news report we have heard or conversation we have had. Occasions such as this provide an opportunity for us to direct our attention to some of the more basic issues which we now face in this country in the hope that we can improve our knowledge of the complex economic and political environment in which we live and do business.

It is not likely that we will ever be able to face the future with real certainty. No continuously accurate means of forecasting has yet been developed, and certainly it is not within my province to attempt to do so. Nevertheless, we can and must keep well informed about current developments which may affect our business operations, and weigh regularly the alternatives which may confront us. Also, we must continually remind ourselves of the stake which we have in the economic stability of our country. For this reason I would like to take another look at inflation with you, considering some of the principal implications of recent and prevailing inflationary trends for the future of general business and finance.

The primary interest of most business executives, I have observed, understandably is with such matters as the output and prices of their specific products, the purchasing power and buying habits of hundreds or thousands of customers upon whom they depend for sales, and the earnings and financial problems of their individual businesses. The Federal Reserve System has a deep and continuing interest in the success and problems of individual business enterprises, but necessarily takes a somewhat broader view of most developments in industry, commerce, and agriculture. Our immediate concern, consequently, is with the course of: (1) over-all production, (2) the general price level, (3) aggregate income, (4) consumer and business attitudes toward spending, and (5) most important, the general financial condition and needs of business, consumers and government.

This does not mean that the interest of business management and the Federal Reserve are mutually exclusive. On the contrary, what happens to your individual businesses obviously directly affects not only the broader movement of business and employment, but also our Federal Reserve operations and policies. Equally true, changes in aggregate income, government receipts and expenditures, and credit policies may well have a very substantial influence upon the sales and earnings of your companies.

The Basic Economic Problem Still Inflation

The dream of the prewar decade—full employment—has now prevailed in this country for several years. Virtually all available manpower, materials, and machinery are at work, and the prospects for further expansion in any of these in the near future seem quite limited. We are still not able, however, to meet all the domestic and foreign demand for goods. The record of the last year reveals clearly this basic economic problem: purchasing power outdistancing production with resultant rises in prices.

Both total employment and physical production have advanced by less than 4%. Personal income, however, has expanded much more, or by about 10%. This increased dollar purchasing power, however, has been offset by a comparable rise in cost of living. Highly significant, the use of business and consumer credit has increased appreciably, 20-25%, pointing conclusively to the key role of credit in supporting current very high dollar levels of business activity. In other words, as the result of a year's effort, we have achieved little more than the ability to pay higher prices for roughly the same volume of goods and have enlarged our private indebtedness substantially as well. Here unmistakably are the symptoms of inflation.

Invariably, as our history reveals, intense inflationary periods, such as we are now experiencing, are followed by severe setbacks for business and employment. There is no reason at present to believe that this worst of all American inflations can end otherwise. Our principal hope is that we can adjust to more normal conditions in successive stages rather than all at once. The sooner the end of inflation comes, the sooner we can make forward strides for prosperity on a more stable and enduring basis, which we certainly do not now have.

While inflationary forces continue strong, principally because of stepped-up government expenditures for defense and foreign aid, and an unabated willingness and ability of most consumers and businesses to spend, all of us are also quite aware of unmistakable signs of weakness in the business situation. These so-called "soft spots" seem to be arising from some initial slowing up in the overall demand for heavy or capital goods, mounting consumer resistance to particular goods and services lacking price and quality appeal, and numerous instances of markets literally being saturated with goods, including some agricultural commodities.

It thus appears that two broad sets of economic forces are operating at the present time: (1) strong inflationary developments, and (2) some leveling and declining tendencies. Yet, on balance it is difficult to deny that overall inflationary forces currently remain the more dominant. Moreover, the dangers inherent in the present record high price level are too great to assume that the problem of inflation is over or will soon be over.

Money Supply—Primary Factor in Advancing Price Level

If there is any primary factor underlying our war and postwar inflation, it must be the increase in our money supply resulting from our mounting public debt, which in turn is attributable to unprecedented government expenditures for preparedness and defense. The past war was financed only about 40% from taxes. The remaining 60% which had to be borrowed has left a heritage of a public debt roughly of 250 billion dollars and a money supply, comprising total deposits (adjusted) and currency outside of banks, of about 169 billion dollars.

In a broad sense, changes in over-all price level are the result of fluctuations in (1) the volume

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*An address by Mr. Young before the Institute of Internal Auditors, Inc., Chicago, Ill., Oct. 18, 1948.

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Kaiser Frazer-Otis & Co. Decision

Court preserves privilege of confidential communications between attorney and client. Holds no prima facie showing of fraud. Decides it may not by injunction stop SEC investigation. Commission's unfortunate choice of path of interference in a private fight a menace to all in securities field. Can save face by withdrawing pending proceedings.

During the course of the ill-fated Kaiser-Frazer underwriting, when we learned of the twin pronged efforts of the Securities and Exchange Commission and the National Association of Securities Dealers to wrest from counsel for Cyrus Eaton certain confidential communications committed to his attorneys, we took up the editorial cudgels in opposition to these methods.

Of this privilege Blackstone said simply: "And no counsel, attorney, . . . intrusted with the secrets of the cause by the party himself shall be compelled, or perhaps allowed, to give evidence of such conversation or matters of privacy, as came to his knowledge by virtue of such trust and confidence."

The methods employed by the SEC and the NASD in an attempt to pierce this well established and sacrosanct common law principle outraged us. We believed it smacked of persecution and didn't hesitate to say so.

In an attempt to bypass this well grounded privilege, these administrative bodies claimed it was being used as a sword instead of a shield and that a *prima facie* case of fraud had been made out against Otis & Co.

This issue has just been determined by Judge Morris of the District Court of the United States for the District of Columbia. Here is his pronouncement: "I do not consider the circumstances here proved to be such, without more, as to reasonably justify a verdict of wrongdoing which could be sustained, and I, therefore, must conclude that the requisite *prima facie* showing of fraud to pierce the attorney-client privilege and relieve the communications here sought to be disclosed from immunity has not been made."

In attempting to spear Otis & Co., the SEC and the NASD got a tiger by the tail, one that can stand, and knows how to fight. We find confirmation and satisfaction in the court's determination not alone for Otis & Co. but also for everyone in the securities field. These administrative bodies are the ones using their powers as a sword instead of a shield and it is an outstanding victory when the courts bring them to heel. We are of the opinion that improper powers continue to be exercised by these bodies through default and because these are not challenged.

Another part of the decision is disturbing. In this Judge Morris said:

". . . insofar as the counterclaim seeks injunctive relief respecting the future conduct of the hearings in the investigatory proceedings, the defendants and intervenors are not entitled to the relief sought, and that this Court does not have the power by injunctive relief to control the conduct of such hearings by the Commission."

This limitation imposes a marked and expensive hardship, for when the SEC is intent upon proceeding, it would compel a fighting respondent to have a costly record reviewed instead of enabling him to quash a fishing expedition aborning.

Of course this SEC investigation into the abortive Kaiser-Frazer underwriting is trumpeted as being "in the public interest"; but how, we ask ourselves, can it be in the public interest? The underwriting contract having been repudiated the public offering did not proceed and hence the public could not have been hurt.

It may be argued, however, that the stabilization of the stock authorized by the SEC cost Kaiser-Frazer millions and therefore its then existing security holders were hurt by the diminution of their equity. True. This, however, was a wholly private matter for redress of which the corporation instituted an action. We need not, and do not, pass upon whether the repudiation of the underwriting agreement was justified, to

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Our Foreign Trade and the Dollar Problem

By AUGUST MAFFRY*

Vice-President, Irving Trust Company

New York banker, pointing out dollar shortage is seriously affecting volume and direction of foreign trade, lays difficulty to extraordinary demand for American goods and says relief can come about only through intervention of governments by drastic import restrictions. Sees dollar deficit in Europe persisting for long time, and immediate outlook depending on political decisions in Washington.

The dollar shortage, so-called, is popularly conceived to extend to practically all parts of the world. This is a considerable exaggeration. Nevertheless, the demand for dollars exceeds the available supply of dollars in most foreign countries, including practically all of the major customers of the United States. The resulting "dollar problem" is therefore so widespread as seriously to affect the volume and direction of foreign trade and shipping.

August Maffry

I propose to examine briefly the causes and the extent of this dollar shortage and the prospects for relieving it.

There has been since the recent war no drastic decline in the supply of dollars available to the rest of the world for the purchase of American goods and services. There has been no repetition of the experience after the first World War, when the supply of dollars dropped from over $10 billion in 1919 to less than $5 billion in 1921; or of the early '30s, when the supply of dollars dropped from $7.4 billion in 1929 to $2.4 billion in 1932. In 1947, in fact, more dollars were supplied to the rest of the world by the United States through imports, gifts, and loans than ever before in peacetime; and foreign countries also drew on their own gold and dollar reserves by a record amount. As a consequence, exports from the United States of nearly $20 billion in that year were exceeded in value only in the years of heavy lend-lease shipments in 1943 and 1944.

How Dollars Are Supplied

The calculation of the supply of dollars to foreign countries may be simplified by saying that the United States provides them with dollars in two ways: by buying goods and services from them and by making gifts and loans to them. In addition, foreign countries have stored-up gold and dollars of their own which they can use to buy goods and services from us.

In 1947, the United States bought foreign goods and services valued at $8 billion and made foreign gifts and loans amounting to $8 billion. In these two ways a total of $16 billion was supplied to foreign countries to buy American goods and services. Then, out of their own store of gold and dollars, foreign countries took approximately $4 billion to make additional purchases in the United States. They were therefore able to take total exports from us last year valued at almost $20 billion.

In 1948, there will be enough dollars available to foreign countries to finance exports from us valued at about $17 billion, or some $3 billion less than in 1947. This decline will occur, not because we are importing less in money terms than last year, but because foreign gifts and loans will be smaller and because foreign countries will expend less of their reduced store of gold and dollars. Imports into the United States this year will run to approximately $10 billion, foreign gifts and loans to approximately $6 billion, and foreign countries will use something in excess of $1 billion of their own monetary reserves. Thus, about $17 billion altogether will be available for purchasing goods and services from the United States.

1949 Prospects

Looking ahead to 1949, the prospect is that imports will be well maintained in dollar terms. The volume of imports is determined largely by the level of business activity in the United States and the resulting requirements of our industrial machine for imported materials. The demand in the United States for imported materials, as well as for foreign specialties and other manufactures, will continue to be strong so long as business activity is maintained at present high levels.

The volume of imports is also determined in part, of course, by the availability of foreign goods. Imports into the United States since the war have been held down, and are still being held down, by the limited supply of customary imports from Europe and the Far East in particular. An increase in the supply of foreign export products would therefore permit an increase in imports into the United States; but is not clear that there will be any significant change in this direction in the near future.

What will happen to foreign gifts and loans in 1949 depends directly upon the action of the new Congress in continuing financial aid to European countries and to China. If appropriations for foreign aid are authorized for another year on the same scale as in 1948, foreign gifts and loans in 1949 will again run to $6 billion or more. The sum of prospective imports and foreign gifts and loans in 1949 of more than $16 billion, plus a further use by foreign countries of perhaps $1 billion out of their own monetary reserves, will again yield a total supply of dollars in the neighborhood of $17 billion.

Thus, there has been no drastic decline since the war in the number of dollars available to the rest of the world to buy American goods and services. No further decline is in prospect unless the foreign aid program is abandoned or unless we run into a business recession at home. What is particularly significant to the shipping industry, however, is that the current supply of dollars to foreign countries will move a considerably smaller physical volume of goods at current prices than might be inferred from these comparative dollar amounts.

Demand for American Goods

The recent drop in the supply of dollars to foreign countries, moderate though it has been, is one of the elements in the current dollar problem. The other element is the extraordinary demand for dollars throughout the world. We say "demand for dollars," but what we really mean is "demand for American goods." This extraordinary demand is the result, in turn, of a number of factors. There is still some backlog of demand carried over from the interruption of normal trade channels during the war years. The dislocation of foreign trade during and since the war has made many countries dependent upon the United States for things that they would ordinarily obtain elsewhere. The inflation of money incomes in practically all parts of the world has naturally produced an increased demand for imported goods, and there seems to be almost everywhere a heightened desire for American goods and American gadgets. Above all, the preeminence of the United States as a producer enables it to outbid other suppliers of many products in terms of quality, price, and delivery.

There is here a direct analogy with the economic situation at home. For example, we speak of the "meat shortage," despite the fact that the per capita consumption of meat last year was higher than ever before in our history. The explanation, of course, is the enormously increased demand for meat, which makes even a greatly increased supply appear short.

Drastic Import Controls

Since the immediate outlook is for a continued supply of dollars to the rest of the world at the rate of about $17 billion annually, any relief of the prevailing dollar shortage must come through a decrease in demand. This might come about through the curbing of inflationary forces in foreign countries. It might come about through the restoration of normal channels of trade as, for example, between Western Europe and Eastern Europe. The chances are, however, that it will come about, if at all, through the intervention of governments, which, by means of more drastic import restrictions, more rigid exchange controls, and exchange depreciation, will reduce the effective demand for American goods.

The prospect, therefore, is for no lessening of the problems of the exporter or shipping official, who have to contend from day to day with the whole wearisome complex of existing controls on trade and payments. Some tightening of controls may be desirable, and the orderly, efficient, and honest Administration of controls is certainly much to be desired. So long as there is no real hope of a supply of dollars to foreign countries sufficient to meet present inflated and extraordinary demands, it is better that the available supply be distributed by foreign countries in an orderly and non-discriminatory manner than for them to permit the incurring of dollar obligations which cannot be met.

I indicated at the outset that the dollar problem, although widespread, was not universal. There are a number of countries, some of them fairly important in terms of United States trade and shipping, which either have at present no dollar shortage or no serious dollar shortage. Dollars are readily available for commercial transactions in about half of the Latin American countries including Cuba, Uruguay and Venezuela. There is a more or less serious shortage of dollars, always in the sense of a demand for dollars which outstrips the available supply, in the remaining half. Among European countries, Switzerland and Portugal have no present dollar problem, and Belgium has no

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*An address by Mr. Maffry to Panel on "Finance" at the American Merchant Marine Conference, New York City, Oct. 13, 1948.

IBA President Urges Investment Bankers to Be More Aggressive

Julien H. Collins tells New York Group they must do more in channelling funds into productive use. Says sales methods lack vigor, originality and aggressiveness.

Investment bankers must be more resourceful, and they must adopt a more aggressive merchandising program if the industry is to meet the responsibility of providing the huge capital requirements of American business, Julien H. Collins, Julien Collins & Company, Chicago, President of the Investment Bankers Association of America, told New York investment dealers on Oct. 14.

Julien H. Collins

Ways must be found to step up the flow of private investment funds, and particularly equity capital, in order to supply the $50,000,000,000 capital needs of industry, according to the Chicago banker, or the whole economy will suffer.

Collins spoke at the annual dinner meeting of the New York Group of the IBA at the Hotel Pierre. Reginald W. Pressprich, Jr., R. W. Pressprich & Co., New York, Chairman of the group, presided.

"We face a situation today in which the production and expansion plans of industry require funds in an amount that may well tax the capital generating capacity of the country," Collins declared, "and the investment banker must do more than he is now doing to channel needed funds into productive use."

Despite the great opportunity for more intelligent and effective merchandising, the sales methods of the investment banking industry have for the most part lacked vigor, originality, and aggressiveness, Mr. Collins said, and this explains at least in part why the investment bankers have been less effective than the insurance companies in attracting investment funds. Most of the 30,000,000 owners of savings accounts and the holders of life insurance contracts are logical and promising prospects for the investment banking industry, and the appeal must be carried to these potential direct investors.

A great deal has been said lately about the importance of directing the flow of capital into equities, Collins pointed out, and the shortage of venture capital is widely lamented. Increasingly, businesses are finding difficulty in raising equity funds and are thereby forced to drop expansion programs or else finance expansion either through retained earnings or by going into debt. Saddling a business with a top-heavy capital structure has obvious disadvantages, particularly with respect to companies that have widely fluctuating sales during the course of a cycle.

There are two important obstacles to the freer flow of venture capital, Collins asserted, the duplication of taxes on corporate earnings as turned over to the individual and the institutionalization of savings. The discouraging effect of the tax structure on the traditional investor has been widely discussed, and it is hoped that we may have a review of the whole tax structure. Persons in the lower income groups who now receive a larger share of the spendable national income, and are therefore in a better position to save than heretofore, are not traditionally equity buyers. They are indirect investors, and their accumulations are lodged with institutions that are predominantly buyers of bonds. This means unbalanced capital structures and portends danger in periods of adversity.

In reviewing the status of the capital markets the IBA President noted that business is at a high level, earning power has been rising, and dividends are slowly mounting. At the same time the yields on high grade and tax-exempt bonds have not fluctuated widely because of the support of the government bond market on a long-term 2½% basis. Industrial averages are not far above their levels at the time of the Japanese surrender, in August, 1945, whereas most commodities are still at least 50% higher than at that time.

When common stock prices are low in relation to earnings the purchase of equities is admittedly more favorable to the investor, the speaker said, and, "if we are to realize our ambition to expand markets for new capital through the sale of equities, it is to be hoped that the enthusiasm of the investing public will assert itself when ratios are low and prices for shares are favorable."

Liquid funds in the hands of individuals are at record levels, Collins said. According to the Treasury Department, such assets, represented by government bonds, bank deposits, and currency, exceed $200,000,000,000 against only $50,000,000,000 at the end of 1941. On the other hand, only about 10% of financing this year represents venture capital in contrast to 76% in the third quarter of 1929. These are significant figures for the investment bankers and the investing public at this time.

The investment banking business is one of the most vital small businesses in the country today, Mr. Collins stated, and constitutes the fourth wheel of industry and private enterprise. The investment banker must continue in a positive way to encourage individual investors to provide for themselves the added security made possible by the wise placement of their accumulations. In this way the capital needs of industry will be met, and employment and economic well-being will be provided for our citizens over the years.

Prof. Malcom McNair To Address Retailers

Professor Malcolm P. McNair of the Harvard Business School will address the Retail Executive

Prof. M. P. McNair

Group of the Harvard Business School Club of New York at a luncheon at the Biddle Room of the Harvard Club on Oct. 21.

The State of Trade and Industry

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

Industrial output on a nation-wide scale continued at or close to peak levels during the past week and held moderately above prevailing production levels of the comparable week one year ago.

Strikes in the shipping and oil refining industries in the Pacific Coast region continued to affect industrial activity in that area, although it should be pointed out, no acute shortage has yet appeared.

As in the past week, order backlogs again experienced a moderate decline in keeping with a high rate of output. Employment and payrolls, too, held steady and at a high point in most sections of the country.

* * *

The turn in events with respect to the foreign situation brought on by Warren R. Austin, United States delegate to the United Nations meeting in Paris, when he assailed Soviet Russia on its stand on the Berlin crisis was interpreted favorably in stock market circles as an indication that the United States had no intention of altering its present policy in coping with this important problem.

Stimulated by the news, stock prices moved into higher ground for the second successive week and approximated early September levels.

* * *

Along with plans for other benefits formulated at the United Mine Workers of America 40th biennial convention, the union, it is reported, got its campaign under way on Wednesday of last week for a fourth round of postwar wage increases.

Contract negotiations will open next spring and at that time the Mine Workers will present their program calling for an increase in wages and a reduction of hours; improvements in the welfare and retirement fund; improved safety conditions; and adjustment of vacation, holiday and severance pay. The present wage contract in the bituminous coal industry terminates on June 30, 1949.

One example of the effects of such increases on the economy of the country may be found in the current request of the nation's railroads to the Interstate Commerce Commission on Tuesday of last week, in which they sought a 13% boost in freight rates to cover a recent wage increase of 10 cents an hour for 175,000 conductors and railway trainmen. This wage boost, according to the carriers, will impose an added burden of $56,000,000 on the roads, effective Oct. 16.

It is further understood that while the wage rise affects only a portion of the carriers' 1,400,000 employees, the railroads have worked out their new demands for a 13% general rise in rates on the basis of extending the 10 cents an hour increase to all rail workers as of Oct. 16. If the increase is given all classes, expenses and payroll taxes will rise $371,000,000.

* * *

Continued cool weather and promotional sales stimulated a considerable amount of consumer buying during the past week. Retail dollar volume rose moderately above the level of a week ago and was also above that of the corresponding week in 1947. Shoppers responded favorably to promotions of Fall and Winter merchandise, although the demand for luxury items continued to be limited.

Wholesale volume was steady at a high level during the week and slightly above that of the comparable week a year ago. Current re-orders were numerous with frequent requests for accelerated deliveries. New orders for gift merchandise were substantial.

STEEL OUTPUT SCHEDULED WITHIN 5,000 TONS OF INDUSTRY'S ALL-TIME HIGH LEVEL

Automobile people got up off their seats and did something spectacular about the steel shortage this year. They bought ingots and semi-finished steel and had it made into sheets and strip, according to "The Iron Age," national metalworking weekly. They did this so they could make cars and trucks that might not have been made if they had stood still and done nothing.

They paid collectively about $135,000,000 over and above the regular mill prices to get this "extra" steel. When final figures are in, more than 1,050,000 more cars will have come off the assembly line than would have otherwise been possible, states the trade magazine.

Not only that, but as a result of the conversion of raw steel from one plant to finished steel in another, more than 300,000 tons of spare parts have been made available this year. Those who know, claim that the use of steel conversion makes auto people directly responsible for more than 7% of all sheet and strip being made this year, or 2% of all finished steel to be shipped, the trade paper points out.

These figures are not guesses, but have been obtained, checked, compiled and rechecked by "The Iron Age." Most informed people who have checked these startling results have said that the figures were conservative. These so-called conversion deals should not be confused with gray market deals. They are not. The ingots or slabs are bought in the open market by auto officials. Through cooperation with regular or other steel mill sources, they are processed into finished steel that auto men can use, "The Iron Age" adds.

The oil and gas industry also has increased the amount of steel by conversion projects. But they have produced hundreds of thousands of tons of steel this year that would not have been available had they not followed the same technique as auto people. Further, it is safe to say that close to 500,000 tons of steel for pipe lines and other oil and gas uses came from conversion plans. And more is coming that way, the magazine predicts.

"The Iron Age" estimates that close to 2,500,000 tons of steel ingots have been channeled into the conversion race this year. This means that close to 1,750,000 tons of finished steel will have been made available this year by the effort of steel industry customers. And it also means that the steel firms which are converting the steel have as a dividend the scrap which results from breaking the ingots down into finished steel.

Steel demand is strong—so strong that no one sees any weakening in the steel market yet. There are murmurs that finished or manufactured products are not moving so fast. An attempt to nail

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Observations . . . .

By A. WILFRED MAY

WHY "THE MARKET" CONFOUNDS THE FORECASTER

This column has explained the motives behind the public's ever-increasing proclivity for forecasting the stock market-as-a-whole, and has cited the decisively negative results of such attempts. Let us now explore the *reasons* for such abortive results.

One very important obstacle to successful forecasting arises from the constantly growing impact of government intervention. This unpredictable external factor adds still another variable to the already-difficult aim of anticipating the course of business, and of drawing conclusions about securities prices therefrom.

A. Wilfred May

Starting with the founding of the Federal Reserve System in 1913, national monetary "management" played a powerful market influence in the ninteen-twenties, causing a wide divergence in the stock market's action from its normal reaction to the relevant external factors. Thus, our "New Era" bull market, subsequently ending in the post-1929 collapse, ran a course at complete variance with nearly all of the logical economic elements. Between 1923 and 1929 the price of common stocks rose by more than 300%, whereas, for example, the output of nondurable consumption goods increased by only 24% and there was actually a decline in the BLS indexes of the prices of raw materials, semi-finished and finished goods. Stock prices also diverged widely from corporate earnings, reflected in ratios as high as 200-1 (ex.: American Foreign Power common at 199). The market then was not functioning in its vaunted capacity as a *barometer* of economic changes, but rather as a *thermometer* registering the devastating effects of the Federal Reserve credit that had been pumped out through the open-market operations of the System. Thus a new and unrecognized management policy led to disaster anyone who forecast the future of stock prices on the basis of a correct appraisal of the relevant economic circumstances.

Similarly, in the 1936-'37 period that marked the end of a 4-year bull market, equities were also priced at wide variance from the attending external factors. That this stock market rise was not caused by individuals' flight of capital from the prospect of inflation, was shown by the fact that bond prices rose to their peak prices of this century and commodity prices remained stagnant. Nor was the market being financed, as had been the case in the previous decade, by brokers' loans. Instead, the bull market of the time actually *was* again caused by interventionism in the Federal Government's aggressive deficit-financing policies of borrowing and spending, with wide expansion of bank deposits and of investment-seeking money; and by its managed reduction of ruling interest rates. Conversely, in the Fall of 1937, when this money-expansion policy was suddenly and unexpectedly halted, the bull market went into its historic tailspin.

Forecasting "Parlays" Necessary

Another forecasting obstacle is the difficulty at all times of foreseeing the conclusion from a correctly-recognized underlying factor. This is illustrated in the course of war threats, which unfortunately now seem to be chronic. Supposing that war outbreak as a political event is correctly anticipated—is the correct market conclusion actually bullish or bearish? We must remember that in the final days of August, 1939, when the war's outbreak was correctly recognized as unstoppable, stocks fell sharply. That after Hitler marched into Poland on Friday, Sept. 1, and England and France declared war on Sept. 3, the market bears confidently and the bulls tremblingly over the long Labor Day weekend awaited the reopening of the Stock Exchange. But that to nearly everyone's amazement here and abroad, on the following Tuesday the market opened with enormous jumps from its previous close, followed by a further general rise of 20%. May not history now repeat itself about war, but perhaps reverse itself about the market?

And during the past three years we have again witnessed a sharp "market-economic" divergence. The economists who happened to be correct in their business expectations, and managed to foretell the subsequent rises which actually occurred in industrial production and national income, would have lost some part of their shirts in trying to capitalize on this prescience stock market-wise. Conversely, according to traditional expectations, the mid-'46 drop in the market should have been followed by a business recession within a reasonably short time.

The possibly imminent pulling of the government's pegs on its bonds furnishes another example of the difficulty of foreseeing the market effect of a correctly-predicted event. Suppose one's prophecy about the withdrawal of Reserve Board support be subsequently confirmed as correct, can a bearish result on *stock market* prices actually be assumed without question? Actually, while such reversal of monetary policy would undoubtedly represent a generally anti-inflation-

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Lyons & Shafto Open New Hartford Branch

HARTFORD, CONN.—Lyons & Shafto, Inc., Boston investment firm, have opened a new branch office at 75 Pearl Street under the management of G. Philip Whitman, resident Vice-President.

Edward Shensa With Bache in Cleveland

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Edward Shensa has become associated with Bache & Co., National City Bank Building. Mr. Shensa was formerly with Hirsch & Co. Prior thereto he was with Ira Haupt & Co. and was manager of the statistical department for C. E. Unterberg & Co. in New York City.

Samuel Allen Rejoins J. A. White & Co.

CINCINNATI, OHIO — Samuel S. Allen has rejoined the staff of J. A. White & Co., Union Central Building. Mr. Allen has recently been with Fahey, Clark & Co.

The Federal Finances

By HON. JOHN W. SNYDER*

Secretary of the Treasury

Asserting Federal budget picture is not encouraging, Secretary Snyder sees little likelihood of reduction in public debt in 1949. Defends low interest policy as saving public $5 billion a year, and upholds war expenditure and foreign aid. Stresses asset side of current financial situation in the solid and substantial increase in national wealth, and says economic future is tied in with financing of government.

Today, I want to talk to you mainly about the national debt of this nation. Not too many years ago, Federal fiscal policy was a matter far removed from the concern of the average man. But present day conditions have made it imperative that each and every one of us has a working knowledge of the nation's finances.

John W. Snyder

In the long government's fiscal policy is what you, as voters, decree. In its broadest sense, it stems from the services and protection you demand from your government. For, after all, the government administration can spend only the funds provided through appropriations made by your representatives in Congress.

Fiscal policy rests on such factors as what and how you spend, and what and how you save. It is determined by what you do to keep prices at a reasonable level, on how much you invest in government bonds and private securities, what you pay in taxes, and on your concept of our economy.

This government faces obligations for the current fiscal year which will take 4/5 of every budget dollar to meet four broad classifications of expenses. National defense is one of these. International payments, chiefly for necessary foreign aid, is another. Funds for veterans' administration comprise a third, and the fourth covers interest on the public debt and a variety of refunds, principally of overpaid taxes.

The remaining 1/5 of each budget dollar covers a lengthy list of government costs, such as those for social welfare, health and security; outlays for housing, education and agriculture; transportation and communication needs; the conservation and development of natural resources; programs affecting commerce, industry and labor, and expenditures for actual government operations.

These proportionate applications of the Federal budget dollar of today bear little resemblance to those costs of government of a decade or more ago. But we live in a changing world. You Legionnaires, especially those who saw service in both World Wars, are well aware of this fact. Our private lives, our whole social order, as well as the responsibilities of our government, have been altered greatly in two generations. This alteration has been brought about by the tremendous impact of world events.

Federal Budget Picture Not Encouraging

The Federal budget picture for the year is not encouraging. To put it briefly, we are in the red again. The Bureau of the Budget estimates that the government faces an operating deficit for this fiscal year of a billion and a half dollars. That can mean but one thing. We shall not be able to go on reducing the public debt during the fiscal year 1949. In this fact lies a matter of pertinent interest to you.

I do not believe the average American needs to be a student of economics or of finance to realize that we should pare down the public debt especially in these times of widespread prosperity.

The public debt represents the sum total of money on loan to the government. Many of the loans are from individual citizens. Others are from insurance companies, saving institutions, business and industrial corporations, and other such institutions. Another large block is held by the commercial banking system. As of today, all these loans add up to about $252 billion.

This is simply too large a figure for any of us to visualize as a sum of money. But, if we made a few comparisons, the figure begins to have some meaning.

Back in 1940, at the start of the defense program, the public debt was relatively small. It was smaller in terms of money and it was smaller in relation to the whole business of the country. At that time it totaled about $50 billion.

In the year 1940, the value of all the goods and services produced by this nation would have amounted to approximately $100 billion or twice the size of the national debt. But today, even with over 60 million people employed, with business at unprecedented levels, and with record peacetime production, it would take a full year for our national production to reach the figure of our present national debt.

The point I am making doesn't need bolstering with further figures. Our debt is tremendous. And you, as American citizens, have made a very substantial investment in your government. The wise management of the funds which you have entrusted to the government is, consequently, of direct interest to every American citizen.

You, as individual citizens, own directly $67 billion of savings bonds and other public debt issues. But, the average citizen actually has a far larger stake in the

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*From an address by Secretary Snyder before the National Convention of the American Legion, Miami, Fla., Oct. 20, 1948.

From Washington Ahead of the News

By CARLISLE BARGERON

The Republican leaders have become seriously concerned about their continued control of the Senate and apparently their concern is justified. Their Senators in Oklahoma, West Virginia, Wyoming and Minnesota are in jeopardy and several others are having too hot a fight for comfort. Loss of the first four seats would be enough, without an offsetting pickup, to throw control to the Democrats.

Carlisle Bargeron

The amazing thing is that this situation is being helped by some of the very newspapers and columnists who have heretofore deplored such a split set-up, a President of one party and the Senate control held by the opposite party.

Now they seem to contemplate the possibility with equanimity. There are papers, in fact, that are insisting Dewey wants and, indeed, would be better off if New Deal Senators were elected in several of the States. An outstanding example is Tennessee. Four of the State's eight larger newspapers are supporting Dewey on the one hand, and Estes Kefauver, a New Dealer, for the Senate on the other.

Those papers rationalizing this sort of a ticket are the so-called internationalists. Dewey was not their man for the Republican nomination but he having gotten it, they know that his election is certain, and they are out to head off every candidate whom they consider an "isolationist."

They have gone completely crazy, it would seem, on the question of internationalism. The possibility of an irregular set-up on the domestic front means not a thing in the world to them. The one and only test they apply is whether the candidate has the global mind; in short, whether he favors giving more money to Greece irrespective of the fact that the hundreds of millions already sent has not accomplished a thing, is admitted by all those who know not to have accomplished anything, who admit further that additional funds will go down the same rat-hole.

It is apparent that this state of mind needs a pyschiatrist.

This writer has seen the war hysteria that accompanied two world wars. But the hysteria of the internationalists is just about as pronounced, just as unreasoning, just as intolerant.

They did not prevail at the Philadelphia Republican convention although they exercised a tremendous influence. They would have preferred Eisenhower or Vandenberg as the Republican nominee. They didn't get them but they did, at the outset, utterly preclude any serious consideration of Bob Taft.

Under the circumstances, Dewey seemed the ideal compromise between the so-called isolationist and internationalist groups. But the internationalists are not altogether happy about him. What they have set out to do, his election being inevitable, is take him over with their propaganda and mould him to their desire.

It is an interesting study to watch them proceed. Their propaganda, in effect, is that Dewey himself is all right, has a broad mind, a full grasp of foreign affairs. He is in bad company running with the Republicans but they intend to rescue him. First they will see that he is surrounded by the right kind of Senators even if they are New Dealers. What difference does it make how a fellow stands on domestic issues, if he has the broad grasp of international problems.

Oh, they go even further. The Republican Party, it seems, is reactionary and would turn back the accomplishments of the great Roosevelt. But Dewey is personally not this way. He is a "liberal." He has a great future in the right hands, not the hands of those who nominated him, but those who are prepared to help him now.

It is a tremendous and not at all subtle campaign that is being directed at the New York Governor. He being very human, I am not at all certain that it may not be effective. He is going to be taken up to the mountain top by this crowd and shown the promised land. They have had their way for so long under the New Deal that they aren't likely to let their influence pass without a struggle.

One of the Governor's greatest problems now is not in being elected. That is in the bag. It is to resist the blandishments of this crowd. Because if he tries to play ball with them he is in for a hard time. The Republican Senators have a way of keeping their President's feet on the ground. The Republican Party is not a party of one man rule. The Democratic Party has proved under Wilson and Roosevelt that it is.

With Merrill Lynch, Pierce

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—David Rowland has joined the staff of Merrill Lynch, Pierce, Fenner & Beane, 301 Montgomery Street.

J. R. Tindell Opens

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — J. Russell Tindell is engaging in a securities business from offices at 2757 Fillmore Street.

With Wyatt, Neal Firm

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA. — John W. Armsby is now with Wyatt, Neal & Waggoner, First National Bank Building.

Eileene Zahm Opens

BUFFALO, N. Y.—Eileene M. Zahm is engaging in a securities business from offices at 2520 Main Street.

The Utility Industry Outlook

By PETER P. STATHAS*

Senior Partner, Duff and Phelps, Chicago, Ill.

Mr. Stathas reviews dynamic growth and excellent performance of utilities during past several years, and though depicting slight trend downward of earnings' growth, together with moderate tendency toward increase in ratio of bonded indebtedness, contends, with only moderate rate adjustments, that are likely to be granted, utilities will continue to prosper and their common stocks, as well as bonds, will occupy better investment position. Looks for higher dividends on utility stocks, and says present and prospective yields on these shares are liberal. Stresses need of selectivity in utility investment.

To cover the public utility industry in all of its phases would indeed be a long story. Consequently this talk will be confined mainly to some of the fundamental aspects of the electric utility industry, although in addition we shall touch upon the natural gas and telephone segments to some extent, and very briefly on the manufactured gas and transportation components.

P. P. Stathas

The dynamic growth and excellent performance of the electric utility industry during the past several years is well known, but a review of its significant trends may be of interest at this point in order to grasp the over-all picture. For simplicity, the major items may be compared in terms of index numbers as follows, using the year 1940 as 100. Incidentally, most of the figures cover the Class A and B privately owned electric companies which constitute the bulk of the industry:

As far as operating revenues are concerned, the electric industry has shown a dynamic growth of almost 54% between 1940 and 1947, and this growth is continuing at a good pace in 1948. To the 12 months ended June 30, 1948 the revenue growth showed an increase of almost 63% since 1940. Operation and maintenance expenses, however, increased at a somewhat more rapid rate and the increase between 1940 and the 12 months ended June 30, 1948 amounted to almost 113%. In spite of this, the net operating income, before taxes and depreciation, showed an increase of 26.4%, which is deemed a satisfactory showing, particularly in the light of the inflationary trends which have resulted in substantial increases in the cost of doing business. Between 1940 and the 12 months ended June 30, 1948, depreciation charges and taxes have gone up substantially as would be expected and the increases amounted to almost 34% and 67%, respectively, with the result that gross income available for fixed charges and dividend payments remained stationary, or only 0.2% above the 1940 level.

As is well known, however, the electric industry has had the benefit of refunding its debt at considerably lower interest rates and, as a result, its income deductions between 1940 and the latest 12-month period showed a decline of 27.2%. Consequently, the net income for the 12 months ended June 30, 1948 was about 16½% greater than in 1940. Similar refundings occurred in the preferred stock issues and, in consequence, the annual preferred dividend requirements of the industry are now about 22% below the 1940 level.

Long-Term Debt Down

Incidentally, it is of interest to observe that in spite of the growth which occurred during the past 8 years, the long-term debt of the electric industry went down from $6,895,460,000 in 1940 to $6,601,428,000 in 1947, a drop of some $294,000,000, or 4.3%. The preferred stock, on the other hand, showed a small increase of some $43,498,000, or 2%, during the same period, but the over-all reduction in senior securities amounted to $250,534,000, or 2.8%. The composite interest rate on long-term debt was 3.87% in 1940 as compared with only 2.89% in 1947, a decline of 25.3%. The composite preferred dividend rate was 5.94% in 1940, as compared with 4.53% in 1947, a reduction of 23¾%. Thus, annual income deductions and preferred dividend requirements between 1940 and 1947 were reduced from $448,801,000 to $336,224,000, a decrease of some $112,577,000, or 25.1%. It is of interest further to observe that the composite annual cost of money to the electric industry representing debt and preferred stock, was 5% in 1940 as compared with 3.85% in 1947, a drop of some 23%.

As a result of these refunding operations, the balance of net income available for the common stocks of the electric industry showed an increase of 29½% between 1940 and 1947, and similarly dividend payments on the commons showed a corresponding increase of 22.8%. Thus, earnings-wise, the common stock position received a substantial benefit and the principal contributors to this have been the senior security-holders, by way of the much lower yields which they now obtain on the senior securities held. Of course, the common stockholders have made some contribution by way of retained earnings which have been reinvested in the properties. Others sharing in the growth benefits of the electric industry during the period under review were the rate payers, labor and the various governmental agencies through increased tax collections.

Considering the substantial increase in the cost of doing business which was occasioned during this inflationary period, the electric industry has given a good account of itself and has displayed excellent resiliency in its fundamentally sound position with respect to increment costs as compared with incremental revenues obtained under the existing rate schedules. It should be noted that labor rates have gone up 60% to 70% since 1940. Coal prices have gone up about 70% and fuel oil prices about 150%. This was also a period of rate reductions and the rate schedules of the industry were reduced about 10% during the past 10 years. As a result of these rate reductions, plus the effect of the increased consumption billed at the lower steps of the rate schedules, the average price per kilowatt-hour sold to all classes of services showed a drop from 2.06c for 1940 to 1.77c for 1947. This decline of 14.1% in the over-all average price for electric service is astonishing when examined in conjunction with the fact that the cost of living index during the same period showed an increase of 70% and the general price level other than utility service has gone up tremendously. You can well imagine what would have happened even to the strongest industrial concern if it were selling its products today at prices 14% below the prewar level.

Growth Comparison Index
(Year 1940 taken as 100)

	1946	1947	12 Months Ended June 30,'48
Total Electric Operating Revenues	137.0	153.8	162.9
Total Electric Operation and Maintenance Expense	156.5	192.8	212.6
Electric Utility Operating Income (before depreciation and taxes)	122.4	125.1	126.4
Depreciation	123.8	129.6	133.8
Taxes	157.5	163.9	166.8
Gross Income (All Departments)	102.1	101.1	100.2
Income Deductions	77.9	73.8	72.8
Net Income	116.4	117.3	116.4
Preferred Dividends	85.2	77.9	
Balance for Common	125.0	129.5	----
Common Dividends	108.9	122.8	----
Investment in Utility Plant (All Departments):			
Gross Book Value	103.8	111.3	
Net Book Value	93.0	99.7	----
Net Working Capital	167.9	135.3	----
*Number of Ultimate Customers	119.7	127.3	----
*Generating Capacity	126.0	130.8	131.0
*Annual Capacity Factor	124.6	137.7	----
*Total Kwh. Sales to Ultimate Consumers	160.8	183.4	192.9

*Index figures are for all electric utilities, including publicly-owned, contributing to the public power supply.

Trend of Income

Currently, the electric industry, while still enjoying satisfactory operating revenue increases, is running a little behind from the standpoint of net operating income in comparison with the corresponding 1947 period:

	Per Cent Increase—1948 over 1947		
Month—	Total Electric Operating Revenues	Total Electric Oper. Exp. Depr. and Taxes	Net Electric Operating Income
January	12.2%	17.3%	*4.5%
February	12.8	17.4	*1.9
March	14.0	18.2	*1.3
April	11.6	14.5	1.1
May	10.7	13.8	*0.4
June	12.6	17.8	*6.6
July	14.1	15.9	5.8
7 Months ended July 31	12.6	16.5	*1.7
12 Months ended July 31	12.7	16.3	*0.4

*Decrease.

The month by month increases in operating revenue have varied from a low of 10.7% in May, 1948 to a high of 14.1% in July. The corresponding increases in total operating expenses, including taxes and depreciation, have varied between 15.9% and 18.2% which shows a relatively higher rate of increase than the corresponding increase in operating revenue. A review of the operations for the first seven months of 1948 shows that July was the first month in which net operating income showed an increase of 5.8% over July, 1947, while the other months, with the exception of April, where a 1% increase was shown, showed declines in net operating income ranging between 0.4% and 6.6%. For the seven months ended July 31, 1948, the composite decline in net electric operating income amounted to 1.7%, while the corresponding decline for the 12 months ended July 31, 1948 amounted to 0.4%. While this drop in net operating income is only nominal, our analysis of the situation points to the conclusion that the net operating income of the industry in 1948 is likely to be very slightly lower

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*An address by Mr. Stathas before the 22nd Western Regional Trust Conference of the Trust Division of the American Bankers Association, Portland, Ore., Oct. 15, 1948.

A Look at the Rails

By E. FREDERIC UHRBROCK*
Statistical Department, Vilas & Hickey
Members of the New York Stock Exchange

In answering question "where do we go from here" with reference to railroad securities, Mr. Uhrbrock stresses importance of continued prosperity and higher freight rates in maintaining rails in present financial position. Points out railroads are better prepared to meet depression than in early 30s, but warns individual companies may be affected differently by downward change in conditions. Stresses higher yields and good earnings position of railroad preferred and common stocks.

I am very happy to have the privilege of being here today to discuss the railroad industry and give you our thoughts on the subject at this time. I say "at this time" because we all know and appreciate that the conditions under which the industry operates are always changing. It would be a most unhappy picture if this were not so. Progress necessitates change. It is our job as analysts to attempt to measure the extent of possible changes and then relate our conclusions to some positive market recommendations. It should not be necessary to dwell much on the past, except to the extent of explaining reasons for some conclusions as to direction of any trend from the industry's present position. As we see the picture today, the industry is currently operating at an annual rate of about $10 billion total revenues and $1.2 billion of net railway operating income. The final figures for 1948, however, will not run that high because of the exceptionally severe weather conditions in the early months of the year, the coal strike and the fact that the rails have enjoyed the full benefits of present rates for only part of the year. On top of this we must consider the third round of wages currently under negotiation. At the moment, our best guess on the probable results for 1948 is $9.7 billion in gross, $900-950 million of net railway operating income, which in turn would mean about $600-650 million in net income. This estimate allows for a 10c an hour wage increase for all employees for the last quarter of the year. Last year, 1947, on a gross of $8.7 billions, net railway operating income totaled $781 million and net income $479 millions.

E. Frederic Uhrbrock

Obviously, the big question is, "Where do we go from here?" particularly since we have been riding on the crest of a high wave of activity. I believe that the recession in business which many economists have been predicting for the last few years will become evident as we get into 1940. However, I do not look for a broad scale let-down in all lines. I'm anticipating a continuation of adjustments in individual lines, such as we have seen in such things as furs, jewelry, certain types of electrical appliances and textiles, at somewhat more accelerated pace. On the other hand, I expect steel, automobile, building, and lines allied therewith to continue at a lively pace. The result of my thinking is that we may witness an overall decline of about 10% in business activity by the end of 1949—with the average for the year about 5% under 1948. I am intentionally skipping at this time any discussion of the many things considered as part of the background, as it would probably absorb all of my allotted time and lead completely away from the topic at hand—namely, the outlook for railroads.

The overall outlook for business is only one of the imponderables with which we must deal in attempting to get at possible operating results for the industry in 1949.

Level of Freight Rates

The level of freight rates is going to have an important bearing on operating revenues. The railroads now have an application before the ICC asking for a 13% further increase in freight rates. Assuming no diversion or loss of traffic, this increase would aggregate about $1,040 million for 1949. The Commission had heretofore set Nov. 30 for hearing on the railroad's original application for an 8% increase. In the amended petition the railroads asked that the Commission grant the 8% immediately without waiting for the hearings. It is anybody's guess how soon and to what extent the ICC will go along with the roads on a further increase.

We have given much thought to the overall question of freight rates and ICC procedure in connection therewith. Obviously, there must be some limit to which rates can be raised and still keep traffic moving in volume. On the other hand, it is also quite obvious that the railroads cannot absorb huge increases in wages and other costs of operation without obtaining higher rates for their services. It's not an easy problem for the ICC or anyone else to solve. The ICC has come in for a lot of harsh criticism of their handling Ex Parte 162 and 166. There is no point in belaboring the Commission again at this time for what has transpired. Rather, without on the other hand defending the Commission, examine, if we can, the background and philosophy that would appear to govern their past decisions and see if we can get a better perspective, in an endeavor to know what may transpire with respect to the present request.

In 1946 the railroads filed their application for higher rates on April 15. The Commission set hearings for May 6, and then held sectional hearings during July and August with a final hearing in September. Their decision was handed down on Dec. 5. Now, in connection with the present application, the petition for the 8% increase was filed Oct. 1. Again hearings have been called for—this time Nov. 30. Again we have delay—not unexpected in view of the Commission's last decision definitely closing Ex Parte 166. Nevertheless, it still adds up to delay which, from a practical standpoint, considering that this is again a request for a broad increase and not an isolated commodity rate, appears rather a stupid procedure. Certainly, the Commission must be familiar with the practical dollar and cents balance of railroad revenues and expenses. Certainly, no one needs to be a genius to calculate that a 10c an hour wage increase on present levels of activity will cost the industry about $400 million annually. Adjusting for income taxes, this means a net cost of about $280 million. Now, if the industry in 1948 will produce $900-950 million of net railway operating income, absorption of the wage increase, without any rate increase, would cut net railway operating income to $620-670 million. The lower figure is only $30 million larger than that reported in 1939 when operating revenues were almost $6 billion less than that expected for 1948.

Higher Rates Needed

Pure simple arithmetic alone clearly indicates the absolute necessity for a rate increase. The obvious question now is, "Why the delay?" The answer to that lies in a piece of legislation bearing the title of the Interstate Commerce Act, Revised Sept. 18, 1940. This little gem of Congressional action is a hodge-podge of amendments tacked on to the original act. Too often, by the time amendments are made, a new set of conditions arise that require amendments of the amendments, so that at any one time the act is often woefully inadequate to deal with an immedite problem.

Section 15 of the act deals with rate changes. There is nothing in Section 15 which requires the ICC to hold hearings and suspend the requested rate change pending the Commission's deliberations. However, I'll admit that the section is so worded to infer that such a

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*An address by Mr. Uhrbrock at meeting of the Philadelphia Securities Association, Philadelphia, Pa., Oct. 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:

Financial Survey—Leaflet—Peter P. McDermott & Co., 44 Wall Street, New York 5, N. Y.

Included in the survey are data on **Allied Stores Corp., Atlas Plywood Corp., Consolidated Edison Co. of New York, Master Electric Co., Morris & Essex Railroad, Philadelphia & Reading Coal & Iron Co.,** and **Westinghouse Air Brake Co.**

"Local Notes"—Data on Kentucky companies—The Bankers Bond Co., Inc., Kentucky Home Life Co., Louisville 2, Ky.

Also available are reprints of **"Economic Defense of the United States"** and **"Stop Inflation by Use of the Gold Standard."**

Market—Leaflet—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Market Trend—Analysis—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Also available is a circular on **James Lees & Sons Co.**

New York City Banks Stocks—Third quarter analysis and comparison of 19 New York City Bank Stocks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Public Utilities—Discussion in "Stern Facts and Figures"—Stern & Co., 25 Broad Street, New York 4, N. Y.

Public Utility and Natural Gas Stocks—Data—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

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Airline Foods Corp.—Study—Straus & Blosser, 135 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.

American Cyanamid Co.—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available are analyses of **Harshaw Chemical Co., Murray Corp. of America, National Biscuit Co.** and **Timken Detroit Axle Co.**

Associated Transport—Circular—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a leaflet of **Railroad Developments.**

Bausch & Lomb Optical Co.—Circular—John B. Dunbar & Co., 634 South Spring Street, Los Angeles 14, Calif.

Also available are an analysis of **Stromberg-Carlson Co.** and of the **Filtrol Corp.**

Black, Sivalls & Bryson, Inc.—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Botany Mills, Inc.—Circular—Kiser, Cohn & Shumaker, Inc., Circle Tower, Indianapolis 4, Ind.

Also available are descriptive circulars on **National Homes Corp., Indiana Gas & Water Co., Northern Indiana Public Service Co., Ohio Water Service Co., Book of the Month Club, Inc.**

Central Foundry—Circular—Bendix, Luitweiler & Co., 52 Wall Street, New York 5, N. Y.

Chicago, Great Western Railway Co.—Circular—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Cleveland Cliffs Iron Co.—Memorandum—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Dormitzer Electric & Manufacturing Corp.—Circular—Schirmer, Atherton & Co., 50 Congress Street, Boston 9, Mass.

Emery Air Freight Corp.—Analysis—Reynolds & Co., 120 Broadway, New York 5, N. Y.

Froedtert Grain & Malting Co.—Analysis—Loewi & Co., 225 E. Mason Street, Milwaukee 2, Wis.

Haskelite Manufacturing Corp.—Circular—Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

Jones & Laughlin Steel Corp.—Study—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are circulars on **Georgia Pacific Plywood & Lumber Co.** and **A. E. Staley Manufacturing Corp.;** leaflets on **American Airlines, F. W. Dodge, Great Lakes Steel Corp., Missouri Pacific, Pennsylvania Central,** and **Pure Oil,** and comment on **Third Avenue Railway.**

Kansas City Southern Railway Co.—Analysis—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Lionel Corp.—Circular—Emanuel, Deetjen & Co., 52 William Street, New York 5, N. Y.

McKesson & Robbins, Inc.—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Middle West Corp.—Analysis—Rogers & Tracy, 120 South La Salle Street, Chicago 3, Ill.

Muter Co.—Data on electronics company recently designated as licensed manufacturer of machine used in application of electronic rays for treatment of internal cancer—Hicks & Price, 231 South La Salle Street, Chicago 4, Ill.

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

New Orleans Banks—Study—Howard, Labouisse, Friedrichs & Co., Hibernia Bldg., New Orleans 12, La.

Phoenix Silk Corp.—Data—George Birkins Co., 40 Exchange Place, New York 5, N. Y.

Puget Sound Power & Light Co.—Memorandum—Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

Scullin Steel Co.—Circular—Taussig, Day & Co., Inc., 316 North Eighth Street, St. Louis 1, Mo.

Sterling Oil of Oklahoma, Inc.—Card memorandum—Greenfield, Lax & Co., Inc., 40 Exchange Place, New York 5, N. Y.

Strawbridge & Clothier—Report—H. M. Byllesby & Co., Stock Exchange Bldg., Philadelphia 2, Pa.

Taylor, Pearson and Carson—Analysis in current issue of "Investment Securities Review"—James Richardson & Sons, 80 King Street W., Toronto, and 367 Main Street, Winnipeg, Man.

Wheeling & Lake Erie—Discussion in current issue of "Railroad

(Continued on page 11)

Sees More Vigor Needed If Security Business Is to Perform Its Economic Function

Harold B. Dorsey, President of Argus Research Corporation, in discussion of general economics and security markets, points out barriers thrown in way of operation of securities business, with result that an abnormally small proportion of new capital is represented by equity investment. Sees need of devising methods to guide funds into common stock, and calls for end of present lethargy and revival of new ideas and aggressiveness. Lists recommended stocks.

In a weekly staff report, signed by Harold B. Dorsey, President of the Argus Research Corporation in New York City, the lethargy in the securities markets and the impeded flow of capital funds into equity securities is blamed in large part on a decline in morale and lack of vigor in the personnel of securities business and he urges a revival of vigor and aggressiveness. According to Mr. Dorsey:

Harold B. Dorsey

"For some reason or other there seems to be a hesitancy to tackle — constructively, with vigor and with complete frankness—a subject of major importance to our economic and social structure, to the security business and to millions of potential investors. If we are to sustain the long-term upward trend in the nation's standard of living, or even if we are to take care of the populaton growth trend and only maintain the present standard of living, a normal proportion of each year's national income must necessarily be directed into capital investments. And if the obvious vulnerabilty of a topheavy business debt structure is to be avoided, a normal proportion of capital investment must necessarily be directed into common stocks.

"Without waxing statistical, it is common knowledge that an unusually large proportion of the capital requirements of business has been represented by debt and an abnormally small proportion has been represented by new equity investments. Very recently the Chairman of the Securities and Exchange Commission stated that if the present financing trend continues, 'industry will face the inevitable shakedown that follows prosperity with its capital structures heavily loaded with debt and with a high burden of fixed charges.'

"It seems to us that this condition raises a very valid question as to whether or not the security business has been carrying out its proper economic function. Many barriers have been thrown in the way of the normal operations of the security business, but at the same time, we wonder whether the leaders of the business have exercised the merchandising ingenuity that they so vigorously demand from the managements of companies in which their clients invest capital. Revolutionary methods of merchandising may be necessary; revolutionary measures in the merchandising of furs, automobiles, washing machines and other commodities have been developed to meet the particular conditions involved.

"As a matter of fact, revolutionary changes have taken place in the market for securities; it is more of a mass market in small pieces than the relatively concentrated market in large pieces that it used to be. A recognition of this change in itself indicates that there must be a change in merchandising methods.

"At any rate, let us recognize the problems and conditions as they really exist starting off with the fundamental economic fact that the economic and social progress of this country cannot be maintained on a sound basis—much less can it continue to make progress—unless a normal proportion of individual savings is directed into investment in common stocks. The proportion is subnormal now. The security business may have been geared up to handle the investment of surplus savings in common stocks on a relatively concentrated basis heretofore but, although the sum total of individual savings for the nation as a whole is larger than it has ever been before, these funds are now scattered among many millions of people in comparatively small pieces. Some method must be devised to guide these funds back into the economic stream—efficiently, honestly and intelligently.

"Undoubtedly, part of the present lethargy is due to the fact that the security business has been beaten and abused unmercifully for the last 15 years; it is 'punch drunk.' Revival of the morale of its personnel is needed to stimulate new ideas and aggressiveness. Largely due to the abuse that has been heaped upon the industry, little new blood has flowed in for nearly 20 years, which in itself is a problem that needs more serious consideration. It must be admitted that there exists within the personnel of the security business a large element of timidity which would certainly mean utter failure for the salesman of automobiles, refrigerators or any other commodity.

"Now the fact of the matter is that there has never been a time when the investing public could have so much faith in the integrity, sincerity and capability of the security business, as there is today. The statistics on savings prove conclusively that the prospective investing public is in need of the service which the security business can render, and it is becoming increasingly vital to our economy that the security business get on with the job and perform its normal and honorable economic function.

"The potential investor should be approached just as any other potential customer is approached by a salesman, and the product and service should be explained. This potential investor that we have in mind has surplus savings over and above a normal safety reserve. On these surplus funds he is getting a meager return, if any. We have found that he is quite interested indeed in some of the 6% returns that are currently available on good quality common stocks but (1) he is embarrassed about displaying his lack of experience in investment matters, or (2) the matter has never been called to his attention, and/or (3) no serious effort has been made to place before him the facts

(Continued on page 42)

Security Traders Club of St. Louis

(Reading clockwise) guest: Rudy Graf, *G. H. Walker & Co.* (with back to camera); Bob Pauli, *Scherck, Richter Co.;* Andy Mills, *Newhard, Cook & Co.;* Edward Harnett, *C. J. Devine & Co.;* Standing: Herb Condie, *Newhard, Cook & Co.* and Tommy Ayers, *Taussig, Day & Co.*

Ray Denyven, *Fusz-Schmelzle & Co.;* Herb Roach, *O. H. Wibbing & Co.;* John Matye, *Dempsey-Tegeler & Co.,* Mike Sestric, *I. M. Simon & Co.;* John Bunn, *Stifel, Nicolaus & Co.;* Herb Condie, *Newhard, Cook & Co.;* Tom Ayers, *Taussig, Day & Co.;* (seated) Clarence J. Maender, *G. H. Walker & Co.;* incoming President, and Charles W. Hahn, *Scherck, Richter Co.,* retiring President

Norman Heitner, *Blewer, Heitner & Glynn;* Bert Horning, *Stifel, Nicolaus & Co.;* Joe Petersen, *Eckhardt, Peterson & Co.;* Jerry Fox, Merrill Lynch, *Pierce, Fenner & Beane*

H. L. Brocksmith, *Stifel, Nicolaus & Co.* (with back to camera); Max Kaplan, *White & Co.;* Bill Taussig, *Merrill Lynch, Pierce, Fenner & Beane;* Fred Kelly, *Stifel, Nicolaus & Co.*

Ted Honig, *Dempsey-Tegeler & Co.;* Jimmy Newell, *A. G. Edwards & Sons*

Jerome F. Tegeler and Theo. C. Honig, both of *Dempsey-Tegeler & Co.*

Gordon Scherck, Chas. W. Hahn, Henry J. Richter, Tom Kitchen, all of *Scherck, Richter Co.*

Stix Friedman, *Friedman, Brokaw & Lesser;* Ed. Welch, *Sincere & Co.,* Chicago; Firmin Fusz, *Fusz-Schmelzle & Co.*

Paul Yarrow, *Clement, Curtis & Co.,* Chicago; Clarence J. Maender, *G. H. Walker & Co.;* Firmin Fusz, *Fusz-Schmelzle & Co.;* Dick Walsh, *Newhard, Cook & Co.*

Bill Darmstatter, *Stifel, Nicolaus & Co.;* Emmet Byrne, *Dempsey-Tegeler & Co.,* St. Louis; Ed. H. Welch, *Sincere & Co.,* Chicago

Michigan Brevities

A registration statement covering 458,158 shares of no par value common stock of Consumers Power Co., Jackson, was filed with the Securities and Exchange Commission on Oct. 15. It is proposed that these shares be offered to common stockholders of record on or about Nov. 5, 1948 at $33 per share on the basis of one new share for each nine shares held. Rights are to expire on or about Nov. 19. The offering will not be underwritten. Net proceeds are to be used to pay for additions and improvements, etc.

The Commonwealth & Southern Corp. (Del.), the owner of 3,623,432 of the 4,123,432 outstanding shares of common stock of Consumers Power Co. proposes to exercise its right to subscribe to 402,603 of the 458,158 new shares to be offered, and to over-subscribe to the extent of 9,456 additional shares not taken by other stockholders.

* * *

If the stockholders of The Detroit Edison Co. on Oct. 26 approve the proposal to authorize the directors to issue approximately $47,000,000 of 10-year convertible debentures, such debentures will be offered to stockholders of record Nov. 10, 1948 for subscription at the rate of $100 principal amount for each 15 shares of stock held. Rights will expire Dec. 1. It is planned to use the proceeds 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. The new debentures will be convertible into stock not later than two years after issue date. A registration statement covering $46,649,500 such debentures was filed Oct. 19 with the Securities and Exchange Commission. No underwriting is involved.

* * *

The Detroit Stock Exchange reports that trading volume in September was 188,620 shares having a dollar value of $2,666,755. These figures represent a small increase over August when 173,398 shares with a dollar value of $2,441,044 were traded.

The 10 most active stocks during September were: McClanahan Oil Co., Detroit Edison Co., Gerity-Michigan Corp., Electromaster, Inc., Avco Manufacturing Corp., Commonwealth & Southern Corp., Udylite Corp., General Motors Corp., Parke, Davis & Co. and National Stamping Co.

* * *

James Gerity, Jr., President of Gerity-Michigan Corp., on Sept. 28 stated that future dividend actions will be taken by the directors in the month following the close of the quarter, rather than in the last month of the quarter as heretofore. No action was taken regarding dividends at the September meeting of the board. During the current year, the company paid 20 cents each on Jan. 15 and April 30; and 10 cents on July 30.

Donald E. Nichols, of Highland Park, Ill., Vice-President of Ames, Emerich & Co., investment bankers, has been elected a director of Gerity-Michigan Corp. to fill a vacancy on the board.

* * *

Net sales of Motor Products Corp., Detroit, for the year ended June 30, 1948 were $46,208,932, from which a net profit of $2,861,863, or $7.33 per share, was realized. This compares with net sales of $36,729,638 and net profit of $1,866,446, or $4.78 per share, for the previous fiscal year. A. L. Lott, President, said that "profits in the last quarter were adversely affected by the Chrysler strike, the change-over at Ford, and the wage increase of 13 cents per hour granted in June."

* * *

Watling, Lerchen & Co. and S. R. Livingstone & Co. of Detroit, were included in the nationwide list of investment bankers who on Sept. 22 publicly offered at 100.53% and interest an issue of $75,000,000 Pacific Telephone & Telegraph Co. 35-year 3¼% debentures due Sept. 15, 1983.

* * *

The operations of King-Seeley Corp., Ann Arbor, for the year ended July 31, 1948 resulted in a new sales peak of $23,382,684, an increase of $3,340,672 over the preceding year. After providing $350,000 for inventory contingencies, the balance of net income for the year was $1,614,304, equal to $3.94 per common share. For the year ended July 31, 1947, net was $707,461, or $1.59 per common share. Working capital increased during the year by $909,190 to $5,979,754. The book value of common stock, after deducting the preferred stock equity at par, increased to $18.97 per share from $16.29 per share at July 31, 1947. It is expected that the new plant of 47,000 square feet, now under construction near Ann Arbor, will be in operation by December.

* * *

Carr & Co., Detroit, on Oct. 5 publicly offered 175,000 shares of Trenton Chemical Co., Trenton, 6% cumulative convertible class B preference common stock (par $2) at $2.25 per share, the net proceeds to be used to build and equip a plant to hydrolyze gluten, estimated to cost approximately $250,000, and, to the extent available, to replace

(Continued on page 47)

Missouri Brevities

A nationwide group of 134 underwriters on Sept. 30 publicly offered $60,000,000 3% debentures due Oct. 1, 1973, and 260,000 shares of $100 par value 4.50% series preferred stock of R. J. Reynolds Tobacco Co. at their principal amount, plus interest or dividends accrued as the case may be. The Missouri bankers participating in this group were: Reinholdt & Gardner, Newhard, Cook & Co., I. M. Simon & Co., Smith, Moore & Co., Stern Brothers & Co., Stifel, Nicolaus & Co., Inc., Stix & Co., Peltason, Tenenbaum Co. and Scherck, Richter Co. The net proceeds are to be used to reduce outstanding short-term notes.

* * *

Among the bankers participating in the public offering on Sept. 22 of $75,000,000 Pacific Telephone & Telegraph Co. 35-year 3¼% debentures due Sept. 15, 1983, at 10.53% and interest, were the following Missouri investment bankers: Stern Brothers & Co., Stifel, Nicolaus & Co., Inc., Newhard, Cook & Co., Reinholdt & Gardner, Barret, Fitch & Co., Inc., Smith, Moore & Co. and Stix & Co.

* * *

Consolidated net sales of The May Department Stores Co., St. Louis, and its subsidiaries, for the six and 12 months ended July 31, 1948 reached new highs and amounted to $183,321,000 and $382,617,000, respectively. Consolidated net profit after taxes was $6,475,000 for the six months' period, equal after preferred dividend requirements, to $2.11 per share on the average number of common shares outstanding. For the 12 months, consolidated net profit, after taxes, amounted to $17,155,000, or $5.82 per share after allowing for preferred dividends. The earnings as reported were determined on the L-I-F-O inventory valuation basis. On the F-I-F-O basis, earnings per common share for the six and 12 months would have been $2.21 and $6.62, respectively.

* * *

Missouri investment houses participating in the nationwide public offering on Oct. 6 of $75,000,000 Pacific Gas & Electric Co. first and refunding mortgage 3¼% bonds, series R, due June 1, 1982, were: Stern Brothers & Co., Stifel, Nicolaus & Co., Inc., Barret, Fitch & Co., Inc., George K. Baum & Co. and Reinholdt & Gardner.

* * *

National Bellas Hess, Inc., North Kansas City, reports net sales for the year ended July 31, 1948 of $26,624,711, compared with $20,470,742 for the previous year. Net profits, after all taxes, were $839,625, or 35 cents per share, as against $709,033, or 30 cents per share, for the year ended July 31, 1947. As of July 31, 1948, working capital was $4,549,041. Current assets to current liabilities were in the ratio of 3.7 to 1. The St. Joseph realty was disposed of during the year at a satisfactory profit, George Marks, President of the corporation, said.

Edward D. Jones & Co. and McCourtney - Breckenridge & Co., St. Louis, were among the 14 underwriters who publicly offered on Oct. 14 an issue of 30,000 shares of Central Electric & Gas Co. $2.50 cumulative preferred stock, without par value, at $48 per share and dividends.

* * *

Rice-Stix Dry Goods Co., St. Louis, for the three months ended Aug. 31, 1948 reports net sales of $14,009,112, compared with $13,020,033 for the corresponding quarter last year. Net profit after taxes was estimated at $317,512, against $567,256 for the three months ended Aug. 31, 1947. For the nine months ended Aug. 31, 1948 net sales totaled $41,545,230, compared with $41,146,455 for the corresponding period a year ago, while net after taxes was estimated at $1,654,712, as against $1,954,965 for the same period in the preceding fiscal year.

* * *

The St. Louis-San Francisco Ry. on Oct. 8 filed an application with the Interstate Commerce Commission asking authority to obtain control of the 214-mile Alabama, Tennessee & Northern RR. through the purchase for approximately $1,161,075 of outstanding common stock and bonds. The Frisco plans to pay $25 per share for the 12,461 shares of no par value common stock and $650 per $1,000 AT&N general mortgage series A 4½% income bond. The principal amount of bonds outstanding is $1,307,100.

The St. Louis-San Francisco Ry. reported that operating revenues for August, 1948 were $10,025,322, as compared with $9,251,749 for the same month last year, or an increase of $773,573. Balance available for fixed charges was $1,252,270, compared with $1,024,180 in August, 1947. For the eight months ended Aug. 31, 1948 operating revenues totaled $78,023,654, against $70,604,374 in the corresponding period in 1947. Balance available for fixed charges for the eight months was $7,886,798, compared with $7,051,312 for the same period last year.

* * *

The directors of American Stove Co., St. Louis, on Oct. 14 decided not to pay any further dividend for the year 1948. Three dividends of 40 cents each, or $1.20 have been paid this year, which compares with $1.45 in 1947 and $1.20 in each of the three preceding years. The company announced that this action was taken because of the low earnings resulting from the first six months of operations, and the need for cash to properly carry the large volume of business being done. Net sales for September set a new high and operations for August and September indicate substantial profits.

* * *

Net earnings of Hussman Refrigerator Co., St. Louis, for the three months ended Sept. 30, 1948 were $453,891, equivalent to $1.14 per common share, after deduction of preferred dividends. This compares with a net of $309,938, or 76 cents per common share for the same period last year. Sales amounted to $4,362,469, against $3,599,394 in the quarter ended Sept. 30, 1947.

For the first nine months of 1948, net totaled $1,265,204, or $3.17 per common share, compared with $1,185,250, or $2.94 per common share for the nine months ended Sept. 30, 1947. Sales amounted to $12,104,033, against $11,813,832 in the 1947 period.

Although the demand for the company's products continues at a high level, deliveries in the fourth quarter are expected to be less than in the third quarter in accordance with the normal seasonal factors.

* * *

The consolidated net earnings of Scruggs-Vandervoort-Barney, Inc. and its subsidiaries for the fiscal year ended July 31, 1948 amounted to $2,766,743, or $3.99 per common share, as against $2,658,340, or $3.88 per share (adjusted figures) for the previous year. Consolidated sales totaled $57,204,243, an increase of 2.8% over the year ended July 31, 1947. Current assets at July 31, 1948 were $15,934,046, while current liabilities were $6,802,009.

* * *

William M. Rand, President of the Monsanto Chemical Co., St. Louis, on Oct. 7 announced that his firm and the Oil Insurance Association of Chicago, have concluded negotiations whereby Monsanto will receive $17,312,000 in payment for losses it suffered in the Texas City disaster of April 16, 1947. This is said to be the largest single insurance payment in history. The Association represents a group of many leading stock insurance firms. Originally, Monsanto had claimed $21,542,999.

* * *

Western Auto Supply Co. reports total retail and wholesale sales for September of $11,289,000 an increase of 3.2% over the same month last year. For the nine months ended Sept. 30, 1948 total sales were $91,457,000, a gain of 5.6% over the corresponding period in 1947. At Sept. 30, there were 262 units in operation, as against 255 a year ago. Wholesale accounts numbered 2,020 compared with 1,830.

Dealer-Broker Recommendations

(Continued from page 8)

and Other Quotations" — B. W. Pizzini & Co., Inc., 25 Broad Street, New York 4, N. Y.

Winters & Crampton Corp. — Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y. Also available is an analysis of **Miles Shoes, Inc.**

Wisconsin Power and Light Co. — Analysis — Doyle, O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

Connecticut Brevities

The **Aspinook Corporation** of Jewett City, one of the largest textile servicing companies engaged in printing, dyeing, bleaching, finishing and sanforizing of all types of fabrics, is planning to consolidate its various subsidiaries as a single corporation. Stockholders have been notified of the proposed plan of consolidation which provides for an authorized capitalization of 1,200,000 shares of $1 par common stock, of which approximately 998,760 shares would be outstanding. Subsidiaries to be included are the Hampton Print Works at East Hampton, Mass.; Union Bleachery at Greensville, S. C.; the Lawrence (Mass.) Print Works; and The Arnold Print Works at Adams, Mass. It was also announced that the bank loan of $4,200,000 obtained in connection with the purchase of Union Bleachery was liquidated Sept. 1, 1948.

* * *

Remington Arms Co. has announced that the Ordnance Department of the United States Army has placed a contract with the company for reestablishment of a pilot line for production of 50 caliber ammunition. This is the first such order which the company has received since the end of the war.

* * *

John Coolidge, President of the **Connecticut Manifold Forms Company**, has announced that the company has awarded a contract for construction of a factory building in West Hartford. The new plant is to provide space for an expanded volume of business. The company manufactures continuous and snap-out carbon-interleaved forms. Mr. Coolidge is the son of former President Calvin Coolidge. Former Governor John H. Trumbull is vice-president of the company.

* * *

The United Aircraft Corp. has developed a new airplane engine which combines a 28-cylinder Pratt & Whitney internal combustion engine with a two-stage General Electric turbo-supercharger. The engine delivers more than 4,000 horsepower to a propeller as well as several hundred pounds of jet thrust.

* * *

Edward S. Lancaster has resigned as president of **The American Paper Goods Company**. The board of directors has delegated "the powers of the presidency" to William S. Bacon, chairman of the board and a former president of the company. William F. Doran has been appointed manager of the Kensington plant.

* * *

A. C. Gilbert Co. has sold 6,500 shares of 5% cumulative preferred stock to Penn. Mutual Life Insurance Co. The money received will be added to the working capital to replace funds spent previously to call $3.50 preferred at 52½.

* * *

A special meeting of **Chapman Valve Manufacturing Co.** was called on Oct. 14 to approve an increase in the common stock from 140,000 to 280,000 shares and to authorize the directors to determine the manner of disposition of the newly created stock, including declaration of a stock dividend of 25% on the common shares outstanding.

The annual report of **Torrington Co.** for the fiscal year ended June 30, 1948 showed that the company had earned $3.33 per share against $2.83 the previous year. New peacetime records in sales were made in almost every department of the business. It was stated that the Aachen, Germany plant, production was at about one-half of normal capacity, limited only by a scarcity of labor and supplies.

* * *

Cheney Bros. announces the receipt of a government contract for 90,000 yards of wool pile cloth for airplane pilots' uniforms at $5.35 a yard.

* * *

Powdrell and Alexander of Canada, Ltd., an affiliate of **Powdrell & Alexander, Inc.**, has sold its Cornwall, Ontario, plant to Canadian Cottons, Ltd. The plant will be operated as Glengarry Textiles, Ltd. Powdrell & Alexander, Inc. plans to build a plant at Glendale, Calif. with a capacity to produce 7,000 pairs of curtains daily. Material for the processing of the curtains will be woven at the main plant in Danielson, Conn.

* * *

On Sept. 15, 1948, stockholders of **Union Manufacturing** approved an increase in the authorized capital stock from 40,000 shares to 60,000 shares of $25 par stock and granted permission to directors to transfer $500,000 from the surplus account to the capital account to make possible the distribution of a 50% stock dividend on Oct. 15. Stockholders also authorized the directors to purchase for the company treasury up to 15,000 shares.

* * *

On Sept. 29 James De Camp, President of **Bigelow - Sanford Carpet Company**, announced that due to unsatisfactory market conditions it had decided not to go ahead with the proposed sale of 30,000 shares of preferred stock. It was not felt that the issue could be sold at that time on a basis which would be acceptable to the company. The stockholders had previously authorized 60,000 shares of convertible second preferred and the company had registered 30,000 shares of the issue with the SEC.

With Alfred O'Gara & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Wallace E. Barrett has become associated with Alfred O'Gara & Co., 134 South La Salle Street. Mr. Barrett was formerly Vice-President of the Cumberland County National Bank of Neoga, Ill.

With Mason, Moran & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Edith M. Brown has joined the staff of Mason, Moran & Co., 135 South La Salle Street. Miss Brown was formerly with the First Securities Co. of Chicago.

Our Federal Reserve Policy Today

By M. S. SZYMCZAK*

Member, Board of Governors, Federal Reserve System

Federal Reserve Governor, in commenting on price support of government bonds, says chief consequence is impairment of capacity of Federal Reserve to control credit expansion and money supply. Points out restraints imposed, such as use of Treasury cash surplus to retire debt, increase in short-term rates, and high reserve ratios are insufficient, in view of present dilemma of reduced taxation and heavy defense and foreign aid expenditures. Foresees more efficient means of credit control and describes additional proposals.

Our inflation is an offspring of the war. During the war, resources had to be diverted from the production of goods and services for civilians and turned to the production of military necessities. But the fact that goods were not available did not mean that the demand for them automatically dissolved. Unsatisfied wants accumulated, awaiting the return of peace and prosperity. Today the impact of those accumulated wants is still being felt in almost every sector of our economy.

M. S. Szymczak

But the most important aspect of the war from the point of view of explaining the present inflation is the way in which it was financed. Fundamentally the government had two sources upon which to draw for its funds: (1) the pocketbooks of individuals and business firms which it could reach through taxation or borrowing; (2) the resources of the banking system.

Taxation is, of course, a non-inflationary form of finance. When taxes are imposed, the spending power of the public is reduced by the amount that the government's is increased. No expansion in the total spending power of the community takes place. The taxpayer receives in exchange only a tax receipt, which he cannot use to make purchases in the market, either in the present or in the future.

No government has ever succeeded in financing the total cost of war through taxation, and ours was no exception. It is estimated that less than half of the total funds raised by the Treasury from the middle of 1940 to the end of 1945 came from taxes. Now, there are serious practical obstacles that place a definite upper limit to the tax burden that can be imposed in wartime without hampering the war effort itself. Just where that limit is cannot be determined exactly. But it is certain that we didn't reach it. We should have done better, and had we used taxation more during the war, inflation would not be the problem that it is today.

Another noninflationary type of finance, at least while war is going on, consists in borrowing from the nonbank public. Since in purchasing a government security the individual gives over a portion of his current spending power to the government, borrowing from the nonbank public is in one aspect similar to taxation. It has a basic difference from taxation, however, which is all important for the postwar period. Holding a government security is the next best thing to holding money, so far as a reservoir of purchasing power is concerned. This means that the loss of spending power involved in lending to the government was not permanent, as with taxation, and that the power could be reclaimed in the future pretty much at the lender's demand. We have been seeing the effects of this potentiality since the war's end. Thus, while borrowing instead of taxing helped to relieve current pressures during the war, it was storing up pressure trouble for the postwar era.

Financing Through Banks

An outright inflationary way to finance a war is through borrowing from the commercial banking system. When commercial banks lend to the government, which they do by means of security purchases, bank deposits are created and placed at the disposal of the Treasury. During the war this deposit creation typically took the form of additions to the Treasury's war loan accounts. Thus, by borrowing from the banks, the government increased its spending power through an expansion of credit and the money supply. There was not, as was the case for taxation and borrowing from the nonbank public, an offsetting reduction in the spending power of the rest of the community. And when the government spent the funds it acquired from the banks, a general rise of money incomes took place. With no commensurate increase in the supply of goods and services upon which the community could spend the higher incomes, the result was an intensification of the upward pressure on prices.

In this process of wartime borrowing from the banks, trouble was also being stored up for the postwar era.

Support of Government Securities

As you know, the pivotal wartime policy of the Federal Reserve was the maintenance of the longer-term interest rate structure at approximately the level existing at the beginning of the war. As was generally known at that time, this policy was intended to serve several purposes: to forestall delay by investors in purchasing securities, who might otherwise have awaited higher interest rates as during World War I; to keep down interest cost on the government's war debt; and to prevent an undue growth in bank and other investors' earnings from their holdings of public debt, issued to fight a victorious war.

Another important purpose of the policy was to facilitate necessary bank purchases of government securities. For though it was generally recognized as desirable that the balance of expenditures not covered by taxes should be borrowed out of the people's savings, it was also recognized that as a practical fact the Treasury would rely on the commercial banking system for a fairly substantial portion of its funds. The Federal Reserve accepted as an overriding obligation the necessity of assuring the availability of whatever funds the government needed for the prosecution of war, even though it was constantly stressing the importance of sales of securities to the public rather than the banks. About one-fourth of the total funds raised by the Treasury during the war came from the banking system. This was clearly excessive, even in view of any practical difficulties of wartime finance. As the Board of Governors pointed out in its 32nd Annual Report to Congress, in the interest of a successful financing of a victorious war we committed the double error in our wartime finance of taxing too little and expanding bank credit too much.

From the point of view of the problem of postwar inflation control, the chief consequence of the policy of maintaining the interest structure on the government debt is that it has seriously impaired the capacity of the Federal Reserve to perform at this time its chief central banking function: namely, the control of expansion of bank credit and the money supply.

Expansion of bank credit requires, of course, that banks have access to an expanding volume of reserves. Consequently, in exercising control over the total volume of money and credit, traditional Federal Reserve policies have had as their focal point the reserve position of member banks. Through changes in the rediscount rate banks were to be encouraged in, or discouraged from, borrowing from the Reserve System to obtain additional reserves. Through changes in the reserve requirements the Reserve System was to influence the volume of credit that member banks were able to extend on the basis of any given amount of reserves. Through its open market operations the System was to be able to bring about expansion or contraction in the volume of reserves itself—though always of course within amounts set by the criterion of orderly security market conditions.

Now, with the Federal Reserve committed to supporting the market, government securities in commercial banks are essentially potential legal reserves. Banks can always count on liquidating their holdings of government securities, in order to obtain reserves for credit expansion.

Furthermore — and this is a point that I think has been frequently overlooked in discussing the problem of credit control in the current situation—so long as a support policy is in force, the government security holdings of financial institutions other than banks must also be classified as part of the potential reserve base for credit expansion. When these institutions sell government securities to obtain funds for loans to private borrowers, the effects may be exactly the same as when commercial banks sell securities to make private loans. In the absence of other buyers the securities must be absorbed by the Federal Reserve under the support program. When the proceeds of

*An address by Mr. Szymczak delivered before the Third Annual Federal Reserve Forum sponsored by the Federal Reserve Bank of Minneapolis, Minneapolis, Minn., Oct. 11, 1948.

the sale are then added to the institution's bank account, the legal reserves of the bank receiving the deposit as well as its deposits are increased. In other words, the behavior of nonbank lending institutions can be a factor that seriously aggravates the problem of credit control.

As the portfolios of government securities of member banks themselves continued to swell throughout the war, so, in a sense, their reserve position became stronger and stronger, and they became more and more insulated from any restraining influence by the System. Except for its psychological impact, the rediscount rate lost much of its effectiveness as an instrument of control, since banks could generally adjust their reserve position by sales of securities and not by borrowing from the Reserve Banks. From 1941 forward, reserve requirements had been raised to the prevailing legal maximum for country and reserve city banks, and the increases still remaining for central reserve cities were not large. In any event, moderate increases in reserve requirements were not likely to be very effective, since banks on the whole could meet the higher requirements fairly readily by selling government securities. Finally, the policy of support precluded the possibility of refusal by the System to supply banks with reserves at their volition when they offered government securities for sale. Open market policy as an instrument of restraint was rendered essentially inoperative.

Money and Credit Supply

As a result, then, of our methods of wartime finance, the nation's money supply and the national debt experienced a tremendous growth. Between December 1939 and December 1945, currency and bank deposits in the hands of the public increased from $63 billion to $151 billion. The increase in the gross national debt, other than that held by agencies and trust funds of the Federal Government itself, amounted to $210 billion. Of this increase nearly $115 billion, or 55%, was held by nonbank investors; approximately $75 billion, or 35%, went into the portfolios of commercial banks; and the remainder into the holdings of the Federal Reserve Banks.

Thus the stage was set for postwar inflation. First, there was a generally pent-up demand that would take several years to satisfy, even with the economy operating at full capacity. Second, there was a huge volume of liquid assets held by individuals and business firms which could be drawn on to make demands effective in the market place.

And third, though by no means third in importance, there was the banking system, and other financial institutions as well, capable of providing a huge supplementary flow of spending power through credit expansion, and well insulated under existing powers from any restraining influence by the Federal Reserve. For it was clear that the policy of System support of the government securities market, inhibiting though it was, could not be abandoned or suspended at the termination of hostilities. The public debt had grown to tremendous proportions during the war—five times its prewar peak. Its interest level has become integrated into our whole asset and liability structure. Aside from any considerations as to increased interest cost on the public debt, withdrawal of support might well have a disastrous impact on our whole financial system. Perhaps never again, or at least not for a long time, could public debt management be permitted to recede from its position as a prime

(Continued on page 42)

Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Insurance Stocks

For the past few months the investment community has been attempting to evaluate the various factors that dominate the business outlook. In an increasing number of cases, primarily consumer non-durable goods, supply has caught up with demand and prices in some lines have declined.

At the same time, the situation in such items as steel, metals and related products continues strong. In addition, there is the possibility that increased national defense expenditures will intensify the existing shortages.

Against such a background it is understandable that even though general business continues at a high level of activity, divergent trends have developed within the various industry stock groups. While the general stock market has continued to fluctuate within a narrow range, some groups are now selling near the highest levels of the year and others, despite favorable earnings and dividends, seem to have little attraction for investors.

With the fire insurance industry generally showing improved underwriting operations in year-to-year comparisons with 1947, these stocks have been one of the groups which have been receiving increased investor attention. Accordingly, the prices of most issues have improved.

In order that a comparison of prices might be made, the following tabulation of 20 selected fire insurance stocks is presented. It shows the 1948 range of bid prices, the current bid price, percentage gain in market price from the low of the year, percentage current price is below the high of the year, the June 30 bid price and the percentage gain since June 30.

	1948 Bid Range High	1948 Bid Range Low	Oct. 16 Bid Price	% Gain From Low	% Below High	June 30 Bid Price	% Gain Since June 30
Aetna (Fire)	$48½	$41	$47½	15.9%	2.1%	$43½	9.2%
Agricultural Insurance	65	51	65	27.5	--	60	8.3
American Insur. (Newark)	17⅞	14⅞	17⅛	15.1	4.2	15⅞	7.9
Continental Insurance	62½	48½	59¾	23.2	4.4	57	4.8
Fidelity-Phenix	67	53	64¼	21.2	4.1	62¾	2.4
Fire Association	58	44½	57	28.1	1.7	55	3.6
Fireman's (Newark)	15	11¼	14⅝	30.0	2.5	13⅜	9.3
Glens Falls	46	40¼	45½	13.0	1.1	44½	2.2
Great American	32	26	31¾	22.1	0.8	30½	4.1
Hanover Fire	29½	23¾	29½	24.2	--	28	5.4
Hartford Fire	122	100	114	14.0	6.6	111	2.7
Home Insurance	29	23	29	26.1	--	27½	5.5
Insurance Co. of No. Am.	106	92	103	12.0	2.8	99½	3.5
National Fire	47½	41	47½	15.9	--	44½	6.7
North River Insurance	24¼	21	23¾	13.1	2.1	24	—1.0
Phoenix Insurance	39	73½	85	15.6	4.5	82	3.7
Providence-Washington	35¼	30½	34	11.5	3.5	31½	7.9
St. Paul Fire & Marine	81	65½	79	20.6	2.5	77	2.6
Springfield Fire & Marine	46½	39½	45¼	14.6	2.7	43½	4.0
U. S. Fire	55	45½	51½	13.2	6.4	52½	—1.9

As can be seen from the above compilation, most of the shares are selling close to their highs of the year. In some cases current prices represent the top of the price range. Also, all stocks show substantial appreciation from their lows, with gains ranging from 11.5% to 30% and averaging over 18%.

In comparing current prices with those existing June 30, most insurance issues are slightly higher. During this same period other industry groups have generally declined and are now somewhat lower. The following comparison of Standard & Poor's Index of Fire Insurance Stocks and the Dow Jones Industrial Average illustrates this fact.

	—1948 Range— High	—1948 Range— Low	Index Oct. 16	% Gain From Low	% Below High	Index June 30	% Gain or Loss Since June 30
Standard & Poor's Fire Ins. Index	135.7	116.9	132.8*	13.6%	—2.1%	130.1	+2.1%
D.-Jones Industrials	193.16	165.39	184.93	11.8	—4.3	189.46	—2.4

*As of Oct. 13, 1948, latest date available.

The above comparison shows that since June fire insurance stocks have done considerably better than the stock market generally.

Considering the results so far this year and the likelihood that fire insurance underwriting operations will be favorable for some time, one of the main factors that had acted to depress insurance equities previously is believed corrected. As a result the fundamental conditions in the industry should continue to improve, and with the aid of increased investment income, result in considerably larger earnings and increased dividends.

Therefore, it is believed that the shares of the various fire insurance companies in the months ahead will continue to reflect these considerations and show a favorable market performance in comparison with other industry groups.

First Boston Offers Utility Common Stock

Public offering of 300,000 shares of Central Arizona Light and Power Co. common stock was made Oct. 20 by an investment banking group jointly headed by The First Boston Corp. and Blyth & Co., Inc. The stock was priced at $11 per share.

The company will apply the proceeds to the retirement of outstanding construction loans aggregating $3,000,000. To provide facilities for the increasing demands for electric power and gas, the company is proceeding with an extensive construction program which includes a 60,000 kw. turbo generator estimated to cost approximately $8,500,000. This and other work projected or in process involves an estimated total expenditure of $16,700,000.

Central Arizona Light and Power Co.'s electric and gas service territory in Arizona includes a number of cities and towns including Phoenix and Chandler, and certain unincorporated communities. For the 12 months ended Aug. 31, 1948, operating revenues were $9,598,397 and net income $1,252,157 as compared with gross revenues of $8,509,767 and net income of $755,385 for the year ended Dec. 31, 1947.

The company has paid dividends on its common stock in each year since 1920. On Oct. 18, 1948, a quarterly dividend of 17½ cents per share was declared, payable Dec. 1, 1948, to holders of record on Nov. 10, 1948.

Common stock to be outstanding after this financing will amount to 1,140,000 shares. The company also has outstanding 155,945 shares of $1.10 preferred stock, par value $25, and $11,300,000 of funded debt.

J. H. Meyers Opens

ROCKVILLE CENTER, N. Y.—Joseph H. Meyers is engaging in a securities business from offices at 51 Lincoln Avenue.

COMING EVENTS

In Investment Field

Oct. 21, 1948 (Boston, Mass.)
Boston Investment Club meeting at the Boston Yacht Club.

Oct. 28, 1948 (Boston, Mass.)
Boston Securities Traders Association annual Harvest Party, at the Hotel Kenmore.

Nov. 5 and 6, 1948 (Ponte Vedra, Fla.)
Annual meeting and election of the Florida Security Dealers Association.

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. 15, 1948 (Philadelphia Pa.)
Meeting of Philadelphia Securities Association at Provident Trust Co.

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

Nov. 18, 1948 (New York City)
Association of Stock Exchange Firms annual meeting and election.

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

With J. R. Kauffmann Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Eugene F. Kuhn is with John R. Kauffmann & Co., 511 Locust Street, members of the St. Louis Stock Exchange.

Two With McDonald & Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—William C. Baker, Jr. and Ferman M. Kee have become affiliated with McDonald & Co., 1099 Baltimore Avenue.

NSTA Notes

AD LIBBING

We are most delighted to advise our members that du Pont, Homsey Co. of Boston has contracted for the back cover of the "Chronicle's" NSTA Convention Year-Book Supplement. I wish to thank Don and know that all of our members will be equally appreciative. This represents the largest space sold and it takes from New York the most popular ad.

In spite of the advertising competition we are receiving from the IBA Convention which will be held in December and also through sources promoting our Convention in Texas next month, we are over $14,000 gross and we are very pleased at the response we have received through letters in reply to our advice to the entire membership dated Oct. 8.

K. I. M. Your NSTA______"BUY ADVERTISING"

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

SECURITY TRADERS CLUB OF ST. LOUIS

The Security Traders Club of St. Louis has elected its officers for the 1948-49 fiscal year. This election was one of the most hotly contested elections in the Club's 15-year history. In all, there were four separate slates presented to the members for this election. The victors are as follows:

President—Clarence J. Maender of G. H. Walker & Co.

First Vice-President — Herbert D. Condie, Jr. of Newhard, Cook & Co.

Second Vice-President—John F. Matye of Dempsey, Tegeler & Co.

Third Vice-President—Michael J. Sestric of I. M. Simon & Co.

Secretary—Herbert Roach of O. H. Wibbing & Co.

Treasurer—Raymond Denyven of Fusz, Schmelzle & Co.

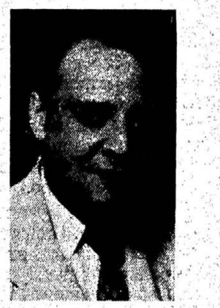
National Committeeman is Charles W. Hahn of Scherck, Richter Co., retiring President.


Clarence J. Maender


John F. Matye


M. J. Sestric, Jr.


Raymond Denyven


Charles W. Hahn

The post election party was held at the Candlelight House with practically all of the members attending. Paul Yarrow, Clement, Curtis & Co., Chicago and Ed Welch, Sincere & Co., Chicago, National Secretary, were guests.

Pictures taken at the affair appear on page 10.

SECURITY TRADERS ASSOCIATION OF NEW YORK

A meeting of the general membership of the Security Traders Association of New York with the Nominating Committee was held Oct. 4 at the Produce Exchange Luncheon Club. Any members who were unable to attend are earnestly requested to make their suggestions to any member of the Committee either by letter or phone not later than Oct. 25.

Members of the Nominating Committee are: Michael J. Heaney, Joseph McManus & Co., Chairman; Frank Mackessy, Abbott, Proctor & Paine; Thomas Evans, Lee Higginson Corp.; P. Fred Fox, P. F. Fox & Co., and William Wittich, Maxwell, Marshall & Co.

FLORIDA SECURITY DEALERS ASSOCIATION

The Annual Meeting and election of officers of the Florida Security Dealers Association, will be held at the Ponte Vedre Inn, Ponte Vedra, Fla., on Nov. 5 and 6, 1948.

Hope of European Currency Stability

By PAUL G. HOFFMAN*
ECA Administrator

Characterizing Marshall Plan as a new key to open future's portal, ECA Administrator says key is working, and results are worth more than the costs. Calls attention to program of inter-European trade providing for freer clearance of currencies and removal of trade barriers, and foresees more inter-European cooperation. At Herald-Tribune Forum he says first objective of ECA is to conserve health and life of Europe and plan is succeeding.

Trade craves peace; trade thrives on peace. Yet historians tell us that trade has been the father of countless wars. Greek cities warred with each other for trade. Rome and Carthage fought for commercial supremacy in a series of bloody wars. England, France and Spain battled throughout the centuries for trade with the Indies, trade with the Orient, trade in the remote forests around the Great Lakes. Frenchmen and Englishmen killed each other for priority in bartering with the Indians for fur pelts.

Paul G. Hoffman

Against this historic background the Marshall Plan stands out as something entirely new in human experience. Through the Marshall Plan, our nation, victorious and secure, is helping restore to normal economic health the war-torn nations of Western Europe, with which, in the past, it has engaged in rugged competition for world trade and with which, in the future, it must again compete. Furthermore, to make more certain that these nations regain their strength and thus again become lusty competitors, our nation is insisting that there be full economic cooperation among them. All this—and more—the United States is doing, not only for its Allies but among neutrals and former enemies without hope of monetary return. The return it seeks is of a different and higher order. It seeks a just and enduring world peace.

A New Key

Can peace thus be won?

We do not know. But we do know that an apparently endless series of wars have not bought peace. We do know that the price we are paying in this daring venture in faith—high as it is—is only the cost of a few days of atomic war. James Russell Lowell warned us a century ago not to "attempt the future's portal with the past's blood-rusted key." In the Marshall Plan the United States is indeed using a new key.

How was this new key forged? The first step in its forging was an eight-minute talk at Harvard on June 5, 1947, by General George C. Marshall, Secretary of State. And let it be clearly understood that his program, as outlined that day, was not directed against any nation. He said in part:

"It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist." Please note this sentence. "Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos."

I doubt whether General Marshall realized what tremendous results would flow from his great concept or how quickly action would be taken. President Truman expressed his approval immediately, and a few days later Foreign Secretary Bevin of England flew to France to talk it over with Foreign Secretary Bidault. They immediately invited Soviet Foreign Minister Molotov to join them. He did join them and participated for three days in their consideration of a united effort for European recovery.

Although Molotov withdrew on June 30, expressing the opposition of Russia, the Soviet satellites in Eastern Europe were included in the invitations sent out July 1 to 22 nations for a conference on European recovery. As you know, their participation was prevented by orders from the Kremlin.

Thus was the Russian policy exposed with horrible clarity. It is true that Russia does not want war. Nor does Russia want peace. In place of peace Russia wants confusion and chaos, as the basis for the advance of totalitarian dictatorship.

I revert to the genesis of the Marshall Plan to make plain that it was not directed against the Soviets and their satellites. It was not an attempt to initiate a cold war. The Marshall Plan, as presented by General Marshall, and as immediately implemented by Bevin and Bidault, was a program for the recovery of Eastern as well as Western Europe.

Is the Marshall Plan working?

Yes, it is. In my opinion, the results to date are worth the cost to date. But whether it can win through to its final goal of world peace no man can tell.

I say it is worth its cost to date, first, because of specific advances which can be enumerated.

The bread ration has been increased in France.

The bread ration in Italy has been increased and the bread subsidy removed.

The normal consumer ration in Germany has been increased from 1,550 to 1,850 calories, and the fats and oils ration from 100 grams per month to 500 grams per month. Before we congratulate ourselves on these facts too much, however, we should remember that the caloric consumption in the U. S. A. is between 3,300 and 3,400 calories per person per day, and that the new 500 gram per month ration of fats and oils is still less than one-third of current American per capita consumption.

A million tons of fertilizer is being produced in Europe this year compared with 750,000 tons last year—a third more than last year—contributing to this year's big crops.

Electric power production is 10% better than in 1947.

The French refining industry is operating at 90% of prewar capacity.

Steel production in participating countries is 27% in excess of 1947, and for the year to date is 6% in excess of the target set.

In Italy, where 4,000 miles of track and 4,000 bridges had been destroyed by war, 2,000 bridges have been rebuilt and the railway system is operating at 90% of prewar efficiency.

Those are just a few of the gains which have been made. On an over-all basis, we are certain that every one of the participating nations in Europe is making real progress toward making good on its pledge of maximum self help.

Worth More Than It Costs

Secondly, I say the Marshall Plan is worth more than its cost to date because of the progress made by the participating nations in achieving genuine economic cooperation amongst themselves. The free nations of Western Europe have dropped traditional rivalries and work together as never before in all recorded history.

The organization for European Economic Cooperation, which came into being to implement the Marshall Plan, has two great achievements to its credit.

First, for the first time in history the free peoples of Europe have cooperated in the preparation of an economic program embracing 19 separate political units and covering the efforts of 240 millions of inhabitants. Instead of 19 separate and unrelated plans, there is an integrated program aimed at the recovery of Western Europe as an economic whole.

Second, it has developed a program of Intra-European trade providing for freer clearance of currencies and the continuing removal of barriers to the movement of people and goods.

Revolutionary Change in National Attitudes

Perhaps of even greater import than the economic gains of the individual nations or to progress made toward economic cooperation, is the revolutionary change in the attitude of the peoples of the free nations in Western Europe. Two years ago, as a result of the devastating psychological impact of six years of war and occupation, too many Europeans were utterly discouraged. Today, there is everywhere a revival not only of faith and confidence, but a determination on the part of the peoples to cope with their own problems. Even in nations whose situations seem to us desperate, one finds assurance of success. I still remember the thrill I got last July when Dr. Gruber of Austria told me without doubt, that Austria was destined to be one of the great bulwarks of democracy on the eastern front. At that time—one section of his country was occupied by Russian troops and Russian troops were on his borders.

Finally, I think it is fair to say that had it not been for the hope

(Continued on page 43)

*Address by Mr. Hoffman before the "Business Speaks Dinner" of the New York Board of Trade, New York City, Oct. 14, 1948.

The Utility Industry Outlook

(Continued from page 7)

than that obtained in 1947, unless there should be a very substantial increase in gross operating revenue for the last five months of 1948 by way of increased usage or rate increases, or both.

It should be noted, however, that the variation for individual companies is wide. For example, companies in the Southwest have the advantage of natural gas for boiler fuel, the price of which has remained practically stationary under long-term contracts. Such companies have not had any increase in fuel prices and the present natural gas contracts still protect them for some years to come, whereas other companies using coal or oil under their boilers have had to absorb large increases in the price of such fuels, as previously mentioned. Thus, companies in the southwest part of the country are currently enjoying increases in net income running between 7% and as high as 38%. On the other hand, companies using coal and oil for electric generation where prices have gone up tremendously, and particularly metropolitan type companies so situated which, in addition, had to absorb substantially higher wage increases, are showing current declines in net income in excess of 14%. Some of the companies that depend on hydro generation to a substantial extent have been hampered by poor water conditions and their earnings have declined on that account.

On the whole, it appears that the metropolitan type of companies, and particularly those which do not have the benefit of cheap natural gas for fuel are not currently doing as well earnings-wise as the outlying or rural type of companies and those having the benefit of natural gas for fuel. Naturally, so long as the present inflationary trends continue, selectivity in the companies, and particularly from the common stock investment standpoint, is highly essential.

New Capital Needs

As previously noted, the electric industry, as a whole, at the present costs of doing business, is showing a slight decline in its net earnings. The industry, on the other hand, is confronted with substantial capital expenditures for additions to its plant in order to meet the unprecedented demand for electric service. The question may well be raised now as to whether or not the revenue expansion will be sufficient to provide a proper return on the additional investment required. Therefore, it is important at this juncture to examine the changes which have taken place in the distribution of the electric revenue dollar.

The total operating expenses of the electric industry, excluding taxes and depreciation, consumed 55c out of the revenue dollar during the 12 months ended June 30, 1948, as compared with 52.8c in 1947, 48.2c in 1946, and only 42.2c in 1940. In other words, the operating ratio of the industry has shown an increase of about 30% between 1940 and the latest 12-month period in spite of an increase of almost 63% in gross operating revenue. Salaries and wages, the largest single component of operating expense, accounted for 19.6c of the revenue dollar in the latest 12-month period as compared with 19.7c in 1947, 18.9c in 1946, and 17.3c in 1940. Here the growth in revenue has tended to stabilize this component and while wage rates themselves have gone up about 70%, the increase is relatively minor as a percentage of gross revenue. The same is substantially true with respect to maintenance and miscellaneous operating expenses which now consume 17.7c of the revenue dollar, as compared with 17.1c in 1947, 16.6c in 1946, and 16c in 1940. The cost of fuel, however, is a different story. Whereas in 1940 the fuel used in the generation of electricity consumed only 8.9c of the revenue dollar, in the 12 months ended June 30, 1948 it absorbed 17.7c which represents an increase of almost 100% in spite of the tremendous increase in gross operating revenue during the period under review. The price of coal has gone up some more since June, 1948, both on account of the new settlement made by John L. Lewis with the mine operators, and because of additional freight rates obtained by the railroads. The recent over-all rise in the price of coal for electric generation is probably equivalent to 50c per ton on the average, but for companies more distant from the mines the increase is higher on account of added freight charges. Most of the companies are protected by fuel adjustment clauses on their industrial sales and this will offset the increase in fuel costs. About 37% of the kilowatt-hour sales, however, have not been covered by fuel adjustment clauses and unless the industry proceeds to obtain fuel adjustment clauses for this part of its sales, the rise in fuel costs will have an adverse effect on its earnings.

In the latest 12 month period ended June 30, 1948, taxes took 16.9c of the revenue dollar as compared with 17.6c in 1947, 19c in 1946, and 16½c in 1940. The tax picture has not been particularly adverse so long as gross revenues have continued to grow.

Depreciation accruals for the 12 months ended June 30, 1948 accounted for 8.8c of the revenue dollar as compared with 9c in 1947, 9.6c in 1946, and 10.7c in 1940. Dollarwise, depreciation and amortization charges showed an increase of $86,751,000, or 39%, between 1940 and the latest 12 month period, and it is only the revenue growth which accounts for the decline on a revenue percentage basis. Depreciation charges are now generally adequate and in line with the long-term requirements of the properties, and it may be of interest to note that the depreciation and amortization accruals for the 12-month period ended June 30, 1948, were equivalent to more than 2½% of the gross electric plant account. Should revenues drop, depreciation would still have to stay at the same annual dollar amount if the wear and tear, obsolescence and inadequacy of the property are to be provided for. For many years we have been preaching that depreciation is a function of property and not of revenue in examining its adequacy in connection with indenture provisions. If the usual indenture formula, which is geared to a percentage of revenue basis, does not freeze an adequate amount of depreciation in relationship to the investment in the type of property owned, then the mortgage position would tend to deteriorate over the life of the bond issue, other factors being equal.

Technological developments have tended to offset the industry's rise in operating costs during this inflationary era, and standardization of generating equipment and the use of larger generating units have tended to keep the unit investment costs down. Improved materials and designs have also increased the availability of the equipment and this, in turn, has reduced the reserve capacity needed and the corresponding investment. Years ago engineers were figuring on generating capacity reserves on the order of 25%, whereas now, when the industry catches up with the demand, only about 10% to 15% reserve capacity will be needed. Interconnections of neighboring systems and pooling of reserves through that medium has also been an important factor. Outdoor construction, where climatic conditions permit, will save considerable investment in the generating and other equipment.

Class A and Class B Privately-Owned Electric Utilities
Per Cent Distribution of Electric Revenue Dollar

	12 Mos. End. June 30, '48	12 Months Ended Dec. 31 1947	1946	1940
Operating Expenses:				
Salaries and Wages	19.6%	19.7%	18.9%	17.3%
Fuel	17.7	16.0	12.7	8.9
Maintenance and other Operating expenses	17.7	17.1	16.6	16.0
Total, excl. depr. and taxes	55.0%	52.8%	48.2%	42.2%
Depreciation	8.8	9.0	9.6	10.7
Taxes	16.9	17.6	19.0	16.5
Total Operating Expenses	80.7%	79.4%	76.8%	69.4%
Other Income, incl. income of other depts.	*3.0	*3.3	*3.8	*5.7
Income Deductions	6.0	6.5	7.7	13.5
Preferred Dividends	2.5	2.6	3.2	5.1
Common Dividends	9.9	10.8	10.7	13.5
Balance Transferred to Surplus	3.9	4.0	5.4	4.2
Total	100.0%	100.0%	100.0%	100.0%
Per Cent of Operating Revenues:				
Gross Income before Fed. taxes on income	29.6	31.9	36.2	31.5
Net Income	16.3	17.4	19.3	22.8
Balance for Common	13.8	14.8	16.1	17.7

*Red figure.

Houston Lighting & Power Company is a good example which, through the use of outdoor construction in its generating plants, has been able to keep the investment on its new generating capacity below $100 per kilowatt as compared with $160 per kilowatt or more experienced on totally indoor plants recently constructed in other parts of the country. The industry has been able to obtain savings in fuel consumption by going to higher generating pressures and temperatures and as the new and more efficient generating equipment comes on the line the unit coal consumption is likely to drop. It should be noted, however, that the industry is approaching the bottom of the barrel as far as vast improvements in thermal efficiency are concerned. Savings in labor have also been accomplished by increasing the kilowatt-hour output per employee through simplified and centralized control and automatic equipment installations. The electric industry still has considerable resiliency and flexibility as far as technological developments are concerned and when the new and more efficient generating capacity comes on the line, this, together with the continuing revenue growth, is likely to keep the fuel bill from increasing as a percentage of revenue. It appears that the operating ratio of the industry, after the substantial increase which it has experienced, is now approaching a stabilization point.

Technical Developments

On the technological development side, the gas turbine for power generation can well become a beneficial factor, particularly in the rural type of companies. High voltage direct current transmission is another development which can be looked to for further transmission economies in the future. According to best informed opinion the application of atomic energy for power generation on a commercial scale is still quite a few years away as far as justification by cold-blooded economies is concerned. When atomic energy is developed for commercial power generation many years from now, it is likely to be of supplemental nature to existing facilities by way of large installations located in strategic places at a remote distance from the load centers, and such development is not likely to result in much, if any, obsolescence on the existing power plants during their useful life. It is of interest to note also that the fuel component of the over-all price paid, say, by the average residential customer, represents only about 12% of such average price per kilowatt-hour even at the present high coal prices. Therefore, even if the heat from atomic energy were to be obtained at no cost whatever, and also if we were to disregard the higher fixed charges entailed in an atomic power plant as compared with a conventional steam generating station, the consequent reduction in the price paid for electric service would be relatively inconsequential.

At the present inflationary price level as it affects the electric industry's costs of doing business, the spread between increment revenue and increment cost has narrowed greatly. For example, in the first six months of 1948, this spread, when related to the operating results for the last six months of 1947, has amounted to only 3¾ mills per kilowatt-hour, on an over-all basis. There is serious question as to whether this spread is sufficient to yield an adequate return on the additional investment with which the industry is now being faced in order to provide the facilities necessary to meet the growing demand for electric service. It seems to us that the electric utilities must re-examine and revamp the lower steps of their rate schedules, which were originally designed at a time when unit operating costs were much lower, when they had ample spare capacity, and were anxious to promote higher usage of the service. Also at that time only relatively few customers were actually taking energy at the low steps of the rate schedule and the effect of these steps was, in reality, then academic. It seems that in the light of the subsequent increased usage and with increased consumption to come, the prices charged at these lower steps of the rate schedule should be increased by most utilities, with the possible exception of those enjoying unusual conditions such as cheap hydro power, particularly if the present inflationary trend in the cost of doing business continues. Such rate changes, however, must still result in rate structures best fitted in promoting profitable sales and in insuring maximum use of installed capacity. Since fuel now represents more than one-third of the total operating expenses of the industry, exclusive of taxes and depreciation, the application of a fuel clause on all classes of service merits serious consideration since it provides an automatic adjustment of rates according to the variation in the cost of fuel.

Fortunately, the electric industry is blessed with a fundamentally favorable cost curve in relationship to its ability to render adequate service at reasonable rates. Such rate adjustments as are required need not be large. For example, the construction budget of the electric industry in 1948 is estimated at $1,800,000,000. To provide a 6% return on this

(Continued on page 28)

Defends Big Business

Henry B. du Pont deplores popular conception that anything big is necessarily bad, and scores present disposition of Federal courts to see essential evil in bigness. Cites interdependence of American business system, and says Big Business could not exist without smaller business to process their products.

Addressing a meeting of the Buffalo Chamber of Commerce in Buffalo, N. Y., on Oct. 15, Henry B. du Pont, Vice-President and member of the Executive Committee of the E. I. du Pont de Nemours & Company, took exception to attacks on big business and the present disposition of the Federal courts to see something essentially evil in bigness as such. After describing the research work and the accomplishments of large private business concerns, particularly in the development of rayon products, Mr. du Pont stated:

Henry B. du Pont

"In recent years, big business has been subjected to more and more attacks from various sources. There are voices which argue that it fosters monopoly, that it raises prices, that it makes excessive profits. These charges and complaints are based primarily on the premise that there is something inherently wrong about bigness—no matter how acquired; no matter how used.

"Those of us who are concerned with the operation of large business organizations are very much disturbed by this popular conception that anything big is necessarily bad. It is even more distressing to note the present disposition of the Federal courts to see something essentially evil in bigness, as such. This tendency to regard bigness with distrust is reflected in the attitude of the government in the many anti-trust actions which have been filed against numerous companies, including du Pont.

"The industrial community—certainly the du Pont Co.—has no wish to violate the law, any more so than we as individuals desire to do so. No company wishes to invite the censure which follows conviction of breaking a law. It is bad for its reputation, it is bad for its business, it is bad for its thousands of stockholders.

"But in the field of the so-called monopoly, or unfair trade practice, the rules governing business conduct are somewhat vague and undefined. What may be considered legal and proper at one time may, through interpretation, be regarded as illegal or improper at another. The law surrounding business practices of this kind goes back to the birth of the Sherman Anti-Trust Act in the 1890's. This Act, intended by its framers to prevent mainly combinations in restraint of trade, was one of the really important, forward-looking pieces of legislation safeguarding our system of free, competitive enterprise.

"For the first three or four decades of its existence it was administered for the common good and resulted in real benefit to our economy. In recent years, however, government interpretations of the Sherman Anti-Trust Act have traced a shifting and sinuous pattern, a pattern very difficult for any business to follow.

"One of these suits has been filed against the du Pont Co. in connection with cellophane which, as you know, is made in Buffalo—in fact, it was here that it made its first American appearance back in 1924. It is a sort of companion product of rayon, in that both have the same base and are made from the same raw materials. Since cellophane was introduced, it has come to be a familiar part of the American scene.

"Now, it is charged that the du Pont Co., among other things, expanded its capacity in cellophane to anticipate increased demand and thereby retained a substantial majority of sales in the trade. The government has claimed further that du Pont made reductions in price with the sole objective of discouraging prospective competitors.

"Our belief, of course, has always been that continually-decreasing prices on any product served the public interest. We saw nothing socially undesirable in reducing prices on any article as rapidly as lower production costs permitted, even though it did have the natural effect of giving us a majority of the patronage. But now the argument seems to be that no company should get itself in that position, despite the fact that it got there through passing on economies in manufacture to its customers.

"When interpretations of the law result in injuring or restricting the efficiency of a company, solely on the ground that it is successful, the impact does not stop with the effect upon Big Business alone.

"Actually, what we have in this country is an industrial team made up of units of all types and sizes. The American business system, it has always seemed to me, is indivisible. It is like an automobile—an assembly of various components, large and small. If one of the parts drops out along the road, the whole machine may come to a stop. If one part is damaged it is frequently true that the whole car must go in for repairs.

"The parts of our American business system, too, are in delicate balance, one depending on the other. Damage one part and you may hurt all of them.

"I would like to show you what I mean by this interlocking of all business by citing the case of the rayon trade. The American rayon industry today, and the textile industry which it serves, is typical of this business assembly.

"There are, as I have said, 15 firms producing rayon yarn.

"The industry which these producers serve is made up of approximately 150 weaving mills, employing 112,000 people. It includes 575 rayon converters, mostly small firms, some of them one-man enterprises. It has 585 dyeing and finishing firms. Rayon cloth is made into finished garments by approximately 3,500 companies, employing about 425,000 workers, and these are sold through some 9,000 retail outlets having a total of half a million employees.

"What we have here is a pyramid made up of more than 13,000 separate business enterprises of all ranges of size, each element depending on the other, having a total employment of one and one-quarter million workers. The Big Business elements of this pyramid could not exist without the thousands of smaller businesses to process their products for public consumption. Conversely, thousands of the smaller units would not exist as they do today without being able to obtain these products which can be developed and produced at low cost only on a Big Business basis. No one element can stand alone. When a large business is injured by unwise legislation or ill-conceived interpretation of the law, the small businesses which it serves will ultimately be affected as well."

Government Attitude Toward Profits

"The same tendency which we perceive in the anti-trust cases is apparent also in the attitude of some government agencies toward profits. Again we cannot escape the conclusion that the arrow which pierces the large and therefore attractive target must wound the small as well. Profits are the life blood of all business, both big and little, and when we stifle the profit of one we ultimately stifle that of the other.

"Let us face the facts. The pyramid which is the rayon industry was built, like all other industries, out of the building blocks of profit.

"New plants, new equipment, new research facilities must be paid for out of profits of some sort. The money comes either from earnings retained in the business or from new capital put in by investors out of their savings or profits from other businesses. The money used to finance the rayon improvement project of our company and that of many others came largely from earnings retained in the business.

"This is the 'seed money' which provides for the crops of the future. Seed money is just as essential to a hardware store or to a taproom owner as it is to a manufacturer of durable goods. Profits must be large enough not only to provide a reasonable return to stockholders but, in addition, to allow for expansion and growth. For no business can stand still; it either goes forward or it goes backward.

"The large manufacturer may use his seed money for a research program costing millions, and the taproom proprietor to install a television machine, but the principle is the same.

"Funds set aside out of earnings to provide for the future are an extremely vital element in our economy. They far outweigh the 'new money' which comes in from the sale of securities. The gross investment in American manufacturing industry has increased since 1929, for example, from approximately $58 billion to an estimated $95 billion at the end of 1947. Over this period, the amount retained from earnings has aggregated $19 billion. Over half, therefore, of the increase in investment approximating $37 billion has been met by earnings retained in the business as seed money.

"In our own company the story has been even more pointed. The du Pont Co.'s operating investment in production facilities and working capital has increased from $279 million in 1929 to $1,015 million in 1947. Of this increase, a very large percentage has come directly out of its own earnings.

"This business mechanism of ours is sometimes referred to as the 'profit' system. It is a term frequently employed, I note, by its detractors. For myself I am glad to see it designated as the profit system, for that is precisely what it is. It is profit which gives all industry, both large and small, its vitality and vigor. Like Samson's hair, profit is the source of its strength. When we do anything to weaken our industry we weaken our nation; we weaken ourselves."

A Profit for All

"I would like to add just one thought. Inherent in this profit system is actually a profit for all.

"The worker profits. He enjoys a higher standard of living, shorter working hours and more opportunity than workers under any other system or in any other nation.

"The public profits. Nowhere else in the world has any public so much purchasing power and so much available to it, in goods, in freedom of choice, in liberty of action.

"The nation profits. Any nation is only as strong as its industry. The United States is the strongest nation on the face of the earth, with an industrial establishment which has accomplished miracles. Our nation certainly appears to have profited out of this system.

"Yes, it is a profit system and a profit motive. Let's call it what it is, but it's a motive, and a system, under which the profit belongs to everybody."

Securities Salesman's Corner

By JOHN DUTTON

If you analyze it, we don't sell securities as much as we sell **ideas**. The man who is doing business the way it should be done is primarily a "worker of plans." To be specific, we all know that what is one man's investment feast is another's poison. There are few investors who cannot improve their position—the salesman who knows his job determines what his customer can do to better himself and **then** goes out to sell an **idea**. The securities he sells are incidental.

But you cannot be successful in this type of selling unless you really KNOW what your customer should do . . . you can't guess about it. You can't take a list of holdings, go over them casually in your own mind, and say to yourself, "I think I can get my friend Mr. Investor to sell that one, and buy another." You have to understand the REASONS why such a sale should be made and they must be positive and compelling reasons, too. The same is true on the buying side of the equation. What are some selling reasons? Here are just a few: Outlook for industry as a whole turning from favorable to unfavorable, possible overproduction, weak price basis. Overexpansion of company. High and inflexible breakeven points. Management weaknesses. Opportunity to increase income without sacrifice of basic security by making sale and reinvesting. Too heavy in one particular industry, should lighten up. Such compelling reasons as these can be turned up only through research and digging. Once you have the facts the next step is to boil them down into sharp simple relief. A newspaper clipping, a comparative balance sheet with the highlights marked, these are sufficient. The rest is up to **the** salesman. Most people do not believe that they are qualified to pass judgment on financial matters unless they are professionals, and this brings us to a most important point regarding "idea selling."

No man should be pompous regarding his own opinion of his abilities or knowledge but he should not underestimate his own faculties either. If you know your business you KNOW IT. Don't weaken and waver—there is no sense to it. No man can know all the answers when it comes to forecasting the future course of events, and like it or not that is what you must do in this business. But if a company has a top heavy inventory and the sales curve is dropping that is a FACT. There is no guess work here. The point to make with your customer is, "Why speculate, why take a risk, protect yourself in advance." It is just as much to your interest to help your clients PRESERVE capital as it is to assist them in increasing it. But how often do we bring this point home to our clients? Over a period of years every person who owns securities must take some losses but it is the OVERALL value of their entire portfolio that is important. If capital has not been impaired THAT IS A GOOD JOB IN ITSELF, let no one minimize its importance.

Nearly everybody is WILLING to accept your IDEAS at their face value providing they first believe that YOU KNOW MORE THAN THEY DO. In fact, they must first believe that you know a great deal more than they do. This impression is made upon others when you act the part and talk it. You can't go out and poll-parrot someone else's canned sales talk if you want to be effective. You can't have a half-baked idea of what you want the other fellow to do and then expect him to do it. BUT IF YOU KNOW YOUR FACTS AND YOU ORGANIZE THEM SIMPLY, you can't miss. But time it right, make it important. Make an appointment, discuss such a subject in an atmosphere where it can be given undivided attention. After all, if it is important to your customer that he should sell out one of his stocks and buy another—if you conscientiously believe that you have a good idea for him—then accent your proposition by adding the dignity and importance that the subject deserves. If you make your business IMPORTANT, your prospects and customers will recognize that you are IMPORTANT TO THEM.

Amplifies Anti-Trust Charges Against IBA and Investment Houses

Justice Department files in Federal Court details of its charges of conspiracy in answer to interrogatories propounded by Investment Bankers Association and seventeen investment banking houses.

Following up its complaint filed a year ago and in answer to interrogatories propounded by the Investment Bankers Association and seventeen investment banking houses charged with violation of the Sherman Anti-Trust Law, the United States Department of Justice has filed with Federal Judge Harold R. Medina in New York City a volume of 1,400 pages giving details of agreements and other material and documents within the scope of the complaint.

The Justice Department stated that for the purposes of the suit it would rely on "one or more express agreements relative to the whole and to certain parts of the conspiracy alleged in the complaint" in addition to placing reliance "upon a course of conduct from which the conspiracy may be implied or inferred." It said also that it relies on the Constitution and by-laws of ABA in addition to underwriters agreements, in support of its case.

Searight Installed As Commander of Wall Street Post

George A. Searight, Vice-President of Aetna Securities Corporation, was installed as Commander of the Wall Street Post of the American Legion for 1949, by County Commander Herbert P. Wirth.

Other officers installed were: William J. Ficken, Dominick & Dominick, First Vice-Commander; Haven R. Sevilla, Second Vice-Commander; Horace E. Betts, British Purchasing Agency, Third Vice-Commander; Joseph A. Fischer, P.V.C., Chaplain; Otto A. Valfer, A. L. Burbank & Co., Historian; William F. Scanlan, Ira Busby & Co., John J. O'Kane, Jr., John J. O'Kane & Co.; Alfred W. Miller, Dominick & Dominick, William Hardenbergh, Dairymen's League Cooperative Association, and Paul Stein, Internal Revenue Department, executive committee; Clement D. Asbury, Thomson & McKinnon, Adjutant; Marcel A. Chesney, Brooklyn Trust Co., Finance Officer; Marie M. McMillin, Sergeant-at-Arms; Stephen W. O'Leary, Judge Advocate; Earl Q. Kullman, Service Officer.

The retiring Commander is Richard Hettler, Thomson & McKinnon, on whom the Post bestowed a diamond pin.

A buffet supper in Federal Hall followed the installation. For the first time in the Post's history, a woman member became an officer. There are 38 service women in the Post and Marie M. McMillin was elected Sergeant-at-Arms, because the Post believes she is the bravest woman in the world. She holds the altitude parachute jump record for women, of 25,800 feet, and has made 752 jumps and is still making them.

The Wall Street Post recently observed Bill of Rights day with an open air patriotic rally in Wall Street and had as guest Cardinal Spellman who spoke from Federal Hall steps to a crowd of 4,000. The event was carried on the air by WOR, the Voice of America, and was on television. A gold medal for outstanding defense of our freedoms against communistic threats was awarded to Cardinal Spellman. This medal is awarded annually to that American deemed by the Post as contributing most notably to Americanism. Previous recipients were Gardner Osborn, Cecil B. de Mille, John W. Davis, Messmore Kendall and Thomas D'Arcy Brophy, a founder of the Freedom Train.

Members of the Post are contributing rare historial books from their libraries to the establishment of a fine library in Federal Hall. Contributions of such tomes are heartily welcomed.

Predicts $300 Million Toy Business in 1949

Kenneth P. Fallon, Presdent of Toy Manufacturers, calls attention to 24 million children born since 1940 as putting business at all-time record.

"American toy production is sure to exceed an all-time record of $300,000,000 (retail value) in time for Christmas distribution," said Kenneth P. Fallon, President of the Toy Manufacturers of the U. S. A., reporting on a nation-wide survey, made by the organization. "Although some price increases reflect higher costs of labor and materials, doubled production of low and medium priced merchandise will make it possible for the average family to have a better choice of toys for a given amount of money than at any time since the war. However, many steel and rubber toys will be in short supply; and, due to the record number of toy users, many popular lines of playthings are expected to disappear from counters long before Christmas, so early buying for specific items is advised."

Kenneth P. Fallon

Research Yields Benefits

Extensive research conducted by American toy makers to determine age interest, will make it easier for volunteer Santa Clauses this year to choose toys with maximum play value and fun appeal, through informattive labels and package directions, Mr. Fallon reported. Improved production methods applying war-time discoveries have resulted in many advances in durability and improved design.

American Way of Life Featured

Toyland, 1948 style, reproduces every phase of American life with accent on careers Mr. Fallon said. Children's yearning to own miniatures of up-to-the-minute designs is catered to with the latest styles in helicopters, station wagons, taxis, electronically controlled trains, pre-fabricated housing, television sets, juke boxes and wasp-wasted doll fashions. A chemistry set offers a sample of uranium. Doll house furniture features period and modern styles. A new development in plastics is used to make the machinery of mechanical toys. Rubber balls promise extra bounce; inflated balloons introduce a record number of animal and character shapes. Latex dolls, animals and farm sets are close to prewar volume. Cowboy regalia dominates play costume showings. Junior can build a mechanical man who walks, powered by an electric motor. There's a boom in farm machinery toys. Children's books are featured in lower price ranges.

John F. Coleman Dead

John F. Coleman, member of the New York Curb Exchange, died suddenly on the floor of the exchange. He was 60 years old.

Boston Investment Club to Hear Pruyne

BOSTON, MASS.—L. Sumner Pruyne, Vice-President of the First National Bank of Boston, will be the guest speaker at the regular monthly meeting of the Boston Investment Club to be held Thursday, Oct. 21, at the Boston Yacht Club. Mr. Pruyne, who is the Vice-President in charge of the bank's investment portfolio, will speak on "Commercial Banking Investment Policies Today." As an officer of the largest commercial bank in New England, Mr. Pruyne can speak with authority on this subject.

A general invitation is extended to members of security firms, commercial banks, savings banks and cooperative banks to attend this dinner and hear this address by Mr. Pruyne.

For reservations any of the following officers of the Club may be contacted: Robert G. Gerrish, President of Whiting, Weeks & Stubbs; Andrew G. Weeks, Vice-President of Blyth & Co., Inc.; Robert S. Weeks, Jr., Secretary of Coffin & Burr, Inc.; E. Wallace Sleeth, Treasurer of White, Weld & Co., and John J. D'Arcy, Publicity Chairman of F. L. Putnam & Co., Inc.

Davies & Mejia Adds

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF.—Henry J. Nelson had been added to the staff of Davies & Mejia, 1430 Franklin Street.

With Inv. Securities Co.

(Special to THE FINANCIAL CHRONICLE)

JACKSON, MICH. — Robert C. Holmes is with Investment Securities Co., National Bank Building.

Letter to the Editor:

Favors Complete Demolition of SEC

Writer, signing himself "Another American," comments on editorial in the "Chronicle" of Oct. 7, entitled "The SEC and Municipal Securities."

Editor, The Commercial & Financial Chronicle:

I like your statement in the October 7 issue of the "Commercial & Financial Chronicle"—"we favor the complete demolition of the SEC."

It is clear, simple, to the point and forthright like a smashing blow between the eyes—and it takes guts to say or print it, something that unfortunately is lacking in the securities business today.

There is no other business in the U. S. whose members pride themselves so highly on the general level of their education, acumen and general business ability. Yet this industry has kow-towed and fawned most servilely before the God-Almighty burocrats of the SEC and has jumped at the slightest crack of their whip. How the SEC burocrats must laugh up their sleeves at these pawns who now sit around twiddling their thumbs waiting for better days while the general public distribution of investment securities has all but disappeared.

Recently the SEC, through your columns, requested suggestions for stabilizing markets in connection with the issuance of new securities. Constantly these burocrats seek to expand their rules, regulation and control over every business they are able to enmesh in their tentacles. The best reply to their request is, of course, "Keep your hands off!" Markets represent the meeting point of all forces, objective and subjective, which combine at any given moment to determine a quotation. Regulate them and you kill them.

The attempt to regulate markets by edict is a smokescreen. The vicious reality is the acknowledgement of SEC authority and the further expansion of their power—and as you clearly state "a forerunner of a more complete state participation in business."

Security dealers wake up!

Sincerely,

ANOTHER AMERICAN.

You may print the above if you wish but I prefer to remain anonymous because burocrats do not like the truth.

Chicago, Ill.
October 15, 1948.

$31,526,000 New York City Housing Authority Bonds Marketed by Underwriting Group

Chase National Bank, National City Bank, Lehman Bros., and Blyth & Co., Inc., are joint managers of syndicate re-offering part of $48,256,000 bonds purchased from housing unit. Bonds unconditionally guaranteed by the City of New York.

A banking group headed by The Chase National Bank, National City Bank, Lehman Bros., and Blyth & Co., Inc., as joint managers, on Oct. 19 offered to the public $31,526,000 New York City Housing Authority serial bonds, dated Nov. 1, 1948, and maturing Nov. 1, 1951 through 1988. The bonds which bear interest rates of 4½%, 3% and 3¼%, are priced to yield from 1.50% for the 1951 maturities to 3.20% for the 1983 maturities and a dollar price of 95½ for the 1984-1988 maturities. The bonds, due 1951-58 carry an interest rate of 4½%, those due 1959-67, a 3% rate, those due 1968-83, a 3¼% rate, and those maturing 1984-88, a 3% rate.

The bonds which are unconditionally guaranteed as to principal and interest by New York City, are part of a total issue of $48,256,000 which were purchased from the authority by the banking group on an overall interest cost basis to the authority of 3.213%. The balance of $16,730,000, due Nov. 1, 1989-98 is not being reoffered.

In the opinion of bond counsel, both principal and interest are exempt from all taxation by the United States by the existing provisions of the United States Housing Act of 1937, as amended and supplemented, and the Internal Revenue Code of the United States, as amended and supplemented, and are exempt from taxation by the State of New York or any of its political subdivisions, under the provisions of the State's Public Housing Law, Chapter 44A. The bonds, in the opinion of bond counsel, are legal investments for savings and other banks, trust funds and fiduciaries, insurance companies and all public bodies and public officers in the State of New York.

The offering syndicate is composed of 61 banks and investment firms throughout the country and, in addition to The Chase National Bank, National City Bank, Lehman Bros., and Blyth & Co., Inc., some of the other members include: Chemical Bank & Trust Co., First Boston Corp., Harriman Ripley & Co., Inc., Phelps, Fenn & Co., R. W. Pressprich & Co., Smith, Barney & Co., C. J. Devine & Co., Inc., Goldman, Sachs & Co., Harris Trust & Savings Bank, Kidder, Peabody & Co., Northern Trust Co., Salomon Bros. & Hutzler, and Shields & Co.

Russell J. Olderman to McDonald Co. Partner

CLEVELAND, OHIO — Russell J. Olderman will be admitted to partnership in McDonald & Co., Union Commerce Building, members of the New York and Cleveland Stock Exchanges on Nov. 1. Mr. Olderman prior to joining McDonald & Co. last August was Vice-President of Field, Richards & Co.

Banks—The Whipping Boy of Inflation

By CHARLES W. WILLIAMS *

Head of Economics-Commerce Dept., University of Louisville

Dr. Williams finds chief factor in current domestic situation is inflation and what is being done about it. Says, politically, inflation control is too hot to handle and one should sympathize with politicians in their reluctance to behead the goose that lays the golden eggs. Holds Treasury lending policy is prime contributor to inflation and banks are used as "whipping boy" in efforts to control it.

Your program chairman has suggested that I talk to you on Current Affairs—which is both good and bad advice—good in the sense that almost everything is current and bad in the sense that if the advice were taken literally, I should probably find myself asking you to wander all over the universe with me.

Charles W. Williams

You bank people are now "going back to school" which means that you deserve congratulations for taking both time and energy to "brush up" on matters economic and financial that are going on beyond the accustomed place of duty. It implies that you deserve straight talk and clear analysis of the events that are going on about us.

This is an amazing period in which we live and one can hardly recall a period of so much news and of such significance. One is tempted to focus attention on the foreign scene because it is terribly important and probably dominant over the domestic scene, since the decisions now being taken on matters international are quite likely to affect everything that is basic to the domesic scene.

Boil it all down and we have a continuation of the "Battle of the Isms." It is the old but new and growingly fervent debate of the "Free Way" versus the "Controlled Way"—call it what you will, Communism, Socialism, or Fascism. These latter are merely terms signifying various approaches and degrees of Statism. It is the contrast that is important.

Fortunately, our choice in these United States is made and is a particularly fortuitous one since this is a political year and the matter of choice is not likely to become a political issue which, to your discussant, is the best evidence of a thinking America.

Inflation and What to Do About It

On the domestic front, the major issue and the main problem is that of Inflation and What to Do About It. I am forced to admit at the outset that I am somewhat selfish in putting the major emphasis and devoting most of the time alloted to me to this old but new problem—selfish in the sense that I have "kicked it about" and have been "kicked about" by it for a good many years and managed to learn something of it at first hand while still at a tender age and wandering over the face of Europe in the amazingly inflationary ways and manifestations of the twenties.

Significantly, I think, few people now ask, "When will we have real Inflation?" Even the man in the street and the economically naive are now becoming deeply conscious of the "shrinking dollar" even if they are not aware of the statistical measurements which now show us that the food dollar is a 45c piece, that the average consumer dollar is a 55c piece and that the wholesaler's dollar is a 45c piece — when compared with the "full dollar" of pre-war.

Curiously, some people, both within and without, still think that our banks are immune to inflation. In theory, the banks handle dollars and debit or credit in accordance with policy or need as though they were utterly disinterested in the size of the dollar. This is, of course, a fallacious and untenable theory. For quick proof, I should ask you to turn back the pages of banking history to the years 1926-1929 and to 1932-1935 and observe the statistical proof of shifting bank deposits, bank profits, operating expenses, market value of bank stocks—to say nothing of the seedier side of the latter period manifesting, as it did, vast numbers of bank cripples and bank insolvencies.

Causes of Inflation

There ought not to be serious disagreement regarding the causes of the present inflation; they are almost crystal clear to those who have looked at the problems seriously and disinterestedly. Those who disagree are quite likely to be found to have some particular political or class or group motivation.

As I see it, there have been **four** and only four causes for the serious depression of money value which we have been observing in these United States ever since Pearl Harbor:

(1) **War:** This has been the prime creator. Our method of financing the last great conflict, by

(Continued on page 31)

*An address by Dr. Williams before the School of Banking, sponsored by the Kentucky Bankers Association, Lexington, Ky., Aug. 14, 1948.

Mutual Funds

By HENRY HUNT

Sales Results—First Nine Months

During the first nine months of 1948, gross sales of mutual fund shares ran about ½ of 1% under the $199,600,000 total during the same period last year. However, due to a 53% increase in repurchases, net sales made a less favorable showing, declining from $139 million to $105 million during the past nine months.

Thanks in part to **Lord, Abbett's** outstanding sales record with **Affiliated Fund**, common stock funds made a better showing than last year while sales of balanced funds just about held their own. On the other hand, gross sales of bond and specialty funds declined from $77 million to $56 million while net sales dropped precipitately from $45 million to less than $5 million.

Net assets of 80-odd mutual funds as of Sept. 30, 1948, approximated $1,500,000,000, as compared with $1,409,000,000 at the beginning of the year and nearly $1,600,000,000 on June 30. The decrease in assets during the third quarter reflects, of course, the decline in the stock market. In this connection, third quarter gross sales of mutual funds declined 23% from the second quarter, whereas the volume of shares traded on the New York Stock Exchange declined 47% during the same periods.

While current sales of mutual funds are far from booming, the full year 1948 may produce gross, if not net sales, somewhat in excess of 1947 since the fourth quarter last year was not a particularly good one from a sales standpoint.

A Pessimistic Boom

Vance, Sanders' "Brevits" quotes Professor Slichter of Harvard as follows:

"Great wars have usually been followed by a long decline in prices. In the Summer of 1948 the price level in the United States had risen higher than ever before. Most economists appear to believe that history will repeat itself, and that World War II will be followed by an extended period in which the dominant movement of prices will be downward.

"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.

"Previous wars have been followed first by a brief, but pronounced, boom and then by a sharp, though short, depression. The boom following World War II is now nearly three years old. Is not the postwar recession overdue?

"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.

"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.

"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."

Dr. Slichter points out that memories of previous price collapses and the last depression have made the business community extremely cautious despite the prosperous times we have had during the last few years. He observed, "There never has been a boom of substantial magnitude accompanied by less optimism and less speculative buying."

An Unusual Sales Piece

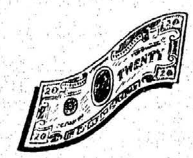
A good piece of sales literature should include at least three of the following:

(1) A new idea or an original approach.
(2) Simply written, easy to understand copy
(3) Apt illustrations
(4) An attractive lay-out and type that pleases the eye.

Lord, Abbett's new booklet called **"The Practical Way to Invest"** has all four of these attributes. Although printed in but one color, this booklet is worth your attention from more angles than one. The following is a sample of the copy and the illustrations:

The average investor follows his security holdings by reading the financial section of his daily newspaper.

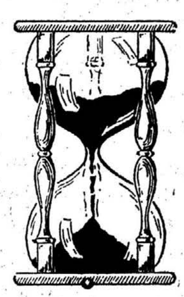
He seldom spends as much as $20 a year for financial services to help him keep up with his investments.



He may read the annual reports he receives, but he generally "files" them in the waste paper basket shortly afterwards.

LORD, ABBETT & COMPANY, INC., has built up over the years a management organization that costs several hundred thousand dollars per annum to maintain. The men in this organization have made the study of security values their life work. They know how to interpret the effects of changing trends and economic conditions on security prices.

Furthermore, they have access to information not readily available to the investing public.



It's doubtful that the average investor spends more than an hour a week on the management of his portfolio. The LORD-ABBETT management organization spends many hundreds of hours a week checking and rechecking securities owned or securities under consideration for purchase.

"D. G." Comments

Distributors Group in its October **"Investment Report"** comments on the outlook for stock prices as follows:

"The relative performance of 'war' stocks and 'peace' stocks shows that fear of war is **not** the major influence in the stock market today.

"The general level of stock prices is so low in relation to current earnings—lower than at any past period of prosperity—that it can be accounted for only by widespread lack of confidence in the **domestic** outlook, that is, in the maintenance of a high level of earnings over a period of years. In this respect we are convinced that the public by assuming, consciously or unconsciously, that we are bound to follow the same business pattern as that of post-World War I is ignoring basic and controlling differences.

"There is today a remarkable absence of reckless speculation—in commodities, farm land, inventories, common stocks—in marked contrast to the early Twenties.

"The readjustment of prices and wages to a balanced level far higher than prewar is proceeding with surprisingly little disturbance to corporation earnings. One by one our industries are shifting over from a sellers' to a normal buyers' market—without disturbing the high level of our over-all economy.

"The control, by the Federal Government, of the spending of so large a proportion of total national income; the unprecedented power of labor unions; the size of the national debt; the techniques that have been learned, by Government, in the past 20 years; the accumulated capital needs of industry; and our expanded role in the international economy—all these are factors which tend to maintain our present general level of prices and wages.

"We believe that it is only a question of how much time it will take for the public to understand the significance of these new factors before stock prices advance to a more normal relationshp to corporate earnings."

Syndicate Headed by Alex. Brown & Sons Markets $37,500,000 Md. Bridge Rev. Bonds

Alex. Brown & Sons, of Baltimore, heads an underwriting group of 84 members that made public offering on Oct. 19 of $37,500,000 State of Maryland Bridge Revenue Bonds (Series 1948). The offering consists of $18,500,000 in 2½, 2¾ and 3% Serial Bonds, due Oct. 1, 1952-1967, inclusive, which are priced to yield from approximately 1.90% to 2.90%, according to maturity, and $19,000,000 of 3.20% term bonds, due Oct. 1, 1972, which are priced at 103.40%, to yield approximately 3% to maturity.

Net proceeds will be used by the State of Maryland to provide funds for the cost of constructing the proposed Chesapeake Bay Bridge, together with its approaches, and to provide funds for the redemption of outstanding State of Maryland Bridge Revenue Refunding Bonds, and financing costs.

The proposed bridge, which is expected to be completed on or before July 1, 1951, will cross Chesapeake Bay from a point above Annapolis at Sandy Point to a point on the Eastern Shore of Maryland north of Matapeake near Stevensville. With the construction of the bridge, together with completion of construction of the Delaware Memorial Bridge, traffic from New England, New York and other northern points will be able to travel over this route uninterrupted by ferries, to Baltimore and Washington, and also travel to southern points by modern highways which bypass all large cities between New York and Richmond or Norfolk.

The Bridge Revenue Bonds will be secured by a Trust Agreement between the State Roads Commission of Maryland and the Baltimore National Bank, Baltimore, Md., as Trustee, and will be payable solely out of revenue from bridges. Interest is exempt from all Federal income taxes, under existing statutes. Under the Act authorizing their issuance, the bonds, and the interest thereon, are exempt from all taxation within Maryland. They are authorized investment for trust funds and may legally be deposited as security for public funds in that State.

At the option of the State Roads Commission, the term bonds and the serial bonds are redeemable in whole not earlier than Oct. 1, 1952, initially at a price 3% above the offering price with declining prices over the life of the issue. Both the terms and the serials are also redeemable in whole or in part, on any interest date not earlier than Oct. 1, 1952, from moneys in the revenue projects interest and sinking fund at prices initially equivalent to the offering yields, the prices declining over the life of the bonds in a manner which will protect the offering yield to the investor. Moneys in the sinking fund will be used to retire term bonds, and after all term bonds have been retired serials would be retired in inverse order of maturity.

Associated with Alex. Brown & Sons in the offering, among others, are The First Boston Corp.; Harriman Ripley & Co., Inc.; Smith, Barney & Co.; Blyth & Co., Inc.; Drexel & Co.; Kidder, Peabody & Co.; Lehman Brothers; Union Securities Corp.; B. J. Van Ingen & Co. Inc.; Baker, Watts & Co.; Glore, Forgan & Co.; Mackubin, Legg & Co.; Phelps, Fenn & Co.; R. W. Pressprich & Co.; Shields & Co.; Stein Bros. & Boyce; Stranahan, Harris & Co., Inc.; A. C. Allyn and Company, Inc.; Equitable Securities Corp.; Harris, Hall & Co. (Inc.).

Shields & Co. Opens Branch in Los Angeles

Indicating its confidence in the future outlook of the securities business, Shields & Co. announced the opening of a second branch office in recent months. Located in the Van Nuys Building in Los Angeles, Calif., the new office is the first of a contemplated series in California and follows the opening of an office in Houston last June.

Francis D. Frost, Jr., partner in the firm of Bogardus, Frost and Banning from 1941 to 1948, is resident manager of Shields' California office. Well known in investment circles on the West Coast, Mr. Frost formerly was a partner in Schwabacher and Company.

Shields & Co., members of the New York Stock Exchange, New York Curb Exchange and other principal exchanges, conducts a general investment, underwriting, brokerage and research business. In addition to its main office in New York City, Shields maintains other offices in Boston and Chicago.

Shearson, Hammill Co. To Admit Partners

Darrell J. Bogardus, of Los Angeles, and William J. Denman, member of the New York Stock Exchange, will be admitted to partnership in Shearson, Hammill & Co., 14 Wall Street, members of the New York Stock Exchange and other leading national exchanges, on Nov. 1. Both were partners in Bogardus, Frost & Banning, of Los Angeles, which is dissolving on Oct. 31.

Clark B. Davis Dies

Clark B. Davis, a director of the Pan American Bank of Miami, Florida, and a former bank official in New York, died recently in Brunswick Hospital after an illness of several years. He was 59 years old and for the last decade had represented Hugh W. Long & Co., Inc., in Florida in addition to conducting his own investment securities business.

The Hidden Payroll

By EMERSON P. SCHMIDT*

Director, Economic Research Department, Chamber of Commerce of U. S. A.

Contending hours actually worked by employees is less than actual hours paid by employers, and that 35 rather than 40 hours weekly is standard, Dr. Schmidt also points out additional labor costs in voluntary pension outlays and employee life insurance that make up hidden payroll. Cites non-production bonuses and compulsory employers' payroll levies as additional labor costs, the ultimate burden of which is borne by the laborer, as consumer, as well as employer and the public. Concludes, since components of hidden payroll are taxes on production, they may assist in generating and perpetuating unemployment.

The two following statements are becoming more clear every day: (1) When a man is hired today, or a new wage contract is agreed upon, the wage rates established no longer measure the cost of hiring labor; (2) the number of hours actually worked no longer measure the number of hours for which the employer must pay.

Dr. E. P. Schmidt

Some would say that this is just as it should be; to them the function of the employer seems to be to provide jobs and income to the workers. The outpouring of goods and services is secondary, and frequently overlooked entirely.

Whether this kind of thinking can make a nation permanently strong and secure, and raise the real standard of living of the masses, may be doubted. In Great Britain where similar thoughts have prevailed for a long time, things are not going so well; belatedly the labor politicians are pleading with the workers not to ask for more pay, for shorter hours, or for more benefits; and indeed they are begging for harder work, for more effort and for more efficiency without visible effect. Another British loan, under a new name, may be just around the corner!

The 40-Hour Week Fiction

When the regular work-week is scheduled to be 40 hours, the **actual** number of hours **worked** will normally fall substantially below this, even when 40 hours are paid for.

In the case of Federal Government employees, in addition to eight paid holidays, there are allowances up to 15 days paid sick leave, and 26 days of annual leave or vacation. Since leaves are based on a five-day week, the sick leave amounts to three weeks and the vacation leave to five and one-fifth week, or a total of nine and four-fifths weeks, or over 18% of the work-year; this makes a 32.5 hour-week for government employees, providing they take the full sick leave, which not all do. Sick leave is cumulative for a total of 90 days and annual leave for 60 days. In addition, of course, the taxpayer through the Federal Treasury provides innumerable other social and economic benefits, about 11% for pensions, additional sums for medical services, and others.

In industry, in addition to pay for five or six holidays per year, sick-leave and vacation, a number of other payments are widely made for periods of not-working. This may include pay for lunch-time, wash-up time, get-ready time, clothes-changing time, and travel-time. In some instances bonuses are paid in lieu of vacation at one and a half or double time. A great many employers, as a public service, pay their employees at regular rates when they serve as witnesses, during jury duty, election days, service with the National Guard, and, more recently, with the U. S. defense program.

A good many employers pay shop stewards and members of grievance committees for time in settling disputes and, in some instances, union officials receive full pay while they carry on union activities during working hours.

The foregoing outlays may be covered by union agreements, or may be simply the result of company policy.

When all of these items are added together, payments for periods of not-working may amount to sizable totals. Although the scheduled work-week may be 40 hours, the actual input of time may on the average be one, two or as high as seven or eight hours less than the scheduled period. We think of the 40-hour week as standard in America; for many purposes it would be more accurate to speak of the 35-hour week, or even less.

The average hourly **earnings** in manufacturing reported by the Bureau of Labor Statistics for July, 1948, was $1.332. This figure is derived by dividing gross payrolls including straight time, overtime, incentive pay, pay for sick leave, holidays and vacations, (before deductions) by total hours worked including hours paid for holidays, sick leave and vacations taken and actual hours worked during vacation. Furthermore, some of the items, such as lunch-time, wash-up time and travel-time may be included as being "on the job." Most of the foregoing items do not involve extra outlays or payments in a bookkeeping sense, but are simply absorbed as part of the normal weekly pay.

This, however, may not be true of a whole group of additional labor costs which are handled separately from a bookkeeping standpoint, namely, the benefit programs.

Voluntary Pension Program Outlays

A growing number of companies have adopted supplementary private pension plans, both insured and uninsured. The wartime wage controls as well as the excess profits tax encouraged a rapid multiplication of insured plans, approved by the U. S. Treasury for income-tax purposes.

How many of these fringe and wage-supplementary items will become matters of compulsory collective bargaining under the aegis of a National Labor Rela-

(Continued on page 37)

*Address by Dr. Schmidt before the Controllers Institute of America, New York City, Oct. 12, 1948.

Canadian Securities

By WILLIAM J. McKAY

The currency adjustments that have just taken place in France have mainly served to correct the cross-rate anomalies of the currencies not quoted on the French free exchange market. In addition, however, it can be considered as a further step in the direction of the ultimate establishment of single rates of exchange with all countries for every type of transaction. The present system is obviously of a makeshift nature but it does prepare the ground for the complete elimination of the undesirable multiple rate of exchange procedure. This action on the part of a country the economic condition of which is by no means as settled as that of Canada draws attention once more to the unsatisfactory free Canadian dollar market.

This market was established as an unavoidable wartime measure but has now long outlived its usefulness. The erratic fluctuations of the free Canadian dollar have been a constant source of embarrassment to the Canadian authorities inasmuch as the limited importance of the free market has never been properly appreciated on this side of the border. In fact the level of the Canadian dollar in the free market has been more accepted as evidence of the state of Canadian economic conditions than that of the official dollar. Also from the angle of the U. S. investor in Canada the free market has not provided an adequate channel for the transaction of the important volume of U. S.-Canadian security operations.

In the case of the French approach to a single rate of exchange the old official rate has been given a purely nominal standing. It now serves merely as a basis for the calculation of the practical official rate. On the other hand the free market rate has assumed a greater importance and its variations now determine the parities of all currencies in relation to the franc. This French example has interesting implications when applied to the case of the Canadian dollar. In the event that the Dominion decides to simplify its existing exchange system by the establishment of one rate of exchange to cover all operations would the official rate be adopted as the parity basis?

In view of the following reasons it is likely that an alternative to the par valuation in relation to the U. S. dollar would be given favorable consideration by the Canadian authorities.

(a) Despite the technical corrections of the action of the Dominion Government in raising the value of Canadian dollar to its present parity the step has been condemned throughout the country; in view of the forthcoming elections the general unpopularity of the par dollar has considerable political significance.

(b) It is difficult for the Canadian people to appreciate the necessity of the current austerity program restrictions at a time when the country is experiencing a domestic boom; the protection of the par level of the Canadian dollar is considered to be the principal reason for the current cramping of individual liberties.

(c) If the Foreign Exchange Control Board Act were allowed to lapse at its expiry date next year, the Canadian financial authorities would be relieved of much of their responsibilities with regard to the assurance of adequate exchange reserves; the Canadian dollar could then be permitted to find its own natural level in one free market.

During the week there was still an unsatisfied demand for high-grade short-term external bonds. The internal section also showed a tendency to harden in sympathy with the strong stock-arbitrage rate. Free funds on the other hand were inclined to weaken in view of the anticipated large supply that will be available as a result of the important November bond redemptions. Stocks were stronger generally with base-metal and industrial issues to the fore. Western oils also were in fair demand but the golds, despite the recent optimistic reports concerning the gold-mining industry, failed to make any headway.

William Taussig With Merrill Lynch, Pierce

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—William H. Taussig has become associated with Merrill Lynch, Pierce, Fenner & Beane, 411 North Seventh Street. In the past he was manager of the trading department for I. M. Simon & Co.

William H. Taussig

Lehman Corp. Elects Dirs.

Stockholders of The Lehman Corp., at their annual meeting held on Oct. 20, re-elected as directors Curtis E. Calder, J. Herbert Case, I. J. Harvey, Jr., Thomas A. Morgan, B. Earl Puckett, Harold V. Smith, Alexander Sachs and Frederick L. Schuster, and the following six partners of Lehman Brothers, viz., Robert Lehman, Allan S. Lehman, Monroe C. Gutman, John M. Hancock, Paul M. Mazur and William J. Hammerslough. Dorsey Richardson, a Vice-President of the corporation, was also re-elected as a director.

The appointment of Price, Waterhouse & Co. as auditors of the corporation for the current fiscal year was also ratified.

Inflation Affects The Masses

By R. B. RICHARDSON*
President, American Life Convention
President, Western Life Insurance Company, Helena, Mont.

Insurance executive lists groups affected adversely by decreasing value of dollar and estimates, when merged, they comprise bulk of total population. Points out as two most vicious causes of inflation (1) heavy government expenditures in relation to national income, and (2) Treasury's cheap money policy. Lists nine recommendations as inflation curbs and calls for wise non-partisan leadership.

It is my purpose to discuss the problem of inflation from a non-technical viewpoint. We are interested in knowing what to do about it, and not necessarily in its technical aspects. There are many technicalities involved in the actuarial segment of life insurance.

But we have found the most successful underwriters do not discuss with their prospects all of the technical phases of a life insurance contract. Their prospects are more interested in and motivated by hearing the story of life insurance in action, and what it will do.

Neither is it my intention to discuss this perplexing problem from the standpoint of life insurance as an industry, nor even as it affects life insurance alone. The decline in the purchasing power of money is of tremendous interest to life insurance policyholders and to all who practice thrift. The great interest of life insurance companies and other institutions of thrift stems directly from this interest on the part of those whom they serve. I see the situation from the viewpoint of not only a policyholder, but from that of all thrifty individuals whose incomes are in any way affected by interest rates. It is not necessary for us to extol here the virtues of our industry. The American public is convinced that life insurance is a means of solving numerous problems for which there is no other solution. One of the 16 recommendations of the "Joint Committee on the Economic Report" contained in Report No. 1565 of the Eightieth Congress, (Second Session), declares: "Every effort should be made to encourage thrift in the purchase of government bonds and insurance, and the increase of savings accounts, so that funds will be available when the supply of goods becomes greater and prices stabilized." The United States Treasury Department in its promotional literature to encourage the sale of United States savings bonds, also stresses the importance of life insurance. One of the conclusions reached by the Mid-Continent Sub-Committee of the Joint Committee on the Economic Report is, "Fixed income groups have been most adversely affected and are lowering their standards of living." We find that depreciation in the value of the dollar has various effects on the different groups that compose our national economy. It can and has happened that the income of certain groups has increased more rapidly than the purchasing power of the dollar has decreased. These groups unfortunately are lulled into a false sense of security, for at a later date the decrease in the purchasing value of the dollar is accelerated until it becomes equal to or greater than the increase in dollar income.

Let us take a look at the various groups that are dependent upon fixed income; groups that unfortunately are adversely affected by a decrease in the purchasing value of the dollar, and that also suffer because of a lower income in actual number of dollars resulting from lower interest rates:

(1) We have 75 million policyholders owning life insurance which is intended to provide for their widows, children or orphans in event of premature death, or themselves and dependents at a time when their working days draw to a close.

(2) We have millions of individuals accumulating savings in banks, savings and loan associations and postal savings accounts.

(3) Many individuals of the country have denied themselves to save and now own bonds, mortgages and preferred stocks which provide for a fixed rate of return.

(4) Retirement and pension plans of millions of wage earners will be affected increasingly if the artificial low wage for money continues and the cost of living continues to increase. These groups dependent upon retirement plans come from all walks of life, and these plans provide for a fixed number of dollars of income per month upon retirement. Those now receiving retirement benefits, whatever the source, are receiving the identical dollars promised them, but what they are able to purchase with those dollars is far different from what they visualized originally.

(5) Thus, countless millions have a direct interest in what has happened to fixed income—millions who have expected that modest incomes promised them at age 65 would make living possible, and others who in any manner reap benefits from the many charitable, educational and research institutions that are supported by income from endowment funds.

Other groups could be enumerated, but those already listed, in one or another of the groups cited, account for more than a majority of our total population. The total merged group is indeed cosmopolitan in character. We find laborers, bankers, farmers, professional people, trades people, management men, government employees, and even bureaucrats with at least one interest in common.

In the face of inflation the life insurance industry has reason to feel proud of its record of trusteeship. Indeed, inflation has enabled life insurance companies to bring into play trusteeship in its fullest form. We have assumed the responsibility for the safety of $55 billions of assets owned by the policyholders of our companies. We are justly proud of our joint financial strength and ability to meet our obligations promptly under all conditions. We worry when any slight depreciation of assets, as measured by current market values, exists. But prompt payment of our obligations, in my opinion, and in the opinion, I believe, of all life insurance executives, does not constitute of itself full trusteeship. The industry has and must continue to do its utmost, consistent with national security, to make sure that the dollars paid to future beneficiaries are as nearly as possible the same kind of dollars as those for which the respective assureds believed they were contracting when they applied for life insurance protection. That constitutes full trusteeship.

Most Vicious Causes of Inflation

At the outset I stated that the causes of inflation, like termites, are innumerable, and promised to point out some of the particularly dangerous species of termites. It is difficult to speak frankly on this subject without offending certain groups within our economy. We find that too many of us lack the courage to face even the meek termites. Any crisis calls for courage and we are facing economic problems which are, indeed, serious.

The two most vicious of these problems are, first: The proportion of the national income required to meet the expenditures of our government and, second: The cheap money policy fostered and nurtured by our government. The total number of persons receiving regular payments from the Federal Government is nearly 14 million. In these days we find housewives, as well as all members of the American family, vitally concerned about the size of their grocery bills. If the public could come to understand that the cost of government exceeds the cost for feeding the nation it might well have more concern as to Federal expenditures. The more than two million civilian employees in the executive branch of the government—one for every 21 Federal income taxpayers—is increasing. The situation as to the extent of and danger of excessive spending is best expressed in the words of former President Herbert Hoover:

"The budget three years after the First World War was about $4,000,000,000 per annum whereas three years after the Second World War it is $40,000,000,000. There are insufficient savings left in the hands of the people to repair, maintain and improve the tools of production and distribution upon which our standard of living depends. These figures obviously indicate the necessity for important structural changes in the government to secure the maximum efficiency and economy."

The cheap money policy of the government is directly responsible for the size of the expanded Federal budget. Advocates of cheap money take the position that to allow the long-term interest rate to increase will result in increasing the budget to pay interest on the Federal indebtedness. They ignore entirely the reduction in other expenditures which would be possible in the absence of a cheap money policy and a consequent lower price level. They have been preaching deflation while indulging in inflationary practices. There are many instances of this dual role that I could cite but I feel that you are familiar with the existing situation. Detailed studies indicate without question that a cheap money policy with its low interest rates, increased money supply and government supported bond market, leads to higher and higher prices. I maintain that borrowers could well afford to pay a higher rate of interest on their mortgage loans if they were able to purchase and build homes at a more moderate cost. What they do not realize is that the low interest rate, the long term provided for repayment of their loans, as well as the greater percentage which they can borrow, all of which have been represented as being in their interest, have contributed more than any other factor to the exorbitant prices which they must pay for a decent place in which to live.

Effects of Cheap Money Policy

A cheap money policy sires inflated dollars, which results in increased wages and increased price levels. A first lien on that in-

(Continued on page 32)

*From an address by Mr. Richardson at 43rd Annual Meeting of the American Life Convention, Chicago, Ill., Oct. 6, 1948.

Campaign Breeding Political Realignment

By A. A. BERLE, JR.*

Former Assistant Secretary of State
New York State Chairman, Liberal Party

Mr. Berle predicts election results will dominate American politics for years to come. Says Democrat-Liberals have pushed out Communists and Dixiecrats, which two splinters are most important to Republicans, and this division will survive elections.

A great realignment is being accomplished by the Presidential campaign of 1948, but it won't be apparent until later. This is not due to the brilliance of the campaign. Both candidates have proclaimed that they are "Liberal." President Truman has been telling the truth—rather irritatingly. Governor Dewey has been saying nothing—rather effectively.

Adolph A. Berle, Jr.

The public, little interested in personalities, is deeply concerned. It is worried about war or peace—but believes neither candidate or party can control that. It is concerned whether the government can and will move in on the daily problems of high cost of living, more housing, prevention of boom-bust unemployment, a greater measure of social security. Public opinion is learning that candidates and parties do not make political forces—they are made by political forces.

Great lines are being drawn in this election and I think they will dominate American politics for years to come.

The Republicans are made up, in the main, by the businessmen, the upper income groups, the banking, landholding and creditor interests in the country. These interests sincerely believe that the economic and social problems of the country should by met by uncontrolled prices, supply and demand interest rates, lower income taxes, a "favorable attitude" toward business—while the government keeps strictly out. In practice, this means a big business point of view. Small business is weak and divided, and consequently follows rather sheepishly the line taken by the big banks and big corporations. Actually, big business is often more "liberal" than small business.

Generally this group thinks the whole Roosevelt era was wrong and wants Calvin Coolidge back.

The forces gathering behind the Democratic and Liberal coalition are organized labor, the city populations, school teachers, the intellectual, the lower-paid white collar people, and the lower income brackets. These are the groups that are hurt most by inflation, and by housing shortages and in greatest danger should the inflation boom become a bust. They pay the price in money and misery for solution of the country's problems by blind economic force. As individuals, they are helpless, and must look to the government for protection. They want sane national planning. The forces behind the Republican Party want to leave things to nature.

Communists and Dixiecrats Pushed Out

The Democratic-Liberal point of view, strongly urged by President Truman, has pushed out of the Democratic-Liberal alliance two groups who once were in it: the pro-Communistic radicals who have collected around Mr. Wallace, and the reactionary Southern Democrats now become "Dixiecrafts." This is queer, but quite logical. The Dixiecrat has Republican ideas and has been a Democrat because of the historic Southern prejudice against Republicans. The Wallaceite group are anti-Truman primarily to punish him for opposing Russian aggression. Communists can and have done business with reactionaries. They have never been able to continue for long with liberals.

If the Republicans are elected, they will owe their success in large measure to these two splinters which, since they do not expect to win, really want chiefly to defeat Truman and the Liberal-Democratic point of view.

If Dewey is elected, he must govern with the party whose right-wing rests on Taber and Curly Brooks and Revercomb, and whose left-wing (if you can call it "left") will be men like Cabot Lodge and Ralph Flanders. After the honeymoon, Dewey is likely to have a rough time.

Truman, if elected, would have to govern with a party whose right-wing rests on men like Sam Rayburn and Alben Barkley, and whose left-wing is represented by Chester Bowles, Leon Henderson and the A.D.A.

This division will survive the election. It is the most important result of it. For four years the struggle will be between the people who want to let economic chips fall where they may no matter how many people are hurt—and the people who believe the economic system was made for human beings—not human beings for a business system.

There is really the same division in foreign affairs, though it is less apparent. The interests behind Governor Dewey largely see foreign affairs as a struggle against Communism. So any alliance, even with Franco, against Communism is justified. Democratic-Liberal groups see the foreign crisis as a struggle to bring into existence an organized community of free nations; and their opposition to Russia and to Franco rests on their knowledge that both oppose such a community. This distinction showed up when Republicans voted to cut the Marshall Plan and to put Franco into it, thinking only of defense, while Democratic-Liberals supported the plan as a means of rebuilding world prosperity, and excluded the Spanish Fascists from its operation.

*Excerpts from address by Mr. Berle at dinner-forum of the New School Associates on "The Coming Elections" held at the New School, New York City, Oct. 15, 1948.

Richard Weinberg With Joseph Faroll & Co.

Joseph Faroll & Co., 29 Broadway, New York City, announced that Richard D. Weinberg, former partner in Diamond, Turk & Co., has become associated with the firm as a registered representative. The company is a member of the New York Stock Exchange, New York Curb Exchange and other principal stock and commodity exchanges.

Ass'n of Exch. Firms Gets Slate for Offices

The Nominating Committee of the Association of Stock Exchange Firms announces its nominees for offices to be voted on at the annual meeting and election of the Association of Stock Exchange Firms to be held on Monday, Nov. 15, as follows:

For Board of Governors

To Serve Three Years—Eugene M. Geddes, Clark, Dodge & Co., New York City; Arthur R. Mejia, Davies & Mejia, San Francisco, Cal.; James P. Nolan, Folger, Nolan & Co., Washington, D. C.; Walter S. Robertson, Scott & Stringfellow, Richmond, Va.

Serve Two Years—Phelps Witter, Dean Witter & Co., Los Angeles, Cal.

Renominated to Serve Three Years—Harold L. Bache, Bache & Co., New York City; F. Dewey Eberett, Hornblower & Weeks, New York City; Joseph M. Scribner, Singer, Deane & Scribner, Pittsburgh; Laurence P. Smith, Bennett, Smith & Co., Detroit; Walter W. Stokes, Jr., Stokes, Hoyt & Co., New York City; Gardner D. Stout, Domnick & Domnick, New York City; C. Newbold Taylor, W. H. Newbold's Son & Co., Philadelphia.

Nominating Committee Chosen for 1949 was: Amyas Ames, Kidder, Peabody & Co., New York City; Wymond Cabell, Branch, Cabell & Co., Richmond, Va.; Walter W. Cruttenden, Cruttenden & Co., Chicago; Thomas J. Hickey, Vilas & Hickey, New York City; J. Gould Remick, Stillman, Maynard & Co., New York City.

The retiring Governors, who were ineligible for reelection, are: Wymond Cabell, Branch, Cabell & Co., Richmond, Va.; Richard P. Dunn, Auchincloss, Parker & Redpath, Washington, D. C.; J. Lewis Gabel, Bogardus, Frost & Banning, Los Angeles, Cal.; Winthrop H. Smith, Merrill Lynch, Pierce, Fenner & Beane, New York City; John Witter, Dean Witter & Co., San Francisco, Cal.

Two With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CAL.—Ollie L. Castleberry and Harold F. Gibbons are now with Herrick, Waddell & Reed, Inc., 8943 Wilshire Boulevard.

Lester & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Robert W. Hamilton has been added to the staff of Lester & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange.

War With Russia?

By ROGER W. BABSON

Mr. Babson holds early war with Russia is not likely because: (1) Stalin is merely following harassing tactics; (2) if he wanted war he would be professing amity and launch a surprise attack; and (3) Russia is handicapped by her winter climate. Says there may be no war in 1949 unless we start it.

The Russia of Nicholas II and its police knew Joseph Stalin as a violent totally uninhibited revolutionary—a saboteur, jail-breaker, bank robber, and killer of policemen. He led a life of habitual duplicity, although pretending to be a law-abiding citizen. He justified his actions by regarding them as sanctioned by Marxist principles and intended to lift the masses of the people.

Roger Babson

We should not defend Czardom nor debate the right of any man to become revolutionary under such circumstances. I do think it is important, however, that we keep in mind that a revolutionist, although now in the position of dictator, will never react or respond in a manner to which we are accustomed. The ex-bandit and ex-outlaw is not going to become a frank and honest law-abiding citizen merely because he is absolute dictator of his country.

Three Reasons for No War Now

(1) When forecasting the possibility of World War III we must decide how to interpret Stalin's current activities and should give proper weight to this gangster-like character of his party. In my opinion, the guerrilla and harassing tactics of the Stalinites in Berlin and elsewhere betray fear and a sense of military inferiority. They want certain political, territorial, and economic gains, but they don't dare start an all-out war for them. Hence, they pursue harassing tactics, like a dog nipping at a wildcat, but never intending really to close in, and always ready to back away when the cat turns in reprisal. This is the method by which they forged ahead during their early struggling days. It is logical to believe they will want to continue to follow this method now rather than fight.

(2) It seems logical that if Stalin were expecting to go to war with us, he would protest amity. In his preparations for war, first priority would be given to the building up of an atmosphere of apparent good will with the enemy eventually to be surprised with a sudden furious assault. This he is not doing. Hence, we have a second reason for not expecting World War III now.

(3) Russia, on account of her climate would be handicapped greatly by war in winter, especially without being reinforced by trucks from the U. S. A., ordnance from England and other necessary equipment of Anglo-Saxon manufacture. This is my third reason for being optimistic for the present.

No War — Unless We Start It?

Months ago I formally predicted no war in 1948. I am now coming to the viewpoint that there may be no war in 1949 unless we start it. Stalin will affront us again and again; he will tread on our toes, and try to push us around, but will he at this time expose himself to a war he knows that he can't win? Vivid in his mind is the memory that the Germans, with half the population, defeated him thoroughly until we stopped them.

It was our support that rescued Russia from complete annihilation by the Nazis. How much weaker would that industrially backward country be today if pitted against all of Western Europe and America? I fear the time may come when our people will cease to ask—will Russia start a war with us? Instead they may ask—should not we start the war?

When Stalin Gets the Bomb

The Stalin Government is showing itself unwilling to live amicably within the United Nations. Should the United Nations tolerate a bandit-like absolute dictator whose tactics oblige the other nations to constantly pay greater taxes to meet the cost of bigger military establishments and extravagant foreign aid?

The atomic experts tell us that the Soviets will be able to produce atomic weapons by the middle 1950's. Contemplation of the possibilities that will exist if Stalin stays in power until then (he is 69) is appalling. Yet I insist that there will be no war this year. We will discuss next year (1949) in December or January.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government bond market remains under a moderate amount of pressure, with both the eligibles and tap issues still finding their way into Federal. . . . Banks and non-bank holders of Treasury obligations continue to sell, with the proceeds going into shorts or other investments. . . . The deposit institutions are disposing of the 2s in fairly sizable amounts with non-bank investors letting out the 2¼s of 1959-62 and the longer tap issues. . . . Although it is indicated that sales of the ineligibles are being made in order to make way for other securities, there has been considerable buying of shorts, particularly the 1⅜% notes, according to reports. . . .

The longest eligible issue and the longer partially-exempts gave ground on light offerings, because the deposit institutions kept to the sidelines aside from the shortest maturities. . . . There is nonetheless an interest in the market for the 2¾% due 1960-65, but apparently there is no inclination to show one's hand this time. . . . The 2¼s due 1956-59 have been moving back into the smaller banks that oversold their positions. . . .

INDECISION

Operations in the money markets continue to be largely on a waiting basis, because there is so little that can be predicted at this time. . . . There is uncertainty over support prices, interest rates and reserve requirements with prospects not too promising that these fears will be cleared up immediately. . . . Opinions seem to be rather prevalent that the monetary authorities themselves do not have the answers, because they too are playing the waiting game knowing that the time element is an item of great importance. . . .

Probably the dominant factor in the future course of events and one which will have a marked influence upon the policy of the powers that be, will be the size of expenditures for military purposes. . . . There seems to be little agreement as to whether one can expect no changes or substantial upward revisions in appropriations for defense purposes. . . . Until there is tangible evidence as to what is likely to take place in spending for military purposes, the forecasting of the future of the inflation trend and the action of the money marks is, to say the least, a hazardous business. . . .

INEVITABLE

The monetary authorities are committed to a definite program of maintaining an orderly government bond market which means protecting prices and at the same time keeping pressure on the money markets by increasing interest rates and raising reserve requirements of the banks. . . . The credit limiting policy as far as its effectiveness is concerned, is largely of the psychological variety. . . . This naturally brings up the question whether a program that accomplishes very little, if anything, will be continued in the future. . . . This is the jackpot question, but it is so wrapped up with politics, the budget, international and domestic affairs, inflation and future economic trends, that no ready answer is forthcoming. . . .

One point, however, seems to be definite, the money markets will continue to be managed and the course that will be followed by the monetary authorities will be determined through clarification of many, if not all, of the aforementioned factors. . . . Until there is more certainty in the whole picture one way or the other, no startling developments are looked for. . . .

THE "ECCLES" RESERVE PLAN

Recent increases in reserve requirements and the prospects of a further upping of them in the future are resulting in discussions about the so-called "Eccles Plan" and whether this idea or a modified form of it, might not be welcomed now by the member banks. . . . When the former Chairman of the Federal Reserve Board came out with the scheme to allow the deposit banks to put up short-term governments against larger reserve requirements and still get the income on the securities immobilized by the increased reserves, it was not received very kindly, to put it mildly. . . .

However, as a result of this Plan a great shift in security holdings of the member banks got under way with the trend from longs into shorts. . . . Then the authorities asked for and received the additional power to increase reserve requirements, which have been used in part by the money managers. . . . In order to meet the increased requirements the member banks had to sell governments, largely shorts, but in so doing, the deposit banks lost the income on the securities disposed of. . . . Under the "Eccles Plan" earnings would still have accrued on the obligations tied up under larger reserve requirements. . . .

NOT ALL PESSIMISTIC

Although there is no shortage of bearishness in the government market, some of the more astute followers of the money markets are not so sure now that all the drastic things predicted are going to happen. . . . Despite the cautious attitude and uncertainty that are so noticeable at this time, there is the feeling that unless the economy is thrown completely out of gear by larger military expenditures, there is going to be a good buying opportunity in the government bond market one of these days. . . .

Therefore, there is an inclination to modify somewhat the extremely bearish attitude that has been so pronounced among some, because they believe it might have an adverse influence upon their actions, when, as and if a change does come in the government market.

Britain and Convertibility

By PAUL EINZIG

Commenting on reports pressure was brought to bear by U. S. on Sir Stafford Cripps to restore sterling convertibility, Dr. Einzig gives reasons why Britain is unable to follow this policy. Stresses strain of adverse balance of payments and creditor position on Britain's finances.

LONDON, ENG.—Washington reports about the revival of the controversy over the convertibility of sterling on the occasion of the recent visit of Sir Stafford Cripps caused much concern in Britain. Official circles and expert opinion over here were gravely perturbed by what was considered to be a lack of understanding in the United States of the extent of Britain's difficulties. The pressure brought to bear on Sir Stafford Cripps to agree to the convertibility of sterling for the purpose of Western European trade was regarded as an indication that official circles in Washington have no idea about the magnitude of Britain's balance of payments problem.

Dr. Paul Einzig

There seems to be a widespread impression in the United States that Britain is not willing to pull her full weight in the plan of European reconstruction with the aid of the Marshall Plan. For centuries Britain was looked upon as a source of financial and economic aid to Continental countries. It is no wonder, therefore, that many people on both sides of the Atlantic now find it difficult to realize that she is now entirely incapable of fulfilling that role. A country with a strongly adverse trade balance such as that of Britain, and without adequate assets to meet the adverse balance, is not in a position to assist others. Since the end of the war, Britain has nevertheless contributed, in one form or another, some $2,000,000,000 towards the assistance of Continental Europe. This sum may appear small in comparison with the contribution made by the United States. The difference is that the United States gave what she possessed while Britain gave what she did not possess. Every cent granted to the Continent had to be reborrowed from overseas. This was done in spite of the fact that Britain emerged from the war as the largest international debtor nation for all time.

It is often argued that many Continental countries are even in a worse condition than Britain, so that Britain may be reasonably expected to assist them, notwithstanding her own difficulties. From the point of view of the balance of payments, however, there is hardly a country which is in a worse position than Britain. France, for instance, is in a much better position to work out her own salvation owing to the fact that her industry and agriculture are reasonably well balanced, and to a large degree she could be therefore self-supporting.

In the circumstances, the demand that Britain should make further sacrifice in order to assist the Continent is not regarded here as justified or reasonable. For this reason the Government has the backing of the British public opinion in refusing to comply with the demand, made in Paris and endorsed in Washington, that the sterling allocated to Western European countries under the Marshall Plan should be expendable, not only in Britain and in the Sterling Area, but in any Western European country. It is feared that such an arrangement would result in considerable loss of gold; and Britain can ill afford to lose more gold at the present moment. The fact that, in all probability, the gold would have to be relinquished for the benefit of Belgium, a country which is in a far better position than Britain, tend to accentuate the resentment felt over the effort to induce Britain to accept the proposed arrangement.

According to Washington reports, Sir Stafford Cripps was pressed to agree to the proposal on the ground of Britain's undertaking given in the Convertibility Clause of the American Loan Agreement. Yet in 1947, when the short-lived convertibility of sterling was suspended, it was claimed in statements expressing the views of official American sources that the United States Government did not insist on convertibility and that it was Mr. Dalton himself who decided to adopt it of his own free choice, even though he was aware that the United States Government would willingly agree to a postponement of this action. Considering that Britain's position deteriorated considerably since the spring of 1947, it seems difficult to see why convertibility should be insisted upon now if it was not insisted upon 18 months ago.

It is true the degree of convertibility that would be established under the proposed arrangement would be limited in comparison with the degree restored by Mr. Dalton in July, 1947. But the resources which are now available for the requirements of this limited convertibility are incomparably smaller than those which were at Britain's disposal in 1947. In the meantime, the whole of the proceeds of the American Loan have been used up. The gold reserve has become materially reduced. Many available foreign investments have been sold and Britain has drawn heavily on her dollar facilities with the International Monetary Fund.

It is true the maximum possible loss of gold that might arise from the adoption of the proposed arrangement would be a mere fraction of Britain's benefit under the Marshall Plan. But that benefit has already been materially reduced by Britain's undertaking to assist Western Europe to the extent of some $500,000,000 during the first year of the application of the Marshall Plan. When the Bilateral Pact determining Britain's obligation under the Marshall Plan was submitted to Parliament approval, it was not known that such a large proportion of the benefits arising from that Plan would have to be relinquished, otherwise opposition to assuming the liabilities contained in the Bilateral Pact would have been much stronger. Under the terms already accepted in Paris, Britain is to contribute the $500,000,000 in the form of unrequited exports. Under the proposed arrangement part of that amount would have to be contributed in the form of gold, Britain would have to finance not only her own export surplus to Western Europe but also that of other European countries.

The restoration of the convertibility of sterling is the Government's declared aim in the long run. The present moment is considered, however, entirely inopportune for convertibility no matter how limited its scope would be. Any such action would only defer the day when a higher degree of convertibility could be restored because it would further weaken Britain's gold reserve.

The Federal Finances

(Continued from page 6)

government than his own personal holdings in government bonds.

Most of us have insurance policies, checking accounts, savings accounts, or some other evidence that we have invested a part of our funds in some financial institution. These institutions must, in turn, keep this money invested. And all of them—the banks, the insurance companies, the savings and loan associations, and others—have today a far larger proportion of their own funds invested in government securities than they had before the war.

For example, more than half of the investments of commercial banks are, at the present time, invested in Federal securities. This is about half again as large as the general proportion eight or ten years ago. The same is true for all other large organizations with substantial funds to invest.

As a result, every one of you is personally affected by the government's fiscal policy.

Debt Management

Let me touch briefly here on the Treasury's debt management policies since the total outstanding obligations of the government reached their peak in February, 1946. It will interest you, as citizens and as investors in your government, to look behind the scenes for a moment to see how we went about cutting down the amount owed by the government as soon as the tapering off of war costs made it possible.

First, however, let me call to your attention the wartime policy of keeping interest rates on government obligations low. As compared with rates during World War I, this is benefitting taxpayers to the extent of $5 billion a year at the present time.

But I started out to talk about debt reduction. The sharp decline in military and related expenditures, coupled with the smooth and rapid reconversion from wartime to peacetime activities throughout the country, meant that government revenues remained high in relation to Federal expenditures.

Consequently, in 1946, the Treasury was able to apply to repayment of the public debt much of the large cash balance with which it ended the calendar year 1945. This, plus the application of the government surplus, has cut the debt by more than $27 billion, an achievement which is of benefit to us all. It is an achievement made possible by the prosperity which has been maintained in this country since the war.

At this present time, however, the government has less money coming in than it must pay out. There is no mystery about the causes of this condition. We face increased expenditures for defense and for foreign aid, brought about by the tense international situation. But in the face of this situation, and with incomes higher than at any time in our history—incomes which are competing for more goods than even this great country can produce under conditions of full employment—the Congress saw fit to reduce taxes. I do not personally believe that such an approach will help to solve our domestic economic problems. For the government's estimated operating deficit of $1½ billion which will result, contrasts with an operating surplus of $8½ billion last year, which was applied to reduce the debt.

It goes without saying that we cannot hold back on national defense at a time when the international outlook is as grim as it is now.

And, today we cannot afford to withhold proper foreign aid. We have made loans to China, Turkey and Greece. We have given aid to England, France, Italy and other western European countries under the Interim-Aid and the Economic Recovery Programs. Our experience up to now has been that these expenditures are sound policy. We are succeeding in our objectives of promoting recovery and stemming the inroads of communism.

Giving full recognition to all of these obligations and problems, I want to again remind you that you Legionnaires and the wage earners and investors of this nation must remain constantly alive to the fiscal policy of your government. The government's credit must be kept above question. We must strive for a proper balance between over expansion and excessive contraction of credit. We must maintain the stability and soundness of our currency, make proper payments on our debt, and assure an equitable distribution of the tax load. Never lose sight of the fact that your economic future is definitely tied in with the financing of your government.

The Asset Side

I have talked at some length about your stake in Federal finance on the liability side. Before I close I would like to emphasize that every American has a very great stake, too, on the assets side of the current situation in this country.

Our defense lies not only in the money which we spend on planes and guns, on military training, on aid to the democracies abroad, important as these expenditures are. And, it is not wholly the size of our Army, our Navy, our Air Force which will determine our defense capacities.

For our defense lies also in the vast wealth of this country and the standards of living which we, as American citizens, enjoy. In our wealth and our prosperity, all of us have a share. It is a share not only in America's present, but in her boundless future.

Our current high business activity is not a false boom propped up by widespread commodity speculation as in 1920, nor by nationwide stock speculation as in 1929. It is solid and substantial, based on actual needs for the things that people use in their homes, for the homes themselves, for factory and farm machinery, for schools and for highways.

This is our strength, and our great bulwark against threatened aggression. We can be proud of our prosperity today. We have fought for it. We have worked to maintain it under all conditions. I am sure that each one of us will continue to use all the means at his command to further the well-being of our country and of our citizens.

The crisis of our day is fundamentally a struggle between the basic elements of a democratic order and a non-democratic order. This nation, because of our determined principles of free society, is at the forefront of this struggle.

Crises are not welcome. They require the making of a decision—an adjustment, individually and nationally. To be properly met, they require a realistic approach, a knowledge of facts, an ability to analyze the consequence, courage to do that which reason indicates ought to be done, and the tenacity of purpose to follow through.

The United States looks today to such organizations as our American Legion to assume their proper leadership in this battle with courage, fortitude and zeal. We know that so long as your own, and similar organizations, continue to provide resolute leadership in your community, in your state, and throughout the nation in carrying the heavy responsibilities which we face today, the future course of this nation is secure and positive.

World Bank Plans New Bond Issue

John J. McCloy, its President, says present loanable funds may be exhausted by mid-1949. Reveals Britain may seek loans.

In a press interview in Washington on Oct. 18, John J. McCloy, President of the International Bank for Reconstruction and Development, revealed that "if business keeps up at the present rate it might be necessary for the bank to go to the market in the next six or eight months. He stated that "it looks as though we never had so much business near the front of the stove." During 1947 the Bank marketed $250 million in two separate bond issues.

John J. McCloy

As only 20% of the Bank's $8,336,000,000 was contributed by its 47 member countries, and as the Bank must retain a cash reserve of $250 million, Mr. McCloy stated that because "it looks as though the next six months will be very busy" and the Bank has on hand only $288 million, it is probable that additional funds will be needed during next year.

Mr. McCloy also disclosed that he had talks with Sir Stafford Cripps, Britain's Chancellor of the Exchequer, regarding the possibility of a loan to Britain by the Bank. There were also talks with the British Colonial office regarding financing developments in British Africa. These matters are still under consideration.

With First Trust of Lincoln

LINCOLN, NEB.—Marilyn J. Brundige is with First Trust Co. of Lincoln, 10th & O Streets.

James Gerahty Elected

James D. Gerahty, a director of Dumont Electric Corp. of New York, has been elected a Vice-President, the company announced. Mr. Gerahty is Vice-President of First Colony Corp., New York investment bankers, and a director of Metal Forming Corp. and Hungerford Plastics Corp.

Hendrickson to Admit

Joseph A. McGarry on Nov. 1 will be admitted to partnership in Hendrickson & Co., 115 Broadway, New York City, members of the New York Stock Exchange. On Oct. 31 Edward Tworger and Archibald J. Proctor will retire from the firm.

Dreyfus Adds Krein

Dreyfus & Co., 50 Broadway, New York City, members of the New York Stock and Curb Exchanges, announce that Bromley Krein is now associated with them as a customers' broker.

Needham & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

PALO ALTO, CALIF.—E. R. Hanna has been added to the staff of Needham & Co., 470 Ramona Street, members of the San Francisco Stock Exchange.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At a regular meeting of the Board of Directors of **The National City Bank of New York** held Oct. 19, Alexander B. Dewar and Loren A. Erickson were appointed Assistant Vice-Presidents.

* * *

Walter W. Friend and Dr. Marcus C. Hankinson have been elected First and Second Vice-Presidents, respectively, of the **City Savings Bank of Brooklyn, N. Y.**, it was announced on Oct. 15, the Brooklyn "Eagle" reports. Mr. Friend, who is the bank's attorney, suceeds the late Ralph E. Dayton. Dr. Hankinson, a dentist, is President of the Brooklyn Association for Improving the Conditions of the Poor.

* * *

Corbett McCarthy, a former Vice-President of the **Dime Savings Bank of Williamsburgh, Brooklyn, N. Y.**, died on Oct. 14 at his home in Newark, N. J. He was 78 years of age. Special Newark advices Oct. 16 to the Brooklyn "Eagle" said in part:

"Mr. McCarthy was born in Milford, Conn. He joined James McCreery & Co. and later became Manager of its New York store.

"For five years he was General Manager of H. Batterman & Co. in Brooklyn. From 1918 to 1925 he was Vice-President of the Hahne & Co. department store here. In 1938 he became Vice-President of the Dime Savings Bank, after serving as a trustee for many years. He held this post until 1948."

* * *

The Bayside National Bank of Bayside, Queens Borough, N. Y., will hold an "open house" on Oct. 23, to mark the occasion of the opening of its Union Turnpike office at 186th Street and Union Turnpike. This new office is provided with "drive-in" facilities, and J. Wilson Dayton, President, announces that the bank will present a $25 U. S. Savings Bond to the drivers of the four oldest cars, bearing New York license plates, using the drive-in on the opening day between 11 a.m. and 3 p.m.

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A reduction of $300,000 has been made in the amount of "preferred stock A" of the **Baldwin National Bank & Trust Company of Baldwin, Long Island, N. Y.**, lowering it from $400,000 to $100,000, it was indicated in Oct. 11 weekly "Bulletin" of the Comptroller of the Currency. At the same time the designation of the issue is now "preferred stock."

* * *

The New York State Banking Department made known on Oct. 6 its approval of a certificate providing for an increase in the capital stock of the **Citizens Bank of Monroe, at Monroe, N. Y.**, from $100,000, consisting of 500 shares of preferred stock of the par value of $50 each and 750 shares of common stock of the par value of $100 each, to $112,500, consisting of 250 shares of preferred stock of the par value of $50 each and 1,000 shares of common stock of the par value of $100 each.

* * *

The election of Frederick W. Stolz as Assistant Treasurer of the **City and County Savings Bank of Albany, N. Y.**, at a meeting of the trustees on Oct. 11 was reported in the Albany "Times-Union" of Oct. 12, which states that Mr. Stolz has been associated with the bank for 18 years. He was in the service of the Navy between 1942 and 1945, returning to become Mortgage Officer.

* * *

The consolidation of **The National Rockland Bank of Boston** and the **Webster and Atlas National Bank of Boston, Mass.**, under the name of **Rockland-Atlas National Bank of Boston**, was approved without a dissenting vote by the stockholders of both banks at special meetings. Approval was subsequently received from the Comptroller of the Currency and the consolidation became effective as of the close of business Oct. 15. H. Frederick Hagemann, Jr., formerly President of The National Rockland Bank, is President and the executive head of the consolidated bank, Edward Motley, formerly President of the Webster and Atlas National Bank, is Chairman of the board and Roger Amory is Honorary Chairman. The main office of the consolidated bank is located at 30 Congress Street, Boston, and other offices will be maintained at 199 Washington Street, Boston, and 2343 Washington Street, Roxbury. The plans for the consolidation were noted in our Sept. 16 issue, page 22.

* * *

At a meeting of the board of directors of the **State Street Trust Company of Boston** held Oct. 18, Ralph F. Burkard, Treasurer and Member of Executive Committee of First National Stores, Inc., was elected to the board. Mr. Burkard is a trustee of the Charlestown Five Cents Savings Bank and of the Symmes Hospital (Arlington, Mass.), and a director of the Power Condenser and Electronics Corp.

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Following a meeting of the board of directors of the **Trenton Banking Company of Trenton, N. J.**, C. S. Green, President, announced on Oct. 13 the election of Sydney G. Stevens as Executive Vice-President of the Bank effective Nov. 1. After receiving a B.S. degree from Princeton University, where he was a Phi Beta Kappa student in the class of 1930, Mr. Stevens joined the General Development Co., New York. In 1933 he became associated with the Trust Department of the Commercial National Bank of New York, and in 1937 he was elected an Assistant Trust Officer and in June, 1946, a Trust Officer. On Oct. 31, 1946, he was appointed an Assistant Vice-President in the Trust Department of the **Bank of the Manhattan Company**, 40 Wall Street, **New York City**, where he is presently employed. During World War II, Mr. Stevens served in the Finance Division of the U. S. Army. He left the service with the rank of Major.

Sydney G. Stevens

* * *

Harry C. Knoop, Vice-President, in charge of the Mercantile office, Newark Avenue, of the **Commercial Trust Company of Jersey City, N. J.**, was injured fatally on Oct. 11 when run down by an automobile. At his death, Mr. Knoop was 60 years of age. Jersey City advices to the Newark "News" of Oct. 12 stated:

"Mr. Knoop, who was born here, has been identified with banking here for many years. His first job was with the former Mercantile Trust Co., and he was Assistant Treasurer when that bank merged with Commercial Trust in 1928. In 1932 he was made Vice-President and assigned to the Newark Avenue branch."

* * *

Howard C. Steele, former Comptroller of the **Girard Trust Co. of Philadelphia** for 28 years, died on Oct. 14. According to the Philadelphia "Evening Bulletin," Mr. Steele was a Past President of the National Association of Bank Auditors and Controllers, a charter member and one of the first Presidents of the Philadelphia chapter of the organization.

* * *

Callender Suplee Smyth, retired Vice-President of the **Germantown Trust Co. of Philadelphia**, died on Oct. 15. He was 69 years old. Noting Mr. Smyth's death, the Philadelphia "Evening Bulletin" said:

"He became Assistant Trust Officer of the Germantown Trust Co. in 1910, serving in this capacity until 1925 when he was made Trust Officer. A year later he was made Vice-President in charge of trusts and held this post until his retirement in 1944. Since Mr. Smyth's retirement, the Germantown Trust Co. has merged with the Pennsylvania Co. for Banking and Trusts."

* * *

Plans whereby the **Citizens National Bank of Washington, Pa.** (with resources, it is stated, of over $32,000,000) will become the Washington office of the **Mellon National Bank and Trust Co. of Pittsburgh**, subject to the approval of the stockholders of the Citizens National late in November, were made known on Oct. 14. It is learned from the Pittsburgh "Post Gazette" that Richard K. Mellon, Chairman of the Mellon Bank, and Albert J. Allison, President of the Washington bank, announced on Oct. 13 that the Burgettstown and Claysville branches will become Mellon offices also. Ernest M. Furbee of the Citizens National will serve as Vice-President and Manager of the Washington and Claysville office. John M. Scott will manage the Burgettstown office.

It is also stated that as a member of the Mellbank Corporation, the Citizens National has been closely associated with the Mellon banking interests for a number of years.

* * *

Through a stock dividend of $25,000, the **Dakota National Bank of Fargo, N. D.**, was increased effective Oct. 6, from $175,000 to $200,000, the Office of the Comptroller of the Currency reports.

* * *

Appointment of James Muir as Vice-President of **The Royal Bank of Canada**, head office Toronto, was announced on Oct. 19. Mr. Muir has been General Manager of the bank since 1945 and will continue to serve in that capacity. His appointment as Vice-President follows some 36 years of service with the bank. He became Assistant General Manager in 1935 and General Manager 10 years later. Mr. Muir was made a Director of the bank in 1947.

James Muir

* * *

A charter was issued on Sept. 30 for the **American National Bank and Trust Company of Chattanooga, Tenn.**, with a capital of $1,500,000. This represents a conversion to the National System of the **American Trust and Banking Company of Chattanooga**, the change having become effective on Oct. 1, according to the Oct. 4 Bulletin issued by the Office of the Comptroller of the Currency.

* * *

James Sartor was elected on Oct. 13 to the newly created office of First Vice-President of the **Citizens & Southern National Bank of Atlanta, Ga.**, said the Atlanta "Constitution" of Oct. 14, which also in part said:

"Mr. Sartor comes here from Augusta, where he is Executive Vice-President of the Citizens and Southern there. He is slated to assume his new duties Dec. 1, and will work directly with Mills B. Lane, Jr., in the administrative direction of the bank in its six-city operation. Mr. Sartor will be succeeded in Augusta by Pierce E. Blitch, formerly President of the Citizens and Southern Bank at LaGrange."

* * *

The election as Vice-President of the **First National Bank in Dallas, Texas**, of Marshall S. Cloyd, who was recently appointed advertising and public relations director of the bank, has been announced by E. L. Flippen, President. Mr. Cloyd joined the First National in November, 1947, said the Daily "Times Herald" of Dallas on Oct. 14. From the same paper we quote:

"Saxon S. Snow of the new business department of the bank was named Assistant Vice-President in that department. Mr. Snow has been with the First National Bank since 1924. Also elected Assistant Vice-President was Farris Campbell, Jr. Mr. Campbell came to Dallas in 1940 and was in the credit department of a local bank until 1945. He returned to Dallas this summer after serving in the Army of Occupation in Germany since 1946. Eugene H. Sprague was elected Assistant Cashier. Mr. Sprague has been with the bank since August, 1929."

* * *

Twenty-five years of service with **California Bank of Los Angeles** were completed this month by C. B. Aikens, Assistant Secretary; Homer E. Geis, Assistant Vice-President; Roy A. Pearce, Assistant Cashier; and Clarence St. John of the bank's Federal Office. C. J. Fuglaar, Treasurer of **California Trust Company**, affiliate of California Bank, also observed his 25th year of service this month.

Del Monaco Pres. of Rochester Bond Club

ROCHESTER, N. Y.—Ben Del Monaco, Genesee Valley Securities Co., Inc., was elected President of the Rochester Bond Club at the annual meeting at the Crescent Beach Hotel. Other officers elected were: Charles J. Grate, Geo. D. B. Bonbright & Co., Vice-President; Newton O. Tassell, Genesee Valley Securities Co., Inc., Secretary and Treasurer; Charles Hopkins, Little & Hopkins, Inc.; Ray Small, Lee Higginson Corp., and Leonard D. Booth, Geo. D. B. Bonbright & Co., Directors.

Cowin With Ira Haupt As New Dept. Head

Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange, announce that Daniel Cowin is now associated with them and has been placed in charge of their new department specializing in investment trust shares.

Godfrey Bligh on Trip

Godfrey Bligh, President of R. M. Smythe & Co., Inc., 79 Wall Street, New York City, is combining a business and pleasure trip through the South. He will be at Homestead Hotel, Hot Springs, Va., for several weeks.

John L. Shea Dead

John L. Shea, proprietor of Shea & Company, Boston investment firm, died on Oct. 8.

Halsey Stuart Offers Interstate Pwr. Bonds

Halsey, Stuart & Co. Inc. publicly offered Oct. 15, $5,000,000 Interstate Power Co. first mortgage bonds, 4½% series due July 1, 1978, at 103% and accrued interest. The firm was awarded the bonds at competitive sales on its bid of 100 on Oct. 13. This was the only bid received.

The new bonds will be redeemable at prices ranging from 106% to 100% and at special redemption prices scaled from 103⅜% to 100%.

Net proceeds will be used to prepay $2,400,000 collateral promissory notes payable to two banks; to pay in full the balance due (approximately $724,446 on June 30, 1948) on the lease and purchase agreements representing cost of equipment for the new Lansing steam generating plant; and to pay for the cost of other additions, extensions and improvements to company properties.

The company is primarily an operating public utility company, but is also a registered public utility holding company by reason of its ownership of all of the outstanding securities, including all of the shares of voting stock of Interstate Power Co. of Wisconsin and East Dubuque Electric Co. Its principal business is the generation, purchase, transmission, sale and distribution of electricity. It owns property in portions of 21 counties in the northern and northeastern part of Iowa, in portions of 28 counties in the southern part of Minnesota and in a portion of one county in South Dakota. It is also engaged in the manufacture, sale and distribution of gas in the City of Clinton, Iowa; in the sale and distribution of natural gas in the City of Albert Lea, Minn.; in the operation of buses in the City of Dubuque, Iowa; and in the furnishing of steam heating service in the City of Albert Lea, Minn.

Its subsidiary, Interstate Power Co. of Wisconsin, is engaged as a public utility in the generation, purchase, transmission, sale and distribution of electricity in three counties in the extreme southwestern part of Wisconsin. It is integrated with and is an integral part of the company's system: East Dubuque Electric Co., another subsidiary, is engaged as a public utility in the purchase, transmission, sale and distribution of electricity in and around the City of East Dubuque, Ill., and in the operation of buses in said city.

Nat'l City Bank Re-Opens Yokohama Branch

The National City Bank of New York announces the reopening of its branch in the City of Yokohama, Japan. This branch is the 51st unit in National City's overseas system and the third branch to be reestablished in Japan.

The Yokohama branch is one of the oldest in National City's foreign network, having been opened in 1902, and afforded continuous banking service in that center until October, 1941.

Thomas P. Davis, in charge of the Yokohama unit, has had many years' experience in National City's branches in Japan. The branch will have the benefit of the experience and business contacts of the many former employees who have returned to the bank.

Yokohama, one of the leading Japanese cities and ports, is the headquarters of the U. S. 8th Army. The bank will offer a complete export-import banking service in Yokohama.

In addition to the Yokohama unit, National City has branches in Tokyo and Osaka, Japan.

Railroad Securities

Lehigh Valley Railroad Company

Hearings on the company's reorganization plan have been completed and briefs filed. ICC approval is expected either late in November or by mid-December. Following the expected approval (under the Mahaffie Act, there is no longer need of any Court review which in effect gives full jurisdiction of all reorganizations to the ICC) consummation must await approval of 75% of each class of security holders. Doubtless a period of six to nine months will be necessary to obtain such approval.

Lehigh Valley officials have stated that response to their proposed plan has been encouraging, only $200,000 of a total of $135 million voicing objection. However, in a letter to the "Wall Street Journal," exception to this statement was taken by representatives of holders of some $3 million of bonds. Should these be the maximum number of objections, they would be relatively small as compared with $135 million of bonds outstanding.

The new plan as finally evolved would extend the maturity of all senior bonds 20 years or more, provide for a maturity date and call provision on $12.6 million of hitherto perpetuals, possessing a first lien on the heart of the System, reduce fixed charges some 50%, and place $71 million junior bonds on a 25% fixed and 75% contingent basis. In return for their sacrifice, junior bondholders are to receive four shares of new common, equivalent to 20% of the total new stock to be outstanding. Contingent interest would be cumulative for three years, and two sinking funds would be set up, a prior lien sinking fund for $200,000 annually and a general sinking fund equal to 50% of net income.

Earnings since 1930 applied pro forma to the present proposed capitalization indicate a fixed charge coverage ranging from 0.78x in 1932 (1.34x for 1931-40 inclusive) to 3.23x for the peak war year of 1943 and overall coverage from 0.50x in 1932 (0.86x for 1931-40 inclusive) to 2.09x in 1943. Company failed to cover its overall charges in seven years, namely, 1931, 32, 33, 34, 34, 35, 37, 38 and for the same period no earnings were shown on the common. For the remaining years earnings ranged from $0.46 per share in 1939 to $4.75 in 1943. The year 1945 was ignored in formulating the above coverages and earnings, since the company reported an operating deficit for the first time since 1945, due primarily to causes which are non-recurring.

Company is offsetting rising costs through a policy of rapid dieselization and soliciting location of new factories on line. Among the new industries recently obtained were Kraft Cheese, General Motors and American Can, which is building a $10 million plant at Hillside, N. J.

Particularly hopeful are savings from the new diesels. At a cost of $9 million, the company has ordered seven 4,000 h.p. units for through passenger service and ten 6,000 h.p. units for freight service. Passenger service is now 92% dieselized and when the final 6,000 h.p. units are delivered, freight service will be 66% dieselized. The company is expected to increase its number of diesel switchers.

Economies from use of diesel power have exceeded expectation. They pay for themselves in about 3½ to 4 years. Savings from use of passenger diesels approximate $100,000 a month, and on helper service, costs of diesels total 1.21¢ per ton as compared with 4.35¢ for steamers.

For 1948, not giving effect to overall savings from dieselization, the company should gross $80 million and earn approximately $8.5 million available for charges equivalent to 2.04x fixed charges, 1.32x overall charges and $1.04 per share on the new stock. Barring an unexpected sharp turndown of business next year, results should greatly exceed those as presently estimated, possibly by as much as $1.5 million additional earnings.

Halsey Stuart Offers Illinois Central Equips.

Halsey, Stuart & Co. Inc. and associates on Oct. 14 were awarded $5,500,000 Illinois Central RR. 2¼% equipment trust certificates series AA, due $275,000 semi-annually April 1, 1949 to Oct. 1, 1958, inclusive. The certificates, issued under the Philadelphia plan, were immediately reoferred, subject to Interstate Commerce Commission authorization, at prices to yield from 1.50% to 2.50%, according to maturity. Associated in the offering were R. W. Pressprich & Co.; Otis & Co.; Freeman & Co.; The Illinois Co.; and McMaster Hutchinson & Co.

The certificates will be issued to provide for new standard-gauge railroad equipment, estimated to cost approximately $6,933,285, consisting of 1,500 50-ton hopper cars.

Babcock Director

Charles H. Babcock, partner in Reynolds & Co., New York City, was elected a director of the Safe Deposit and Trust Company.

Public Utility Securities

Public Service of Colorado

Public Service of Colorado, formerly controlled by Cities Service Power & Light Company, was distributed to the public in November, 1943, when 875,000 shares were offered at $25 per share. Despite rather stagnant conditions in Colorado gold and silver mining, the company has enjoyed an excellent growth record, particularly in the gas business. In the past decade electric revenues have increased about 60% and gas revenues 123%. The gain in gas revenues for the 12 months ended July 31, 1948, as compared with the calendar year 1946, was 53%, this being substantially due to an additional pipeline which gave the company an ample supply of natural gas. Denver is, in fact, one of the few large cities in the country which currently has a sufficient supply of gas to meet all demands. The gas department is adding customers at the annual rate of 20,000, including many who will use gas for house heating, and there is still considerable room for expansion in the latter field. Public Service also benefits by using gas for boiler fuel when other demands are slack.

Regarding the company's territory and growth, Lawrence C. Cooper, of Argus Research Corporation stated in a recent study: "The State of Colorado has not attracted attention as a sensational postwar growth area like the West Coast or parts of the South, but it may surprise some to realize that despite a relatively static statewide population, the 30% increase in this utility's revenues from Dec. 31, 1945 to June 30, 1948 exceeds the revenue expansion of Pacific Gas & Electric (21%), Houston Light & Power (23%), Central & South West (17%) and almost equals Southern California Edison's 33% gain. There is little heavy industry in Denver, so postwar conversion problems were small. However, the attractive climate has drawn many new families since the war and with sharply increased commercail activity the company has recorded excellent sales gains. Denver is primarily a center of transportation, trading, finance and general commercial activities for a widespread Rocky Mountain region and the city has relatively large government payrolls."

The company in June 1947 issued $7 million convertible 3% debentures. Instead of doing equity financing, it is now calling the issue, thus forcing conversion into common stock. Each debenture is convertible into 30 shares of common stock and the bonds sold as high as 118½ this year. Recently they have been around 110½ and since the call price is 103, all but a small fraction will undoubtedly be converted. The common stock has continued to sell around the 36-7 level recently (range this year 39⅝-32½) despite these conversions.

In order to finance its construction program, the company this week sold $10 million first mortgage bonds due 1978 and 66,000 shares of preferred stock. The preferred will be convertible (over a 10-year period) into common stock at 40. The company's 1948-51 construction program calls for the expenditure of $64 million, of which $9 million is being expended this year. Of the remaining $55 million, nearly $17 million will be provided through the new financing. This will leave $38 million to raise during 1949-51, of which over half will be obtained through net earnings in excess of dividends, depreciation, amortization, etc. The remaining $18 million will probably be obtained largely through bond issues.

Ultimate conversion of the new preferred stock will automatically improve the equity ratio. After the company emerged from a holding company system, the capital ratios for bonds, preferred and common were 66-8-26. On completion of conversion of the debentures in the near future the ratios will approximate 50-21-29, and after future conversion of the new preferred stock they would become 50-15-35. The management hopes to maintain a 50% debt ratio.

The company has been very conservative in its recent dividend policy. The rate remained at $1.65 during 1944-47 but was increased with the May 1 quarterly payment this year to a $2.20 rate. It appears likely that because of construction needs dividend payments will continue to be on the conservative side, although there would seem to be a fair possibility of an increase over the next year or so due to the anticipated growth of earnings.

Public Service share earnings on the common stock increased from $2.27 in 1944 to $4.73 in the 12 months ended June 30, 1948. For the calendar year 1948 it has been established that earnings may approach $4 a share on a pro forma basis, i.e., after allowance for the current dilution resulting from conversion of the bonds. On this basis the current dividend represents only a 55% pay-out. However, if the price of the stock should advance above the 40 price level, conversion of preferred might begin, resulting in some further dilution of earnings. Full conversion of the bonds means an increase of about 18% in the number of shares and full conversion of the preferred would mean an additional 15% increase. Assuming that immediate conversion of the preferred should occur, which of course is very unlikely, earnings for the calendar year might approximate $3.50 a share. On the basis of 70% pay-out (about average for electric utilities) this might mean an eventual dividend rate of $2.50 a share. Allowing for further growth and the benefits of newly invested capital, the picture might show improvement.

Colorado has a dual system of rate regulation, with some cities controlling rates in their areas while utilities in other districts are subject to statewide regulation. The company has five so-called home rule cities in its service area, including Denver (it obtains about three-quarters of its revenues in the Denver area). As an indication of the company's favorable public relations, the Denver franchise was renewed for 25 years in February, 1947 with a popular vote of 8½ to 1 in favor of the company. Recent votes in smaller cities have also been favorable.

While the rate of return on net plant plus working capital is rather high currently — about 7½%—the company wrote off some $15 million intangibles in 1947. In Colorado "fair value" is used in setting up a rate basis, and this includes reproduction cost as well as other factors. Hence the rate of return should be lower if earnings are related to "fair value."

The company has efficient service departments for both gas and electricity, and maintains educational programs for plumbers and fitters. Since the war it has refrained from competing with small appliance dealers, although it continues a promotional program. All these factors may help to explain its good public relations. The fact that use of electricity remains somewhat below the national average is attributed to the substantial use of natural gas for heavy appliances.

The Utility Industry Outlook

(Continued from page 16)

additional investment, with other factors remaining the same, the industry would need to adjust its over-all rates so as to produce only an additional net of $108,000,000. This, in terms of the present annual gross operating revenue of the industry, which is a little less than $4,000,000,000, would require an over-all rate increase of less than 4½%. Obviously, such a rate increase is insignificant in relationship to the corresponding increase of more than 70% which has occurred in the general cost of living.

Rate Adjustments

While many operating companies do not need any rate relief at the present time, those that have been earning a subnormal rate of return have been surprisingly successful in obtaining rate increases from regulatory authorities. Detroit Edison, California Electric Power, Atlantic City Electric, Potomac Electric Power, Central Maine Power Company, Brockton Edison, Virginia Electric & Power, and Cincinnati Gas & Electric Company are a few typical examples. This gives evidence that regulation is a two-way street and regulatory commissions, except possibly in very few cases, will undoubtedly cooperate with the industry to keep it on a sound basis, thereby enabling it to continue to finance and provide the facilities necessary to furnish the required service. It must be remembered, however, that a sizable segment of the electric industry still does not need any increase in the rates. In fact, generally speaking, the three types of companies which appear to require some rate relief, under existing conditions, may be classified as follows: (1) Those with extremely thin customer densities and rather large investment in relation to revenue; (2) Those where subnormal water conditions on hydro plants have necessitated the production or purchase of huge amounts of high cost power or its generation in inefficient fuel burning stations; and (3) Those companies where commission regulation in the past has been so strict as to limit the rate of return to a minimum leaving little or no room for adverse fluctuations.

From the regulatory standpoint indications, in our judgment, are most encouraging for the industry as a whole. While on the subject of regulation it may be of interest to observe that the utilities are a regulated industry and therefore have a definite ceiling on earnings. However, by the same token, there is a floor under such earnings and this fact should not be overlooked by the investor who likes to feel assured of continuity of return on his investment and adequate protection for his principal.

It may be well to examine at this point the effect of the possible economic recession on the earnings of the electric industry. In view of the fact that it takes considerable time to complete new power plant capacity, a large part of the expenditures of the utilities during the past 12 or 18 months is still tied up in uncompleted power plants. In other words, the improved efficiency of new generating equipment has not yet been reflected in the industry's net operating income and the completion of this new capacity should help improve the production costs of the utilities involved, even at the present high coal prices. This new and more efficient power plant capacity is now gradually beginning to come into operation. In the event of a recession and a concomitant drop in industrial power sales, this will relieve the utilities from using their inefficient capacity represented by old plants, which are now in operation in order to meet present demand. The increment production costs on these old power plants, under existing conditions, leave very little profit and, in some cases, produce even a loss, in relationship to the prices charged to industrial customers at the low steps of the rate schedule. Thus, the decline in industrial load will have a negligible effect on the net earnings of the industry and, in fact, in a number of cases, a drop in industrial load, together with relegating the present inefficient generating units to standby operation, could even result in an increase in the net operating income as compared with present conditions. The residential and commercial classes of business are relatively stable and should not be affected much, if any, by an economic recession. When the situation is examined from this fundamental standpoint, it is reasonable to conclude that the net earnings of the electric utility industry should remain relatively stable in the event of an economic recession.

The gross book value of the total property and plant of the Class A and B electric utilities, as a whole, showed an increase of 11.3% between 1940 and 1947, while the corresponding net book value after reflecting accumulated depreciation reserves, remained about the same. These over-all figures, however, reflect the elimination of writeups, as well as disposal of non-electric utility properties made under the requirements of the Holding Company Act during the period under review. The gross electric plant account of this group of companies which, as previously noted, represents the bulk of the industry, showed an increase of some $3,164,000 000, or 30.3%, between the end of 1940 and the end of 1947. This, of course, represents the additions made to the plant during the period in order to meet the unprecedented demand for electric service.

Construction Costs 60% Higher

Electric utility construction costs are now about 60% higher than the 1940 level, and the question can well be raised as to whether this has not injected a substantial amount of high-cost property into the industry's plant account. In order to examine this factor, we have analyzed the gross electric plant additions of 50 companies located in various parts of the country and representing almost 50% of the aggregate electric property and plant account of the Class A and B utilities for the country as a whole. The analysis covered the additions made year by year between 1940 and 1947, and the corresponding construction cost indices. During the 1940-1947 period, these 50 companies, as a group, had gross additions of some $2,058,000,000, of which 27.7% were constructed in 1947, 14.4% in 1946, and 9.4% in 1945. Construction costs experienced a sharp rise during these three years and particularly in 1947, but the increase in construction costs during the years prior to 1945 was not appreciable. Our analysis shows that had all the 1940-1947 gross additions been made at the 1940 construction level, the utilities would have saved an investment of some $312,917,000. This excess, however, when related to the electric plant account of $6,441,176 000 which this group of 50 companies had in service at the end of 1947 is equivalent to only 4.9% of the latter figure. In other words, the excess costs due to the high construction costs faced during the past few years is relatively insignificant and the bulk of the present plant account of the electric industry is still represented by property built at considerably lower price levels. Similary, if we were to include the $6,000,000,000 estimated construction budget of the industy projected for the 1948-1951 period at the present high construction price level, we would still find that at the end of 1951 the high construction cost component of the property then in the plant account would represented less than 15% of the total. This analysis points to the conclusion that even if the high construction budgets contemplated by the industry for 1948-1951 actually materialize, its property and plant account will not be hampered unduly by the high construction cost level, in the aggregate.

It is, nevertheless, unfortunate that this expansion program comes at a period of high construction costs. Of course, under the present concept of regulation which gives almost sole weight to depreciated original cost in most states, the expansion of the facilities at the present high price level will not be injurious as far as the industry is concerned. On the other hand, it would have been more economically sound if such expansion occurred at a lower price level as there is always the possibility of regulatory bodies switching their policy toward more recognition of depreciated reproduction cost in the event that this measurement of property value drops considerably below original cost at some future time. In any event, the fortunate thing is the fact that, as shown by our aforementioned analysis, only about 15% of the aggregate property and plant account of the industry will represent high-cost property, even at the end of 1951.

Problem of Depreciation Accruals

The current expansion of the electric industry at the high construction cost level seems to have created a fear in the minds of some people, particularly with reference to depreciating this investment. As is well known, a number of industrial concerns have increased their depreciation accruals so as to amortize the currently high construction costs very rapidly. Some financial analysts have taken a page from the book of such industrial concerns and are now advocating that the utilities should follow the same procedure. In our opinion, this stand is fallacious for the following reasons:

In the first place, a utility property, on a composite basis, has a long life (in the neighborhood of 40 years) even after allowing for obsolescence and other elements. Furthermore, under the present classification of accounts prescribed for utilities by regulatory bodies, the annual depreciation accruals of the electric industry are taken on a percentage of property basis which gives recognition to estimated life and enables the utility to recover the cost over the life of the property. It would seem that even if the utilities were to attempt to amortize the high construction cost investment over a short period of years, the excess depreciation would not be allowed as an element of cost in the current regulation of rates or for income tax purposes. The significant factor is that the utility property is a long-life situation and the amortization of the investment in it over its life, in our opinion, still provides good protection for the investor. Incidentally, when fluctuations in construction costs are viewed over a period of 40 years such as the life of utility properties, experience has shown in the past that the ups and downs usually iron out. The same should hold true to an appreciable extent in the future, even after taking account of the present fears which have been caused by the currently high construction costs.

The construction expenditures of the electric utility industry in 1947 amounted to about $1,592,000,000, and this includes the relatively small expenditures made by municipal plants and rural cooperatives, but not government power projects. According to present estimates, the private utilities place their aggregate construction expenditures at about $1,800,000,000 for 1948, plus another $4,200,000,000 for the subsequent 3-year period 1949-1951. The 1948-1951 construction program includes about 15 million kilowatts of additional generating capacity and this should enable the industry to catch up with its reserve capacity requirements by the end of 1951 even if the demand for service continues at the present high rate. Of course, should there be a recession, the program might have to be modified accordingly.

Resort to New Capital Markets

This large construction program will, of course, pose problems for its financing and its is obvious that the utilities must resort to new capital markets to a large extent. It is of interest to note in that connection that in the first 6 months of 1948 the par value of the new money securities sold by the private electric utilities totaled some $622,621,000, of which $492,775,000, or 74.4% represented debt securities, $94,650,000, or 14.3% preferred stock, and $75,188,000 or 11.3% common stock. We estimate that for the 1948-1951 period the depreciation and amortization cash available to the utilities for construction purposes will amount to at least $1,600,000,000, and retained earnings over and above common dividend payments, including such payments on additional common stock to be issued, will amount to another $500,000,000, making a total of $2,100,000,000 as a minimum. This would leave an aggregate balance of $3,900,000,000 to be raised from outside sources and if we were to assume that the industry will follow the so-called ideal capitalization ratios of 50% debt, 25% preferred and 25% common toward raising this additional new money, this will mean about $2,200,000,000 of additional bonds and other debt, about $1,100,000,000 of preferred stock, and about $600,000,000 of common stock. On this assumption, it may be of interest at this point to examine the resulting changes in the capital structures of the industry and also to compare the capitalization ratios over a period of years, based on available information on the Class A and B privately-owned electric utilities:

% of Total—	Class A and Class B Privately-Own. Elec. Util. 1940	1946	1947	All Privately Owned Electric Utilities 1951 Estimated
Long-Term Debt:				
Bonds	44.1%	43.1%	43.4%	47.7%
Other	3.2	3.0	3.4	
Total Long-Term Debt	47.3%	46.1%	46.8%	47.7%
Preferred Stock	14.2	15.2	15.0	17.4
Common Stock Equity	38.5	38.7	38.2	34.9
Total	100.0%	100.0%	100.0%	100.0%

It is of interest to note that in spite of the sizable property additions made between 1940 and 1947, the capitalization ratios, and particularly the position of the senior securities, have not been disturbed. For example, in 1940 the total long-term debt was equivalent to 47.3% of the total capital structure, with preferred stock accounting for 14.2% and the common stock equity representing 38.5%. The corresponding figures at the end of 1947 were 46.8% long-term debt, 15% preferred stock, and 38.2% common stock and surplus. Thus the debt ratio showed a small decline, and the preferred stock component was increased only very slightly, with a corresponding very slight increase in the common stock equity. According to our estimates, the capital structure of the electric utility industry at the end of 1951, after financing the aforementioned $6,000,000,000 construction program for 1948-1951 on the above basis, would consist of about 47.7% long-term debt, 17.4% preferred stock, and 34.9% common stock and surplus. If the aforementioned method of financing is followed, it would seem to us that no serious dilution will result as far as the senior securities are concerned and there would still be a substantial amount of common equity in the picture.

Incidentally, the socalled ideal capitalization ratios of 50% debt, 25% preferred and 25% common stock and surplus, is not necessarily the proper solution to the problem and, as previously noted, the par value of the new money securities sold by the private electric utilities in the first six months of 1948 were divided into 74.4% debt, 14.3% prefererd stock, and 11.3% common stock. The characteristics of the territory served by a given utility are important factors, particularly with respect to the type of load served, and the influence upon such load of the ups and downs of the general business cycle must be taken into account. A company serving a stable territory could well stand a higher debt than one subject to wide fluctuations. Companies with earnings insuring higher coverages for debt service can probably justify a higher debt to start with. An initially higher debt ratio, coupled, however, with a good cash sinking fund, may be a better solution for all concerned than the ideal capitalization ratios. A higher proportion of interest-bearing securities would result in tax savings at the present high income tax rates and these savings, together with some additional retained earnings, can pay off the debt fast and ultimately work out to better advantage than having a lower debt ratio and a higher proportion of preferred stock, particularly at a time when preferred stocks are hard to sell. It seems to us that regulatory commissions must take a more flexible and liberal attitude on capitalization ratios generally, but on the other hand, investors should guard against dilution of their senior position. The best safeguard, of course, available to the investors in senior securities is adequate cash sinking funds and other protective provisions in the indentures whereby the initial position of the senior issue will improve as time goes on and investors will get some of their money back before maturity. From the standpoint of institutional investors, the same safeguards should be taken with respect to preferreds.

Future Growth Potentialities

Let us now examine the future growth potentialities of the electric industry. In 1947 the industry connected over 2,000,000 new customers, an all-time annual record, and broke the previous record of 1,800,000 customers added in 1946. Customer growth is still continuing at a good pace and, in a number of areas, the only thing that stands in the way of even greater growth is the lack of capacity. The customer growth is particularly good in the residential classification which has a more profitable revenue spread. Farm customers have also shown a good increase and the same holds true with respect to small commercial consumers.

Some of the basic statistics on the more profitable and stable residential classes of service will be of interest:

Residential Service—	1940	1946	1947	12 Mos. End. 6-30-48
Noumber of Customers (1,000's)	24,952	29,769	31,622	32,540
Percentage of 1940	100%	119.3%	126.7%	130.4%
Kilowatt Hour Sales (1,000's)	23,317,569	38,570,913	44,171,314	47,645,975
Percentage of 1940	100%	165.4%	189.4%	204.3%
Revenue ($1,000)	$895,951	$1,240,577	$1,366,498	$1,443,728
Percentage of 1940	100%	138.5%	152.5%	161.1%
Percentage of Total Electric Revenues	36.7%	35.9%	35.5%	35.5%
Average Revenue per Kwh. Sold	3.84c	3.22c	3.09c	3.03c
Average Annual Bill	$36.56	$42.79	$44.43	$45.60
Average Kwh. per Customer	952	1,329	1,438	1,505
Percentage of 1940	100%	139.6%	151.1%	158.1%

Between 1940 and June 30, 1948, the residential customer growth amounted to 30.4%, while the corresponding growth in annual kilowatt-hour sales amounted to 104.3% and annual revenue showed a corresponding growth of 61.1%. The average consumption per residential customer went up 58.1% from 952 kilowatt-hours in 1940 to 1,505 kilowatt-hours for the latest 12-month period. Average revenue per kilowatt-hour sold went down from 3.84c in 1940 to 3.03c for the 12 months ended June 30, 1948, but in spite of this decrease in average revenue the average annual bill for the latest 12-month period was $45.60 or about $9 more than the average of $36.56 obtained in 1940.

Appliance Sales

Appliance sales, which were uspended during the war, reached record levels in 1947 and are still continuing at a good pace. For example, in 1947, the electric industry as a whole connected 1,200,000 ranges and 1,110,000 water heaters to its lines and this was the first year in the industry's history in which such sales exceeded the one million mark. Other appliances connected in 1947 included 3,573,000 electric washers, 3,400,000 refrigerators, 3,704,000 vacuum cleaners, 17,000,000 radios, 450,000 home freezers and 163,000 television sets. The home freezers and television sets are just beginning to be sold in large volume. Most of the appliance sales were made to new customers and the residential classification also affords a large replacement market for the future. The high cost of household help will undoubtedly continue to stimulate the use of more labor-saving electric appliances in the home.

Another new potential load of great consequence in the residential electric service field is the heat pump which is now being tested in experimental installations in various parts of the country. The load building possibilities of the heat pump for Winter heating and Summer cooling are amazing as the average annual consumption per heat pump installation amounts to between 12,000 and 15,000 kilowatt-hours. If we were to assume that the electric industry is ultimately successful in serving heat pump loads in only 5% of the present homes, this would mean an increase of almost 45% in the present residential annual kilowatt-hour sales of the industry as a whole, and a corresponding increase of about 25% in annual domestic electric revenues.

Industrial Uses of Electricity

In the industrial field, the longer range prospects are for greater electrification of industry and increasing industrial electric power loads due to more mechanization which will be dictated by increasing wage rates. New processes which are now being or will be developed by essentially new industries or applications, such as the synthetic fuel program, the treatment of low-grade ores, and high-frequency heating, will add further to the electric power load on top of the increase which is expected through expansion, more modernization, and mechanization of existing manufacturing plants.

The Westinghouse Electric Corporation made a survey of the electrical industry and we recently had occasion to examine this survey in considerable detail. The conclusions arrived at in this survey give a good idea of the growth expected in the electric utility industry for the 10-year period 1948-1957. It shows that residential kilowatt-hour consumption will increase 100%, farm consumption 140%, small industrial and commercial consumption 50% and large industrial and commercial consumption 71% with an average increase of 72% in the kilowatt-hours consumed by all classes of service, combined. The survey further indicates that this estimated growth will not unbalance the total kilowatt-hours sold to various classes of service and, in fact, if the estimates actually materialize, the percentage of total kilowatt-hour sales to the large industrial and commercial classifications will be a little less than the percentage now accounted for by this class of service. The Westinghouse survey further concludes that in order to meet this estimated growth the electric industry as a whole, including the government power projects, would have to increase its kilowatt generating capacity by 80% during this 10-year period covered by the survey.

The above estimates of the Westinghouse survey are based on the assumption of the continuance of a high level of peacetime industrial activity and employment such as the country is enjoying at the present time. On this premise the estimates appear to be reasonable as to the potential growth of the industry during the next 10 years. Of course, there is no assurance that this will be the case and there is the possibility of an industrial recession during the next 10 years. In that event, the growth will be curtailed, particularly in industrial power sales, but after such a depression is over, the industry will pick up from there.

Trend of Growth in Industry

There is no question but that the long-term normal trend of the electric industry is one of considerable growth. The high cost of labor will stimulate the use of more labor saving appliances in the home and will be instrumental in more mechanization and higher electric power consumption in industry. The housing shortage has caused many families to double up and the rate growth in the number of families in the United States has been considerably greater than the rate of population growth. Both of these factors will mean more customers to the utilities as time goes on and, what

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The Utility Industry Outlook

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is more important, most of the additional sales to such customers will be billed at the higher and more profitable brackets of the rate schedule.

Public power projects at one time were regarded as a serious potential threat to the privately owned utilities. The trend now seems to be away from public ownership and this is evidenced both by the results of municipal ownership elections and from the disposition of Congress toward bills involving appropriations for public power developments. While the policy of Congress will vary from time to time, it is interesting to note that the present Appropriations Committee of the House, while approving substantial allowances for reclamation projects and for the development of additional power facilities in the Columbia River Basin, has refused to approve requests for transmission facilities where they duplicated facilities of private companies. The Committee has again reiterated what it considered to be the proper policy for the Reclamation Bureau—reclamation as a primary purpose and power as an incidental. In the Pacific Northwest the private companies have come to the conclusion that the region must have additional power through approved Federal hydro-electric projects and these companies have been urging that Congress appropriate sufficient money for the completion of such projects. It appears that, to date, the public and private utilities in the Pacific Northwest have been cooperating with each other and with the Bonneville Administration on a program designed to meet the power requirements of the entire region. A very substantial amount of both capacity and energy has been made available to the private companies by Bonneville, and we feel that the power situation in the Pacific Northwest has been and will continue to be handled in as constructive a manner as possible, under the circumstances.

Government ownership could well continue to be a disturbing element marketwise on the securities of companies operating within the sphere of influence of existing government power projects. Additional contemplated projects such as the Missouri Valley and the St. Lawrence Developments might create further disturbances as time goes on. It is our belief, however, that generally speaking, the senior securities of all operating companies which might conceivably be threatened by public power developments, are perfectly safe in the event of a sell-out to public ownership. It is the common stockholders who should watch out in such instances.

Natural Gas Industry

Let us now examine the natural gas industry briefly. In some respects the natural gas industry has been more dynamic than even the electric industry. For example, between 1940 and 1947 the natural gas industry showed a 33⅓% growth in the number of customers served, almost 74% increase in the M.c.f. sales, 73% growth in gross revenues and 45% in the investment in property and plant. By way of comparison the Class A and B electric utilities showed an increase of 28.3% in the number of customers served, 84.1% in kilowatt-hour sales, 59.3% in gross revenues, and 30% in the investment in electric plant account. The current earnings trend in the natural gas industry is more favorable than that of the electric utilities. For example, gross operating revenues for the first six months of 1948 showed an increase of 11.8% with corresponding increases of 5% in net operating income, 4.5% in gross income and 2.4% in net income. This compares with a corresponding increase of 12.3% in the gross revenues of the electric utilities, 2.6% decline in net operating income, a 3.0% decline in gross income, and 3.6% decline in net income.

The natural gas industry is also blessed with more favorable labor costs and with a relatively lower tax burden. Salaries and wages of the natural gas companies on a composite basis now consume little more than 13c of the revenue dollar, whereas the corresponding figure for the electric industry is close to 20c. The tax burden of the natural gas industry consumes about 13c of the revenue dollar as compared with about 17c for the electric utilities.

As is well known, the expansion of the natural gas industry has been hampered by pipeline shortages and practically in all areas there have been restrictions against taking on any more house-heating business. The current expansion program, according to certificates already approved by or filed with the Federal Power Commission, will entail an outlay of some $1,200,000,000, exclusive of expenditures on local distribution systems. This includes increasing the capacity of existing lines, as well as new lines projected to new markets now being served with manufactured gas. As to the development of new markets for natural gas, both in existing and new territories, the outlook is extremely favorable. The demand is there and the only thing that stands in the way is the difficulty in obtaining deliveries on pipe. compressors, and other equipment. Consequently, some of the new lines or loopings of existing lines will not be placed into operation until 1950 or later.

Here again the expansion is occurring at considerably higher construction costs than those prevailing when most of the existing natural gas pipelines were built years ago. Owing to the high prevailing construction costs entailed on such new long-distance lines, the investment per M.c.f. of capacity will be considerably higher than that for most of the present carriers. Consequently, the new pipelines are not likely to be as favorably situated from the long-term competitive fuel cost standpoint as the older lines now in operation, other factors being equal. Considering the over-all situation, however, it should be noted that, whereas in former years natural gas has been considered a premium fuel, the sharp increases in the cost of coal and oil experienced during the past several years have suddenly made natural gas the cheapest form of fuel in most territories in which it is available. In most territories natural gas sold for house-heating purposes, for example, is now more than 30% cheaper than oil and 10% to 15% cheaper than coal. This condition has imposed a tremendous demand upon the natural gas industry, particularly for house-heating purposes, and many distributing companies now have long waiting lists of domestic consumers clamoring for house-heating gas. The preponderance of such companies currently have restrictions on conversions to gas space-heating, and curtailments are also in effect with respect to industrial gas in a number of instances. When the new pipeline capacity is added, such restrictions will be removed and the industry will have an opportunity for further very substantial expansion in gas sales.

Now that natural gas is cheaper than competing fuels and the pipe line companies are loaded to capacity, it would seem that regulatory authorities should be reluctant to regulate the natural gas industry down to a strict rate of return. If additional reductions in wholesale and retail rates were made, the demand for natural gas, and particularly for house-heating purposes, would be that much greater and the headaches of the companies and the regulatory commissions would be pyramided accordingly. In spite of this situation, however, it is of interest to note that the Federal Power Commission has recently ordered investigations into the rates charged by Panhandle Eastern Pipe Line Company, Colorado Interstate Gas Company, and Canadian River Gas Company.

In the final analysis, the foundation of the natural gas industry in general and of the individual companies, from the long-term economic standpoint, is the life of the available gas reserves. Fortunately, the industry still appears to be very favorably situated from this standpoint in spite of the sharp increases in gas withdrawals experieinced in recent years. Owing to new discoveries of gas, particularly in deeper horizons, the gas reserves curve is still continuing at a greater upward slope than the gas withdrawal curve. For example, it is estimated that the natural gas reserves of the United States as a whole, as of Jan. 1, 1948, amounted to some 174.3 trillion cu. ft. This shows an increase of 17.7 trillion cu. ft. over the corresponding estimates as of Jan. 1, 1947, in spite of the fact that the marketed production withdrawals in that year amounted to some 4.4 trillion cu. ft. It is probable, however, that as time goes on and more pipe lines are built to new markets, the withdrawals will exceed new discoveries and this factor must be continually watched, particularly as it relates to individual companies.

The "wasting asset" nature of the natural gas industry cannot be over-emphasized in judging the attractiveness of its securities. This, in our judgment, warrants sinking funds to retire senior securities completely well within the life of the visible gas reserves in each case. Furthermore, thought should be given toward the ultimate establishment of reserves for retirement of the equity capital, although this probably will not be necessary for years to come. The future may well prove that in a number of cases a portion of the current dividend return on natural gas commons is in reality return of capital, and this factor should be re-examined from time to time, particularly some years from now, although no fear need be expressed in that direction, say, for the next 10 years or so.

Time does not permit us to discuss other points pertaining to the natural gas industry, but the factors already discussed are the most important. Our general feeling is that the outlook for the natural gas industry is likely to continue in a favorable direction for years to come, and the sound position of the industry has been reflected in the market price of its securities.

The Telephone Industry

The telephone industry is a long subject in itself, and we can cover here only very few of the most important points in the allotted time. Fundamentally, the position of the telephone industry is not as favorable as that of the electric and natural gas segments. Generally, as the number of subscribers within a given exchange area increases, the average investment per subscriber goes up, other factors being equal. Another fundamental difference arises from the fact that in the telephone industry the operating payroll now consumes about 60c of the gross revenue dollar, whereas the corresponding figures for the natural gas and electric utility industries are about 13c and 20c, respectively. Obviously, in a period of rising wage rates, investors look with more favor upon those industries which have a lower component of wage costs in terms of the revenue dollar. The best long way out of the telephone industry is conversion to dial operation. Such conversion at today's construction prices, which have almost doubled in comparison with prewar levels, is not cheap. From our studies of many individual systems, however, we find that dial conversion is more than amply justified even at the present high construction cost levels. The operating savings resulting thereby are sufficient to provide an annual return on the conversion investment of from 12% to 18%, after depreciation, but before income taxes. This means that dial conversion not only carries its own weight, but also helps to carry some of the financial load of the manual exchanges, when viewed from the over-all earnings standpoint of a given company. Dial conversion, in addition, improves the quality of service and justifies higher rates.

The telephone industry is still confronted with a tremendous expansion of its facilities in order to meet the demands for telephone service, and practically all individual companies have piled up large waiting lists of new subscribers. These cash requirements are on top of the amounts necessary for dial conversion. It is significant to observe that, in most cases, the companies involved have not been able to earn a reasonable rate of return on the construction expenditures made for the purpose of taking on additional subscribers without rate increases, whereas the new investment made for conversion to dial operation has been profitable, as previously noted. Therefore, in connection with the new money being raised by the telephone industry, the investors interested in its securities should make it a point to find out as to how this money will be spent—if it will be used for dial conversions the additional investment will be much sounder from the investors' standpoint than if it is used merely for providing additional facilities for expanding manual service.

In spite of the vast expansion in gross revenues, the telephone industry has found it necessary to lead the parade of rate increases, and most regulatory commissions have been sympathetic in granting such rate increases, although not to the full extent asked by the companies. The rate increases required in the telephone industry are comparatively larger, percentagewise, than those required by the electric industry in order to bring the current earnings up to a reasonable rate of return. Care should be taken, however, by the telephone industry so as not to increase the rates beyond the **value of the service to the subscriber** because this could be a boomerang in a subsequent period of economic depression when many telephone disconnections could take place. It may well be found that a substantial portion of the new subscribers now connected to the telephone systems represents marginal people, when viewed from a future general economic depression standpoint. Furthermore, a substantial portion of the revenue growth represents long-distance toll revenue which is subject to curtailment in the event of an economic depression.

These general observations on the telephone industry have been made for the purpose of bringing out some of the fundamental differences between it and the electric and natural gas utiliities and they do not necessarily pertain to the position of any specific company. There are still good investment opportunities in the telephone field and these should be examined in the light of the peculiarities presented by each individual company.

The manufactured gas and transportation segments of the utility industry have been squeezed by high operating labor and fuel costs in relationship to the gross revenues derived from their respective operations. Briefly, the long-term outlook does not appear to be favorable for these two segments, in our opinion, and investors will do well to shy away from the mnaufactured gas and transportation field under present conditions. Here again a number of individual cases may merit consideration on the part of the investors, particularly in the senior securities if the capital structure is very conservative and the regulatory influence is favorable. Even in such cases, the cash generation over and above the requirements of the properties for continuing good service to the public should be devoted to retiring the senior securities over a considerably shorter period of years than that allowed for senior securities in the electric utility field, for example.

Sources of New Capital

The electric utility industry, as well as the other segments, will be confronted with the raising of vast amounts of new capital from outside sources during the next several years in order to finance the additional facilities, as previously noted. Other industries, of course, are in the same boat and the demand for capital by industry as a whole at the present high level of gross national product seems to be exceeding the available reservoir of funds by a substantial amount.

For policy reasons, life insurance companies limit their investments primarily to debt securities. Consequently, the main reservoir of capital for equity securities is the individual investor, but he has not been able to accumulate substantial savings for investment under existing conditions of high income taxes and the increased cost of living. Casualty and fire insurance companies, however, are again beginning to have available considerable cash for investment, both from internal sources, as well as from additional capital, and a portion of these funds is likely to be devoted to the purchase of utility commons where the yield is high, particularly in relationship to the stability and protection obtained. The generous yield at which utility equities are now available, together with the stability in their earnings, in our opinion, makes these equities also a good field for the investment of trust funds handled by the trust departments of banks throughout the country. Of course, selectivity as to various utility companies is a highly important factor.

Obviously, the raising of the additional funds by the utility industry with which to meet its contemplated expansion program presents a difficult problem, but we feel that industry can raise the required capital at reasonable cost, particularly the electric and natural gas segments where their stability and integrity as an investment medium are so well established and where the fundamental economic factors elaborated upon in the earlier part of this discussion are generally favorable from the longer-term standpoint.

In addition to the usual orthodox senior securities, convertible debentures and convertible preferreds are likely to be issued in larger volume as time goes on. Such convertible issues have a definite place in the capital structure of the utility companies as a means of raising future common stock capital at a reasonable cost.

These convertible issues offer some advantages to the investor in that he is not frozen into the situation permanently on a low yield basis. He can make a capital gain by converting and selling, if he does not wish to hold the common and earn a higher yield on his investment.

It is very encouraging to note from our analysis that, even with the substantial additional sums to be raised, the capital structure of the electric utility industry will probably still remain in good balance and the position of the senior securities need not be diluted to any appreciable extent. The investors in the senior securities must be on guard with respect to individual issues, and strong indenture terms and preferred stock provisions are now more important than ever before. Sinking funds on debt securities and preferred stocks, as well, are likely to be resorted to more and more as time goes on in order to induce substantial institutional buying of such issues.

The large amount of new money senior issues which will continue to come on the market for some time to come, in our opinion, should be offered at higher yields than those afforded on outstanding issues of comparable quality, if they are to be successfully distributed. When the fundamentally sound position of such issue is considered, this may be viewed as an opportunity by the institutional investor toward obtaining a higher yield on his investment. Until about two years ago, the advantage was with the issuer and the investor was gradually squeezed as to yield. It appears that this trend has been reversed. Another factor to watch in that connection is the government policy in regard to interest rates on long-term government bonds.

Position of Utility Common Shares

Electric utility commons, in our opinion, are now selling at liberal yields, in spite of conservative dividend pay-outs and good stability of earnings. It is of interest to observe in this connection that there have been more increases than reductions in dividend rates recently, and we feel that this trend is likely to continue. These commons apparently have been under pressure marketwise because of various factors in the minds of investors. One of these is the fear of an inflationary squeeze, but as we pointed out, the electric industry has met the inflation in good shape. It may well be that the present costs of doing business are close to the peak, but, even should they experience further rise within reasonable limits, the individual companies should not have great difficulty in obtaining the necessary rate increases from regulatory commissions. Most commissions are cognizant of the fact that the utilities must remain financially sound if they are to attract the necessary large amounts of additional capital. Fortunately, as previously stated, such rate increases as may become necessary will probably be of modest proportions in order to protect the present earnings level and to provide a return on the additional facilities required. In our opinion, there does not seem to be evidence of deterioration in the position of the electric utility commons in most cases, nor does there appear to be any support for the theory that the electric companies, taking the industry as a whole, are being squeezed by inflationary costs to a point where they cannot earn a reasonable return.

Holding Company Breakups

Another factor which has been exerting pressure on the electric utility commons is the possible dificulty in absorbing the new stocks which have come out or will be available to the public from holding company breakups. This factor will continue as an influence until the stocks coming out of holding companies get seasoned and find permanent homes, but, in our opinion, this will be an orderly process and should not cause undue fear.

A third element is probably the fear in the minds of a number of investors that new money common stock issues which will be coming on the market to finance a part of the industry's construction requirements will cause indigestion, before they are completely absorbed on a permanent basis. As evidence of this, it is of interest to observe that whenever a given company has announced the contemplated issuance of additional common stock the market price on the already outstanding common has gone down frequently around 10%. Of course, in such cases most holders can be protected by exercising their rights to subscribe to additional common, particularly in view of the probability that such rights are bound to be valuable under the circumstances. Furthermore, when issues are under such pressure, a buying opportunity is afforded either for additions or new purchases.

In our judgment, the generous yields now obtainable on utility commons of good quality already discount a substantial portion of the factors exerting pressure on the present market price. Evidence continues to indicate that dividend increases are likely to outnumber possible decreases, and it appears to us that, from the standpoint of investment primarily for income, selected electric utility commons still occupy a favorable long-term position and the yields afforded are still, in our judgment, relatively liberal.

Natural gas commons marketwise have held up generally better than electric commons over the past year or so. For example, the average yield on the leading pipe line company commons is now around 5% as compared with corresponding yields of about 6% or more on the comparable electric utility commons. This may be attributable partly to recognition by investors that, in some cases at least, participation in natural gas stock ownership represents a claim on sizable natural resource values which is an attractive holding in a period of inflationary fears. The natural gas industry, as previously mentioned, has also been in a stronger competitive position due to rising costs of other fuels and has also been in a better position to absorb increases in the cost of doing business, particularly in the light of the lower ratio of wages and other principal cost elements to gross revenues. In other words, there apparently has been a feeling on the part of many investors that natural gas commons are a good inflationary hedge.

We are still favorably inclined toward natural gas commons but two possible developments should be kept in mind: (1) As the general price level reaches its peak and resumes a downward trend, the present emphasis placed on natural gas common as a protection against inflation will naturally diminish; and (2) The sizable expansion plans of the industry are likely to result in some dilution in the common stock position, either qualitatively or quantitatively. As pipe and other materials become available in large supply, and the industry goes ahead with its contemplated large expansion program, this is bound to bring a substantial supply of additional natural gas commons into the market because a proportionate amount of the new money requirements will have to be raised through common stock financing. Thus natural gas commons will be in greater supply than at present and they can well be obtainable at higher yields than those presently available until the additional commons are absorbed on a permanent basis.

Practically all of the pipeline companies are now earning a rate of return considerably in excess of 6% and they do not need rate relief. In fact, as previously noted, the Federal Power Commission has recently ordered investigation into the rates charged by several of these pipeline companies. The present decided competitive advantage of natural gas with other forms of fuel may not be as favorable some years from now. On the other hand, the field price of natural gas has gone up and this trend is likely to be more accelerated as new pipelines compete for gas reserves. The field price, of course, is one of the most important items of operating cost. The "wasting asset" nature of the common stock investment in the natural gas industry also should not be overlooked from the long-term standpoint. While natural gas commons are a desirable holding under present conditions, the situation should be continually watched and re-examined periodically. The question of timing seems to us to be of more importance in the case of natural gas commons than in electric utility commons.

Banks—The Whipping Boy of Inflation

(Continued from page 19)

which we made a "down payment" of 40% cash and 60% "on the cuff" has created most of the distortion. The constriction of consumer goods and certain classes of capital goods resulted in a build-up of something like $150 billion in the liquid assets of the American people. Money supply was trebled while production was a little less than doubled.

(2) **Political Actions:** One is referring, of course, to the varied activities in which both major parties have been sparring ever since war's end with respect to controls and Treasury financial policies. To this analyst, both parties have been culpable in that the end result has manifestly been to "build up steam in the inflationary boiler."

(3) **Labor:** The manifestly enhanced strength of the American union movement has been, both during the late war and particularly since its conclusion, directed toward a policy of sizable wage increases. And this policy, based largely on the theory and practice of economic strength, has indubitably been inflationary. Even the unions are now bringing themselves around to such an admission.

(4) **Management:** Corporate management, harassed by price controls up until 1945-1946 and the most onerous tax levies in all history, and pressured by the unions' policy of wage increases has, on the whole, and rather naturally, followed the line of least resistance and indulged in a policy of price mark-ups that have, generally, exceeded rising costs, produced record high profits for all time, and furthered demands for wage increases.

It would be exceedingly difficult to attempt a proper weighting of these individual causes for the inflationary wave. Apart from the war, which to this analyst should have a weighting of at least 50% of the total, there is no conceivably objective way of balancing off or weighting the other three.

What may be generally agreed on is that it has developed an amazing "rat race" between wages and prices. At the moment, it appears that Labor is losing out in the "rat race"; that is, that Real Wages are on the decline for the first time since prewar. My own estimates for the last 12 months would be something like this: Wages, on the whole, have risen about 7%; while cost of living has risen about 10%. Meanwhile, profits have set new records, both last year and the year before; and my guesstimate is that they will set a new record for 1948. They are pleasant manifestations of proftable operation; but unfortunately, they add fuel to the flames.

The really significant question is: What to do about it? I started to say the $64 billion question is what to do about it and I am not sure that this is far wrong, astronomical as it sounds. It may be that it is already too late to consider this, other than in an academic sense. Cracks have already begun to appear in the overly-inflated national business picture. Business failures have been rising rapidly, both in numbers and average size—and they will rise more. Collections are less satisfactory than they have been in eight years, according to surveys by both credit and collection agencies and purchasing agents.

There is considerably more pressure on the credit supply—and here history is beginning to repeat itself for we hear plaintive queries from credit grantors about safety of existing loans and the propriety of further extensions.

Politically, inflation control is almost "too hot to handle"; and, in a sense, I suppose we should be decent enough to "give the politicians a break" and sympathize with their reluctance to behead "the goose that lays the golden eggs."

To this analyst, it is a dangerous assumption that booms can be controlled by law! Particularly this boom, which has been the greatest of them all, whether one looks at it from the point of view of duration or of intensity. It would appear to be a dangerous half-truth, at best, to assume that the brakes could be applied quickly and successfully by simple or complex Congressional fiat.

Ideally, we shouldn't build ourselves up to boom proportions. There would then be no inflations of serious proportions and no problem of deflation. This sounds like the homely injunction, "Don't set the house on fire." The sad fact is that it is now afire and we are in the somewhat stupid position of arguing ways and means of putting it out. We have been giving "the firemen" (Congress and the Executive) various and sundry conflicting advice.

This is, one is led to suppose, an expectable situation in the "years divisable by 4." In the current, so-called year of grace, 1948, and in the particularly vulnerable position we now find ourselves both domestically and internationally, it appears to be more unfortunate than in the past.

The commonest and simplest solution in such cases appears to be to seek out a "whipping boy" and in the present instance, the banks are it! Voluntary restriction of bank credit, which is widely assumed to be overly-extended, is to be supplemented by direct enforcement; bank reserves are to be increased; consumer credit is to be restricted by augmenting the down payment and diminishing the maturity; and there will probably be modest increases in re-discount rates at the "Fed."

In this connection and at the risk of setting off an unending debate, I should like to insert the idea that it is at least a bit curious to argue that by inflating the price of money, we shall quickly deflate other prices.

Theoretically, vaulting prices can be controlled—and without "gestapo" methods. There is a "quantity" theory of money (which, incidentally, most bankers and practical economists as well as industrialists subscribe to), and there appears to be much logic in controlling the volume of outstanding credit. The difficulty lies in determining the controller and the tools of control. If the government and government agencies do the controlling, there is bound to be, in our American economy, an indirect, time-consuming process with many lags and deterrents.

Treasury policy today is one of the major question marks. The government itself is surely one of the prime contributors to the current inflation of credit which in turn induces price inflation. We should, I think, recall that the government currently continues to spend $40 billion a year, or about **one-fifth** of the total spending of the whole economy. Further, government policy has been in many respects distinctly inflationary, as evidenced by various and sundry agricultural price supports—on Kentucky burley, Maine potatoes, turkeys from Texas to Wisconsin, and all the major cereal crops.

Fortunately, the banking system as a whole remains in a very strong position. I personally do not envy bank loan officers their jobs today for, while observing the relatively strong position of their respective institutions, they are faced with such irritants as higher reserve requirements, continued pressure from above to reduce loan commitments, and the "unknowns" in Treasury and Federal Reserve policy such as long-term interest rates and price policy respecting long-term government bonds. It is one thing to be told that they will be "pegged at par or above for the foreseeable future"; it is quite another to be asked to depend on this 6 or 12 months hence.

Despite these cited confusions and irritants — and there are many more that have not been cited—I find myself unable to become excited over the situation or outlook. Prices are obviously high and must come down—and they will some day, probably more in response to natural economic change than to the artificiality of the moment. Bank loans, when considered in relation to the magnified size of the national economy, are not excessive; and the same is probably true of business inventories.

The other day I came across a statement by an eminent management engineer who is apparently quite excited about the inflation problem and concludes, "Can't industry visualize a man in a rowboat, headed for Niagara Falls?" To me, this is a pretty strong metaphor and probably unjustifiably imaginative. Both bankers and businessmen, I find, are warier than ever, are quite conscious of the problems of the moment and their implications. Unfortunately, our future is probably not in their realistic hands but rather those of the Russians.

And so, it would appear that the best we can do meanwhile is to adopt a policy of "watchful waiting" and of "keeping the powder dry."

Fred C. Rummel Pres. of Spokane Internat'l RR.

Fred C. Rummel has been elected President of Spokane International Railroad Co., and will assume his duties in Spokane on Nov. 1. He has been a director and Chairman of the executive committee of the railroad for the past year and in his new capacity succeeds E. S. McPherson, who died last August.

Mr. Rummel is President of Burr & Co., Inc., New York, and is a director of McBee Co., General Instrument Corp., The F. W. Sickles Co., Michaels Brothers, Inc., and the L. E. Carpenter Co.

Inflation Affects The Masses

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creased income is the Federal income tax. Assuming that the increase in wages keeps pace with the decrease in purchasing power, an ultimate result can only be increased taxes payable to the Federal Government.

As an example of what has happened during the last ten years, let us consider the experience of an individual who purchased a United States savings bond in 1938 for $750. That bond matures for $1,000 in 1948, and he spends that $1,000 to live on. The $1 000 of 1948 dollars is approximately equal to $500 in 1938 dollars. But that is not all—as the collector of internal revenue comes around and relieves him of the proper proportion (determined by his income tax bracket) of his theoretical profit of $250. Assuming only a 20% income tax bracket, our investor finds that he has $950 instead of $1,000, and that his remaining $950 is worth $475 in terms of 1938 purchasing power. Thus this $750 invested in 1938 has shriveled to $475 in terms of purchasing power, resulting in a loss of $275.

"Where Lies Our Course?"

You may well inquire, "Where lies our course?" Among the suggestions that already have been advanced from many sources, the following may be mentioned:

(1) An immediate and really substantial reduction in the expenditures of the Federal Government, as well as those of state and local governments, should be attained. In addition to competing with private industry for materials and labor, excessive government expenditures prevent proper debt reduction.

(2) All but the most essential public works should be postponed during a period of inflation. The only public works which should be carried on during such a period are those which would increase the productivity of our economy.

(3) The government's policy and practice in support of farm prices should be scrutinized and realistic reforms suggested.

(4) A balanced budget including a substantial debt reduction is essential. The supply of money is decreased by Federal debt reduction.

(5) The practice of the Treasury and the Federal Reserve System of supporting the government bond market should be reappraised. Many eminent authorities are calling for immediate modification or even abandonment of the practice. Others suggest that the Federal Reserve System should be completely divorced from the United States Treasury.

(6) No liberal government housing program should be encouraged at a time when there is an acute shortage of materials and labor.

(7) The hindrance to production such as "featherbedding" should be stopped immediately.

(8) A restrictive monetary policy should be adopted until the inflationary danger has ended.

(9) The country should be returned to a gold standard so that the people, once more, have direct control over the government's use or abuse of the public purse. The gold standard is the only completely honest currency system which can be maintained by a government.

These ideas coming, as they do, from so many sources, seems to me to point up the need for a competent study of the nation's current monetary policies. There are many other suggestions—such as increased savings, and self-restraint in purchasing on the part of individuals which have been advanced. However, it is not my intention to make definite recommendations as to specific cures for inflation. That is a task for a group of the best qualified experts in this nation to determine. Rather my object is to call for action. We must have courageous leadership, which should be encouraged and inspired. The Commission for Organization of Executive Government sets a mode that might well be used in tackling this serious problem. It is my understanding that the Commission was authorized unanimously by the Congress of the United States, and that even hearings were dispensed with when considering the question of setting up this Commission. There was complete agreement as to the necessity of such action. The Chairman of that Commission, Hon. Herbert Hoover, has said, "The success of this mission may well set the pattern for future joint participation by private citizens and government representatives on matters affecting national welfare."

It is most commendable that the work of this Commission has been removed from the field of politics. To quote the Chairman further, "In the meantime the whole Commission believes that it would be unfortunate to announce any findings until after the election. Only by keeping our effort entirely removed from the political field will the final report be recognized, as Congress intended, as purely non-partisan."

It should be possible likewise to find a common ground on which to lay the foundation of a similar commission, the purpose of which would be to cover the entire field as to the causes and cures for inflation. It is unfortunate that majority and minority reports were forthcoming from the Committee on the Economic Report. It is time that we oust the "quack doctors," and call in the most skillful talent available. Several authorities have publicly pointed out the urgent need for "such a commission to examine our monetary and banking laws, and to recommend whatever modifications will serve the best interest of our country."

While the need for this leadership is crystal clear, it is likewise necessary that a larger segment of our public be better informed as to the problems. Much data on the subject has appeared in the financial press. My criticism is that there is a need to use other mediums of information to inform the public at large as to the seriousness of the situation and need for action. I am reminded that the late Will Rogers' favorite saying was, "All I know is what I read in the newspapers." Let us put in the newspapers, as well as every other form of communication, the honest, complete story of how necessary it is to maintain and increase the present standard of living of every citizen of these United States of America. Let us get away from talking about a certain amount of dollars of income, and talk about the net result of what we can buy with our available income. It is not so many years ago that life insurance underwriters sold principally policies calling for lump sum payments. Today the intelligent underwriter sells protection to satisfy wants of his prospects, and the most important of those wants are for monthly income either in their old age or for their dependents in the event of their premature death. There is a vast difference between wants and needs. You can point out to a life insurance prospect what he needs, but the better psychology is to find out what a prospect wants most out of life, and then pattern life insurance to fulfill those wants. In these days we find a paternalistic government attempting to dictate what the public needs. Let us embark upon a great crusade which will enhance the understanding of the entire public as to what they really want. Once they fully comprehend how a higher standard of living can only come from increased production, intelligent self-interest will formulate a demand upon their part which will be so great that even politicians will be impressed and take heed.

Another Look at Inflation

(Continued from page 2)

and use of the money supply, and (2) in the output of goods and services. While the money supply in this country has nearly tripled since 1939, physical production has expanded about 75%, and living costs by the same amount.

Price increases during the past two and one-half years can be traced principally to a stepped-up rate of spending rather than to any marked change in the money supply. Until recently, a Treasury cash surplus has made possible successive reductions in the public debt held by the banking system, roughly offsetting the steady growth in private debt similarly held. The resulting fairly stable money supply, however, is now turning over from 6% to 10% faster than a year ago.

Consumers and others are showing a declining tendency, or greater inability, to save in order to maintain or improve their living standards. This attitude toward spending obviously tends to stimulate rather than resist further prices increases. While there is considerable anxiety and complaint about high prices these days, there seems to be too little real concern about the advancing inflationary trend. No one as a consumer wants to pay higher prices, but so long as incomes roughly keep pace with price increases—the most typical situation to date—apparently little thought is given to the eventual dangers which may be involved. Deflation-recession-depression seem to be feared much more than inflation, although even cursory reflection suggests that these are all closely related.

Why Fear Inflation?

Why should we be concerned about the current advancing record price level? Several answers to this question immediately come to mind. First, persons with fixed incomes or whose earnings are lagging behind rising prices obviously are adversely affected. At least 25%, and perhaps more than a third, of the nation's families must be classed in this group. Second, there is no need to offer proof that rising prices mean progressively less purchasing power for funds held in all forms of savings. Third, the nation faces potentially serious fiscal problems in having to finance a greatly expanded defense program or even another war from the present or a still higher price level. Finally it is only reasonable to believe that now is the time, in the midst of "boom" conditions, to take positive steps to minimize readjustments ahead when the pendulum of business swings in the other direction. No one conscious of the inflation problem can condone efforts to dissipate the economic strength of our country through undue expansion in credit and fruitless attempts to complete huge expenditure programs despite rigid production limitations.

In recent months a new upsurge in inflationary power has occurred, unquestionably supported by an important rise in private debt unacompanied by an offsetting reduction in the public debt. As seen, employment and physical production have made very little gain, while income and consumer prices have advanced noticeably, but the rise in all types of credit has been still greater. During the past six months business credit from banks has increased 7%, consumer credit 6%, and mortgage loans 10% — all substantial advances for such a short period.

Different Views on Credit Expansion

This recent credit expansion has sharpened differences in views regarding the role of credit in the current economic situation. There are what we might call (1) the individual transaction point of view, (2) the prewar normal approach, and (3) the broad economic credit policy point of view. Let us examine each of these.

The most important single consideration for any lender is that the loan or credit sale he is about to make be sound and by conventional standards give good assurance of payment. Each individual credit application is considered on its own merits. Once the lender is satisfied that he has a prime risk because of satisfactory collateral, the established character of the borrower, and similar assurances, he is usually ready to make the loan or authorize the sale in question.

Many bankers and other lenders, however, now also are inquiring, because of prevailing inflationary conditions, whether a particular loan is productive. That is, does it add more to output, or merely provide additional purchasing power for the bidding up of prices or preventing their reduction. If a loan meets the test of being safe and productive, a loan officer reflecting the individual transaction point of view may well see no grounds upon which to deny the credit.

A second point of view is represented by many lenders who not only are considering the safety of each individual loan and its productiveness, but also whether their total loan volume or some particular type is out of line with what they may consider to be normal from past experience for their bank or other business. When the relationship between total private debt and aggregate personal income of the country is now examined, total debt is found to be considerably under the prewar relationship. More specifically, private debt outstanding currently is equal to less than half the annual rate of personal income, whereas in 1939 such debt equaled nearly three-quarters of the then prevailing income total. Moreover, private debt is now equivalent to only about 50% of total outstanding liquid assets (i.e., deposits, currency, saving and loan shares, and government securities) of individuals, whereas in 1939 aggregate personal debt was slightly larger than all personal liquid asset holdings.

Currently consumer credit is roughly 8% of personal income after taxes compared with 11% in 1939. Limiting the comparison to consumer instalment credit, the respective changes are 4% now and slightly more than 6% of disposable income before the war. Numerous other similar comparisons can be made, and, except in the mortgage lending field, the same general answer emerges, namely, that by prewar standards we do not now have an extraordinary high private debt level — on the contrary, in relative terms it appears low.

There is still one other point of view by which to judge the role of credit at the present time and that is from the standpoint of broad economic policy which has as its basic objective a high and stable level of business. This view recognizes that (1) the forces of inflation are too strong for most individual lenders to resist, and (2) more credit under conditions of full employment can only mean higher prices or postponed reductions. From this standpoint, even the soundest loan is inflationary when it provides funds to bid away scarce goods and services from others through higher prices. A well established borrower, for example, may get more steel because of a loan, but only at the expense of other steel consumers. Even though the over-all credit or private debt situation may appear quite "safe" in that it is not out of line with prewar relations to income or liquid assets, it is the absolute amount of credit rather than the relative amount which is controlling under full employment conditions. That is, any net increase in credit outstanding must have some inflationary consequence since the production of goods and services cannot be expanded correspondingly. We should not fail to recognize, moreover, that encouragingly low debt ratios at the present time can become much less satisfactory when income or liquid assets decline during any readjustment period.

I hasten to add that this broad credit policy viewpoint, which now is uppermost in Federal Reserve thinking, is not to be understood as urging a sharp contraction in credit outstanding, or in any way minimizing the far-reaching dependence of the nation's economy upon credit and the services of lending institutions. Rather, the objective is to promote the use of credit as an effective means of maintaining a high and stable level of business, but not through excessive use to undermine such a desirable condition.

Recent Efforts to Limit Credit Expansion

The present total volume of private debt unquestionably would be higher if it were not for certain efforts which have been made to limit credit expansion, particularly during the past year. There has been a good deal of voluntary restraint by lenders, and short-term interest rates have advanced moderately. Quite recently, consumer credit controls have been restored and Federal Reserve member bank reserve requirements have been increased as a result of recent Congressional action.

Many leaders in business, finance, and government have long been aware of the inherent dangers in excessive credit expansion and have sought to limit further increases by voluntary means. The American Bankers Association, through a nationwide educational program, has sought to prevent undue bank credit expansion through more restrictive lending policies of its members. Numerous state bank associations have joined in this drive. Bank supervisory authorities have issued joint statements calling attention to the need for curtailing bank loan expansion under prevailing inflationary conditions. Many farsighted business managements, moreover, have adhered closely to rigid credit standards in instalment and other credit sales, resisting efforts to use credit as a competitive weapon. All of these efforts have proved worthwhile, although not sufficient to put an end to undue credit expansion.

The lowering of the support levels on marketable government securities on Dec. 24, 1947, by the Federal Open Market Committee caused widespread uncertainty in financial circles regarding the most appropriate future lending and investing policies for commercial banks and other financial institutions. In many specific instances, at least, this action resulted in tightening of credit conditions.

Short-term rates on U. S. Government one year certificates of indebtedness have been advanced gradually to 1¼% from a wartime rate of ⅞ of 1%. Some increase also has occurred in the rate on tax notes. Federal Reserve rediscount rates generally have been increased in recent months from 1¼% to 1½%. Corresponding rises in prime commercial paper rates have been announced by many commercal banks and other lenders. Some firming of mortgage interest rates has occurred. In short, borrowers today are paying a higher price for funds than a short while ago as a direct result of a broad credit policy designed to discourage private debt expansion.

Within the past month, reserve requirements of member banks have been increased 2% on demand deposits and 1½% on time deposits. At the present time, the Board of Governors of the Federal Reserve System has further power to increase reserves required against demand deposits by 2% in country and reserve city banks, and by 4% in New York and Chicago. The power to raise reserve requirements on time deposits, however, has been exhausted.

On Sept. 20, the Board of Governors of the Federal Reserve System, pursuant to the action of the special session of Congress, restored "Regulation W," pertaining to control of consumer instalment credit. The new regulation is almost identical with the one which expired in November of last year. It covers **only instalment credit** and, more specifically, the following 12 articles: automobiles, on which a one-third minimum down payment is required; cooking stoves; dish washers; ironers; refrigerators; washing machines; combination units of the foregoing; air conditioners; radio or television receiving sets; sewing machines; suction cleaners, and furniture, on which a 20% minimum down payment is prescribed. No article having a cash price of less than $50 is included, nor any items listed not designed for household use. The maximum maturity for all listed articles and for unclassified instalment cash loans is 15 months in case the extension of credit is in a principal amount of one thousand dollars or less, and 18 months in case the extension of credit is in a principal amount of more than one thousand dollars. Instalment payments must be at least $70 per month when the principal amount is more than one thousand dollars.

Already we are receiving excellent cooperation from sellers of listed articles and financial institutions subject to the regulation. Our Regulation W field investigators are now in the field checking on compliance, with the full intention of administering the regulation in strict accordance with the intention set forth in the present enabling law, which continues until June 30, 1949.

These credit restraints, voluntary as well as those authorized by Congress, reflect the belief among those charged with responsibility for general credit conditions that further advances in the price level must be checked insofar as this is possible through tightened credit policy. Whether further restrictive measures will be adopted will depend very largely on the course of future events. The entire matter of credit as a contributory cause of further inflation, however, is under constant study by those entrusted with national credit policy.

Inflation and the Business Outlook

A good deal of attention in business now is being given to business prospects for next year. The most common forecast which I have heard is that business developments for the next six to nine months are likely to follow a broad sidewise movement. Most observers seem to believe that present high levels of prices, income and employment can be expected to continue, with only a slight change in either direction by next Summer. Whether these forecasts will prove correct remains to be seen. It is important, however, to observe the factors which are being stressed as likely to continue the strong underlying tone for business during the coming months. While war is not expected, government expenditures for defense and overseas aid are widely anticipated to become larger in the period just ahead. Government generally is considered to be a continuing major sustaining force. Enlarged government outlays, however, may well eliminate the possibility of further restraining influence in the money and credit field from a Treasury cash surplus.

Those who see a moderate rise emphasize the likelihood that aggregate dollar expenditures by consumers will parallel some further increase in incomes, and that business outlays will remain substantial, although perhaps somewhat under present record levels.

Those who see a moderate decline in business activity emphasize the gradual spreading of the weaknesses in business and agriculture which have been indicated. The government farm price support program, nevertheless, is considered to be an important cushion against any abrupt decline in agricultural commodities such as occurred in 1920-21.

The general business outlook thus appears to be mixed, but on balance may well remain favorable for sometime further. While weaknesses may be expected to spread because of consumer resistance and the saturation of particular markets with excessive quantities of goods, there is no reason for us to relax our concern about the danger of still further price increases in many lines, particularly where domestic, defense and foreign demands overlap.

Our is a problem of achieving a delicate economic balance between purchasing power and production under conditions of full employment. The penalty for failure can be very severe. We cannot afford to leave our economic fate to chance. We must exercise restraint in credit and spending at the peak of the boom in order to achieve a more stable and enduring level of business activity and employment in the years ahead.

There is real danger in an attitude of economic complacency rooted in broad reliance upon government expenditures or chance. A general business downturn does not now seem imminent, but unless further positive steps are taken to check inflationary pressures, we cannot hope to minimize the eventual repercussions to be faced in business and employment. All of us in business have a responsibility of recognize the artificiality of certain expansive forces underlying present record business levels and prepare ourselves, our employees, and others for whatever employment, price, and income adjustments may lie ahead. Above all, together we must promote a high and stable level of real income as our objective—not merely more inflation. Higher prices, more dollars for some, financial stringencies for many, and eventual distress for all—this is the meaning of more inflation.

As We See It

(Continued from first page)

stand both the gravity of this situation and the basic requirements of its solution. It is grave because it underlies the "inflation" about which we hear so much, and because it will continue indefinitely to keep the inflationary situation in being just so long it itself remains—any and all changes in discount rates, increases in the reserve requirements of the member banks and all the rest to the contrary notwithstanding. The objective, obviously, must be a government bond market which stands alone, which requires and obtains no "support" or "pegging" from any agency or group in the community, and which on this basis is able to supply the national government with such borrowed funds as it must have.

No Such Need

When the matter is considered apart from all the Keynesian nonsense of the day, it appears almost incredible that the Government of the United States feels, or thinks it feels, in need of artificial support in order that it may finance its operations. The fact is that there is no such need. What is currently regarded as such a need is something else — chiefly a desire to obtain funds which often it ought not to have in the first place, and to obtain them at far less than the normal interest cost. The real difficulties of the situation have their origin not in any current needs of the Federal Government but in the complexities which have arisen out of the fact that hundreds of billions of dollars of Federal debt have been placed in the hands—not only of individuals but of institutions of a wide variety of sorts—at prices which are wholly unnatural and which are not in accord with the realities of the situation either at present or at the time they were placed in these hands.

And this state of affairs has been prolonged and even aggravated in recent years and months by "pegging" operations which have made a farce of elaborate efforts in the past to place government obligations in non-inflationary hands—i. e. individuals and nonbanking institutions. The so-called nonbank-eligible issues have, of course, always been eligible at the Reserve banks and of late have proved quite acceptable there. Thus issues which were sold with much fanfare as not eligible for ordinary bank purchase, and accordingly not inflationary in character, have now become and are increasingly becoming a substantial part of the central banking assets of the nation. One might almost call this whole procedure a "ghastly jest." These bonds, when sold to the Federal Reserve banks by any individual or institution, add to the reserves of member banks very much as sales directly from the member banks to the Federal Reserve do. It is this fact which gives such a hollow ring to much of the controversy of late about whether it is the commercial banks or the insurance companies which have been contributing to "inflation."

Who Buys Them?

The important thing is that the Federal Reserve buys them, and it is this fact that the new Administration must face next January. Now, of course, there is nothing to be gained by shutting our eyes to the facts of day-to-day life around us. Federal Reserve authorities, now largely under the thumb of the Washington Administration, buy these government obligations because it is in Washington and, we must say, in many other quarters, regarded as necessary for a variety of reasons. One of the reasons most commonly brought forth by the political elements, and also by those who are responsible for Federal finances, is that the nation can not "afford" to pay more in interest on its national debt. That interest already runs at an annual rate several times the size of the entire debt prior to World War I. It has become one of the "major" items of the national budget. A substantial increase in the rate paid upon its debt would cost the Federal Government many hundreds of millions annually. This, so it is said, the nation cannot afford — although similar increases in outlays in other directions are not always regarded so gravely.

But, of course, this argument upon careful and dispassionate scrutiny is soon seen to be rather silly. Naturally, higher interest rates would increase the money cost of the debt. Without question the debt is now so large that the cost of carrying it is very heavy. Yet is there anyone who has cut his eye-teeth who is not fully aware that the "cheap" carrying charges on the national debt is now costing us enormously through the repercussions felt throughout the economic and social system? Let us tell ourselves the truth about these things—even if it is in the midst of a political campaign that we must consider them. The high cost of living, the fantastic prices which the housewife finds she must pay to provide her family with the nutrition they need, or any of the other necessaries of life, go ultimately back to this enormous increase in the supply of money which began with the New Deal, grew by leaps and bounds during the war, and has shown very little tendency to shrink since the close of hostilities. It can not, moreover, in the nature of things do very much shrinking so long as the Federal Reserve banks must, or think they must, buy large amounts of Governments in order to "save" the Federal Government the "cost" of higher rates of interest! These arguments about the cost of the debt may do for political campaigns, but they ought to be dropped once and for all by responsible government officials. The existing situation is far more expensive, and that is that.

The Antidote

But this situation, which should never have been permitted to arise, is nonetheless a fact, and it lends itself to no simple solution. There are doubtless means of bailing out those who have been led to buy Governments far beyond their true worth. They must be sought and applied. But the repercussions of the remedy must also be considered. They may be quite severe unless the proper antidotes are applied. These antidotes consist of simultaneous abandonment of New Deal measures which tend to repress business. These are, of course, responsible for the fact that "money" in recent years has been so relatively inactive. Their elimination would stimulate the speed of "turnover" of funds to offset reduction in the supply inevitably arising from the monetary reform under consideration.

It is our hope that a new Administration will give all these things the consideration they deserve.

Halsey Stuart Offers Great Northern Equips.

A group headed by Halsey, Stuart & Co. Inc. won the award Oct. 14 of $12,720,000 Great Northern Ry. 2⅜% equipment trust certificates, maturing $424,000 semi-annually March 1, 1949 to Sept. 1, 1963, inclusive. The certificates issued under the Philadelphia plan, were immediately reoffered by the group, subject to Interstate Commerce Commission authorization, at prices to yield from 1.375% to 2.575%, according to maturity.

Other members of the offering group were R. W. Pressprich & Co.; A. G. Becker & Co., Inc.; Gregory & Son, Inc.; Hornblower & Weeks; Otis & Co.; L. F. Rothschild & Co.; William Blair & Co.; First of Michigan Corp.; Freeman & Co.; The Illinois Co.; Wm. E. Pollock & Co., Inc.; and McMaster Hutchinson & Co.

The certificates will be issued to provide for new standard-gauge railroad equipment, estimated to cost not less than $15,900,000, consisting of 1,500 50-ton boxcars; 700 50-ton gondola cars; 175 70-ton hopper cars; one 6,000 h.p. Diesel-electric freight locomotive; 10 1,500 h.p. Diesel-electric road-switch locomotives; and four 1,000 h.p. Diesel-electric switching locomotives.

Stymying Germany by Monetary and Fiscal Methods

(Continued from first page)

are at the eve of introduction. The more the policy changes, the more it remains the same. The Morgenthau-boys, American as well as British, still roam the bizonal pastures, and do so to the great detriment not only of Germany but of Europe as a whole, and of the United States as well.

Officially, the folly of Germany's pastoralization was abandoned two years ago. On paper, the Allies are operating under the flag of the Marshall Plan as announced more than a year ago. Lip service is being paid by all concerned to the unification and reconstruction of Trizonia and her integration into western Europe's economic setup. Actually, western Germany still is being ruthlessly exploited by the Allies who to this day, directly and by indirection, are taking out of that devastated country far more than the American taxpayer is putting in.

Taking a leaf from Lenin's book, we started out in Germany, as we did in Japan, by destroying the currency. For three years Germany has been held in a state of monetary disorder that kept the urban population on a near-starvation level, stifled every attempt at productive recovery, and provided the occupation carpetbaggers of all nationalities with unprecedented profit opportunities through black market and exchange operations. The monetary confusion was only part of a total mess brought about by the Potsdam edicts, the twofold essence of which was to deprive Germany of every political organization — to reduce her not just to an agricultural state, but to no state at all — and to take out as much spoils as the mutual jealousies of the despoiling powers would permit. As the London "Economist's" Barbara Ward puts it (*The West at Bay*, 1948, p. 39): "The Potsdam decrees . . . proved in a very short time that lack of government can be as potent an instrument of economic disintegration as lack of food. The Western Allies had not the manpower to govern effectively 40 million people. It took two years to begin to form even the skeleton of a German administration. In the interregnum the normal processes of economy all but disappeared. In the vast German black market chaos became organized and anarchy became the norm."

It has become internationally accepted that the responsibility for this policy of systematically ruining Europe's industrial heart, and thereby promoting the chances of Bolshevism, falls on American shoulders. The truth of the matter is, as shown by Cordell Hull's, Stimson's, and Morgenthau's memoirs, and by other documentary evidence, that Churchill supported Morgenthau wholeheartedly. As to the Potsdam *diktat*, the Atlee cabinet carries 50% of the blame usually put on Mr. Truman and his advisers. By hammering at the Morgenthau-Churchill Plan, an intellectual smokescreen is being erected behind which Britain's current responsibility for the miscarriage of European reconstruction, and for strengthening the Bolsheviks' position, is successfully concealed.

II

At last, on June 20 of this year, the long overdue currency reform was introduced in western Germany. It would be more correct to say that a currency, called the Deutsche Mark (DM), has been introduced in the place of none. Together with some reduction of over-inflated taxes and of over-extended price controls, the measure created spectacular results.[1] Industrial output jumped in an unprecedented fashion: by 20% within a month. The ubiquitous black market broke down and disgorged its hoards of goods. The Germans seized upon the new currency that held the promise of stability like a drowning man will clutch at a straw. The comparison is very apt: straw currency might be the proper term to describe the new mark. It is a unique money, even among the innumerable legal counterfeits put out by governments of this generation. It has no backing by a reserve of any kind, gold or otherwise. It is pure *fiat*, not being based on, or derived from, any economic process. It does not even disclose the issuer, the Bank of German Lander, which carries no responsibility, being a puppet of the occupying powers. This curious piece of money-substitute has been declared by General Clay to be a "hard" currency. It is an emergency device at best, a symbol of the fundamental disorganization and instability that is Germany.

Disregarding the Allies' monetary blunders in Berlin, the initial success of the new mark was spectacular — every currency reform succeeds at the outset. But the success can last only if the quantity of money is held under strict control, and if the nation's languishing production recovers substantially. Limited money supply and a rising output of goods are the basic conditions to maintain internal market equilibrium and to permit the large-scale resumption of exports. (The latter in turn are essential for safeguarding the external value of the currency.) None of these conditions is fulfilled thus far. The money volume is growing incessantly while the output of commodities is lagging, to say nothing of the catastrophic export situation.

The German currency reform was modeled on the pattern of the Austrian reform of last winter. Roughly, some 160 billion marks of outstanding currency and deposits have been reduced by more than nine-tenths, and almost one-half of the amount remaining has been blocked for the time being. The exchange rate of the DM was set at 30 U. S. cents. The first result was an appreciable increase of unemployment and a tremendous deflation of commodity prices, as illustrated by the decline of American cigarettes from the usual 20 marks per package to about 3 marks after the reform. By this time they sell at 6 marks or so, a reliable barometer of the new inflationary trend, indicated also by a new black market in meat, and by reckless consumer spending in the expectation of further rising prices. The rapid expansion of bank credit by way of discounting illiquid one-name paper, meant as a safeguard against deflation, has become one fountainhead of the fresh inflation. Printing the new Deutsche Mark by the hundreds of millions for Allied agencies as well as for German public bodies is another source. A third one is the releasing of bank balances which were frozen in June.

Freezing wages and salaries at the pre-reform level — average weekly earnings in factories at about a nominal $12! — cannot hold up the inflationary process. To match in part, at least, the new price inflation, a 15% boosting of wages has been authorized lately; even so, they lag far behind the mounting cost of living. The vicious price-cost-price spiral is well under way, and the foreign exchange value of the mark is deteriorating.

Presently, Trizonia's monetary circulation, including demand deposits, rapidly approaches the volume of circulating media in all of 1929 Germany: about 3.5 billion marks in currency and 8.5 billion in bank deposits four weeks after the "stabilization," against some 4.5 and 13.5 billion, respectively, 20 years ago. But Germany then had a population of 65 million and was plentifully supplied with goods, while present-day Trizonia with 50 million people lacks everything except ruins — and a paper currency that is "limited" to 10 billion marks, double the 1929 circulation. The money volume keeps increasing, while production is being hampered, for one thing, by deficiency of working and investment capital. This paradox of a simultaneous over-supply of money and shortage of capital funds is easily explained.

In Germany virtually no credit market exists. Most securities and their records have been physically destroyed, if they did not become worthless for one reason or another. The national debt and small savings just about have been wiped out. Under the Russian threat, the generally unsettled outlook, and the foreign occupation, confidence is lacking that is needed for the functioning of a credit system. Breaking up the country's traditional branch banking organizations — a Detroit banker's bright idea whose ignorance of German affairs was aggravated by the biases of his ultra-leftist advisers — was the proverbial last straw needed to make the country's credit mechanism inoperative.

Money is plentiful for current transactions, but short for almost any purpose that involves time and credit. The new Deutsche Mark has been born, so to speak, with an uncommonly high velocity of circulation. Hence the phenomenon of a nation bent on saving, that spends its income in an uninhibited fashion. It is the same picture as in Austria, but more so: the occupation authorities follow up a monetary reform by reinflating the currency, instead of providing productive stimulus and incentive. In western Germany, a semi-Bolshevik tax policy undermines confidence and stymies production.

III

The incompetent, wasteful and corrupt red tape of occupational administration has been aired in public by close observers. (See, e.g., the thorough study of H. Zink, "American Occupational Policies in Germany," 1947. British management is even more inept, and the French more corrupt, than the American.) But no comprehensive analysis is available so far of occupation policies in the economic field. If our purpose is to nip in the bud any attempt at capital formation by Germans, and to prohibit their attaining even a minimum of decent living, we certainly are doing a near-perfect job. Taxation imposed by the "democratic" and humanitarian Inter-Allied planners constitutes the Number One method to accomplish those results.

In the first three postwar years, the broad middle class wealth of Germany that managed to survive the war has been ruined by the crudest technique of taxation: monetary inflation. That permitted, however, the growth of a new class of capitalists, essentially farmers and black marketeers. Now, much of the profit accumulation of these groups has been annulled by the monetary reform. As long as inflation was rampant, there was some justification for a confiscatory system of taxation, such as a 95% income tax rate in the 60,000 mark annual income bracket, plus a 2.5% capital levy, etc. Some of these fantastic rates have been reduced with the tax reform law of June 25, but others have been increased and the new system is even more burdensome under comparatively stabilized monetary conditions than were the heretofore higher rates. The essential features of this latest tax structure may be shortly enumerated; what they lead to should be obvious at once.

Western Germany has presumably the most steeply progressive personal income tax of any country on this side of the Iron Curtain. It reaches at a 24,000 DM income, which is the nominal equivalent of $7,200, the near-confiscatory rate of 72%, rising to 84% at about $10,000, and to 90% at $18,000. (An American has to earn $200,000 to arrive at the 77% bracket.) A further levy of 10% of the personal income tax is added as church tax. In effect, a German can never have a net annual income in excess of 60,000 marks — an amount nominally equal to $18,000, but in terms of actual purchasing power scarcely worth $5,000.

But he can rarely if ever reach that high. Individuals and non-incorporated business carry a property tax that has been "reduced" to 0.75% of the capital valuation, allowing for a very moderate per capita exemption only. The amount paid for property tax is not deductible for income tax purposes. In other words, a small business with a 200,000 mark capital that earns 24,000 marks, has to pay 1,500 marks in property tax, on top of the 72% income tax. The property tax, incidentally, has to be paid literally on the capital value, whether or not any income has been earned!

The corporate income tax rate is a flat 50% tax. Of course, the dividend-receiver has to pay again. Business is the subject of local taxes, too, which are very substantial.

The inheritance tax has been increased recently to rates about as high as in Britain.

In addition to the direct taxes, a great variety of indirect ones clutter up the German income and price structure. Financial transactions are interfered with by "transfer" taxes of one sort or another, many of them substantially higher now than before the reform. This is in addition to a general sales tax that has been enhanced (!) from 2 to 3%. But in realty, being levied at every production stage — a uniquely unjust and uneconomic method — it is estimated (by Professor O. Buhler, Cologne) to amount on the average to a 7 to 9% addition to the cost of the end product.

Furthermore, extravagant excises raise the prices of a number of mass consumption articles: coffee (about $5 per pound!), beer, tobacco, liquors. The consequence is widespread smuggling of coffee and a virtual breakdown of the breweries.

The old German social security system, which is in the process of readjustment, should not be forgotten. Given the prevalence of the thoroughly bankrupt but artificially resuscitated paternalistic tendencies, especially in the British Zone, a stiff set of payroll taxes is in the cards.

Incidentally, the trizonal economy pays an "invisible" tax on top of all others: it subsidizes Berlin. It has done so already, before the Russian blockade was clamped down. Since, a growing cost of supporting the Berliners burdens the rest of the Germans — supplying money and goods without receiving payment — not only the Allies who provide the air-lift.

The fairy tale of German taxes would not be complete without a word about the technique of its administration. While the Allies dictate the legislation, they leave it to the 11 German *land* (provincial) governments to enforce them. The latter discharge their assignment in the most bureaucratic and painstaking fashion, due to the pressing need for revenues, partly also to the omnipresence of socialist and bureaucratic-minded personnel. Income taxes in particular are being collected with a minimum of regard for economic consequences, and with a maximum of nuisance to the taxpayer. It is typical, as an example, that amortizations on account of war and similar damages are not deductible for income tax computation.

A tax structure of such crushing weight soon is to be topped by a gigantic "equalizing" capital levy, which is under preparation. The general idea is to put a first mortgage on all property that has suffered less than, say, 50% war damage, and to use the interest proceeds to compensate those who lost 80% or more of their properties. The latter will get little more than a fractional compensation, while the entire burden will fall on what is left of going concerns, overloaded as they are already.

IV

The constituting elements of the German tax system reach back to the Nazi era, and beyond. But the all-pervading fiscal flower in bloom today is the product of arbitrary and ruthless experimentations by the Allies. It may serve in future textbooks as the classical example of a fiscalism that produces much less revenue, but far more economic and moral damage, than a less Draconic tax structure would have done. The worst of it is that the revenues, while disastrous for the taxpaying community, are not even sufficient to cover the minimum needs of the German provincial authorities. The latter are bankrupt without exception.

What bankrupts every single West-German *land* is not military expenditures, which are non-existent, nor is it spending for the extremely urgent needs of domestic reconstruction. Besides sweeping the rubbish off the streets, practically no constructive public work has been, or is being done. Actually, public installations and institutions, including roads, are under-maintained and deteriorate further. Occupation costs, direct and indirect, are the Number One crux of trizonal finances. They absorb 30 to 40% of the provincial budgets in Bizonia, and up to 60% under the French rule. The current fiscal year's occupation cost liability is estimated at 5,500 million DM, of which close to 20% is the small French Zone's share. (The French use, per capita of zonal Germans, supposedly 16 times more "occupiers" than do the Americans.) Recent moves of our military authorities to cut their outlays have found little sympathy with the other two powers. The American proposal to unify the military administration of the three zones, so as to save a great deal of unnecessary drain on German resources, is being resisted vehemently by both the British and the French.

This is a characteristic sample of the U. S.'s position in Germany: every major attempt of General Clay at the former enemy's rehabilitation is impeded, if not sabotaged, not only by an openly hostile Moscow but by our good friends in London and in Paris as well.

Occupation costs include moderate charges to provide for DP's and other non-German refugees in Bizonia. (They are barred altogether from the French Zone.) But the huge expenses to support the millions of Germans from the East dumped into the West, constitute the Number Two burden on trizonal budgets. They may amount to more than the occupation costs themselves. The Germans have no choice in the matter: they cannot let starve the millions of unfortunates who were

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1 In the French Zone, price controls had not been relaxed, except for steel and coal. The French authorities export the products (lumber, in particular) of their zone at inflated world market values, pay the Germans at or close to peacetime prices, and pocket the difference.

expelled from their homes and robbed of all their belongings. Sustaining legions of foreigners, armed and civilian, together with their families (which in the French Zone often include the in-laws and what have you), plus supporting even at the bare level of existence one unemployed immigrant for every four inhabitants, add up to a total of unproductive fiscal burden that has no parallel under peacetime conditions. Unbearable as German taxation is, it cannot bring enough to finance the normal functioning of domestic government, such as civil service, police, schools, etc. As an example: for the current nine months, Schleswig-Holstein budgets 300 million DM revenues, of which 140 millions are to be disbursed for occupation, and 160 millions for the stranded expatriates, leaving nothing for the administration of that British-controlled **land**. The fact that no capital market exists in Germany precludes the possibility of supplementing tax revenues with the proceeds of bond issues.

V

If ever there was a system of financial policies designed to destroy a nation's incentive for business enterprise, work, and saving, to ruin its tax morale, to bankrupt its administration, to do all of these in a country battered and impoverished beyond imagination —the three Western Allies can claim the distinction for such accomplishment. What makes it all particularly obnoxious is the fact that the managers accompany their negative approach by the incessant assertions of their intention to resuscitate, restore, and democratize West Elbian Germany. Nor are internal financial policies the only means by which the proclaimed objectives of occupation are distorted and annulled. External policies of the Allied authorities, such as the deliberate mismanagement of exports and imports, the arbitrary imposition of an excessively high exchange value on the new currency, direct restraints on production and therefore on exports, complete the framework of repressive measures. The evaluation of their effect on Germany herself, and on the international situation, should be subject of a second article.

Business Man's Bookshelf

Business Incorporations in the United States 1800-1943—George Heberton Evans, Jr. — National Bureau of Economic Research, Inc, 1819 Broadway, New York 23, N. Y.—cloth—$6.

Company Wage Policies—Survey of Patterns and Experience—Industrial Relations Section, Department of Economics and Social Institutions, Princeton University, Princeton, N. J.—paper—$1.50.

Dictionary of Modern Economics—Handbook of information concerning the basic terms of business, finance, commerce and modern economic society—Public Affairs Press, 2153 Florida Avenue, Washington 6, D. C.—cloth—$5.

Fall of Mussolini, The—His Own Story — Benito Mussolini, edited and with a preface by Max Ascoli —Farrar, Straus & Company, 53 East 34th Street, New York 16, N. Y.—cloth—$3 (publication date, Oct. 25).

South American Handbook, The —1948 Edition—H. W. Wilson Company, 950 University Avenue, New York 52, N. Y.—cloth—$1.50.

The State of Trade and Industry

(Continued from page 5)

this down to specific companies and products leads nowhere, "The Iron Age" concludes.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 99.1% of capacity for the week beginning Oct. 18, 1948, representing a rise from the preceding week of 0.6 points, or 0.6%. Operations this week are scheduled at the highest rate since April 24, 1944, when the nation was engaged in a two-front war and the steel operating rate was 100%. A month ago the indicated rate was 96.1%.

This week's operating rate is equivalent to 1,786,300 tons of steel ingots and castings compared to 1,775,400 tons one week ago, 1,732,000 tons a month ago, 1,699,200 tons, or 97.1% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

ELECTRIC OUTPUT POINTS MODERATELY HIGHER

The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 16, was 5,482,030,000 kwh., according to the Edison Electric Institute. This was an increase of 398,000 kwh. above output in the preceding week, and 535,940,000 kwh., or 10.8% higher than the figure reported for the week ended Oct. 18, 1947. It was also 942,318,000 kwh. in excess of the output reported for the corresponding period two years ago.

CAR LOADINGS RECEDE IN LATEST WEEK

Loadings of revenue freight for the week ended Oct. 9, 1948, totaled 891,811 cars, according to the Association of American Railroads. This was a decrease of 16,770 cars, or 1.8% below the preceding week this year. It also represented a decrease of 65,051 cars, or 6.8% under the corresponding week in 1947, and a decrease of 7,632 cars, or 0.8% below the similar period in 1946.

AUTO OUTPUT ESTABLISHES NEW POSTWAR HIGH RECORD

Production of cars and trucks in the United States and Canada advanced to a new post-war high level of 122,717 units from 119,398 (revised) units the previous week, according to "Ward's Automotive Reports."

The major factor in the week's record was an increase by Ford, which gained 3,700 units from last week, when inventory-taking curtailed operations Friday, Ward's reported.

Output in the similar period a year ago was 89,180 units, and 85,600 units in the like period of 1941.

This week's output consisted of 92,788 cars and 25,039 trucks made in the United States and 3,210 cars and 1,680 trucks made in Canada.

BUSINESS FAILURES DECLINE FURTHER IN WEEK

Commercial and industrial failures dropped to 94 in the week ending Oct. 14 from 107 in the preceding week, but exceeded the 75 and 23 which occurred in the comparable weeks of 1947 and 1946, respectively, Dun & Bradstreet, Inc., reports. They were, however, about one-third of the 277 in the corresponding week of 1939.

Failures involving liabilities of $5,000 or more numbered 81, against 82 last week and 25 a year ago, while those under $5,000 fell to 13 from 25.

Declines were noted in all categories and regions the past week with one exception, the East North Central States where failures rose to 14, from 7 in the previous week.

FOOD PRICE INDEX DIPS FOR FOURTH CONSECUTIVE WEEK

Fluctuations in food prices were mixed during the past week. The Dun & Bradstreet wholesale food price index declined for the fourth consecutive week to reach a new 15-month low of $6.48 on Oct. 12. The current level is the lowest since July 8, 1947, when it stood at $6.41. It compares with $6.51 a week ago, and with $6.85 on the corresponding date last year.

COMMODITY PRICE INDEX EDGED SLIGHTLY UPWARD IN LATEST WEEK

There was a slight upturn in the general price level in the latest week, reflecting a firming up of prices for agricultural commodities. The Dun & Bradstreet daily wholesale commodity price index finished at 274.67 on Oct. 11, as compared with 271.37 a week earlier, and with 285.54 at this time a year ago.

Grain prices were generally strong to higher in both the cash and futures markets. Corn was again the most active grain.

New crop corn has begun to move but offerings were below expectations, considering the size of the new crop. Farmers showed a reluctance to sell new corn freely due to its relatively low price compared with the government loan. A scarcity of old crop corn forced cash prices up sharply over a week ago. The market for wheat was steady with prices continuing to move within relatively narrow limits. Mill buying was fairly active, but purchases of wheat by the government were not as large as in recent weeks. The movement of wheat into the government loan remained in good volume. Trading in grain futures on the Chicago Board of Trade last week dropped to a daily average of 22,000,000 bushels, as compared with 23,500,000 bushels the previous week and 36,000,000 bushels in the corresponding week a year ago.

Export flour business was quite active last week, but domestic business lacked feature with most bakers buying sparingly for prompt or nearby shipment.

Lard prices were erratic and slightly higher for the week. Hogs declined early in the week, but rallied in late dealings and closed about unchanged from a week ago. The trend of cattle prices for the week was downward.

Continuing to move within a narrow range, cotton prices were quite steady and showed little net change for the week. Moderate mill buying was reported with some price-fixing against foreign account.

Reported sales of the staple in the ten spot markets increased sharply to 316,200 bales last week, from 254,500 the week before, but were far below the 398,600 reported in the corresponding week a year ago. Entries into the government 1948 loan stock continued to increase and totaled 188,000 bales during the last week of September. Total loan entries for the season through Sept. 30 amounted to 536,721 bales.

The latest government crop report, issued last week, indicated a total yield of 15,079,000 bales of cotton this year. This was 140,000 bales smaller than the Sept. 1 forecast, but it was considerably above the 11,851,000 bales produced last year.

Trading in the carded cotton gray cloth markets remained quiet with prices generally holding steady.

Business in the Boston wool market continued very slow. Scattered sales of odd lots of scoured woolen wools were reported, but there was no interest in offerings of greasy domestic wools. Imports of apparel wools into the ports of Boston, New York and Philadelphia for the week ended Oct. 1 represented 2,824,800 clean pounds, comparing with 4,177,300 pounds the preceding week.

RETAIL & WHOLESALE TRADE CONTINUES GOOD SHOWING FOR WEEK AND YEAR

Holiday promotional sales and continued favorable weather in many parts of the country during the period ended on Wednesday of last week encouraged consumer buying of seasonal merchandise. Retail dollar volume moderately exceeded both that of the preceding week and that of the comparable 1947 week, Dun & Bradstreet, Inc., reports in its latest survey of trade. Consumer interest continued to be largely centered in good quality merchandise in the medium price range. The consumer demand for luxury items remained generally limited.

Columbus Day promotional sales of Fall and Winter apparel met with favorable consumer response.

Women's fur-trimmed fitted coats in broadcloth, suede and covert sold well; untrimmed flareback coats received much favorable notice. The demand for women's tailored suits in worsted, tweed and gabardine was large. The retail volume of women's fur coats remained at a low level, while requests for men's apparel and furnishings were very numerous. There was a growing consumer demand for gift items.

Retail food volume increased moderately in many parts of the country the past week.

The lowered prices of many meats were followed by an increased volume of meat consumption with pork, steaks and roasts frequently requested.

Fruits and fresh vegetables were in plentiful supply with consumer demand for fresh produce showing a fractional rise. The demand for dairy products was slightly above last week's level.

With the approach of cold weather many householders the past week installed new heating equipment. The consumer demand for plumbing supplies and hardware rose moderately. Washing machines and ranges continued to sell well, as was the case with lamps and television sets.

Retail volume for the country in the period ended Wednesday of last week was estimated to be from 4 to 8% above that of a year ago.

Regional estimates exceeded those of a year ago by the following percentages: New England 1 to 5, East 3 to 6, South 7 to 11, Middle West 8 to 12, Northwest and Southwest 4 to 8, and Pacific Coast 0 to 3.

Total wholesale order volume in the week continued near the high level of the preceding week and slightly exceeded the volume of the corresponding week a year ago. Many buyers continued to re-order large amounts for prompt and nearby delivery and many requests for the acceleration of shipments on current re-orders were noted. Deliveries, however, were slower than in the preceding week.

Department store sales on a country wide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 9, 1948, advanced by 11% from the like period of last year. This compared with no change being recorded in the preceding week. For the four weeks ended Oct. 9, 1948, sales increased by 6% and for the year to date by 7%.

Retail trade here in New York last week received stimulation from the Columbus Day sales, resulting in seasonal goods moving in larger volume. Customers, however, were highly selective in their purchases.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Oct. 9, 1948, increased by 12% from the same period last year. In the preceding week a decrease of 7% (revised) was registered over the similar week of 1947. For the four weeks ended Oct. 9, 1948, an advance of 3% is recorded over that of last year and for the year to date, volume increased by 5%.

Morgan Stanley Markets Michigan Bell Debentures

Morgan Stanley & Co. headed an underwriting group that offered publicly Oct. 19 $75,000,000 Michigan Bell Telephone Co. 40-year 3⅛% debentures, due Oct. 15, 1988, at 102¼% and accrued interest to yield approximately 3.03%. The group won award of the debentures at competitive sale on its bid of 101.769.

Net proceeds will be applied by the company toward repayment of advances from American Telephone and Telegraph Co., parent company, which are outstanding in the amount of $81,450,000. These advances are obtained in conformity with an established practice of the company, which it expects to continue, of borrowing from the parent, as need therefor arises, for general corporate purposes, including extensions, additions and improvements to its telephone plant.

The debentures will be redeemable at prices ranging from 105¼% to and including Oct. 14, 1953, to 100% on and after Oct. 15, 1983.

Following the financing, the company's capitalization will consist of the $75,000,000 of new debentures and 1,750,000 shares of common stock, par $100 per share, all of which American Telephone & Telegraph Co. owns of record and beneficially except for 140 qualifying shares which are owned by directors of Michigan Bell Telephone.

The company, engaged in furnishing communication services, mainly local and toll telephone service, in Michigan, on July 31, 1948, had 1,605,386 telephones in service of which about 54% were in Detroit and the adjacent metropolitan area, including the cities of Dearborn, Highland Park and Hamtranck, and about 23% were in the cities of Grand Rapids, Flint, Lansing, Pontiac, Saginaw, Kalamazoo, Jackson and Bay City.

Futility of Establishing Exchange Rates by International Agreement

(Continued from first page)

quired rate. In this manner the price relation of the currency of each of the signatories to that of each of the others is fixed, and international trade is give no alternative but to conform to these rates or cease operation.

This system of arbitrary rates was not adopted because quoted and accepted rates of exchange were unavailable. They were available and commerce was moving. They were natural rates recording actual transactions between willing buyers and willing sellers. They reflected all known factors, economic and political. They mirrored the considered judgment of the international market place respecting the stability, desirability, and purchasing power of each currency.

That rates established in this manner lay down a workable foundation for reciprocal international trade is not open to question. They originate in such trade and are its product. But for reasons which I shall make clear, natural rates of exchange as between these paper moneys were not stable nor could they be expected to be stable. They would naturally fluctuate as changed conditions affected the demand for and the internal purchasing power of each money. With deteriorating economic and political conditions within one country, the exchange rate of its currency in respect of that of another would decline. With a reversal of the situation it would rise. Both rise and fall would reflect the realities which give value insofar as those engaged in international trade were able to distinguish the real from the false.

It was because men in power wished to prevent these fluctuations that they proposed establishment of the International Monetary Fund. Its purpose was to hold the rates of exchange as between the paper moneys of the member countries at such rates as governments in cooperation with the Fund might desire. In advocating the measure these men declared that by maintaining exchange rates at a higher point than would naturally prevail, a higher level of purchasing power in international commerce would be created, a balanced reciprocal trade developed, and the public welfare promoted.

I said to you that such a scheme was predicated upon a false concept both as to money and as to value. That in reality its purpose was to force commerce to ignore value. That it failed to take into account either the nature of man or that of trade. I said that it would not achieve its declared purposes but defeat them since in its actual workings it must of necessity do precisely the opposite of that claimed for it by its sponsors. That the purchasing power of a nation could neither be increased nor maintained by arbitrarily holding up the exchange rate of paper money; that such a practice would not result in a balanced reciprocal trade but prevent it, and would in itself result in the imposition of unbearable restrictions upon the free exchange of goods between the member countries. These statements I supplemented by saying that one who, by market supporting measures or legislative fiat, attempted to sustain fixed exchange rates as between inconvertible paper moneys could be likened to one attempting to quiet the waves of the sea without first controlling the winds which caused them, or to cause the tides to cease their ebb and flow without controlling the movements of astral bodies.

You asked me to set down in writing my reasons for making these statements. The reasons follow. But before proceeding I must call your attention to a question of scope and another of definition. As to scope I do not intend an inspection of the operational processes of the Fund. I shall content myself with pointing out the falsity of its foundation, a falsity which condemns the entire structure to certain failure and collapse. As to definition. I wish you to know that I assume the word "stability" as used by the proponents of the Fund and by its management to mean a reasonable approach to that stability heretofore known in international trade when currencies were convertible into gold and balances settled in that metal. Since the reasons for desiring stability of exchange rates as between foreign currencies must be clear to any person interested in the question of international trade, I shall not attempt their enumeration.

II

I now come directly to the major thesis, the false concept respecting money and value at the foundation of this project. As a method of bringing it clearly before you I propose to proceed step by step to the inevitable conclusion. In doing so I shall first direct your attention to the nature and function of money and the characteristics it must possess to adequately perform that function. Then to the nature and characteristics of that inconvertible paper which from time to time has been put out by governments under the name of money. And I shall invite your particular attention to the manner in which such paper "money" differs from the age-old and true concept of money. This done I shall develop the characteristics which give stability to money and without which it can be stable neither in respect to its purchasing power at home nor its rate of exchange abroad. Little more will be required to demonstrate the truth of the statements made to you orally repeated in this letter.

(a) The function of money is to serve as an acceptable and lawful medium of exchange between sellers and buyers and debtors and creditors. As such it provides an instrumentality for the accumulation of savings and the measurement of values. Though the duty of providing and maintaining a monetary system is considered that of government, the monetary system itself is not an instrumentality of government but an adjunct of production and commerce. Both in quantity and quality the system must serve the productive and commercial needs of the country. When for any reason it fails in this, it fails of its function, and when the monetary system of a modern civilized state fails of its proper function industrial and social chaos result.

(b) To adequately perform its function money must command public confidence. This is its prime requisite. Unless it commands the confidence of the mass of the people it will be unacceptable to them either as a medium of exchange or as an instrumentality for the measurement of value or accumulation of savings.

(c) It is said that in primitive times cattle constituted the lawful medium of exchange within certain countries. But with the advance of civilization coined metal became the accepted and universal medium. Discs called coins were stamped by government to give assurance of weight and metallic fineness. While these coins were not proof absolute against fraud, since they could be clipped or counterfeited, they could safely pass by weight and suitable tests for purity. They were durable and to the true extent of their metallic content possessed intrinsic value. They therefore commanded respect and confidence among trading peoples. They also served as an accepted media for the accumulation of savings. Neither war, nor conquest, nor revolution, could destroy their value since it was intrinsic. In the possession of an owner these coins were proof against repudiation or debasement. In a word, minted from valuable metal they carried their value with them, and upon their own merit as a desirable thing were exchangeable throughout the world for other things of value their possessor might desire. They thus possessed the characteristics essential to the performance of their function.

(d) The concept of paper money as distinguished from metallic coin came with the art of printing. Insofar as paper certificates backed by adequate and honestly maintained metallic reserves are convertible upon demand into metal of a stated quantity and quality they properly may and do command confidence. By indirection such certificates represent a durable and desirable thing of real and readily ascertainable value. They were therefore acceptable to the mass of mankind for services or things of value. Men were also willing to hold them as a medium of personal savings. More than this, such certificates by their terms provided a salutary restraint upon public waste and extravagance. They could not safely be issued beyond the limits of an adequate metallic reserve. If so issued conversions quickly brought public officials to a sense of their responsibility.

(e) Inconvertible paper money consists of nothing more than slips of paper upon each of which is printed the declaration of the issuing government that it constitutes a certain sum of money. The one dollar certificate differs from that of one thousand dollars only in color and its printed inscription. These slips of paper are intrinsically valueless and they carry no redemption or conversion pledge. They may be manufactured and issued by governments in such quantity and at such times as suits the pleasure or meets the political needs of men in office. As experience has demonstrated times without end and as all informed persons know, these political needs are often very great. Brilliant illumination is thrown upon the quality and potential quantity of paper moneys when one considers that the cost of producing a certificate of the largest denomination is precisely that of producing one of the smallest, while the intrinsic value and governmental responsibility in respect to each is precisely the same—nil.

Though called money and made legal tender by legislative enactment, these certificates possess none of the characteristics essential to the adequate performance of its function by a media of exchange. Of themselves they are valueless. They are convertible into nothing of value. They are without physical durability and politically untrustworthy. No better demonstration of their unfitness to serve as a media of exchange is to be found then in the fact that it is deemed necessary to pass and enforce penal laws requiring people to accept them at declared values.

Unlike coin, which derives and maintains worth from the valuable metal of which it is composed, paper money must derive such worth as it posses from the laws and customs of its own country. There alone it constitutes legal tender and passes as a lawful medium of exchange. Its worth abroad is derived from its purchasing power at home and can never substantially exceed it. Neither can its worth abroad ever be more stable than its purchasing power at home. Its worth which will disappear entirely when its internal purchasing power disappears, whether by refusal or its acceptance by the people or by governmental repudiation. Thus, as its power to command services or things of value to home declines, its exchange value will decline. This decline in value will be reflected in its natural price. *With money of this character, it is this very rise and fall in the exchange rate that permits international commerce to flow upon a monetary basis.* Prevention of those natural fluctuations which reflect the internal stability and purchasing power of a country's currency, dams up the normal stream of international commerce, bringing first stagnation and if persisted in cessation. This is because artificial stability in the exchange rate of a country's inconvertible paper currency is equivalent to a regulation decreeing that international commerce must ignore value. If compelled by law to accede to such regulation, commerce must either cease or pass underground.

By the successive steps just concluded a point has been reached from which an objective appraisal of the International Monetary Fund is possible. To that I now proceed, again pointing out that the motivating postulate of the Fund is the assumption that by ordaining and enforcing a higher than natural level in the rates of exchange as between the paper moneys of the member countries the international purchasing power of most of them will be increased. That from the increased purchasing power created in this manner, a flourishing balanced reciprocal trade must result to the benefit and well-being of all.

III

The assumption that it is possible to increase the purchasing power of a country either by the issuance of additional paper money or by laws requiring the acceptance of paper money at values greater than those reflected in unrestricted trade is false. The purchasing power of a country in international trade is not measured by the amount of money it can print or the declared value of that money. On the contrary, it is measured by and limited to the exportable wealth of the country and the demand for it. If by reason of the operations of this Fund certain member countries receive from abroad substantially more wealth than they part with in return, it is because other member countries are receiving substantially less in return than the value of that with which they have parted. Recognition of this is contained in the organization of the Fund itself which has been given a capital in excess of $8 billion, largely contributed from the Treasury of the United States, and it will be from the United States in large measure that goods will be drawn without payment. In other words, the purchasing power of no country has been increased. All that has happened is that certain countries are being given goods for nothing. You will understand that I am speaking in terms of nations and not in terms of individuals. It is true that within each of the countries certain individuals will profit as between themselves and many of their countrymen. As an example of this, certain Americans, as individuals, will profit because our Treasury is giving money to foreigners with which they purchase American goods, but other Americans will lose because of it, and the United States as a nation will be injured by it. The injury will take place, as you will understand, through the draining of our natural resources and fabricated things, the increase of the national debt, and the inflation of the currency.

To clarify the discussion by specific example: if an American wine merchant believes he can sell a bottle of French wine in the United States for $2, he must purchase it in France, let us say, for $1 in order to transport it to his American warehouse and distribute and sell it at a profit. To him both his purchases and sales price must be calculated in U. S. dollars. The cost and sales price of the French vinter is calculated in francs and determined by the internal purchasing power of the franc. Now let us say that the price of the French vinter is 350 francs, which is the free black market equivalent of one American dollar. On this basis a sale could readily be effected. The American would purchase 350 francs with his dollar and pay the francs to the French vinter. This would close the transaction. The American would have paid one dollar per bottle for the wine—the Frenchman would have received 350 francs. But when the French Government, pursuant to the dictates of the Monetary Fund, demands that the American buy the necessary 350 francs at the arbitrary exchange rate of 119 francs per dollar, you will observe that the bottle of French wine will cost him approximately $3 instead of $1, and a purchase and sale cannot be effected though both American wine merchant and French vinter would each have made a profitable and acceptable trade except for the government's interference. I need not follow the demonstration by specific example into other currencies or other countries. The principle running throughout all is the same and in each instance the consequences are the same. Where one currency in terms of another is arbitrarily priced substantially in excess of its internal purchasing power, trade is prevented and not promoted. This is because the prospective buyer from the country of the under-valued currency is priced out of the market in the country of the over-valued while the prospective seller in the country of the under-valued can sell his merchandise in the country of the over-valued only if supported by government subsidy. The latter is precisely what is happening in Great Britain today in respect to continental countries with over-valued currencies. The British exporter profits because the government takes the over-valued foreign currencies from him at false values. As a nation, Great Britain loses and I may say by way of digression that the American Congress has provided for the taxation of Americans to make up the loss.

I need not recite in detail the causes of the instability in the domestic purchasing power of most of the currencies of Western Europe. Their purchasing power declines because of over-issuance without corresponding increase in the supply of purchasable things and because the people have no confidence in the monetary system of their country. Within many of these countries hosts of unneeded and unproductive persons in government service are eating out the nation's substance. They consume that to the production of which they make no contribution. Elective governments embarked in business have found it politically profitable to sell goods and services cheap while politically unprofitable to reduce wages or the number of employees. Neither increase in taxation nor reduction in the swollen cost of government is politically expedient. Resistance to the demands of pressure groups is not to be considered. It is to the last resort of political opportunism that these governments have been driven, the evil expedient of debauching the medium of exchange of the people by converting the country's monetary system into a fiscal agency. Thus they manufacture from paper that which they declare to be money and turn it into circulation in payment of deficits. This is done, not to serve the requirements of commerce which it destroys, but to meet the immediate political needs of elected office holders intent upon remaining in power. It is not until the floods of new money coming steadily to market seeking and bidding for what there is to buy, that the people, first a few, then many, then all, became aware that the new magic is but an old mockery.

In giving expression to the obvious truth respecting the practices of these governments, I would not have you suppose that I brand all who compose them as wicked and conscienceless men. Neither would I resent or dispute the countercharge that our own elective office holders follow similar practices and have little intention of abandoning them. Elective office holders are for the most part average men, both in intelligence and intent. Those of whom I speak are caught in a trap from which they find escape impossible. This is because neither the moral fibre of informed elective office holders or office seekers, nor that of an uninformed and deluded people, is capable of resisting the temptations offered where money is to be had in any desired quantity at no greater cost than that of printing. Who, holding elective office, could deny the people subsidies, public works, great enterprises, and vast payrolls, where all are to be had without increase of taxation. Once this attractive trap is entered and the printing of money commenced, to the office holder every avenue of escape leads to political extinction. It is appreciation of this which forces him to turn to deceptive expedients, to laws designed to compel acceptance of the government's printings at such values as it chooses to place upon them, to price-fixing and rationing and restrictions upon both domestic and international trade, all of which while giving appearance to the uninformed of good intent makes the situation worse and not better.

The International Monetary Fund is one of these expedients. Its purpose is to support the utterly false concept that paper can be made to serve as an acceptable medium of exchange. *It is to force upon international trade rules of conduct which the signatory nations have been unable to enforce against their own people that the International Monetary Fund was established.* It attempts by legislation to give to paper mediums of exchange values in international trade which they do not possess at home. Yet foreigners purchase the currencies of these countries for no other purpose than to secure that within these countries for which they can be exchanged.

I have not forgotten your suggestion that this Bretton Woods institution was approved by resolution of the American Bankers Association and by men holding distinguished faculty positions in institutions of higher learning. This may be true, but I assure you that false pretense does not become true nor vice become virtue because of the distinguished character of those who are beguiled into its acceptance. As long as human nature remains unchanged men will refuse to part, either with their services or things of value in exchange for that which they know to be of lesser value. In international trade they will not purchase foreign currencies at values substantially in excess of that which those currencies are capable of purchasing. Neither laws nor regulations nor endorsements of distinguished bodies or of men holding high positions in educational institutions can change the nature of mankind nor the nature of value and of trade nor those characteristics essential to an adequate and acceptable medium of exchange.

If stability in the exchange rates as between the moneys of separate states is desired, stability in the internal purchasing power of such moneys must be assured. If stability in the purchasing power of money is desired, then money must be created and provided which possesses those characteristics which insure stability of value. If it is desired to do this by international treaty supplemented by domestic legislation, both treaty and legislation must be designed to provide an honest and acceptable money. The exchange rates of such moneys will be stable. But the Fund does not seek to establish honest and acceptable money in the place of the discredited and unacceptable paper money now provided within most of the member states. That is not its purpose. On the contrary, it seeks to compel acceptance of paper moneys at such values as it and its member governments choose to prescribe. That is its purpose. *It seeks to force stability while retaining and nurturing the causes of instability.* It attempts to apply force to commerce, which is without offense, and abstains from applying force to the governments which are the true and only offenders.

The International Monetary Fund is a device designed to give to discredited inconvertible paper moneys false appearance of values and stability which they do not possess. It deals only in unreality and possesses neither purpose nor power to create either value or stability. Clothed in the habiliments of international virtue and generous well-doing, it was brought forth upon a created wave of hopeful hysteria. Yet, as consideration of fundamental truths makes clear, it is devoid of virtue and incapable of well-doing. It lacks virtue because it constitutes an effort to sustain the dishonest and oft-disproven pretense of government that paper may be made to adequately serve the purposes of money and that value may be created in the valueless by legislative fiat. Its results have been evil because by legislative restraint it has dried up the natural streams of international trade. By so doing it has both thwarted world recovery and served to postpone within its member states the day of return to that common honesty and sobriety which the public welfare demands alike of governments and governed. It is an institution which could have been conceived and brought into existence only during a time when the minds of people were confused and their powers of reason darkened under the stress of war and its economic aftermath. It should surprise no one that two of its most important members, France and Italy, have been forced by destruction of their commerce to decline to longer be bound by its decrees. Others will follow or continue only so long as assured against loss by American support.

Buckley Bros. to Admit

PHILADELPHIA, PA.—James R. Shoch will be admitted to limited partnership in Buckley Brothers, 1420 Walnut Street, members of the New York and Philadelphia Stock Exchanges.

New York Stock Exchange Weekly Firm Changes

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

Edmund F. Lee retired from partnership in Garvin, Bantel & Co. on Oct. 1.

Carlos H. Haughey, partner in Wagner, Stott & Co., died on Oct. 11.

The Hidden Payroll

(Continued from page 21)

tions Board, disposed to push up the cost of putting men to work, cannot now be determined. In the spring of 1948, the Board ordered the Inland Steel Company to bargain on pensions with the CIO United Steel Workers. Subsequently, lawmaking by the administrative board-judicial process was advanced a further step when the U. S. Circuit Court of Appeals of Chicago, upholding the Board, decided that management must bargain on pensions. Even employers who already have pension systems, said the Court, will have to consult unions on any changes. Where employers deal with several or many unions, management will face many difficult problems and will be put to an enormous amount of time deliberating and negotiating, and expense, hiring actuaries and other experts.

If pensions are removed from the field of voluntary, deliberative action, and forced into collective bargaining, why not all fringe and other wage-supplements?

Considering the power and dynamism of organized labor today, coupled with the newly established legal compulsion of "bargaining" over pensions, we are now confronted with a strange compulsory **dual-approach** to pensions. First, the Congress legislates compulsory old-age and survivors insurance, and along comes a government bureau, without legislative authorization to deal with pensions, nevertheless in effect ordering a super-pension on the pension layer provided for by the Congress. The courts, formerly inclined to a strict construction of bureaucratic power, are now inclined to approve almost anything and everything which the bureaus try, do or order, on the ground that the courts should bow to the "experts." The bureaus are indeed the new elite, the transformers of our society, the men who read much meat and substance into a few Congressional words. They pose as Congressional mind-readers. The courts, having been substantially staffed for many years with persons who have been schooled not to ask "What is the Constitutional meaning of liberty of contract?" or "What did the Congress mean?" or "Did the majority of Congressmen, when they passed this law, intend to embrace this kind of situation?" simply resign themselves to saying, "The appointed bureau has spoken—the bureau is expert—it knows best. We approve the bureau's action and orders."

Life Insurance

For many years employers have widely carried life insurance on their employees, usually in modest proportions, employers paying the premium, unless the worker desired additional insurance, in which case frequently the cost of further premiums was shared by workers and employers. In addition, many employers pay death benefits not covered by insurance.

Union demands for group insurance and paid sick-leave plans continue to be a major issue in collective bargaining, but the number of plans incorporated into union contracts is limited. A recent analysis of union agreements by **The Conference Board** indicates that about 30% of 373 union agreements signed since the Taft-Hartley Act was passed, contain such provisions. Of these 373 contracts, 15.8% provide for group insurance, 11.3% for paid sick-leave plans, and 2.7% a combination of the two. Clearly, group insurance and paid sick-leave are also on the way to becoming matters of compulsory collective bargaining. Royalties on phonograph records and coal production are matters of recent memory and controversy.

The Department of Labor has just reported that more than 3 million workers—over twice the number in early 1947—were covered by some type of health, welfare and/or retirement benefit plan under **collective bargaining** agreements by mid-1948. A similar survey of 15,636 manufacturing establishments in 1945 and 1946 disclosed that 47% had insurance or pension plans for plant workers.[1] Life insurance plans were found in 37%, health insurance in 40%, and retirement pension systems only in 5% of manufacturing plants. Hospital insurance and, more recently, surgical insurance are becoming more common.

Three states — Rhode Island, California and New Jersey—have adopted compulsory non-occupational cash sickness benefit programs, financed so far chiefly by employee contributions. But as this type of program spreads, employers will increasingly either assume (as in railroads) or share in the costs.

Non-Production Bonuses

In another survey by the Department of Labor it was found that non-production bonuses were paid by two-fifths of the manufacturing and about half of the non-manufacturing establishments surveyed during 1945 and 1946. Christmas bonuses were by far the most common and were paid in over four-fifths of the concerns which provided bonuses. Profit-sharing bonuses were second. Bonuses generally raised hourly rates of pay by less than 1c for plant workers and 2c for office workers, although some establishments in nearly all industries made average payments of at least 10c per hour or about $200 per employee.[2] These types of bonuses are designed generally to build morale and eliminate waste and stimulate output. But they should be distinguished from direct production bonuses geared to improve production, for which management receives a more direct and measurable *quid pro quo*, and which are not discussed herein.

In addition many companies suffer cafeteria losses, pay transportation costs and provide recreational facilities. The list could be greatly extended.

A private study of 30 large companies covering many different industries revealed that the average cost in 1946 of a list of compulsory and voluntary benefits was over 13% of payroll, although in 13% of the cases the figure was over 20%. By 1946 all of these companies were eligible for experience rating in unemployment compensation; their average pay roll cost of unemployment premiums was 1.31% in 1946 as against 2.65% in 1941, a saving in 1946 of 1.34% over 1941. If we exclude unemployment compensation premiums in both years, the total cost of all other benefit programs rose from 10.12% in 1941 to 11.97% of pay roll in 1946, or by nearly two percentage points. Perhaps the smallness of this recent increase is due partly to the fact that these particular companies have been leading the parade of benefit programs. This survey showing a total of over 13% of pay roll costs covered only benefits and did not include numerous other costs for not-working, such as portal-to-portal pay and the like.

The president of a manufacturing company recently confessed that he had just received a staggering bit of information. His controller had been concerned with the growing number of fringe items and benefit costs. He found that a little more than 6% of the wage bill was not paid as wages at all. Further investigation surprised the president and the controller by showing that the 6% was only about half the story. The Conference Board estimated that in 1929 these fringe and benefit items amounted to only 1% of payroll. This is in contrast to the 14% of payroll discovered by a department store recently in which were included vacation, holiday and other payments for not-working as well as numerous benefits and employee discounts. Here was a hidden pay envelope of sizeable proportions.

The Rhode Island Textile Association recently released a report covering 61 textile mills, attempting to answer the question of the size of the hidden payroll. On an hourly basis, these fringe benefits for the 61 mills averaged about 14.6 cents per manhour: vacations, 3.53 cents; paid holidays, 2.36 cents; insurance, 2.06 cents; overtime and premium pay, 5.5 cents; shift differentials, 1.19 cents—for a total of 14.64 cents.

The Automotive and Aviation Parts Manufacturers Association has conducted several surveys among its members and this year reported a total of 12.3% of payroll for vacations, non-productive bonuses, holiday pay, pensions and legally-required social security payments of several varieties, the latter constituting 4.845 cents out of the total.[3]

Compulsory Employers' Payroll Levies

Compulsory social security for employees covers four phases:

(1) Workmen's compensation for industrial accidents and diseases.

(2) Non-occupational disability in three state and in the case of railroads.

(3) Unemployment compensation.

(4) Old age and survivors insurance.

The premium rate for workmen's compensation is based on experience rating and varies from as little as 6c per $100 of payroll for university professors up to as high as $20, $30, and sometimes even more per $100 of payroll for the most hazardous occupations. Many employers are self-insurers and may pay little under this heading if they are able to avoid accidents and industrial diseases. Some years ago the average workmen's compensation premium rate was about 1.5% of the payroll for the country as a whole.

In the case of non-occupational sickness and accidents, a premium of less than 1% of payroll is likely to be inadequate.

The standard tax or contribution rate for unemployment compensation is 3% of payroll, limited at present, however, to the first $3,000 of annual earnings. The actual rate, like that for workmen's compensation, is influenced by experience rating; the actual rate paid depends upon the general continuity of business operations for the economy as a whole, the success of the individual employer in avoiding layoffs, the benefit levels, and the administrative intergrity of the state agencies. In 1947, the average tax rate for unemployment compensation was 1.7%, made up of 0.3% Federal tax and 1.4% state taxes.

In the case of old age and survivors insurance, the 1935 law provided for a tax on employers by 1949 of 3% and 3% on the workers. These benefits may be lifted by some 50% by the 81st Congress. What the ultimate cost of old age and survivors insurance may be, after the inevitable liberalization and broadening of coverage, is unknown, but esti-

1 *Monthly Labor Review*, September, 1948, p. 229.

2 Bulletin 939, U. S. Department of Labor, 1948.

3 For discussion of some of these items see "Benefits at a Collective Bargain" by J. W. Whittlesey, in *American Economic Security*, Vol. V, Nos. 5, and 6, 1948, Chamber of Commerce of U. S. A.

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market now within 3 to 5 points of top. Volume losing significance as market barometer. Breadth of market taking its place.

Having trumpeted last week about the sad shape of the market and implying a reaction was in the immediate offing, the market thumbed its nose at me and went up — which makes me out some kind of a half-wit.

* * *

All this goes to show something, but I can't think what it is. So I'll go on from here pretending that nothing happened and I'm still the white haired lad who knows all about stock markets.

* * *

Studying the action for the past six days a number of things begin to crop up. Among these is the real possibility that the market is headed for the old highs, 188-190, in the next few days. Should this occur, and I think it will, the latent optimism will become active, which leads to a point I might as well make now.

* * *

In recent months, or even years, the ability of averages to make new highs or new lows, has not been followed by confirmatory action in subsequent weeks. Instead it has frequently been followed by dullness, accompanied often by negative performances, which brought about physical symptoms among traders called "market ulcers."

* * *

This in turn has brought the Dow theory into disrepute with various soothsayers pointing scornful fingers at Dow's theory and its interpreters.

* * *

I think the solution is a little more fundamental. Today's markets are no longer responsive to mass public psychology for the simple reason that there is no mass public left. Volume, the all important clue of the old days, has completely lost its significance. Today it is breadth of activity that is gaining in importance. In the old days big volume on either side frequently pointed to a turn in whatever was the prevailing trend. Volume today is meaningless. Stocks make new highs on no volume, confusing the technicians who in turn confuse their clients. Before anybody starts throwings things let me hasten to add that I'm not blowing the whistle on anybody. I, too, have been at fault.

* * *

Lack of volume today is due, I think, to the rise in recent years of organized investment groups which have attracted larger and larger portions of market funds once operating independently. These groups spread their activity in leaders over a period of weeks. Their buying can get stocks through old highs with no increase in volume. Obviously such participation needs new barometers. Present ones are meaningless.

* * *

I'll try to come up with some sort of solution in the next few weeks. Meanwhile, I'd like to point out that a new high in the next few days shouldn't be greeted too joyfully. Quite the contrary. On further strength I suggest disposal of the stocks you've bought on this column's recommendation.

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.]

Edwin A. Clarke Now With Estabrook Co. in New York

Estabrook & Co., 40 Wall Street, New York City, members of the New York and Boston Stock Exchanges, announce that Edwin A. Clarke has become associated with them in their sales department. Mr. Clarke was previously with Shields & Co. and Mabon & Co.

Moore With Syle & Co.

Norris E. Moore, formerly with Amott, Baker & Co., Inc., has become associated with Syle & Co., investment securities, 19 Rector Street, New York City.

With Investment Service

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—William E. Calkins has been added to the staff of Investment Service Corp., Security Building.

With Kennedy-Peterson

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — Edward G. Birdsey is now with Kennedy-Peterson, Inc., 75 Pearl Street.

With Goldman, Sachs

PHILADELPHIA, PA.—John F. Macomber is now associated with Goldman, Sachs & o., 1416 Chestnut Street.

The Hidden Payroll

(Continued from page 37)

mates range from about 6% to 12% of covered payroll, half to be paid by employers.

Furthermore, we cannot expect the present low tax rate for unemployment compensation to persist indefinitely.

If we allow 1½% for workmen's compensation, 1% plus for non-occupational disability, 2% for unemployment compensation, and 4% for the employer's share of old age and survivors insurance, this means a combined average payroll cost for these four programs alone of 8½%. Should we get socialized medicine this might well add another 3 or 4%, possibly shared equally among employees and emloyers. It may be worth while to note that in Great Britain nearly one-quarter of the budget is going for social security even though the budget is inflated by war preparations. Arthur Altmeyer of the Social Security Administration has said on several occasions that for the United States 20% of payroll would be about right for a comprehensive program. In the case of the railroads, the combined tax is already 15.5% of payrolls.

These payments for time not-worked and for employee benefit programs have seldom been segregated and totalled by any company. Some of them are merely absorbed as payroll costs, some are charged to insurance, some to taxes, and many of them are just hidden. They are the hidden payroll, invisible labor costs, a fancy fringe on top of the wage structure which ought to be brought out into the open by the controller so that all business executives can see the size and nature of these costs. They ought to be reduced to cents per hour of time actually worked. Let's get the facts.

The Chamber of Commerce of USA is carrying on an investigation among numerous types of industries in order to secure comprehensive data on all types of employer costs for benefit programs, both compulsory and voluntary, as well as the costs of numerous practices which constitute payments for periods of not-working. We believe that this data, which should be available in a few months, will answer a number of unknowns in this field. Incidentally, if any of you are willing to participate in this survey, we shall be glad to hear from you. We hope it will encourage better record keeping, better allocations of costs and that the Bureau of Labor Statistics will take more account of these growing outlays in reporting wage earnings per hour of actual time worked.

Who Bears the Ultimate Burden of the Invisible Payroll?

Who bears the burden of the contributions assumed voluntarily and imposed by law and collective bargaining and outlays for periods of not-working? There is general agreement that the tax imposed on employees is not shifted.

With respect to the employer's share, even though the employer is responsible for payment of the premiums or taxes to the tax collector, this does not necessarily mean that these programs are a burden on the employer or on profits. In spite of the phenomenal increase in these benefits programs, corporate profits are today at an all time high in the aggregate, both before and after taxes, even though they bear only a normal prosperity-relation to sales. Nevertheless, we have marginal producers in nearly every line of business, and we have some industries which as a whole are marginal or virtually profitless. For these marginal producers, the payroll taxes and other fringe payroll costs are indeed a burden and must be paid even though losses are sustained.

The readiness with which employers have assumed additional programs is due to the highly liquid position of business and the excessive supply of money which has permitted the rapid advance of prices. So long as the money supply is superabundant, it is relatively easy to pass new costs on to the consumer in the form of higher prices. If these total benefit and other payments for not-working amount to somewhere between 10% and 20% of the payroll as appears to be the case, obviously, such a sizable amount could not normally be absorbed by industry out of profits.

In 1939 the New York Credit Men's Association made a questionnaire study of the effects of these mounting costs. Only 14% of those responding said they added the tax cost to the price of merchandise, whereas 84% reported the cost was absorbed by the business. Some doubt the economic validity of this conclusion. As to how this increased tax burden, or cost burden, is borne is admittedly a complicated problem. Under American business policy, which is said to be the only business system in the world which bases its prices on costs, there is a strong tendency to classify and to attempt to recover these costs and thereby transfer such tax costs, along with the other costs, into the price.

In periods of weak markets, or in the case of high-cost firms and marginal industries, these new burdens will undoubtedly impinge upon profits. In those same slack periods, however, these burdens will also inevitably retard wage increases. There is not much support for the view, however, that in the long run these burdens rest on profits.

Students of the problem of the incidence of pay-roll tax burdens generally conclude that part of the tax is shifted to the employee in retarded wage increases and part of it is transferred to and recovered in the price. Some years ago a study made in England showed that the increased outlays for social security and public welfare programs were almost exactly offset by proportionate increases in taxes on the poorer groups, taxes on beer, tea and other items.

If this view is correct, this means that the wage earners, who constitute the majority of the consumer group, bear the bulk of the burden of these benefit programs, either in lower wages or in higher prices.

If this is the case, should the employer resist these progressive increases? Should he resist the tendency for more and more payments for shorter and shorter actual input of hours per week?

The answer must run partly in terms of human values. Clearly, many employers have fostered and welcomed the growth of these social security and other programs. In part it is a choice between more leisure and more goods. In part it is a choice of spreading income more evenly over time. For the most part, these are payments for not-working. They constitute money outlays with no comparable production offsets. Common sense shows that if every workman is paid an hour a day for portal-to-portal time, or warming-up time, or whatever may be the label, this does not produce more food, more shoes, more cars, more houses or more coal. It may provide more dollars, but common sense suggests that payments for doing nothing cannot augment the standard of living of our people. The only purchasing power, viewing the country as a whole of which each of us is a part, is the production of more goods and more services. Money is a mere medium of exchange. Great Britain is a prize example of a country bedridden with social security.

A distinction must be drawn, however, between the incidence of a sales tax and a levy of one kind or another measured by pay roll. A sales tax is a penalty on the demand for commodities, and tends to become absorbed in the cost and price structure. A pay roll levy including cost burdens for not-working constitute **a levy upon a factor of production,** on the demand for labor. Instead of putting a premium upon putting men to work, they are a penalty on jobs. One of these days we may have more widespread unemployment again. If we make it expensive through managerial and public policy to put men on the pay roll, we may unwittingly help generate and perpetuate unemployment.

For this reason, it is that much more important that we assemble all the evidence on the scope of this fancy fringe which we have placed on the pay roll structure in recent years.

A United Europe

(Continued from first page)

when he remarked, "We must all hang together, or assuredly we shall all hang separately." Military history is full of illustrations verifying the principle. The last two world wars have already shown that it is one thing for an aggressor to deal with his victims one at a time, but quite another to meet them after they have had time to combine.

And I think you will all agree that it is doubtful if the aggressors would have acted at all if they had known in advance that such formidable combinations were sure to be raised against them.

Let us consider now some of the things that nations of like mind have been doing so far in the way of cooperative effort. I take the Economic Cooperation Act to start with because it illustrates two of the principles which should be most fruitful in the years to come. The first is the principle of cooperation among nations. The second is the principle of self help. On the side of the United States, the proposal leading to the Economic Cooperation Act came from our Secretary of State, Mr. Marshall. On the European side, no one had more to do with bringing the proposal into being than our guest of honor this evening, Sir Oliver Franks. Mr. Bevin, the Minister of Foreign Affairs of Great Britain, whose prompt acceptance of the idea played such a part in giving it reality, said recently in the House of Commons that Sir Oliver had done a splendid job in preparing the first reports, and that they had led to the greatest piece of cooperation in Europe that had ever existed.

The preambles of the Economic Cooperation Act are filled with expressions to the effect that its purpose is the promotion of American foreign policy through measures necessary to the maintenance of conditions abroad in which free institutions may survive. By the express terms of the Act, Congress declared it to be "the policy of the people of the United States to sustain and strengthen principles of individual liberty, free institutions, and genuine independence in Europe through assistance to those countries of Europe which participate in a joint recovery program based upon self help and mutual cooperation."

The grand objective is the perpetuation of free institutions. The achievement of that objective is through cooperation and self help.

Nobody of sound mind in this country has imagined that the road so mapped will be an easy road to travel. We know that it has not been easy so far as the United States is concerned. On the part of Great Britain the way has been difficult. Mr. Bevin, in his memorable review to the House of Commons a month ago, made this abundantly clear. He said that if anyone thought it was possible to build economic unity or cooperation between nations without sacrifices, "they were suffering from a fatal delusion." The experience of other nations, in particular that of France, has shown the truth of Mr. Bevin's observation. There also the road has not been an easy one.

It is too early to make a careful appraisal of the long-term value of the material benefits gained by the sixteen participating nations and the two zones of occupation under the Economic Cooperation Act. That will come in due course from official sources in this country and in Europe. I might say in passing that Mr. Paul Hoffman stated a few days ago that the progress being made is already substantial. What I want to emphasize tonight is the moral, or, shall we say, spiritual gain. Through the new body (known as the Organization for European Economic Cooperation) created in Europe to carry out the purposes of the Economic Recovery Act, in which all the participants in the benefits of the Act are represented, there has been created a nucleus for cooperation and self help such as Europe has not known before.

This is at the heart of Secretary Marshall's purpose and I take it that the operation of this organization will furnish the touchstone for the success of Secretary Marshall's plan.

Federation of Europe

There are those who hope that the Organization for European Economic Cooperation will prove to be a pattern for the future federal organization of European nations—the germ out of which may grow a new European political combination which shall bridge the gap between national sovereignty and the capacity of its members to act promptly and effectively in common.

This is the idea, of course, toward which the proponents of Western European Union are working, representing in inception at least, the same sixteen nations that are participating in the Organization for European Economic Cooperation. It is the same ideal as that advocated, with a somewhat broader list of participants, at the session of the Congress of Europe which met at The Hague in May of this year. All of you will remember the brilliant speech with which Mr. Winston Churchill opened the Congress. No statesman of first rank has been a more persistent advocate of European Union than he and none has approached with broader mind a more reasonable solution of the age-old problems involved in the creation of such a Union.

I venture the opinion that really effective political and economic unity in Europe requires for its inception and for its successful maintenance the strongest adherence by Great Britain. I say this with full realization of the position of Great Britain as the central link in the British Commonwealth of Nations and of all the vast potentialities of the continuance of that Commonwealth in the world scheme. It must always be kept in mind that the idea of political and economic union in Europe is not a simple thing to accomplish, even if we were all convinced of its ultimate desirability. The thought that out of all the mixture of nationalities, political systems and diverse traditions of Europe there can burst full-blown a Federal union of states is not realistic. Such a union can only emerge after years of the pursuit of common objectives and the consideration of common problems. Yet I would suggest that more and more concentration should be placed upon the desirable aspects of unity and less emphasis upon the obstacles to its attainment. In this connection, we all were greatly encouraged by the eloquent support which Sir Stafford Cripps gave to this thought in his speech before the National Press Club during his recent visit to this country.

Great Britain's Interest

There is additional significant and convincing evidence that Great Britain recognizes her interest in and obligations to the countries of Western Europe in the Brussels pact for common defense against aggression and for other matters, which was signed in March by Great Britain, France and the three Benelux countries. In April the five foreign ministers of the signatory powers, after taking part in the 16-nation Conference on European Economic Cooperation in Paris, agreed upon the details of a permanent organization called for by the pact. These details dealt with the machinery necessary for periodical discussions of economic, social and military matters. In September, in accordance with the section of the plan dealing with security, Field Marshall Viscount Montgomery was chosen as the first Chairman of the Permanent Defense Organization of the five signatory powers under the Brussels pact.

The Brussels pact, we must remember, is fully in accord with the Charter of the United Nations. Section 51 provides for regional agreements such as the Brussels pact and the agreemet, in which the United States participates, among 21 republics in the Western Hemisphere. Both have their military clauses and both are designed to resist aggression. One is not privileged to say what has been done so far in the way of staff talks or otherwise in carrying out the defense clauses of the Brussels pact, but it is clear from the choice of Field Marshall Montgomery that the responsible ministers of the signatory countries have not been idle.

At this point I hope it will not be considered presumptuous for me to say that in my opinion the members of the British Commonwealth of Nations will find it to their advantage to join in the defense provisions of the Brussels pact. I need not recall to your minds how often and with what fidelity the member nations of the Commonwealth have proved that they, like the mother country, are resolved that free institutions shall not perish. The most important and tangible move taken thus far by European nations to that end has been the signing of the Brussels pact and the establishment of a permanent organization for carrying it out. It seems to me, therefore, that we are fully justified in believing that the members of the British Commonwealth of Nations will in the near future become parties to the Brussels pact.

Military Aid

The Brussels pact, the Economic Cooperation Act and the Organization for European Economic Cooperation have one paramount objective in common. This objective is to promote conditions in which free institutions may survive. The economic and financial aid provided for in the Economic Cooperation Act serves a fundamental and essential function, but it is not the whole story. The maintenance of free institutions in Europe must stand on two legs, not one. Economic aid is one thing; political and military aid is another. The United States Senate recognized this fact when it adopted the Vandenberg Resolution. Two of the objectives which the Vandenberg Resolution stated that the government of this country by constitutional processes should particularly pursue within the framework of the United Nations Charter are pertinent to what I am saying, and I quote them as they appear as paragraphs (2) and (3) of the Resolution:

First: "Progressive development of regional and other collective arrangements for individual and collective self-defense in accordance with the purposes, principles, and provisions of the Charter."

Second: "Association of the United States, by Constitutional process, with such regional and other collective arrangements as are based on continuous and effective self-help and mutual aid, and as affect its national security."

What Remains to Be Done

The United States is already doing its share towards giving economic aid through enactment of the Economic Cooperation Act. Two more things remain to be done.

I believe that after the next Congress convenes the government should make explicit what is implied in the Vandenberg Resolution—that is, that the United States should take steps to join in the defense provisions of the Brussels pact as a member of that or an enlarged regional group in the manner contemplated by Article 51 of the United Nations Charter.

I also believe that the United States should enter into lend-lease agreements with the five powers signatory to the Brussels pact so that to the extent our own rearmament permits, they may acquire from us as promptly as possible the material means for defense against aggression. In providing this aid, the necessary legislation should show beyond question that our intention is exclusively for the purpose of helping peoples who share with us devotion to peace with freedom, to protect themselves against threats to their liberties from any quarter whatsoever.

If these two measures are taken, no doubt would remain in the minds of any who might be planning aggressive action against us, that we are prepared to resist such aggression by every means within our power. For this reason we might be justified in the hope that such plans, if they exist, might be abandoned and that the clouds which now hang so heavily over the international horizon might eventually clear away. On the other hand, should this hope prove to be unjustified, these measures of preparedness will be of vital importance to our own national defense and security.

Our Foreign Trade and The Dollar Question

(Continued from page 4)

serious dollar difficulties. In other parts of the world, the Philippine Islands can be cited as having no current or prospective dollar problem, and Turkey as a country where the dollar situation should be manageable with the resources in hand or in sight.

The recent deterioration in the dollar exchange situation in Latin American requires special comment. Last year the Latin American countries took a record volume of exports from the United States. Their purchases here approached $4 billion, as compared with an average trade of about half a billion dollars before the war and of a little over $1 billion during the war years. Here, again, account must be taken of the high prices at which this trade moved; the physical volume of our exports to Latin America in 1947 was by no means eight times what it was before the war.

The current rate of exports to Latin America is about a third less than it was last year. This drastic decline over so brief a period reflects an equally sharp drop in the supply of dollars available to Latin American countries for the purchase of American goods and services. The cause of the decline has not been, however, a falling off in our imports from Latin America. On the contrary, imports into the United States from Latin America are running at the record level of $2½ billion as compared with a little more than $2 billion in 1947. The big factor has been the virtual disappearance, on balance, of dollar receipts by Latin American countries in their trade with countries other than the United States. Last year, dollars received by Latin American countries in this way amounted to $1 billion, with the United Kingdom and the sterling area as the principal source. I do not know what the corresponding figure for 1948 will be, but it will certainly be small.

Earlier this year, it was expected that the loss of dollar revenues by Latin America from trade with countries other than the United States would be made up by dollar expenditures there in connection with the European Recovery Program. It was officially stated during the hearings on the European Recovery Program that so-called off-shore purchases by the Economic Cooperation Administration in Latin America would amount to $1 billion during the first year of operations, or to approximately the amount of dollar receipts from multilateral trade in 1947. The official forecast has turned out to be gross miscalculation. The Economic Cooperation Administration has financed purchases in Latin America up to this time of only $100 million.

The Economic Cooperation Administration has therefore not provided Latin American countries with a substitute source of dollars of any large proportions. Furthermore, many of the important Latin American countries have been obliged closely to restrict the further dissipation of their gold and dollar reserves. Consequently, the use of their own reserves in 1948 to finance exports from the United States will be considerably smaller than the $700 million which was used up in 1947. All factors taken into account, the Latin American countries will dispose this year, after meeting their obligations on account of their foreign indebtedness, of about $2½ billion for the purchase of United States goods and services, as compared with nearly $4 billion in 1947. In the meantime, the demand for dollars in Latin American countries, that is, the demand for American goods, continues heavy.

As indicated earlier, the resulting dollar shortage does not apply to all of the countries of the Latin American area. There is no dollar shortage in Cuba, Venezuela, and Uruguay, or in a number of the smaller countries. The shortage is severe, and tends to be chronic, in the West Coast countries and is a matter of concern in Mexico and Brazil. In Argentina, a postwar dollar spending spree, coupled with a flagrant mismanagement of the external finances of the country, has produced an acute dollar problem.

On the optimistic side of the Latin America exchange situation there has been in some countries an improvement in the administration of available exchange resources, with the result that the available supply of dollars will be distributed in a more orderly manner and dollar remittances will be more prompt. There has been also an improvement in some countries in the climate for private investment which may lead to an increased flow of private capital to Latin America and a corresponding increase in dollar availabilities. The greatest single hope for marked improvement in the dollar exchange situation in Latin America remains, however, the possibility of the development by American companies of the oil resources of the area and the expenditure by these companies of the large sums required for oil exploration and production.

Turning now to Europe, it is apparent that the supply of dollars available for the purchase of American goods and services depends very largely upon the continuation of financial aid to the Western European countries from the United States. In 1947, the deficit of Europe as a whole as a result of transactions with the United States and other non-European countries was approximately $7½ billion on current account alone. This means that they failed by that amount to earn sufficient foreign exchange to meet their outlays in that year for goods and services from sources outside Europe.

This enormous deficit was financed chiefly in two ways: by a drawing down of European reserves of gold and dollars and by loans from the United States and other non-European countries. All of you are familiar, for example, with the British loan, which was expended mainly in 1947, and with the loans to European countries by the Export-Import Bank, The International Bank, and the International Monetary Fund. In 1948, dollars provided under the European Recovery Plan are replacing these loans as the principal means of financing the continuing huge dollar deficit of Europe.

The task of reducing or eliminating Europe's dollar deficit is a formidable one. The main cause of the deficit is the loss of prewar income from investments, shipping, tourist expenditures, and other sources. The prospect is not favorable that the deficit can be appreciably reduced through an increase in this type of income. Hence, if Europe is not to continue indefinitely to rely upon the United States for extraordinary financial aid, it must bring its oversea trade in goods in to balance.

According to the calculations of the Economic Commission for Europe, the required adjustment would entail an increase of more than 100% in exports or a decrease of more than 50% in imports. A reduction in Europe's import requirements is improbable, which would leave an increase in exports as the more feasible alternative. But, unless Europe can earn a sufficient surplus of dollars from the rest of the world in order to settle accounts with the United States (which for various reasons seems doubtful), the only remaining possibility is a large increase in exports to the United States. The obstacles in this direction are very great indeed.

This analysis indicates that the dollar deficit of Europe is a stubborn thing and may persist for a long time to come. I come back to my point of departure with respect to the European dollar problem, which was that the supply of dollars available to Europe within the next period depends largely upon the action of the next Congress in continuing financial aid to Europe under the European Recovery Program or in some other form. Even with the current appropriation for the Program, there has been a net decline in the supply of dollars available to European countries. Discontinuance of financial aid would obviously mean a sharp accentuation of Europe's dollar shortage. The immediate outlook for the dollar problem, not only in Europe but also in the rest of the world, hangs, therefore, upon a political decision in Washington.

A Look at the Rails

(Continued from page 8)

procedure should be followed. As I understand it, the Commission's interpretation of this phase of regulation is that, since they are charged with the duty of prescribing rates that are just and reasonable, they must hold a hearing at which the burden of proof is on the shoulders of the railroads. This philosophy appeared to have been discarded when the Commission granted the last Railway Express rate increase without a hearing, but is back with us in this application for higher freight rates.

With this as a background, I conclude that the Commission will not hand down a final decision until hearings have been concluded and enough time elapsed for them to study the record.

The burden of proof is on the railroads. This means the railroads will probably again have to file estimates of revenues and expenses for the coming year. Now, if you or I were given the job of preparing such an estimate under these circumstances, we could be absolutely honest and still have a negative approach. I'm sure I'd veer to the conservative side and certainly not overstate earnings potentials. Thus, it may well be that we will be faced with a flock of estimates—probably next January—indicating all sorts of deficits, or at least small earnings for many systems.

On the constructive side, there is nothing in Section 15 at all bearing on an "interim increase." Happily, such an idea apparently never occurred to the drafters of Section 15 or the amendments to the act. The Commission used this loop-hole in Ex Parte 166 to give the railroads sorely needed increases in rates pending their digestion of the mountain of testimony taken at the hearings. I think the Commission will again follow this procedure and probably grant an interim increase of about 5% sometime in January—probably effective Feb. 1, 1949—or about enough to cover a 10c an hour wage increase.

The hearings on this increase will probably produce strenuous objections from shippers—many of which have not been at all loath to pass along their increased costs in higher prices to the railroads and other customers. Despite this, I think the Commission will be reasonable and recognize the simple arithmetic of the case, with due recognition of the fact that the railroads must be kept in condition to deliver an equally fine job as was done from 1941 to 1945 in event we are again forced into hostilities.

Increased Operating Expenses

Operating expenses will be higher in 1949. The third round of wage increase will be in effect. After all, one can't expect railroad labor to sit back and not follow the pattern set by the motor, the steel, and the coal industries early this year. From the railroad standpoint, they realize that they cannot hope to keep their forces intact without paying the going wage. They know they would end up with the dregs of the labor market. That, in my opinion, is the reason for the relatively quick settlement at 10c an hour with the two brotherhoods—a break which ought to set the pattern for the remainder.

Material costs have risen since 1947 and may go higher. It is my guess, however, that we are near the top of the inflation cycle, and such increases as may come can probably be offset by greater operating efficiency, particularly from diesel power.

Considering these intangibles, and attempting to weigh one against the other leads me to the following initial estimate for 1949. On the basis of a 5% decline in traffic, revenues, because of higher rates, might total about $9.7 billion, the same as this year, net railway operating income about $1 billion and net income about $700 million, both figures above my expectations for 1948 but lower than the current projected rate based on reports for June, July and August. This estimate assumes no interruptions to traffic either by weather or strikes and, of course, no war. Were we so unfortunate as to be involved in another war, we would see a trend in the rails similar to that in the last war. Barring an immediate cut in rates, we could probably add $1½ billion to gross and triple net income.

One might argue that a further increase in rates will divert more traffic from the rails. I'll grant that there will be some diversion, but not a significant amount unless business really goes into a tailspin. There just are not sufficient units of competing forms of traffic to absorb any great amounts. This argument might well have been voiced in 1947. Since October, 1947, rates have increased 26.6%, yet ton miles of freight handled in the first six months of 1948 as compared with 1947 were off only 2.9%.

Diversion of traffic for the next year is not the important factor. The overall volume of business is much more important for, with the industry bringing through about 10% of operating revenues to net railway operating income, any sizeable drop in gross will hurt.

Position Better Than In 1929

Such an eventuality brings up the question of the industry's ability to take it without financial difficulties. In this respect, the industry is in a vastly superior position to what it was before the depression of the '30s got under way. Net current assets now total about $1.5 billion, which compares with about $¼ billion in 1929. In addition, the industry now has about $300 million of capital and other reserve funds, largely in cash equivalent.

Fixed debt, exclusive of equipment obligations, run about $6.6 billion as compared with $9.3 billions in 1929. Contingent debt stands at about $1 billion, as compared with about $½ billion in 1929. Fixed charges now total about $425 million, as compared with $681 million. Funded debt maturities over the next two years amount to about $150 million, whereas similar maturities in 1930 and 1931 amounted to about $700 million.

In the past seven years the railroads spent on the average about $600 million per year in gross capital expenditures. This year, 1948, the total will run about $1.2 billions, almost $1 billion of which will be for equipment. Obviously, the war years took a heavy toll of the property, but with about $2 billion of property investment in 1947 and 1948, the overall condition of the track and equipment is in pretty fair shape, good enough, I believe, to warrant a sizeable cut in maintenance should worst come to worst.

With moderate debt maturities, in relation to working capital and fixed charges down around the $425 million level, it seems inconceivable that there should be any danger of a repetition of the '30s when railroads with about one-third of the total mileage went into bankruptcy. Furthermore, with the Mahaffie Act now on the books, the probabilities of widescale bankruptcies appears most remote.

In all my discussion of 1949 possibilities I have assumed as an initial premise no war, no extraordinary strikes, nor a complete crop failure. We have had bumper crops for quite a long number of years, except for corn last year. Last fall and early winter it looked for a while as if the cycle had been broken, but late rains remedied the bulk of the damage. Production of wheat this year was but slightly below 1947, while corn set a new all-time record.

Somewhere along the line we are bound to run into a bad year. It could be 1949, but at this time there is no certain way to tell. However, weather conditions and moisture estimate should be followed. It might prove to be time valuably spent.

Results of Individual Carriers

So far I've covered the industry as if it were one cohesive unit. Obviously, it is not, and there will be many variations all over the country in the results of individual carriers. I believe the eastern carriers, which have generally given a poorer performance than the rest of the country in the last few years, should do relatively better in the coming year. The Western and Southern carriers, on the other hand, may be expected to show declines, but still report relatively good earnings.

Within the districts, individual carriers may be expected to show considerable variation. In the Eastern District, for example, the N. K. P. probably will continue to be the outstanding performer. Lehigh Valley, starting from a lower base, could well be the largest percentage gainer, followed closely by B & O, Erie, Pennsylvania and New York Central. New Haven, likewise, should do better. The reports of all of these roads in the first quarter of 1949 should be way ahead of the first quarter of 1948, when the severe winter weather took such a heavy toll of net income.

The large coal carriers will bear special watching to ascertain what effect, if any, the higher rates will have on the movement of coal from and to various sections. The export market for coal has changed rapidly during the past year, indicating a more competitive situation in the domestic market. It is possible, but by no means a foregone conclusion, that Illinois & Indiana coal might hold up better than eastern coal.

Market Imponderables

From the standpoint of possible market action of rail securities, we must involve a further number of imponderables. Insofar as high grade rails are concerned, money market conditions will be the deciding factor. The growing pressure against the Federal Reserve policy of pegging long-term bonds and the upward trend of short-term rates, does not auger particularly well for market stability. I do not look for any violent breaks, but the probabilities of lower prices seem greater to me than the possibility of higher prices.

In the second grades, the substantially higher income return may sustain this group at present levels, assuming no violent price movement in high grades. If, as we suspect, earnings will continue to provide good coverage of charges, in some cases increased coverage, it is possible to envision price advances in some issues.

The income bond, preferred stock and common stock groups will continue to be subject to outside market influences—such as the European situation and domestic policies, as well as to the trend and outlook for railroad earnings.

I believe the income mortgage bond group, through seasoning, is beginning to gain more stature with investors looking for high returns. A contributing factor in the market outlook is the strong financial position of many roads having such bonds outstanding, and the inclination on the part of management toward debt retirement, either through sinking fund operation or direct market purchase of bonds.

This year so far a number of new names, Rock Island, Seaboard, Chicago Great Western, Norfolk & Southern, were added to the group that in 1947 made sizeable open market purchases of their income bonds. The Rock Island, for instance, has, through tender operation and open market purchases, made such an inroad into the outstanding debt, that the 4½s would appear headed for a definitely higher rating. There will be few roads that will equal Rock Island's prospective 1948 coverage of fixed and contingent charges—we figure about 5½ times overall.

RR. Preferred Stock

The market for preferred stocks continues to provide many high yielding stocks with satisfactory earnings coverage. As a group price movement on the upside appears to be limited by the level of the income mortgage group, although some of the individual issues could make new highs on improved earnings or substantial debt reduction.

With respect to the common stock group, one will be hard pressed to find more than a handful of stocks selling at more than 4-5 times probable current earnings per share, while a vast number will be found in the 3-4 times earnings group.

Earnings alone, however, are only part of the story. Because of investor prejudice, a high return is expected. Thus, when we find a stock earning at the rate of $8 per share but paying nothing to date, it is not hard to rationalize a market price of 23½. Each rail common has peculiarities of its own to be considered.

Kaiser Frazer-Otis & Co. Decision

(Continued from page 3)

arrive at the conclusion that the SEC and the NASD should have adopted a hands-off policy and left the parties to the courts for a complete determination of their respective rights. In our judgment this was the only sensible thing to do and the Commission and its partner can still save face by admitting their joint mistake and discontinuing the pending proceedings. Simple, basic and sound thinking dictate that as the proper course.

The maxim "where there is a right, there is a remedy" finds its fruition in the forums provided by our courts, wherein adequate relief can be granted for any breach of contract and damages awarded. The affected parties have applied to these courts for such relief. There, upon the taking of relevant testimony subject to the safeguard of the right of cross examination, a just decision can and will ultimately be reached. For the SEC and the NASD to have chosen the path of interference is unfortunate.

Such interference must be regarded as a menace to all those in the securities field for there is no telling where the axe will fall next, upon what pretense these regulatory bodies will again inject themselves into private fights which are basically none of their business.

Eaton Hails Decision as Stinging Rebuke to SEC

Says decision of Judge Morris in Washington U. S. District Court confirms his contention SEC is biased.

Cyrus Eaton, Cleveland industrialist and banker, associated with Otis & Co. since 1916, hailed the decision of Judge James W. Morris in U. S. District Court, Washington, in the Otis & Co. case, growing out of the controversy over the Kaiser-Frazer stock offering, as "a stinging rebuke to the Securities and Exchange Commission."

Cyrus S. Eaton

Mr. Eaton's statement, which was released on on Oct. 18, follows:

"The decision of Judge Morris has knocked the false and malicious claims made by the Kaiser-Frazer Corporation and the Securities and Exchange Commission into a cocked hat.

"The court has demonstrated that the so-called evidence which the Securities and Exchange Commission has piled up is worthless and that there are no facts to support its charges.

"The action of the court is a rebuke to the SEC for its high handed manner and tactics and confirms us in our conviction that the body is biased, prejudiced and cannot afford a fair trial. . . ."

Halsey, Stuart Offers Pub. Serv. of N. H. Bds.

Halsey, Stuart & Co. Inc. offered publicly Oct. 20 $7,000,000 Public Service Co. of New Hampshire first mortgage bonds, series D 3¼%, due Oct. 1, 1978, at 102⅝% and accrued interest. The firm bid 101.83999 for the bonds at competitive sale.

Of the net proceeds, $3,400,000 will be deposited initially with the trustee under the indenture and will be withdrawn from time to time to reduce short-term bank borrowings or will be used for the purchase and construction of property and facilities used in the company's business. The remaining $3,600,000 will immediately be applied to reduce outstanding short-term bank borrowings and the balance will be used for other corporate purpose.

The bonds will be redeemable at prices scaled from 105.38% to 100% and through operation of the sinking fund, beginning in the 12 months ended Sept. 30, 1951, at 102.42% to 100%.

Electric business accounts for approximately 91% of the total revenues of the company which serves 117,500 domestic, commercial, industrial, agricultural and municipal customers in the cities of Manchester, Nashua, Berlin, Dover, Keene, Laconia, Rochester, Franklin and Somersworth and in 155 towns, all in New Hampshire and having an aggregate population based on the 1940 census of about 360,000. The company also distributes and sells electricity to a small extent in Vermont, Maine and in the Province of Quebec, Canada.

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. 24	99.1	98.5	96.1	97.1
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 24	1,786,300	1,775,400	1,732,000	1,699,200
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Oct. 9	‡5,534,800	‡5,452,750	‡5,346,050	5,245,300
Crude runs to stills—daily average (bbls.)	Oct. 9	‖5,551,000	§4,965,000	§4,825,000	5,296,000
Gasoline output (bbls.)	Oct. 9	17,045,000	§15,369,000	§15,373,000	16,519,000
Kerosene output (bbls.)	Oct. 9	2,415,000	§2,320,000	§2,038,000	2,253,000
Gas oil and distillate fuel oil output (bbls.)	Oct. 9	7,234,000	§6,467,000	§6,482,000	6,539,000
Residual fuel oil output (bbls.)	Oct. 9	8,798,000	§6,689,000	§6,828,000	8,777,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 9	91,411,000	§79,252,000	§80,074,000	82,202,000
Kerosene (bbls.) at	Oct. 9	27,061,000	§26,048,000	§23,553,000	23,057,000
Gas oil and distillate fuel oil (bbls.) at	Oct. 9	77,879,000	§63,529,000	§57,355,000	61,098,000
Residual fuel oil (bbls.) at	Oct. 9	78,166,000	§37,498,000	§36,066,000	57,279,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 9	891,811	908,581	788,700	956,862
Revenue freight rec'd from connections (number of cars)	Oct. 9	722,639	726,859	628,440	743,145
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 14	$170,174,000	$170,200,000	$183,280,000	$91,338,000
Private construction	Oct. 14	87,937,000	101,031,000	104,449,000	57,208,000
Public construction	Oct. 14	82,237,000	69,160,000	78,831,000	34,130,000
State and municipal	Oct. 14	58,628,000	61,253,000	66,050,000	29,869,000
Federal	Oct. 14	23,609,000	7,916,000	12,781,000	4,261,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 9	11,880,000	11,645,000	10,830,000	12,839,000
Pennsylvania anthracite (tons)	Oct. 9	1,188,000	1,233,000	952,000	1,335,000
Beehive coke (tons)	Oct. 9	149,700	*146,100	125,400	141,200
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 9	337	327	283	304
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 16	5,482,030	5,481,632	5,426,247	4,946,090
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Oct. 14	94	107	84	75
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 12	3.75255c	3.75255c	3.75255c	3.19541c
Pig iron (per gross ton)	Oct. 12	$46.82	$46.07	$45.07	$36.96
Scrap steel (per gross ton)	Oct. 12	$43.16	$43.16	$43.16	$39.50
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 13	23.200c	23.200c	23.200c	21.225c
Export refinery at	Oct. 13	23.425c	23.425c	23.425c	21.425c
Straits tin (New York) at	Oct. 13	103.000c	103.000c	103.000c	80.000c
Lead (New York) at	Oct. 13	19.500c	19.500c	19.500c	15.000c
Lead (St. Louis) at	Oct. 13	19.300c	19.300c	19.300c	14.800c
Zinc (East St. Louis) at	Oct. 13	15.000c	15.000c	15.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Oct. 19	100.69	100.69	100.69	103.54
Average corporate	Oct. 19	111.25	111.25	111.44	113.89
Aaa	Oct. 19	116.41	116.41	116.22	118.80
Aa	Oct. 19	114.27	114.27	114.27	117.00
A	Oct. 19	110.34	110.52	110.70	113.89
Baa	Oct. 19	104.31	104.31	104.83	106.56
Railroad Group	Oct. 19	106.74	106.74	107.27	109.06
Public Utilities Group	Oct. 19	112.00	112.00	111.62	115.43
Industrials Group	Oct. 19	115.04	115.24	115.24	117.60
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Oct. 19	2.45	2.45	2.45	2.26
Average corporate	Oct. 19	3.10	3.10	3.09	2.96
Aaa	Oct. 19	2.83	2.83	2.84	2.71
Aa	Oct. 19	2.94	2.94	2.94	2.80
A	Oct. 19	3.15	3.14	3.13	2.96
Baa	Oct. 19	3.49	3.49	3.46	3.36
Railroad Group	Oct. 19	3.35	3.35	3.32	3.22
Public Utilities Group	Oct. 19	3.06	3.06	3.08	2.88
Industrials Group	Oct. 19	2.90	2.89	2.89	2.77
MOODY'S COMMODITY INDEX	Oct. 19	405.2	406.9	420.7	451.2
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Oct. 16	236.5	235.8	245.6	233.1
Fats and oils	Oct. 16	210.1	211.0	229.9	225.6
Farm products	Oct. 16	259.4	255.6	268.3	269.2
Cotton	Oct. 16	297.1	296.3	297.1	299.9
Grains	Oct. 16	214.9	212.2	221.1	307.8
Livestock	Oct. 16	272.2	266.9	284.5	262.5
Fuels	Oct. 16	244.1	233.8	233.8	190.3
Miscellaneous commodities	Oct. 16	169.0	168.7	169.7	170.9
Textiles	Oct. 16	194.3	193.8	195.1	215.4
Metals	Oct. 16	188.1	187.8	187.3	159.2
Building materials	Oct. 16	233.6	232.5	235.4	232.6
Chemicals and drugs	Oct. 16	156.6	156.4	155.6	152.4
Fertilizer materials	Oct. 16	142.3	142.2	140.9	133.6
Fertilizers	Oct. 16	149.8	149.8	149.8	136.9
Farm machinery	Oct. 16	146.0	146.0	144.5	127.1
All groups combined	Oct. 16	232.2	220.1	226.3	214.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 9	214,291	209,094	162,353	165,049
Production (tons)	Oct. 9	192,340	191,033	144,410	185,582
Percentage of activity	Oct. 9	96	96	76	102
Unfilled orders (tons) at	Oct. 9	395,953	375,884	410,240	471,355
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Oct. 15	144.0	144.4	144.2	145.7
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Oct. 9	164.6	167.1	168.0	158.0
Farm products	Oct. 9	181.5	186.4	188.1	190.1
Foods	Oct. 9	178.0	183.9	185.9	180.0
Hides and leather products	Oct. 9	187.8	187.9	188.8	189.2
Textile products	Oct. 9	146.9	146.5	147.5	141.2
Fuel and lighting materials	Oct. 9	138.3	138.2	*137.6	115.4
Metal and metal products	Oct. 9	171.9	171.8	172.0	150.7
Building materials	Oct. 9	202.7	203.1	203.1	183.3
Chemicals and allied products	Oct. 9	133.5	133.6	133.2	125.1
Housefurnishings goods	Oct. 9	148.5	147.9	147.7	132.7
Miscellaneous commodities	Oct. 9	118.4	119.1	118.9	116.1
Special groups—					
Raw materials	Oct. 9	176.7	179.7	180.9	175.0
Semi-manufactured articles	Oct. 9	158.3	158.5	158.6	152.1
Manufactured products	Oct. 9	160.5	163.1	163.9	151.7
All comodities other than farm products	Oct. 9	160.8	162.8	163.4	151.0
All commodities other than farm products and foods	Oct. 9	153.3	153.4	153.6	139.0

*Revised figure. †Reflects effect of strike in California. §Excluding California figures which were unavailable due to refinery strike. ‖Includes 438,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of September (in thousands)	$104,729,000	$97,940,000	$91,903,000
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR — Month of Sept. (in millions):			
Total new construction	$1,804	*$1,790	$1,423
Private construction	1,344	*1,351	1,086
Residential building (nonfarm)	685	*690	540
Nonresidential building (nonfarm)	342	*334	267
Industrial	117	*113	138
Commercial	125	*127	75
Warehouses, office and loft buildings	36	*34	14
Stores, restaurants and garages	89	*93	61
Other nonresidential building	100	94	54
Religious	26	*23	12
Educational	25	24	16
Hospital and Institutional	10	10	9
Remaining types	39	*37	17
Farm construction	63	82	65
Public utilities	254	245	214
Railroad	36	36	33
Telephone and telegraph	65	57	54
Other public utilities	153	152	127
Public construction	460	*439	337
Residential building	5	5	7
Nonresidential building (other than military or naval facilities)	104	*96	49
Industrial	2	2	1
Educational	57	*52	26
Hospital and institutional	24	*22	8
All other nonresidential	21	20	14
Military and naval facilities	13	*13	22
Highways	205	*200	159
Sewer and water	43	41	32
Miscellaneous public service enterprises	10	*9	12
Conservation and development	64	61	44
All other public	16	14	12
BUSINESS FAILURES—DUN & BRADSTREET INC.—Month of September:			
Manufacturing number	98	109	101
Wholesale number	52	61	40
Retail number	173	194	103
Construction number	37	40	20
Commercial service number	38	35	28
Total number	398	439	292
Manufacturing liabilities	$12,165,000	$5,580,000	$5,964,000
Wholesale liabilities	3,676,000	1,931,000	1,407,000
Retail liabilities	2,729,000	3,036,000	1,390,000
Construction liabilities	1,101,000	1,861,000	444,000
Commercial service liabilities	1,032,000	9,034,000	829,000
Total liabilities	$20,703,000	$21,442,000	$10,034,000
COAL EXPORTS (BUREAU OF MINES) — Month of August:			
U. S. exports of Pennsylvania anthracite (net tons)	690,531	449,364	844,432
To North and Central America (net tons)	488,026	296,486	365,436
To South America (net tons)	------	------	------
To Europe (net tons)	181,847	152,878	476,548
To Asia (net tons)	20,658	------	------
To Africa (net tons)	------	------	2,448
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939=100—As of August 15:			
All items	174.5	173.7	160.3
All foods	216.6	216.8	196.5
Cereals and bakery products	170.8	171.0	155.7
Meats	267.0	261.8	228.4
Dairy products	211.0	209.0	183.8
Eggs	220.2	204.3	212.3
Fruits and vegetables	199.6	213.4	199.8
Beverages	205.3	205.2	181.7
Fats and oils	197.8	200.8	178.5
Sugar and sweets	172.3	170.9	179.8
Clothing	199.7	197.1	185.9
Rent	117.7	117.3	111.2
Fuel, electricity and ice	136.8	134.8	123.8
Gas and electricity	94.5	94.4	92.0
Other fuels and ice	178.1	174.2	154.8
Housefurnishings	196.3	195.9	184.2
Miscellaneous	152.4	150.8	139.8
NEW YORK STOCK EXCHANGE— As of September 30 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$570,015	$572,784	$569,697
Credit extended to customers	46,755	54,395	77,703
Cash on hand and in banks in U. S.	341,195	343,111	395,582
Total of customers' free credit balances	550,298	551,393	629,680
Market value of listed shares	68,614,412	70,862,046	67,521,963
Market value of listed bonds	131,127,665	131,610,120	140,498,941
Stock price index, 12-31-24=100	75.0%	77.7%	77.5%
Member borrowings on U. S. Govt. issues	$72,406	$83,814	$138,969
Member borrowings on other collateral	233,168	239,675	234,602
SELECTED INCOME TERMS OF U. S. CLASS I RYS. (Interstate Commerce Commission) (Month of July):			
Net railway operating income	$105,256,808	$124,972,864	$61,197,824
Other income	16,138,416	24,248,471	16,526,785
Total income	121,395,224	149,221,335	77,724,609
Miscellaneous deductions from income	5,056,191	14,934,404	6,376,832
Income available for fixed charges	116,339,033	134,286,931	71,347,777
Income after fixed charges	79,753,626	97,288,833	37,073,145
Other deductions	3,279,417	3,218,247	2,734,780
Net income	76,474,209	94,070,586	34,338,365
Deprecation (way & structures & equip.)	31,221,196	31,050,032	29,459,025
Amortization of defense projects	1,373,752	1,371,679	1,346,596
Federal income taxes	48,854,376	52,253,433	21,322,717
Dividend appropriations:			
On common stock	4,911,593	11,029,522	3,524,813
On preferred stock	1,088,075	2,261,056	1,365,765
Ratio of income to fixed charges	3.18	3.63	2.08
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of September:			
Net sales	------	------	$123,096,300
Net purchases	$7,174,000	$4,369,000	------
U. S. GOVT. STATUTORY DEBT LIMITATION —As of Sept. 30 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	252,687,363	253,049,362	259,144,583
Guaranteed obligations not owned by the Treasury	50,484	51,445	75,959
Total gross public debt and guaranteed obligations	$252,737,847	$253,100,807	$259,220,548
Deduct—Other outstanding public debt obligations not subject to debt limitation	809,797	813,031	869,662
Grand total outstanding	$251,928,050	$252,287,776	$258,350,885
Balance face amount of obligation issuable under above authority	$23,071,949	$22,712,223	$16,649,114

*Revised figure.

Our Federal Reserve Policy Today

(Continued from page 13)

preoccupation of Federal Reserve policy.

Well, I do not need to remind any of you here tonight that on that well-set stage a very vigorously acted-out play took place and is still taking place. The plot has been simple: an upward spiral of wages, profits and prices. The only element of suspense has been, where will they stop? And the great concern of us all has been, what is to be the sequel? A leveling off into enduring prosperity is the great hope; deflation and unemployment the great fear.

Restraints

Nevertheless, there have been a number of restraining elements in the postwar situation to date, without which matters might have been much worse. Particularly since mid-1947, Treasury fiscal and debt management policies, as well as Federal Reserve credit policies, have had as a major objective generation of restrain on monetary and credit expansion.

Perhaps most significant has been the restraining influence produced by the Treasury cash surplus. During the period between July 1947 and September 1948, receipts by the Treasury from taxes and other sources exceeded expenditures by about $10 billion. This excess of receipts over expenditures has had the effect of directly reducing the spending power of the community. Further, by using the surplus substantially to retire debt held by the Reserve Banks, funds have been permanently withdrawn from the commercial banking system as well as from the public. Thus pressure has been brought to bear on the reserve position of commercial banks.

To raise the cost of reserve funds to the banks, and also to encourage the willingness of banks and nonbank investors to hold on to the securities they own rather than unload them onto the System, short-term market rates and Federal Reserve discount rates have been permitted to rise. Rates on Treasury bills have risen from ⅜ of 1% in mid-1947 to more than 1% today. Yields on one-year certificates have increased from ⅞ to 1¼%, while the Federal Reserve Banks have raised their discount rates from 1 to 1½%.

Moderate pressure has also been brought to bear on the reserve position of member banks by increases in reserve requirements. Prior to the legislation enacted in August, this was a possible course of action only for the New York and Chicago banks, since for all other classes of banks requirements were at their legal limit. In January, and again in June of this year, the Federal Reserve Board raised by 2 percentage points the reserve requirements on net demand deposits at New York and Chicago banks. On the basis of the temporary authority granted by the Congress in August, the Board raised reserve requirements by 2 percentage points on demand deposits and 1½ percentage points for time deposits. These new requirements became effective Sept. 16 for country banks, and Sept. 24 for central reserve and reserve city banks.

As a measure of direct restraint in an area in which credit expansion has been very rapid, the Board has reinstated controls on down payment and maturity terms of consumer instalment credit. First imposed in 1941, these controls expired in November of 1947. They have been revived under the temporary authority granted the Board in the August legislation.

Today's Situation

Today the Board's responsibility for restraining the forces of inflation is perhaps greater than ever. Certainly the general situation is as volatile as it has ever been. Yet the 1948 tax reduction act, calling for an estimated reduction in revenue of around $5 billion, and expanded defense and foreign aid expenditures have cut deeply into the Treasury surplus. Thereby, one of the most important elements of inflation restraint in the postwar period has been removed—though I should perhaps point out that I do not mean by this to suggest that the defense and foreign aid expenditures are the cause of the present inflation. Rather, they are today a contributing factor, no different in this respect from certain other forms of government expenditures, or from the expenditures of consumers and business firms, especially capital expenditures. No one of these expenditure components is, alone, responsible for the present inflation. But all of them together are responsible in the sense that they add to a total of spending that is excessive in relation to the total volume of goods and services that can be made available.

The even greater responsibility then that today's situation imposes may confront the central banking authorities of the United States with a very real dilemma: to seriously modify the policy of supporting the government securities market in the interest of credit control, and thereby risk demoralization of our capital markets; or to adhere to the support policy and risk the possibility of a further serious inflation resulting from excessive expansion of bank credit.

Either horn of our dilemma would obviously be intolerable. Would escape between them be possible?

To put the matter in another way, it may be necessary to seek more efficient means of credit control than the Board now possesses—instruments that take into account the changed environment in which control banking policy must operate today. What would be the nature of such instruments? Many proposals have been made, and I would like at this juncture to mention briefly to you some that have been given consideration.

Optional Plan

The first of these is the optional or special reserve proposal which was recommended to Congress in the Board's Annual Report for 1945 and again recommended in November of 1947 and in April, 1948. Under this proposal the Board would be authorized to impose on all commercial banks, member and non-member, a special temporary requirement that could be met, at the option of the individual bank, either in specified cash assets or certain marketable short-term government securities. Nonmember banks were included in the proposal since it was recognized that the responsibility for curbing inflationary credit expansion should be shared by the whole banking community, and not only by members of the Federal Reserve System. It would be unfair and inequitable to do otherwise.

An important advantage of the plan is that it would immobilize a portion of each bank's holdings of short-term government securities, and thereby cut down the reserve potential of the banking system. At the same time, however, the earning assets of the banks would not be reduced, and any consequent rise in interest rates would be limited largely to the field of private credit and would not be reflected in an increase in the cost of carrying the public debt.

Further, the special requirement would automatically reduce the increase in total deposits that could be supported by any new reserves the banking system might acquire. At the present time, member bank reserve requirements on the average work out to be about 17%, or one-sixth of total deposits. Thus, $100 of new reserves can support an expansion in deposits of $600. If the special requirement were to raise total required reserves to, say, 25% of total deposits, then $100 of new reserves would permit an expansion of only $400 in deposits. For the individual bank, the imposition of the special reserve requirement would mean that when it received a new deposit it would have to put aside an amount to meet primary reserve requirements as it does now, and then an additional amount in the form of assets eligible to meet the special requirement. As a result, less would remain for new loans and investments.

Uniform Reserve Plan

It has also been proposed that if changes in reserve requirements should become a major instrument of credit control, modifications should be made in the present system to eliminate inequities that would become more burdensome as requirements were increased. Essentially what the proposal—termed the Uniform Reserve Plan—calls for is the abandonment of distinctions based upon central reserve and reserve city designations, so that reserve requirements would be based solely upon classes of deposits as such, regardless of the bank's physical location. Under this plan, vault cash and interbank balances would be eligible for meeting reserve requirements.

Thus, under the Uniform Reserve Plan, individual banks would no longer be placed at a disadvantage because of the arbitrary classification of the communities in which they are located, or because their business requires that they hold a larger volume of vault cash. Power to increase or decrease reserve requirements is part of this Uniform Reserve Plan which is in process of a Federal Reserve System study.

Dual Reserve Account Plan

Another plan involving a somewhat different approach to credit control policy has been named the Optional Ceiling Reserve Plan, or, alternatively and perhaps more accurately, the Dual Reserve Account Plan.

The plan calls for establishing two deposit accounts at the Federal Reserve Banks: a Reserve Account and a Clearing Account.

Each member bank would start under the plan with an amount in its Reserve Account equal to its existing reserve requirement at the time. Any excess or deficiency of reserves would be posted to the Clearing Account.

Reserve Account balances could be bought or sold among banks in the market just as Federal Reserve funds are traded now. But only the Open Market Committee, through deliberate purchase or sale of Reserve Account Deposits, would be able to affect the total of Reserve Account balances available to the banking system as a whole.

After the plan had been put into operation, the computation of Reserve Account requirements would be simple: For reserve city banks, for example, Reserve Account requirements would equal 22% of net demand deposits less Clearing Account balances, plus 7½% of time deposits. No changes in the Reserve Account requirements would be necessary under the plan as a method of controlling credit expansion and the money supply. For this purpose, any desirable change in the Reserve Account position of the banks could be better achieved by use of the more refined method of Open Market Committee purchase or sale of Reserve Account deposits. However, the changes in requirements that would be necessary to incorporate the advantages of the Uniform Reserve Plan could, of course, be readily adopted at any time.

All new funds received by a bank from ordinary transfers or from such sources as a return flow of currency or gold inflow from abroad, would expand only the bank's Clearing Account balance and by just the amount needed to cover the rise in deposits. Or, as a possible alternative that would protect bank earnings, new funds could be invested in a special, interest-bearing Reserve Bond. In either case there would be no excess to be used for loan expansion and further increases in deposits.

But, more important, funds received as a result of System purchases of government securities would also affect only the Clearing Account and not Reserve Account balances. Thus, after the plan is installed, a $100 purchase made by the System in supporting the government securities market would provide the basis for no more than a $100 expansion in total deposits, and not a $600 deposit expansion, as is the case today. The conflict between the policy of market support and the need for restraining the growth in the money supply would clearly be considerably mitigated.

Finally, the plan could be introduced without causing a single bank to undergo any transition adjustments. It would not reduce bank earnings, and while it would severely limit the amount of credit expansion that could be produced by the banking system as a whole, it would still leave individual banks free to make loans on a basis essentially similar to that which prevails today. This plan has no status in the Federal Reserve System and is being submitted here only for your study.

Conclusion

To repeat, in view of current and foreseeable conditions, it may be necessary to devise additional instruments of credit control of the kind suggested by these and other proposals. Not to do so may mean that the central banking authorities will have to default on one or the other of their major responsibilities. And, as a cost of that default, there may come new techniques of control much less compatible with the framework of our free enterprise economy.

Sees More Vigor Needed If Security Business Is to Perform Its Economic Function

(Continued from page 9)

about an investment in language that he can understand.

"Now let us make it clear that we are not in any sense encouraging gambling or even outright speculation. We would not advocate the utilization of an individual's safety reserve funds; we are thinking of the accumulated funds over and above that reserve. We believe that the potential investor should be made to understand that his partnership investment in business enterprise can scarcely be without some risks, just as there are risks involved in every decision made in life. He should be willing and able to accept these risks if he wants to improve his financial status, exactly as every business man has to balance the same factors. It should be explained to him that there are good quality stocks and bad quality stocks, just as there are good quality automobiles and bad quality automobiles. Promises of fabulous profits are not only unwise, unfair and misleading, but in our opinion they are quite unnecessary. Don't underrate him. he knows that Santa Claus really does not operate in the security markets.

"We see no reason why the personnel of the security business should hesitate to seek out potential investors, known and unknown, and direct their attention to the stocks of some of the most prominent, best managed and financially stable companies in the world. For example, our clients are in a position to suggest to them common stocks that have been carefully analyzed by our research staff and which we have recommended for the investment of funds managed by large financial institutions. There follows a series of thumbnail sketches of the type of common stock investments that we have in mind; and there are many others. In most instances our clients have recent detailed reports from us on these companies so that they can provide the potential investor with this information. He should be encouraged to read these reports so that he will know what he is doing.

"It seems very clear that there is involved herein much more than the welfare of the security business. Our economy will become stultified and vulnerable to more violent cyclical swings, unless a proper proportion of surplus savings is directed into the equity capital market. There is an additional matter of public service; the potential investing public genuinely needs the sincere and capable service which the security business is in a position to render. Consequently, there should be no hesitancy on the part of the security business in performing those functions that constitute such a vital cog in the nation's economic machine.

"We see no reason why the personnel of the security business should hesitate to direct the attention of the aforementioned type of investor to the following stocks which, in our opinion, represent examples of relatively attractive values for investment at current prices. We rate each of these companies as better-than-average quality in respect to management, financial status and insofar as the characteristics of its industry are concerned.

Johns-Manville — This largest producer of asbestos and many of the products made from that raw material benefits from the high level of industrial and construction activity and especially from the public works division of the construction field. Earnings are expected to expand to new record levels this year, estimated at better than $4 per common share, reflecting the production from new plants and the attainment of increased efficiency. The current price of the stock is around 37 and the yield on the $1.80 dividend which we estimate for the current year is 5%.

"**U. S. Gypsum** — The common stock of this largest producer of gypsum is currently selling around 96 where the yield would be 5.2% on the $5 dividend which we anticipate for the current year. The price of the stock is very low in relation to our estimate of this year's earnings, which should be around $14.50 per share. The company's sales are rather closely tied in with the outlook for the building industry; all indications suggest a rather protracted period of high activity in this field.

"**Union Carbide** — One of the largest and most progressive of the so-called growth chemical companies, Union's outlook suggests a continuation of a trend of steady improvement. The company's stock is currently selling near 40 where the yield is 5% on the current $2 annual rate of dividends. The price of the stock in relation to our $3.35 per share earnings estimate for the year is at one of the lowest ratios in recent years.

"Owens-Illinois — Postwar adjustments had an adverse influence on this company's earnings up until about the middle of the current year. However, our studies suggest that the adjustment has been pretty well completed and that the trend of the company's earnings should improve. Meanwhile, the current price of 52 affords a yield of nearly 5.7%.

"The General Electric — This company needs no introduction as the largest producer of electrical apparatus and appliances. The point to be stressed is the fact that the stock, currently selling near 40, is at one of the most attractive ratios in history when related to the dividend return of 5% and the earnings of $4.25 which we estimate for the current year.

"International Harvester — In spite of the fact that farm income may be entering a moderately downward trend, the financial position of the farmer and the fact that farm income should be relatively well sustained by parity prices for farm products and by the current large crops, indicates that demand for the company's products will stay at a high level. Meanwhile, the stock selling near 28 is historically low in relation to the indicated earnings and earnings prospects and affords a yield of 6.1% on the indicated $1.70 dividend.

"Armstrong Cork — The high level of disposable income and residential construction indicates a continuation of the high rate of operations for this large producer of hard surface floor covering. Meanwhile, its raw materials are coming into better supply and possibly lower costs in this respect would tend to offset higher costs elsewhere. The stock, currently selling around 50 would yield 6% on the $3 dividend payments which we are estimating for the current year, and the ratio of the stock's price to our $7.50 per share estimate of earnings this year is historically low.

"General Motors — There are few signs to indicate that the automobile industry has caught up with the pent-up demand for passenger cars created during the war period, and there is every indication that General Motors will continue to get its share of the business. Meanwhile, the company's common stock currently selling around 62 affords a dividend return of 5.6% on our $3.50 estimate of 1948 dividend payments and here again, the price of the stock is historically low in relation to our conservative earnings estimate of $8 per share.

"Louisville & Nashville, Norfolk & Western—Due to the character of the traffic handled by these two railroads, there is an element of relative stability that is not present for most roads and the finances of both companies are in good shape. Under the circumstances, therefore, it would seem that the 8% dividend return on the L & N stock at 44 and the 6.6% return from an estimated $4 dividend on the N & W stock at 61 should be considered relatively attractive.

"Union Pacific — This road's strong competitive position in handling transcontinental traffic, plus the sizable income available from investment securities and oil properties, has greatly strengthened basic earning power. Substantial debt reduction has further placed the common stock among the high-grade equities. Selling around 89, the stock offers a yield of 5.6% on the $5 dividend, and the current price is historically low in relation to estimated earnings of $15 a share for the current year.

"Chrysler — Fundamentally, we are more impressed with the elements of strength and stability in General Motors, but the fact remains that Chrysler should also obtain its fair share of the anticipated high level of automobile activity. It is our view that a little more risk is involved in holding Chrysler than there is in General Motors, but at the same time the higher 7% dividend return for the former and the lower 7.5 price-earnings ratio reflects this factor.

"Electric Auto-Lite — The outlook for this supplier of automotive equipment must necessarily be similar to that of the automobile industry. Our studies suggest that earnings should be well sustained. Here again, however, there is a little more risk involved and the purchaser of the stock should be able to follow industrial conditions in general and the affairs of the automobile industry especially. Subject to this qualification, the 6.5% return on this year's dividend and the low price-earnings ratio of only 6.5 times our estimate of $7 for the current year make this stock look relatively attractive for certain types of accounts.

"Libbey - Owens - Ford—The same general observations apply to the common stock of this company, which is a conservatively managed supplier of glass for the automobile and building industries. The current dividend return is 6% and the present price of the stock is only about seven times the earnings which we anticipate for the current year before special reserves.

"International Shoe—This company's position as a low-cost producer in the relatively stable shoe manufacturing business, together with the conservatism of its accounting policies, suggests to us that, even in a period of lower business activity, dividend payments of at least $2 a share could be made. At the present time, the dividend payment is $3 and, with the stock currently selling around 41, the dividend return is 7.3%. The current price is approximately 10 times the earnings which we estimate for the current year.

"May Department Stores — In the practically unanimous opinion of the trade, this company is rated as the best managed in the department store field. Our studies show that the company has flexibility in its control of expenses, which should provide a good cushion in periods of low business activity. Meanwhile, the present price of the stock, around 42, is only seven times our earnings estimate for this year and the yield on the $3 dividend payment is a high 7.2%.

"International Nickel, Kennecott, Phelps, Dodge — Earnings and dividends of metal producers are characteristically much less stable than companies operating in other industries and, consequently, an investor in these common stocks should be in a position to follow industrial trends — otherwise he shouldn't buy them. Nevertheless, it does appear that the earnings of these companies should be fairly well sustained for a fair period of time and, all of these factors considered, the 6.7% return on International Nickel, the 8.2% return on Kennecott and the 8.8% return on Phelps Dodge suggests to us that the issues are relatively attractive for holding in the proper type of investment funds.

"If space would permit it, we could go on and direct attention to the relatively big yields available on additional stocks, such as Kresge, Kress, Woolworth, J. C. Penney, stocks of some of the operating utility companies, steels and others. But the question we want to raise on this whole matter is: Has the security business performed its proper function of directing the attention of the public to the fact that stocks of the foregoing quality actually are available at returns yielding 5% or better? And when we say public we are not thinking of individuals who always have been more or less familiar with security values; rather, we are thinking of those millions of people who have had little or no experience with investments but who, nevertheless, have the surplus savings at the present time."

Hope of European Currency Stability

(Continued from page 15)

generated by the Marshall Plan, Greece, Italy and France might be in the hands of the Communists. If they were, keeping the rest of Europe from going that route would be difficult indeed. And it is the fact of the Marshall Plan that has not only stopped the march of Communism, but has turned the tide in the other direction. The latest elections in Western Europe show the Communists are steadily losing ground. If continued progress can be made, if the free nations of Western Europe remain free, and if we, the United States, and those free nations remain united, we can, I believe, be sure that no aggressor will march against us. You figure out for yourself what that's worth to you, your children and your grandchildren. As for me, it means the dawning of a new and better day.

* * *

The Conservation Aspects of ERP

Speaking on Oct. 18 at the New York "Herald Tribune" Forum in New York City, Mr. Hoffman again expressed an optimistic view of the European Recovery Program. On this occasion he said:

"The noble and painfully built structure of our western civilization has been shaken to its foundation by World War II, and not least in those areas of Western Europe and the Mediterranean from which we in the United States have inherited and developed so many of our own most cherished institutions. The human resource in greatest peril throughout much of the world today is the tradition and practice of freedom.

"With this in mind, it is no exaggeration to describe the cooperative effort now underway between the United States and the nations of western Europe as the most important and positive conservation project ever deliberately undertaken.

"The first objective of the European Recovery Program, as conceived by Secretary Marshall and the Congress, is to conserve health and life in Europe. That it was only humane for the United States to do.

"The second objective is to help Europe to conserve, to re-create—if possible to improve—the pattern of its economic life. That it was prudent for us to do.

"The third objective is to conserve freedom, to conserve justice, and above all to promote and to build an enduring peace. That it was imperative for us to do.

"In his Harvard speech Secretary Marshall pointed out that the visible destruction caused by the war was 'probably less serious than the dislocation of the entire fabric of European economy.' It is the beginning of wisdom, it seems to me, even where the intent is limited to the conservation of physical resources, to start with the economic system. It is the economic system that determines where the strains on physical resources will fall. By and large, an economic system which encourages the freest possible movement of goods, service and people among the nations is the system that is most economical of resources as well as the most efficient.

"In her new book Barbara Ward, foreign affairs editor of the London 'Economist,' sets a goal for the economy of Western Europe. 'The aim should be to emulate the prosperity of the United States,' she writes, 'by emulating its lack of internal inhibiting factors—the absence of trade barriers, the absence of competing currencies, the freedom of men and capital to move more or less freely from one end of the Union to the other.'

"The parallel Miss Ward draws between Western Europe and the United States suggests to us the stupendous wastage of soil and manpower that would occur in the United States if every state in the Union undertook to be economically self-sufficient.

"This is familiar doctrine, classical doctrine. It is still sound doctrine, both for us and for the rest of the world. Let us not forget that the United States, although it has been feeding tens of millions of people outside its borders—and I may add with no necessary strain on its soil—is nevertheless the second largest importer of food. There are many foodstuffs we do not produce, just as there are many articles we do not manufacture, many services we do not render, and many extractive materials we do not possess. We are deeply concerned with the world's resources, just as the world is with ours, and if what I have said is true, every country in Europe should be deeply concerned to achieve the freest possible movement among all countries.

"I am glad to report that the European nations participating in the Recovery Program have now undertaken to coordinate their skills and resources. This is a beginning only—but a magnificent beginning — toward a world of freer movement. Within recent weeks these nations have taken two crucial steps. They have agreed in principle on a program for currency clearance, without which goods and services cannot move easily from country to country. And they have now presented to us, through the Organization of European Economic Cooperation in Paris, a proposed one-year program which is the first example in continental European history of the deliberate integration of economic resources among free peoples.

"The European Recovery Program is thus, in terms of the economy as a whole, a conservation program without precedent in its scope. It is also a conservation program in the specific terms of physical resources which have been discussed here today. The Act of Congress which created the Economic Cooperation Administration requires that the program be carried out with minimum drain upon the physical resources of the United States. In cases where commodities required by Europe might affect resources in the United States which are deficient or potentially deficient—for example oil—the Act requires that these be obtained elsewhere, in areas where the reserves are greater. Conversely, the Administration is authorized to acquire, for purposes of stockpiling in the United States, materials which are scarce or lacking here. We are carrying out both these provisions of the Act to the best of our ability.

"Just as we are conserving our domestic resources by these policies, so also are we assisting Europe to restore her own physical resources, which have been sorely hit. Conservation is always the first casualty of war. The surrender of Germany found Europe's soil resources gravely depleted, first by the drive for self-sufficiency, then by the ruthless demands of the conflict itself. The Europeans have had hundreds of years of experience in guarding their soil; their attitude toward the good earth has been for generations that of trusteeship. Today fertility is being restored. With the help of fertilizer from the United States and with the stepped-up production of fertilizer in Europe, land that has been mined for ten years is being restored to fertility.

"I want to cite one further example of conservation activities, for which I hold high hope. We have added to the staffs of our larger ECA missions in Europe agricultural experts who are responsible for the exchange of information about soil conservation. We can learn from the Europeans. They also can learn from us, for we have in recent years taken giant strides in learning how to cope with our own soil problems.

"My hope is high for such interchanges because of my faith in human ingenuity. I am not made pessimistic by the facts and trends that have been reported today. We are learning how to master the processes which destroy our soil. We can master them, if we have the will, and so also can Europe and the world. Nor am I pessimistic about the long-range outlook for food. The industrial revolution which multiplied our output of manufactured goods has at last reached the farm, putting mechanical power behind muscle-power for both production and conservation. In the last 25 years the increase in food output per acre on the farms of the United States has outstripped the increase in output per man-hour in our factories. Our greatest resource is the resourcefulness of free people.

"I have called the European Recovery Program a program to conserve life, to conserve human and physical resources, and to conserve and strengthen an economic system and a social system worthy of man's dignity.

"Above and beyond these purposes, high as they are, this is a program to promote peace.

"War is the great despoiler of all resources — the ultimate in reckless waste — the final stupidity. I for one believe that unless we can with honor avoid war all planning for conservation will be waste, void and without significance.

"Our one great hope to avoid war is, I believe, to keep our free America strong and prosperous, to help the free nations of western Europe regain their strength and prosperity, and to bind the free, strong, prosperous nations of the western world together into a union so firm that no aggressor will dare to march against it.

"Peace — enduring peace — can then become a reality. This is the one great hope: in Abraham Lincoln's words 'the last best hope of earth'."

Burley & Co. in New York

Chester C. Burley, Sr. and Albert W. Burley have opened offices at 120 Broadway, New York City under the firm name of Burley & Co. Both have been partners in Burley Bros. of Jersey City.

With John L. Ahbe & Co.

(Special to THE FINANCIAL CHRONICLE)

PALM BEACH, FLA.—Joseph P. Walker, Jr., has become associated with John L. Ahbe & Co., 268 South Country Road. He was previously with Merrill Lynch, Pierce, Fenner & Beane.

Gill Assoc. Adds

(Special to THE FINANCIAL CHRONICLE)

TOLEDO, OHIO—Frank Dowell has been added to the staff of Gill Associates, Inc., Hotel Secor.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Aerco Corp., Englewood, N. J.
Oct. 14 (letter of notification) 150 shares 5% cumulative, participating preferred stock (par $100) and 150 shares of common stock, class A (no par). **Price**—$101 per unit, consisting of one share of each class. **Underwriting**—None. Capital purposes.

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 Bemberg Corp.
Oct. 19 filed (by Attorney General of the United States) 6,175 shares of class B preferred, 91,851 shares of class C common and 34,058 shares of class D common. **Underwriters**—Stock will be sold at competitive bidding. Probable bidders: Kuhn, Loeb & Co., Lehman Brothers and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co.; Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane. [For details regarding proposed changes in existing stock, see under North American Rayon Corp. below.]

American Motorists Insurance Co., Chicago
Sept. 28 filed 100,000 shares of capital stock (par $5). **Underwriting**—None. **Offering**—To be offered for subscription by stockholders. Unsubscribed shares may be sold to such parties as directors may determine. **Price**—$9 per share.

American Steel & Pump Corp.
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.

• Ameru Seafoods, Inc., Seattle, Wash.
Oct. 13 (letter of notification) 2,640,000 units, consisting of one share of 6% non-cumulative, participating, non-convertible, callable, non-voting preferred stock ($100 par) and one share of common, voting stock ($10 par). To be sold at $110 per unit. No underwriter. To purchase equipment and for other corporate purposes.

• Anglo Saxon Mines, Inc., Georgetown, Colo.
Oct. 5 (letter of notification) 400,000 treasury shares to be sold at 25 cents per share. No underwriter. For mine development.

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.

• Associated Telephone Co., Ltd. (11/9)
Oct. 11 filed $6,000,000 first mortgage bonds, series "E," due Nov. 1, 1978. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Paine, Webber, Jackson & Curtis, Stone & Webster Securities Corp. and Mitchum Tully & Co. (jointly); White, Weld & Co. and Kidder, Peabody & Co. (jointly). **Proceeds**—For property additions and betterments, to reimburse the company's treasury for expenditures heretofore made for said purposes and to liquidate any short-term bank loans existing at the date of issue of the bonds. Bidding expected Nov. 9.

Black Hills Power & Light Co., Rapid City, S. Dak.
Oct. 5 filed 33,730 shares ($1 par) common stock and 5,000 shares of ($100 par) cumulative preferred stock. **Underwriter**—Dillon, Read & Co. Inc. **Offering**—Common stock will be offered for subscription by common stockholders on basis of one new for each four shares held, and the preferred to the public. **Proceeds**—For construction.

• Booth (F. E.) Co., Inc., San Francisco, Calif.
Oct. 12 (letter of notification) $200,000 5-year 5% convertible notes. No underwriter. For working capital.

Bradshaw Mining Co., Tonopah, Nev.
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

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.; Harriman Ripley & Co. **Proceeds**—To pay $2,625,000 of promissory notes and to finance additional costs and corporate needs.

Bucyrus-Erie Co., South Milwaukee, Wis.
Sept. 29 filed 320,000 shares ($5 par) common stock. **Underwriter**—Harris, Hall & Co. (Inc.) **Offering**—To be offered for subscription by common stockholders. **Proceeds**—To pay costs of expansion program.

California Water Service Co.
Oct. 8 filed $1,500,000 first mortgage 3¼% bonds, series C, due Nov. 1, 1975. **Underwriters**—Names to be determined through competitive bidding: Blyth & Co., Inc., and Dean Walter & Co. (jointly); Union Securities Corp.; Halsey, Stuart & Co. Inc. **Proceeds**—For repayment of bank loans and to restore working capital for outlays put in property additions.

• California Water Service Co.
Oct. 15 filed 80,000 shares cumulative convertible preferred stock, series D (par $25). **Underwriter**—Dean, Witter & Co., San Francisco. **Proceeds**—For part payment of bank loans.

California Water & Telephone Co. (10/26)
Oct. 6 filed 40,000 shares ($25 par) cumulative preferred stock. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To help pay for costs of extensions and improvements during this year and next.

Capitol Records, Inc., Hollywood, Calif.
Sept. 29 (letter of notification) 11,390 shares of common stock (25¢ par). To be offered by George G. DeSylva, who holds a promissory note of the company amounting to $140,000. The note is convertible into the company's common stock at the rate of 134 shares for each $1,000 principal amount of the note. The stock will be sold to the public at $8.75 per share. **Underwriter**—William R. Staats Co.

• Carolina Power & Light Co.
Oct. 14 filed 350,000 shares of common stock (no par) plus not more than 17,500 additional shares which may be purchased in stabilizing the stock. **Underwriters**—Electric Bond & Share Co. (parent) is disposing of the shares and has asked SEC permission for sale of stock by means of a negotiated sale to underwriters.

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. **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, N. Y.
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.

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.

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.

Columbia Gas System, Inc., New York
Sept. 16 filed 1,223,000 shares (no par) common stock. **Offering**—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. Rights expire Oct. 28. **Price**—$10 per share. Underwriting, none, but The First Boston Corp. has been appointed agent to solicit subscriptions. **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 is being offered to stockholders of record Sept. 17 on basis of three new shares for each 10 shares held. Rights 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.

• Consumers Power Co., Jackson, Mich.
Oct. 14 filed 458,158 shares (no par) common stock. **Offering**—The shares will be offered to stockholders of record Nov. 5 for subscription at rate of one share for each nine shares held. **Price**—$33 per share. Stockholders will also have the right to subscribe to additional shares not purchased by other stockholders. **Underwriting**—None. **Proceeds** — For property additions and improvements and other corporate purposes.

• Cooperators Properties, Inc., Washington, D. C.
Oct. 13 (letter of notification) $24,000 5% 2nd-trust real estate notes and 66 shares of voting preferred stock (par $5). Nn underwriting. For redemption of notes outstanding and for expansion and improvement of service station.

• Coppin Dude Gold Mines, Inc., Tungsten, Nev.
Oct. 12 (letter of notification) 100,000 shares of nonassessable common stock. **Price**—$1 per share. No underwriting. To purchase equipment and build resort.

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.

• Deardorf Oil Corp., Oklahoma City, Okla.
Oct. 13 (letter of notification) 166,000 shares (10¢ par) common. **Price**—$1.20 per share. **Underwriter**—Tellier & Co. **Proceeds**—For aditional working capital.

• Detroit Edison Co.
Oct. 19 filed $46,649,500 10-year convertible debentures. **Underwriting**—None. **Offering**—Stockholders of record Nov. 10 will be given the rights to subscribe to $100 of debentures for each 15 shares of capital stock held. Transferable warrants will be issued about Nov. 15 and will expire Dec. 1. Subscription price is $100 for each $100 principal amount of debentures. **Proceeds**—To retire bank loans and to meet construction costs.

• Doman-Frasier Helicopters, Inc., New York
Oct. 13 (letter of notification) 20,000 shares of capital stock (par $1). **Price of Stock**—$2.50 per share. **Underwriter**—John Nickerson & Co., Inc., New York. Construction, development and sale of helicopter rotors, etc.

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

NEW ISSUE CALENDAR

October 21, 1948
Pennsylvania Power & Light---------Preferred

October 25, 1948
Youse (E. S.) Co., Inc.---------Common

October 26, 1948
California Water & Telephone Co.---------Preferred
New Orleans Public Service Inc.
Noon (EST)---------Bonds
Official Films Inc.---------Pref. and Common
San Diego Gas & Electric Co.---------Common

October 27, 1948
Chesapeake & Ohio Ry., noon---Equip. Trust Ctfs.
Employees Credit Corp.---------Pref. and Common

November 1, 1948
Florida Telephone Corp.---------Common

November 3, 1948
Chicago St. Paul Minneapolis &
Omaha Ry. (CST)---------Equip. Trust Ctfs.

November 9, 1948
Associated Telephone Co., Ltd.---------Bonds

November 15, 1948
Iowa Public Service Co.---------Bonds and Common

November 16, 1948
Northwestern Bell Telephone Co.---------Debentures

November 22, 1948
Public Service Electric & Gas Co.---------Bonds

($1 par) common stock reserved for exercise of warrants. **Underwriter**—Minot, Kendall & Co. For working capital.

● **Dunk Donut Corp., Highland Park, Mich.**
Oct. 15 (letter of notification) 7,500 shares of common stock (par $1). Price, at market. **Underwriter**—Charles E. Bailey & Co.

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 $135,000 for working capital.

Employees Credit Corp., New York (10/27)
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.

● **Ex-Cell-O Corp., Detroit, Mich.**
Oct. 15 filed 27,000 shares of common stock (par $3). The corporation plans to exchange the 27,000 shares for 1,500 shares of $10 par common stock of the Robbins Engineering Co. Ex-Cell-O plans to operate the Robbins Engineering Co. as a wholly-owned, consolidated subsidiary.

Family Finance Corp.
Sept. 2 filed 25,000 shares 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.

● **Federal Services Finance Corp., Washington, D. C.**
Oct. 15 (letter of notification) 1,608 shares of 6% cumulative preferred ($100 par) and 2,639 shares (no par) common. **Price**—Preferred $104.50 per share. Common $50 per share. No underwriter. For operating capital.

Ferro Enamel Corp., Cleveland, Ohio
Sept. 17 filed 79,080 common shares ($1 par). **Offering**—To be offered for subscription by stockholders in ratio of one additional shares for each four shares held. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—Company and subsidiaries will use the funds for general corporate purposes. Offering postponed.

Florida Telephone Corp., Ocala, Fla. (11/1)
Oct 5 (letter of notification) 28,500 shares of common stock (par $10). **Underwriter**—Florida Securities Co., St. Petersburg, Fla. **Price**—$10 per share. For an expansion and modernization program. Expected Nov. 1.

● **Forest Lawn Co., Glendale, Calif.**
Oct. 12 (letter of notification) $295,000 of 3% debentures, series "C," due June 1, 1968. No underwriting. To make capital improvements or to pay corporate obligations.

● **Frontier Fund, Inc., Buffalo, N. Y.**
Oct. 14 filed 200,000 shares of capital stock (par $1), to be offered at market. **Underwriters**—Ruth & Palo. **Proceeds**—For investment.

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.

General Engineering & Manufacturing Co., St. Louis, Mo.
Oct. 8 (letter of notification) 295,000 shares ($1 par) common stock to be offered at par and warrants authorizing the purchase of 45,000 shares of common stock. **Underwriters**—Dempsey-Tegeler & Co. and J. W. Brady & Co., St. Louis, Mo. **Proceeds**—For general corporate purposes.

● **General Locks, Inc., Blairstown, N. J.**
Oct. 18 (letter of notification) 2,500 shares of common stock (par $1). Price, par. **Underwriting**—None. To acquire building, move plant, machinery, etc., from Detroit, general corporate purposes.

Goldsmith Bros. Smelting & Refining Co.
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.

Hastings (Mich.) Manufacturing Co.
Oct. 4 (letter of notification) 1,000 shares ($2 par) common stock, on behalf of C. W. Dolan. **Underwriter**—First of Michigan Corp., Battle Creek, Mich. **Price**—$9.75 per share.

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.

Hooker Electrochemical Co.
Oct. 6 filed 50,262 shares of cumulative second preferred, series A (convertible into common stock before Dec. 1, 1958). **Underwriter**—Smith, Barney & Co. **Offering**—To be offered for subscription by common holders of record Oct. 25 on a basis of one new share for each 16 shares of common held. Rights expire Nov. 9. **Proceeds**—For capital additions to plants and facilities and to provide for changes in equipment and processes.

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.

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.

● **Ingleside (Ariz.) Turf Club., Inc.**
Oct. 13 (letter of notification) 950 shares of 6% cumulative preferred stock (par $100) and 50 shares of common stock (par $100). Price, par for both issues. No underwriter. To pay off debts, to cover overhead until next racing meet and for operating capital and additional improvements.

● **Interstate Engineering Corp., El Segundo, California**
Oct. 13 (letter of notification) 96,000 shares ($1 par) common stock. **Price**—$2 per share. No underwriter at present. For working capital.

Iowa Public Service Co. (11/15)
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. Bids expected Nov. 15.

● **Kansas-Nebraska Natural Gas Co., Phillipsburg, Kansas**
Oct. 18 filed 93,062 shares ($5 par) common stock. **Offering**—To be offered for subscription by stockholders at rate of one new share for each five shares held of record Nov. 1. **Price**—$12.50 per share. **Underwriting**—None. **Proceeds**—For construction.

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.

● **Lessard-Lees, Inc., Seattle, Wash.**
Oct. 12 (letter of notification) 10,000 shares of class "A" 6½% cumulative preferred stock (par $2) and 30,000 shares of class "B" common stock (par $1). Price, par for each class. No underwriter. For working capital.

McCormick & Co., Inc., Baltimore, Md.
Sept. 30 (letter of notification) 1,000 shares (no par) common stock and 2,500 shares of 5% cumulative preferred stock (par $100). **Price**—Common $50 per share, preferred $100 per share. No underwriter. For working capital.

● **Marine Aircraft Corp., New York**
Oct. 15 (letter of notification) 25,000 shares of common stock (par $1) and 2,500 shares 6% non-cumulative convertible preferred stock (par $100). **Price**—$110 per unit, consisting of one preferred and 10 common shares. **Underwriting**—None. Working capital.

● **Mary Lee Candies, Inc., Norwalk, Ohio**
Oct. 11 (letter of notification) 60,000 shares ($1 par) common stock. **Price**—$4.50 per share. **Underwriter**—Herrick, Waddell & Reed, Inc. **Proceeds**—For additional working capital.

● **Marysville Water Co., Harrisburg, Pa.**
Oct. 14 (letter of notification) $60,000 first mortgage series 4¼% bonds, due $2,000 annually Dec. 1, 1948-1978. **Underwriter**—Warren W. York & Co., Inc., Allentown, Pa. The underwriter will extend an opportunity to holders of first mortgage 5s, due Oct. 1, 1948, to invest in the new issue. **Price**—99½ to 101, according to maturity.

● **Michigan Bakeries, Inc., Grand Rapids, Mich.**
Oct. 18 filed 67,500 shares 5½% cumulative convertible preferred stock ($20 par) and 67,000 shares ($1 par) common. **Underwriters** — S. R. Livingstone & Co. and First of Michigan Corp. **Proceeds**—To redeem stock and complete a plant.

● **Mid-Eastern Oil Corp., New York**
Oct. 14 (letter of notification) 950,000 shares of common stock (par 10¢). **Price**—30¢ per share. **Underwriter**—E. M. North & Co., Inc., New York. Operation and development of properties.

● **C. A. Mining Group, Inc., Wallace, Idaho**
Oct. 8 (letter of notification) 500,000 shares of common (non-assesable) stock. **Price**—10¢ per share. No underwriter. For exploration and development work.

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.

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.

New Orleans Public Service Inc. (10/26)
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. **Bids**—Bids for the purchase of the bonds will be received up to noon (EST) Oct. 26 at Room 2033, 2 Rector Street, New York.

● **North American Rayon Corp.**
Oct. 19 filed (by Attorney General of United States) 177,398 shares of common stock, class C, and 88,853 shares of common stock, class D. **Underwriters**—Stocks will be sold at competitive bidding: Kuhn, Loeb & Co., Lehman Brothers and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co.; Blyth & Co. and Merrill Lynch, Pierce, Fenner & Beane.

Stockholders of North American Rayon Corp. and American Bemberg Corp. will vote Nov. 8 on creating new series of stocks of each company to fulfill orders issued by the Attorney General of the United States Nov. 17, 1947, regarding future sale of shares of currently outstanding stocks of each company now held by that office. Such orders state that shares now held by the Attorney General pursuant to the Trading With the Enemy Act, when sold, will be subject to restrictions limiting transfer, acquisition and ownership of such stock to American nationals only.

Outstanding stock of North American Rayon Corp. consists of 300,000 shares of common stock, class A, and 212,374 shares of common stock, class B. On Sept. 1, 1948, the Attorney General held of record 177,398 shares of class A and 88,853 shares of class B stock of the corporation.

The outstanding stock of American Bemberg Corp. consists of 20,952 shares of preferred, 140,000 shares of common and 140,000 shares of common, class B. On Sept. 1, 1948, the Attorney General held 6,175 shares of preferred, 91,825 shares of common and 34,058 shares of common, class B.

In accordance with the order and to eliminate confusion which might result from having outstanding two separate classes of stock of North American Rayon Corp. and three separate classes of stock of American Bemberg Corp., with some shares of each class subject to ownership restrictions not applicable to other shares of the same class, each series of presently outstanding stock of each corporation may be converted into a new series of stock, each of which will contain appropriate ownership restrictions. The Attorney General has indicated to each company that he will convert all the shares now held by him. No series of presently outstanding stock surrendered for conversion may be reissued. It is proposed to increase the authorized number of shares of North American Rayon from 520,000 to 1,040,000 shares, the increase consisting of 300,000 shares of common stock, class C, and 220,000 shares of common stock, class D. The authorized number of shares of American Bemberg Corp. will be increased from 300,952 shares to 601,904 shares, the additional shares consisting of 20,952 shares of preferred stock, class B; 140,000 shares of common stock, class C, and 140,000 shares of common stock, class D.

The new class C and D common stock series of North American Rayon Corp. will have equal voting and dividend rights with the presently outstanding class A and class B common, respectively.

For voting and dividend purposes, the new preferred stock, class B, of American Bemberg Corp. will have equal voting and dividend rights with the currently outstanding preferred stock, which will be redesignated preferred stock, class A; the common stock, class C, will be equal to the present common stock which will be redesignated common stock, class A, and the common stock, class D, will be equal to the common stock, class B.

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● **Northern Indiana Public Service Co., Hammond, Indiana**
Oct. 20 filed $11,000,000 first mortgage bonds, series D, due Nov. 1, 1978. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Harris, Hall & Co. (Inc.), Kidder, Peabody & Co., Harriman Ripley & Co. Inc. and Union Securities Corp. (jointly); Lehman Brothers; Glore, Forgan & Co. **Proceeds**—For construction.

● **Northwestern Bell Telephone Co. (11/16)**
Oct. 15 filed $60,000,000 40-year debentures. **Underwriters**—To be determined through competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. **Proceeds**—For repayment of advances from American Telephone and Telegraph Co. (parent). Bids expected about Nov. 16.

Official Films, Inc., New York (10/26-29)
July 16 (letter of notification) 49,000 shares 35¢ cumulative preferred stock (par $5) and 49,000 shares of common stock (par 10¢). **Price**—$6 per unit, consisting of one share of each. Working capital and other general corporate purposes. **Underwriter** — Aetna Securities Corp., New York.

Old North State Insurance Co.
June 24 filed 100,000 shares of capital stock (par $5) **Price**—$15 per share. **Underwriter**—First Securities Corp., Durham, N. C. **Offering**—26,667 shares will be initially offered on a "when. as and if issued" basis; 13,333 shares will be purchased by underwriter for public or private offerings; and the remaining 40,000 shares will be publicly offered on a "best efforts basis" on completion of the subscription of the first 40,000 shares and the company's receipt of a license to do business in North Carolina. **Proceeds**—For general business purposes.

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**—$2.80 per share. R. J. Frankenhouser has agreed to purchase at $2.55 per share such number of shares as may be necessary to net company from offering to stockholders not less than $300,000. **Proceeds**—To defray cost of new plastic plant, restore working capital and provide new working capital. Statement effective Oct. 15

● **Peninsular Telephone Co., Tampa, Fla.**
Oct. 20 filed 100,000 shares ($25 par) cumulative preferred stock. **Underwriters**—Morgan Stanley & Co. and Coggeshall & Hicks. Price by amendment. **Proceeds**—For general corporate purposes.

Pennsylvania Power & Light Co. (10/21-22)
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. **Underwriter**—Halsey, Stuart & Co. Inc. (sole bidder Oct. 20) offered to pay company $1,000 for the right to take any unsubscribed debentures. **Offering**—To be first offered for subscription by stockholders of record Oct. 22, in ratio of $100 of debentures for each four shares held Rights will expire Dec. 1. Price, par (flat). **Proceeds**—For construction and for the purchase of additional capital stock of certain natural gas companies.

Plywood Inc., Detroit, Mich.
Oct. 8 filed $500,000 of 5% sinking fund debentures, due Aug. 1, 1967, with detachable warrants to purchase 50,000 shares of common stock. **Underwriter**—P. W. Brooks & Co., Inc. **Proceeds**—For additional working capital.

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.

● **Public Service Electric & Gas Co. (11/22)**
Oct. 18 filed $50,000,000 of debenture bonds, due 1963. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Morgan Stanley & Co., Kuhn, Loeb & Co. and Lehman Brothers (jointly). **Proceeds**—To retire $30,000,000 bank loans and for construction expenses. Bidding expected to be received Nov. 22.

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.

● **Ross Wholesale Jewelers, Inc., Atlanta, Ga.**
Oct. 14 (letter of notification) 2,400 shares of 4% cumulative preferred stock (par $100) and $60,000 of 3% debentures, dated Nov. 1, 1948, maturing in four equal annual instalments beginning with Nov. 1, 1953. No underwriter. For working capital.

● **Rotovac Rug Cleaning Co., Denver, Colo.**
Oct. 14 (letter of notification) 25,000 shares of common stock (par $1). Price, at par. No underwriting. For working capital to set up rug cleaning operations.

San Diego Gas & Electric Co. (10/26)
Oct. 8 filed 350,000 shares ($10 par) common stock. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To retire $3,200,000 bank-loan notes and to reimburse company for expenditures made before Sept. 2 for acquisition of property and for property additions and improvements.

Schrader (H. J.) & Co., South Bend, Ind.
Oct. 5 (letter of notification) 1,000 shares of 6% cumulative preferred stock (par $100) and 37,500 shares of class B (no par) common. **Underwriter**—Harrison & Austin, Inc., South Bend, Ind. **Price**—Preferred par; common 25c per share. For working capital and to carry conditional sales contracts.

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.

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 are entitled to subscribe to the new shares in the ratio of one-fifth of a share of additional common for each share held at $25 per share. **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.

Southern Colorado Power Co., Pueblo, Colo.
Oct. 8 (letter of notification) 34,067 shares of common stock (no par). **Offering**—To be offered to holders of outstanding 476,939 shares of common stock on basis of one share of new common stock for each 14 shares of common stock held. **Price**—$8.50 per share. **Underwriters**—Boettcher & Co., Bosworth, Sullivan & Co., Denver, Colo., and Hutchinson & Co., Pueblo, Colo. For company's construction program.

Southern Oil Corp., Jackson, Miss.
Oct. 8 filed 1,500,000 shares of common stock (par 1c) of which 1,350,000 shares will be sold by company and 150,000 shares by W. G. Nelson Exploration Co. **Underwriter**—J. J. Le Done Co., New York. **Proceeds**—For working capital and general corporate purposes.

Southern Oxygen Co., Inc., Bladensburg, Md.
Oct. 7 (letter of notification) 9,612 shares ($25 par) common stock. Price, at par. **Underwriter**—Johnston, Lemon & Co., Washington, D. C. For additional working capital for the construction and completion of the company's new plant and for other corporate purposes.

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.

● **Sta-Kleen Baker, Inc., Lynchburg, Va.**
Oct. 13 (letter of notification) 7,245 shares of common stock. **Price**—$10 per share. **Underwriter**—Scott, Horner & Mason, Inc.

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 Casualty Co., Cedar Rapids
August 18 (letter of notification) 10,000 shares of convertible cumulative preferred stock ($10 par), with privilege of conversion at any time before redemption on a share-for-share basis for common stock ($10 par). To be offered at $25 per share without underwriting. To increase capital and surplus.

● **United Utilities & Specialty Corp.**
Oct. 15 (by amendment) 125,000 shares of common stock (par $1) and 33,000 stock purchase warrants (to be sold to underwriter at 10 cents each). **Underwriters**—Van Alstyne Noel Corp., New York, and George R. Cooley & Co., Inc., Albany, N. Y. Price, market. **Proceeds**—To repay bank loans, working capital, etc.

Upper Peninsular Power Co.
Sept. 28 filed 200,000 shares of common stock (par $9). **Underwriters** — Names to be determined through competitive bidding. Probable bidders include Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and Paine, Webber, Jackson & Curtis (jointly). **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively; Copper Range Co., 34,000 shares and several individual owners 11,200 shares.

Western Air Lines, Inc., Los Angeles, Calif.
Sept. 29 filed 215,597 shares of capital stock (par $1). **Offering**—William A. Coulter, former director, is offering the stock on the New York Stock Exchange without underwriting.

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. Offering indefinitely postponed.

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. Effective Oct. 8.

● **Younker Brothers, Inc., Des Moines, Iowa**
Oct. 18 filed 34,000 shares of 5% sinking fund cumulative preferred stock ($50 par) and 70,000 shares (no par) common stock. **Underwriter**—A. G. Becker & Co., Inc. **Proceeds**—To retire unsecured bank loans and for general corporate purposes.

Youse (E. S.) Co., Inc. (10/25-29)
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.

Prospective Offerings

● **American Bus Lines, Inc.**
Nov. 5, stockholders will be asked to approve a plan to merge this company into its principal subsidiary, Burlington Transportation Co., and change name of latter to American Business Corp. The plan provides for sale of $1,500,000 sinking fund debentures and 100,000 shares of new preferred stock. The debentures would be placed privately and about 54,183 preferred would be sold to underwriters, probably Hayden, Stone & Co.

● **American Telephone & Telegraph Co.**
Oct. 20 directors authorized creation of a new issue of long-term debentures in an amount not exceeding $150,000,000. It is expected that the issue will be dated in December, 1948, and that a registration statement will be filed with the SEC in November. Proceeds of the sale would be used to provide the company's subsidiary and associated companies with funds for extensions, additions and improvements to their plants; for extensions, additions and improvements to its own plant; and for general corporate purposes. The company expects to offer the new issue for sale through competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.

Chesapeake & Ohio Ry. (10/27)
Oct. 12 company asked the ICC for authority to issue $4,200,000 equipment trust certificates, eighth issue of 1948, dated Nov. 15, 1948, and due each Nov. 15, 1949-1958. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly). **Bids**—Bids for the purchase of the certificates will be received up to noon Oct. 27 at 3400 Terminal Tower, Cleveland.

● **Chicago Minneapolis & Omaha Ry. (11/3)**
Company will receive bids up to noon (CST) Nov. 3 for the purchase of $2,100,000 equipment trust certificates to be dated Dec. 1, 1948, and due either in 10 or 15 equal annual instalments. Bids will be received at Room 1400, Daily News Bldg., 400 W. Madison St., Chicago. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Georgia Power Co.**
Oct. 14 asked SEC permission to sell $12,000,000 30-year mortgage bonds. Probable bidders: Halsey, Stuart & Co.; The First Boston Corp.; Morgan Stanley & Co.; Shields & Co.; Lehman Brothers; Drexel & Co.; Harriman Ripley & Co.

● **International Bank for Reconstruction & Development**
Oct. 18, John J. McCloy, President, said the bank may use up in the next six months the $478,000,000 it has for lending. If business keeps up at the present rate, he said, it will be necessary to float new bond issues in the private market during the first six months of 1949.

● **Michigan-Wisconsin Pipe Co.**
Oct. 15, reported Halsey, Stuart & Co. Inc. was reactivating a syndicate, previously dissolved, to bid for a possible public offering by company of $65,000,000 first mortgage bonds. Company recently disclosed plans to sell the bonds directly to two life insurance companies. The action by Halsey, Stuart & Co. Inc. apparently is based on the possibility that this arrangement may be thrown over by the SEC with a direction that the bonds be sold at competitive bidding.

● **New Bedford Gas & Edison Light Co.**
The Massachusetts Department of Public Utilities has approved company's petition to sell $5,000,000 long-term notes. The notes will bear a rate of interest at the time of issuance as determined by competitive bidding, but not in excess of 3¼%. Proceeds will be applied to the payment of $2,500,000 temporary bank borrowings with the balance to restore to the plant replacement account amounts borrowed to finance plant improvement. Probable bidders include: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.

● **Virginian Railway**
Oct. 15 company contemplates that during first six months of 1949 it will incur equivalent obligations in amount of $5,250,000, representing 80% of estimated cost of acquisition of 1,000 55-ton hopper cars, 300 boxcars and 25 caboose cars. Probable bidders: Halsey, Stuart & Co. Inc., Salomon Bros. & Hutzler, Harriman Ripley & Co. and Lehman Brothers (jointly).

Observations

(Continued from page 5)

ary step vis-a-vis the economy, the investment community might possibly be induced to "go sour" on the demonstrated "uncertainty" of government bonds and unexpectedly switch their interest to common stocks.

"The Market" Non-Existent

Difficulty in forecasting "the market" also results from the effects of a correctly-anticipated economic event being manifested in wholly irregular changes throughout the list of stocks. Looking at the net price changes which have occurred 'midst the industrial boom since V-J Day, we find a crazy-quilt pattern of plus- and minus-signs. Over the long-pull since 1929, we must note that although the Dow-Jones Average of industrial shares has been cut in two, almost 200 listed stocks nevertheless are now selling above their peaks achieved at that all-time market high.

Such irregular pattern of price movement has markedly occurred between the various industrial groups. Last year, in the face of a general market unchanged throughout the twelvemonth on the representative averages, the listed farm implement shares *advanced* by 12%, motors by 18%, and electrical equipments by 12%; while amusements were concurrently *declining* by 35%, liquors by 28%, and airlines by 24%. In the period since the outbreak of World War II while the overall average of common stocks advanced by over one-third, the electrical equipment and metal container company shares declined, the latter by 21%. **Such actual intra-market behavior shows forecasting of "the market" to be an absolute absurdity.**

The Fashion Parade and Blue Chip-ism

The successive *style* changes manifested by the investing community in its fickle shifting from stock group to group, presents another important obstacle to forecasting on logical factors. In other words, stock prices to a considerable degree follow popularity curves instead of either economic facts or statistical tables. To achieve results here, psychoanalysis of the crowd is more important than analysis of economic statistics. In the cases both of the market as a whole and of particular industries, anticipation of the mob's psychological style reactions, rather than "scientific" factors, are the potential key to stock price prediction.

This truth, incidentally, accounts for the selection of particular securities for inclusion in the "Blue Chip" category, and for their subsequent exclusion, and for the extra size of their price-earnings ratios. This writer has learned of no really satisfactory definition of a "blue chip"—it too often taking the form of merely an *ex post facto* description of a stock which is acting well.

Double-Reflection of Single Event

Marketwise double-discounting of a single event is another reason for price predictions frequently going wrong. Even in the case of a simple incident as a dividend declaration, it frequently is not realized that the good news is already reflected in the current market quotation; at times of more cosmic events like wars and strikes, the market's prior registration of the news is all the less likely to have been realized.

Also, there is a widely-practiced fallacy of the individual forecaster over-emphasizing and over-simplifying the importance of a single factor in which his interest has become immersed, similar to the fallacy of single-cause explanation for war or unhappiness. Thus, the supply of money outstanding has been recurrently advanced as a major bull argument throughout the years; whereas several bear markets occurred during the 1930's and early 1940's in the face of large increases in the supply of money.

Then, too, the forecasting fraternity gets into trouble because of the seemingly "normal" tendency, probably subconscious, to prefer bullishness to bearishness. The Cowles Commission's scientific analysis of forecasts made by 24 financial publications between January, 1928, and July, 1932, a period when the number of weeks of advance and decline was about equal, disclosed that the bullish predictions outnumbered the bearish ones by 2½-to-1.

* * *

Conclusions

The above explanations of the abortiveness of attempting to predict the future behavior of the general market do not warrant the conclusion that all forecasting can be eliminated. In fact, it is fully realized that some amount of forecasting is necessarily present in nearly all forms of business. Even in the conduct of commercial business, some acts of forecasting necessarily creep in, such as of estimations of future sales-volume for adjusting the amount of inventory to be carried; appraising the amount and kind of capital-financing, or borrowing to be contracted for; of projecting future style changes in industries running the gamut from automobiles to ladies' dresses; and as seen in the farmers' assumptions about the weather.

It must be granted that in investing, too, no matter how simon-pure an investor an individual may be, forecasting cannot be eliminated altogether. Even the buyer of government bonds must make some assumptions, as about the future value of the dollar; and even the user of our value approach in common stock appraisal must make approximate estimates of future volume and earnings.

But in the cases of business and farming, forecasting is engaged in as an unavoidable necessity, and usually as incidental to the main productive effort, whereas in the stock market it is made more an end in itself. The closer we get to reaching a proper investing basis, the more will forecasting, like other risks, be relegated to the incidental and made as unimportant as possible.

Britton Oil Stock Placed on Market

An issue of 300,000 shares of Britton Oil Co., Inc., common stock, par value 1 cent per share, is being offered by S. B. Cantor & Co., 79 Wall Street, New York. The shares, which are being offered as a speculation, are priced at $1 per share.

With Seasongood & Mayer

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO — Wallace A. Fisher is now connected with Seasongood & Mayer, Ingalls Building.

Wm. S. Beeken Co. Adds

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA.—William N. Carson has been added to the staff of Wm. S. Beeken Co., Guaranty Building.

Our Reporter's Report

Investment bankers are singing a song of woe these days. Business is not too satisfying from a standpoint of volume of new issues and yet competitive bidding, as required by the Securities and Exchange Commission and the Interstate Commerce Commission, for railroad and public utility offerings keeps staffs busy and overhead high.

Plenty of time, effort and expense is involved in going through the formalities of setting up a group and bringing the participants together on such matters as price and terms to be bid for a given issue and then setting a satisfactory "spread" between the bid and the reoffering price.

And on top of it all you can never prejudge the temper of the ultimate buyers. Just that appears to have been the case in the instance of the Michigan Bell operation.

Only two firms bid for the big issue, but the successful group's tender, 101.769, indicated a "cover" of more than a point over that of the runners-up, 100.68549, both for a 3⅛% coupon.

Although the reoffering price of 102¼ provided for a yield of 3.03%, initial response was reported a bit slow, although it was expected to pickup almost immediately.

The Kind They Like

This week's financing by Public Service Co. of Colorado, involving $10,000,000 of 30-year first mortgage bonds and $6,000,000 of preferred stock was the type of deal that investment houses really like.

There is no reason here for banding together of any large aggregation of banking capital and houses or at least a goodly number of them are able to go it alone.

The bonds brought out a total of seven bids ranging from the high of 101.5379 down to 100.55 all for 3⅛s. There were three bids for the preferred all for a 4.50 dividend rate, ranging from the winning bid of 101.019 down to 100.531.

Direct Placement

Every so often underwriters are confronted with a situation which must make their pulses beat faster for having been "passed by" in consequence of a direct placement operation.

Certainly that must have been the situation in the case of the current Shell Caribbean Petroleum Co. of N. J. financing. One of the largest undertakings of all time, this huge project was completed by direct negotiation.

Of course, an issue of such size, $250,000,000, would tax the combined resources of the investment banking industry. But the test in that direction did not arise since placement was negotiated, through one large house, directly with a group of American and Canadian insurance companies.

Couldn't Be Closer

When it comes to close bidding the bankers who make a specialty of the municipal bond field are in a class by themselves. Few will question that.

Bidding in this field is always close and the exception which proves the rule, when the "spread" is unusually wide, occurs with noticeably infrequency.

Just how close the bidding can be came to light on Tuesday when three firms bid for $1,450,000 of bonds of the School District of Sodus, embracing Sodus, Lyons and Acadia, N. Y.

Two firms entered bids of 100.94 for the loan and the third missed the boat by just one "mill" entering its bid at 100.939.

Michigan Brevities

(Continued from page 11)

working capital used for certain capital additions to the plant made during the past seven months. Prior to July 15, 1947, the company was known as Trenton Valley Distillers Corp.

Net sales for the six months ended June 30, 1948 amounted to $4,199,246, and net profit, after charges and Federal income taxes, to $372,738. For the calendar year 1947, net sales were $1,173,474, and net loss $29,722, after a credit of $26,500 for reduction or refund of Federal income taxes arising from carry-over and carry-back of operating losses and unused excess profits credits. Current assets at June 30 totaled $770,059, while current liabilities amounted to $387,982.

* * *

Temporary State of Michigan 1¼% and 1½% Veterans bonds dated March 15, 1947, may be exchanged for engraved definitive coupon bonds at the Bankers Trust Co., exchange agent, 16 Wall St., New York, N. Y. The total authorized issue is $230,000,000.

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A letter of notification was filed on Oct. 4 covering 1,000 shares of $2 par value common stock of Hastings Manufacturing Co., to be offered for account of C. W. Dolan, a director, at $9.75 per share. The issue will be underwritten by First of Michigan Corp., Battle Creek.

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Plywood, Inc., on Oct. 8 filed a registration statement with Securities and Exchange Commission covering $500,000 of 5% sinking fund debentures due Aug. 1, 1967, with detachable warrants to purchase 50,000 of common stock. The net proceeds will be used for additional working capital. The offering will be underwritten by P. W. Brooks & Co., Inc., New York City.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—There are important differences between the argument now raging within the New York financial community over the maintenance of the government bond pegs, and the fabled argument of old among the monks as to how many angels might be able to dance on the point of a needle.

For one thing, the bond peg debate is on a current question. For another, it is most informative and educational. It may even be suspected that the debate has been so educational that certain officials who both privately and publicly felt that they had the last answer to the mechanisms of monetary management, are at least a little bit less complacent in the face of this criticism.

There is one thing both arguments have in common, however. Neither will settle anything. No fundamental change in approach on monetary policies from those now being followed has been moved noticeably closer as a result of this debate, even if it seems a bit startling to have the sanctity of bond pegging questioned in open and unabashed debate.

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In order to understand why Washington **intends** to remain **firm** on bond pegging at least through the sunset of the Truman Administration, it is necessary to understand the motives of officials and to sweep aside the particular financial and economic merits that bear on the question itself. (The word, "intends," is a necessary condition to any prospective look ahead, for big events can change the best or worst of intentions.)

In the first place Washington believes, whether foolishly or with wisdom, that the monkeying with the pegs might precipitate a sharp liquidation, that it might be the spark which would touch off a depression. It is not that they are afraid that this will lose this Administration the election. They already count the election lost. But if the uncertainty officials believe would follow the lowering of the pegs actually did develop, and this touched off some pretty heavy selling of a lot of things, then this Administration would get a black eye from which the New Dealers would be, they fear, many, many years recovering.

This Administration regards as one of its pet long-run assets the fact that a depression occurred coincident with the advent of the last previous Republican Administration. If the Republicans could pin a new depression on to the Democrats, then all would be desolation for the Democrats, whoever they may be. They can't take even a small risk.

In this connection it is noted that few Administration spokesmen would even confess to themselves such a cynical approach. Politicians, like the rest of the human race, are likely to arrive at means which promote their self-interest by unconscious mental processes. Of all the purveyors of not-so-good merchandise, political, retail, or financial, only the horse traders of the last century were supposed to have taken great pride over selling the other guy at a good price a horse that was ready for the glue factory.

* * *

Another consideration in politics is that you don't settle the other guy's problem for him. If the Truman Administration had even another year to run, there might be some political profit out of a re-examination of the patterns which it and its predecessor had developed for years. There would be profit if an entirely new course might offer some betterment to the country, and incidentally to those now holding office.

Actually after less than two weeks, this Administration as it now privately sees itself, stands a pretty good chance of being a repudiated Administration. If any neck-sticking-out is to be done, it is the job for the new crowd.

The only remote chance that the pegs might be modified before the advent of Jan. 20, next, barring unforeseen events, would be if Dewey's crowd were raring to go on such a proposition. If this is the case, it is not known in Washington. The present Administration might, but not necessarily would, act unofficially as the agents of the newly-elected Administration in such an instance.

* * *

There is another intangible in this situation. It is an intangible which scarcely ever reaches the surface, and it never is baldly admitted in this form, but it is nonetheless real.

One of the most potent forces of government is the force of a bureaucracy to stay alive and expand. A group of men who become associated in a governmental or quasi-governmental agency acquire a group and corporate interest. The jobs, the personal and economic welfare of most of them, are bound up in the fortunes of their bureau. For those comparatively few individuals whose personal fortunes are large enough so they don't depend upon their jobs for a living, the success or failure of the bureau is the expression of their ego or failure—and the big men want to avoid failure. The history of big men coming to Washington to take jobs for the greater good of the people of the U. S., has usually been that after a few months they unconsciously, unwittingly, ended up sunk to their thighs in bureaucratic politics, protecting their agency against attacks from other agencies, and against proposals for cuts in appropriations.

Now the Federal Reserve Board has steadily been relegated to a minor role in monetary matters. First deficit financing, and then war financing, made the Treasury the actual top dog on monetary matters. Ramified as are the activities of the Federal Reserve system, they still are subordinate in policy. Too much it looks to the Reserve system like they are the hewers of wood and drawers of water from the Treasury.

To the Federal Reserve Board, the obtaining of legislative authority to increase reserves sharply is its bid to get back into its place in the sun. True, the Board abandoned the original 25% "secondary reserve" proposal under fire, but is coming back more or less for the same authority by a different approach. (See Gov. Szymczak's new reserve proposal.)

Whether the Board's position does or does not make good financial sense, it couples bond pegging with a plea for big powers over bank reserves. The two are part of the same package to the Board.

It is not suggested that the Board cynically met and said something to the effect "we have got to do these things or we might as well pass out of existence." The closest the Board came was its repeated contention, with elaborate explanations, that monetary developments during and since the war have deprived the Board of its power to exercise a beneficial influence in monetary affairs.

* * *

Motives of bureaucratic survival of influence, as well as jobs, are very real. Any succeeding Administration which disregards this motive will have to buck, covertly or openly, the present majority of the Federal Reserve Board. That Board simply does not agree with the critics of bond pegging, that its conventional powers are enough.

* * *

Finally, among the intangible factors in this dispute over bond pegging, is that forceful if controversial personality, M. S. Eccles. To a large extent bond pegging might be called an "Eccles policy." Mr. Eccles may have been demoted as front man for the Board, but he is still the dominant personality on the Board. Furthermore, the attacks on bond pegging may have a way of looking like attacks upon Mr. Eccles, already touchy since he was demoted by President Truman last winter.

* * *

Incidentally, the dominant Congressional elements of the GOP probably would be found on the "not-too-rigid" pegs side of the argument.

* * *

Little as it has been, enough has been said of what Governor Dewey favors, to indicate that it will be no easy task for the dominant Congressional leaders and the "Dewey Administration" to reach those amicable compromises necessary if the Capitol and the White House are to get along.

At the moment the advocates of foreign aid, including a new lend-lease military program, have all the national headlines. The House is going to question critically the course of ECA, particularly the liberal terms of the loans. If military aid threatens controls, the going will be hard. On domestic affairs, expansion of social security will slip through like a greased pig. Federal aid for education and slum clearance, on the other hand, will if accepted, be taken only with reluctance.

It is a safe bet that early in the game not less than one top Congressional leader will say something like this to Mr. Dewey, if less bluntly: "Now, Mr. President, you've got to realize two things. First, even though the election reflects your great personal popularity, it was also a vote against a previous Administration. You were not voted for on the basis of each and every specific issue you now stand for. Second, some of us in Congress called 'reactionary' and 'backward' have been known for what we stand for by our voters at home. They voted on our records and approved us."

* * *

Last week the Federal Trade Commission, in a rare procedure, issued a memorandum of its views on "geographic pricing practices," or delivered pricing systems.

The real basis for the issuance of the memorandum was an effort to take the heat of criticism away from the FTC. Ever since the Cement case decision against basing points, the ire against the FTC for its attack upon delivered pricing systems has been snowballing. Feeling the force of the mounting criticism, the FTC tried in this worthy, ill-starred memorandum, to show that it was not against delivered price systems as such but those which reflected collusion or discrimination.

In the process of trying to show that it was not against delivered price systems as such, the FTC got so bawled up that it gave out just the opposite impression to what it tried to create; i.e., that the only way to steer clear of trouble with the FTC was not to use a delivered price system.

BUSINESS BUZZ

"I can never tell whether Peabody's thinking or sleeping!"

Joins Courts Co. Staff

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA. — Alfred F. Revson, Jr. has joined the staff of Courts & Co., 11 Marietta Street, N. W., members of the New York Stock Exchange.

With C. E. Bohlander

(Special to THE FINANCIAL CHRONICLE)

BLOOMINGTON, ILL.—Richard A. Byerly has been added to the staff of C. E. Bohlander & Co., Inc., American State Bank Building.