ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 168 Number 4746 New York, N. Y., Thursday, October 28, 1948 Price 30 Cents a Copy

Our Economic Dilemma

By MARRINER S. ECCLES*

Member, Board of Governors, Federal Reserve System

Former Federal Reserve Chairman describes dilemmas in curbing inflation and preventing over-expansion of credit. Advocates continuance of government bond price support and more authority for credit control.

I have been asked to discuss the economic dilemma that confronts us today. Actually there are many economic dilemmas, and time will not permit me to examine all of them. Recently, when I appeared at a Congressional hearing to discuss inflation I made this statement which reflects some of the economic dilemma:

Marriner S. Eccles

"Each one wants the benefits of inflation for himself, but he wants the others to pay for them.

"The farmer wants a floor under his prices, but he does not want a ceiling.

"The real-estate people, the

(Continued on page 42)

*An address by Gov. Eccles before the 62nd Iowa Bankers Convention, Des Moines, Ia., Oct. 27, 1948.

What's Ahead for Prices and Business?

By JOSEPH L. SNIDER*

Professor of Business Economics, Harvard University

Holding inflation is about over and prices are already declining in important areas, Harvard economist, though maintaining it is impossible to know ahead whether we are likely to have a mild or severe reaction, cites as reasons why drop may not be severe: (1) demand for goods and services continues strong; (2) government support of farm prices; and (3) heavy government spending.

The question which is uppermost in the minds of businessmen and others affected by the fluctuations of business conditions is whether business is entering upon a different phase following the present inflation-boom. Has price inflation come to an end? Will the cost of living go down? Are we headed for a business depression? A discussion of these and related questions forms the subject matter of this article.

Dr. Joseph L. Snider

Inflation About Over

Although commodity prices in general, both at wholesale and retail, have not yet reversed their climb to higher and higher levels, on the basis of evidence to be presented below I have reached the conclusion that our inflation is about over. It is unrealistic to expect to forecast exactly the date of the end of a price inflation. It would be consistent with what I mean by "about over" for the general price level either to turn down imme-

(Continued on page 28)

*An address by Dr. Snider before the Convention of American Hardware Manufacturers Association, Atlantic City, N. J., Oct. 20, 1948.

Some Ideas on How to Buy Municipal Bonds

By J. AUSTIN WHITE

J. A. White & Company, Cincinnati, O.

Asserting a good bond is one that does not cause concern to lender or borrower, expert outlines factors governing qualities of municipal bonds. Stresses importance of tax resources and economic stability of community in relation to its overall tax burden and character of its people. Says over-emphasis is put on default record, and lists as additional safety factor, growth of the community.

A banker once remarked, "Every loan is good when it's made—good in the eyes of the lender, else he would not have made it." Most bankers will tell you today that they are only making good loans—and they said the same thing five years ago. Apparently, nobody ever makes a bad loan; it just "turns bad" after it's made.

J. Austin White

By the same token, "Every bond is good when it's purchased — good in the eyes of the purchaser, else he would not have bought it." Most any banker will tell you today that the bonds he owns in his portfolio are "good." Oh, yes, there will be some he would like to sell, but those are the ones in which he has a loss in today's market, and his desire to be rid of them is prompted more by the decline in the market below his cost, than by any appreciation of quality depreciation. Unfortunately, the bonds seem to stay "good" until they default. This attitude toward

(Continued an page 26)

EDITORIAL

As We See It

Tenacious Rooseveltian Statisms

It is always hazardous to guess what the historian is likely to say decades or even centuries hence, yet it now appears to be safe to set down one general observation which will be included in any appraisal of the period in American history beginning in 1933 and ending some years hence. This truism, for such it seems to us at present, is that Franklin Roosevelt managed somehow to build into the folklore, almost into the mores of the people of the United States a number of totalitarian conceptions and totalitarian programs which will leave their impress upon the thinking and the actions of politicians for a long while to come. This they will do, of course, for the reason that they have become almost sacrosanct among large masses of the people, and indeed have come to be accepted more or less unthinkingly in a surprising degree among groups which should know better.

As to the Democratic Party itself, or at least that part of it which acknowledges President Truman as leader, it may be said of it with the poet that

You may break, you may shatter the vase if you will
But the scent of the roses will hang round it still.

President Truman has often been accused of abandoning

(Continued on page 31)

On Calling the Turn in the Market

By ARNOLD BERNHARD*

Editor, Value Line Investment Survey

Stock market technician belittles importance of "turning points" in stock market, and stresses value of determining when market is wrong and going counter to it. Sees likelihood stock prices will soon rise and holds government deficit financing could avert future depression. Looks for no fall in national income or in general business in 1949. Advocates a spending tax in lieu of present progressive income taxes and warns against influence of "the bias of stock market."

I feel honored in being called upon to speak to you of my reasons for being bullish on the stock market. But I was a little taken aback to learn that the topic of this talk was to be "What Is the Market Going to Do Now?—How Buying and Selling Points are Determined."

Arnold Bernhard

Actually, I do not know how to tell at what point the stock market will turn.

Is it really important? Prices are important, but turning points are not highly significant. You and I with a little examination can determine that Mullins Manufacturing stock is earning 33% on its present market value. It is selling for about three times earnings. Is it of paramount importance, do you think, whether Mullins Manufacturing turns upward this week, next month or next year, provided it goes on earning that much money?

Nor do I know when Chicago, Rock Island & Pacific common stock is going to turn upward. But I do believe that it will probably earn between $10 and $11 a share this year and that it has a very small debt for a railroad. It does not seem especially important whether it goes up this week or next, or next month. What is important to know is that the earnings are there and likely to stick. If the value is there, prices will take care of themselves. In the end they are bound to conform to value, though they may not do so at every point.

Of course, Mullins and Rock Island happen to be two extraordinarily undervalued stocks. Perhaps it would be fairer to call attention to a representative list of high-grade stocks like the Dow-Jones Industrials. They are selling for about 9 times earnings, whereas the normal ratio is a good deal higher. Do you think it was very important for a holder of stocks like those that comprise the Dow-Jones Industrial Average to sell out at 200 in May, 1946? If you sit down and figure it out, a sale of the Dow-Jones Industrial Averages made at 200, and repurchased today at 185, would have saved less capital than it would have lost in dividends.

When the Market Is Wrong

While nobody really knows when the market will turn, many of us can with sufficient effort, determine when the market is wrong and by taking advantage of that, we can be right.

The thing that we must all guard against is allowing ourselves to be advised by the market. There is no way at all to make money by being right on a market that is wrong, except by pure luck. But there is a way to make money on a market that is wrong by going counter to that market on the assumption that it will cease to be wrong, since in the past prices have always corrected their deviations from value in either direction.

It is a statistically provable fact that about 75% of the fluctuations in stock prices are caused by changes in earnings, dividends and book values. That has been determined by correlation studies on hundreds of stocks over the past 20 to 25 years. On the basis of those correlations, which are mathematical and not individual opinion, it can be proven that if the current rate of earnings and dividends and assets continues, it would be more reasonable to expect the Dow-Jones Industrial Averages to stand 100 points higher next year than to expect them to stay where they are now. While it must be admitted that nobody knows anything about the future, that is no reason for accepting the status quo as a forecast, especially when, as now, the status quo conflicts 20 years' of experience. The probabilities are high that stock prices will rise widely and whether the rise is soon to begin, or has already commenced, is of secondary importance.

Depression Prospects

Of course, basically, you are all thinking, "but the current high rate of earnings will not hold." At this point I should like to cease being a fellow adviser and degenerate into a lecturer. Most people in Wall Street, consciously or not, have swallowed the Marxian concept of capitalism, the notion that it cannot operate successfully because of its inherent contradictions and that if we ever do have good times under capitalism, it is only because we stand on the abyss of depression.

Now it may be that you are not consciously formulating a Marxian hypothesis. We know, of course, that we have had booms and depressions. We have been told by the Marxists that depressions are inherent in booms under a capitalistic system. Under Karl Marx's theory, wealth would be concentrated in the hands of fewer and fewer people, the masses would become expropriated and steadily poorer and the end result would be such an imbalance—such a few people holding all the wealth and income and the masses having absolutely nothing—that a revolution would be required simply to permit society to go on existing. Now here are two things the Marxists have told us. One we know is absolutely untrue. Instead of wealth being concentrated in fewer and fewer hands, wealth has become more widely distributed since the time of Karl Marx. Instead of the rich becoming richer, the rich have actually become poorer. If this basic theory of Marxism has been proven fallacious, why then should we assume that the unproven assertion that capitalism is inoperable is truthful?

As a matter of fact, we have seen in our own time how governments can intervene to control the business cycle. Most governments and economists today accept the proposition that the fiscal policies of the government can control the business cycle. If the government intervenes to stop a depression, that does not mean that it is interfering with capitalism. The capitalism that causes industries to adjust within the business cycles can go on operating freely within certain tolerable limits.

To prove this, I'll just ask you a question which I think you would find it rather easy to answer. You know that the government of the United States has been running a cash surplus in the last year. It is taking in about $4 billion more than it pays out. That, of course, has been a deflationary influence upon the economy. If today, instead of taking in $4 billion more than it is spending the government should reverse and pay out about $10 or $12 billion more than it takes in, that is to say, if the government should engage in deficit spending at the rate of $10 to $12 billion a year, which is 2 to 3 times the amount of deficit financing attempted at any time during the New Deal except war years, would you not find it rather obvious that there could be no depression and no deflation but that indeed there might even be a serious inflation? I think everybody is agreed that a $12 billion deficit spending program at this time would preclude even a remote possibility of business recession.

Yet, if Mullins is worth no more than $30 a share at a time when it is earning $12 a share, or if Chicago Rock Island is worth no more than $40 at a time when it is earning $10 or $11 a share, or if Kansas City Southern is worth no more than $45 when it is earning some $13 a share without including the unconsolidated portion of its earnings in Louisiana and Arkansas, then it must be because Wall Street has tacitly accepted the thesis that there will be a business depression, there will be some 5 million unemployed, and national income will drop from around $215 billion to about $170 billion. If that happens, the earnings of Mullins and Chicago Rock Island and Kansas City Southern and all the other stocks would undoubtedly come downward and so would their dividends. But consider the inconsistency in this premise. If the national income should drop from $216 billion to $170 billion, the government's receipts instead of being $40 billion would drop to about $28 billion or less. Meanwhile, the government's expenditures at $40 billion would

(Continued on page 33)

*Transcript of address by Mr. Bernhard before the Association of Customers' Brokers, New York City, Oct. 22, 1948.

INDEX

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

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

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, October 28, 1948

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

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

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

Subscription Rates

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

Other Publications

Bank and Quotation Record—Monthly. $25.00 per year. (Foreign postage extra.)

Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Stock Values and Stock Prices

Winthrop Parkhurst tells Association of Customers' Brokers value of a stock, apart from its market quotation, is an elusive and spiritual entity, like a metaphysical object. Points to market history as best answer to question, "What is market going to do?"

Pinning the label "metafiscal" on stock values when these are divorced from actual market prices, Winthrop Parkhurst, financial writer, stirred up a lively discussion of both stock prices and stock values at the regular monthly meeting of the Association of Customers' Brokers in New York on Oct. 22. At the meeting, held in the New York Curb Exchange, Mr. Parkhurst shared the speaker's rostrum with Arnold Bernhard, editor and publisher of "The Value Line."

Admittedly taking the unpopular side of the argument, Mr. Parkhurst challenged the doctrine of stock "values" as a preliminary to his observations on the behavior of the N. Y. "Times" stock index which he praised for its noteworthy accuracy.

"Frankly, it seems to me that the value of a stock, apart from its market quotation, is a rather elusive and spiritual entity," Mr. Parkhurst said by way of introduction. "It is a metaphysical object—or perhaps I should better say a metafiscal one. In any event, as distinguished from an actual price, it seems to me decidedly vague. Indeed, a stock value, unless pinned to a stock price, inevitably reminds me of that classic definition of a philosopher — a blind man in a dark room looking for a black cat that isn't there."

Mr. Parkhurst continued:

"I know a great many investors pay a great deal of attention to stock values. They affect complete scorn of stock prices. They pretend to be utterly indifferent to market fluctuations—as long as the fluctuations are upward. But let the market prices take a sharp tumble and these investors are hanging over the news ticker to find out all about closing prices. The spiritual consolation of knowing that a stock has value doesn't quite seem to compensate for the financial sorrow of seeing a price tumble."

In facing the question, "What is the Market Going to Do Now?" Mr. Parkhurst presented a general answer couched in terms of market history.

"I cite the N. Y. 'Times' stock index particularly," he said, "because of its outstanding accuracy in the past. It was unique in early 1937 for refusing to deliver an upside bull market confirmation; and because of this fact it is worth noting that the 'Times' industrial average so far in 1948 has refused to cross its 1947 top, similarly refusing confirmation, and in this respect disagreeing again with the Dow-Jones averages.

"However, regarding the Dow-Jones averages themselves, certain important facts have been overlooked. They were overlooked in mid-May of this year when the air was filled with cries of a 'major bull market confirmation.' Actually, both the Dow-Jones industrials and rails, of course, did cross their 1947 tops. Nevertheless, in crossing those tops they were confronted with a very important challenge— namely, an eight-year ceiling stretching from 1937 to 1945. This ceiling lay only a little above the 1947 top, and it was just this 1937-1945 ceiling which stopped the market advance last June and July after the 1947 top area had been traversed. To date in 1948 that 1937-1945 ceiling in both industrials and rails stands as a challenge.

"In specific terms," continued Mr. Parkhurst, "the 1937-45 industrial intraday maxima were 195.59-196.59, while the corresponding rail maxima were 65.08-65.18. As the industrial high last June was 194.49 and the July rail high was 65.23, it is at once seen that the industrial top was not quite reattained and the rail top was crossed by the negligible amount of a fractional point.

"I am quite willing to grant that anything is conceivable," the speaker concluded, "and every market top and market bottom so far recorded may be broken eventually. At the same time, an objective analyst, paying his respects to history, is compelled to recognize the fact that the aforesaid ceilings in the Dow-Jones averages are extremely broad and hence extremely powerful. They impress me enormously. They impress me so much that it would take a very powerful impression indeed—only such an impression as the market itself can deliver—to make me suppose that the ceilings just mentioned can be reattained or measurably exceeded by nearby action."

Upon the conclusion of the question period following Mr. Parkhurst's address, the chairman, Leonard, Jarvis, of Hayden, Stone & Co., New York, asked for a show of hands on the question as to whether, in the opinion of the audience, the 1946 highs in stock averages were likely to be reattained during the next year or so. Whether the replies were substantially influenced by the speaker's arguments could not be determined. In any case, out of some 75 or 80 members present, scarcely a dozen hands were raised in the affirmative.

William A. Lippman, Jr. With Oscar F. Kraft & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—William A. Lippman, Jr., has become associated with Oscar F. Kraft & Co., 530 West Sixth Street. In the past Mr. Lippman was manager of the trading department for Page, Hubbard & Asche.

R. W. Colvin Forms Own Firm in San Francisco

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—Raymond W. Colvin has formed Colvin & Co., with offices in the Russ Bldg., to engage in the securities business. Mr. Colvin was previously with Davies & Mejia, Walston, Hoffman & Goodwin and First California Company.

The Economic Scene

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

Warning predepression year of 1928, like present, was one of great prosperity, Mr. Snyder points out, as a contrast, heavy stock speculation in former period. Lists protective measures taken to avoid another depression. Contends, apart from effect of rising prices, the economy has been stabilized for about a year, and concludes greatest problem is combatting inflationary pressures.

There could not be a more appropriate time to survey the economic scene than now, when our national income and national prosperity are at the highest levels in history. Nor is there a more appropriate place for a discussion of this subject than here in one of the fastest growing areas in the United States.

John W. Snyder

I have chosen deliberately to call this a talk on "The Economic Scene." Standing on the present high plateau of economic well being, and looking to horizons of business opportunities yet untapped, we are prone to forget the depth of the valley of depression from which we have so recently ascended.

It is essential in good times to remember the bad times, lest we wander aimlessly into economic depression again. There is no question that the United States is today experiencing the greatest prosperity in its history. This is true not only in measures expressed in terms of dollars. It is true also in terms of the actual production of goods—in the volume of things that people can buy.

Let me remind and warn you, however, that twenty years ago we could have made this same statement, practically word for word. Although the economic levels then were lower, they were record highs up to that time. In that year, 1928, industrial production rose to a then record figure, even though it had been running substantially above the peak of the first World War. National income reached the highest level in history up to that time. New industrial processes and new inventions were helping to maintain a strong volume of consumer demand. Labor was practically fully employed, and corporate profits were higher than ever before.

In 1928 there was every reason—or, or at least, every reason but one—for this prosperity to continue. There was no evidence of unbalanced conditions in the business field. Commodity prices had been stable for several years, and commodity speculation was at a low level. There was no excess accumulation of inventories, and no undue expansion of credit for business purposes.

Unfortunately, however, a belief had been gaining ground for several years that the quick and easy way to wealth was in the stock market. In effect, the legitimate and necessary business of dealing in stocks was allowed to develop into a huge gambling enterprise. Brokers' loans in New York City reached the huge total of $8.5 billion, the bulk of which was supplied by corporations and other nonbank sources. An essential part of the nation's strength—essential in maintaining the nation's prosperity—was thus diverted into unproductive stock speculation.

When the top-heavy market structure began to fall in 1929, it swept the nation's economy down a steep, barren and rocky road. Severe speculative losses had repercussions in all lines of business. Manufacturers' orders were cancelled, workers were thrown out of employment, factories were closed, retail sales fell off, and successive waves of deflation and depression were set in motion. Their effects were felt throughout the world.

Most of you remember only too well the personal impact of that depression on your business, your family, and yourself. The bottom was reached in early 1933, when the national income had dropped more than 50% below the 1929 level. In March of that year we were in the midst of a financial crisis. Many of our leading industries were operating at a small fraction of their capacity. Industrial production as a whole was reduced to less than half of the 1929 volume.

Action Taken After 1929

In this critical situation, it was imperative that affirmative action be taken. The need to halt the continuing depression was urgent. By the same token, it was of prime importance that business trends be turned upward. As important as these objectives were, the more fundamental problem was to insure that such a tragedy as this depression should never happen again.

You are all familiar with the series of government actions taken to start the wheels of business moving. Some were drastic. However, they accomplished what the nation needed—they turned the tide of the depression.

Within months the national income was rising. Incomes received by individuals, which had dropped to an annual rate of only $43 billion in March, 1933, had recovered to $50 billion by the end of that year.

As the recovery gained momentum, further improvement occurred. At the end of 1939 the annual rate of income had risen to $76 billion. And when we entered the war in December, 1941 it stood at $106 billion. This was substantially higher than even the 1929 level. Today, at $215 billion, the rate is more than double what is was on Pearl Harbor Day.

Los Angeles, in fact the whole state of California, fully shared in this recovery. Incomes of individuals in California rose 62% from 1933 to 1939, as against 53% for the nation as a whole. From 1939 to 1947, aided by your phenomenal growth in population the increase for California was 219%, against 169% for the United States.

The pronounced shift of industry to the Los Angeles area in recent years has been impressive. This is a visible part of the great development of an industrial empire on the Pacific Coast.

During the war, Los Angeles County handled $11 billion of war contracts, ranking second among war production centers. Because of the many advantages offered by your great state, it is not surprising that many of the war workers, plus vast numbers of servicemen who learned to know this area during the war, have decided to make Southern California their home.

Population estimates show that California leads the nation in growth since the last census. From 1940 to 1948, California has gained 3 million people. This was an expansion of 45%, which, compared with 11% for the nation as a whole shows an increase of 34% over the rest of the United States.

In view of the increased responsibilities imposed by this growth in population, the people of California have a particular stake in measures which have been taken to safeguard the national economy against another depression. These measures today protect you in Los Angeles, as they protect people throughout the nation. In part they are responsible for the fact that now, at the beginning of the fourth postwar year, business activity continues sound and substantial.

A Contrast With the Aftermath of World War I

Contrast this with the situation after the first world war. Shortly thereafter, business became unbalanced by widespread commodity speculation. The postwar peak was reached within a year and a half after the war ended.

It is believed that there are two ways to fortify the nation against a depression—to cushion its effect should the blow come. One is to prevent speculative ex-

(Continued on page 29)

*An address by Secretary Snyder before the Los Angeles Town Hall, Los Angeles, Cal., Oct. 25, 1948.

The Government Bond Market

By JOHN H. GRIER*
Vice-President, First National Bank, Chicago

Stressing national debt management as powerful factor in nation's financial well-being, Chicago banker stresses over-monetization of debt as having led to government bond price support and consequent expansion of Federal Reserve bondholdings. Says managed government bond market is essential, but floor for price support need not be placed at par. Denies moderate decline in government bond market jeopardizes solvency of banking system, but warns further rise in short-term rates justifies caution in bank bond portfolio management.

Possibly one of the greatest influences on our economy and one, therefore, that directly or indirectly affects the financial well-being of every individual in the country, is the skillful management of our public debt. In fact, just within the past several weeks I made a similar statement to one of the high-ranking officials of the Treasury Department and he replied that in his judgment public debt management was second in importance only to the atom bomb. Several decades ago, before our national debt had reached such colossal figures, the ebb and flow of credit—expansion in times when business activity was at a low ebb, and contraction in times of inflation—could well be regulated by the Federal Reserve Bank's use of the discount rate; but with the tremendous growth in the Federal debt, particularly in the short maturity range, the short-term rate on Governments has, in my opinion, very largely superseded the discount rate. With a national debt of $250 billion, and more especially with the huge amount of floating debt which necessitates constant refunding operations. the interest rate structure is of prime importance to the Treasury, and to a material degree must be controlled and regulated by that agency.

John H. Grier

We have for a period of years experienced an era of abnormally low interest rates. This was due largely to the influx of gold commencing in the early '30's, together with deficit financing through commercial banks, which latter necessarily reached tremendous proportions during the war years. During that period the natural objective of the Treasury was to finance the war at the lowest possible interest cost, and by means of the Open Market operations of the Federal Reserve System to provide the banking system with reserves necessary to absorb that portion of the war debt as was not purchased by other investors. How successfully this objective was attained becomes apparent when we realize that at the peak of World War I debt in August, 1919, the average interest cost was 4.196%, whereas today it is 2.20%.

*An address by Mr. Grier before 62nd Iowa Bankers Convention, Des Moines, Ia., Oct. 25, 1948.

Over-Monetization of Debt

The recent war was no different from any previous one, resulting as it did in over-monetization of the debt, and with our productive capacity being largely devoted toward war effort, the consequent shortage of civilian goods, coupled with expansion of our money supply, naturally produced an era of inflated prices which continues to plague us today. This is well illustrated by glancing at the index of Wholesale Prices compiled by the Bureau of Labor Statistics. 1926 is taken as the base year equalling 100, and at the end of 1945 this index price was 105. In December, 1946 it was 140.9; December, 1947, 163. For the week ended Aug. 21, 1948 it had risen to 169.2, and the latest figures available—the week ended Aug. 28—it was 168.4. Such a rise in the price level is inevitably accompanied by an expansion of bank loans and our current inflationary trend has been no exception. As of Jan. 8, 1947 the Commercial, Industrial and Agricultural loans reported by Member Banks in the leading cities of the country totalled $10.222 million. As of Jan. 7, 1948 this had risen to $14.645 million, and as of Oct. 13, 1948 these loans had reached a total of $15.458 million.

This sharp increase in loans, as you well know, was accompanied by a rise in interest rates. I have said previously that it is my opinion that the short-term rate must necessarily be regulated by the Treasury and that agency, recognizing the importance of checking the steady expansion of bank credit, acted in conjunction with the Federal Reserve System to raise the short-term rate. The first step toward firmer rates was taken in April, 1946 when the Federal Reserve System discontinued its so-called "preferential" rate of ½ of 1% on borrowings secured by Governments with a maturity of one year or less. In July, 1947 the bill rate of ⅜ of 1% was unpegged, and the current yield on bills ranges around 1.10%. Then in September, 1947 the ⅞% rate on certificates was raised to 1%; in January of 1948 to 1⅛%, and recently the Treasury refunded with one-year 1¼s and 18-month 1⅜s.

In addition to these increases in rates by the Treasury, the Federal Reserve System early in 1948 raised the discount rate from 1% to 1¼%, and effective in August, the rate became 1½%. Likewise effective Feb. 27, 1948, reserve requirements on demand deposits in the two Central Reserve Cities were raised from 20 to 22%, and effective June 11, 1948, they were raised to 24%. Effective in September, the Central Reserve Cities were raised to 26%; the Reserve Cities from 20 to 22% and Country Banks from 14 to 16%. In all classes of cities the requirements on time deposits were raised from 6 to 7½%. Currently, the Federal Reserve Board has authority to raise requirements further in the Central Reserve Cities to 30%;

(Continued on page 37)

The State of Trade and Industry

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

Total industrial production the past week pursued its upward course rising slightly above the level of the preceding week and exceeding moderately the level of the corresponding week one year ago.

The steel industry output last week was scheduled at 99.1% of capacity and came within 5,000 tons of reaching the industry's historical peak. This was the highest rate since April 24, 1944, when the Nation was engaged in a two front war and the steel operating rate was 100%. It is also significant to note that the steel operating rate has declined below the 90% level in only five weeks of the present year, the drop being occasioned by depleted coal stocks following the coal strike last spring.

Electric kilowatt output in the week ended Oct. 23 showed further expansion in keeping with the increasing consumer demand and at the same time established a new all-time peak record. Automotive production was also higher in the past week, but failed by a very slight margin of attaining a new postwar high.

* * *

Of much interest was the report on the current position of deposits of the nation's 532 mutual savings banks made last week by William L. Maude, President of the National Association of Savings Banks. Mr. Maude revealed that such deposits increased by $45,000,000 during September to a new high of $18,272,000,000, but when compared with those of a year ago and for the first half of the current year, the gain was only "moderate."

During the first nine months of 1948 mutual savings banks deposits increased $513,000,000, or 2.89% of their balances at the start of the year. For the same period of 1947, the gain was $795,-000,000, or 4.73%. The increase in deposits this year has been at the rate of about three-fifths that of a year ago, reflecting a narrowing of the gap between deposits and withdrawals.

During the first nine months of this year, deposits were only 1.1% higher than during the same period of 1947, while withdrawals were up 9.8%.

* * *

The number of business failures in September dropped to 398 from 439 and was the smallest number since January, Dun & Bradstreet, Inc., reports. This decrease was consistent with the usual seasonal trend, but when compared with the same month in previous years total failures were the largest since 1942.

Current liabilities declined in September, but were larger than in any previous September since 1935. The agency also noted a marked increase in the number of failures with liabilities of more than $100,000 during the month.

Almost two-thirds of the businesses that failed in September had been operating less than three years with 15% in their first year of operation.

Total failures during the first nine months of 1948, the agency points out, were 51% above the corresponding 1947 level, but 66% below that of 1939. Current liabilities for the corresponding periods decreased 3% between 1947 and 1948, but were 11% above the 1939 figure.

* * *

Retail dollar volume during the week moderately exceeded the levels of both the preceding week and the corresponding week a year ago; unit volume remained somewhat below the level of a year ago. Consumers were selective in their choice of good quality merchandise in the medium price range with hardware and furniture volume reflecting a fractional increase.

Total wholesale order volume for the week was slightly above the level of a week ago and of the comparable 1947 week. Current re-orders were generally for prompt delivery while many merchants sought to restock depleted inventories. Fall and Winter coats were re-ordered in moderate volume and trading in cotton textiles showed a slight rise during the week.

STEEL OUTPUT TO CURRENTLY SHOW ONLY SLIGHT VARIATION FROM WEEK AGO

The steel shortage is not lessening; there are no soft spots; steel will not be easier to get soon and the crop of reports that we are at the top doesn't mean that steel output will take care of demand next year, states "The Iron Age," national metalworking weekly, following an accurate check of the steel market the past week.

For the next 6 months—at-least—steel will be harder to get than it has been recently, the magazine adds. If there are some steel users who are getting enough steel to fill up their pipelines these cases are more than offset by shortages in other places. But the short items are still light, flat-rolled, plate and pipe. The last two are getting shorter when measured by current demand.

Before there is any sign that steel supply is catching up with steel demand the first place to look would be the gray market and the crop of reports on the general economy of the country's "catching up" do not apply to steel—yet; says this trade authority. Proof of this is in renewed activity of the gray market. Tonnages moving are not large when measured against total steel output, but there is activity. There are buyers and people who are paying fancy prices. The gray market is still strong and stronger than it was six months ago.

There were signs—tiny ones—this week that some steel users were getting fed up with gray market prices. They say that the price they get for their product leaves them too little, if they pay gray market prices. Such a frame of mind is interesting but it does not always last. Maybe this time it will, states this trade paper. But in the past these buyers' strikes against gray market prices have started and fizzled out.

Before the coal strike earlier this year, there were signs that the gray market was on its way out. The strike loss of 1,600,000 tons of ingots caused the gray marketeers to throw their hats in the air with joy. The Congressional hearings put the quietus on some gray market dealings but not too much. Then came the Marshall Plan and

(Continued on page 39)

Observations . . . .

By A. WILFRED MAY

A NEW LOOK AT MECHANICAL MARKET OPERATIONS

Along with the current pick-up in Stock Exchange share trading, the volume of the literary and verbal controversy over the justification of mechanical methods for timing stock market operations has risen to new highs. This article will attempt to point out some of the general and basic fallacies underlying the arguments of those writing and speaking in behalf of market-timing and mechanical stock-selecting techniques.


A. Wilfred May

Escaping From Frying-Pan to Fire

Characteristically, the prelude to the pro-mechanical thesis as advanved by every technician, is detailed demonstration of the difficulties of general forecasting. With this skepticism this writer fully agrees. In fact, no one could be more voluble than he in depicting, both empirically and logically, the futility of forecasting economic, political and financial trends, or of tying market forecasts to economic data—past, present or future. But to jump from such disillusionment to conclusions that the remedy lies along mechanical systems based on the market's internal market performance, is to engage in a most grievous psychological fallacy. It is mere flight into an easier and more comfortable realm of fantasy—without realistically determining whether one is unwittingly only jumping from the frying-pan into the fire.

The forecasting uncertainties that are inherent in *investment-value appraisal* operations are also dwelled on by the market "engineers"; as in the necessary projections of a company' sales, earnings and status in the community. But surely the drawing of conclusions through exercising business judgment about the future of a company—about the significance of its present and past business record, is far more sound and justified than are deductions about the future behavior of "the" stock market from pictorializations of *its* past gyrations.

Also analogies are attempted between the forecasting uncertainties involved in diagnosing the stock market and in the diagnoses made by the medical and engineering professions. But this embodies the double error of overlooking the necessity and incidental nature of the prediction element involved in the latter-mentioned professional services, and of forgetting that their assumptions are based on a past substantiating record of previous judgments made from the same conditions.

Liquidity Fictions

But the fundamental fallacy underlying the thinking of the market-timing technicians seems to stem from their misconceptions about "market liquidity" and the nature of common stock. They both consciously and unconsciously advance the notion that a share in a business that is not listed on an exchange is an entirely different thing than is a share in a business which is traded in on an exchange; that the value of the share when located on the market is dwarfed in importance by the market-participants' changing attitudes toward the whole market: that market "liquidity" makes securities a kind of *counter* in the flow of market movements. Thus, whether they realize it or not, the market internalists are dealing in prices rather than values, and are engaged in attempting to anticipate the degrees by which the public will make the price level diverge from value, to outwit the market's other buyers and sellers, to out-forecast the forecasters and out-predict the predicters.

Great Expenditure of Technical Effort

True it is that much arduous effort, often embodying a working knowledge of the higher realms of calculus and mathematical philosophy, is devoted to providing the market *evidence*. For such "evidence" the figure chart is used in great variety; being a method of depicting the price movement by showing all market fluctuations of some selected unit, as a dollar a share, instead of the usual price range. Lately the refinement of the *moving average* for defining "the trend" has come into vogue; elaborated into super-refinements as the "Semaphore" and the "Technometer."

The varied calculations are deemed to be channeled into two broad groups of technical methods; those which try to determine the trend, and those which analyze the character-of-the-market. Actually the difference between attempts to define the trend and to characterize the market, is quite cloudy. Examination of the various means used for judging the market, such as volume and odd-lot data and relationships between various groups in the market, are really in part also endeavoring to catch "the trend"; and certainly are perpetrating some of the same fallacies as are the trend-ists.

That Intriguing Past-Performance

Probably the most important and basic of these fallacies is the presumption of conclusions about the future from past performance.

(Continued on page 47)

Well, CAN You Top This?

Bryan E. Simpson of B. E. Simpson & Co., California Build-


Bryan E. Simpson

ing, Denver 2, Colo., is telling the following story:

"A lady came in to my office to sell some stock to me. So I bought it from her. When she delivered the stock to me, it was in the name of her son. I asked her if her son was a minor?"

"She replied: 'No, he is a policeman.'"

P. L. Forchheimer Opening

Paul L. Forchheimer has opened offices at 505 Fifth Avenue, New York City, to engage in a securities business.

The Current Economic Situation

By M. S. SZYMCZAK*

Member, Board of Governors of Federal Reserve System

Federal Reserve Governor analyzes present economic situation in relation to inflationary tendencies and postwar international situation, and concludes high current income, large past savings, and ready access to credit furnish a strong basis for continued high levels of personal consumption. Sees inflationary tendency intensified by heavy government spending and reviews proposals of monetary measures to curb it. Upholds Federal Reserve bond price support program.

The years since the end of the war have been uneasy ones, economically as well as politically. While we have attained the objective of high levels of employment, there has nevertheless persisted widespread uncertainty as to our ability to sustain these levels. In part, our fears stem from our experience in the dismal thirties; in part, from the knowledge that recurrent boom and recession have always been characteristic of our economy; but especially are we afraid that the inflation of the past few years has set in motion forces that will eventually make a downturn both inevitable and severe.

M. S. Szymczak

In this general anxiety, we are beset by conflicting interpretations of the present and expectations of the future. On the one hand, every dip in price and every slackening in sales—whatever the commodity may be—is taken as proof that a general downturn is upon us. On the other hand, we have the thesis that despite the distortions which have developed in recent years the economy is fundamentally so strong that full employment, production, and income will go on more or less indefinitely, rolling over one difficulty today and another tomorrow—all the time approaching closer and closer to an equilibrium which is not defined. It is clear that the current economic situation—whenever "current" may be—is not a figure or a combination of figures, but an interpretation which looks both forward and backward.

*An address by Gov. Szymczak at a meeting of the Buffalo Chamber of Commerce, Buffalo, N. Y., Oct. 27, 1948.

Postwar Inflation in Retrospect

Looking backward, we see that the war is largely responsible both for the high levels of employment and for the inflation that characterized the postwar years. During the war, about two-fifths of our gross national product was devoted to prosecution of the war. The expenditures for war goods created consumer and business incomes for which there was no matching supply of available goods.

A policy which financed all war expenditures through taxation would have soaked up this excess of purchasing power and would have prevented the large-scale increase in liquid assets. For a variety of reasons, such a rigorous policy was not feasible, and the war was financed through a combination of borrowing and increased taxes, with taxes accounting for less than half the total amount raised. From December, 1939 to December, 1945 the national debt, other than that held by Federal agencies and trust funds, increased by $210 billion. Of this increase nearly $115 billion was accounted for by nonbank investors; about $75 billion was held by commercial banks, and about $20 billion by the Federal Reserve Banks.

During the war, price and wage controls and rationing kept prices remarkably stable, even if allowance is made for activity in black markets. But this stability was possible only because consumers and industry in general exercised remarkable restraint in the use of their income by saving voluntarily, rather than attempting to secure larger individual portions of the limited civilian output. Thus, about one-fourth of personal income after payment of taxes was saved in 1944 as compared to less than 5% in 1929 and to about 7% today. A very large share of these wartime savings took the form of liquid assets, i.e., currency, bank deposits, and government bonds. From the end of 1939 to the end of 1945, personal holdings of liquid assets more than tripled, increasing from about $50 billion to over $150 billion.

When the war ended, the economy had available for spending not only high current incomes but the large accumulation of war savings as well as exceptional access to credit. The incentives to spend were strong in view of the great backlogs of demand for both consumer and producer goods. At the same time, we had heavy responsibilities abroad both for relief and reconstruction. It simply was not possible to increase production fast enough to meet demand. Moreover, increasing production itself increases current income correspondingly.

It was in such a war and postwar situation that inflation was bred. Inflation means that effective demand—i.e. demand backed by purchasing power—exceeds the current supply of goods and services at prevailing prices. Unless controlled, prices advance in such a situation and each advance breeds further advances without necessarily bringing supply and demand into balance at a reasonable price level. Rising prices have resulted in rising incomes and expanding credit which have maintained a gap between effective demand and supply. This now familiar spiral of increased prices followed by increased income has been repeated again and again since the end of the war. For example, since 1939 wholesale prices have increased about 120%, consumer prices 75%, and personal income 190%. A very large proportion of each of these increases has come after 1945.

Notwithstanding all the inflationary forces at the end of the war, we removed prematurely such wartime controls as might have been used as transition safeguards. These included controls over prices and wages, consumer credit, material allocations, and the excess profits tax. Furthermore, for one reason or another we adopted policies which from a strictly economic point of view were more suitable for inducing recovery from low levels of activity than for curbing inflation. The extreme gravity of the housing shortage led to easy mortgage financing. Generous provision was made for veterans. The agricultural program resulted in price support for farm products at levels which prevented large crops from having as deflationary an effect as they might otherwise have had. Desires to grant taxpayers some relief after the long years of high taxation brought

(Continued on page 32)

How Federal Reserve Policies Affect New York City Banks

By MORRIS A. SCHAPIRO*

President, M. A. Schapiro & Co., Inc., Investment Bankers

Bank stock specialist, commenting on market of New York City bank stocks, now below book value, says Federal Reserve penalizes banks through higher reserve requirements. Points out, because of higher operating costs and contraction of loans and investments, bank break-even points have been rising and though loan rates have advanced, yield has been inadequate to offset contraction in earnings assets. Sees situation making it impossible for banks to attract capital from investors.

Decisions of the Federal Reserve authorities in the field of credit control must be matched by even more realistic decisions on the part of commercial banks. Operating costs are not lowered by higher bank reserves; neither are the risks inherent in bank loans lessened. Banks must obtain the necessary income from earning assets—now reduced by Federal Reserve action—to meet expenses, pay taxes and leave a fair margin for the hire of capital.

We know that shares of leading banks in the United States are selling at a discount. Ownership of the 35 member banks in New York City, represented by more than 35,000,000 shares of capital stock, is distributed widely among hundreds of thousands of investors throughout the country. A very substantial concentration of this ownership is found in New England among its mutual savings banks, insurance companies, endowment and other funds.

Based on current bank stock quotations, these shares, valued on the books of the New York banks at $2,250 million, are appraised today in the market place at $1,750 million. This is a discount of $500 million, or over 22%. The discount is substantially greater when other known values are taken into account.

This group of New York City banks reported net current operating earnings of $129 million in 1947, equal to only 5¾% of total capital accounts. In the market place, this rate of earnings is not enough to support an appraisal equal to book value. Banks do not have large enough normal earning power, large enough, that is, in relation to their stockholders' investment. It is for this reason that the investing public appraises bank stocks at a discount.

Here we are with prosperity at flood-tide, loans at record totals and money rates firming. Why then are New York banks unable to earn enough at this time?

Higher Reserves—Penalty On Banks

The Federal Reserve Board has obtained new powers to increase legal reserves which member banks are required to maintain against deposits. Recently, all member banks throughout the country were ordered to increase such reserves. In New York City and Chicago alone, member banks were subjected this year to three successive increases.

The Board is using higher bank reserves as one of its principal weapons to combat inflation. But will the higher bank reserves produce that result? The higher bank reserves do not reduce the money supply in the hands of the public. Can these increased bank reserves be effective in halting the inflation while the government continues present spending and while the Federal Reserve Board carries on large-scale purchases of United States Government Bonds at pegged prices?

In boosting reserve requirements, the fiscal authorities have in effect levied a penalty on commercial banks, denying them the use of their assets and depriving them of income which they would normally be receiving. There is no known inherent weakness in commercial banks which the higher reserve requirements correct. It is unfair for fiscal authorities to blame present-day difficulties on commercial banks when most of these difficulties stem from policies adopted by the government before, during, and after the war. The charge that banks brought about inflation is specious.

*An address by Mr. Schapiro before the Boston Chapter of the American Institute of Banking, Boston, Mass., Oct. 19, 1948.

But all this we know. The fact is, however, that the Federal Reserve authorities have been able to promote these policies and have even obtained additional powers with political and popular support. And this is because bankers themselves have been negligent. They have not been effective in telling their side of the story to the public. Consequently, they have permitted their position to be compromised in the public view. Meanwhile, commercial bankers must face the realities of reduced loans and investments resulting from higher bank reserves.

Impact on Loans and Investments

Let us consider the impact of higher reserves on New York City banks. Total loans and investments of commercial banks in New York City, now at $18.6 billion, have dropped nearly $2 billion, or 10%, from their average level of 1947.

This contraction results from a loss of deposits, and, more recently, from the 26% legal reserve now required against demand deposits, following the three successive increases of 2% each, ordered this year by the Federal Reserve Board.

Based on actual net demand deposits of New York City member banks as of Dec. 31, 1947, the increased legal reserve now required calls for an additional $1¼ billion cash balance at the Federal Reserve Bank, reducing the total of earning assets by a like amount.

Outstanding loans of New York City banks now at $7.9 billion are up $1.2 billion, or 18%, from the 1947 average. Investments at $10.7 billion today show a drop of $3.1 billion, or 22%, from the level of 1947. Table I presents the changes in deposits, loans and investments of New York City member banks from their average position in 1947.

Critical Break-Even Rate Rising

Operating expenses, other than income taxes, of the member bank group in New York City as shown in Table II are estimated at $279 million for 1948, an increase of 2% over 1947 and 30% over 1945. As a result of higher costs and contraction in the volume of loans and investments, the rate of interest on total loans and investments necessary to break even has been rising. Table II illustrates how this critical break-even rate has risen from 0.64% in 1946 to 0.88% today. This is the rate now required by New York City commercial banks on their present $18.6 billion total loans and investments in order to stay out of the red. If these banks as a group were to realize today an average rate no higher than 0.88%, they would have no net current oper-

(Continued on page 16)

From Washington Ahead of the News

By CARLISLE BARGERON

SMITHVILLE, TENN.—This is a little Southern town of about 1,000 souls. There are about 10 business establishments, including the post office, spread around the county courthouse. Although it is the latter part of October and the leaves have turned but not yet fallen, it is quite balmy.

Carlisle Bargeron

In front of the courthouse are approximately 2,000 people—twice the population—listening to a states rights' appeal by Carroll Reece, former Republican National Chairman, and now candidate for the Senate in a predominantly Democratic State. The sound truck of Roy Acuff, radio entertainer and candidate for Governor, has just stopped. In a few minutes when Reece is through, Acuff and his Smoky Mountain Boys with their fiddles will dance onto the portable stage. They will give 30 minutes of mountain folk music, then Roy will make his speech. He is no "expert politician," he says, but the plain Roy Acuff whom "you people have always known." He promises to apply the Golden Rule and the Ten Commandments to the governorship. The tobacco chewing, overalled, calicoed crowd, allows with their nods and exchanges of glances that he will do just that.

The reception here was somewhat unusual and an attestation to the enterprise of the local political managers. A 25-car motorcade with the town's fire truck met the party 10 miles outside the town and came in with siren and horns a-blowing.

It is on this that control of the Senate may turn. The national headquarters seemed lackadaisical about Reece's candidacy until a few days ago. Personalities were involved and for a Republican to defeat the Democratic candidate seemed far-fetched.

Now, partly because of the desperateness of the Senate situation and of the tremendous crowds to which Reece has been speaking by virtue of Roy and the Smoky Mountain Boys, the National headquarters has become tremendously interested. It is sending down flying squadrons of speakers and workers.

If Reece wins, and he certainly has the other side almost hysterical, it will be an amazing accomplishment. The betting in Nashville is even. It is this writer's guess that the outcome will not be more than 10,000 votes either way.

The Reece-Acuff cavalcade of political oprey, as it has come to be widely known, has of this writing been in 85 of the state's 95 counties, something no candidate is believed ever to have attempted before. It has been seen and heard by more than 500,000 people. The opposition, speaking to little knots of people, has not spoken to more than 15,000 altogether.

The campaign should be a study for students of politics for years to come. Manifestly Reece would have had crowds no larger than those of his opponent without Roy Acuff and the Smoky Mountain Boys. On the other hand, Roy would have had no chance, despite his tremendous popularity, running alone as a Republican. As a Democrat it would be different.

But with Roy supplying the music and Reece supplying the words, the two have made a remarkable team. It remains now to be seen how effective it has been.

If the two should be successful, there will probably be a flock of radio stars going into politics while other candidates will come increasingly to putting on some kind of a show to get the crowds.

Politicians have worried for years how to get their message across to the people. Many of them, most all of them, are burning up with something to tell the people. They are satisfied the people would be with them if they could but make themselves heard.

They can't depend upon the newspapers because this time of the season there are so many candidates abeating the bushes, that if the newspapers gave them more than an occasional line they would have no room for anything else. The politicians like the radio because there, nobody cuts their speeches or paraphrases their remarks. But they have a sickening feeling that the dial has been turned and the people are listening to a Fred Allen or a break the bank program.

The solution would seem to be to do what Reece has done. It's a little expensive but it unquestionably brings results in crowds. It is exhausting work, day in and day out over a 75-day period but you reach a larger audience than you could possibly get with the conventional mediums.

Wm. Riley, E. Jones Jr. Join Ed. D. Jones & Co.

ST. LOUIS, MO.—William Riley and Edward D. Jones, Jr., have joined Edward D. Jones & Co., 300 North Fourth Street, members of the New York Stock Exchange, as registered representatives. Mr. Riley was formerly with the St. Louis office of Merrill Lynch, Fenner & Beane and prior thereto was with Bitting, Jones & Co. Edward D. Jones, Jr., who was formerly a registered representative of Josephthal & Co., New York City, will cover the Southern Illinois territory.

William B. Riley

Kuhn Loeb & Company Places $40,000,000 Armour Debentures

Armour & Co. has placed privately through Kuhn, Loeb & Co. $40,000,000 20-year 3½% sinking fund debentures. The purpose of the issue is to increase the company's working capital to meet the higher prices of livestock and other raw material supplies.

Purchasers participating in the issue were: Metropolitan Life Insurance Co.; Equitable Life Assurance Co. of the United States; Mutual Life Insurance Co.; Pacific Mutual Life Insurance Co.; Mutual Benefit Life Insurance Co.; Shell Union Pension Trust; and Shell Union Provident Trust.

Should the U. S. Make Its Currency Redeemable in Gold?

We Must Return to Redeemable Currency

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

Taking issue with Dr. Bernstein and the "money management" school, Dr. Spahr calls indefensible the issuance of irredeemable paper money. Terms as baseless the arguments against domestically redeemable paper money, such as contention there is not enough gold to go around, paper money is more convenient, gold hoarding might cause economic collapse, and gold standard does not cure economic ills.

I

The issue of returning to a redeemable paper money and gold coin or gold bullion system domestically in the United States involves the following basic considerations:

1. On what appropriate ground may one defend the issuance of promises to pay that are irredeemable?

Walter E. Spahr

If honesty has any meaning, it would seem that there can be no defensible basis on which an individual or institution can appropriately be authorized by law to issue promises to pay which are not redeemable.

We have built an elaborate body of law on Contracts for the specific purpose of seeing to it that promises to pay are fulfilled. There is no concept in our laws on Contract to the effect that it is proper and legal for a person or institution to have the privilege of issuing promises to pay and at the same time be freed from responsibility of redeeming them.

By what peculiar twist in reasoning do we think we can set aside those accepted and common standards of honesty when our Treasury and Federal Reserve banks are involved?

That is what we have done in this country. We have enabled both institutions to issue promises to pay which they are not required to redeem, which they do not redeem, and which, under our laws, they cannot redeem. This is a case of granting special privilege without at the same time exacting a corresponding responsibility.

May we appropriately contend that men in the Treasury and Federal Reserve banks may properly operate on a standard of honesty that is lower than that to which they are required by law to adhere in the business world? This, in effect, is the position that we seem to have accepted in recent years in this country.

We should face and examine this situation rather than evade it. Let those who are disposed to accept or to defend an irredeemable paper money state precisely the grounds on which this species of privilege without responsibility is to be defended.

2. On what appropriate grounds may one defend a so-called system of "reserves" in our Federal

(Continued on page 36)

Gold Standard Not an End In Itself

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

Taking issue with Dr. Spahr, Dr. Bernstein asserts sound monetary policies, not gold standard, is desideratum, and that gold redemption would increase difficulties of attaining wise policies and it would harm banking system. Insists dollar, not gold, is standard of value. Denies involvement of morals. Text of questions and answers with Dr. Spahr.

The gold standard is an institution. It is an institution to provide a community with a good monetary system. Like all institutions, it can be useful; but it is not an end in itself. The gold standard is intended to give the people of a country two things. The first is assurance against an irresponsible increase in the quantity of money; the second is to provide, when other countries follow the same policy, a basis for international exchange rates which are reasonably stable.

E. M. Bernstein

The fact is that the gold standard can, it often did, and it may again provide effective limitation on the irresponsible creation of money. It is important to see, however, that it cannot be, of itself, a final limitation. There is no country, no legislature, no people, that would be content to hold back the expansion of money during a war on the ground that this does not conform to the gold standard. I am not saying that wars cannot be fought with a gold standard. All I say is that where governments tell the people that the prosecution of the war requires any modification of gold standard practices, these modifications will be made. The gold standard is not of itself, in the end, an effective barrier to an unwise monetary policy.

Gold May Limit Irresponsibility

Nevertheless, in ordinary times the gold standard can, it often did, and it may again, provide an effective limitation on the irresponsible creation of money. That is a good enough reason for having a gold standard in this country. But it would be a mistake to expect too much of it. The gold standard did not give us price stability; it did not give us freedom from booms and depressions. But the instability of prices and the business fluctuations in the United States were not fundamentally the fault of the gold standard.

All of this is to bring out the point that the gold standard is an institutional device and beyond the institutional side there is the problem of policy. The gold standard cannot provide a good monetary system without sound monetary policies. A country may be able to keep on the gold standard even with bad policies; but wise policy is the key to the usefulness of the gold standard. With or without the gold standard a satisfactory monetary system

(Continued on page 36)

*Talks before the Financial Writers' Association, Inc., Columbia University Club, New York, Sept. 30, 1948. Dr. Bernstein's remarks, and the questions and answers were especially transcribed for the "Chronicle."

Television: Present and Future

By R. C. COSGROVE*

Executive Vice-President, Avco Manufacturing Corporation

Pointing out television in last year has grown faster than any other major American industry, Mr. Cosgrove says it has been limited only by inability of producers to keep up with demand. Admits programing is still in experimental stage, but looks for aid from motion picture industry and says advertisers are moving rapidly into television. Foresees 400 television stations and million persons employed by 1953.

It is always a privilege to be invited to talk about television. And I have talked about it a great deal the past several years. But I know that television, as a general topic, is not the matter of prime interest to you today. You are thinking of the *contribution* television can make to the dominant goal uppermost in all minds — effective distribution as a force for prosperity and progress.

R. C. Cosgrove

Almost all of us have increased the productive capacities of our plants very substantially the past two or three years. And many of us are *still* expanding. In the years ahead, if these capacities are to mean a stronger economy, we are going to have to deepen and broaden our markets and distribute far more goods than ever before on a sound cost basis.

Existing tools of distribution will not be enough to do this job. Strong *new* forces must be added—and among these, we have one in particular that promises to be of great influence.

This force is television.

Fastest Growth of Any Industry

It might be reasonable to question whether this young industry can expand in the next several years to such a point that it becomes a *key factor* in world economy. Industries of world importance, in the past, simply have not developed at any such rate.

Television already has given one basic answer to that question. *In the past 12 months, television has grown faster than any other major industry ever to appear on the American horizon.*

And this growth has been sound and stable and has taken place in every phase of the business.

The growth of radio in the past 25 years has been remarkable. Today's radio listening audience totals more than 100 millions. Americans own around 75 million radio receivers. Nine of every 10 American homes have at least one receiver and many have three or four. Their programs are provided by more than two thousand broadcasting stations.

Television is growing much faster than did radio in its early days and is practically certain of matching the radio record in considerably less than 25 years.

In the first nine months of this year, the industry has produced 500,000 receivers, as compared with 85,000 over the same period in 1947. The output of these first nine months was *70%* of the total of 703,000 receivers built since the end of the war.

Actually, this total could have risen higher had the industry's suppliers been able to keep up with its demands. Makers of cathode-ray picture tubes, in particular, simply were not prepared for such a deluge of orders. These tubes have been in very short supply and will continue to limit set production until at least the middle of next year.

Forty television stations are now operating in 24 cities, an expansion of *400%* over the total one year ago.

Three months from now, intercity television networks will consist of some 5,000 miles of channels and will link *15* major cities from the East Coast to the Mississippi. A little over a year ago there were just *450 miles* of channels, joining three cities—Washington, Philadelphia and New York.

Networks to Be Linked

At present, an East Coast network is made up of Boston, New York, Newark, Albany-Schenectady, Philadelphia, Baltimore, Washington and Richmond, Virginia.

A midwest network includes St. Louis, Chicago, Milwaukee, Toledo, Detroit, Cleveland and Buffalo.

A coaxial cable between Cleveland and Philadelphia, passing through Pittsburgh, will be completed in January, linking these two systems together.

Last October, television programs consisted largely of wrestling and boxing matches, ball games and films of not-too-recent vintage. Today, the variety of fare is approaching that of radio, and the quality is in many cases superior.

The industry freely admits that programing is still in the experimental stage and very probably *will* be for years. There is constant effort to build better programs at lower cost. And the material with which to work is almost as endless as human activity itself. But many popular programs *have been developed,* as audience surveys have shown, and many more will be developed in the months to come.

The motion picture industry in time will provide much good program fare, both for home receivers and its own exhibitors.

Aggressive people in that industry are getting into television now. They know that 60% of families having receivers today are attending theaters *less* than before. But they also realize that television's annual demand for film footage will be at least four-and-one-half times the current theater consumption — and also television *on the theater screen* will offer some advantages that will bring new patrons to the box office.

Eventually the film industry will be among the heaviest suppliers in the business and, I believe, will also have substantial interest in the operating end.

In the field of advertising, closest home to distribution, the most remarkable — and perhaps the most important—gains have been made.

In March of 1947, *25* advertisers were sponsoring television shows. In October, one year ago, the number had risen to *140*. Today, the total stands at *475* and by the

(Continued on page 41)

*An address by Mr. Cosgrove before 20th Annual Boston Conference on Distribution, Boston, Mass., Oct. 25, 1948.

Dealer-Broker Investment Recommendations and Literature

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

Airlines—Detailed survey of the air transportation industry with data on 17 companies—Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

Banks and Trust Companies of New York—66th consecutive quarterly comparison of leading banks and trust companies—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Corporate Securities Legal for Trust Funds in Commonwealth of Pennsylvania — Booklet — Pennsylvania Bankers Association.

Fifteen Most Widely Owned Stocks—Appraisal of the future—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Fire Insurance Stocks—Current appraisal—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are analyses of **Canada Dry Ginger Ale, International Telephone & Telegraph, Lehigh Valley Bond Issues,** and leaflets on **American Light & Traction, Atlantic Refining Co., Johns Manville, Liggett & Myers, Sharon Steel, Shell Union Oil, Standard Gas & Electric, Texas Company,** and **Wisconsin Electric Power Co.**

Insurance Companies—Analysis and comparison—Elworthy & Co., 111 Sutter Street, San Francisco 4, Calif.

Railroad Common Stocks—Discussion—Ralph E. Samuel & Co., 115 Broadway, New York 6, N. Y.

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

Soft Drink Industry—Discussion of growth possibilities—Henry P. Rosenfeld Co., 37 Wall Street, New York 5, N. Y.

Steel Companies — Selected group of stocks—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Television—Analysis of the industry—Courts & Co., 11 Marietta Street, N. W., Atlanta 3, Ga.

Utilities After Election—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Western Oil Fields—Discussion of developments of the oil fields of Western Canada—Milner, Ross & Co., 330 Bay Street, Toronto 1, Ont., Canada.

* * *

Aetna Standard Engineering Co.—Analysis—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

American Maracaibo—Progress report—Cohu & Co., 1 Wall Street, New York 5, N. Y.

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

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

Black, Sivalls & Bryson, Inc.—Memorandum in current issue of "Public Utility Stock Guide"—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Also available is a card memorandum on **Standard Stoker Co.**

Bowling Green, Ky., Refunding Bonds — Circular—Bankers Bond Co., Inc., Kentucky Home Life Building, Louisville 2, Ky.

Also available is a circular on **City of Henderson, Ky., Sewer Revenue Bonds.**

Philip Carey Manufacturing Co.—Analysis of growth stock—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Central Public Utility Corp.—Circular—Marx & Co., 44 Wall Street, New York 5, N. Y.

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

Imperial Oil Limited—Circular—Charles King & Co., 61 Broadway, New York 6, N. Y.

Jones & Laughlin Steel Corp.—Analysis—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

King Seeley Corporation—Analysis—Straus & Blosser, 135 South La Salle Street, Chicago 3, Ill.

Also available is an analysis of **Lecce-Neville Company.**

M. H. Lamston, Inc.—Analysis—Childs, Jeffries & Thorndike, Inc., 50 Broadway, New York 4, N. Y.

Liberty Loan Corp. — Data — Sills, Minton & Co., 209 South La Salle Street, Chicago 4, Ill.

Lone Star Cement Corp.—Investment appraisal—Kalb, Voorhis & Co., 25 Broad Street, New York 4, N. Y.

Also available is an appraisal of **Yale & Towne Manufacturing Company.**

Minneapolis Gas Co.—Special write-up—A. C. Allyn & Co., Inc., 100 West Monroe Street, Chicago 3, Ill.

National Union Fire Insurance Co. of Pittsburgh—Analysis—The First Boston Corp., 100 Broadway, New York 5, N. Y.

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

Oxford Electric Corp.—Circular—Blair & Co., Inc., 44 Wall Street, New York 5, N. Y.

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

Also available is a circular on **Suburban Propane Gas Corp.** and a bulletin on current developments in **Railroads.**

Public National Bank & Trust Co. — **Circular** — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

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

Scruggs - Vandervoort - Barney, Inc.—Detailed analysis—Taussig, Day & Co., Inc., 316 North Eighth Street, St. Louis 1, Mo.

Also available is a study of **Midwest Piping & Supply Co.**

Sharpe & Dohme—Circular—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Shawinigan Water & Power Co.—Summary and analysis—Lightcap Securities Limited, Somerset Building, Winnipeg, Man., Canada.

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

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

Also available is an analysis of **Miles Shoes, Inc.**

Stalin

By ROGER W. BABSON

Reiterating that war is not part of Russian program, Mr. Babson contends Russia's purpose is to require our perpetual mobilization so as to increase our taxes and living costs. Holds Stalin believes time is in his favor and that when we get tired of supporting Western Europe he will take over. Says employers will bear brunt of next depression.

I have had so many inquiries from my recent column which discussed in part Mr. Stalin, that I will now answer the main question, "What are probably Uncle Joe's plans?"

Roger Babson

We may get into war next year through some accident or unauthorized shooting by Russian, American or Allied troops. I, however, am sure that war is not a part of the Russian program for the three reasons which I gave a couple of weeks ago. Russia's program is to worry and scare us to build up such a great army, air force and navy that the expense will upset our domestic economy. Remember that it costs the United States ten times as much a month to maintain a soldier as it costs Russia.

This perpetual mobilization could so increase our taxes and cost-of-living that it could bring about a business recession here notwithstanding our shipments to Europe. Business failures and real estate foreclosures would greatly increase. These could intensify a moderate deflation like pouring kerosene onto a fire.

Great Shipments Abroad

I have just been told about a government order for 26,000 big trucks with 100,000 big extra tires to be shipped abroad. I mentioned this to a Russian and he said, "We will get them free ourselves someday when we take over Western Europe." Stalin is not only encouraging us to bust ourselves by terrific armament expenditures, but he is also tempting us to send tremendous supplies to Europe. These he expects to someday take over together with factories and railroads which we are building there.

Stalin believes that time is in his favor and that the longer he can keep us from attacking Russia the better off he will be in three ways: that is, first, by causing us to have such a huge military program that it will upset our domestic economy; second, to get us to send all these good things to Western Europe which he can later take over; and third, he will have time to stock up atomic bombs.

How to Prepare for More Trouble

Stalin probably feels that someday the American people will get tired of supporting England and Western Europe; also that when we do quit he can take it over. Many military men admit he may be able to do this. If so, certainly this country would be in a desperate position. Let us hope there will be an internal revolution in Russia before that time comes.

We hear of individuals moving out of big cities, getting a little farm in the country and decentralizing their industries. This is all to the good. There is another thing every business should recognize—namely, that continued high prices and high wages are causing a constantly increasing demand for more working capital.

It is very possible that the next depression may not hurt the common man so-called, but rather his employer.

Built Up Working Capital

Many employers are destined to be short of cash, and will either have to give up their business or sell it out. Today with large scales, high profits, and everything going fine, it is difficult for most businessmen to realize this possibility. Remember, however, that it is usually the unexpected that happens. Never forget that Newton's Law of Action and Reaction applies to economics as well as to mechanics.

Every reader of this column should lay up sufficient cash reserves for trouble ahead. By all means, keep out of debt. Corporations, if necessary, should pay a withholding tax to the government rather than declare too much of their earnings for dividends. It is certain that the present prosperous conditions will not always continue.

Warning to Employers

It is possible that the employers will have to take the brunt of the blow during the next depression. They may be the ones laid off instead of their workmen. Many businesses will avoid closing only by coming under the control of new owners who have the cash to carry on.

As the government stores up munitions, and as your employees are storing up refrigerators, washing machines and other purposes make sure that you are getting out of debt, storing up cash and increasing your working capital. Otherwise you may go "bust" if Uncle Joe's "waiting game" should succeed.

Brisbane Bonds Called

Holders of City of Brisbane (Australia) 20-year sinking fund 6% gold bonds due June 1, 1950 are being notified that $72,000 principal amount of the bonds have been drawn by lot for redemption through the sinking fund. The bonds will be redeemed at par on or after Dec. 1, 1948 at the Corporate Trust Division of Guaranty Trust Co. of New York.

James H. Spaulding Joins Marshall Company

MILWAUKEE, WIS.—James H. Spaulding has joined the Marshall Company, 762 North Water Street. Mr. Spaulding for many years was associated with Loewi & Co. representing them in Janesville, Wis.

Consumer Purchasing Power and Market Potentials for 1949

By ARNO H. JOHNSON*

Vice-President and Director of Media & Research, J. Walter Thompson Company, New York

Estimating real purchasing power is now at 50% above 1940 level, and surplus money for discretionary spending is four times as great, accompanied by a large backlog of savings, Mr. Johnson contends consumer credit at present is unusually low in relation to income and savings. Sees shortage of working capital and new investments developing, but concludes "there will be plenty of opportunity in 1949 to maintain high level of production, employment and consumption."

For the last five years it has been popular to predict depression and unemployment just around the corner. Most economists and writers have been so intent on watching for the first signals of this impending break that they have not recognized the basic changes that have taken place since 1940 in our national productivity and real purchasing power, or the potential increases in our standard of living which could make possible still higher levels of production and consumption.

Arno H. Johnson

The following analysis of real purchasing power, savings and consumer debt, and their relation to market potentials will perhaps indicate that there is another side to the equation — that it is possible to maintain our high level of production and employment and to advance even further our standards of living through increased productivity.

Real Purchasing Power Is at a Level 50% Above 1940

The real disposable personal income of our population, after taxes and full correction for increased prices, probably will reach, in 1949, a level 50% or more above 1940. In other words, the American population will have the purchasing power ability to buy and consume over 50% more physical goods and services than in the last full year before we entered the war (see Table 1 and Chart 1).

	1940	1947	1949 Opportunity	1949 % Increase Over 1940
Disposable Personal Income After Taxes (Billions)	$75.7	$173.6	$200.0	164%
Consumer Price Index (1935-1939 = 100)	100	159	176	76%
Real Disposable Income in 1940 Dollars (Billions)	$75.7	$109.2	$113.6	50%

Chart No. 1 illustrates what has happened to the real purchasing power of the American public since 1940, showing actual figures reported by the government for 1940 and 1947 and estimated figures for 1949 based on trends late in 1948.

Disposable personal income after taxes in 1949 is likely to reach a level of $200.0 billion compared with $75.7 billion in 1940—a level 2⅔ times the immediate prewar level of consumer income. Inflation in prices has dissipated $86.4 billion of this new income leaving a real gain of $37.9 billion in additional real purchase-power. This gain in real purchasing power after full correction for prices will make possible an increase of over 50% in the number of units or in improved quality of goods and services that our population can buy to improve its standard of living over 1940.

Taking into account the increase in the population since 1940, there is an increase of 34% in the real per capita purchasing power. This parallels an increase of 34% that has taken place since 1940 in the per capita productivity of our population.

To make possible the 50% increase in total real buying power the nation's productivity has had to show a corresponding increase amounting to 50% in total or 34% per capita (see Table 1). Real income must always, in the long run, depend on productivity of the population. Any increased income not supported by increased productivity becomes inflation and can not result in any improvement in real income or standard of living.

Increases in our national productivity since 1940 have come, in part, from our greater utilization of our labor force, with civilian employment increasing from an average of 47,520,000 in 1940 to an average of 59,300,000 in 1948, and unemployment dropping from 8,120,000 to about 2,000,000 (see Chart 2). But even a greater influence has been the increase in productivity per employed civilian made possible through increased mechanization, and the high level of continuous production sustained by a high level of consumer demand. While **real** productivity per capita has increased 34% since 1940, the productivity per civilian has increased 21%—the difference being accounted for by the increased utilization of the labor force through fuller employment. (See Table 1.) Since the labor force is now so nearly fully employed, further increases in national productivity with corresponding increases in the ability to improve the standard of living must depend on improved productivity by those employed.

Surplus Money For Discretionary Spending Is 4 Times 1940

The increase in consumer income since before the war takes on greater significance when the amount needed to maintain a 1940 basic standard of living at present prices is taken out of the total income. The remainder after these basic living costs becomes surplus or discretionary spending power available to improve the standard of living or to add to savings.

It is estimated that in 1949 the surplus income of individuals available for discretionary spending or saving will be about **four** times the highest prewar levels. This is after taking full account of the higher tax level and allowing for a 76% increase since 1940 in consumer prices applicable to the basic living costs of maintaining a 1940 standard of living for food, clothing and shelter for our whole population. There apparently will be a balance of about $103 billion of current income left for discretionary spending or saving in 1949 compared with only $26.5 billion in 1940. This does not include any of the huge backlog of savings that have accumulated in the last eight years. (See Table 2 and Chart 3.)

	1940	1947	1949 Opportunity	1949 % Increase Over 1940
Disposable Personal Income After Taxes (Billions)	$75.7	$173.6	$200.0	164%
Basic Living Costs to Maintain 1940 Standard of Living for Food, Clothing and Shelter (Billions)	$49.2	$85.4	$96.9	97%
Surplus Income for Discretionary Spending or Saving (Billions)	$26.5	$88.2	$103.1	289%
Personal Savings (Billions)	$3.7	$8.8	$12.0	224%
Income for Discretionary Spending	$22.8	$79.4	$91.1	299%

The market potentialities of this fourfold increase in discretionary spending power have not been fully recognized. The discretionary spending power alone now is greater than the total national income in 1940. How consumers will apply this vast pool of new discretionary spending power is a matter of their own discretion. They could put it into additional savings, into increasing the quantity or quality of their basic living items of food, clothing or shelter or into additional things they may desire which they never have had before. Since this $103.1 billion is discretionary spending power beyond the things considered basic necessities in 1940, it represents an open opportunity for every seller of goods and services, savings plans or investments to influence and guide the discretion of this purchasing.

The Backlog of Individual Saving Is Three Times Greater Than in 1940

It is estimated that at the end of 1948 the aggregate of individual savings, totalling about $207.0 billion, will be three times greater than the total in 1940 of $68.4 billion. This huge backlog of savings must be taken into account in analyzing consumer purchasing power since it is a form of potential buying power available at the discretion of the consumer. The present total of $207.0 billion in savings is the equivalent of 2½ times the total national income of 1940. The liquid asset holdings of individuals as of December, 1947, compared with December, 1940 indicates the ready availability of funds totalling 3½ times as great.

Liquid Asset Holdings of Individuals

	Dec., 1940 (Billions)	Dec., 1947 (Billions)
Total Personal Holdings	$52.4	$172.0
Currency	4.9	20.6
Demand Deposits	9.1	32.3
Time Deposits	24.9	51.8
Savings and Loan Shares	4.1	9.2
U. S. Government Securities	9.4	58.1

Federal Reserve Bulletin, June, 1948.

Statistics on saving and dissaving have been badly misinterpreted recently. We heard of the shrinkage of current savings. It is only in comparison with the abnormally high consumer savings during wartime that the present rate of savings looks low. The actual current level of savings of about $12 billion annually is three times as large as in 1940 or 1929. Savings are being put aside at the rate of about 6% of disposable income as compared with a rate of under 5% in the prewar "good" years of 1940 or 1929.

Dissavings in particular have been the subject of recent alarming misinterpretation. The recent Federal Reserve Board Survey showed that 28% of all consumer spending units in 1947 cut into their accumulated savings. The popular interpretation of this was that consumer purchasing power was shrinking rapidly and that people in alarming numbers were being forced to draw upon their

(Continued on page 34)

*An address by Mr. Johnson at a meeting of the State Advisory Chairmen of the U. S. Savings Bonds Division of the Treasury Dept., Washington, D. C., Oct. 18, 1948.

No Indication Of Business Recession

By WHITMAN C. HAFF

Ward & Company

Mr. Haff, commenting on fear of war and of nearby business recession, points out, in view of Department of Commerce and other reports regarding conditions, it is quite inconceivable to believe any important business recession is near. Says stocks are cheap and there is nothing to fear, but fear itself.

Two major questions which are uppermost in the minds of many people are the fear of war and the fear of a nearby business recession.

Naturally it is impossible to foretell whether there will be war in the near future but facts and figures can, sometimes, pretty well prove whether there is a possibility of a nearby business recession.

Within the past few days the United States Department of Commerce, in its analysis prepared for the October edition of the monthly survey of current business gives the following highlights on the present economic situation:

Present business conditions give "promise of a sustained high aggregate volume."

Personal incomes reached a record high annual rate of $215,000,000,000 in August.

Industrial production rose in August and September from the seasonal slump in July.

More than seasonal gains were made in the production of steel, lumber, textiles tobacco, paper and industrial chemicals.

Although an increase in the amount of raw materials have been the cause of a gradual increase in industrial output, this year, nevertheless basic supplies, especially steel, continue to be a limiting factor in other industries.

Employment held high while the proportion of unemployment (about 2,000,000) was never lower than at the present time.

In view of this report, by the Department of Commerce, it seems quite inconceivable to believe that any important business recession can be near.

It may possibly take some lines of business several years to meet the present demand. Naturally this does not refer to all lines for some have already caught up and due to this situation may experience a small recession in their own particular line but this article is referring to majority and not to minority.

Automobile manufacturers, for example, in face of increased prices for some cars, have the largest backlog of orders in their history. It was recently stated that it may take at least two years for manufacturers to make regular deliveries of cars.

Railroads, even though freight rates and passengers fares have been increased, are showing considerably larger earnings this year over last year.

In view of all these facts and figures many stocks, at the present time, are selling from two to five times earnings and many considerably under quick assets. A few years ago if a stock was selling ten times earnings it was considered very attractive.

As far as a general nearby business recession is concerned, it might be well, in the opinion of this writer, to quote the late Franklin D. Roosevelt who said "There is nothing to fear but fear itself."

NSTA Notes

NSTA CONVENTION TRAIN SCHEDULES

The National Security Traders Association Convention Special will leave New York, Pennsylvania Station at 4:35 p.m. Friday, Nov. 12 (special car leaves Boston 9 a.m.) enroute to Dallas, stopping over at Chicago for Luncheon as guests of the Bond Traders Club of Chicago on Saturday.

The Chicago and New York trains will leave Saturday, Nov. 13, from the Dearborn Street Station at 2:45 p.m. on the Wabash Railroad, arriving St. Louis in the early evening where Missouri, Kentucky and other members will join the special.

The train will arrive Longview, Texas, Sunday morning. Florida, Louisiana and other Southern members will join for church services and a trip by motor through the East Texas Oil Fields, rejoining the train at Gladewater and arriving Dallas at 4 p.m.

Returning

The special train will be open for occupancy at Dallas, Wednesday night, Nov. 17 at 10:30 p.m. and will leave for New Orleans Thursday at 1:00 a.m. on the Texas & Pacific Railroad arriving New Orleans Thursday afternoon.

The Pullmans will be parked for occupancy at the Texas & Pacific Station in New Orleans and a Shower Car will be located immediately adjacent to the train.

Thursday afternoon and evening, also Friday morning and afternoon will be free to visit "America's most interesting city."

Friday evening we will be entertained by the New Orleans Security Traders Association at cocktails aboard the Del Norte, Luxury South American Cruise liner of the Delta Fleet.

Saturday at 3 p.m. the special train will leave New Orleans from the Illinois Central Station, stopping in Memphis in the late evening. Special cars will arrive St. Louis early Sunday morning and the Special will arrive Chicago at 11 a.m.

Leaving Chicago at 3:25 Sunday afternoon from the Union Station, Pennsylvania Railroad, arriving Philadelphia and New York Monday morning with the special car arriving Boston, Monday afternoon Nov. 22.

DETAILED TOUR SCHEDULE

Going

Friday, Nov. 12		
9:00 a.m.	Leave Boston	New Haven RR.
4:35 p.m.	Leave New York	Pennsylvania RR.
6:09 p.m.	Leave North Philadelphia Dinner on Train	Pennsylvania RR.
Saturday, Nov. 13		
8:50 a.m.	Arrive Chicago Breakfast on Train	Pennsylvania RR.
2:45 p.m.	Leave Chicago	Wabash RR.
8:15 p.m.	Arrive St. Louis	Wabash RR.
9:00 p.m.	Leave St. Louis Dinner on Train	Missouri Pacific RR.
Sunday, Nov. 14		
10:00 a.m.	Arrive Longview, Texas Breakfast on Train Church Services Trip Through Oil Fields	Texas & Pacific RR.
4:00 p.m.	Arrive Dallas Dinner on Train	Texas & Pacific RR.

Returning

Thursday, Nov. 18		
1:00 a.m.	Leave Dallas Breakfast and Lunch on Train	Texas & Pacific RR.
2:00 p.m.	Arrive New Orleans Train Parked at Texas & Pacific Station for Occupancy	Texas & Pacific RR.
Saturday, Nov. 20		
3:00 p.m.	Leave New Orleans	Illinois Central
11:10 p.m.	Arrive Memphis Dinner on Train	Illinois Central
Sunday, Nov. 21		
7:15 a.m.	Arrive St. Louis	Illinois Central
11:00 a.m.	Arrive Chicago Breakfast on Train	Illinois Central
3:25 p.m.	Leave Chicago Dinner on Train	Pennsylvania RR.
Monday, Nov. 22		
7:40 a.m.	Arrive North Philadelphia	Pennsylvania RR.
9:20 a.m.	Arrive New York	Pennsylvania RR.
2:55 p.m.	Arrive Boston Breakfast on Train	New Haven RR.

What the Tour Includes

The cost of each tour includes Round Trip Rail and Pullman, Meals on Train as specified, Occupancy of Pullman and entertainment in New Orleans and transfer of individuals and baggage from train to hotel at Dallas. Hotel rooms at Dallas are not included. Gratuities are not included.

All Expense Tour Rate to Dallas and Return via New Orleans, Including Rail Ticket and All Taxes via Complete Tour

From	Two in Bedroom Each	One in Roomette	One in Bedroom	Two in Compt. Each	Two in Dr. Room Each
Boston	$239.44	$251.54	$278.34	$252.08	$278.34
Chicago	147.71	155.90	173.73	156.26	173.73
New York	217.42	229.46	253.56	230.25	253.56
Philadelphia	208.51	220.32	244.19	221.08	244.19
St. Louis	Note	Note	Note	131.18	146.38

Note—Bedrooms and Roomettes will be available only from St. Louis to New Orleans, returning to Chicago.

Rates to and from intermediate points quoted upon request.

The All Expense Tour Rate, Chicago to Dallas and return via New Orleans, railroad ticket not included:

Two in Bedroom Each	One in Roomette	One in Bedroom	Two in Compt. Each	Two in Dr. Room Each
$74.51	$82.70	$100.53	$83.06	$100.53

Round Trip Railroad Fares from Principal Points to New Orleans via Dallas are shown below, Federal Taxes included:

Boston, Mass.	$130.44	Pittsburgh, Pa.	$ 93.15
Chicago, Ill.	73.20	Portland, Ore.	161.40
*Cincinnati, Ohio	85.56	†San Francisco, Calif.	141.51
†Los Angeles, Calif.	141.51	Seattle, Wash.	161.40
New York, N. Y.	116.35	St. Louis, Mo.	54.97
Philadelphia, Pa.	108.07	Twin Cities, Minn.	96.66
Chicago to Dallas and return direct	64.06	St. Louis to Dallas and return direct	44.79

*Via St. Louis. †Via Chicago in one direction. All other rates quoted are good through Chicago in both directions.

For reservations and additional information communicate with Edward H. Welch, Sincere & Co., Chicago; John M. Hudson, Thayer, Baker & Co., Philadelphia; Walter F. Saunders, Dominion Securities Corp., New York, and Paul Monroe, Hunnewell & Co., Boston.

SECURITY TRADERS ASSOCIATION OF NEW YORK

Frank Pavis, Charles E. Quincey & Co., has been nominated for Congress, and the Board of Governors of the Security Traders Association has passed a resolution notifying members of his candidacy and urging them to support his campaign. Contributions to his campaign fund may be sent to Michael J. Heaney, Jos. McManus & Co., Treasurer.

COMING EVENTS

In Investment Field

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

Oct. 28, 1948 (Philadelphia, Pa.)
Eastern Pennsylvania Group of Investment Bankers Association annual meeting.

Nov. 3, 1948 (Pittsburgh, Pa.)
Western Pennsylvania Group of Investment Bankers Association annual meeting at the University Club.

Nov. 5, 1948 (Baltimore, Md.)
Southeastern Group of Investment Bankers Association annual meeting at the Merchants Club.

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 First Securities Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Arthur J. Wilson, previously with Swift, Henke & Co., is now associated with First Securities Company of Chicago, 134 South La Salle Street.

Joins Wm. S. Beeken Co.

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA.—William M. Brown has joined the staff of William S. Beeken Co., Guaranty Bldg.

At Johnson, Lane, Space

(Special to THE FINANCIAL CHRONICLE)

SAVANNAH, GA. — James F. McIntosh has been added to the staff of Johnson, Lane, Space & Co., Inc., Bay and Drayton Streets.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

For the remaining months of 1948 the basic factors at work in determining the earnings of commercial banks in New York City will be much the same as those which have prevailed to date.

Of primary importance in this connection is the level of interest rates. For over a year now, bank loan rates have been rising. The best indication of this is the change which has taken place in the prime rate, the rate charged borrowers with the highest credit rating. A year ago this rate was 1½%. Today it is 2% and not long ago it was 1¾%. Borrowers with lower credit ratings, of course, are paying considerably more for their money. This rise in loan rates has accompanied the advance in yields on short-term government securities. In the recent refunding operation, Treasury certificates were issued at 1¼% as compared with the previous rate of 1⅛%. A year ago the yield had just been increased to 1%.

Another important factor in the earnings outlook is the volume of outstanding loans. At the present time the volume of loans and lending activity of most New York banks are at record levels. Existing economic conditions and the present level of business activity should maintain the loan demand throughout the rest of 1948.

On the other hand operating expenses, which have been rising for several years, appear to be well under control. In fact, the only unfavorable factor in the present earnings outlook is the possibility of further credit restrictions primarily in the form of higher reserve requirements. So far this year the Central Reserve City banks of New York and Chicago have had three increases in reserves, one each of 2% in February, June and September. Up to the present time the loss in earnings as a result of the larger reserve has been offset by the increase in yields on loans and securities. If future action by the Reserve authorities takes the form of increased reserves, it is believed that it too will be accompanied by higher interest rates.

Thus the present outlook for New York City bank earnings is one of relative stability. While results for the first nine months varied among various institutions; in general they were slightly higher than in 1947. For the final quarter the earnings results should conform to the trends established in the previous periods.

Presented below is a table of 15 New York City banks comparing the record of earnings so far this year with the similar periods of last year. Also shown, for comparative purposes, are the indicated earnings for the 12-month period ending Sept. 30, 1948 and the reported earnings including security profits for the full year 1947.

	—Net Indicated Earnings Per Share—					
	Third Quarter 1948	Third Quarter 1947	–Nine Mos.– 1948	–Nine Mos.– 1947	12 Mos. to Sept., '48	Earn'gs 1947
	$	$	$	$	$	$
Bank of Manhattan	.57	.48	1.65	1.41	2.14	2.24
Bankers Trust	.69	.69	2.32	1.94	3.38	3.07
Central Hanover	1.50	1.50	4.50	4.50	7.26	7.26
Chase National	.63	.53	1.69	1.85	2.60	2.68
Chemical Bank & Trust	.75	.66	2.23	2.08	2.80	2.93
Commercial National	.75	.83	2.46	2.57	3.54	3.92
Corn Exchange	1.25	1.25	3.70	3.74	4.83	5.03
First National	18.68	17.59	60.79	58.18	90.27	87.65
Guaranty Trust	4.48	3.92	13.66	13.66	18.29	18.28
Irving Trust	.30	.29	.90	.85	1.21	1.17
Manufacturers Trust	1.18	1.10	3.77	3.40	5.09	5.19
Morgan (J. P.)	3.86	3.56	12.17	11.34	14.51	14.90
National City*	.74	.80	2.29	2.65	3.01	3.63
New York Trust	1.69	1.70	4.83	4.87	6.50	7.17
Public National	1.23	1.06	3.56	3.13	4.67	5.30

*Includes earnings of City Bank Farmers Trust.

Private Placement of Securities

By STUART F. SILLOWAY*
Vice-President and Manager of Securities,
The Mutual Life Insurance Company of New York

Ascribing impetus to private placement of securities largely to exemption from SEC registration, insurance company investment manager points also to decline in number of individual investors as leading to direct selling to institutions. Says private placement technique has taken from investment banking potential source of earnings, and this development, along with competitive bidding, has adversely affected investment business in bond distribution field. Describes investment in finance companies by life insurance corporations.

As plant investment and other expenditures for capital goods dried up during the depression period to a point where debt issues for the first time were insufficient to meet the demands of institutional investors, it was logical that private placements—that is, direct dealing between the lending institution and the borrowing industry—should become a more prevalent practice. The prospective borrower was aware of the volume of funds seeking investment in obligations providing a higher return than United States Government obligations, and he, therefore, had a tendency to go directly to the source of such funds. The lending institution, on the other hand, having been unable to obtain sufficient investments for its needs, was interested in the opportunity to deal direct. This development was undoubtedly given a great deal of impetus by the enactment of the Securities Act of 1933. This Act required that securities which are offered, sold or delivered through the mails or in interstate commerce, be registered with the Securities and Exchange Commission. Certain exemptions are set forth in the Act, one of which relates to the size of the offering and another, more important from a volume standpoint, relates to transactions which do not involve a public offering. The General Counsel of the Securities and Exchange Commission early in 1935 rendered an opinion concerning such transactions and indicated therein certain factors to be considered in determining whether a given transaction might constitute a public offering or not. It is fair to say that this opinion has received more than a modicum of study by a great many lawyers and that that portion of it which emphasizes that the number of prospective buyers, or investors, to whom offerings are made is particularly pertinent remains as an important guiding factor. In addition, this opinion stressed that the nature of the transaction be such that the securities are not likely to come into the hands of the general public, at least until after they had been acquired by some one who had purchased them as an investment and not for purposes of distribution.

The National Association of Insurance Commissioners gathered statistics from 46 selected insurance companies of which 42 held privately purchased securities. This study showed that as of Dec. 31, 1946, these 42 companies owned over $4.7 billion principal amount of securities purchased privately and that these securities accounted for 10.4% of the total admitted assets of the companies at that date. The purchase of securities which are not registered has gone on apace during the last 18 months which has been characterized by a very high rate of new capital formation on the part of most industries, a condition which has contributed heavily to the expansion of the volume of loans of deposit banks and other financial institutions, including your own. No doubt these forces have created a great interest among you gentlemen in analyzing possible sources of additional funds for your operations.

*An address by Mr. Silloway at Annual Convention and Dinner of Commercial Finance Industry under auspices of the National Conference of Commercial Receivable Companies, Inc., New York City, Oct. 25, 1948.

Twenty years ago, also a period of capital expansion, there would have been no reason to focus on private placement; in fact, the private placement technique for security issues was nonexistent. The chances are that in your business, if you sensed an expanding volume requiring additional funds, you would have sought the advice of your leading bankers. If your banker thought that you were already borrowing as much as prudent lending practice would permit, you undoubtedly then discussed the advisability of obtaining additional proprietary capital, either preferred or common, although in rare instances the matter of subordinated indebtedness may have been discussed. When you and your associates had arrived at a pattern which you and your banker thought adequate and if the amount required was large, the next step was consultation with an investment banking firm whose job it would be to study the finance business generally and the corporate set-up and earning power of your particular company under various assumed levels of volume as well as that of your principal competitors and counterparts to the end that they could advise you what type of financing would be appropriate to your particular company and its present and future needs, and then proceed to set up an issue which they could distribute at going yield rates and which they would be pleased to recommend to their clients and associated dealers. The character and quality of the investment banking firm you contacted would, in general, determine the thoroughness of the job done.

The investment banking fraternity played a dual role. It not only rendered expert financial advice to its investor clients, but also provided the machinery for obtaining capital. This second function was to tap the savings of the nation directly through the sale of securities to individuals and indirectly by sales to savings institutions and to make those funds available for productive purposes.

Changes in Investment Banking

Commercial banks and investment banking firms, therefore, were the principal sources of outside funds for business. They are both important sources of funds in our present-day economy, but the investment banking business has changed considerably in recent years, due, in part, to the decline in the number of individual investors as a result of higher taxes, higher living expenses and to the broader coverage of pension plans which acts to discourage individual accumulation of funds beyond the emergency reserve range. This has a tendency to narrow the market for investments and reduce the earnings of investment bankers despite the fact that the responsibilities of the business are great, for to do the kind of an analytical job which is required in studying a particular company and its business requires a skillful and energetic group of people of highest integrity who have a background of sound economics and knowledge of the best financial practices and procedures. When the second function of distribution is performed, to accomplish the details of selling, delivering and accounting, requires the employment of a group of specialists. Above all, this part of the business requires capital since the usual technique is to assume the risk of underwriting the issue which guarantees a certain amount of funds to the issuer and then to recover this sum, plus compensation, through the sale to investors.

The private placement procedure does not affect—or perhaps I should say, has not affected—junior equity financing to the same extent that it has debt and preferred stock financing. When it is used, however, it short-circuits the distribution function of the investment banking fraternity in whole or in part. To some extent, but to a lesser degree, it reduces the advisory function. Of private purchases made by The Mutual Life since July 1, 1947, 34% were accomplished without the services of these specialists. Of the 66% remaining in which an investment banking firm played a part, only a relatively small fee was involved, since the firm was not risking its capital and had no large expenses. Thus, the firm handling the transaction did not use and was not paid in these transactions for the services of its organization for distribution. This is an organization which it must maintain if it is to function as it should in our capitalistic economy. Whether it can maintain this organization at the full strength which would be most useful to our economy from the earnings only of junior equity financing and the other financings which are being offered to the public through investment bankers seems debatable.

Without attempting to answer this question, which would be a topic for considerable investigation, I merely want to point out that the private placement technique has taken from the investment banking fraternity a potential source of earnings which that industry asserts that it needs if it is to function adequately and properly in our economy.

Effect of Competitive Bidding

Perhaps, in passing, it is well to mention that the business of underwriting and distributing securities for the vast public utility industry has become less profitable in recent years as a result of the competitive bidding requirements installed by the Securities and Exchange Commission for subsidiaries of registered holding companies and later adopted by various state regulatory bodies. This practice may have been beneficial to the issuing companies, but the spread between the price paid for such securities and the price at which they are sold to the investors has been very small compensation for the underwriters after their expenses have been paid.

This development, when added to the loss of business arising from private placements, means that investment bankers have had to devise other means to obtain earnings from their capital funds, such as, for example, the invest-

(Continued on page 41)

Public Underwriting of Finance Companies

By MAYNARD E. SIMOND*
Vice-President, F. Eberstadt & Co., Inc.

After discussing capital characteristics of commercial finance industry, investment banker says practice of these concerns to place securities with insurance companies is here to stay, but contends field is still open to investment bankers, and finance companies would do well to establish business relations with investment banking houses.

The commercial finance industry has one inherent and very important advantage over most of the other types of business with which I am acquainted. It does not require vast expenditures for buildings, machinery and other fixed equipment which are profitable only as long as they are operated above the break-even point. The finance industry does not require heavy expenditures for the maintenance of these physical facilities or their replacement because of obsolescence. Furthermore, there is no need to set aside large sums for retooling to meet some competitive threat, or to anticipate some style change. When business becomes bad no finance company is faced with the need for deliberately disrupting a skilled labor force which cannot be carried throughout the lean months.

Maynard E. Simond

By contrast, the tools and facilities with which finance companies work are dollars. Fortunately, in spite of some indications to the contrary, dollars have net yet become obsolete. Every now and then, of course, due to natural economic laws, and not many years ago we saw it happen by fiat—dollars depreciate. However, here again it seems to me you have an advantage over many other types of industry in that the dollars used in your own business maintain a constant relation to the commodities with which you deal, which are, generally speaking, the obligations of others.

You gentlemen know all of this, and undoubtedly these factors form some of the reasons which prompted you to go into the business in which you are engaged, but it may not be amiss to have these circumstances restated.

Because finance companies deal in dollars and the supply of dollars employed in the business can be contracted rapidly and inexpensively when business is bad and because that supply can, within limits, be expanded rapidly and without undue expense when business is good, the industry is characterized by a flexibility that gives it the great advantage of which I have spoken.

That this flexibility is important is indicated by the experience of representative companies in the Conference for which figures are readily available. In 1938 these particular companies did a volume of $262,000,000. By 1941 it reached $676,000,000. In the very next year business dropped off to $571,000 000, but in 1946 it reached $953,000,000, and by 1947 had grown to no less than $1,306,-000,000. Thus the industry is characterized by a long-term cyclical expansion of substantial proportions punctuated by sharp declines and by sharp increases. The ability to contract or expand working funds is of great importance under those circumstances. Let us examine briefly what happened to employed funds during those years.

Taking 1942 as the most recent low point and 1947 as the high point of the finance business, during those years we find for a somewhat larger group of member companies the following:

At the end of 1942 they were employing working funds aggregating $146,000,000. Of this $70,-000,000 represented net worth, $11,000,000 long-term debt and $65,000,000 short-term debt. In 1947 on the other hand, when the volume of business was very substantially greater than in 1942, working funds had increased to $412,000,000. The significant fact, however, is that during this six-year interval net worth, which is the permanent capital in the business, had increased from $70,-000,000 to only $88,000 000. But in 1947 this net worth was supporting long- and short-term indebtedness in the amount of $324,000,000, as compared with as little as $37,-000,000 six years previously. Should it develop again, as it undoubtedly will, that the resources and facilities of finance companies are not utilized at the high level they are at present, working funds of course will be contracted once more.

Under ordinary circumstances this contraction will take the form of the retirement of debt without any reduction of the net worth as represented by preferred and common stock, although there have been important instances where preferred stock also was retired.

I have dwelt at this length on the capital characteristics of the commercial finance industry as they are sufficiently unusual to have an important bearing upon the immediate subject before us, which of course is the public underwriting of securities of finance companies.

Financing Finance Companies

Let us deal first with the large, well established finance company doing business on a national or even a regional basis. For such companies the raising of capital funds through the public sale of securities presents no particular problems. The money cost will be determined in large part by the same factors that determine it in the case of companies in other fields of industry. In the case of long-term debt or preferred stock there must be a satisfactory coverage both of assets and of earnings, and of course the income return must be attractive, as measured by the return available on other securities of similar grade. Where it is common stock that is to be sold, the dividend record, the outlook for future earnings and, to some extent, book value all have a bearing upon the price which may be expected.

Two important developments have occurred during recent years with respect to long-term debt, which is a widely adopted and usually an economical means of raising semi-permanent capital.

First is the practice of placing such debt direct with insurance companies and other institutional investors. There are of course both advantages and disadvantages in such a course. However, the practice has been so widely adopted that presumably it has been pretty well established that, under certain circumstances the procedure is advantageous.

While the investment banking fraternity does not look with complete favor upon this direct dealing with insurance companies and other financial institutions, I think it is reconciled to the fact that the practice is probably here to stay. Fortunately it finds some comfort in the fact that the setting up of the terms of the issue and the negotiations with the institutional purchasers are sufficiently technical and complicated to insure usually that the investment banker plays an important part in the transaction.

The other development is the interesting one of creating obligations which are subordinated to other borrowed funds. These subordinated issues likewise are customarily placed with institutions and of course command a somewhat higher interest rate than any long-term non-subordinated paper that may be outstanding. Because such junior notes rank behind the bank debt, and in spite of the fact that they are in themselves debt and have to be repaid on specified dates, they have the advantage of adding to the base against which short-term bank loans may be obtained.

Financing by Stocks

Preferred stock is not a particularly popular vehicle for the raising of permanent capital in the finance industry unless that stock is either convertible into common stock or carries warrants to purchase common shares. In the case of companies of the very highest credit standing that observation does not hold, but it is true for the rank and file of companies in the industry.

Common stock of course remains the very foundation of the industry's capital structure. For instance, 16 finance companies covering a wide range of size and having an aggregate net worth of $280 000,000 at the end of 1947 had only $40.000,000 of preferred stock outstanding, the remaining $240,-000,000 being represented by common stock and surplus.

The price levels currently prevailing for the preferred and common stocks of finance companies naturally reflect the serious political and economic uncertainties that have had a depressing effect on security prices generally for the past many months. They also reflect the lack of enthusiasm with which the investment public currently regards the industry as such. Obviously differences in size, in character of business done, in management performance and even the degree to which security holdings are concentrated are also influential in determining the levels at which the securities of any particular company sell. Consequently they influence the terms upon which public capital may be obtained.

The function of the investment banker in underwriting securities of the national or even regional finance company, whether they be long-term debt, preferred stock, or common stock, is fairly conventional and no highly unusual problems are apt to be encountered. The matter of timing, however, frequently becomes important. The investment markets as you know, have fashions of their own. For reasons which are not always readily understandable, at one period rail securities may be popular and a few weeks or days later it may be the oils. Finance companies are not immune to these investment vagaries. As any underwriting involving an SEC registration takes several weeks of preparatory work, considerable judgment and skill is often required to insure that the offering is made under market conditions as favorable to the company as possible.

Financing Local Companies

So much for the large, well established companies where, as I have said, the underwriter's function is more or less conventional. It is my understanding, however, that a not unimportant part of the finance business throughout the country is done by companies which are more or less local in character and of a size such that the nationwide securities markets are usually closed to them. Here the problem is distinctly different and the investment fraternity performs less effectively.

No hard and fast program can be laid down for the provision of capital funds for the local and relatively small finance company. Indeed the problem is not essentially different from that which confronts small commercial and industrial enterprises generally. The fact is that the American financial community has failed to formulate an economical means of providing permanent capital for the expansion of small, well managed, constructive business in all fields. This failure is an undoubted deterrent to the grass roots development of private enterprise. That, however, is a subject outside the scope of this discussion and of an importance that far transcends what I have to say here.

Coming back to the subject before us, if the owners of a small finance company are not content to see it grow only out of the reinvestment of earnings, they have, as I see it, these alternatives: first, the investment of additional outside funds on the part of themselves or their associates; second, the rediscount of some part of their portfolio with one of the larger companies and third, the introduction of additional capital through the public offering of securities. The following of any one of these courses usually need not preclude going the other routes as well.

Whether or not it is determined to enlist public funds, I would urge that the management of a small local company establish friendly and frank relations with one of the leading independent securities dealers in his immediate territory. This dealer's advice on the subject of increasing the company's capital funds might well prove to be of distinct advantage. He may be in touch with private capital that could be introduced into the business. If additional funds are to be raised through a public issue, he is the logical person to raise them. In such an event his views of the type of security to be sold, its terms, the price which may be expected for it, etc., should be of great value. Also, he may know local industrial and commercial companies which could avail themselves of the facilities of the finance company and thus become its customers. He ought to be a good friend.

Obviously the cost of registration of an issue of securities under the Securities Act of 1933 is relatively heavier in the case of a small issue than a large one. Many of the elements of cost, that is, legal, auditing and printing expenses, etc., do not rise in proportion to the size of the issue involved. It is to meet that circumstance that the regulations of the Securities and Exchange Com-

(Continued on page 42)

*An address by Mr. Simond at Annual Convention and Dinner of Commercial Finance Industry under auspices of the National Conference of Commercial Receivable Companies. Inc., New York City, Oct. 25, 1948.

Mutual Funds

By HENRY HUNT

Dog Eat Dog

We recently discussed selling methods of life insurance salesmen with **"Skid" Sholley** of **"Keystone"** and he informed us that prior to 1914 they were of the dog eat dog variety. Many life insurance salesmen of that era specialized in "trading out" insurance policies—i.e., persuading a client to cancel a policy with a rival company and to take out a new one with the salesman's company. To close these "trade-outs," a favorite sales line was to imply that the rival company's assets were in bad shape and that it was doubtful if the company could pay its claims.

About 1914, according to "Skid," the leading executives of the life insurance companies got together and decided to end such practices in an effort to sell the American public on the idea that the life insurance business was built on a permanent foundation and every company's policy was as sound as a U. S. Government bond. The record of the life insurance business since that time, and the high repute in which it is held today, indicates how far it has progressed since the "dog eat dog" days.

It seems to this writer that, to a certain extent, the mutual fund business today is in a position similar to that of the life insurance business prior to 1914. Too many salemen try to trade clients out of rival mutual funds into the particular funds they are selling. Salesmen are prone to make odious comparisons between funds of different sponsors, particularly on the score of short-term performance records. Actually, any fund's management can be made to look bad—or good—if you pick your own short period of performance.

Mutual fund salesmen should learn to sell first the concept of the mutual fund, i.e., a sound medium for nearly all types of investors, and second, to sell the fund that is best suited to the investor's objective. In the long run, the salesman will find out that trade-outs, involving as they do an additional "load" for the investor, seldom pay.

It will probably be difficult for the mutual fund sponsors to eliminate the evils of "trade-outs" since, unlike life insurance policies, most mutual funds are wholesaled to dealers and the retail salesmen are not under direct control of the issuing companies. It would appear to be up to the dealers to take a far-sighted view of the business and train their salesmen to say to a prospect, who owns shares of a mutual fund that the salesman is not offering, something along the following lines: "I am glad to see that you own shares in XYZ Fund. They should relieve you of further attention to that portion of your investment portfolio. However, it seems to me that you should add to your mutual fund holdings through investing your surplus cash or through the sale of certain of your individual securities, which do not seem to fit in with your investment objective."

If mutual fund dealers were to get together on their sales policies as the insurance executives did in 1914, it would constitute a long step along the road to making the investing public recognize the mutual fund for what it is—the best solution to the average investor's problem.

The End of a Period?

"It is rather interesting to compare the current Stock Market inertia with that which prevailed in 1932 and 1942. Like the present both those periods were characterized by dribbling liquidation by frightened investors who converted stocks to cash, only to discover later that they should have been buying stocks instead of selling them.

"Some 33 months of liquidation preceded the sharp rally in the summer of 1932. This was of short duration but the Dow-Jones Industrial Average went up 100%. Some 30 months of liquidation preceded the long rise that started in April 1942 and the Average went up 130% before the well-remembered decline of 1946. Although economic conditions were quite different in each period, investor psychology was somewhat the same as at present when we have seen 29 months of discouraged fear-inspired selling.

"Monthly volume of 100 million shares in late 1929 had shrunk to 23 million shares by the spring of 1932. Monthly volume of 57 million shares in September 1939 was down close to seven million shares by the spring of 1942. In early 1946 volume was above 51 million shares per month and recently has been at the rate of 12 million shares. The fact is that there comes a time eventually when most of the frightened and timid ones have sold their stocks and few remaining shares overhang the market.

"At that point only a little buying is needed to effect an upturn which rapidly becomes cumulative in its bullish effect. Sometimes the turn is marked by good news: sometimes it occurs spontaneously without any apparent cause. One near term potential of good news: the significant changes that can come with Republican victory. The constructive benefits to industry and capital of a realistic revision of the tax structure and the discarding of the 'New Deal's' punitive attitude toward business could buttress financial sentiment immeasurably."—Reprinted from Arthur Wiesenberger's **"Investment Company News."**

Investing in a Changing World

"Fifty years ago when electricity replaced the coal oil lamp, and the first horseless carriage honked at the horse and buggy—when the telephone and the 'talking machine' were no longer toys . . . such events made investors pause and think.

"In a parallel manner go back to the **investor** of 50 years ago—or 100 years ago. Scan, as we have done, the securities lists of many individual investors of those times. You'll find the bonds and stocks of railroads, steamship and canal lines, mining and manufacturing companies, most of which are unknown today.

"At this very moment the pattern continues. Lighter metals are substituted for steel, and both may be replaced by a plastic. What was once a month's journey is now but a matter of a few hours by air. With television you can watch events happening hundreds of miles away.

"As ever before, such events as these mean not only new investment opportunities, but forecast changes in the values of the bonds and stocks of other companies.

"Experienced and thoughtful investors know that the underlying plan of sound balanced investing is no different today than that followed 10, 25 or 100 years ago by the founders of many venerable family estates. They realize it is a never ending process of keeping abreast of today's dynamic changes—of interpreting their importance. They know it is only by careful selection, relentless watchfulness and timely, unemotional substitution of investments that savings can be protected, income be assured, and growth realized.

"Skilled investing is more than just buying and selling securities. It calls for sound, mature judgment—that priceless human factor—which determines the difference between success or failure."—From a **George Putnam bulletin.**

A Big Job to Be Done

"Edmond M. Hanrahan, Chairman of the Securities and Exchange Commission, in an address before the annual convention of the American Gas Association last week, is reported to have said in part: 'We at the SEC are disturbed by the fact that many utility corporations, electric as well as gas, and indeed, many corporations in other lines of activity, have, since 1945, relied so heavily on debt financing to meet their expanding capital requirements.'

"Along similar lines, the Federal Reserve System and many of its leading officials, as well as Congress, have taken steps in recent months to discourage the upward trend of private debt.

"Probably nearly everyone would agree that it is better for the country if business meets the greater part of its capital needs in the equity market, rather than in the bond market or through banks loans and other forms of debt. Yet, if we examine the matter carefully, it is not difficult to see the reasons why debt is the favored means of financing.

"From the standpoint of the corporation, it can obtain money at very low interest rates if it issues bonds or borrows from banks or insurance companies. Moreover, this interest is deductible from operating earnings before the high federal income tax rate is applied. Common Stocks, on the other hand, are selling at very high yields and command prices which are only a low multiple of current earnings. Under the tax law, all the earnings for the common stocks are subject to Federal income taxes. When rights to buy an additional amount of common stock are offered shareholders, the usual effect is that the price of the stock is still further depressed. Thus it is not difficult to see why a corporation executive under these circumstances so often turns to the bond market rather than the stock market for his financing.

"From the standpoint of the investor, other reasons apply. Circumstance of the past 19 years have not often been such as to give him the confidence in stocks he once had. In July of this year the Federal Reserve Bulletin published the results of a survey which indicated that only 5% of the country's 'spending units' (roughly the same as a family living in one house or apartment), with annual incomes of $2,000 or more, favored common stocks as investments. 62% were against stocks. Of this 62%, 26% objected to stocks because they were 'not safe,' yet only 3% thought common stock prices too high, and less than ½ of 1% thought common stock yields were too low. 30% out of the 62% were against common stocks because they were 'not familiar' with them.

"If it is in the interest of the national economy that corporate financing should favor stocks as against bonds and other forms of debt, if only 5% of the 'spending units' favor stocks as investments, if 30% of them are not even familiar with stocks, there is a big job to be done. Much can be done. National policies could be directed toward the creation of an economic atmosphere in which honest, constructive business achievement would be regarded as commendable instead of reprehensible. The burden of 'double-taxation' of corporate earnings could be reduced."—Written by Ed Rubin, President of **Selected Investments Company of Chicago.**

With Kirchofer & Arnold

(Special to THE FINANCIAL CHRONICLE)

RALEIGH, N. C.—Jack W. Noneman is with Kirchofer & Arnold Associates, Inc., Insurance Building.

With M. N. Hogan Co.

(Special to THE FINANCIAL CHRONICLE)

MEDFORD, OREG.—John V. Melville is with M. N. Hogan & Co., 38 South Central Avenue.

W. L. Ball & Co. Opens

ALEXANDRIA, VA.—William L. Ball is forming William Lloyd Ball & Co. with offices at 2500 King Street to engage in a securities business.

Independ. Management Corp. in Buffalo

BUFFALO, N. Y.—The Independent Management Corp. is being formed with offices in the Liberty Bank Building. Officers are DeLancey Rochester, Jr., President; H. B. Pomeroy and Alfred Althaus, Vice-Presidents. Mr. Rochester has been proprietor of DeLancy Rochester Co. with which Mr. Althaus was also associated. Mr. Pomeroy was formerly an officer of Schoellkopf, Hutton and Pomeroy, Inc.

F. S. Moseley Co. Adds

F. S. Moseley & Co., 14 Wall Street, New York City, announces the association with the firm's sales department of George H. Miles, Jr.

New York Stock Exchange Weekly Firm Changes

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

James Humphry, Jr., will retire from partnership in James M. Leopold & Co. Nov. 1.

Emmett Lawshe will retire from partnership in Shields & Co. Oct. 30.

Interest of the late Carlos H. Haughey in Wagner, Stott & Co. ceased Oct. 11.

With Dreyfus & Co.

Dreyfus & Co., 50 Broadway, New York City, members of the New York Stock Exchange, announce that Stanley H. Millstone is now associated with the firm as a customers' broker.

Economic Education and Drift Toward Collectivism

By JAMES D. MOONEY*

Chairman of the Board and President, Willys-Overland Motors

Asserting we must find way back to American concepts of free competition, constitutionalism and way of conducting our industrial life, Mr. Mooney scores drift toward collectivism and bureaucracy, as well as confiscation of business earnings through taxation. Says we have arrived at Hitler methods of statism. Points out program of economic education to offset and expose both philosophy and practice of collectivism.

It is very timely now to consider this problem of economic education, because we are in the last phase of a national political campaign. Very shortly, now, we shall know whether we are to have a Democratic or Republican administration in our country for the next four years, beginning with next January. The main point that I want to lay before you today is a challenge — developed from the standpoint of the student of economics and of our industrial scheme of things. I want to challenge you to face very realistically some economic facts about our industrial institutions. From the standpoint of putting our country back into better economic order, we cannot afford to presume for one single minute that electing either party, Democrats or Republicans, is going to let us escape certain unpleasant facts about the present state of our industrial institutions.

James D. Mooney

The most unpleasant fact, and the reason for my challenge, is that during the past 20 years, we have had a constant drift toward collectivism in our country. We have passed on too many problems and too many of our responsibilities to the Federal government at Washington.

It is high time, now, for us to be fully awake to this and for us to undertake such economic education as will make it possible, once the new administration takes charge of the country at Washington, to arrest any further drift toward collectivism. We must find our way back as quickly as possible to the American concepts of free competition, constitutionalism and the American way of conducting our industrial life. After all, many of these concepts were generated right here in New England—these American concepts of the proper balance between economic liberty and the discipline that we owe a well-ordered scheme of government.

Double and Confiscatory Taxes

I want to spend more time today, the larger portion of the very short time available, on economic education rather than on economics. Therefore, I am going to make only one principal point in the field of economics and then pass quickly on to making a few points about economic education, particularly in the field of industry.

The principal point I want to make in the field of economics related to industry is that the 38% tax that is imposed by the Federal government on our industrial activities before we make the residual earnings available for distribution to the stockholders **is tolling the death-knell of private enterprise.** From the standpoint of management, it is practically impossible to operate an industrial property when you have a preferred creditor who takes 38% right out of the cash drawer continually.

Furthermore, your backers or stockholders or the people who put up the capital to support management in the industrial venture are taxed so heavily on their dividends that it is no longer possible to interest capital broadly in industrial ventures. If you want practical proof of this, observe the present ridiculous prices of industrial stocks on the New York Stock Exchange. These low prices are caused principally by the fact that venture capital will no longer take the risks in industry in the face of these double, and confiscatory taxes.

Two Ways of Operating Statism

I have had quite a lot of experience operating manufacturing plants overseas. During the past 25 or 30 years, many of the countries abroad have succumbed to extreme collectivism or statism. The most dramatic example, of course, is Russia, where the government actually took over the industrial plants and owns and operates them. Then there are varying degrees throughout the world of statism or collectivism. You can call it communism, fascism or statism or collectivism. It doesn't make any difference what you call it. In essence, it is the rigid domination by government of the industrial and economic life of the citizens of the country.

About two months ago in Washington, former President Hoover pointed out, and I can verify his statement out of my own experiences and observations abroad, that there is one principal difference between the operation of statism in the overseas countries and the operation of statism in our own country. In the various countries abroad, many of the governments have actually taken over the manufacturing plants. In the United States, our government has allowed the plants to remain in the hands of so-called private capital and management and then has allowed the management to go ahead and make money on the property. But then the government takes the money away from the management in the form of taxes.

In Germany, two or three years before the war broke out, I heard a German industrialist say that the difference between communism in Russia and nazi-ism in Germany was simply this: He said, "In Russia the government has taken over the dairy farm including the fields, the stables and the cows — lock, stock and barrel—but in Germany under the nazis' scheme of operating, they let the so-called owner keep the cows, but the German government goes over every morning and milks them."

Gentlemen, we have arrived at this method of operating statism in our own country.

The Program of Economic Education at Willys-Overland Motors

Now, I want to pitch into a short discussion of economic education and as briefly as possible outline to you some things we have been doing at Willys-Overland Motors to effectuate in our own small way some economic education in our own manufacturing organization and then, in turn, in the community and city of Toledo.

Two years ago, we decided to undertake this program of economic education at our plant and we used these three-dimensional dynamic graphics, which, under Mr. Williams' auspices, are presented here today.

We started right in our own organization by using these three-dimensional dynamic graphics to demonstrate a few of the simple fundamental principles of economics. We put them on exhibition in a large assembly hall that we have on the sixth floor of our administration building in Toledo. We continued throughout the winter to invite the various community groups, such as the Rotary Club, the League of Women Voters, the college and senior high school students, the Chamber of Commerce and the labor unions.

One of the three-dimensional dynamic graphics we used was aimed at explaining to our own organization, including our men in the plant, and then our fellow citizens in Toledo, how the gross cash income of a company like ours, an industrial company, is distributed.

There is a common public impression that has been created by mud-slinging propaganda that the industrial managers over in the head office are a greedy, lustful crowd of demoniacal penny-snatchers who are intent on scrouging all the widows and orphans around the place and getting rich at the expense of the common man. The publicized figures that are expressed in hundreds of millions about your dollar volume of sales sound awfully big as a jackpot, but nobody takes the time to explain where that money, the gross cash income, actually goes.

Now, by way of conclusion, I want to repeat my principal point about economic education. Industry must wake up and do an intense job of economic education among our friends in politics, Democrats or Republicans, and in our communities, to demonstrate and drive home some of the simple, homely facts about the economics of industry. I hate to be an alarmist or a scare-head, but I am quite convinced that unless there is a reversal in the trend of taxation and unless the heavy hand of taxation is lifted from industry, then we shall continue to move rapidly toward a very unpleasant crisis in the affairs of American industry.

*From an address by Mr. Mooney at the Annual Meeting of the Associated Industries of Massachusetts, Boston, Mass., Oct. 21, 1948.

Analyzes Pre-Election Stock Market Trends

Hill, Richards & Co., members of Los Angeles Stock Exchange, publish table indicating change in market level each year from Sept. 30 prior to election, to Nov. 7, following election.

According to Hill, Richards & Co., members of the Los Angeles Stock Exchange, with offices in San Francisco, and other California cities, the prospect of the election of a Republican President has consistently, during the last half century, exerted a strong upward pull on stock prices during the month or so before election. In the 14 presidential years since 1892, or since daily stock price averages have been computed, the firm states, the elections have been evenly divided between the two major parties, each having elected its candidate in seven years. In the seven Republican election years, stock prices advanced in six such years between the end of September and early November. In the seventh, 1920, at election time the country was mid-way into the steepest bear market it had ever experienced—a 21-month drop that carried the Dow-Jones industrial average from 118.92 in October, 1919, to 64.90 in June, 1921. Between mid-March and mid-December, 1920, it lost 36.81 points, an average of more than four points a month. The only lull in this storm came in the five weeks before the election; between Sept. 30 and Nov. 7, 1920, the net loss was less than one-tenth of one point. In the six years of rise preceding Republican presidential victories, the increases between Sept. 30 and Nov. 7, also measured by the Dow-Jones average, totaled 53.77 points.

Although the Democratic party is certainly not traditionally favorable to business or the markets, stock prices have also shown a pronounced upward trend preceding presidential elections which put Democrats in office, it is further stated. In the four Franklin D. Roosevelt years there were rises in three between the end of September and early November. The advances in these years totaled 21.86 points, whereas the decline in the same period in 1932 was 6.98 points. In the other three Democratic presidential years of recent history, Cleveland's second term and the two Wilson administrations, prices rose in two and declined in one. The increases totaled 5.91 points and the decline, which occurred in the year of Wilson's first term election, was 2.48 points. Of the entire seven Democratic years, the five years of advancing stock prices brought about a total rise of 27.77 points and the two years of declining prices accounted for a loss of 9.46 points.

"There is, thus, ample reason in historical precedent," concludes the retrospect, "to look for rising stock prices between the end of September, 1948, and early November regardless of the popularity trends of the candidates in the pre-election weeks. And the advance on the basis of what has occurred in previous Republican years could be a sharp one if it becomes anything like a foregone conclusion that this election will put the Republican candidate in the White House."

The following is the table which shows the course of stock prices as measured by the Dow-Jones averages between Sept. 30 and Nov. 7 in each of the presidential election years since 1892.

Presidential Year	Candidate Elected	Party	*Dow-Jones Average Sept. 30	*Dow-Jones Average Nov. 7	Change Between Sept. 30 and Nov. 7 Rise	Change Between Sept. 30 and Nov. 7 Decline
1944	Roosevelt	Dem.	146.73	147.92	1.19	
1940	Roosevelt	Dem.	132.64	137.75	5.11	
1936	Roosevelt	Dem.	167.82	183.38	15.56	
1932	Roosevelt	Dem.	71.56	64.58		6.98
1928	Hoover	Rep.	239.43	260.68	21.25	
1924	Coolidge	Rep.	103.16	104.86	1.70	
1920	Harding	Rep.	82.95	82.86		0.09
1916	Wilscn	Dem.	102.90	107.21	4.31	
1912	Wilson	Dem.	94.15	91.67		2.48
1908	Taft	Rep.	79.93	87.77	7.84	
1904	Roosevelt	Rep.	57.59	66.21	8.62	
1900	McKinley	Rep.	54.27	62.90	8.63	
1896	McKinley	Rep.	50.21	55.94	5.73	
1892	Cleveland	Dem.	69.54	71.14	1.60	
			Total Rise		81.54	
			Total Decline			9.55
			Net Rise		71.99	
			Average Rise		5.13	

*Dow-Jones Industrial Average 1900 to 1944; Dow-Jones 20-stock average, 18 rails and 2 industrials, in 1896 and 1892.

Canadian Securities

By WILLIAM J. McKAY

As a result of a combination of favorable factors the Canadian economic situation for the moment can very well give rise to exaggerated optimism regarding the immediate future prospects. It is opportune therefore to analyze the main causes of the Dominion's recent economic and financial progress. Before consideration is given however to their examination in detail it must be borne in mind that the recent favorable figures cover the summer season when the Canadian economic position is invariably at its peak. During the summer months not only are Canadian exports at their maximum level and imports at their minimum, but this is also the season when oil and mineral prospecting is at its height. This year in particular the discoveries in this field have been of an unusually spectacular nature. Their immediate impact on the Canadian economy however is relatively slight and it will be a matter of years for instance before Alberta oil and Labrador iron will return appreciable economic dividends.

Turning to the Canadian foreign exchange position it is true that when comparison is now made with the critical situation that prevailed at the beginning of this year there is every reason for pardonable complacency. On the other hand it must be pointed out that the present exchange reserve total of approximately $750 millions includes $150 millions borrowed from three U. S. insurance companies to replace the original Export-Import loan of $140 millions. The rise in the reserves from the crisis level of November last of $460 millions of approximately $140 millions which has resulted from the operation of the austerity program and increased exports to this country is certainly gratifying. It is doubtful on the other hand whether the cushion of $250 millions above the desirable minimum reserve of $500 millions is sufficient to remove all cause of anxiety during the winter season when imports from this country reach their maximum level and the important invisible export constituted by the U. S. tourist traffic ceases to exert its beneficial influence. The situation would be further weakened in the event of the success of the current efforts to bring about the removal of the restrictions imposed on imports from this country. In view of the current boom conditions within the Dominion, the natural demand for U. S. products is so great that the exchange reserves would be subject once more to serious depletion.

A further cause for anxiety concerning the Dominion's near-term economic stability is the probability of drastically reduced exports to Britain. According to recent official statements British imports of farm products from Canada during 1949 will be on a considerably reduced scale. British plans for a $2 billion investment in agriculture within the scope of the new four-year economic program likewise are a cause for serious concern for the Canadian farmer. The British situation in general which has an important bearing on the Dominion's economic future has undoubtedly vastly improved in recent months but despite the recent progress the fundamental British economic problems have not yet been solved. There are already indications of the end of the long sustained sellers' market, the existence of which has facilitated the British export drive. With the intensification of foreign competition in world markets the pound sterling would again be under pressure, and the Canadian dollar in turn would be similarly affected.

There is no doubt that Canada's basic strength in the shape of her enormous wealth of undeveloped natural resources will ultimately prevail. In the period immediately ahead however there are still many difficult economic hurdles to surmount and it would be unwise to place undue confidence in the apparently overall rosy prospects of the moment.

During the week there was little change in the external section of the bond market although the undertone was still firm. The internals were in increased demand principally as a result of the influence of continued strength of the stock-arbitrage rate. With the termination of operations in connection with the Imperial Oil offering of International Petroleum stock the stock-arbitrage discount is likely to widen and this would lead to the removal of the recent artificial support that has been given to the internal bond market. Stocks staged a display of pyrotechnics after the recent long period of dullness with the base-metals as the most brilliant performers. Western-oils and the junior golds were also prominent.

Frank Scheffey With Geo. R. Cooley & Co.

Frank Scheffey, formerly Executive Secretary of the New York District of the National Association of Securities Dealers, has been elected Vice - President of George R. Cooley & Co., Inc., and will be in charge of their New York office, 52 Wall Street.

Frank L. Scheffey

He has served as a Governor of the Investment Bankers Association and as Secretary of the New York Group. In the past he was a partner of the New York Stock Exchange firm of Callaway, Fish & Co.

How Reserve Policies Affect New York City Banks

(Continued from page 6)

ating income from which the Treasury could get income taxes, stockholders cash dividends, and banks new capital. Existing capital accounts would decline as losses and charge-offs developed.

Because of higher operating costs and the deflationary pressure on earning assets resulting from increased reserve requirements, commercial banks will have to get higher rates on their loans and investments just to maintain present earnings. The Treasury and the Federal Reserve Board have already effected an improvement in the base rate for short-term Treasury obligations. This has had a constructive effect on all corollary rates in the short-term field. As a result, banks, are already experiencing a higher rate of income on loans and investments. This is evidenced by the improvement in the yield actually realized by New York City banks on their total loans and investments from 1.52% in 1946 to 1.67% in 1947, and to 1.87% currently realized.

Rates Required for Adequate Earnings

To maintain earning power at a minimum rate of 6% on their $2¼ billion total capital accounts, what rate of interest on this reduced volume of loans and investments must New York City banks obtain? We know that this $2¼ billion total capital accounts calls for annual net current operating earnings of $135 million. This means, therefore, that net current operating income before income taxes, would have to be $228 million, in order to provide $93 million of income taxes at the rate of 40.8%. This latter rate is the net of today's New York State 4½% franchise tax and the 38% combined Federal normal and surtaxes. These figures are based on fully taxable interest income, and exclude such tax savings arising from charge-offs and other capital transactions.

To digress for the moment, we are not unmindful of the fact that income taxes of the New York City member bank group amounted to $47 million in 1947, an effective tax rate of only 26.9% as against 40.8% just mentioned. The lower rate of taxes actually accrued by these banks results from (1) exempt interest income, (2) reductions by some banks of their current provisions for taxes in connection with reserves created under the new Treasury formula for bad debts accounting, and (3) charge-offs and other deductions arising from capital transactions. It is important to examine each of these, since, above all, we are interested in estimating day to day earning power under existing conditions.

Let us examine exempt interest income first. In the computations to follow, illustrated by the pro forma figures in Table III, we will assume fully taxable investments at the going rates of the day. Last year this bank group realized from investments an average rate of 1.46% net after amortization. The tax-free part of this interest income came from state and municipal securities, wholly tax-free, and from outstanding Treasury obligations issued prior to March, 1941, exempt from the 24% Federal normal tax. Naturally, in estimating an equivalent fully taxable rate to be used in lieu of the 1.46% experienced in 1947, consideration is given to the prevailing market for Treasury bills, certificates, notes and bonds, as well as the maturities which these banks currently see fit to maintain.

Now let us consider reduction of tax accruals arising from capital transactions. Under the new Treasury formula for bad debts accounting, banks can, in effect, take the write-offs before the losses are actually sustained. Heretofore, banks took write-offs for tax purposes only when losses actually occurred. In either case, when a bank accrues lower taxes because of a bad debt write-off, and reports its earnings on the basis of the reduced tax, it is obvious that the earnings result obtained is greater than the true recurring earning power of the bank. The tax reduction is not a reflection of true earning power. To think otherwise, is to be unrealistic. Unusual tax credits arising from deductible losses, actual or anticipated, should be segregated if the true earning power of banks is to be kept in clear view for their stockholders.

Now, to continue with our calculations, Table III shows the required interest income from loans and investments at $392 million, in order to meet operating expenses estimated at $279 million after crediting operating income other than interest at $115 million. This would leave $228 million income subject to income taxes, Table III, Item 3.

To obtain interest income of $392 million, New York City banks require an average rate of return equal to 2.10% on their present $18.6 billion of loans and investments. If New York City banks were to realize such an average rate, or tax-free equivalent, their true operating earnings would be $135 million, or 6% of capital accounts.

Investments alone stand at only $10.7 billion, compared with $13.8 billion average last year. After full consideration of prevailing maturities, starting from scratch, as it were, conditions of the day indicate that an interest rate of 1.60% from fully-taxable securities is a fair estimate of the market available to New York City banks. On this basis, we may assume interest income from investments alone at $171 million. Since total interest income of $392 is required, it is obvious that $221 million must come from the loan portfolio if earning power at the rate of 6% is to be realized.

For New York City banks to obtain $221 million of loan income from today's loan portfolio of $7.9 billion, an average rate of 2.80% is required. At present these banks are experiencing a rate estimated at only 2.40%.

The improvement already experienced by New York City banks on loan rates is inadequate to offset the contraction in earning assets resulting from decreased deposits and higher reserves. The yield realized on average loans for 1948 is estimated at 2.30%, against 2.10% in 1947 and 1.81% in 1946. The current yield, already estimated at 2.40%, is higher than the average for the year and is improving daily as maturing loans are renewed at the higher going rates. In time, as loans mature and are renewed, a still higher yield will undoubtedly be realized.

Despite these prospects for improvement, however, this essential minimum rate of 2.80% will not be reached unless far more realistic decisions are made. Banks are now financing private business, and, in doing so, are taking the attendant risks. There will be losses. Although interest income is immediately visible when loans are made, the losses do not become apparent until later. These losses must be met out of sufficiently adequate current earnings, not out of capital funds. Unless current earnings are adequate and sufficient to absorb losses, and still provide a fair hire for the use of capital, it will become impossible for banks to attract capital from private investors.

TABLE I

Deposits, Loans and Investments of Member Banks in New York City

(In billions of dollars)

	1947	1948 (Est.)	Current Position
Average deposits	$24.7	$23.9	$23.7
Average loans and investments	20.5	19.2	18.6
Average loans	6.7	7.5	7.9
Average investments	13.8	11.7	10.7

TABLE II

Critical Yields of Member Banks in New York City

(In millions of dollars)

	1946	1947	1948 (Est.)	Current Position
1. Operating expenses	$250	$274	$279	$279
2. Income other than interest	100	107	115	115
3. Net deficit	150	167	164	164
4. Average loans and investments	23,400	20,500	19,200	18,600
5. Rate required to break even	0.64%	0.81%	0.86%	0.88%
6. Rate actually realized	1.52%	1.67%	1.82%	1.87%

TABLE III

Pro Forma

Earnings and Dividends of Member Banks in New York City

(In millions of dollars)

1. Current operating income:	
Interest on loans, $7,900 at 2.80%	$221
*Interest on investments, $10,700 at 1.60%	171
	$392
Other current operating income	115
	$507
2. Current operating expenses	279
3. Net current operating income, subject to income taxes	$228
4. Taxes based on above income (40.8%)	93
5. Net current operating earnings	$135
6. Cash dividends	80
7. Retention out of current earnings	55
8. Total capital accounts	2,250
a. Net earnings	6.0%
b. Cash dividends	3.5%
c. Retention	2.5%

*Fully taxable.

With Irving Lundborg Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—Samuel D. Mitchell, previously with First California Company, has become associated with Irving Lundborg & Co., 486 California Street, members of the New York and San Francisco Stock Exchanges.

The French Crisis and Its Solution

By PAUL EINZIG

Laying wave of strikes in France to government inability to provide consumer with adequate rations at reasonably low controlled prices, Dr. Einzig sees solution in devaluation of franc to point where public confidence in the currency is restored and French exports increased.

LONDON, ENG.—All friends of France abroad must view with growing concern the wave of strikes that is sweeping that sorely tried country. At best, it is bound to result in a grave setback in economic reconstruction and to aggravate the different economic problems which France has to face. At worst, it might lead to civil war and chaos with incalculable consequences. The question is, is this crisis really inevitable or is it merely the result of errors of judgment and mismanagement of the country's economic policy? The root of the trouble lies in the government's inability to provide the French consumer with adequate rations at reasonably low controlled prices. Every working-class family, in order to live, has to buy on the black market a very large proportion of its necessities and pay exorbitant prices. As a result, their is a strong and persistent demand for higher wages. The government is doing its utmost to resist this demand for fear that, if it is satisfied, French costs and prices would increase to such an extent as to result in a considerable fall in French exports. In any case, the French trade balance has already a heavy deficit which is not entirely covered by Marshall Aid. Any further substantial widening of the "gap" would exhaust the highly inadequate gold reserve of France, and would necessitate drastic cuts in essential imports, not only of food but also of raw materials, and there would be large scale unemployment in industries depending on imported raw materials. It is mainly to avoid this that the French Government is firmly opposed to the wages demands put forward from every quarter.

Dr. Paul Einzig

Owing to the upward trend in black market prices, the wages demands are to some degree justified, and their refusal constitutes a legitimate grievance to the French working class. This is the reason why French Communists find it so easy to organize strikes and to exploit the discontent. This is one of the reasons why such a large proportion of the French people support the Communists.

On the face of it, it seems that the choice is between unmitigated evils, and that the outlook is hopeless. And yet incredible as it may seem, a solution could be found with a stroke of the pen.

The reason why prices in black markets are so high lies largely in the distrust of the French farmer in the franc and the reason why the franc is distrusted is because it is obviously overvalued. The remedy, therefore, lies in the devaluation of the franc to a level at which it commands confidence. Moreover, devaluation should be carried out in a way that inspires confidence. In January last the French Government made a fatal mistake by trying to be too clever. At the same time as reducing the official parities of the franc, it established an open market for certain currencies in order to ascertain the natural level of the franc. This meant that the government itself admitted that it did not trust the new official parities, and that it was considering a further devaluation. This being so, the French public could hardly be blamed for distrusting the franc and for expecting a further devaluation. It is to be hoped that the French Government has now learned its lesson and that next time the franc is devalued the same mistake will be avoided. The new parities must be declared as final in order to show that the government, at any rate, has confidence in them.

What is at least equally important is that the parities should be fixed sufficiently low to inspire confidence. There should be ample safety margin left so that the franc could remain, if anything, undervalued even after a reasonable rise in cost and prices. If there is such a degree of distrust in a currency as there is in the franc at present, it is of no use to try to cut the devaluation too fine. Unless it is quite obvious that at the new rate the franc is undervalued, the operation may have to be repeated again and again as it was between 1936 and 1938, and also between 1944 and 1948.

It is indeed remarkable how history repeated itself. In the 1940's as in the 1930's, the French Governments of the day were anxious not to devalue more than appeared to be absolutely necessary. As M. Reynaud rightly remarked in the 1930's, after each reluctant and inadequate devaluation, it was "too late and too little." Not until 1938 did the French Government take its courage in both hands and devalue the franc to such an extent that it became obviously undervalued. As a result it commanded confidence and the breathing space thus provided enabled M. Reynaud, who by then had become Finance Minister, to put the financial house of France in order. Unfortunately, he must have forgotten the lesson he taught France in 1938-9, for, when he became Finance Minister in 1948 he devised a plan by which to defend the franc at its overvalued level instead of devaluing it as he did ten years ago. The result of this error of judgment was that the government in which M. Reynaud was Finance Minister was defeated. Unfortunately, the new government tried to apply M. Reynaud's policy without M. Reynaud, and the result was the epidemic of strikes that threatens the very existence of democratic France.

It is not too late to correct the mistake; even at this late hour, substantial devaluation could save the situation. It would enable the government to consider the wages demands, as a result of which the Communists would lose their hold over the French working classes. It is true a devaluation would lead to further rises in French internal prices, and this again would lead to new wages demands. What matters is that so long as the franc is obviously undervalued at its new lower parities, it would command a sufficient degree of confidence to ensure that a large proportion of agricultural products were sold at official prices instead of going to the black markets. So long as the cost of living of the working classes depends largely on official prices instead of the price level prevailing in black markets, the situation can be kept under control. It would take some time, possibly as much as 12 months, before rising prices would reach the level at which it would be more once more imperative to check wages demands. To gain time in present conditions is all-important, for progress in reconstruction would consolidate the situation for France and would facilitate the government's task to cope with the difficulties when they arise.

It may well be asked why is it that, if the solution is so simple, it is not applied. Indeed, it may seem incredible that if it is really possible to avert the danger of chaos and collapse by adequate devaluation, this device is not resorted to. Many readers may think there must be a snag somewhere. As a matter of fact this is not the first time that a French Government sacrificed the vital interests of France out of sheer obstinacy in persistently refusing to devalue the franc when to do so would have saved the country. In 1936, when Hitler reoccupied the Rhineland, the French Army was strong enough to crush the offender with the greatest of ease. It was not done, because mobilization would have been very costly and the extra expenditure would have forced the government to devalue the franc, which was then precariously held at an overvalued level. The security of France was sacrificed for the sake of deferring the inevitable devaluation of the franc by six months. The French Nation had to pay very dearly for this error of judgment between 1940 and 1945. It is still paying for it. And yet the government is making exactly the same mistake with every likelihood of similar grave consequences.

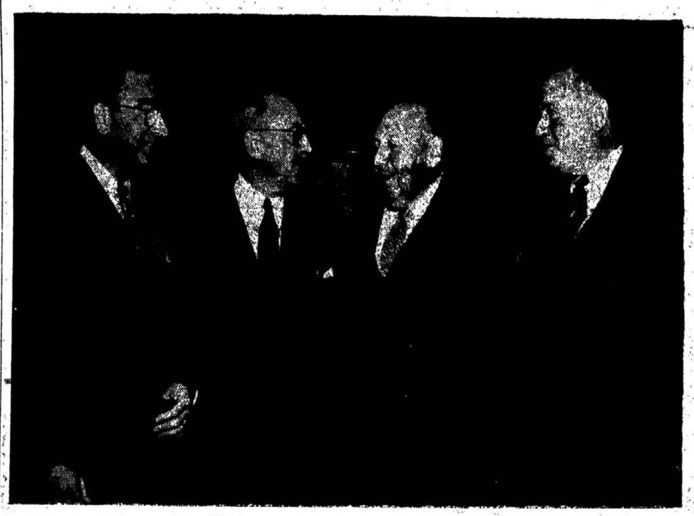
It is of the utmost importance that the French Government should be brought to its senses before it is too late. Friendly governments should exert all their influence to make Paris realize that it is absolutely necessary to remove the cause which is mainly responsible for the present industrial unrest.

R. A. Cunningham Is With Laird Co. in N. Y.

Laird & Company, Wilmington, Del., members of the New York Stock Exchange, announce that Richard A. Cunningham is now associated with the firm as Manager of the Municipal Bond Department in the New York office, 61 Broadway.

He was formerly Manager of the Municipal Bond Department of E. W. Clucas & Co. and prior to that with J. G. White & Co.

Stock and Curb Exchange Leaders in Drive for Republican Election Campaign Funds



Left to right: Mortimer Landsberg, Brickman, Landsberg & Co., Chairman of the committee to solicit members of the Curb Exchange in the drive: Edward L. Love, U.R.F.C. General Chairman; William C. Langley, W. C. Langley & Co., Vice-Chairman of the campaign's Commerce and Industry Division and Chairman of its committee to canvass the financial field; and Laurence M. Marks, Laurence M. Marks & Co, who is directing solicitation among members of the Stock Exchange. Mr. Landsberg reported that his committee had raised six times its quota in the drive.

Funds contributed to the United Republican Finance Committee are apportioned to the Republican National, Senatorial, Congressional, State and County Committees so that each may play its part in the coordinated election campaigns this year.

Rent Control in France

French economist holds 34 years of control has led to housing stagnation and shortages.

A dollar a month will pay a wage earner's rent in Paris but no rental housing is available, reports French Economist Bertrand de Jouvenel. Writing in "No Vacancies," published by The Foundation for Economic Education, Irvington-On-Hudson, N. Y., de Jouvenel describes the effects of 34 years of rent control in France.

"Rent seldom rises above 4% of any income; frequently it is less than 1%," de Jouvenel explains. "While you pay no more than these ridiculous prices if you are lucky enough to be in possession, on the other hand, if you are in search of lodgings you cannot find them at any price. Young couples must live with in-laws, and the wife's major activity consists in watching out for deaths. Tottering old people are shadowed back to their flat by an eager young wife who will strike a bargain with the janitor so as to be first warned when the demise occurs and to be first in at the death. Other apartment-chasers have an understanding with funeral parlors."

Five out of six dwellings in Paris are considered to be in unsatisfactory condition; 82% of the Parisian population do not enjoy a bath or a shower, more than half the population must go out of their lodgings to find a lavatory, and a fifth do not even have running water in the lodgings.

Practically all housing construction has halted. Almost 90% of Parisian dwellings were built before the first World War. Owners are unable to meet operation and repair costs. As a common example, de Jouvenel cites one lady who owns a building containing 34 apartments. Her net loss after taxes and repairs was $80 per year. Ironically, she cannot sell; there are no buyers.

Securities Salesman's Corner

By JOHN DUTTON

The other day I overheard two securities dealers talking about our favorite pastime, SELLING SECURITIES. Both of these men have been in this business a long time and they have seen many ups and downs. One said to the other, "It is all in how you present the stuff. We don't merchandise they way they do in other lines. Look at the chain stores, department stores and even the progressive independent retailers. They are always thinking up some inducement to bring in customers. They give the public what they want when they want it. They study the changes in demand. When they advertise they sell seasonable goods at a price that will bring in the trade. DID YOU EVER HEAR ABOUT LOSS LEADERS IN THE INVESTMENT BUSINESS? Well, it works in other lines, doesn't it?"

By this time I had to break in, "What do you mean by loss leaders? Do you think we could sell securities under the market the way they do other commodities?" My friends looked at me and the one who had mentioned the loss leaders took me up on it. "Now, Mr. Wise Guy," said he, "I am going to tell you a little story, and you can write it up in your column that is always telling other fellows how to do it, and I am not going to charge you a dime for this idea, even though I think it is a lot better suggestion than most of the stuff that you put out every week." "O. K.," said I, "let's have it and without all the left-handed digs in the ribs."

"Now here is how it goes," replied our friend, "I got to thinking about new accounts the other day. I wondered if there was some way that I could find that was a short cut to putting a sizable number of new names on our books. I came to the conclusion that there must be a large percentage of people who want to take a flyer today. The results of some of the very speculative, promotional, offerings of recent months seemed to me to indicate that this was so. I know of the ads that have been run in the daily papers that have offered stocks at a dollar a share and under. These ads only gave the name of the stock, price at which offered, and where it could be bought. Sometimes only price and prospectus were mentioned. These issues have sold out. I have heard that in many instances people have sent in checks and money orders clipped to the ads.

"I decided to try this out and see for myself. I selected a low priced stock and began to send out double post cards which offered information regarding the security in question. I tagged the offering strictly speculative and made no bones about it. When I got replies I followed them by letter and by personal follow up. I told these people that although this speculative situation which I was offering appeared to have merit that I wouldn't sell them over a certain amount. I sold, but I didn't oversell. I used this low priced speculation as a LOSS LEADER. I wanted a door opener. The plan seems to be working because during the past few weeks I have opened up quite a few new accounts. That is all I want. Afterward, I go back and sell these people higher grade investments. I have already put a sizable amount of solid, income paying, equities into these new accounts. I've found out that a lot of people today want to speculate and that is why this low-priced stock, double return card, is pulling leads. Now you have it, and what do you say, Mr. Salesman Dutton?"

And what do I say, to a fellow like that who is doing something about dull business? More power to him. At least he is trying to do something constructive. I don't know how well this selling plan will work out in all markets. This dealer is operating in and around New York City where the investor's psychology may be different than in other localities. His idea is sound providing the following steps are carried out systematically. (1) Select good names for mailing purposes. (2) Make up a good card. (3) Follow up inquiries with an attractive report and mailing. (4) Call on prospect. (5) Don't sell too much of the speculative stock that you are offering—use it as a door opener and that's all. (6) Follow up the customer after you have made first small sale of speculative securities, and drive for more business on better grade bonds or equities as soon as possible.

That is what you call featuring a LOSS LEADER in the securities business—my friend may have had his own unique name for it, but at least he has an idea that seems to be working for him and that is what counts.

In the October 21st "Chronicle" (page seven), Peter P. Strathas, Senior partner, Duff & Phelps, Chicago, gives you more information regarding the Public Utility industry than you can probably find condensed into one short article anywhere. This is a reprint of a speech he made recently before the American Bankers' Association, in Portland, Ore. When you KNOW you KNOW, and if you KNOW it means MORE BUSINESS FOR YOU. Really, we got more out of this article than anything we've read on the utilities in years, Almost feel like an expert ourselves, now!

Jos. McManus Co. to Admit

Thomas J. Gildea, member of the New York Stock Exchange, on Nov. 1 will become a partner in Joseph McManus & Co., 39 Broadway, New York City, New York Stock Exchange member firm. Mr. Gildea has been active as an individual floor broker.

W. R. Olson Incorporates

FERGUS FALLS, MINN.—W. R. Olson Company, 112 South Mill Street, is now doing business as a corporation. Officers are W. R. Olson, President and Treasurer; M. T. Enstad Vice-President; and R. J. Rovang, Secretary.

Mr. Murray's Version!

"I know that we don't want our government under the control of bankers and corporate interests. That is the simple issue in this election.

* * *

"Labor in this campaign is supporting the man who in a straightforward, courageous, prophetic message vetoed the Taft-Hartley Act.


Philip Murray

"He has consistently and forthrightly advocated its repeal. His party's platform, in plain language that none can misunderstand, calls for the elimination of this law. He has given voice to this pledge throughout this nation. On this important issue labor stands squarely with the President of the United States, Harry S. Truman.

"We support Harry S. Truman for his stand against the Taft-Hartley Act. We support the President with equal vigor for his courageous fight to maintain and extend all the principles of the New Deal."—Philip Murray.

Apparently Mr. Murray would have us believe that the "simple issue" of this campaign is "bankers and corporate interests" (for which read something dark and sinister) vs. the New Deal (which promises the millennium).

May Heaven spare us if he can persuade the electorate that such nonsense has substance.

Holds Inflationary Pressures Persist

Federal Reserve Bulletin says credit expansion has shown little tendency to abate despite imposition of curbs, while recent liberalization of government mortgage guarantee provisions stimulates volume of financing.

"Inflationary pressures have continued dominant in the economy notwithstanding measures of restraint in the credit field that have been adopted since mid-1947," says the "Federal Reserve Bulletin" for October, adding, "continuing expansion of bank credit for private purposes during the past 12 months has been a contributing factor to, as well as an effect of prevailing inflationary tendencies. Business outlays for plant and equipment and consumer expenditures for homes and for other goods and services have mounted further over the period. In addition, foreign aid and military expenditures of the Federal Government have been substantially enlarged, and public works expenditures of State and local governments have increased significantly."

Continuing the article states:

"Financing of the nation's growing volume of expenditures has been possible from rising personal incomes, business profits and governmental revenues, supplemented by reductions of liquid asset holdings by many businesses and individuals and by growth in private and State and local government debt, including indebtedness to commercial banks. With output of commodities and services close to maximum levels and undergoing only moderate further growth, over-all demand has continued to exceed available supply As a consequence, strong upward pressure on wholesale and consumer price has persisted.

"Expansion in the volume of privately held deposits and currency has been smaller over the past 12 months as a whole than in other comparable periods since the war. In the fall of 1947 the rapid growth in bank loans and a large gold inflow sharply increased the volume of deposits and currency. Subsequently, however, a Treasury cash surplus drained a substantial amount of funds out of private accounts. In recent months deposit expansion has been resumed. The further growth of bank deposits has been the result of additional bank loan expansion and of sales of government bonds by nonbank investors to the Federal Reserve, the proceeds of which have been used to make business or real estate loans or to buy corporate securities.

"In the period since mid-1947 a moderate restraint on bank credit expansion has been achieved by use of Treasury surplus funds to retire securities held by the Federal Reserve Banks. Drains on bank reserves achieved in this way have been the most important means of restraint on bank credit expansion. Reductions in taxes effective in May and increased government expenditures for defense and foreign aid, however reduce and may eliminate the Treasury cash surplus available to exert this restraining influence.

"Supplementing the restraining effect of the Treasury surplus, action has been taken to increase rates on short-term government securities. This has raised the cost of reserves to banks and at the same time made it more attractive to banks and others to hold these securities. Other short-term money rates have shown a corresponding rise.

"In addition, a large amount of bank reserves, or assets potentially convertible into reserves, has been immobilized through action of the Board increasing reserve requirements of member banks Increases were imposed on central reserve city banks in New York and Chicago in February and June, 1948 on the basis of their existing statutory authority. In September the Board made use of new powers, granted in August in a special session of Congress to increase reserve requirements for all member banks. The latter increase, which absorbed into required reserves a total of about $2 billion, corresponded approximately to net Federal Reserve purchases of government securities from nonbank investors in recent months, and necessitated little or no decline in the total of bank loans and investments from the level prevailing three months earlier.

Bank Credit Expansion

"The continuing inflationary tendencies and the large aggregate expenditures for goods and services that have characterized the economic situation during the past year have been fed by a total loan expansion at commercial banks of over $6 billion in the 12 months ending June 30. In addition, commercial bank investments in securities other than those of the United States Government increased about $700 million during this period. Private bank credit expansion was larger than in any similar past period except the previous year. This expansion occurred at banks located in all sections of the country and at banks of all sizes, but particularly at banks in rural areas and small cities. Since June of this year private bank credit expansion has followed a pattern similar to, but somewhat smaller than, that of a year ago. Expansion has occurred in all credit categories except loans on securities, and during September it gained considerable momentum."

Regarding future development the conclusion as stated in the "Bulletin" is that, "factors underlying the strong demand for credit by businesses, real estate buyers, consumers, and State and local governments have shown little tendency to abate. Business plans for expansion of plant and equipment indicate further substantial demand for external funds. Encouragement given to mortgage lenders and borrowers by recent liberalization of government guarantee provisions will tend to stimulate continuation of a large volume of such financing. Although a check has been placed on instalment credit growth by the recent reimposition of the Board's regulation, continued large sales of durable goods will assure some additional credit expansion in this area.

"Part of the large potential credit demand may be satisfied by nonbank financing institutions such as insurance companies, building and loan associations, and savings banks. As has been indicated previously, these agencies have been shifting out of long-term United States Government securities and into private credits. Funds from the sale of these government securities have been supplied by the Federal Reserve System, which in the absence of other buyers has purchased them in support of their market price. This process of shifting out of government securities results in the creation of bank deposits and bank reserves and is just as inflationary as bank credit expansion.

"Should sales of government securities by nonbank investors continue, banks would be able, in the absence of further restraining action, to accommodate a very large loan demand without reducing their own holdings of government securities. Banks may also receive reserve funds from a gold inflow and could obtain any additional amounts desired by selling some of their large holdings of government securities.

"In the recent postwar period credit developments have been an important influence in the continuation of inflationary pressures, notwithstanding the gradual satisfaction of some of the acute shortages of goods and the substantial Treasury surplus. Because of this situation the Federal Reserve authorities have taken action to restrain credit expansion by permitting a rise in short-term interest rates, raising Reserve Bank discount rates, placing limitations on the terms of consumer instalment credits and increasing reserve requirements at member banks."

Ascribes High Business Levels to Inventory Accumulation and Consumer Purchasing

Donald S. Thompson, Vice-President of Federal Reserve Bank of Cleveland, gives analysis of business situation as prepared by institution's research staff.

In a radio talk over Station WGAR, Cleveland, on Oct. 16, Donald S. Thompson, Vice-President of the Federal Reserve Bank of Cleveland, gave a brief analysis of the business situation as prepared by his research staff. Mr. Thompson made no predictions or forecasts, but pointed out in his talk that production has not yet reached the scale of consumers' demands, despite business being maintained at peak level.

Donald S. Thompson

"One factor contributing to our high levels of activity has been the building up of inventories," Mr. Thompson pointed out. "Business enterprises entered the postwar period with shortages of goods and have had to build up inventories to a point sufficient to enable factories to operate efficiently and continuously and to enable distributors both at wholesale and retail to provide the quality of service to which we people have become accustomed and which we demand. This process has frequently been described as 'filling the pipelines' of business. The building up of these essential inventories at a time when consumer demand was at record levels resulted in a diversion of goods from consumption increased the strain on our industrial system, and was a factor in the intensification of the inflationary pressures to which we have been subjected over the past few years—in simple English, contributed to the rise in prices."

Continuing his talk, Mr. Thompson stated:

"Although some shortages still exist, our business pipelines on the whole appear to be pretty well filled and there is evidence that the physical volume of inventories has not increased very much during recent months.

"While the growth of inventories and other business demands have played important roles, probably the most important single factor accounting for our high levels of activity has been the large volume of consumer purchases. Consumers appear to have bought more goods in 1947 and the first nine months of 1948 than in any other 21-month period in our history; and consumers' purchases of goods and services have taken nearly three-quarters of the products of our great business machine.

"People have bought these goods and services in record amounts because they needed them or wanted them, and because by some means or other they were able to pay for them. They have paid for them out of income, out of savings, and by borrowing. Personal incomes have been higher and more widely distributed in the postwar period than at any other time in our history, and incomes have been expanding almost continuously over the past three years. During the postwar period people have had more savings than ever before; and credit has been available to consumers on liberal terms.

"Incomes of consumers—personal incomes—are currently at an annual rate of more than $210 billion compared with about $170 billion at the close of the war and about $70 billion before the war—in 1939. From $70 billion to $170 billion to $210 billion! So—over the postwar period the level of consumers' incomes has risen by $40 billion or nearly 25%; but the rate of consumers' expenditures has risen much more than that. Consumers' expenditures have risen from an annual rate of about $120 billion at the close of the war to a rate of about $175 billion or more at the present time, an increase of about $55 billion. So—while the level of consumers' annual incomes has risen by $40 billion in the postwar period, the level of consumers' annual expenditures has risen by $55 billion. The level of income up $40 billion, the level of spending up $55 billion a difference of $15 billion; and this does not include expenditures for the purchase of houses.

"Consumers have been able to increase their spending more than their incomes have increased by saving less, by using up some of the savings they had previously accumulated, and by borrowing. At the close of the war people were saving about 20% and spending about 70% of their income. (The difference of 10% went for taxes.) At present they are saving about 6% and spending about 84%. Spending has risen from 70% of income to 84% of income and the rate of savings has gone down from 20% to 6% of income.

"While most of our people are saving and have continued to save throughout the postwar period, large numbers have drawn on their accumulated savings and many have borrowed in order to buy houses, automobiles, furnaces, washing machines, refrigerators, and other household goods. Sales of these types of consumers' durable goods have generally shown the greatest expansion and have contributed to the heavy demands for steel. In our broadcast last week we pointed out that the steel industry was operating at capacity but was unable to supply all of the steel wanted by our people.

"Our incomes are derived from our production of goods and services. The largest single source of consumers' incomes is salaries and wages which today account for 60% of personal incomes. Most of these salaries and wages are paid by business of one kind or another. The other 40% of income is also derived mainly from the output and sale of the products of factories, mines, farms, stores, restaurants, hotels amusement places, garages, railroads, streetcars, busses, utilities, yes—World Series, and all the other myriad services that contribute to the highest standard of living ever achieved by any nation. As a people, we have been trying to expand our purchases more than our production has expanded. This has contributed to inflationary pressures and to the rise in prices of consumers' goods. It has also contributed to the maintenance of our business operations at close to capacity.

"While most of our people continue to save, each year since the war an increasing number have been spending more than they have been receiving as income. The units spending more than they received as income may have numbered 9 or 10 million in 1945; the number exceeded 12.5 million in 1946, and was about 13.5 million in 1947. A 'spending unit' is a group of persons, usually a family, whose incomes are pooled into a common fund the expenditure of which is generally under a single or common control.

"In 1947, 13.5 million spending units, chiefly families, out of a total of more than 48 million units, spent $11 billion more than they received in income. That $11 billion came from accumulated savings and from borrowings."

Western Pa. Group of IBA to Hold Meeting

PITTSBURGH, PA. — The annual meeting of the Western Pennsylvania Group of the Investment Bankers Association will be held in the University Club on Wednesday, Nov. 3, 1948. The business session will be held at 5:30 p.m., and will be followed by a dinner at which there will be a guest speaker.

The Nominating Committee, consisting of Fred P. Mullins, A. E. Masten & Co., Chairman, Franklin Maroney, Blair & Co., Inc. and Charles N. Fisher, Singer, Deane & Scribner, has selected the following slate of officers and members of the Executive Committee for the fiscal year 1948-49: Chairman, Geo. G. Applegate; Vice-Chairman, James C. Chaplin III, Chaplin & Co.; Secretary-Treasurer: S. W. Steinecke, S. K. Cunningham & Co. Members Executive Committee: for three-year term: Nathan K. Parker, Kay, Richards & Co.; Karl Klauser, Merrill Lynch, Pierce, Fenner & Beane.

For one-year term: Norman B. Ward, Norman Ward & Co.

In addition to the election of officers reports will be made by various committees regarding the activities of the Group and of the I.B.A.

Speakers for this meeting will be John F. Laboon, Chairman of the Allegheny County Sanitary Authority, who will explain the construction and operation of this sanitary system. This project is of considerable importance and since it will involve a substantial amount of financing, it should be of particular interest.

Each member of the Western Pennsylvania Group is entitled to send one representative to this meeting and there will be no charge for his dinner. Members are also privileged to have additional representatives or guests for the dinner at a charge of $5 each. Reservations may be made with S. W. Steinecke, Secretary-Treasurer.

Max Bilgrey Dead

Max Bilgrey, since 1941 associated with the foreign department of Ira Haupt & Co., died of a heart attack at the age of 59.

Sees Postwar Problems More Difficult Than Those Which Prevailed During War Period

W. Walter Williams, Chairman of CED, points out our bitter fruits of victory are backbreaking burdens, and inflation problem, together with European Recovery financing, are most important obstacles confronting us.

Addressing the 22nd Western Regional Trust Conference at Portland, Ore., on Oct. 13, W. Walter Williams, Chairman of the Committee for Economic Development, who succeeded Mr. Paul Hoffman in this post, warned that there are difficult business problems ahead, more complicated and more difficult than we faced during the years of armed conflict, and a study and careful analysis of facts should be marshalled to assist our course of action in solving them. His remarks in this connection were:

W. Walter Williams

"The problems with which business, labor and the public must deal in the next few years are immeasurably more complicated and more difficult than those we faced during the years of armed conflict. Then we were willing to subject ourselves to the totalitarianism of war in the belief that it was a necessary but passing phase of American life leading to victory and the return of our freedom. Today we know that world wars have no victors and that our bitter fruits of victory are backbreaking burdens.

"The financing of European recovery will cost billions of dollars. In addition, for an unknown term of years we probably shall have to continue defense expenditures at an extremely high level. The large percentage of our national income that must continue to flow to government will unquestionably increase conditions and pressures adverse to the freedom and normal conduct of American business and the American way of life.

"The problem of inflation is one of the important problems which confront us today. The solution of the problem of inflation control doubtless requires among other things the need for certain credit restrictions, increased productivity and reduced spending in those areas where pressure is particularly great. But the problem of inflation is also a very vital one with respect to our foreign relationships. The effectiveness of our loan to Great Britain was greatly diminished because of reduced buying power from the proceeds of that loan due to inflated prices. Nations abroad have a certain natural hesitancy to tie their economic destinies to America in the face of the violent boom-bust cycles which our nation has experienced in the past, and which Mr. Stalin regards as the Achille's Heel of our American economy.

"The problems inherent in the whole subject of inflation are not easy of solution. As the result of inflationary influences our economy has been placed on stilts. It will take all of the most careful and intelligent research possible from the most able, practical and academic minds of America to bring our economy down off those stilts without breaking a leg or perhaps something worse.

"Inflation control is but one side of the problem. I wonder how many of you here today have not spent many a sleepless night wondering about what to do when and if the upward spiral of inflation should be reversed and we encounter a deflationary period?

"You will be interested, I am sure, to know that this particular subject has priority on our CED current research program, and that a Statement on National Policy will be issued upon it within the next few months. Tentatively, this statement on National Policy is expected to be captioned, 'The Responsibility of Government for Current Economic Stability: Monetary and Budget Policy.'

"It has already been noted that trust officers must necessarily be vitally concerned with the tax situation. The need for revision of our antiquated Federal tax and budget policies and practices has become increasingly obvious. These obsolete structures date back to 1925 and are concurrent with the Model T Ford. Tax requirements, as you know from personal experience, have mushroomed gigantically since that time. They have become, not only because of their size but of their nature, a decided brake upon capital formation especially for new enterprise and risk taking."

Investment Bankers Association of America To Convene in Florida, Dec. 5-10, 1948

Hal H. Dewar Nominated for President

The 1948 Annual Convention of the Association will be held at the Hollywood Beach Hotel, Hollywood, Fla., beginning on Sunday, Dec. 5, and ending on Friday, Dec. 10. Thus, the Association returns again to one of its most popular meeting places. Those who attended the 1940, 1941, and 1947 conventions, which were among the most successful in the Association's history, will recall that Hollywood provides an unusually satisfactory and enjoyable place for an IBA meeting.

The final details of the convention program have not yet been fully completed and cannot be announced at this time. The program will, however, follow the pattern of recent years, and will be set up so that the mornings, with the exception of Sunday morning, will be devoted to business.

Discussion of vital domestic and world issues will be emphasized, and important problems pertaining to the investment banking business will be considered. Authoritative speakers will discuss these topics. An interesting feature on the program this year will be a panel discussion sponsored by the New York Financial Writers Association which will give all representatives of the newspapers and magazines a chance to participate from the floor.

Coming about a month after the national election, the deliberations will provide an excellent opportunity for an appraisal of the outlook in the light of the ballot results and for an interpretation of fundamental trends. This gives promise of much that should be of interest and newsworthy beyond the limits of the financial community. We are expecting the meeting to be outstanding in the history of IBA conventions.

There will be a convention session on each morning from Monday through Friday. Prominent speakers will address these sessions. In addition to the convention sessions, there will be two or three meetings of the Board of Governors; and most of the national committees of the Association will hold meetings during the convention and will present their annual reports at that time. With the possible exception of one or two committee meetings, it is not planned to schedule any business sessions for the afternoons.

The Board of Governors will submit to the convention the Regular Ticket for 1948-49. This ticket will be voted on at the final session on Dec. 10, and will be as follows:

For President—Hal H. Dewar, Dewar, Robertson & Pancoast, San Antonio.

For Vice-Presidents—Albert T. Armitage, Coffin & Burr Inc., Boston; Hazen S. Arnold, Braun, Bosworth & Co., Toledo; John F. Fennelly, Glore, Forgan & Co., Chicago; Joseph T. Johnson, The Milwaukee Co., Milwaukee; Laurence M. Marks, Laurence M. Marks & Co., New York.


H. H. Dewar


Albert T. Armitage


Hazen S. Arnold


John F. Fennelly


Joseph T. Johnson


Laurence M. Marks

Convention Registration Fee

A registration fee of $35 will be charged for each delegate and alternate. No fee will be required for wives or members of the press. Checks covering registration fees should be made payable to the Association and forwarded to the Chicago office of the Association with the white form which accompanies the bulletin.

Hotel Arrangements

All reservations for rooms for the convention must be made through the Chicago office of the Association. Hotel rates will be on an American Plan basis as follows:

Double Rooms (2 persons)	$16 per day per person
Double Rooms (1 person)	$24 per day
Single Rooms	$16 per day
Parlors	$10 per day

The bedroom rates quoted above are for rooms with private baths. There are also a few units of two double rooms with one bath. The rates for the rooms in these units will be $15 per day per person.

Most of the rooms at the Hollywood Beach Hotel are double rooms (with twin beds). The single rooms are limited in number and are on the land side of the hotel. As double rooms will not be assigned for single occupancy unless it develops at the last minute that

(Continued on page 30)

Slow Down Is Probable: Gettell

Economist presenting "Fortune's" analysis of the national economy, tells Association of National Advertisers slow down seems probable and business should gear itself to a buyers' market. Places hopes in new Administration.

Presenting what he termed "Fortune's" second analysis of the American economy, Dr. Richard Glenn Gettell, "Fortune" magazine's staff economist predicted in an address before the Association of National Advertisers, in New York City on Oct. 27, that if government and business exercise statesmanship and self-discipline, the U. S. economy can be put on a solid footing well before 1952.


Richard Glenn Gettell

National income is up 57% since 1940, Mr. Gettel disclosed; retail sales are up 63%; total manufactures, up 58%; transportation, up 73%; electric and gas utilities production, up 101%.

Meantime U. S. employment has run as high as 61,500,000 this year, with 2,000,000 or less unemployed—despite predictions that postwar unemployment would range from 6 to 8 million (10 to 14%). In this connection, Dr. Gettell cited the experience of California, which expected 1,000,000 postwar unemployed, but in 1948 has only 300,000 jobless, while the state's employment is now 4,100,000—or 350,000 more than at the wartime peak.

Slowdown Seen Probable

"The accumulated problems of the past few years can cause us real trouble before 1952, no matter how deftly and how ably they are handled," Dr. Gettell pointed out.

The Administration will be inheriting many vexing troubles which have been generating since the war: inflation, imbalances between industry and agriculture, unstable wage-price relationships, the filling up of pipe-lines, the softening of demand in some sectors, high break-even points, unbalanced inventories, resources depletion, and a highly critical international situation. Within the coming four years the economy must undergo considerable readjustment."

Whether these readjustments will return us to a healthy balanced economy or cumulate to a drastic depression depends on how business and government face the situation, the "Fortune" economist stated.

"Major decisions must be made in a number of crucial situations," Dr. Gettell continued, "the amount and type of foreign aid (for relief, for reconstruction and for military preparedness); the means of reviving world trade and foreign investments; our own defense program; our credit policy; our tax policy; the question of agricultural support prices—of balancing farm and industrial incomes; the relations of management and labor—the fourth round of wage demands.

"All these are political and economic problems—the solutions of which will sharply affect our economic future. But interwoven with all of them is the critical problem of avoiding depression. To face the years ahead—to maintain our role in the world—we must be sure that we do not progress from boom to bust."

Tasks for Business, Government

For business, Dr. Gettell explained, this will mean: "Putting its house in order; gearing itself to meet a buyers' market; keeping a sharp eye on costs; increasing productivity; producing more and being prepared to sell a larger volume at lower prices, instead of cutting production and maintaining prices; building its markets and trade relationships with an eye to the long pull. It is going to mean: not retrenchment but restraint."

The government's duty, on the other hand, Dr. Gettell described as follows: "To put its house in order; to make an end to deficit financing to limits its expenditures; to adopt tax and fiscal policies which no longer feed the inflation which threatens us; and to limit its controls to the broad areas of the total supply of money and credit. With a competent administration, this should be enough to hurdle the inflationary danger.

"Let's assume that inflation is checked, readjustments occur, but deep depression is avoided," Dr. Gettell suggested. "What then is the long range program of business and government, beginning with the new administration?

To Keep U. S. System Vigorous

"American businessmen have inherited and are now chiefly responsible for the fate of the only strong free economy left in the world. The success of our foreign policy, as well as our domestic welfare, depends upon the strength and vigor of our own economic system—on the way we demonstrate to all the world the superior performance and the greater vitality of a free economy. The key to this is enterprise—in the fullest sense of the word.

"Central to economic progress in a free society are the myriad individual decisions of forward-looking businessmen to put their ideas, their capital and their energy to work. To start new concerns or expand old ones; to introduce new technological processes or improve old ones; to build new machines—and scrap old ones. To take risks—and to profit from successful ones, or lose when they are unsuccessful.

"This is the role of private business. It supplies the means of economic progress, and, in a competitive system, shares the results with all members of the economy. And this is the role which business must continue to play if the economy is to remain strong and to grow even stronger.

"On the other hand, government has a responsibility which business, left to itself, cannot fulfill. It is the responsibility of creating the environment in which the enterprise system can grow—with its benefits made available to all.

"This means enforcing competition, and protecting national resources against wasteful exploitation and dangerous depletion; it means serving as an umpire among clashing interests and providing security and stability. These are generally protections of society against business excesses.

"But there is another basic role of government—and this is in support of business: It is to encourage investment—not so-called public investment which merely adds to governmental budget deficits, but private investment, such as the 18½ billions being spent this year on new plant and equipment.

"In future years, business will spend that much again, and many times more, and the economy will grow accordingly, if government makes it possible and sufficiently attractive to induce private capital to take the risks of expanding our industrial capacity.

"This will require a revision of present governmental tax and fiscal policy. Private investors must have the surpluses, and credit must be available so that they have the means of investment. The potential rate of return must be high enough to encourage risk-taking. And taxes must not be confiscatory when this return is obtained.

"With the new administration, there is reason to believe that a favorable ear will be turned to the needs of the economy in this respect.

Common Purpose Will Be Important

"The conflict between Communism and Democratic Capitalism has established a chronic state of crisis between the Eastern World and the Western World. As far ahead as anyone can see, our economy will be in competition with that of Russia. But our economy, unlike that of Russia, is added up from the bottom, not subdivided from the top. It is the sum of all decisions made by American businessmen, American workers and American consumers. Each executive—each person—meets the challenge individually.

"We are convinced that, with a sense of common purpose, business and government can overcome the immediate dangers, and within the next four years keep the nation on a path that will demonstrate to all the world the enduring advantages of a free economy."

D. Kales Heads Dept. For Wood, Gundy & Co.

Wood, Gundy & Co., Inc., 14 Wall Street, New York City, announce that the firm has established a new department to deal in State and Municipal bonds under the management of Davis Kales. Mr. Kales was formerly New York City correspondent of the Commerce Union Bank of Nashville.

Reeves Bros. Elect Directors & Officers

At the annual stockholders' meeting of Reeves Bros., Inc., held Oct. 25, Henry C. Hoffmann and S. L. Lewis, Jr. and all of the incumbent directors, were elected directors for the ensuing year. At the directors' meeting, immediately following the meeting of stockholders, the incumbent officers were reelected and H. C. Hoffmann, William I. Hudson, Jr., William H. Burroughs and John R. Wilson were elected Vice-Presidents of the company.

John M. Reeves, President of the company, announced that this increase in the executive personnel was made necessary by the expanding character and volume of the company's business.

Mr. Reeves announced with regret that Arthur M. Kerr, for many years Vice-President and a Director of the company, had requested a leave of absence from his duties as Vice-President for one year due to illness. Mr. Kerr will continue as a Director of the corporation.

Mr. Reeves also announced several important changes in the executive personnel of certain subsidiares of Reeves Bros., Inc. John A. Beecher, who has directed the research and development operations of the company for the last several years has been elected Vice-President of Fairforest Co., to coordinate the manufacturing activities of the Eagle & Phenix Mills, Columbus, Ga.

C. Scott Lewis, Jr., who has been in charge of soliciting finishing for the Fairforest Co., has been elected Vice-President of that company.

A Critical View of American Politics

By ALEXANDER WILSON*

A satirical viewpoint on personalities in the Presidential campaign, old and new Administration policies and the World Order.

This is the season of the year when the statesmanship, political claims and personal ambitions of the great and near great in public life, will be subjected to the "third degree" by the Electorate when that American institution—Election Day—is held Nov. 2.

Alexander Wilson

Politics and politicians are curious things like some of our worn-out age-long customs, conventions and traditions, superstitions, prejudices, theologies, orthodoxies and ideologies and are hard to live with and live down in this distracted war-torn world.

Civilization At Bay

What a world! The three so-called Great Powers, quailing before a fourth unfriendly government of Asiatic brigands who rule their own populace with Force, Blood and Murder! The sorry spectacle of the leading Country on Earth "shaking in its pants" because, of its own doing, having devised man's deadliest mass killing weapon, it now lives in dread lest an enemy country discover the secret formula and use the atomic bomb on its discoverer.

Votes for the Asking

Big and little politicos are loudly hawking their wares to a public already satiated with officeholders' and seekers' loose professions, smug attributes and pretensions. Yet the poor old American Public is willing to be cajoled, bullied and governed or misgoverned for another four-year term by a horde of blithering, blundering would-be's, once-was-ers, or never was-ers. Verily the season for platitudes, sophistry and political epithets is upon us.

This national election campaign with its trumpery and incidental detail to date, is far from being an inspiring spectacle to the citizen and is almost enough to make a horse laugh if that patient beast of burden listens to the claptrap emanating from Presidential and Congressional aspirants and their spokesmen who "fiddle while Rome burns" and who are more concerned with their own personal aggrandizement than the greater welfare of U. S. A.

An American Pastime

Ninety-five million people of voting age will argue their political opinions with you "until the cows come home" but only 45 million or 50 million good citizens will remember to vote on Election Day when most of them have a holiday. Such is the quality of our citizenship.

To the average American male, our National Election with its grotesque oratorical appeals and grandiose promises, is always the "Greatest Show on Earth."

All the blah-blah and stump speaking will not materially change election day results. Before the tomato-throwing and the shouting began, most of the electorate had made up their minds how they would vote. But the politicians, who are the most perfect human vacuums extant, fool themselves with the belief that the great American public is politically dumb until Election Day rolls around. In the politician's eyes, the voter is just a "heavy looker on" who has forgotten his party's mistakes and failures during the preceding four years.

It is enough to bring tears to one's eyes that office seekers and hand-shakers will never learn "Honest Abe's" homespun philosophy "you can fool some of the people all of the time and all of the people some of the time, but you can never fool all the people all of the time."

Political Ethics

Ethically speaking, when candidates for office take time out of their regular jobs to campaign for re-election (like Mr. Truman) or for higher office (like Mr. Dewey and Mr. Warren) they should either resign their offices or refuse to draw their salaries while they are barnstorming.

A notable case which comes to mind is that of Charles Evans Hughes who promptly resigned his position as a Justice of the United States Supreme Court when he was nominated for the Presidency.

Likewise, Senators and Congressmen who become physically incapacitated and are obliged to absent themselves from their duties for long periods should also have the decency to resign or not draw the tax-payers' money.

It might be well for those officeholders who have personal means or independent income to emulate Mr. Herbert Hoover—the only President who unselfishly devoted his Presidential salary to public philanthropy—but that would be expecting the millennium on this earth.

My Kingdom For A Man!

The spectacle of a President calling his political opponent "mealy mouthed" and excoriating his opponent's political acumen and party objectives is most distressing to citizens of this fair land who look for a certain restraint and dignity in the man who occupies the highest elective office within the gift of the people.

When everything is said and done, would it not be more becoming and dignified if the White House incumbent did not leave Washington at all during a Presidential campaign for a rough and tumble exhibition of "gutter politics," but instead confined his campaign utterances to radio broadcasts of his administration's record and future objectives for public judgment?

There is indeed quite some criteria for this method in the annual message which the President delivers at the opening of Congress reporting on the State of the Union and his statement of legislative recommendations.

Perhaps this is Democracy at its worst (?) at a time when mass thought and effort should be concentrated in an effort to deal pacifically with an OUTLAW nation which seems bent on precipitating another war.

This is a moment in our history when we wish we had the diplomatic or legal talent available (a Dwight W. Morrow, Elihu Root, Charles Olney, Ben Franklin, Charles Evans Hughes or a Grover Cleveland) if statesmanship in Washington is to meet the world situation sensibly and successfully or to cope with the Berlin debacle which is shaping up in Paris.

It is devoutly to be hoped that nothing serious eventuates in the international picture before a new administration is installed in Washington this coming January.

Should President Truman Resign If He Is Defeated?

In the event that the country's voting verdict on November 2 proves to be a landslide for Mr. Dewey, it would certainly be a magnanimous act for President Truman to immediately call a special session of the Congress to place his resignation in their hands.

The early succession of Mr. Dewey to the Presidency is called for in view of the pending threatening international situation.

President Truman's action would hasten and improve (1) the continuity of the changing Administration; (2) the position of our Allies in combating Soviet Russia's intransigence; (3) increase the morale of the Western European Nations and (4) strengthen the position of the United Nations as a peace-making body.

President Truman has it within his power to do the Nation and our Allies a great public service if he does not delay his retirement nearly three months to Jan. 20, when the President-elect will be entitled to take over the office in the regular course.

When Ignorance Is Bliss

The public does not realize how close we are to trouble or that only a small incident would supply the spark which would bring on another war. One assassin's bullet fired at Ferdinand at Sarajevo was all that was needed to start World War I.

Is This the Law of Compensation?

Being human in their resentments, would the defeated German nation feel elated if their former enemies' airplane efforts to keep them from starvation in their capital city caused us to fight a war to save Germany from the clutches of our former ally—the present unconscionable Asiatic Conquerers of Europe?

Yet come what may, our country will very likely muddle through our international problems somehow as we have so many times in our history.

Oh! that we might soon say with Alfred Tennyson:

"Ring out the 1,000 wars of old.
Ring in the 1,000 years of peace."

*Writer on international problems and political subjects.

N. Y. Security Dealers Annual Dinner Meeting

The Annual Dinner-Meeting of the New York Security Dealers Association was held at the Downtown Athletic Club on Oct. 27, 1948. Reports of various committees were submitted, followed by a general discussion of Over-the-Counter matters. The meeting was confined to partners and officers of member firms.

Wants Study of Return to Gold Standard

Thomas Graham, Chairman of Sub-Committee on Investment Banking of the Small Business Advisory Committee for Treasury Department, calls attention to prevailing controversy on question and advocates Congress set up a Monetary Commission to study and report on policy.

In a letter published in a bulletin issued by the Small Business Committee for the U. S. Treasury Department, Thomas Graham, Chairman of its Sub-Committee on Investment Banking, and associated with the Bankers Bond Co., Inc., Louisville, calls attention to the controversy regarding a return to the gold standard and recommends that the problem be considered by a Monetary Commission to be set up by the next Congress.

Thomas Graham

The text of Mr. Graham's letter follows:

"The Conference of American Small Business Organizations has been considering the currently much-debated question of the advisability of returning to the Gold Standard by the United States. It seems to be the incontestable opinion of all financial experts that we must make our paper currency redeemable in order to establish any real control over governmental spending. There is too much responsibility put on Congress when irredeemable currency can be pushed out in present quantities through bank mechanism. It seems to be the opinion of most students of finance that it is perfectly possible for this country to return to the Gold Standard, but that the world will not return to the international Gold Standard unless and until this country takes the lead.

"Naturally, there are a number of delicate problems involved which must be carefully prepared and measures taken in advance to assure people that the Gold Standard will be kept, particularly if the return is attempted in cooperation with other countries through the instrumentality of the World Bank. Some leading bankers are in favor of returning to the Gold Standard, but believe present conditions would not permit the Gold Standard to work. Others believe the return is a radical measure, rather than a conservative one, and a departure from money policies which have been maintained for the last sixteen years. Mr. Leffingwell of J. P. Morgan Co., Inc., in a recent article on 'How to Control Inflation,' stated that 'the place for gold is in the Reserves of our Federal Reserve Banks, not in the pockets of the people.'

"So far, pressure to return to the Gold Standard has come almost entirely from 'Main Street'. In a period of inflation, such as we are in at present and with the fears on the part of many people of deflation in the near future, it seems the return to the Gold Standard deserves the study of citizens interested in the welfare of their country.

"The Conference of Small Business Organizations has recently sent out a questionnaire—two of the most pertient questions of which were as follows:

"Should Congress restore the fundamental property right to own and hold gold coins and gold certificates on some agreed basis?

"Should all other money of the United States be maintained on a parity with the gold standard dollar by freedom of exchange at par with standard gold?

"Replies to this questionnaire are presently being tabulated and will be announced publicly at a later date. The formation of a Monetary Commission to study all the fiscal and money problems of the Government would seem to be in the national interest and this organization is sponsoring a bill for the formation of such a Commission for presentation to the next Congress."

Chicago Stock Brokers Elect New Officers

CHICAGO, ILL.—Frank M. Collins, associated with Hornblower & Weeks for 20 years, has been elected President of Stock Brokers' Associates, LaSalle Street organization of Customers' Brokers.

Also named for the 1949 term at the annual meeting were William H. Higgins of Paine, Webber, Jackson & Curtis Vice-President; John E. Little of Paul H. Davis & Co., Secretary; Bernard J. Cunningham of Goodbody & Co., Treasurer.

LETTER TO THE EDITOR:

Lists Inquiries on Dual Reserve Account Plan

Edward C. Randolph, commenting on F. R. Governor Szymczak's address in Minneapolis, writes "Chronicle" plan in competent hands and under supervision would bring lasting relief to victims of too much money, but invites discussion of topic by listing a series of queries.

Editor, The Commercial and Financial Chronicle:

Since the "Chronicle" has become a democratic forum, it may not be amiss to have discussed therein a control of money and credit that is very powerful. It is not less appropriate for treating multiple expansion of credit than radium was for treating cancer before the days of Pierre and Madame Curie. The usefulness thereof will depend upon its "discovery" by the administrators who are responsible for management of the loan and reserve positions of commercial banks. In many competent hands, under supervision of the Federal Reserve Banks, it would bring lasting relief to the victims of too much money. We are referring to the Dual Reserve Account Plan referred to in Minneapolis on Oct. 11, 1948, by M. S. Szymszak, Member, Board of Governors, Federal Reserve System.

Edward C. Randolph

The Dual Reserve Account Plan as outlined by Governor Szymszak seems to be based upon the same principles that we have used for at least 10 years in managing the Loan & Reserve Position of The Trenton Banking Company. We have applied the obvious principles of the new plan to a given position on the accounting controls of this bank. This application shows that **a rise in deposits above "normal"** (New funds received by the bank after the plan had been put into operation from ordinary transfers, a return flow of currency, and inflows of gold from abroad) would allow the purchase of some "special, interest-bearing reserve bonds"; whereas, according to our plan it would allow the purchase of some Treasury bills, certificates and/or short-term notes. Up to this point both plans seem to be alike, but the disposition of funds received by the bank as the result of System purchases of Government Securities (other than the special reserve bonds) is not clearly defined.

To be sure, the adoption of any such plan by the commercial banks on a voluntary basis seems to be out of the question. This observation impels me to make the following inquiry, which has been sent to Mr. Szymczak. Since it is unlikely that he will respond in the near future, it seems to me that the inquiry might as well be used in your paper to open up the discussion.

Inquiry

I

Will new legislation be necessary to put the Dual Reserve Account Plan into operation?

II

If its adoption became necessary or advisable before Congress acts, could it be offered to the banks under an incentive agreement?

III

(a) In granting loans and at once creating deposits could a bank sell securities other than the special reserve bonds to acquire funds to pay the borrowers when they withdraw the deposits thus created?

(b) Could the funds thus acquired be used to purchase and hold special reserve bonds until the borrowers call for the deposits that were created for them to use?

(c) Would the special reserve bonds be marketable or would they be in such form that they would have to be used as collateral for advances by the Federal Reserve Banks, to make the rediscount rate effective?

IV

If a bank decided to sell some government securities other than the special reserve bonds and with the proceeds of sale to purchase a like amount of municipal or corporation bonds:

(a) Would it be allowed to deposit the proceeds of sale in its clearing account until settlement had to be made for the bonds purchased?

(b) Would it be allowed to withdraw the purchase price from its clearing account on settlement day?

(c) Would it be allowed to deposit the proceeds of sale in its clearing account for an indefinite period of time hoping that the municipal and corporate bonds it would purchase will decline in price? If so, could it meanwhile purchase and hold some special reserve bonds to avoid loss of income while waiting for lower prices in the market for municipal and corporate bonds? Who would buy the special reserve bonds? At what price?

V

The $64 question:

(a) To what extent would be dual reserve account plan stop commercial banks from making inflationary purchases of municipal and corporate bonds while the Federal Reserve Banks are ready and willing to buy government securities in the open market without material loss to the selling banks?

(b) To what extent would be dual reserve account plan stop commercial banks from making inflationary purchases of municipal and corporate bonds with the cash received in call or redemption at maturity of government securities other than the special reserve bonds?

EDAWARD C. RANDOLPH,
Assistant Vice-President,
The Trenton Banking Company

Oct. 25, 1948
State & Warren Sts.
Trenton, N. J.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Fred H. Haggerson, President of Union Carbide & Carbon Corp., was elected a trustee of **Central Hanover Bank & Trust Co. of New York** at a meeting of the board on Oct. 19. He fills the vacancy on the bank's board created by the resignation of Benjamin O'Shea, who has served as a trustee since 1942. Mr. Haggerson has been with Union Carbide & Carbon Corp. for nearly 30 years, and was elected to the office of President in 1944. He is also a director and member of the Executive Committee of that corporation.

* * *

The seventh annual dinner of the Quarter Century Club of **The Bank of the Manhattan Company of New York** was held at the Waldorf-Astoria Hotel on Oct. 21. Of the 291 members who attended, 37 had completed their 25 years of service with the bank during the past year. Cyrus E. DeHondt, President of the Club, presided. J. Stewart Baker, Chairman of the bank, presented membership certificates and gold badges to the new members. F. Abbot Goodhue, President of the bank, presented additional awards to the members celebrating their 30th, 35th, 40th and 45th anniversaries. Edwin J. Dehan, who has just completed 25 years with the bank, spoke for the new members; Theodore W. Snedeker for the 30-year members; George Kuhnbaum for the 35-year members; William J. Ahern for the 40-year members; and Harold Powelson for the 45-year members. Anthony F. Grace, of the bank's Borough Hall Office, was elected President for the coming year.

* * *

The J. Henry Schroder Banking Corp. of New York celebrated the 25th anniversary of its founding Oct. 23 and marked the occasion by the formation of a Quarter Century Club composed of "charter members" of the organization. Gerald F. Beal, President, remarked that the total assets of the Schroder banking group have risen from slightly over $10,000,000 to more than $100,000,000 between 1923 and the present time. The latter figure includes Schroder Trust Company, its affiliate, which was organized in 1929.

Mr. Beal attributed much of Schroder Banking Corp.'s success to his predecessor, the late Prentiss N. Gray, who was President from 1923 until his death in 1935. Mr. Beal, himself a senior officer of the organization since its inception, is well known in civic circles through his activity as President of the Greater New York Councils, Boy Scouts of America. The bank offices have been moved twice during the past 25 years and a third change will be made shortly from the present location at 46 William Street to 57 Broadway, where banking premises have been leased for 21 years.

* * *

On Oct. 20, the trustees and staff of **Central Savings Bank of New York**, who have served the bank for 25 years or more, met at Luchow's Restaurant for their 2nd Annual Dinner. James T. Lee, President of the bank, presided. Six new members—Grace C. Coyle, Helene Strobel, Eugene Hennigson, a trustee, Frank J. Goller, Charles T. Maurer and Guido Toribolo—received gold membership pins and $50 savings bonds. Charles H. Kreeb, an Assistant Vice-President—who has been with the bank for 45 years—holds the Club's service record. Other officers with long-time employment are: Otto Strippel, trustee, Vice-President and Treasurer, 44 years, and Carl Cordes, Assistant Vice-President, 41 years.

* * *

On Oct. 21 the **Bronx Savings Bank of New York** inaugurated a 25-Year Club to honor their employees who have served with the institution for more than 25 years. At a dinner meeting, attended by the trustees, officers, and employees, which took place in the Gold Room of the Concourse Plaza Hotel, 161st Street and Grand Concourse, Bronx, T. Arthur Nosworthy, President, presented four employees with watches to mark their respective service records which totaled 110 years. The employees honored included: Frank Vogler, Assistant Vice-President, who served for 31 years; Edward R. Ziegler, Treasurer, who served for 29 years; Sheldon J. Ziegler, Assistant Mortgage Officer, who served for 25 years, and Edwin W. Wiehe, Head Cash Teller, who served for 25 years.

* * *

John W. Hooper has been elected Executive Vice-President of the **Lincoln Savings Bank of Brooklyn, N. Y.**, effective Jan. 1, 1949, concurrent with his resignation as Vice-President in Charge of Finance of American Machine & Foundry Co., according to a joint announcement made on Oct. 27 by those organizations. Mr. Hooper will remain a director, and Chairman of the Finance Committee of American Machine and Foundry Co., with which he has been associated in an executive financial capacity for more than 23 years. He has been a trustee of The Lincoln Savings Bank for five years. Mr. Hooper is a member of the American Institute of Accountants. He is a trustee of Wagner College, a Vice-President of the Brooklyn Chamber of Commerce, and a director and former Chairman of the Brooklyn chapter of the American National Red Cross. He has also been active in the work of the National Association of Manufacturers and the U. S. Chamber of Commerce on labor, tariff and tax matters.

John W. Hooper

* * *

Fred. Gretsch, President of the **Lincoln Savings Bank of Brooklyn, N. Y.**, on Oct. 4 presented Mrs. Lydia C. Moore with a check in honor of her being the bank's one-millionth new depositor of the bank. Mrs. Moore opened an account at the bank's Bay Ridge office.

* * *

Thomas C. Boushall, President of **The Bank of Virginia, at Richmond, Va.**, attended the recent meeting of the National Commission of UNESCO in Boston Sept. 27 to 29. Mr. Boushall serves as a member of the National Commission representing the U. S. Chamber of Commerce.

* * *

A contract for the erection of a two-story building in **Richmond, Va.**, has been announced by W. W. McEachern, Executive Vice-President of **The Bank of Virginia**. The bank will occupy a basement or lower banking room and the main floor. Occupancy has been promised by December, 1949. L. H. Zehmer, Vice-President in charge of the Norfolk office of **The Bank of Virginia**, recently announced that a contract has been awarded for the construction of a new branch office at 21st and Granby Streets. Excavation has begun and occupancy is promised on or before March 1, next. Work is also under way on the third office of the bank in Norfolk at Charlotte and Boush Streets.

* * *

Election of Walter B. Garver, Walter E. Hoadley, Jr., and George W. Mitchell as Senior Economists and officers of the **Federal Reserve Bank of Chicago** was announced on Oct. 23 by C. S. Young, President. Mr. Garver has served as Agricultural Economist of the bank since joining the staff of the research department in 1941. Mr. Hoadley came to the bank in 1942, and is in charge of research work in business economics and business finance. Mr. Mitchell was employed by the bank in 1944, where he conducts research in state and local finance. He has recently served as President of the National Tax Association.

* * *

The new building of the Kennewick branch of **The National Bank of Commerce of Seattle, Wash.**, will provide banking facilities ranking among the finest in the country, Andrew Price, Chairman, and Maxwell Carlson, President of N B of C, said on Oct. 20, in announcing the award of contracts totaling $180,298. The post-war growth of Kennewick, in the tri-city atomic area of southern Washington, has made the new building necessary they said. Construction will be started immediately and completed probably by mid-1949, according to the architects. Meanwhile the bank will operate in its recently expanded temporary quarters in the City Recreation Building.

* * *

Approval by the stockholders of the consolidation of the **First Paterson National Bank & Trust Co.** and the **Second National Bank**, both of **Paterson, N. J.**, was reported on Oct. 19. The consolidated bank will be known as the **First National Bank and Trust Co.**

* * *

Martin J. Daly, Vice-President of the **Lincoln State Bank of Milwaukee, Wis.**, died on Oct. 14. He was 56 years of age, and had been in the banking business since 1908, said the Milwaukee "Journal" of Oct. 15, which in part also stated:

"He was employed by the First Wisconsin National Bank and the Second Ward Savings Bank here before opening and managing the State Bank of Butler at Butler, Wis. In 1919 he organized and founded the Lincoln State Bank, serving on its board of directors until his death. He was Cashier of the Lincoln State Bank until 1932 when he became Vice-President. Mr. Daly was a member of the American Bankers' Association, the Wisconsin Bankers' Association and the Mortgage Bankers' Association. He was a past officer of the Milwaukee Clearing House Association."

* * *

The capital stock of the **Security National Bank of Kansas City, Kans.**, has been increased from $300,000 to $500,000 through a stock dividend of $200,000, it is learned from the Oct. 18 weekly bulletin of the Office of the Comptroller of the Currency.

* * *

William R. Bowdoin, former President of the First National Bank of East Point, Ga., was elected Vice-President of **Trust Company of Georgia Associates, Atlanta**, on Oct. 21, it is learned from the Atlanta "Constitution," which further said:

"He (Mr. Bowdoin) succeeds Charles E. Thwaite, Jr., who recently was named President of the Fourth National Bank, Columbus, one of the associate banks."

* * *

Under plans for the merger of the **Jackson-State National Bank** and the **Capital National Bank of Jackson, Miss.**, the consolidated institution will become the **First National Bank** with J. T. Brown, President of the Capital, President, and L. M. Gaddis, President of Jackson State, Chairman of the board. Special advices from Jackson Oct. 21 to the "Commercial Appeal" of Memphis, stated that the plans are subject to the ratification of the stockholders in January.

* * *

The appointment of Harold L. Phillips, formerly with the Crocker First National Bank of San Francisco, as a Vice-President of the **First National Bank of Portland**, was announced on Oct. 14 by Frank N. Belgrano, Jr., First National President. Indicating this, the Portland "Oregonian" of Oct. 15 stated that Mr. Phillips will assist in the security investment department of the Portland bank.

Reports Savings Banks Deposits at New High

William L. Maude, President of National Association of Mutual Savings Banks, notes, however, moderate character of increased deposits in September indicates high living costs reduce savings.

Deposits of the 532 mutual savings banks of the nation increased $45 million during September to a new high total of $18,272 million, according to a report issued Oct. 22 by William L. Maude, President, National Association of Mutual Savings Banks, and President of The Howard Savings Institution, Newark, New Jersey.

William L. Maude

In commenting on the report, Mr. Maude said, "The fact that deposits are continuing their uptrend and that more States are participating in the gain is encouraging. However, although the increase for September is more than twice the gain during August the continued moderate character of net deposit gains in relation both to last year and to the first half of this year, indicates that people are continuing to feel the pressure of increased living costs which causes them to save less and to draw upon their savings accounts more frequently. It is reassuring to know that the American people today possess liquid assets in the form of savings bank accounts alone equal to one-tenth their disposable personal income (after taxes) in 1947."

During the first nine months of 1948, mutual savings bank deposits increased $513 million, or 2.89% of their balances at the opening of the year. For the same period of 1947, the gain was $795 million, or 4.73% of the year's opening balances. The increase in deposits during the first nine months of 1948 has been at a rate of about three-fifths that of a year ago. This reflects the fact that the gap between amounts deposited and amounts withdrawn is considerably narrower in 1948 than in 1947. During the first nine months of 1948, deposits were only 1.1% higher than during the same period of 1947, whereas withdrawals were up 9.8%.

During September cash holdings of savings banks rose sharply by $144 million to top the Dec. 31, 1947 peak. Investments in corporate and municipal securities increased $53 million during the month, while holdings of mortgage loans rose $46 million, both reaching a new high. Holdings of U. S. Governments declined $164 million. Since the close of 1947, the savings banks have added $464 million to their mortgage portfolio and $388 million to their investments in corporate and municipal securities, while they have reduced their holdings of U. S. Governments by $221 million.

Tells of Ways to Financial Peace of Mind

J. K. Lasser and Sylvia F. Porter write on "How to Live Within Your Income."

The publishing house of Simon and Schuster has issued a popular book, under the joint authorship of J. K. Lasser, author of "Your Income Tax," and Sylvia F. Porter, financial writer and lecturer, on "How to Life Within Your Income." The folio volume of 120 pages purports to show: (1) a new simple system for managing your personal finances; (2) seven easy ways to control your expenditures; (3) ten ways to get the most for your money; (4) how to handle your debts and financial emergencies; and (5) how to plan for your financial independence and your family's future. Its aim is to be an authoritative guide to help the reader to learn how to run his money—rather than letting his money run him—by giving hints on how to design a personal financial program to suit one's own way of life, based on a sense of values and personal goals. It covers such topics as how to plan and control day-to-day costs of living, what to do when in financial trouble, getting the most for your money, and means for building security for the future. All of this is said to comprise the principles of the science of living within one's own income.

Sylvia F. Porter

J. K. Lasser

According to the authors:

"*The art of living* within your income lies in getting the most satisfaction out of what you have to spend. *The science of living* within your income lies in knowing how to spend what you have so it brings you this satisfaction.

"Just as a fine set of paints and brushes does not make a fine artist, so a seemingly good income does not make a good financial life. Just as the ownership of an automobile does not make a driver, so the possession of money does not make a money manager. The artist is he who can use his paints as tools to create a worth-while picture. The driver is he who can transform a mass of metal into a means of transportation. The happy family is that which can use its income as a means to a full, rewarding life. Knowing the tools and knowing how to use them is the science of living within your income."

And so, in the concluding words of their preface, the authors state their objective:

"Out of our experience and knowledge and the learning of the past, we have written these rules for your future. This book is designed solely to help *you* achieve financial peace of mind and get more out of life. It is based on the simple premise that you can have fun living within your income; you can pay for your bread—and your dreams too. Let it help you solve *your* financial problems in a way best suited to *your* own way of life, *your* own sense of values, *your* wants and desires."

Knowing about "Wall Street," Mr. Lasser and Miss Porter do not neglect the investment side of the problem of achieving financial security.

"At some stage in your financial life," say the authors, "you probably will think about buying stocks or bonds—about 'Wall Street.' Maybe that will come for you when your earnings reach a certain level; maybe it will come overnight because you receive a 'windfall'—suddenly you obtain extra dollars through an inheritance or sale of a business or a house. Whatever the reason or the cause, when it comes, it will be absolutely imperative that you know the fundamental rules of investing. For if you don't know the rules at that stage—and don't obey them faithfully—the odds are heavily against your keeping the money you have or gaining more. And the odds are that your dream of financial independence will become a nightmare of financial dependence."

Continuing on this line, the authors add:

"A few months ago, at a meeting of America's top bankers, we tried an experiment. We approached financier after financier and asked each, 'What would you do if you were ———?' and then we described an imaginary family in each income class. The sameness of the replies was like a refrain from a long-familiar song. Every one—and these are men who have millions and who manage millions—mentioned regular savings, Government bonds, insurance. Every one emphasized the importance of safe investments, the danger of speculation. A few mentioned buying homes or farms, but these warned that the purchase of any property today demands the greatest knowledge, the utmost caution. And as one nationally known banker put it, 'The family aiming for old-age independence would be wise to remember that you can't eat a shingle or see Paris from a cornfield.' Not until the incomes we suggested soared into the $10,000 to $50,000 range was there even a word about the stock market. And our poll was among the men who 'are' Wall Street!

"Bernard Baruch, America's elder statesman and adviser to Presidents, is acknowledged as one of the most successful stock speculators of the 20th century. Once he remarked:

"'If you are ready to give up everything else—to study the whole history and background of the market and all the principal companies on the board as carefully as a medical student studies anatomy—if you can do all that, and, in addition, you have the cool nerves of a great gambler, the sixth sense of a kind of clairvoyant, and the courage of a lion you have a ghost of a chance in Wall Street.'

"This sounds exaggerated—and perhaps it is. For over 15,000,000 Americans own stocks today—approximately one person out of nine, about one family out of three. The number of stockholders in the country is approximately equal to the combined population of 20 states and there are about three times as many stockholders as farm proprietors. On the New York Stock Exchange alone, 1,398 separate share issues are listed, representing in mid-1948 a market value of over $70 billion. On this one exchange are 902 separate bond issues representing a market value of over $204 billion. On many days millions of shares change hands on this largest securities exchange in the world. And in addition, huge totals of stocks and bonds are traded in other markets.

"Yet, the sad fact is, as Baruch implies, that the 'average' American enters the stock or bond market with pitifully little preparation knowledge, or understanding of what he is doing. Out of the millions of stockholders in our nation today, relatively few can give sound reasons for being stockholders or for owning the particular securities they do."

William F. Andrews Dead

William F. Andrews, a member of the New York Stock Exchange, died on Oct. 16.

William P. Palmer Jr. Dies

William Pendleton Palmer, Jr., limited partner in Prescott & Co., died on Oct. 18.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Government bond prices continue near support levels, on not too much activity, although the partially-exempt obligations are getting more attention from traders and investors. . . . The shorter maturities of the tax-protected issues have been on the defensive, whereas the more distant maturities have been on the buoyant side. . . . Considerable switching is going on in the eligibles with the last four partials moving into portfolios in place of taxable issues. . . . Exchanges are being made from the 2¼s due 1956/59 into the 2¾% due 1956/59, as well as from the 2½s due Sept. 15, 1967/72 into the 2¾% due 1960/65. . . . The 2⅞s of 1955/60 and the 2¾s due 1958/63 are also being used in these operations. . . .

Liquidation continues in the restricted issues as non-bank investors let out these securities for non-government commitments. . . . Despite selling in the tap issues, sentiment in the government market as a whole seems to be less bearish, and this is not losing sight of possible increases in reserve requirements. . . . There has been no inclination yet on the part of the trading fraternity to get optimistic enough to take important quick turn positions, but they are watching things very carefully for opportunities, should they develop. . . .

COMMERCIAL BANKS ACTIVE

Commercial banks have been more active in the market because adjustments are being made in holdings in an endeavor to be prepared for whatever may develop in the future. . . . Some institutions are letting out intermediate maturities of the partially-exempts in order to raise cash, while others are putting the proceeds into bills or certificates. . . .

The banks that have been buyers of the last four maturities of the partials continue to accumulate these obligations, with sizable interests still around for the 2¾% due 1955/60 and the 2¾% due 1960/65. . . . These securities are being put away and more will be bought in event of price weakness. . . .

Institutions, large and small, have been acquiring the longest eligible issue, not in any mad rush, but in a quiet way on price declines. . . . Selling in the 2s appears to be slowing down although sizable offerings have been coming in from time to time. . . .

LEADING ISSUE

The 2¾% due 1960/65 have been and still continue to be the leading issue in the partially-exempt group, because of the favorable yield available in this obligation, after taxes. . . . While it is too early to indicate what might take place in government expenditures in the near future, it is believed in some quarters that if expenses should increase sharply for defense purposes, there is quite likely to be an increase in taxes, probably some kind of surtaxes or excess profits taxes. . . .

On the other hand, if expenditures should be contained within present limits and the economy should undergo a rolling adjustment, as some predict, there will most likely be a lessened demand for funds from industry. . . . This would be favorable to government bonds since the pressure of liquidation would be relieved to a considerable extent, if not entirely. . . . This should result in better market action for all Treasury obligations and the fear of support levels should abate under such conditions. . . .

Accordingly, it is the opinion of many money market followers that the 2¾% due 1960/65 are in a favorable position and a good hedge against what may happen in the future in the government bond market. . . .

CORPORATE MARKET JITTERY

For the time being at least, there seems to be greater uncertainty in the corporate bond market as institutional investors are giving evidence of more hesitation in making commitments. . . . Since there are several good-sized issues in the offing there appears to be no desire to accumulate outstanding new securities at levels that are below original offering prices, and at yields that were looked upon as attractive before the bonds were floated. . . . Maturity is also playing an important part in the bonds being bought because obligations with lower ratings, but due in a shorter period of time, are trading at prices that give a yield smaller than the longer-term higher rated obligations. . . .

The proposed large offering of American Telephone & Telegraph Co. bonds was responsible for the pronounced weakness in the corporate market, although this market has been in an uncertain spot for some time. . . . Because of lower quotations for government obligations, corporate issues have been in a vulnerable position, despite comparatively stable prices and light volume. . . .

It is believed by some investors that the yield spread between governments and corporates will have to widen especially in the longer maturities of the corporates. . . .

NOTES

Rumor as well as veiled hints that reserve requirements will be increased in the future is keeping pressure on the money markets. . . . However, it is not expected that requirements will be upped unless loans show more than seasonal increases and total government security holdings of the Federal Reserve Banks are added to through liquidation of institutional owners. . . . Although the bond position of the Federal Reserve Banks passed the $10 billion mark last week, there were sizable enough eliminations of the shorter maturities to carry total holdings of government securities under those of the previous week. . . .

One of the lively topics of discussion in money market circles now is who will be the money managers next year and what is likely to be the course that will be pursued. . . . This is assuming, of course, a change in administration which may or may not be taking too much for granted. . . . An answer to the latter will not be long in coming.

Issues Memorandum on Investment Legality of World Bank Bonds

Chester A. McLain, General Counsel of International Bank for Reconstruction and Development, gives results of rulings of insurance commissions, banking commissions and other state or Federal regulatory bodies, as well as court decisions relating to the two issues of bonds of the institution.

According to a memorandum of Chester A. McLain, General Counsel of the International Bank for Reconstruction and Development, dated Sept. 15, the Legal Department of the Bank has examined the latest editions available to the Bank of the general statutes, and in certain instances regulations and rulings of authorities of the United States and the several States and the District of Columbia having jurisdiction, relating to the legality of the above-entitled issues of Bonds (herein called the Bonds) for investments by (i) national banks, (ii) commercial banks, savings banks and insurance companies organized under the laws of such jurisdictions, and (iii) trustees subject to the laws of such jurisdictions. From such examination, it appears that the status of the Bonds with respect to the authority of such banks, insurance companies and trustees to invest in the Bonds is as set forth in this memorandum.

Chester A. McLain

The Bank has been advised by Fitch Investors Service that it has rated the Bonds "AA" and has also been advised by Standard & Poor's Corporation that it has rated the Bonds "A."

The statements of the memorandum are subject in certain instances to the exercise of broad discretionary powers of authorities of the United States and of certain of the States having jurisdiction with regard to investments by banks, insurance companies and trustees and also to limitations imposed by the United States and by certain States by statute or regulation as to the amounts and kinds of funds which may be invested in certain types of securities and in the securities of any one issuer. Such statements are also subject in certain instances to the provisions of special statutes governing the investment of particular kinds of trust funds, such as funds held by guardians, executors and administrators.

For the purposes of the memorandum regulations or rulings of insurance commissions, banking commissions, or other state or Federal regulatory bodies, and court decisions have been examined only in certain instances where they were readily available to the Bank. Opinions of local counsel have not been obtained, and the memorandum has not been prepared by experts on the laws of any particular State or States.

Reports Building Up 30% Over Last Year

F. W. Dodge Corporation finds increase largely in non-commercial structures and single family dwellings.

F. W. Dodge Corporation reported on Oct. 24 that building and heavy engineering construction is at a level 30% higher than a year ago on the basis of dollar valuation of contract commitments reported for the 37 states east of the Rocky Mountains during the first three quarters of the year.

A spokesman for the factfinding organization said that the record is being established principally because of gains in non-commercial building contracts—educational buildings, hospitals, religious, social and recreational structures, held up during and immediately after the war by the priorities system in force.

Contributing also to the upward trend was the striking increase in investments for single family dwellings built to owners' orders —another classification of building which was largely a priorities -system casualty.

Contracts for buildings used for manufacturing purposes showed a 4% decline compared with the volume reported for the first three quarters of last year. However, in the processing industrial group, the plant expansion of printing and allied industries was up almost 100% from last year's comparative total with contracts in the first nine months amounting to $32,015,000. Lumber and woodworking buildings, as indicated by contracts awarded, also showed substantial gains with a total volume of $20,434,000 in the first three quarters. The mechanical industries as a group showed an increase of 2% against an 8% loss in the processing industries.

A summary of building and engineering contracts awarded during the first nine months in the states east of the Rockies showed a total of $7,345,773,000 compared to $5,626,111,000 during the corresponding three quarters of last year.

The fifteen major reporting regions in the Dodge network showed increases in contract volume over the corresponding nine months of last year with upstate New York and the five-state area surrounding Chicago showing the greatest gains over last year. Thirteen of the fifteen regions continued to show increases in September over the corresponding month of last year, with slight breaks away from an upward trend being reported for metropolitan New York and northern New Jersey and the region comprised of eastern Missouri, southern Illinois, western Tennessee and Arkansas.

The over-all increase in nonresidential building awards in the thirty-seven states was 46% with a nine-months total of $2,843,379,000, while residential contracts totaling $2,790,476,000 reflected a 22% gain over last year. Heavy engineering awards for bridges, highways, other public works and utilities advanced to a total of $1,711,918,000 to show gain of 23%.

A breakdown by ownership of projects included in contracts awarded in the first three quarters of the year shows 32% of the total investment is for buildings and public works and utilities classified as publicly owned. Twenty-nine per cent, by dollar volume, of nonresidential awards, and 3% of residential awards, were for public ownership accounts, while 85% of the public works and utilities projects were classified as publicly owned.

Investor Is the Forgotten Man, Says Joseph D. Goodman

Counsellor deplores campaign attacks on "Wall Street" and points out abolition and revision of laws and regulations inaugurated in 1933 are needed to prevent drying up of capital markets.

Joseph D. Goodman, partner of Joseph D. Goodman & Co., Philadelphia, and a member of the New York Stock Exchange, in a timely pamphlet, entitled "The Threat of Socialism, etc.," says the real forgotten man today is the American investor, whose thrift has built up American industry. After describing the inroads of communism and socialism in government and education, Mr. Goodman states:

"For years, it has been the custom of some presidential candidates and others to cast slurs on so-called 'Wall Street.' We are witnessing this in a current campaign. The financial world should have spokesmen throughout the nation, persons who will answer these attacks. It is time that the people be told that 'Wall Street' is not a narrow street in downtown New York, but that it is the financial machinery of the entire nation, from a small bank in a country town, to the insurance companies and hospitals, universities, etc. In short, 'Wall Street' means the accumulated savings of the people. Only through our capital markets, have our companies come into existence, companies which produce our excellent products, and provide useful employment to millions of our people.

"We have heard a lot about the 'forgotten man', the 'underprivileged', the 'common man', but how about a word for the uncommon man, the man whose ideas, abilities or frugality built America, whether Edison or Babe Ruth? Baseball was nothing much, until the Babe came along with his dramatic ability to hit home-runs at the right time. Henry Ford, with his genius, made it possible for our people to have a low-cost automobile, which resulted in the building of our suburbs, concrete highways, the petroleum industry, etc. We need more Henry Fords, more Thomas Edisons, more Babe Ruths, and fewer 'planners' who would build over America from the college campus a la Tugwell!

"The real forgotten man of today is the American investor, the man whose thrift has provided the savings, the wherewithal for American industry. He has been attacked from all directions. The interest of the stockholders should not be confined to the receiving of commissions; but should be extended to include the protection of the investors' interests. Congressmen and Senators freely admit that votes count most to those in Washington. Today, the investors, although numbering millions, are unorganized. If they were organized, in one national body, they would have a powerful voice at Washington and elsewhere. The investors would then be enabled to protest powerfully against any unfair action, whether by a Federal or State bureau or commission. The stock exchanges are more than places where auction markets are conducted. The investor regards them as leaders in the investment world. They should take the lead in matters of this kind, help to organize the investors, and measure up to what the investors expect. The same applies to banks and insurance companies. These organizations must cast aside their shackles of timidity, of fear, of short-sightedness. They must have vision and stiff backbones, and should take a prominent part in reversing the socialistic trend.

"Years ago, it was proved that when tax rates are reduced, business improves, incentive is encouraged and total tax-receipts increase. Our entire tax system needs revision, with taxes for revenue, not for vote-buying purposes, no matter how disguised. The capital-gains tax has produced little in the way of revenue; its complete repeal would open up fields now untouched. In addition, elimination of double taxation on dividends would be a great step toward sensible taxation. We need a tax system which will permit the accumulation of risk capital. Moreover, the taxing authorities should permit depreciation charges large enough to allow for present high replacement costs. Because of inadequate depreciation charges, corporation earnings reports are distorted.

"A short article, such as this, cannot cover all matters involved in an argument between Communism and Private Enterprise. Being in the investment business, I mention some of the laws and regulations which need revision, if the capital markets are to properly function. Needless and senseless straitjackets should be removed. Elimination of fraud and deceit should be the principal objectives of securities regulation."

Reveals Growth of Business Incorporations

National Bureau of Economic Research publishes work by Professor George Heberton Evans, Jr., of John Hopkins University giving a factual and statistical analysis of business incorporations in U. S. from 1800 to 1943.

The National Bureau of Economic Research, Inc., has just published, complete with charts and diagrams, an exhaustive study of the growth of business incorporations in the United States from 1800 to 1943, inclusive. This is a valuable work, for, though the business corporation has played a central role in our economy, its evolution has received little attention. The history of the very early corporations and the histories of certain corporations have been written, but few scholars have set themselves to the task of presenting an aggregate picture that covers both a wide area and a long span of time. This study fills in some of the gap; it supplies a portion of the story of corporation development since 1800.

In the book many state series were compiled that deal with the number of incorporations and their authorized capital stock. Some series are for long periods; for example, one extends for approximately a century and a third. The incorporations of the pre-Civil War period are treated in combination, while an index of incorporations under general laws was constructed to describe the course of charters granted since 1860.

Through an analysis of the data he has compiled, Dr. Evans has produced a corporate life table, and has revealed patterns in the chartering of corporations of different size, and shown the relation between different states as chartering agencies. Through a detailed classification of incorporations according to their industrial objectives, the United States at work and at play is observed. This classification permits also an examination of the nature of the long cycles present in some of the data. For the shorter cycles in incorporations the peaks and troughs are related to those of business conditions at the period.

The author, G. Heberton Evans, Jr., is Professor of Political Economy and Chairman of the Department of Political Economy at The Johns Hopkins University. He was a research associate of the National Bureau of Economic Research in 1939-40, at which time this study was begun.

Estimates Corporate Stocks Held by Life Insurance Companies at $1½ Billion

Institute of Life Insurance says bulk has come since end of war, and comprises mainly preferred shares of industrial and miscellaneous corporations.

Ownership of U. S. corporate stocks by the life insurance companies of the country totaled $1,457,000,000 on Aug. 31, an increase of $86,000,000 since the first of the year and 86% more than holdings of this type at the end of the war, the Institute of Life Insurance reports.

The greater part of this year's increase in stock holdings by the life companies was in the shares of industrial and miscellaneous corporations, which totaled $951,000,000 on Aug. 31, up $90,000,000 since the first of the year. Holdings of railroad stocks showed a slight increase to $109,000,000 on Aug. 31 and holdings of public utility shares decreased by a few million dollars to $397,000,000.

Chiefly Preferred

Preferred stocks accounted for 76% of the life company stock holdings, and common stocks for the balance. The preferred stocks totaled $1,111,000,000, of which $717,000,000 were industrial and miscellaneous, $315,000,000 were public utility and $79,000,000 were railroad.

The common stock holdings, totaling $346,000,000 on Aug. 31, included $234,000,000 of industrial and miscellaneous, $82,000,000 of public utilities and $30,000,000 of railroad shares.

"Ownership of stocks has been one of the areas in which life insurance funds have been increasingly active in recent years," the Institute commented. "Present stock holdings are about three times those prior to the war, when they had held near the half billion dollar mark for a decade. As the capital needs of American business and industry have increased, more life insurance funds have been made available and currently, even within the limitations under present laws, nearly 3% of the life insurance assets are invested in stocks. This is the highest percentage since 1910. In many states investment in common stocks is not permitted and in the others there are usually limitations. There are also restrictions on preferred stock investments by life companies in many states."

Dean Witter & Co. Opens Seattle Office

SEATTLE, WASH.—Dean Witter & Co. announce the opening of a permanent office at 1221 Fourth Avenue, with Townley W. Bale as Resident Manager. Mr. Bale has been with the firm for some years.

Railroad Securities

One of the best acting of the railroad stocks in recent trading periods has been Kansas City Southern common. Last week it again pushed into new high territory for the year. Also, it is one of the few railroad stocks that is currently selling well above its 1946 high. Once more it seems pertinent to point out to present and prospective holders of railroad securities that the individual railroads vary widely as to investment stature, traffic trends, and earnings potentialities, and that market performance of the individual stocks also varies widely. At the beginning of the current year Kansas City Southern common was selling 15 points below Chesapeake & Ohio, 11 points below Southern Railway and nearly 3 points below Illinois Central. At the close last week it was selling higher than any of the other three.

One thing that generally has a very pronounced influence on market prices, except in periods of indiscriminate optimism or abject pessimism, is the operating status of the individual carrier. Sooner or later investors as a group will show their greater confidence in the road which over a long period of years has shown itself to be inherently an efficient operating property. This factor has taken on added significance in the postwar era of inflationary price trends. As the upward spiral has not even yet given signs of reversing itself this is apt to be given even further weight by investors as time goes on.

With respect to basic operating status, Kansas City Southern occupies a very enviable position among the nation's carriers. Over a long period of years it has displayed a high degree of operating efficiency consistently. One of the best measures of operating efficiency is the proportion of gross revenues carried through to net operating income before Federal income taxes. With the exception of 1942 and 1943, when some other roads were reaping greater war benefits, Kansas City Southern carried through a larger percentage of gross than did the industry as a whole in every year from 1935 to 1947, inclusive. It was the only one of the major roads that was able to carry as large a proportion through in 1946 as in the prewar year 1941, and the 1947 carry-through of 29.7% was more than twice that of the Class I carriers as a group.

One reason for Kansas City Southern's excellent record in transforming gross into net is its low transportation costs. Transportation costs are the most important expense item and are not, like maintenance outlays, subject to curtailment or inflation in line with management whim for any extended period. Last year Kansas City Southern was one of only two major carriers (the other was Virginian) that had a transportation ratio below 30%. Its ratio of 29.5% compared with the Class I average of 40.0%. Moreover, in the eight months through August, 1948, the ratio was further reduced to 27.9% compared with 30.1% for the like 1947 interval.

The traffic position of the company has been bolstered materially by industrial growth of the service area. This traffic bulge, coupled with the low ratio of expenses, has developed high earnings on the common stock. Last year the company reported earnings of $9.75 a share. Including undistributed profits of the wholly-owned Louisiana & Arkansas, which has no securities of any description outstanding with the public, this would have been increased to more than $13 a share. Both roads have been showing further earnings expansion in the current year to date and for 1948 as a whole the combined results should reach at least $20 a share.

Kansas City Southern is one of the few railroads that has not as yet resumed dividends on its common stock despite the sustained high level of earnings. It was necessary at first to concentrate on the debt structure, particularly as the entire non-equipment debt was to mature in 1950. In reducing and refunding its mortgage debt the company contracted bank loans. The subsidiary, Louisiana & Arkansas, also contracted a bank loan to call its high coupon mortgage bonds. The Louisiana & Arkansas bank loans have been paid off with the proceeds from recent public term financing, and the last of the Kansas City Southern bank debt should be liquidated by cash payment shortly after the 1948 year-end. It is indicated, therefore, that the time is rapidly approaching when the patience of common stockholders will be rewarded. It seems possible that an initial distribution may be made before the end of the current year. At worst, the adoption of a fairly liberal regular dividend rate should be possible reasonably early in 1949.

Urges Personal Contact of Corporations With Shareholders

John T. Von der Heide sees more intimacy needed than shown in annual reports.

In any sound stockholder relations program, there can be no substitute for the personal contact and attention of corporate management and competent representatives for effectively informing stockholders, it was asserted on Oct. 14 before the Hartford Control of the Controllers Institute of America in a meeting at the Indian Hill Country Club, Newington, Conn.

This opinion was expressed by John T. Von der Heide of Georgeson & Co., 52 Wall Street, financial consultants specializing in proxy solicitation and stockholder relations, and formerly Assistant Director, New York Stock Exchange, Department of Stock List.

Mr. Von der Heide did not deny the value of properly prepared annual reports. In fact, he emphasized that such reports represent the foundation of a well-rounded stockholder relations program. He added that it had been confirmed over and over again that a substantial body of stockholders simply do not take the time to read such reports—no matter to what lengths management may have gone to make an attractive and informative presentation.

"Many companies with alert progressive managements do much for the information and edification of their stockholders," Mr. Von der Heide stated. "Successful companies are as a rule successful in the promotion of good relations with their stockholders. There are indications that the many companies who for years have accepted their stockholders as a matter of fact are now beginning to realize the value of a better understanding with them. There are others who continue to operate as they have in the past, leaving their stockholders totally in the dark as to many important facts about their companies."

Estimates Effect of Railroad Wage Increase

Walter F. Hahn of Smith Barney & Co., analyzes impact on current rate of railroad earnings of recent wage increase of 8% granted operating employees

According to a study from the Research Department of Smith, Barney & Co., members of the New York Stock Exchange, prepared by Walter F. Hahn, if the wage increase of 10 cents an hour (about 8%) accepted by the conductors and trainmen as of the middle of October should set the pattern for similar increases for the engineers and firemen and non-operating forces who are seeking much larger increases in pay, Class I Railroad earnings would be affected to the extent indicated in Table I.

Walter F. Hahn

Explaining the table, the study states:

"As shown in Table I, for Class I Railroads as a group the current rate of earnings would not be too seriously impaired by a 10c hourly wage increase. Coverage of charges and dividends would still be large. Moreover, an 8% wage increase could be offset by a 4% increase in rates. However, a $500-$600 million net income would not be high in relation to the railroads' needs for cash for improvements and replacement of worn out facilities. The earnings of individual railroad companies would be variously affected, some much more than others, as shown below.

"A serious blow would be a final wage increase of much more than 10c an hour, since a full offset in higher rates would require increases which might not be granted by the Interstate Commerce Commission and which, if granted, might accelerate the recent trend of shippers to other forms of transportation—chiefly truck and river barge for freight and automobile and omnibus for passengers.

"On the basis of recently reported large railroad earnings (August net income was $86 million compared with about $50 million in August of each of the three previous years) and the large railroad earnings to be reported for September (estimated net income of $70 million compared with an average of $23 million for September, 1947, 1946 and 1945), railroad shares may better their prices over coming months, particularly if foreign news improves and election prospects or results find reflection in better market sentiment generally. Should this happen, it would be wise to review one's holdings of speculative railroad securities with the view of substituting securities of low cost railroads for those of high cost. Until the matters of wage increase and subsequent rate increase (if any) are decided, securities of low cost railroads are to be preferred generally to those of high cost railroads, since the percentage impact of wage increases on the earnings of the former will be lower than for the latter.

"As an aid in this direction, the following statistics covering most of the important railroads are submitted in Table II. These show earnings for recent periods and also the per share impact of a 10% wage increase (after Federal income tax). In comparing the latter figures with recent earnings, sight should not be lost of the fact that for many companies recent earnings were at a much larger annual rate than earnings for the last 12 months. This is shown by per share earnings for the three months ended Aug. 31, 1948 and 1947.

"Transportation ratios indicate roughly the importance of increased wages — generally, the higher the ratio, the greater percentage impact of a wage increase on earnings. It is to be noted that, due to various factors, including the already felt effects of inflation, some companies would be much more seriously affected by increased wages than others. Exchanges are thus indicated, where other considerations are more or less equal, particularly if the high cost railroad securities should experience intermediate price advance on the basis of the near-term earnings outlook outlined above.

"Since the ICC will start hearings on the railroads' request for an 8% increase in freight rates on Nov. 30, 1948, it will presumably not be until next year that freight rates will be raised—if then. In the meantime, the extent of wage increases will presumably have been decided. In the intervening period, and perhaps thereafter, it will probably prove profitable to give preference to the securities of low cost railroads—just as it has in general in the past year or so."

TABLE I—Class I Railroads

	1945	1946	1947	1948 12 Months Ended 8/31/48	Recent Annual Rate; Estimate	Recent Rate Revised for 10c Hourly Wage Increase
Operating Revenues	$8,902,000	$7,628,000	$8,685,000	$9,397,000	$10,000,000	$10,000,000
*Net Operating Income	1,158,000	604,000	1,078,000	¶1,274,000	1,566,000	1,196,000
Other Income	205,000	209,000	229,000	¶235,000	240,000	240,000
*Balance for Charges	1,325,000	780,000	1,262,000	¶1,458,000	1,736,000	1,366,000
Fixed Charges	523,000	471,000	437,000	¶430,000	430,000	430,000
Contingent Charges	21,000	21,000	27,000	¶30,000	36,000	36,000
Pre Tax Net Income	781,000	288,000	798,000	¶998,000	1,270,000	900,000
Federal Income Tax	306,000	Cr16,000	298,000	¶374,000	470,000	340,000
Net Income	475,000	304,000	501,000	¶624,000	800,000	560,000

*Before Federal income taxes. ¶Estimated.

TABLE II—Earnings as Affected by Wage Increases

	Transportation Ratio Year 1947	July 1947	July 1948	Earned Per Share: Quar. Ended August 1947	Quar. Ended August 1948	Year 1947	*1948	10% of Esti. Current Annual Wages	Recent Divid. Rate	Recent Price
Atchison, Topeka & Santa Fe	34%	31%	31%	$4.98	$8.32	$17.11	$21.48	$5.90	$8.00	116
Atlantic Coast Line	42	44	44	‡0.31	1.32	7.28	10.87	5.70	4.00	53
Baltimore & Ohio	43	42	39	0.73	3.49	2.69	5.78	4.70	Nil	14
Bangor & Aroostook	30	32	28	‡1.76	‡0.35	6.86	12.63	2.50	Nil	26
Chesapeake & Ohio	36	39	35	1.04	1.46	4.44	3.86	1.20	3.00	37
Chicago, Burlington & Quincy	34	35	33	2.82	4.92	16.24	16.25	3.60	6.00	102
Chicago & Eastern Ill.	44	42	42	‡0.74	0.22	1.47	2.92	2.90	Nil	6
Chicago Great Western	45	44	39	0.80	1.94	1.89	5.50	2.80	Nil	11
Chicago, Indianapolis & Louisville	41	45	40	‡2.20	¶0.50	‡2.73	¶3.69	2.50	Nil	7
Chicago, Mil., St. Paul & Pacific	42	42	42	‡0.38	1.39	2.01	1.44	3.60	Nil	9
Chicago & North Western	44	44	42	‡0.05	4.83	1.88	3.16	7.80	0.50	20
Chicago, Rock Island & Pacific	38	35	33	3.17	4.13	9.72	10.28	3.70	3.00	39
Delaware & Hudson	38	37	39	---	---	11.42	¶13.00	3.40	4.00	46
Delaware, Lackawanna & Western	46	45	41	0.55	1.23	1.93	2.78	1.60	0.25	11
Denver & Rio Grande Western	37	36	36	1.86	3.63	7.96	15.28	5.40	2.00	31
Erie	44	45	39	0.12	1.31	1.81	3.90	2.00	1.00	15
Great Northern	36	34	32	2.47	3.21	7.27	7.92	1.90	3.00	42
Gulf, Mobile & Ohio	33	34	30	0.16	1.36	2.85	3.87	2.50	0.50	16
Illinois Central	36	35	34	2.48	4.31	10.25	11.87	5.70	Nil	36
Kansas City Southern System	30	30	29	3.13	5.87	13.07	18.87	2.75	Nil	43
Lehigh Valley	47	50	43	‡0.13	1.47	‡1.22	0.05	2.00	Nil	6
Louisville & Nashville	42	44	43	1.00	2.74	5.68	6.60	2.80	3.50	43
Maine Central	39	38	38	1.36	3.32	6.92	9.88	5.60	Nil	15
Minneapolis & St. Louis	33	33	32	0.62	0.97	3.48	3.20	1.10	0.75	12
Minneapolis, St. Paul & S. S. Marie	42	46	38	‡0.14	1.92	1.78	1.71	1.75	1.00	11
Missouri-Kansas-Texas	40	39	36	‡0.03	1.64	‡2.28	‡0.08	2.60	Nil	7
Nashville, Chattanooga & St. Louis	42	40	42	0.35	1.78	3.13	5.34	4.60	2.00	30
New York Central	45	42	43	0.49	1.21	0.36	1.29	4.00	Nil	16
New York, Chicago & St. Louis	38	37	34	3.90	11.36	17.82	31.15	8.60	Nil	86
New York, New Haven & Hartford	43	43	41	---	1.68	‡2.42	1.18	5.00	Nil	11
Norfolk & Western	30	33	28	1.40	2.05	6.12	6.63	0.70	3.00	61
Northern Pacific	36	35	36	1.44	1.78	5.39	4.54	1.90	1.00	21
Pennsylvania	48	46	44	‡0.20	1.50	1.03	2.20	2.30	1.00	19
Pittsburgh & Lake Erie	37	37	34	1.91	2.96	7.68	9.39	2.00	7.00	73
Pittsburgh & West Virginia	26	26	24	0.73	1.49	3.67	5.29	0.65	1.00	22
Reading	39	39	37	0.97	2.05	3.87	4.57	2.70	2.00	25
St. Louis-San Francisco	42	42	39	0.71	1.65	2.59	3.26	2.90	Nil	14
St. Louis Southwestern	30	32	32	9.82	11.97	36.24	41.67	8.00	5.00	118
Seaboard Air Line	40	41	38	1.15	3.08	6.21	9.03	4.60	Nil	23
Southern Pacific	40	39	41	2.63	3.17	8.86	9.52	4.50	5.00	58
Southern Railway	39	40	38	0.93	3.66	6.85	10.80	5.70	3.00	45
Texas & Pacific	38	39	38	2.83	4.13	11.03	13.06	5.00	4.00	54
Union Pacific	36	36	32	2.74	4.88	11.35	13.04	2.60	5.00	89
Virginian	24	27	25	0.96	1.70	4.37	4.07	0.60	2.50	31
Western Maryland	33	34	32	1.52	3.07	7.40	8.89	2.00	Nil	14
Western Pacific	36	39	33	1.50	¶2.34	5.03	¶5.86	3.10	3.00	32
Wheeling & Lake Erie	32	32	30	3.92	7.66	16.15	21.92	2.75	5.75	111

*Twelve months ended Aug. 31, 1948. †Year 1947 and 12 months ended August 1948 per share earnings include tax credit reported in December 1947 of $1,657,000; equivalent to $4.83 per common share. ‡Deficit. ¶Estimated.

Public Utility Securities

Financing the $6 Billion Electric Utility Construction Program

Ebasco Services, Inc. (service subsidiary of Electric Bond & Share) has prepared a 44-page brochure with numerous charts on the subject of "Electric Utility Finance." The following is a partial summary of this study, which covers a wide range of interesting historical and analytical discussion.

Some doubts have been expressed in financial circles as to the industry's ability to finance its $6 billion construction program (through 1951) because of (1) rapidly rising costs reflecting inflationary trends, (2) the slow growth of operating income in relation to the rapid increase in output, (3) lack of understanding of the beneficial effects of the construction program on operating costs, and (4) fear of adverse regulation.

Regarding inflation, the study points out that in the electric utility industry there is a downward trend in unit costs resulting from increased output which tends to offset the rise in material and labor costs. This is less characteristic of the railroad, telephone, gas and transit utilities. Hence any stabilization in wages and prices should permit the electric utilities to benefit substantially from increasing revenues.

In appraising the future earnings outlook these points should be considered, according to Ebasco: Accounting adjustments have now been substantially completed and it should not be necessary to set up further special reserves of income for plant amortization, etc. Present rates for depreciation accruals should decrease rather than increase, since new facilities will be longer-lived. Barring another war, taxes are probably now at their highest level.

With respect to the relatively poor showing of operating income over the past two decades, the industry has been handicapped by major accounting and regulatory changes, heavy tax burdens and the effects of two depressions and the subsequent inflationary forces. The savings from lower interest charges resulting from refunding operations have been largely passed along to customers—rate reductions in the past decade have exceeded $312 million. Despite these difficulties, operating income gained 22% and net income 41% during 1927-47.

Regarding regulation, other branches of the utility industry (telephone, gas and transit) have now received substantial rate increases. The long period of electric rate reductions appears virtually ended, and state commissions now recognize that the electric companies are entitled to protection against higher prices of coal and oil through fuel adjustment clauses. Even unit rate increases are being granted in some cases.

Ebasco points out that the electric industry has greatly strengthened its balance sheet position during the decade 1937-46:

	% Debt to Plant*	% Interest On Debt	Interest Charges Times Covered	Depreciation* (In per cent of Plant) Reserves	Annual Accruals
1937	55.5	4.1	2.97	12.1	1.90
1946	41.1	3.1	4.64	22.3	2.41
Increase—%	†25.9	†24.4	56.2	84.3	26.8

†Indicates decrease.

*All values shown for plant account are adjusted retroactively to reflect the elimination of an estimated $1,500 million of intangible items.

The $6 billion construction program should permit operating savings, through the use of more efficient generating equipment, of some $200 million in 1951, or $124 million net after adjusted federal income taxes, Ebasco estimates. On a 10-times earnings ratio this would support an increase of $1.24 billion in common stock capitalization, which is probably well in excess of the required amount. It is estimated that, with a 50% debt ratio maintained for new financing, the construction program can be taken care of as follows:

(Billions of dollars)

Total construction program	$6.00
Cash provided internally (except surplus)	1.80
Balance to be financed from surplus & outside sources	$4.20
Bonds and debentures	2.10
Preferred & Common Stock	1.30
Surplus	.80

On this basis the electric utilities would need to issue annually about $525 million bonds and debentures, and $325 million of preferred and common stocks. Surplus earnings would contribute about $200 million per annum. On this basis, debt would increase about 32% and capital stock and surplus about 28% by 1951.

Dir. of Amer. Red Cross

Sidney J. Weinberg, a partner of the investment banking firm of

Sidney J. Weinberg

Goldman, Sachs & Co., was elected a director of the New York Chapter of the American Red Cross.

To Address Account'g Club

Maurice Austin, author of "Outline of Federal Income and Excess Profits on Corporations," will address members of the Accounting Club of New York University's School of Commerce. Accounts, and Finance, this afternoon (Thursday, 5:00 p.m.) in Morris Hall of the University's Commerce Building, 236 Wooster Street. He will speak on "The Accountant in the Field of Federal Taxes."

Some Ideas on How to Buy Municipal Bonds

(Continued from first page)

bonds is, however, no different from the theory that a loan "turns bad" after it is made.

It would be helpful indeed to be able to tell, before the loan is made and before the bond is purchased, which will "turn bad" and which will not. It is, of course, impossible to foretell this outcome with accuracy. One can only subject both loans and bonds to thorough examinations, eliminate those that do not measure up to high standards, and take the loans and bonds which seem to afford assurance of being continuously "good," until paid. It would be well to emphasize here that neither a loan nor a bond is proven good by being paid, not even by being paid when due. A good loan should be one which does not even cause concern to the lender, and preferably not even to the borrower. If the lender has to worry and fret, or perhaps get into business with the borrower, to secure payment of the loan, such loan could hardly be called "good," even though through strenuous efforts it is paid when due. Moreover, many a loan that "went" bad is eventually paid, but that payment does not make it good.

Similarly, a "good" bond is one wherewith the investor has no cause to be concerned about its prompt payment. It, too, like a "good" loan, should be an obligation that can be repaid promptly according to its terms without much strain on the part of either the investor or the issuor. In order to avoid possible confusion in using the term "good" and "bad," let us use the terms high grade and second grade, and let us describe a high grade bond as one wherein there is continuous justifiable assurance that its commitments will be met according to the terms thereof. Of course, there is never an absolute certainty of payment of any loan or bond that is not already paid. But a bond possesses "high quality" to the degree that one can have continuous, justifiable assurance that the principal and interest will be paid promptly when due. The standards you set for determining this justifiable assurance will decide whether your bonds are really of high quality, or merely the type of "good" bond that "goes bad" after it has been purchased.

Now what tests should one apply to a municipal bond to justify an assurance of prompt payment? To begin with, there should be a full realization that the payment of a municipal bond rests fundamentally upon the collection of taxes. Certain municipal bonds are, of course, issued for certain revenue producing projects, and the payment of such bonds depends primarily upon the collection of anticipated revenues from such projects. But the factors governing the probability of the collection of such revenues, including special assessments for assessment bonds, are largely the same as those governing the probability of the collection of sufficient taxes to meet the tax supported debt.

If sufficient taxes are collected by a municipality, then its bonds should be paid promptly, and if sufficient taxes are not collected, then there can hardly be that degree of assurance of payment that should be present before a bond can be classed as high grade. Hence it would seem that one should examine the probability that tax collections will be stable and sufficient.

It can hardly be over-emphasized that the acid test of the sufficiency of tax collections is in a depression. It is in periods of adversity that any debt is put to its test, and it is in depression years that a high grade bond, municipal or otherwise, proves its merits. Before we classify a bond as of high quality, therefore, we should have justifiable assurance that its commitments will be promptly met in depression, as well as in prosperity. With a municipal bond this assurance requires the probability of sufficient tax collections in depression years as well as in prosperous years. It may well be added that such reasoning applies equally to the bond of any government, whether it be municipal, state or Federal—yes, even the United States Government.

Economic Stability

Now taxes are, of course, collected from many people, even in a relatively small community. Perhaps the first question to ask, in seeking that assurance of stable tax collections is: will those people have the funds with which to meet their taxes, and are they likely to have such funds in difficult economic circumstances? The answer to this question lies principally in the stability of the incomes of those people. The emphasis is on the future, and the future is notoriously unpredicable. The greatest asset which a community can have to ensure a stability of income for its people is a wide diversification of economic pursuits for those people.

Admittedly, there have been "one-industry" communities which have in the past, even in the previous depression, enjoyed sufficient tax collections. But no one can foretell with assurance what the future will hold for any one industry, much less any one concern—nor for even a few industries or concerns. It is hazardous to rely upon any one industry, or even a few concerns, to provide stable incomes for the taxpayers of a community. "There is nothing constant but change," and diversification is the greatest protection against possible adverse effects of that future change. In justifying an assurance of continuous sufficient tax collections in the future, it is advisable, then, to look for diversification and stability in the economic pursuits of the taxpayers of the community. Beware of a community which has "all its eggs in one basket."

Sometimes a secondary factor to be considered in appraising the probability of sufficient tax collections, is the wealth of the taxpayers. Other things being equal—as all economists say—a community made up largely of taxpayers of accumulated wealth can be expected to collect its real estate taxes more easily in a depression than could a community comprised largely of taxpayers who had accumulated little savings and were dependent entirely on current income. In the latter case, it is obviously all the more important to consider the stability of those current incomes, for in such a community the taxpayers could not have much reserve saved with which to meet obligations, including taxes, on a rainy day.

Stability of Farming Areas

Now, the economic stability of farming areas perhaps deserves some separate comment. It is advisable for an investor buying a bond of a farming area or community, to choose an area which enjoys diversification in its agricultural pursuits. There are areas of the country wherein farming is not diversified, being largely dependent upon one crop. In such areas the incomes of the farmers and therefore the incomes of the taxpayers, are dependent principally upon the success or failure of the one crop. In other sections of the country, including Ohio, in particular, farming is generally well diversified. The record shows that during the previous depression a generally quite commendable record of stable tax collections was enjoyed by such areas and communities that were principally dependent upon diversified agricultural pursuits.

The farmer, of course, derives his income from the produce of his land. The bonds of his school district, his village, or his county are largely paid from taxes levied against his land, and the land of his neighbors. Obviously, his annual real estate taxes represent only a small fraction of the value of his land, and since these taxes are levied directly against both his wealth and his means of income, he has a doubly compelling reason for meeting his real estate taxes, lest he lose both his wealth and his source of current income.

Furthermore, a rich, fertile area will obviously produce more per acre than will a poor or marginal farming area, and therefore will be more likely to provide the taxpayer with a surplus of income over expenses than will the marginal farming areas. This greater productivity of the fertile land will prove especially valuable in times of depression and low farm prices, in insuring the income with which to pay taxes. In adverse circumstances it is the marginal producer who suffers first, whether he be farmer, laborer, or industrialist. Moreover, one generally finds a more substantial class of farmer in the richer areas, with an accumulation of wealth that can be used to tide him over temporary adversities, and therefore with an added assurance of an ability to meet his tax obligations in difficult years. Finally, the rich land is itself more valuable, and serves to enhance the security behind the bond, since the taxes are levied against that very land.

The Overall Debt Burden

We repeat: the payment of a municipal bond rests fundamentally upon the collection of taxes. And the real test of the collection comes in a depression. As has been emphasized, one of the greatest assurances that sufficient taxes will be collected at all times, is that the taxpayers enjoy stable, diversified economic pursuits. But a second important assurance is to see that the tax burden is sufficiently light that it can be carried in difficult years as well as in prosperous years.

A debt burden of a community is heavy or light in the degree that such debt is reflected in the taxes which must be levied to carry it. Yet, the debt burden is not always accurately indicated by the tax burden. One community may be retiring its debt at a rapid rate, and thus may be currently levying considerably heavier taxes than another community with an equally heavy debt that is being retired more gradually. Moreover, a tax burden may be heavy in a community which actually has a light debt burden but which is levying high taxes for various current activities (operating expenses). The degree to which a community is operated economically or extravagantly depends principally upon the type of people in the community, a third important factor in judging the probability of continuous collection of sufficient taxes (which will be discussed later). But the debt burden is an important component of the tax burden, and more important, it is a burden which must be carried in depression and prosperity, until the debt is paid. It is a fixed charge that cannot be lowered from year to year, once the debt is incurred, except by paying off the debt.

The best means of appraising the debt burden of a community seems to be to compare the net debt that must be supported from taxes, with the value of taxable property in the community. A wealthy individual can carry a heavier debt than can a poor man. Similarly, a group of wealthy individuals can carry a heavier debt than can a group of men of only modest means. A community is merely a group of individuals, and a municipal bond is merely the debt of a group of people gathered together in a municipality. It follows, therefore, that other things being equal, a wealthy community can carry a heavier debt than can a poor community. Hence, it seems advisable to appraise the debt of a subdivision in relation to the value of the property in that subdivision, rather than to consider it on a per capita basis. The taxes from which municipal bonds are paid are not levied on the individuals in the community, nor on a per capita basis, but rather such taxes are levied against the property of those individuals, on an ad valorem basis, according to the value of that property. Consequently, the debt should be considered in relation to the value of the property which is to bear the taxes to retire the debt, rather than in relation to the number of property owners, or individuals, in the town.

In considering debt burden, one must include all the debt which is to be paid from taxes to be levied on the property, whether the debt be for city purposes, for schools, for county, or for whatever purpose. If the debt is to be paid from the levy of a tax on the property in the community, then it has a direct bearing on whether the burden is heavy or light, and therefore on the probable continuous sufficiency of tax collections: hence, it must be included in one's calculations whether it be incurred by the city, the school district, the county, the State or any other governmental unit. In other words, one must consider not only the direct debt of the subdivision in question, but also the overlapping debt of all other subdivisions which levy taxes on the same property. That is, one must consider the direct *and* the overlapping debt—the overall debt burden.

A community enjoying a stable economy can carry a heavier debt burden than can a community that does not have such stability. If the taxpayers "lose their jobs" in a depression, it may be difficult enough for them to meet even light tax levies. Moreover, a community suffering from large scale unemployment is likely to have to carry a heavy relief burden, and if a heavy debt burden must also be carried, at the very time that incomes of taxpayers are at a low, the results may be quite unfavorable to the creditor.

In considering debt burden, one must also realize that the debt of any community may change considerably in a brief period. The reason for considering debt burden is, of course, to determine the ease or difficulty with which the debt can be carried not today, but tomorrow, and for years to come. Again, the emphasis is on the future. A debt burden may be light, say only 3.5% of valuation, today, but tomorrow the city, the school district or the county may vote and issue so many bonds that the debt burden may suddenly become 10% or 11% of valuation, a quite heavy burden.

It would seem advisable, therefore, not to place too much reliance upon debt burden in appraising the quality of a municipal bond. It is hazardous to invest in a bond of a community whose only claim to high quality is a light debt burden, for that burden may be raised too high tomorrow. On the other hand, one should recognize that debt burdens also decline. Many communities that have heavy burdens to carry today, will have light debts tomorrow. The important thing to consider is that debt burden is only one factor to appraise, and probably not the most important. Certainly it should not be the dominant factor, if for no other reason than it is too variable.

The Character of the People

Again we emphasize: the payment of a municipal bond rests fundamentally upon the collection of taxes. A third vital factor to consider in appraising the future course and sufficiency of tax collections is the type of people in the community. While the taxes are not levied against the individuals on a per capita basis, but rather against the property, nevertheless the character of the people making up the community has a vital effect upon the sufficiency of tax collections and the payment of the debt of the community.

Every bankers knows that the character of the borrower plays a very important role in every loan. In the smaller banks, where the banker knows his customers well, many and perhaps most loans are made on character alone. There are many people in whom one is justified in placing a confidence that they will leave no stone unturned in an effort to repay their debts. There are others who treat their credit reputations too lightly, and who have to be reminded of the importance of meeting their obligations promptly. Some of our citizens and taxpayers are frugal and diligent, looking to the Winter that is ahead. There are others who are carefree, enjoying the Summer that is here. When one buys a municipal bond he is merely lending his money to a group of individuals. It is advisable to consider well the character of those individuals to whom he is lending his money.

It is to be regretted that we do not have more actual data that would show for each community the relative proportion of its taxpayers that are of the diligent, frugal type to whom one perfers to lend his money, and the relative proportion that are of the carefree shiftless type to whom a loan may be a hazardous venture. An effort has been made to provide actual data on this very important factor by showing, for most communities in this country, the percentage of foreign element in each community divided according to the countries of origin of the Foreign White Stock.

To some people the payment of their real estate taxes is an obligation of first and foremost importance. A predominance of taxpayers of such character, in any community, will help considerably to assure that stable collection of sufficient taxes which is so important to a high grade municipal bond. The farmers in the better agricultural areas of Ohio would seem to have proven themselves to be of such character. There are other people whose characteristics seem to be such that they put the purchase of an automobile, of new clothes or of a college education for their daughter, ahead of paying their real estate taxes. To such people it seems easy to allow their taxes to become delinquent, and to pay them at a more "convenient" time. It may be difficult to justify an assurance of stable tax collections in a community with a predominance of taxpayers of such character.

The character of the citizens is important in other respects also. A frugal, diligent citizen is likely to have some funds saved with which to meet his obligations, including taxes, on a rainy day. Moreover, such a person, should he become unemployed, is likely to put forth every effort to find some source of income with which to meet his obligations, even in a depression, rather than to go on relief or otherwise become a burden on the rest of the community.

Furthermore, citizens who are debt conscious are usually also tax conscious, and, therefore, they will usually see that their community is operated economically, thus holding down the tax burden for operating expense. Similarly, this type of citizen will likely not favor the voting of excessive debt, thus reducing the chances that the debt burden will become too heavy. As one banker put it, "Those thrifty people wouldn't vote to go into debt for a new school building as long as the one they have is still usable." And, actually, that school district was last in the market with a bond issue in 1922, and before selling bonds this year for a new school building it had already paid off all its previous debt.

Now, to summarize, it would seem that, in order to justify an assurance of that continuous collection of sufficient taxes upon which rests the future payment of a municipal bond, the most important factors to be appraised are:

(1) The stability of the economy of the community.

(2) The overall debt burden in relation to the value of taxable property.

(3) The type of people in the community.

Actually, as was emphasized, the debt burden can vary considerably over relatively brief periods, and it is hazardous to place too much importance on only a light debt burden. It will bear further emphasis that the other two factors, of economic stability and type of people, do not change much in most communities from year to year, and, therefore, it would seem safer to place more reliance on these two factors, than upon a light debt, in classifying a bond as of high quality.

Other Minor Factors

There are, of course, other factors that may well be considered, but they usually serve merely to indicate some partial aspect of the above three fundamental factors. Probably the most useful of these other, minor factors is the amount of debt paid off by the community in past years. It is a sort of "rule of thumb" in lending, that if a man has borrowed from you in the past and paid off his debts, you at least have an inclination to lend to him again. Similarly, if a community has paid off a relatively considerable amount of debt in the past 5, 10 or 20 years, such a record **indicates** what may be expected in the future, provided, of course, there has been no adverse change in the fundamental factors. Obviously, a community that never had much debt, will never have paid off much, and the absence of a good record of debt reduction could not be held against that community. Further, a good reduction record is merely an indication, and certainly no assurance, of what may be expected in the future. The assurance rests upon more fundamental factors.

Over Emphasis of Default Record

Note that there is nothing said here about having paid the debt promptly without default. It would seem there is far too much emphasis put upon a default record, and upon a non-default record. What does a default indicate anyway? If the default were due to not having collected sufficient funds with which to pay, then it may serve to indicate (1) a lack of stability in the economy and in tax collections, (2) a too heavy debt burden at the time of the default, and/or (3) an unfavorable type of people. But, it has already been emphasized that one should examine these three factors thoroughly, and first. The default, or non-default record, is merely a minor item that may or may not indicate something about these fundamental considerations. If the default were due to depository banks being closed, then one needs to know if the banks closed because of incompetence or embezzlement, neither of which should be held against the community, or because the banks operated in a community with (1) an unstable economy, or (2) an unfavorable type of people who proved to be poor credit risks for the bank. If it were these last two reasons, the bonds of the community will already have been put below the high grade category. Furthermore, the default may have been due to a heavy debt burden which may well be eliminated now. Or it may have been due to the removal of an important industry, or of large railroad shops from the town, and the community may be well over such a shock to its economic stability. Finally, the fact that a community has not defaulted in the past, certainly does not, in itself, mean that it won't default in the future. One need only realize that until some 20 years ago a default in a municipal bond was "unthinkable." Yet plenty of places did default in the 1930's—for the first time. The important question is, "Will the community default?" not, "Did it?". And whether or not it will in the future does not depend upon whether it ever has, but rather upon much more fundamental questions, such as have been discussed.

Tax collections may serve to indicate something of the stability of the economy of the community. But to do so there must be a history of tax collections going back to the depression years of 1932-34. To indicate a stability of tax collections, or the lack of it, the figures must cover abnormal years as well as normal years. Tax collection figures for the past four or five years are almost worthless, both in themselves and in indicating anything about economic stability. It would indeed be helpful to know the tax collection percentages for all communities in the years 1932-34, but unfortunately it does not seem possible to get reliable figures for such years for most subdivisions, especially outside Ohio. In the absence of such figures, it is helpful to know the total accumulated delinquent taxes now outstanding, and to relate that total to the amount of current taxes levied in a recent year. A low percentage, of say 5% or less, of total delinquencies in relation to the amount of current taxes levied for one year, would indicate that taxes have been well collected in the community. Unfortunately, however, it does not prove that they were collected during the depression because there have been many years of prosperity since, during which the delinquencies could have been paid up. However, a relatively great amount of delinquent taxes today should certainly be a danger signal.

While considering tax collections it should be realized that a community may have experienced low collections in the 1933-34 years because of banks being closed, with the money of taxpayers who might well have paid their taxes promptly even in those years, but who could not temporarily because their funds were in closed banks. In such a case, one should determine whether the banks closed because of incompetence or because of a fundamental economic intability, or unfavorable type of people in the community.

Another minor factor worth some consideration is the type of management which the community has. Naturally, other things being equal, it is preferable to lend your money to a community that is well managed, than to one this is inefficiently operated. But, here again, this aspect is but an outward manifestation of a more fundamental factor, viz., the type of people in the community. The management of a city will usually merely reflect the character of the people in the city.

The trend of population in a community is another minor factor that may be given some consideration, more as a possible danger signal than for any other purpose. A rapid decline in population may have a dangerous implication, in indicating a major shift in the economy of the community. On the other hand, even a rapid decline in the population of some war-boom towns may be a welcome relief to overcrowded quarters. Also, a rapid increase in population may be a danger signal, indicating possibly a major shift in the economy, perhaps toward less diversification and more concentration of employment. It may also indicate an influx of an undesirable shiftless type of people. It may also bring at least temporary need for a heavier tax burden to care for the influx of population, and possibly a heavier debt burden. A slow decline in population, in itself, is usually no cause for concern. Any important fact it may indicate would be discerned from an analysis of the economy of the community.

It should be realized that by far most municipal bonds are now issued with serial maturities, so that the days of "sinking fund operations and requirements" on any important scale are long past. Taxes are generally levied each year to meet the serial requirements of the ensuing year. Similarly, figures showing "receipts and disbursements" for a community mean little or nothing. A balanced budget is, of course, desirable, but most any community is likely to have operating difficulties at times due largely to the fact that tax levies are made each year for estimated requirements of the following year, with no provision for building up a sizable surplus. In fact, the laws of many states provide that a surplus for one year should apply to reduce the tax levy the following year. A continuous unbalanced budget should be examined to ascertain if it is due to an unstable economy or an unfavorable type of people, possibly reflected in poor management.

Property tax rates may be helpful but this information also has its limitations. A low tax rate obviously is favorable as it indicates a low tax burden. However, there are many communities with high tax rates whose bonds are indeed of high quality. Tax rates have long been uniformly higher in Eastern cities than in Mid-Western cities. Hence, it would not be practicable to compare tax rates for communities in these different localities. Moreover, of course, the tax rate must be adjusted to actual value of property in those states wherein property is assessed at a generally fixed percentage of actual value. Further, a tax rate may be high in a community simply because it is retiring its debt rapidly. Also, a low tax rate may any year be boosted considerably by voting of additional levies for operating or bond issues. Yet, when used with consideration of these limitations, it may be worthwhile to compare the tax rates of different communities in the same state.

In conclusion, however, it should be clear that one is led, by all these minor considerations, back to the much more important and fundamental factors of: (1) economy, (2) overall debt burden, and (3) type of people, in judging the probability or the improbability, of a continuous collection of sufficient taxes to meet the future obligations of the community promptly.

Sees Inflationary Pressure Weakening

Guaranty Trust Co. of New York points out, however, if war preparations and heavy government spending continues, outlook for money supply and price level would take on new aspect.

In the current issue of "The Guaranty Survey," published by the Guaranty Trust Co. of New York, it is pointed out that the debate in the election campaign on inflation has been "beside the mark" and that no single party or group can fairly be held responsible for it or in failing to control it. The article also states: "There is some ground for the belief that inflationary pressure is gradually weakening and that the problem may solve itself without need for drastic measures. Whether this will prove to be the case will depend to a very large extent on the condition of the Federal Treasury. The budget at present is not far from a state of balance. But if war or preparation for war should destroy the balance, the outlook for the money supply and the price level would take on an entirely new aspect. Never have conditions more clearly indicated the need for economy in nonessential government expenditures.

After analyzing the effects of increased money supply on the price level, the bank concludes:

"With due allowance for the limitations of the data, these comparisons suggest that the present price level is neither conspicuously low nor conspicuously high in relation to the money supply, provided we can assume that the rate of circulation of money and the volume of transactions in fixed property are somewhere near a long-term normal. These provisos, however, deal with highly variable factors. The rate of circulation of money, for example, while apparently rather close to the 1939 level, is probably at least 20% higher than it was three years ago and less than half as high as it was in 1929. If the rate of circulation should approach the 1929 level, some prices would certainly rise. Or, to state the possibility more realistically, if a large speculative movement should develop in commodity, security or real estate markets, the rate of circulation of money would increase. Such a movement might or might not have a marked effect on commodity prices and the cost of living. It might exert its primary force in security markets, as was the case in 1929, or it might affect real estate values, as has been the case at other times in the past. The answer would depend mainly on nonmonetary factors. As far as the present rate of circulation of money is concerned, there is no adequate basis for assuming that it is either too high or too low.

"The problem of inflation control, while simple in theory, is far from simple in practical application. If inflation is allowed to go on without decisive check, it is not for want of means of checking it but for fear that the cure would be worse than the disease. This is true not only of such direct measures as higher taxes and restrictive open-market operations but even of proposals for the abandonment of Federal policies that have tended to aggravate inflationary pressure such as mortgage guarantees, support of farm prices, and official approval of wage increases."

What's Ahead for Prices And Business?

(Continued from first page)

diately or to continue to rise moderately for several months (say a further advance of the BLS price index amounting to as much as 5% and continuing for as long as six months).

The support for the conclusion that our inflation is about over is threefold: (1) An analysis of recent price fluctuations indicates that price declines have already begun in important areas. (2) Demand for goods and services in the aggregate is not so insistent as it was and, quite significantly, plan and equipment expenditures seem to be flattening out. (3) The money and credit supply is likely to exert less inflationary pressure, particularly in the light of control measures. There are of course offsetting considerations, such as the continuance of government expenditures on a large scale, and these will be brought in for discussion after the points just mentioned have been explored; in my mind they bear more on the question of what conditions will be after the inflation is over than on the question of whether the inflation is actually coming to an end.

Prices Already Declining in Important Areas

Many basic and sensitive commodities have been going down in price for a considerable time. An important bit of evidence is provided by the BLS price index of 28 commodities, including the most important agricultural products and industrial raw materials. The current level of this index is well below its level for January, 1948. As a matter of fact, the actual peak was reached in the week ending Nov. 29, 1947. Similar evidence is given by the Dow-Jones index of commodity futures prices; this index, which relates to 11 commodities actively traded on futures exchanges, has also been declining since its peak in the week ending Nov. 29, 1947.

Another bit of supporting evidence is provided by the fluctuations of the three groups of commodities—raw materials, semi-manufactured goods and manufactured products—into which the Bureau of Labor Statistics classifies its many price series. At times of general price declines in the past, raw materials and semi-manufactured goods have typically begun to decline before manufactured products. The prices of raw materials and semi-manufactured goods have thus been useful "early movers." At present, although the prices of manufactured products are still rising, the prices of raw materials and semi-manufactured goods have flattened out since the first of the year.

The Bureau of Labor Statistics also publishes price indexes for 10 major groups of commodities. Five of these major group indexes are still tending upward and five have definitely declined from a recent peak. The groups which are still tending upward are: building materials, foods, metals and metal products, housefurnishing goods and fuel and lighting materials. Those which have recently declined are: farm products, hides and leather products, textile products, chemicals and allied products and miscellaneous. Still another classification by the Bureau of Labor Statistics provides price indexes for 49 subgroups of commodities. Of these sub-group price indexes 23 are still tending upward, 12 have recently flattened out and 14 have definitely declined from a recent peak.

Large crops in 1948 are chiefly responsible for the price declines which have already taken place. Moreover, the large supplies of grains have not yet exerted their full effects on prices. It will take some time, probably several months, for livestock, poultry and meats to come down in prices sufficiently to reflect fully the influences of the large crops of this year. When these developments have taken place, the cost of living should be below what it is at present. This not only will be a boon to consumers; it will also have a calming effect on the general wholesale price level, because the agitation for higher wages will be reduced as the cost of living eases and, therefore, the upward pressure on the general wholesale price level from rising labor costs will be reduced.

In short, there is evidence that important areas of the general price picture have already fallen from their peaks. Moreover, the principal basis for lower prices in important areas, the large crops this year, can be expected to exert in the months ahead a price-reducing influence in areas which have not yet begun to decline. The general wholesale price level and the cost of living are probably close to, if not at, their peaks.

Demand Not So Insistent as Formerly

The second major reason for concluding that our inflation is about over is that demand for the products of American industry is not so insistent as it was some months ago. The shortages of durable goods are largely made up. Surveys of the general demand picture have revealed that in only a few major areas is it still true that demand is in substantial excess of supply. Most of the items which consumers use can now be obtained readily, and capital equipment items also, with some exceptions, are in adequate supply.

The principal areas where demand still appears to be in excess of supply are steel, automobiles and residential building. The steel industry continues to operate at the near-capacity rate which has characterized it for more than a year and a half and still the output is not sufficient to meet the demand. A part of total steel production, in fact, is still distributed by the industry on a basis of rationing to its customers. The demand and supply situation in the automobile industry is still so much out of balance that the grey market persists—the market in which essentially new cars are sold as used cars at a substantial advance over new-car prices. Residential building has been carried on in a substantially larger volume in 1948 than in the corresponding period of 1947, despite the fact that building costs have been rising higher and higher.

It is now frequently observed by business commentators that no serious decline in the general business situation can take place as long as the steel, the building and the automobile industries are operating on a high level. This statement taken literally is true enough, but it carries along with it an implication which is subject to qualification. The implication is that when steel, residential building and automobiles enjoy conditions of unsatisfied demand, they will continue to operate at high rates for a considerable period in the future—and carry the whole economy with them. Such optimism fails to recognize that beyond a certain point the unsatisfied demand in these industries is illusory. It could evaporate appreciably because the national income or purchasing power could fall while demand in these industries still appeared to be unsatisfied. As a matter of fact, the demand for durable goods has customarily been insistent just before the decline from a peak of prosperity. (There will be more in the latter part of this article about the prospect of business recession.)

In addition to the disappearance of shortages of most durable goods, the condition of orders received by manufacturers is an indication of reduction in general demand. The Associated Industries of Massachusetts publishes each month a useful compilation of orders received by manufacturers in the state. Massachusetts industries are a fairly good cross section, with a few notable exceptions, of the industries of the country. Moreover, this statistical measurement has proved helpful over a considerable period of years in sensing important changes in the business situation. The AIM index has been declining since January of this year.

The information on manufacturers' inventories (book value) as compiled by the U. S. Department of Commerce, is also significant in the present situation. Manufacturers' inventories are at their peak, substantially above a year ago—not only total inventories but also inventories of durable goods industries and non-durable goods industries considered separately. The peak level of manufacturers' inventories indicates that the future demand for commodities in general is likely to be less insistent than recent demand.

It may also be observed that manufacturers' inventories are probably too high. The records of earlier business cycles indicate that inventories which at the peak of prosperity appear to be manageable can quickly become burdensome as new orders drop rapidly, more rapidly than it is practicable to reduce the rate of output. It is admittedly difficult to evaluate the dangers inherent in the large inventories. But as evidence accumulates that our inflation-boom is nearing its end, it will be increasingly important to follow a conservative inventory policy.

Plant and Equipment Expenditures Flattening Out

One of the principal supports of our postwar business boom has been the large outlays by business for plant and equipment. These outlays have been increasing year by year since the war, but there is some evidence that such outlays may be flattening out. Estimated expenditures for the fourth quarter of 1948 are below the figures for the third quarter of 1948—contrary to the usual strong seasonal fluctuation in expenditures for plant and equipment with the first quarter of a calendar year low and each succeeding quarter rising above the previous one. This is the first year since the war that the fourth quarter has been below the third quarter. There is further evidence in a recent survey by the National Industrial Conference Board. News reports of this survey indicate that expenditures for the year 1949 are expected to be below those for the year 1948, the first annual drop since the war. Businessmen are reported to base this expectation of decline on the very high cost of capital construction and also upon the fact that the need has largely been made up.

Less Inflationary Pressure from Money and Credit Supplies

The third major consideration suggesting that our inflation is about over is that money and credit supplies will probably exert less inflationary pressure than they have been exerting.

Total money supply (demand deposits in the banks plus currency outside the banks) reached its peak in December, 1947, and has declined moderately since that time. A drop in money supply is one of the most significant pieces of evidence possible to suggest the end of an inflation, because the essential nature of an inflation is an upward movement of prices resulting from large and increasing money supplies bidding for goods and services which can no longer be increased appreciably in amounts.

The credit supply is another element of importance. Business loans (the commercial, industrial and agricultural loans of the banks) may be at their peak. The current volume outstanding is only very slightly above the level reached earlier this year, but if the seasonal tendency of business loans to expand in the fall months of the year were allowed for, the adjusted figures might well be below their peak.

Control Measures Making Credit More Expensive and Less Plentiful

Steps have recently been taken in three different directions looking to the reduction of inflationary pressures from the monetary side: (1) controls over consumer credit have been restored; (2) money rates have been raised; and (3) the reserve requirements for the banks have been increased.

Following the passage of the "anti-inflation" act by the special session of Congress in August, 1948, the Board of Governors of the Federal Reserve System reimposed, as of Sept. 20, controls on consumer instalment loans and instalment sales credits, in a somewhat revised form of the old Regulation W.

The reimposition of Regulation W may be regarded as restraining the stimulating influence of credit on the price and business situations, inasmuch as some dealers relaxed their terms on instalment sales following the termination of credit controls toward the close of 1947, but the effect of the new controls will probably be mild.

Money rates have gone up sharply, percentagewise, during the last two years. The monetary authorities have recently taken steps to bring rates up somewhat further: the Treasury has increased the rate on new issues of short-term government securities and the Federal Reserve banks have raised the rediscount rate again. These actions were taken by the monetary authorities as part of the anti-inflation drive and the higher level of money rates may be thought of as a moderately restraining factor in the credit and price situations. But since money rates are still very low, by long-term comparisons, despite their increases in the last two years, no substantial change in the credit and price picture may be expected to follow from these recent increases. The continued availability of credit is of greater significance to most borrowers than an increase in the cost of it, especially when money rates are still low.

Of the three control measures referred to, the recent increase in reserve requirements of the banks is likely to have the strongest influence. Effective Sept. 16 in some cases and Sept. 24 in others, the Reserve Board raised the reserve requirements of its member banks by 2% of demand deposits and $1\frac{1}{2}$% of time deposits. This action meant that approximately $2 billion additional had to be placed by the banks on reserve with the Federal Reserve banks and that the potential loan expansion by the banks was reduced by approximately $12 billion. The banks were able to make the necessary increases in reserves chiefly by selling some of their government securities, so that it was not necessary to reduce their outstanding loans in order to bring deposits down to conform with the new reserve requirements. Nevertheless, the move by the Federal Reserve Board was a significant dvelopment, particularly because its timing was a surprise to the banks.

It had been expected that some increase in reserve requirements would be made, but that the action would be taken later on, perhaps not until after elections. Coming when it did, the action suggested that the reserve authorities were somewhat more determined to resist inflationary pressures than many had thought them to be. The reserve authorities still have unused ammunition of the same sort. According to the recent legislation, the Federal Reserve Board could increase the reserve requirements still further, by 4% for New York and Chicago banks and by 2% for other banks.

Probable Extent of Reaction

Whether a bust will follow the end of our boom is of even greater concern to business than whether our inflation-boom is over. It is impossible to know ahead whether we are likely to have a mild or a severe reaction, but a number of considerations may be cited which have an important bearing on the issue.

It has been typical in the past for the general price level to drop substantially very soon after an inflation peak. This was true in 1920, following World War I, and was also true in 1815 when the inflation associated with the War of 1812 came to an end. In contrast, the general price level moved irregularly for about six months before turning down sharply in 1864-1865. Thus, although the evidence is not all in one direction, past records suggest the probability that a substantial drop in the general price level will come promptly after the inflation peak has been reached.

There are, however, a number of significant supports to the price and business situations which should not be overlooked. Thus, demand for goods and services continues strong throughout most of our economy and, as noted above, there are a few important areas where demand still far outruns available supplies. Then, too, credit is plentiful at moderate rates, despite the recent increases in rates and the introduction of greater control over the potential supply of credit. Aid to Europe will continue to hold up demand for numerous commodities. Government support of agricultural prices is important and the very large government expenditures (perhaps 20% of total national income if Federal, State and local government expenditures are lumped together) are not likely to shrink. Military expenditures, stockpiling of strategic materials, European Recovery Program, veterans' aid—these are all commitments of the present which conceivably may be expanded, as by war.

Moreover, some of these supports are new; that is, they were not present when our earlier inflation episodes were drawing to an end. Government support of agricultural prices and the present great magnitude of total government spending, in particular, are elements of support which were not present earlier.

But while we recognize the strong points in the present situation and while we may even conclude that the preponderance of evidence suggests that no severe decline in business and prices is just ahead of us, it is prudent to asknowledge the possibility of a severe decline. It is salutary to recall that the prevailing attitude of businessmen and academic students of business conditions before each of our major downturns during the past generation was to emphasize the strong points in the picture and to expect nothing more than a minor downward correction.

This attitude prevailed in 1920, 1929 and 1937, just before the severe declines that started in those years. At the end of 1929, despite the fact that the stock market had crashed in the autumn just preceding, it was widely believed that industry and trade would not suffer a serious decline. Developments during the first part of 1930 tended to bear out that optimistic expectation, but in the second half of 1930 the serious depression arrived. There was failure to recognize the seriousness of the situation also in 1920 and again in 1937. The underestimation of the dangers in 1920 is of particular interest now since there may be a closer parallel between our present forecasting problem and the problem in 1920 than between our present forecasting problem and the ones in 1929 and 1937.

Comparison with 1920

Comparing the present situation specifically with the situation in the spring of 1920 just before prices of commodities began to go down drastically, we see, again, that the agricultural price support program now in operation and the large and stable block of government spending today constitute significant differences. And these are differences of such magnitude as to suggest that any declines in business and prices which may come in the near future are not likely to be as severe as 1920-1921. But the point is that things have been "different" before. Thus, prior to the 1920 downturn it was widely believed that the recently established Federal Reserve System and the fact that the United States had become for the first time a creditor rather than a debtor nation would preclude deep depressions.

A few excerpts from the *Monthly Letter* of the National City Bank of New York may be of interest in this connection. In May, 1920, the month in which the general commodity price level reached its peak just before it tumbled into perhaps the most devastating price decline the country has ever experienced, the *Monthly Letter*, under the heading, "Trade Conditions Generally Sound," observed as follows:

> There is no evidence that stocks of goods are excessive in this country . . . Conditions the world over are not such as to suggest a state of overproduction in any of the essential industries in the near future. The conspicuous feature of the situation is the great backed-up demand for construction work, and there is no record of panic and industrial depression in the face of such a prospect. The needs for houses for railroad equipment, and for construction work of many kinds in our own country, not to speak of the needs of other countries, are imperative.

The following appeared in the *Monthly Letter* for July, 1920, after the price decline had started:

> The general world situation is not favorable either to a rapid decline of prices or to prolonged depression. There is too much work needing to be done. The argument from former reactions from high prices and succeeding periods of industrial depression is not good, for the reason that such reactions in the past have followed periods of construction and enlargement of industrial capacity which had run their course.

These quotations from the National City Bank are not presented in a spirit of criticism. I have great respect for the bank, for the men who have written the monthly letters, and for the contents of the monthly letters over the years. It is precisely because the statements were made on such good authority that they are quoted here. The fact that leading analysts of the business and economic situation could write as they did just before the "inventory crisis" and serious depression of 1920-1921 should serve as a helpful warning against overestimating the favorable and strong points in our situation today.

There are two tendencies in particular which make forecasting especially difficult at a time like the present. There is the tendency for forecasters to project the situation which exists when they make their forecasts—in other words, to forecast no substantial change. There is also the tendency to be optimistic. At a time when business is booming these two tendencies reinforce each other. The existence of these two tendencies gives further justification for discounting current pronouncements of "all clear ahead."

Conclusions

I have reached the conclusion, first, that our inflationary boom is about over. Either very promptly or at some other time within the next six months it will probably become apparent that the peaks of wholesale prices and the cost of living have been reached. As a second conclusion, it is more likely that prices in general will begin to decline promptly after the peak has been reached than that the general level of prices will hold for many months around the peak. By way of further conclusion, a decline of business activity should be expected to accompany a decline of prices.

It is impossible to know ahead whether the declines in business and prices will be moderate or severe. There are significant strong points in the present situation which suggest that the declines will be moderate, but optimistic interpretation should be discounted because an optimistic bias is inherent in the thinking of business analysts and forecasters, which has typically caused them to underestimate the dangers and overemphasize the strong points prior to the major business declines of the last generation. (It should be pointed out, on the other hand, that intensified war dangers and a sharply stepped-up preparedness program could rule out the prospect of lower prices and declining business. The war factor has been left out of the present analysis because I have no way of evaluating it satisfactorily.)

It would, therefore, seem to be prudent for businessmen generally to recognize the possibility of a severe business recession and price decline within the next year or two and to endeavor to get their businesses as nearly as possible into condition to withstand such declines as may come. In fact, widespread attempts on the part of businessmen to get ready to weather a storm represent, in the economic world in contrast to the world of nature, perhaps the most effective way of minimizing the severity of the storm when it comes. This attitude and general policy on the part of businessmen imply conservatism, but not apprehension, with respect to operations. Implied is the desirability of keeping individual business units flexible.

There is also a further and even more fundamental aspect of wise business policy in these days: the operation of the individual business with reference to the good effect on the *general* economic situation. This means concretely that readjustment to lower levels of prices and operations should be carried out with moderation. *Gradual* readjustment is to be desired when readjustment becomes necessary.

To be sure, an individual business may promote its short-run welfare in a time of readjustment by making drastic reductions in its prices, inventories, employment, and so forth; and, therefore, by the limited criterion of individual and short-run profits, such precipitate policies seem to be good business. But for businesses generally to take such drastic actions in the surest way to generate a spiral of deflation, detrimental to all, including the "smart operators." Basically, then, the present situation calls for a widening of the area of a businessman's loyalties, a greater willingness on the part of individuals to make short-run sacrifices for the long-run welfare of all.

The Economic Scene

(Continued from page 4)

cesses—overbuying, overborrowing and overbuilding. The other is to mitigate the potential damaging effects by maintaining purchasing power, and by providing security to people, particularly during the early stages of a business recession.

The national program of this government for economic security involves both types of protection.

Under the Securities Exchange Act of 1934, the Federal Reserve Board is authorized to limit the use of credit in the security markets. This provides a means for discouraging excessive stock speculation. Under the protective operations of the Securities and Exchange Commission, the public is safeguarded to a large extent, against manipulative practices and misleading information in security markets. Somewhat similar protection in the commodity markets is provided by the Commodity Exchange Authority.

In order to aid in the control of inflation, regulations to restrict the expansion of credit in the sale of durable consumer goods have recently been reinstated.

Government fiscal policy has been directed against price inflation by restricting credit, and by directing budget surpluses toward reducing the money supply.

Strong measures have been passed which will retard a recession in its early stages and minimize its effect. Under the provisions of Social Security legislation, we now have Federally-sponsored unemployment insurance administered by the states. This should aid materially in maintaining purchasing power during any business setback.

The Federal Deposit Insurance legislation protects the savings of depositors, and greatly improves the stability of the banking structure.

Minimum wage laws, and legislation for protecting the rights of labor, which have broadened the use of collective bargaining in wage negotiations, have served to strengthen and stabilize the entire wage structure. They have materially reduced the danger of a decline in wage earners' incomes and purchasing power.

The position of agriculture has been protected by safeguards against excessive declines in prices of many crops.

These measures, and various others with similar objectives, have been effective in two ways: They have greatly restricted any tendency for our economy to get out of balance, and they have contributed to a general feeling of underlying security such as we have seldom before experienced.

Economy Stabilized For a Year

As we stand on our present high economic plateau, let us examine our surroundings. Apart from the effect of rising prices, our economy has been stabilized for about a year around the present full employment level.

As we look over our cities and farms, we see a high-level economy in action, with record employment, with business highly prosperous, with living standards unequalled in the history of this country or in the world.

From time to time since the end of the war there have been general expectations of a coming depression. Many have predicted that "it can't last." But the high level of prosperity has lasted.

Today we see very little evidence of weakness in the economic structure, apart from the price situation. It is true that business dropped off this Summer in textiles and some other soft goods. However, this type of industry adjustment, with no appreciable effect on the general trend, represents a normal corrective adjustment.

In the stock market, trading has remained rational. Activity in the commodity market is no greater than normal. Business men have been cautious in expanding inventories.

Had it not been for the active measures taken by this government to prevent an unbalanced economy, conditions might well have been different. With record-breaking corporate profits, more than double those of 1929, a speculative boom in the stock market might again have undermined the business structure. But we have had no such experience.

In the commodity markets, no speculative boom has developed, despite the huge demand for goods and materials during the war, and the persistent shortages which have lasted up to the present. Thus the possibility of a cumulative liquidation of speculative holdings and inventories, such as occurred in 1920, is greatly minimized.

Some people are apprehensive about the permanence of our present business levels solely because they are so high. But we are in a growing economy. The levels of 1929 are much too low for us today. We have 25 million more people than in 1929. Our demands have been increased by new products and services, by higher production efficiency, by more rapid transportation. You in Los Angeles well know that old standards quickly become obsolete in a growing community.

Inflation Greatest Problem

If we wish our present level of prosperity to continue we must be constantly on the alert to protect it. We must resist any tendency to make the same serious mistakes as were made in 1928 and 1929, and in earlier business booms. Of greatest importance now is the need for combatting inflationary pressures. The Government has only limited weapons for this battle, but I assure you that every weapon available is being used.

Budget surpluses during the past two years have been our most effective fiscal weapon, enabling us to reduce inflationary pressures through paying off part of the Federal debt. This has been reflected in a reduction in the money supply.

I stated, when I took over the duties of Secretary of the Treasury, that it was the responsibility of the government to reduce its expenditures in every possible way, and to achieve a balanced budget, or better. It was a great satisfaction, therefore, to announce at the end of the fiscal year just passed, that we had achieved by far the largest surplus in our history—$8,419,000,000. But, unfortunately, due to the tax-cut, we shall have no budget surplus available as an anti-inflation weapon in the current fiscal year.

If we are to be successful in maintaining our present prosperity, the need for continued restraints on speculation, excessive credit expansion, price inflation, and other developments that threaten an eventual depressing effect on business, must be recognized and widely supported.

With our people on the alert to protect their heritage—to defend themselves against the recurring cycles of booms and depressions that have plagued our nation since its earliest days—a brilliant future is in prospect.

Our factories have not yet been able to meet the demand for new

(Continued on page 30)

The Economic Scene

(Continued from page 29)

automobiles, farm machinery, freight cars, electric power equipment, steel, pipelines and many other things. New houses, new schools and highways, new electric capacity, and other capital equipment are urgently needed. Our population is growing, and a still greater expansion in these facilities will be called for in coming years. Television, plastics, and other new inventions are attracting an increasing public demand.

With this reserve power in our national economy, we have unusually favorable basis for continued prosperity. If we can avoid the mistakes of the past—if we can guard against excesses that might throw our economy out of balance—I feel that we have an unparalleled prospect before us. Through the cooperation of all groups in moderation and self-restraint we can make this prospect a reality.

Southeastern Group Of IBA to Meet

BALTIMORE, MD. — The 29th annual meeting of the Southeastern Group of the Investment Bankers Association will be held Friday, Nov. 5, 1948, at 4 o'clock p.m. at The Merchants Club, Baltimore.

There has been appointed, for the purpose of presenting nominees for officers and members of the Executive Committee to serve for the ensuing year, a committee consisting of Claude W. Wilhide, Chairman, Baker, Watts & Co., Baltimore, Md.; John Clifford Folger, Folger, Nolan, Incorporated, Washington, D. C.; John C. Hagan, Jr. Mason-Hagan, Inc., Richmond, Va.

This committee has made the following nominations:

Chairman, James H. Lemon, Johnston, Lemon & Co., Washington, D. C.; Vice-Chairman, Joseph W. Sener, Mackubin, Legg & Co., Baltimore, Md.; Vice-Chairman, W. Peyton May Investment Corp. of Norfolk, Norfolk, Va.; Secretary-Treasurer, W. Carroll Mead, Mead, Miller & Co., Baltimore, Md.

There have been nominated for election to the Executive Committee, in addition to the above officers:

Wm. W. Mackall, Mackall & Coe, Washington, D. C. (for three years) and Edward K. Dunn, Robert Garrett & Sons Baltimore, Md. (for one year) ex-officio.

Group Offers Pfd. Stock Of Pa. Power & Light

A group of investment banking firms headed by Drexel & Co. and the First Boston Corp. offered to the public Oct. 21 at $100 per share and accrued dividends 63,000 shares of 4.60% preferred stock of Pennsylvania Power & Light Co., par value $100 per share.

The proceeds will be used for new equipment and facilities to be installed as part of the company's extensive construction program during 1948-1951.

The territory served by the company includes large agricultural and industrial sections and important anthracite districts in central eastern Pennsylvania with a population of more than 1,740,000. Electric service is furnished in an area of 9,300 square miles and in this area the company serves 774 communities.

Operating revenues for the 12 months ended June 30 1948, were $62,510,258 and net income $7,393,465.

Investment Bankers Association of America To Convene in Florida, Dec. 5-10, 1948

(Continued from page 20)

there is unused space available, it is recommended that members make arrangements to share their accommodations.

Requests for parlors will be filled to the extent possible. Some parlors have two bedrooms adjoining them, but most have only one. The bedrooms adjoining parlors are double rooms.

The hotel will be able to accommodate a limited number of guests who wish to arrive during the week preceding the convention, or who wish to stay over afterwards. The rates quoted above will apply from Nov. 28 to Dec. 18.

Arrangements have also been made whereby the Surf Hotel and Seacrest Manor will be available if needed to accommodate any overflow. If there is an overflow, member houses will, to the extent necessary, be limited to two bedrooms at the Hollywood Beach Hotel and their additional representatives will be placed at one of the other hotels. All of the rooms at the Surf and Seacrest Manor are double rooms with twin beds and private baths.

Hotel Registration—Baggage

Representatives of the Hollywood Beach Hotel will travel on the convention special trains and will furnish passengers with slips indicating their hotel room numbers. These slips should be presented to the floor clerk on the proper floor, and the floor clerk will turn over the key to the room. It will not be necessary to register.

The hotel's representatives will also furnish passengers with baggage tags filled out with their names and hotel room numbers. One of these tags should be attached to each piece of hand baggage. Then, upon arrival in Hollywood all such baggage will be transported immediately from the station by truck and distributed promptly to the proper hotel rooms.

Those traveling to Hollywood by other means than the special trains should, of course, register at the hotel desk in the regular way.

Convention Transportation

Special trains for the convention will be operated from New York and Chicago to Hollywood and return. In addition, special cars will be operated from Cleveland, Detroit, Pittsburgh, and St. Louis, and will be attached to the special trains en route. The schedules for these trains and cars will be as follows:

NEW YORK SPECIAL TRAIN

Going

Sat., Dec. 4		Eastern Time
Lv. New York	Penna. RR.	10:20 a.m.
Lv. Newark	Penna. RR.	10:35 a.m.
Lv. North Philadelphia	Penna. RR.	11:55 a.m.
Lv. 30th Street Phila.	Penna. RR.	12:05 p.m.
Lv. Wilmington	Penna. RR.	12:38 p.m.
Lv. Baltimore	Penna. RR.	1:40 p.m.
Lv. Washington	R. F. & P. RR.	2:20 p.m.
Lv. Richmond	Atl. Coast Line	5:10 p.m.
Sun., Dec. 5		
Lv. Jacksonville	Fla. E. C. Ry.	5:10 a.m.
Ar. Hollywood	Fla. E. C. Ry.	11:10 a.m.

Returning

Fri., Dec. 10		Eastern Time
Lv. Hollywood	Seaboard RR.	4:50 p.m.
Sat. Dec. 11		
Ar. Richmond	Seaboard RR.	11:00 a.m.
Ar. Washington	R. F. & P. RR.	1:45 p.m.
Ar. Baltimore	Penna. RR.	2:45 p.m.
Ar. Wilmington	Penna. RR.	3:50 p.m.
Ar. 30th Street Phila.	Penna. RR.	4:22 p.m.
Ar. North Philadelphia	Penna. RR.	4:30 p.m.
Ar. Newark	Penna. RR.	5:50 p.m.
Ar. New York	Penna. RR.	6:05 p.m.

CHICAGO SPECIAL TRAIN

Going

Fri. Dec. 3		
Lv. Chicago (Central Sta. Mich. Ave. at 12th St.)	N. Y. Cen. Syst.	8:30 p.m. (CT)
Sat., Dec. 4		
Lv. Indianapolis	N. Y. Cen. Syst.	12:25 a.m. (CT)
Lv. Cincinnati	L. & N. RR.	4:35 a.m. (ET)
Lv. Knoxville	L. & N. RR.	11:30 a.m. (ET)
Lv. Atlanta	Atl. Coast Line	5:05 p.m. (ET)
Sun., Dec. 5		
Lv. Jacksonville	Fla. E. C. Ry.	2.20 a.m. (ET)
Ar. Hollywood	Fla. E. C. Ry.	8:40 a.m. (ET)

Returning

Fri., Dec. 10		
Lv. Hollywood	Seaboard RR.	8:00 p.m. (ET)
Sat., Dec. 11		
Lv. Hampton	Southern Ry.	3:25 a.m. (ET)
Ar. Atlanta	Southern Ry.	11:55 a.m. (ET)
Ar. Chattanooga	Southern Ry.	2:45 p.m. (CT)
Ar. Cincinnati	Southern Ry.	11:55 p.m. (ET)
Sun., Dec. 12		
Ar. Indianapolis	N. Y. Cen. Syst.	2:10 a.m. (CT)
Ar. Chicago (Central Sta. Mic. Ave. at 12th St.)	N. Y. Cen. Syst.	7:55 a.m. (CT)

CLEVELAND SPECIAL CAR

Going

Fri., Dec. 3		Eastern Time
Lv. Cleveland	B. & O. RR.	8:15 p.m.
Sat., Dec. 4		
Ar. Washington	B. & O. RR.	7:30 a.m.
Lv. Washington	New York Special	2:20 p.m.

Returning

Sat., Dec. 11		Eastern Time
Ar. Cincinnati	Chicago Special	11:55 p.m.
Lv. Cincinnati	N. Y. Cen. Syst.	11:55 p.m.
Sun., Dec. 12		
Ar. Cleveland	N. Y. Cen. Syst.	7:05 a.m.

DETROIT SPECIAL CAR

Going

Fri., Dec. 3		Eastern Time
Lv. Detroit	B. & O. RR.	5:45 p.m.
Lv. Toledo	B. & O. RR.	7:05 p.m.
Sat., Dec. 4		
Ar. Washington	B. & O. RR.	8:20 a.m.
Lv. Washington	New York Special	2:20 p.m.

Returning

Sat., Dec. 11		Eastern Time
Ar. Cincinnati	Chicago Special	11:55 p.m.
Lv. Cincinnati	B. & O. RR.	11:55 p.m.
Sun., Dec. 12		
Ar. Toledo	B. & O. RR.	5:30 a.m.
Ar. Detroit	B. & O. RR.	7:20 a.m.

PITTSBURGH SPECIAL CAR

Going

Fri., Dec. 3		Eastern Time
Lv. Pittsburgh	Penna. RR.	10:30 p.m.
Sat., Dec. 4		
Ar. Washington	Penna. RR.	7:55 a.m.
Lv. Washington	New York Special	2:20 p.m.

Returning

Sat., Dec. 11		Eastern Time
Ar. Washington	New York Special	1:45 p.m.
Lv. Washington	Penna. RR.	11:35 p.m.
Sun., Dec. 12		
Ar. Pittsburgh	Penna. RR.	8:25 a.m.

ST. LOUIS SPECIAL CARS

Going

Fri., Dec. 3		Central Time
Lv. St. Louis	N. Y. Cen. Syst.	6:00 p.m.
Ar. Indianapolis	N. Y. Cen. Syst.	10:40 p.m.
Sat., Dec. 4		
Lv. Indianapolis	Chicago Special	12:25 a.m.

Returning

Sun., Dec. 12		Central Time
Ar. Indianapolis	Chicago Special	2:10 a.m.
Lv. Indianapolis	N. Y. Cen. Syst.	2:20 a.m.
Ar. St. Louis	N. Y. Cen. Syst.	7:25 a.m.

PULLMAN RESERVATIONS

New York Special Train—Pullman reservations for the going trip should be made through the New York Transportation Committee, of which Norman Smith, of Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y., is Chairman. The blue form which accompanies the bulletin should be used for this purpose.

Drawing rooms, compartments, and bedrooms will be available. Drawing rooms and compartments will not be assigned for single occupancy unless it develops at the last minute that there will be unused space available. When the supply of drawing rooms has been exhausted, it will be necessary to assign compartments to those requesting drawing rooms. When the supply of bedrooms has been exhausted, it will be necessary to assign those requesting bedrooms a compartment and a roommate.

One-way Pullman fares (including Federal tax) to Hollywood are as follows:

	Drawing Room (2 Persons)	Compartment (2 Persons)	Bedroom (1 Person)
New York	$52.44	$38.87	$26.22
Philadelphia	50.26	36.97	25.13
Wilmington	50.26	36.97	25.13
Baltimore	47.84	35.08	23.92
Washington	45.43	33.87	22.71
Richmond	41.52	30.53	20.76

Certificates covering Pullman space will be issued in lieu of regulation Pullman tickets. Certificates will be mailed if applications are received promptly. Otherwise they may be picked up at the office of Norman Smith prior to 5:00 p.m. on Friday, Dec. 3.

The Committee will not handle return Pullman reservations. They should be made at Hollywood. Representatives of the railroads will be at the Hollywood Beach Hotel throughout the Convention to handle such reservations.

Chicago Special Train—Pullman reservations for the going trip should be made through Charles R. Perrigo, Hornblower & Weeks, 39 S. La Salle Street, Chicago 3, Ill. The yellow form which accompanies the bulletin should be used for this purpose.

Drawing rooms, compartments, and bedroom will be available. Drawing rooms and compartments will not be assigned for single occupancy unless it develops at the last minute that there will be unused space available. When the supply of drawing rooms has been exhausted, it will be necessary to assign compartments to those requesting drawing rooms. When the supply of bedrooms has been exhausted, it will be necessary to assign those requesting bedrooms a compartment and a roommate.

One-way Pullman fares (including Federal tax) to Hollywood are as follows:

	Drawing Room (2 Persons)	Compartment (2 Persons)	Bedroom (1 Person)
Chicago	$55.10	$40.78	$27.55
Indianapolis	48.76	36.40	24.38
Cincinnati	46.58	34.44	23.29
Knoxville	37.84	27.84	18.92
Atlanta	31.52	23.24	15.76

Certificates covering Pullman space will be issued in lieu of regulation Pullman tickets. Certificates will be mailed if applications are received promptly. Otherwise they may be picked up at the office of Charles R. Perrigo prior to 5:00 p.m. on Friday, Dec. 3.

Pullman reservations for the return trip should be made at Hollywood. Representatives of the railroads will be at the Hollywood Beach Hotel throughout the convention to handle such reservations.

Cleveland Special Car—Pullman reservations should be made through Robert B. Blyth, The National City Bank of Cleveland, East Sixth Street and Euclid Avenue, Cleveland 1, Ohio. Drawing rooms and compartments will be available. One-way Pullman fares (including Federal tax) between Cleveland and Hollywood are as follows:

To Hollywood		From Hollywood	
Drawing Room (2 Persons)	Compartment (2 Persons)	Drawing Room (2 Persons)	Compartment (2 Persons)
$59.69	$43.93	$56.12	$41.40

Detroit Special Car—Pullman reservations should be made through Ralph Fordon, Watkins & Fordon, Inc., Penobscot Building, Detroit 26, Mich. Drawing rooms and compartments will be available. One-way Pullman fares (including Federal tax) are as follows:

	To Hollywood		From Hollywood	
	Drawing Room (2 Persons)	Compartm't (2 Persons)	Drawing Room (2 Persons)	Compartm't (2 Persons)
Detroit	$59.69	$43.93	$56.12	$41.40
Toledo	59.69	43.93	55.09	40.77

Pittsburgh Special Car—Pullman reservations should be made through M. M. Grubbs, Grubbs, Scott & Co., Inc., Union Trust Bldg., Pittsburgh 19, Pa. Drawing rooms and compartments will be available. One-way Pullman fares (including Federal tax) between Pittsburgh and Hollywood are as follows:

To Hollywood		From Hollywood	
Drawing Room (2 Persons)	Compartment (2 Persons)	Drawing Room (2 Persons)	Compartment (2 Persons)
$54.90	$43.93	$63.15	$46.98

St. Louis Special Cars—Pullman reservations should be made through Harry Theis, Albert Theis & Sons, Inc., 314 N. Fourth Street, St. Louis 2, Mo. Drawing rooms and compartments will be available. One-way Pullman fares (including Federal tax) between St. Louis and Hollywood are as follows:

Drawing Room (2 Persons)	Compartment (2 Persons)
$51.41	$38.30

RAILROAD TICKETS

Railroad tickets should be purchased from local ticket agents. They will be able to advise as to fares and as to the form of ticket best suited to individual needs. **Those in charge of Pullman reservations (see above) will not be able to supply railroad tickets.**

It is important that those planning to travel on the special trains or cars specify that their railroad tickets be routed so as to conform with the routes of the special train or car in question, as set forth in the above schedules. It should be noted in this connection that round-trip fares do not ordinarily apply when the Florida East Coast Railway is used in one direction and the Seaboard Railroad in the other. Accordingly, to provide for those traveling to and from the convention, a special tariff will be in effect under which round-trip fares will apply. Ticket agents will be on notice concerning this special tariff.

For the information of members, round-trip railroad fares (including Federal tax) to Hollywood from points served by the special trains and cars are given below.

Atlanta	$48.93	Detroit	$106.20	Pittsburgh	108.96
Baltimore	86.05	Indianapolis	90.62	Richmond	$74.06
Chattanooga	58.82	Knoxville	63.19	St. Louis	92.12
Chicago	100.57	New York	103.05	Toledo	104.31
Cincinnati	83.72	Philadelphia	94.79	Washington	82.51
Cleveland	106.20			Wilmington	92.49

As We See It

(Continued from first page)

the New Deal, and at moments it has appeared that he might have had some such intentions. The fact remains that at present, when he is seeking re-election, and for a good many months prior to the beginning of the actual campaign, he is and has been as ardent an advocate of all the Rooseveltian ideas as their early sponsor ever was. He, like all the rest of them, condemns Communism out of one side of his mouth and preaches many of its essential doctrines out of the other. This attitude of the President may well, we suppose, be regarded as politically inevitable, or at all events politically natural enough, but the matter goes far deeper and far wider than that.

Hesitant Criticism

One need do no more than note the wariness with which the opponents supposedly "to the right" of New Dealism attack the basic elements in the New Deal collection of alien notions and programs, to be convinced that either the American people still believe in these principles of the New Deal or else that the politicians, one and all, think they do. Where is the man of political ambition—and we do not except even such leaders as Senator Taft—who strikes out boldly at the fundamental notion of "social security," farm subsidization, extreme paternalism in housing, pampering the labor unions (whatever may be said about some of the extremes to which the Wagner Act went), security and other regulation which choke essential business very nearly to death, the "soaking-the-rich-or-the-successful" principle in taxation, or any of the other characteristic elements in the New Deal collection?

Of course, we are now in the midst of a political campaign. Indeed, we are approaching the climax of that national contest. It has long been one of the accepted canons of good political tactics not to risk losing votes by taking definite positions, particularly in opposition to movements which appear to have large popular support. In fine, American political campaigns are traditionally conducted on the level of politics rather than statesmanship. There is never much point in asking for better bread than can be made of wheat, and we must, we suppose, appraise what is being said now in light of the circumstances in which it is being said.

Facing the Facts

However, all this may be, it is certain that the new national Administration (assuming, as appears to be all but universally believed, that there is to be a new Administration next January) will have to face these facts, or at the least would be wise to face these facts at the very outset of its first term in office. It will have then won the 1948 political battle. Its tenure of office is secure for four years. It will in the normal course of events wish to win again in 1952, and, of course, will wish to leave office in 1956 (or so one assumes) with a record which will assure it a favorable place in history. It will soon realize, if it is as intelligent as we think it will be, that the totalitarian programs and the authoritarian philosophies are basically out of keeping with American traditions, and are, moreover, at bottom economically unsound. It will soon find that some of these programs have run into difficulties or have created conditions which cannot in the nature of the case be permitted to continue much longer if serious consequences are to be avoided.

The temptation to deal with some of these situations, by applying a hair of the dog that did the biting may arise, but reasonable foresight which we hope is possessed by Governor Dewey and his advisers will at once warn that no real or permanent remedy is to be found in this direction.

Real Problems

Last week in this column, we referred to one of these situations—the state of affairs which has arisen and, we suspect, is coming to some sort of a head in the money market as a result of the fact that the National Treasury has long undertaken and up to now succeeded in obtaining the funds it needed at interest costs far below that which would have had to be paid, or would now have to be paid, in a fully free and unrestricted or unpegged market. There are a number of other "situations" which threaten, or will soon be definitely threatening, the soundness and the solidity of our economic structure. Some of them are fairly obvious, and some have remedies or cures equally obvious, political considerations aside. Some now present real problems by reason of fact that they have become so deep-rooted in the economic system.

Some of the conditions of which complaint is now often and quite justly made are really hardly more than symptoms or outward manifestations of other conditions which must be cured if the general state of affairs is to be set aright. For a long while we have been hearing about the difficulty of raising "venture capital." The problem and the need or both are real enough, but the remedy is to be found in the correction of difficulties which, to the unobservant, sometimes appear to lie rather far from the conditions complained of. To be sure, the securities laws have done about all they could to hamper and impede the raising of venture capital in the usual or normal way. Here is a situation which, of course, must be corrected.

Other Road Blocks

But there are other "road blocks." One of them is the excessively progressive income taxation, particularly of the Federal Government, but also of some of the States. Business men who normally would be taking almost a professional interest in the foundation and development of new enterprises, have little or nothing with which to do so after the tax collector is through with them. Or, if they have anything for the purpose, they know that any very substantial profits which they may reap from any new venture will be taken from them by a government which is not interested in their losses. Moreover, with the general atmosphere of hostility toward success in business, they are likely to feel that the game is hardly worth the candle since they have no way of knowing what may be done to their disadvantage tomorrow or the day after.

Somewhat the same condition is impoverishing many private institutions which, one by one, are tending to fall into the clutches of government—hospitals, institutions of learning and many others. This in itself is a dangerous situation. There are many others. The new Administration can hardly face four or eight years of existing agricultural policies. What has been said in the campaign offers little. It must soon start really to be thinking about this situation.

Eastern, Pa., Group of IBA Election Meeting

PHILADELPHIA, PA. — T. Johnson Ward, partner of Merrill Lynch, Pierce, Fenner & Beane, who has been Chairman of Eastern Pennsylvania Group of the Investment Bankers Association for two years, has declined renomination, and H. Gates Lloyd, partner of Drexel & Co., has been nominated for the office for the year 1948-1949.

Others placed on the regular slate of officers that will be voted on at the annual meeting called for Oct. 28 are: Walter A. Schmidt, of Schmidt, Poole & Co., Vice-Chairman, and Albert R. Thayer, of Thayer, Baker & Co., Secretary-Treasurer.

In addition, the following have been nominated for three-year terms on the Executive Committee: Henry D. Boenning, Jr., of Boenning & Co.; George B. Kneass, of The Philadelphia National Bank; James D. Winsor, 3rd, of Biddle, Whelen & Co.

These nominations were made by a committee consisting of: Edward Hopkinson, Jr., of Drexel & Co., Chairman; William K. Barclay, Jr., of Stein Bros. & Boyce; Arthur S. Burgess, of Biddle, Whelen & Co.; Robert G. Rowe, of Stroud & Company, Inc., and C. Newbold Taylor, of W. H. Newbold's Son & Co.

J. Newey, W. Ayers Form Management Co.

CHICAGO, ILL. — John W. Newey, recently resigned as Vice-President of United Air Lines, and William A. Ayers, who founded the public relations firm of William L. Ayers & Associates in 1946, announce the formation of the Newey-Ayers Organization. The new firm will offer professional management counsel in the specialized fields of stockholder relations and relations with the financial community. Principal office will be in Chicago, with offices or associates in New York, Washington and Houston.

Mr. Newey was for five years Vice-President of United Air Lines and at various times in charge of stockholder relations, insurance and finances. Previously he was associated with the investment banking field for twenty years. He is a former Governor of the Investment Bankers Association of America and Past President of the Bond Club of Chicago.

Mr. Ayers has acted as consultant in public relations to the International Bank for Reconstruction and Development at Washington since last February, and will continue in that association. For ten years he was Managing Editor of the Chicago "Journal of Commerce" and later of "Finance Magazine," and from 1928 to 1934 he was a partner in Beard & Ayers, Inc., one of the early firms specializing in financial public relations and publicity. He continues as a contributing editor of the magazine "Finance."

FIC Banks Place Debs.

A successful offering of an issue of debentures of the Federal Intermediate Credit Banks was made Oct. 19 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $56,280,000, 1.65% consolidated debentures dated Nov. 1, 1948 and due Aug. 1, 1949. The issue was placed at par. The proceeds, together with $32,565,000 cash in treasury will be used to retire $88,845,000 debentures maturing Nov. 1. As of the close of business Nov. 1, 1948, the total amount of debentures to be outstanding will amount to $501,545,000.

The Current Economic Situation

(Continued from page 6)

tax reduction at a time when incomes were already excessively high in relation to the available supply of goods. In short, when a policy desirable for other reasons came in conflict with price stability, stability frequently was sacrificed. It should not be surprising, therefore, that prices are very high.

Significance of Postwar International Situation

The problem of maintaining price stability would have been difficult in any event in the face of an unprecedently strong restocking and investment boom for new plant and equipment, inventories, construction, and consumers' durables and semi-durables with demand supported by large and widely held liquid assets and high and rising incomes. In addition, however, a disturbed postwar international situation has been superimposed on an already inflationary domestic one. Postwar has unfortunately not meant peace. Defense expenditures were cut drastically after the termination of hostilities, but they nevertheless remained far above prewar levels. More recently, the intensification of international tension has resulted in a substantially enlarged defense program, with adoption of both a Selective Service program and plans for a 70 Group Air Force. For fiscal 1949, the expenditures for defense may run more than $1½ billion above those for the preceding year. The present program, if fully carried out, will mean a further substantial increase in fiscal 1950. The President was recently quoted to the effect that he was recommending a budget of about $14½ billion for defense in fiscal 1950. At the same time, the President indicated that military leaders had requested a budget of $23 billion.

Furthermore, the war left a large part of the world desperately in need of outside aid. This was true both of our allies and of our former enemies. Our vast foreign aid programs for relief and reconstruction reflect not only humanitarian motives but also a desire for enhanced security. By the spring of 1947, our exports of merchandise had risen to a level close to that in wartime, which included lend-lease. Since then, exports have declined more or less steadily, but are still at very high levels. Meanwhile, imports have continued to increase. As a result of these divergent movements, the excess of exports of goods and services has declined from its peak in the first-half of 1947, but is still very great, amounting to an annual rate of over $7 billion in the second quarter of 1948.

The continued excess of exports of goods and services has been financed in a variety of ways, but the most important has been aid furnished by the United States Government. This aid has taken the form of both gifts and loans. It has included credits on sales of surplus property and ships, loans made by the Export-Import Bank, the British loan, contributions to UNRRA and post UNRRA, civilian supplies for occupied countries, interim aid to France, Italy and Austria, the Greek-Turkish aid program, and most recently the European Recovery Program. Loans have become relatively less important while gifts have become increasingly important. It is estimated that this country will spend or lend more than $6 billion on such aid in the current fiscal year, which is close to the very high rate of the first half of 1947. A large proportion of this year's aid represents expenditures under the European Recovery Program.

Other major means of financing the export surplus have been liquidation of foreign holdings of gold and dollar assets (which were run down by $4½ billion in 1947 and by about $1 billion in the first half of 1948), operations of the International Bank and the Monetary Fund, and gifts and loans from private sources in the United States.

Developments in 1948

The year 1948 has in general witnessed a continued development of postwar expansive forces. The first quarter was one of some business hesitation, with gross national product showing no change over the fourth quarter of 1947, and with prices of many farm products breaking sharply in February. In the second quarter, however, adoption of the enlarged defense program, the European Recovery Program, and tax reduction furnished a strong upward push to the economy, and especially so since these actions were taken in a situation still characterized by excessive over-all demand. Expansive tendencies were further reinforced late in the second quarter by the responsiveness of large mass-production companies to wage demands after an earlier show of strong resistance to a third-round wage increase. After the signing of a two-year agreement between General Motors and the United Auto Workers on May 29, new wage contracts were soon negotiated elsewhere in the automobile industry and in such other key industries as electrical machinery, rubber, farm equipment, bituminous and anthracite coal, and steel. Wage increases have since spread, and are still spreading, throughout the economy generally. Although the increases this year have been more selective and diverse than in preceding years, the average increase approximates the rise in consumer prices during the last year.

After the first quarter, further increases occurred in retail sales and consumer and wholesale prices. Gross national product and disposable income (i.e., income of individuals after payment of personal taxes) reached new peaks in the second and third quarters as business, government, and individuals all enlarged their expenditures. Unemployment has continued at a low level, below 2 million persons. The index of industrial production, which had declined in July, recovered in August, and by September was back to its June level.

Meanwhile, expansion in bank loans has continued to make a substantial contribution to total spending power, though not on quite as large a scale as last year. Loans of all banks are estimated to have increased $1.8 billion between the second and third quarters, as compared to the $2 billion expansion in the corresponding period last year. Though somewhat smaller in total, the second-to-third quarter growth of loans this year has followed a pattern not much different from that of last year. Increases have taken place in all three of the main loan categories—business, real estate, and consumer loans. Present estimates do indicate, however, that the somewhat smaller increase this year is chiefly to be accounted for by a decline in the rate of growth in the business loan category.

Data from the latest survey of planned expenditures for new plant and equipment indicate some increase in outlays by manufacturers for the second half of 1948 in comparison with planned expenditures reported in surveys taken earlier this year. Moderate gains over the first half of 1948 are also forecast by electric and gas utilities. All in all, on the basis of reported intentions, total plant and equipment expenditures should amount to about $18½ billion for all of 1948, as compared to about $16 billion in 1947.

Meanwhile, personal income continues to increase, both as a result of increasing employment and of the spreading of third-round wage increases throughout industry. Despite the sharp drop in prices of many crops, net income of farm proprietors has been maintained at a level above the already high level of last year. The price-support program combined with the large volume of marketings prevents substantial declines in farm incomes. Personal holdings of liquid assets are still very large and are widely distributed, despite some tendency to concentration in the hands of upper income groups. Re-establishment of Regulation W has not precluded the further expansion of consumer credit.

These factors—high current income, large past savings, and ready access to credit—reinforced by the continued backlog of demand for some durables (e.g., automobiles) furnish a strong basis for continued high levels of personal consumption.

Taken together, all these indicate a considerable degree of current strength. Nevertheless, there are also evidences that in some important areas supply is equalling or exceeding demand at current prices. These products include not only some finished consumer goods but some raw materials as well. As these products tend to stabilize or fall in price, they serve to relax somewhat other upward pressures on costs and prices elsewhere in the economy. Probably the most important development of this sort has been the record breaking crops of this year, which have resulted in reduction of prices of wheat, corn, and cotton to support levels. The effects of these large crops have not yet been materially reflected in over-all retail food prices, however. Furthermore, meat prices have continued to rise until very recently, when they started to come down even more sharply than in broad conformity with their usual seasonal pattern.

Reports of possible balance or even excess of supply at current prices are also heard in connection with such products as cotton textiles, shoes, men's clothing, liquor, housefurnishings, coal, paper and radios. There have even been reports of more than seasonal weakness in prices of new-used cars.

It may also be noted that wholesale prices in general have shown smaller increases so far this year than in 1947. Furthermore, considerable divergence has developed in price movements of various commodities. Great strength has been shown by metals and moderate strength in such industries as building materials and fuels. On the other hand, prices of some food, hides and leather, textiles, paper and pulp, and chemicals are close to or below their January levels.

Another possible symptom of general weakness may be read into the fact that new housing starts declined in August to 83,000 units, a level 11,000 below July and 3,300 below August last year. A further decline occurred in September. This behavior contrasts with that of 1947 when new starts increased steadily to a yearly high of 94,000 units in October. The declines this year at this time may be interpreted as an indication of some softening in the market, reflecting the facts that the most urgent demands for housing have been met, and that consumer resistance to the extremely high prices charged for houses is becoming effective. Nevertheless, construction costs have continued to advance steadily and the index of wholesale prices of building materials in early October was at its peak.

Any signs of general weakness must be watched closely, because after the great price increases of recent years, the economy is becoming increasingly vulnerable both to sharp price declines in particular areas and to the effects of such declines on credit and on business and consumer expectations generally.

On the other hand, it is well to remember that the postwar boom has already overridden many deflationary forces and periods and that greater strength in some lines may well continue to offset weaknesses in specific lines. In the past two years, we have overcome the sharp break of stock prices in the Fall of 1946, the weakness in nondurable goods and trade in the first half of 1947, some reduction in new private construction in the second quarter of 1947, the sharp break in prices of many farm products in February of this year, and the large Federal cash surplus in the first quarter of this year and the use of much of this surplus to retire bank held debt.

More important than all of these things in conditioning my thinking about current economic trends is the continued state of tension in international affairs. Our defense requirements have precluded any reduction in Federal expenditures. On the contrary, they are most likely to result in further sharp increases in Federal expenditures during the remainder of the fiscal year and well beyond that. The enlarged defense and foreign aid programs adopted this Spring are being carried out at an accelerating rate. Their full economic effects will not be felt until next year. But who can say that the present programs will represent the peak of defense and foreign assistance efforts? In recent weeks, there have been more and more rumors in the press about the adoption of military lend-lease. Under the circumstances and with the continued threat of further deterioration in the international situation, it would be dangerous to assume that inflationary forces have run their course. While the recent indications of moderation of some inflationary pressures are hopeful signs, the direction of most broad measures of economic activity is still upward. It is still too early to be confident that our hopes for stability will not again be disappointed.

Monetary Measures to Curb Inflationary Tendencies

Under these circumstances, what can the Federal Reserve System do to curb inflationary tendencies? Traditional instruments of monetary control in a boom—increases in reserve requirements within existing laws and in rediscount rates and sales of securities in the open market—have only limited effectiveness because the banking system can obtain all the reserves it needs by selling government bonds to the Federal Reserve. This situation is a result of our war-created debt. Holders of these various debt obligations—including commercial banks, insurance companies, other investment institutions and individuals—feel free to sell their securities to obtain funds for other purposes. Thus, the total volume of current expenditures can be expanded. The Federal Reserve System has to serve as the residual buyer in the market for government bonds in order to preserve confidence in government credit and to provide an orderly market for the enormous refunding operations of the Treasury. Confidence in the stability of government security prices is essential to prevent a possible large volume of selling of such securities. 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.

The Federal Reserve's support program keeps interest rates stable and at the same time gives the banking system access to all the reserves it needs with practically no deterrent. The banking system even obtains reserves which it does not itself seek when the Federal Reserve purchases bonds sold by nonbank investors. In recent months, unfortunately, nonbank investors—notably insurance companies—have sold a substantial amount of restricted bonds to the Federal Reserve System.

It is true that the Federal Reserve System would presumably be able to curb credit and monetary inflation by withdrawing its support of the government bond market. But, as I have already indicated, this would be drastic action indeed, all the major consequences of which cannot be foreseen. It therefore seems more desirable to make full use of less drastic measures and to explore new legislative methods of credit control. Some additional powers have recently been made available to the system through the restoration of consumer credit controls and the authority to increase reserve requirements. Use of these powers is possibly exerting some moderating influence. In addition, there have recently been further increases in short-term interest rates and perhaps further increases will be needed. The rediscount rate has been increased and in due course will, if necessary, be increased again.

Another remedy which can be tried is enactment of legislation which would prevent the ready conversion of government securities into banking reserves. One such proposal which would restrain such conversion by commercial banks has been sponsored by the Federal Reserve Board. This would give the commercial banks an option to hold special reserves in cash or in the form of short-term government securities. Since short-term government securities afford reasonable earnings—especially as short-term rates increase—the liklihood is that a large part of bank holdings of government securities would be immobilized. Means to prevent the creation of reserves through the sale of bonds by institutions and other holders outside the banking system should also be explored and adopted. Also, some pressure would be placed on the reserve position of commercial banks if the treasury were to draw further on its War Loan Accounts at such banks and use the proceeds to retire debt held by the Federal Reserve.

There are further important measures which lie beyond the control of the commercial banks or of the Federal Reserve System. Most important of these is the maintenance of the Federal budgetary surplus. But here we run into the great conflict of this period between the need for economic stability and the demands of national security. Government expenditures cannot be reduced so long as the state of international relations is such as to require a large and increasing defense effort and large commitments for aid and reconstruction to foreign countries.

Our continuing inflationary pressures stem largely from our defense requirements. It is clear then that confidence in the existence of an enduring peace is the desperate need of our times from every point of view.

With Ira Haupt & Co.

Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange, announce that J. Jay Tenenbaum is associated with them as customers' broker in their main office.

On Calling the Turn in the Market

(Continued from page 2)

continue, because the government is committed to certain defense expenditures, to certain interest payments and to a number of other outlays, the largest part of which are hardly susceptible of change or modification. In short, the government, instead of running a balanced budget next year as it estimates, would be running a $12 billion deficit and we would have the very condition which we postulated in the beginning was inconsistent. You cannot have a depression today if the government is going to spend $12 billion of deficit capital in the coming year. Yet if you do have the recession that the stock market is discounting, the government would run such a deficit.

Government Deficit Spending and Stock Market

Let me put it another way: Today, because the government is spending as much money as it is—about 20% of the national income—we have an automatic recession preventative. No act of Congress would be needed to enable the government to pump out $12 billion of deficit money. It would happen automatically because of existing budget requirements and the enormous drop in income that you postulate when you capitalize the earnings of common stocks as lowly as you do today.

I am afraid that Wall Street has been guilty of accepting, however unconsciously, the Marxian theory of the inoperability of capitalism. We have also been guilty, in the anxiety induced by our unconscious acceptance of this unproven theory, to look at those spots which may be regarded as symptoms of danger and ascribe to those spots a characterization of the whole. For example, you know that just before the war ended, Wall Street braced itself for a great recession, because it was felt if and when the government stopped spending $53 billion, the economy would probably collapse under the weight of such an enormous withdrawal of spending power. Actually, the government withdrew not only $53 billion of purchasing power, but more, yet capital flowed into other investment channels and compensated for the withdrawal of government spending.

When a year had passed and it was found that the withdrawal of government spending was not sufficient to shock our poor old capitalism into its final stages of decay, our still defeatist scouts warned that another terrible shock was coming: inventories were being built up to the point where the pipe lines would soon again carry normal supplies. Once the building for the pipe lines ceased, all the industrial activity required to make up the deficiency in inventories would be lost and again we would have a deflationary influence which might bring about a depression. Actually, inventories have been restocked and inventory building has stopped. But capitalism was able to employ its labor and its materials in other pursuits. People who were not needed in the machine tool industries or in textile or in leather found work in other industries.

When the cessation of inventory building became a fact and the alarms regarding its advent subsided, we were warned by prophets of disaster that we would soon experience a falling off in our export balance as a result of which all the industrial activity required to supply an excess of exports over imports would be lost and we should be in for a further deflationary influence. This happened too, but the recession has not yet appeared.

Investment Outlets

All these things have been held forth as being the symptoms of our approaching depression are truly deflationary in themselves But if they alone are weighed in the balance, the result is a distorted equation. There are other things than inventories and government spending and the export balance. There are the investments in new plant and equipment, investment in new automobiles, the investment by states and municipalities, the investment in new homes, investment in kitchens, bathrooms, radios, television sets. The conversion of capital into income from investment outlets must be added together to get a total before one can decide whether the sum of investment funds flowing into income is being reduced or increased. It was quite clear for the past two years and we believe that it is clear now, that no business recession was indicated because of a cessation in the flow of investment funds into the spending stream. On the contrary, the evidence indicates that business will hold at a satisfactory level, not far from where it is today, in 1949.

I do not mean to advise you that there will be no individual adjustments within the economy next year. Some industries are already in a buyers' market. Some are overstocked. Some will have to cut down. But these will be adjustments within a prosperous capitalism. They are not the harbingers of depression. They are simply examples of the way capitalism adjusts when one industry's products are no longer in demand. That does not mean that another industry's products are not in demand. It means that the labor and the materials not used in the industry that has already caught up with supply can be shifted into other industries that are still short.

A Report in Past History

Let me read you a report about a condition that existed at one point in our past history. If you will listen to this report, I think you will hear many things that sound like the reports that are heard today. This is an accurate description of conditions that actually existed at one point in the past.

"Railroads and other heavy industries have just about finished their postwar re-equipment program. Orders for locomotives and freight cars are sharply down from last year. Factory construction has commenced a downtrend. With these sources of steel demand out of the way, the orders backlogs of steel companies are declining steadily. Soft spots are developing in textiles. The postwar filling of pipe lines has been completed. Prices of cotton are already down 6c a pound from the recent peak and users are nervous. They are holding back wherever possible in the expectation of lower prices.

"It is the same in shoes. The heavy spurt in production in the past few months has enabled retailers to stock their shelves and consumers to fill out their wardrobes. All industrial economists agree that production is going to be lower next year.

"The automobile industry has performed magnificently in doubling its production in the last two years, but by the same token, it has supplied those consumers who are ready to buy and all industrial economists are in agreement that production next year will be lower than this.

"Building costs have skyrocketed and it is reasonable to suppose that the postwar building boom is over. New houses have been priced out of reach of buyers. This is Aug. 1, 1923. It is also the last chance to get aboard for a six years' bull market and a long period of prosperity because stocks were never available at those prices again — not for 8 years."

The trouble with the above mentioned report was that it was right on the spots but wrong on the whole.

These are the premises for a bullish investment policy as we see them in our organization.

No Fall in Business in 1949

No fall in national income or in general business conditions is probable in 1949. Earnings will hold at or near their current rate. Even if they should drop a little, the probabilities are strong that dividends will be increased next year, because they have been abnormally low in relation to earnings. Since stocks are abnormally depressed in price relative both to earnings and dividends, it is altogether reasonable to expect them to rise, and rise widely. In correlation to assets, dividends and earnings as determined by a 20-year experience, a rise of 100 points in the Dow-Jones Industrial Average would be a more reasonable expectancy than their continuing around 185.

I have submitted to you simply the results of a mathematical correlation based on the assumption that earnings and dividends continue at their current rate.

If you disagree with the view that stock prices can be expected to go up, you must do so on the assumption that earnings and dividends will fall. And if you make that assumption, you must do so on an interpretation of the entire economy and not by picking out one or two spots where individual industries are in process of adjusting to changed circumstances.

Investment Analysis

If you take a view radically different from that of the market itself, you are bound to seem unrealistic and something of a dreamer. Do not be too much afraid of being placed in that position. The great weakness of our profession of investment advising is that we have too often been prone to project the status quo. We have like most people been willing to accept slogans and phrases and even simple color labels in place of research and analysis. We have not been deliberately dishonest in doing so, but in our laziness, I think we have had a dishonest effect upon much thinking about investments. We should be the leaders and we should develop the ability as well as the will to read through the headlines. Because we serve investors and people with strong emotional bias, that does not mean that we must reflect the prejudices and the bias of our clients. As a matter of fact, you will find that your clients are not inclined to pay you for telling them what they already think. They will pay you, and well, if you give them the facts that they hadn't thought about.

Here are a few examples of where Wall Street has not taken the leadership in educating the investing public as it might have. In 1936, a tax law was passed which met with severe condemnation in Wall Street. It was called the undistributed profits tax and so violent was the antipathy toward it in this part of the world that the tax was repealed, I think only a year later. Now what was this undistributed profits tax that was so hotly opposed in Wall Street? It was simply a tax that resulted in the elimination of a double levy on corporate dividends. Corporations that distributed their earned surplus were relieved of taxation on the amount that they distributed and were taxed only on that part of their earnings which they failed to distribute. This was a Roosevelt Administration tax killed by the objections of leaders in Wall Street. Yet here we are today hoping that when Mr. Dewey is elected, he and his party will have the good sense to eliminate the inequitable and self-defeating double tax on corporate profits. We hope that a Republican Administration will give us what, when we had i. e. from the Democrats, we condemned. I am afraid that this reaction was emotional rather than seasoned and is typical too of many instances where Wall Street reflected the prejudices of its clients instead of informing their minds.

Another illustration is the proposal of a few years ago by Henry Wallace, who was then Secretary of Commerce, that the Federal Reserve guarantee equity advances to small businesses on a regional basis. Wall Street shouted bloody murder over this "radical" proposal by a "Red," yet a very similar proposal was incorporated in a Bill introduced into the Senate by Robert Taft who was being denounced as a black reactionary at the same time that Henry Wallace was being accused of being a red radical.

If there is one thing that can destroy capitalism in America more surely than Communist agitation or subversive influences, it is a progressive income tax like that which we now have. Private enterprise depends upon private capital and private capital simply cannot be accumulated in sufficient amounts under existing tax rates to make possible any dynamic enterprise under the capitalistic system. That does not mean that capitalism could not work in a restricted or limited or stationary field, but its force and growth would be cut off if taxes anything like those that we now have should continue in effect. Capitalism has developed the highest standard of living in the world's history. American working men do not enjoy this high standard of living because they have more hands and feet than workers in other lands or better brains, or bigger hearts. Their good fortune is based upon tools and enterprise, the products of capitalism.

Failure of Wall Street Attitude

But when it comes to attacking the income tax as being prohibitive of capitalistic enterprise and capital formation under private auspices, the Wall Street attitude is like that of other parts of the country. We say in effect, "give us relief. Tax the other fellow." We do not speak for our system, but only for our immediate self-interest. But relief is not needed by the individual capitalist, who gets along well enough personally, nor is "relief" needed for the revival of enterprise. The existing tax rates are so radically out of line with what is required in the circumstances that to relieve the situation here or there by such means is little better than applying a mustard plaster to a tubercular lung.

Tax Defects

The income tax is not only a revenue measure, it is also a moral measure. Instinctively, the country distrusts great inequality of wealth and income. The income tax, based upon the ability to pay principle, would, if carried to its logical conclusion, level all incomes to exactly the same rate, because obviously, no tax could be levied on a man who had a low income if anybody else had a higher income. The ability to pay of the man with the higher income would excuse the man of lower income from carrying any burden at all until the upper income fellow's ability to pay had been leveled down to the point where his income was no bigger than the next chap's.

We cannot get away from the moral idea altogether. Not only because we may not wish to, but also because it is not practical to do so. The people want it that way. But we can point out here in Wall Street, that if the United States wants to level the standard of living of its people, it can do so without eliminating the opportunity to accumulate private capital for investment. It could do so by levying a graduated tax on spending. Is there any reason why two men having an income of $1 million each should pay the same income tax if one of these citizens spends his money on riotous living while another saves it to invest in a new industry which will give employment and create wealth? I think you would agree that the use of the money is just as important as the rate of income in determining the moral incidence of taxation.

Yet when a spending tax was proposed, I think it was in the year 1943 during the war, at a time when it was particularly appropriate because it is an effective controller of inflation, the tax was denounced, very severely, in Wall Street especially, as being a radical, a red or a pink levy.

I take the liberty of mentioning these things because we in Wall Street have a special responsibility. We are not entitled to enjoy our prejudices and our biases in our clients. We have a duty to analyze and to report the truth, whether it seems red, pink, blue or black. There are more things in heaven and earth than can be encompassed by such simple color schemes. It is our function to evaluate the facts and to let the prejudices fall where they may. In the long run, we shall be a better liked and more useful group if we do so. And not only should we refuse to bow to the known prejudices of our clients. We must also guard against allowing ourselves to be advised of the bias of the stock market itself, for if we let the market advise us, what do we accomplish except to echo what our clients think. As to the history of 1929, 1932, 1938 and 1942 and, I believe as the history of 1947 will prove, the market's temporary bias is a poor guide to its long-term sense of value.

Okla. Gas & Elec. Com. Priced at $34.25 Share

The First Boston Corp. and Merrill Lynch, Pierce, Fenner & Beane headed a nationwide underwriting group which offered to the public, Oct. 21, 250,000 shares of Oklahoma Gas & Electric Co. common stock (par $20) at $34.25 per share. The stock, representing part of the 750,000 shares owned by Standard Gas & Electric Co., was awarded to the group at competitive sale on Oct. 19, on its bid of $32.63. The proceeds from the sale will go to Standard Gas & Electric.

Oklahoma Gas & Electric Co. is engaged in the production, transmission and sale of electricity. It furnishes retail electric service in 225 communities and contiguous rural and suburban territory in Oklahoma and western Arkansas and electric energy at wholesale for resale in a number of communities in both States. The population of the territory served is estimated at 890,000. For the 12 months ended June 30, 1948, the company reported total operating revenues of $21,517,273 and net income of $3,800,509, equal to $3.56 per share on the common stock outstanding after deducting preferred dividends applicable to the period. The company has paid cash dividends on the common stock in every year since 1908. The company has declared a quarterly dividend of 55 cents per share payable Oct. 30, 1948, to stockholders of record Oct. 15.

The company also has outstanding $35,000,000 of long-term debt; $9,000,000 of serial notes and $20,000,000 of cumulative preferred stock in two series.

Consumer Purchasing Power and Market Potentials for 1949

(Continued from page 10)

savings in order to live. A more careful analysis of the figures on dissaving would have shown

(1) That the percentage of dissavers in 1947 was less than in prewar years (28% in 1947 versus 33% in 1941).

(2) That dissavings was common among the upper income groups as well as in lower income groups, and that 2/5 of the amount of dissavings was among families in the upper half of incomes.

(3) That the majority of the dissavers were using a part of their accumulated savings to buy automobiles and other consumer durable goods—i.e. things they had been saving for.

Dissaving by Income Groups
1947 Versus 1941

Money Income Group—	Share of Spending Units in Each —Income Group— 1941	1947	Dissavers as a Percetnage of All Spending Units in Each —Income Group— 1941	1947
Under $1,000	34%	14%	40%	26%
$1,000 to $2,000	31	22	34	31
$2,000 to $3,000	21	23	30	30
$3,000 to $5,000	10	27	18	30
Over $5,000	4	14	21	19
Total	100%	100%	33%	28%

Of the dissavers in 1947 almost 3/5 bought automobiles or other selected durable goods during the year. The high frequency of dissaving at upper income levels may be primarily attributed to the buying of consumer durable goods. In addition, there were many others that were not necessarily hardship cases. They spent money for such things as vacation expenses, repairs to homes, moving expenses, maternity care and other items for which many people are accustomed to put aside savings.

The following table shows the relative distribution of income and negative savings by tenths of the consumer spending units:

Money Income Group—	Share of Monely Income 1935-36	1941	1947	Share of Negative Savings 1941	1947
Highest tenth	36%	34%	33%	10%	19%
2nd tenth	15	16	15	11	11
3rd tenth	11	12	12	14	10
4th tenth	9	10	10	11	10
5th tenth	8	9	9	7	11
Total Upper 50%	79%	81%	79%	53%	61%
6th tenth	7	7	7	7	6
7th tenth	5	5	6	9	5
8th tenth	4	4	4	8	7
9th tenth	3	2	3	11	6
Lowest tenth	2	1	1	12	15
Total Lower 50%	21%	19%	21%	47%	39%
Total	100%	100%	100%	100%	100%
Total Personal Income (Billions)	$64.1	$95.3	$195.2	----	----

The Federal Reserve Board study also gave a further indication of how people are using their liquid assets. In 1947 approximately 33% of the spending units reported decreases in certain liquid asset holdings (U. S. Government Bonds or Savings and Checking Accounts only) accounting for a withdrawal of about $15 billion. On the other hand, approximately 27% of the spending units increased their liquid asset holdings by a total of $20 billion so that the total liquid asset holdings showed a net increase of about $5 billion.

Among those reducing liquid assets only ⅓ of the amount withdrawn was used for consumer non-durable goods and services. 50% was used to buy houses or to make other investments, while about 20% was used for autos and other durable goods.

All of this indicates that the huge backing of $207.0 billion in savings is not being dissipated for hardship or for maintaining the basic 1940 standard of living but does represent vast potential discretionary spending power which could be a powerful influence on markets when added to the high level of discretionary spending power from current income.

Saving bonds maturities are another factor to be considered in appraising the possible level of consumer purchasing power in the next few years. Nearly a billion dollars a year will mature in 1949 and 1950 and the maturities will increase rapidly up to $9.5 billion in 1954.

U. S. Savings Bonds Maturities
(Millions of Dollars)

	Total	Series C-D	Series E	Others (F, G)
1948	$271	$271	----	----
1949	824	824	----	----
1950	994	994	----	----
1951	1,560	433	$1,127	----
1952	4,139	----	4,139	----
1953	7,307	----	6,002	$1,305
1954	9,508	----	6,873	2,636

Consumer Debt Is Unusually Low In Relation to Income and Savings

The expansion of consumer credit during 1947 and 1948 has been viewed with alarm, because in terms of dollars individual debt has reached totals above prewar years and the increase has been considered an inflationary force. As a possible continuing influence on market potentials, however, consumer debt must be studied in relation to disposable income and to savings.

Consumer debt actually is low according to prewar standards. It could increase by between 60% to 100% without exceeding the ratios which, in 1940, were considered conservative. Between $40 billion to $65 billion could be added to the present total of consumer credit and mortgages before reaching the 1940 relationship to disposable income or savings. See Table 3 and Chart 4.)

In 1929 the individual debt total of $49.3 billion represented 99% of the aggregate of individual savings. By 1940 the ratio had dropped to 63% and by the end of 1948 it is estimated that while the combined long- and short-term consumer debt may total $67.0 billion it will be only 32% of the aggregate savings of individuals. Individual debt may have been overextended in 1929 at 99% of savings, but was it overextended in 1940 at 63% of savings? If not, then present debt potentially could be doubled without exceeding the conservative 1940 ratio.

In 1929 individual debt represented 60% of disposable personal income after taxes. By 1940 the ratio had dropped slightly to 57% and by the end of 1948 it is estimated that the total of individual debt will represent only 35% of 1948 disposable income. Debt could increase over 60% before reaching the 1940 ratio.

Changed Distribution of Families By Income Groups

Of all these factors which represent a changed market since prewar the most important to study is the influence of full employment and increased income payments to individuals on the income groupings of families and single individuals. As we come into a buyers' market the new market potential indicated by the shifts upward in icome groups of families are a vital key to increased sales.

This great increase in national income payments and the addition of about 12 million persons to the employment rolls has resulted in startling shifts in the income grouping of families and single individuals. The total of 30,976,000 consumer spending units (families and single individuals) in the United States early in 1948 with annual incomes over $2,000, for example, is 5 times the 6,285,700 in 1935-36 and more than double the 14,009,000 there were in 1941.

As these millions of families move up into the next higher income groups they can change enormously the potential markets for goods and services depending on the extent to which they take on the standard of living of the income group into which they move. Between 1941 and 1948, for example, some 14,141,000 families moved up into the income group above $3,000. Most of these came from the income group of $1,500 to $3,000 which included a total of 14,074,000 families in 1941. If the 14,141,000 families who moved up above the $3,000 level were to take on the established expenditures and saving pattern of the income groups into which they moved they would represent potential markets from 2 to 5 times as great as before, depending on the product.

In the case of savings, for example, in 1941 families in the $1,500 to $2,000 income group had an average net surplus of $123, while those in the $3,000 to $5,000 income group had an average surplus of $483, or 4 times as much. Such changes in habits or standards of living do not take place automatically with changes of income since it takes time to educate people to an acceptance of the next higher standard of living. But the increased market potentials do exist and can be developed by aggressive marketing.

Need for Working Capital and Investment Capital Is Increasing

The present high level of production and consumption and the potential opportunities for further increases in productivity accentuate the need for working capital and investment capital in production and distribution.

Dollar volume of business in the first-half of 1948 was at a level from 2½ to 3 times the 1940 level. The following table shows the ratio of 1948 sales and consumption to 1940 sales and consumption:

	1940 —(Billions)—	1948 (First Half Annual Rate)	Ratio 1948 to 1940
Manufacturing Sales	$70.3	$203.1	2.9 times
Wholesale Sales	61.8	165.7	2.7 times
Retail Sales	46.4	126.8	2.7 times
Total Personal Consumption Expenditures	72.1	175.1	2.4 times
Durable Goods	7.9	22.3	2.8 times
Nondurable Goods	37.6	102.4	2.7 times
Services	26.6	50.4	1.9 times

Working capital and facilities represented by capital investment have had no such increase. Inventories, for example, are low in relation to sales—they could be increased by a quarter before equalling the 1940 relationship. This is shown in the following table:

Ratio Inventories to Sales

	Mfg.	Wholesale	Retail
1940	2.20	0.74	1.55
1947	1.79	0.59	1.32
1948 (1st half)	1.74	0.58	1.30
Percent by which inventories could be increased before exceeding 1940 ratio to sales	26%	28%	19%

One result of this squeeze on working capital has been the abnormally large retention of corporate profits to meet working capital needs (see Chart 6). In the first half of 1948 about 60% of corporate net profits after taxes have been retained as compared with 40% paid out in dividends. In the eight years from 1941 to 1948, inclusive, undistributed corporate profits have totalled about $56 billion.

In spite of the fact that corporate net profits after taxes are about 3 times the 1940 level and that disposable personal income is 2½ times the 1940 level there has been a continued lack of confidence on the part of investors, and, the expectation of almost immediate depression and unemployment has been reiterated in the press at frequent intervals during the last 5 years. This has been reflected also in the low level of stock prices which has made difficult the obtaining of working capital through the normal channels.

In terms of 1940 dollars (present prices corrected for the value of the dollar) stock prices in the first half of 1948 were 17% under the 1940 levels. In contrast, the real value corporate net profits and consumer purchasing power in 1948 were far above 1940. (See Chart 6.)

Increases or Decreases in Real Values in 1948 vs. 1940
(In Terms of 1940 Dollars)

Total Corporate Net Profits After Taxes	72%
Undistributed Corporate Profits	175%
Dividends	10%
Disposable Personal Income	45%
Stock Prices	*17%

* Decrease

Summary

These facts on purchasing power would seem to indicate that there will be plenty of opportunity in 1949 to maintain a high level of production, employment and consumption.

Real purchasing power after full correction for taxes and increased prices can be at a level 50% or more above 1940. Total disposable income after taxes could reach or exceed $200 billion or 2⅔ times the 1940 level of $75.7 billion.

Productivity per capital is 34% above 1940 levels. This increased productivity is reflected in a 34% increase in real purchasing power per capita.

Consumers' surplus income for discretionary spending or saving over and above what would be necessary in maintaining a 1940 standard of living for the basic items of food, clothing and shelter may total over $103 billion or 4 times the 1940 level of $26.5 billion.

Individual savings will total about $207 billion at the end of 1948 or 3 times the 1940 level of $68.4 billion. Annual additions to savings of $12 billion are three times the 1940 addition of $3.7 billion.

Consumer debt is unusually low in relation to savings or to disposable income. Debt could be increased 100% without exceeding the 1940 ratio to savings—it could be increased over 60% without

TABLE I

Real Consumer Purchasing Power in 1949 Can Be 50% Over 1940 Because National Productivity Is 50% Higher Than Prewar

	1940	1947	Percent Increase Over 1940	1949 Opportunity	Percent Increase Over 1940
Population (thousands)	131,970	144,034	9%	147,710 (Jan. 1)	12%
No. employed civilians (thousands)	47,520	58.027	22	59,000	24
Consumer price index (1935-1939=100)	100	159	59	176	76
Federal Reserve Board Index of Indus. Product'n (1935-39=100)	125	187	50	197	58
Productivity:					
Gross national product (billions)	$100.5	$231.6	130	$265.0	164
Real gross national product in 1940 dollars (billions)	100.5	145.7	45	150.6	50
Per capita	761	1,012	33	1,020	34
Per employed civilian	2,115	2,511	19	2,553	21
Purchasing Power:					
Disposable personal income after taxes (billions)	75.7	173.6	129	200.0	164
Real disposable personal income after taxes in 1940 dollars (billions)	75.7	109.2	44	113.6	50
—Per capital	574	758	32	769	34
Disposable income as a share of gross national product	75%	75%		75%	

Source: 1940 and 1947 based on figures from the Economic Report of the President, July, 1948.

Opportunity for 1949 is estimated on basis of conditions existing at end of 1948

Note that real per capita purchasing power increased in direct proportion to per capita productivity—both increased one-third from 1940 to 1947. Also note that disposable personal income remained at approximately 75% of the gross national product. In other words, as total production increased so did the real purchasing power of the American people.

Joins Daniel Reeves Staff

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—, Matthew C. Leonard has joined the staff of Daniel Reeves & Co., 271 South Beverly Drive, members of the New York and Los Angeles Stock Exchanges.

C. E. Abbett Adds Six

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Homer S. Anderson, Albert F. Bader, Bryce J. Brisbin, Robert S. Campbell, Hugh H. Crowe and George C. Splane have been added to the staff of C. E. Abbett & Co., 3277 Wilshire Boulevard.

exceeding the 1940 ratio to disposable income.

There have been some really startling shifts upward in the distribution of families by income groups. 30,796,000 consumer spending units now have incomes over $2,000 compared with 14,009,000 in 1941 and 6,285,700 in 1935-36. As families move up from one income group to another there is a substantial increase in discretionary spending power even after applying the present increased costs of living to the basic items that made up the family's former standard of living.

There is a growing need for working capital and investment capital to finance production and distribution at levels of sales from 2½ to 3 times the 1940 levels. In the last 8 years about $56 billion of corporate net profits have been diverted to supply this need for capital.

The real answer to inflation is production, and increased productivity is the key to maintaining and increasing the present levels of real earnings and real purchasing power. The potential market for goods and services can be shown to be great enough to maintain these high levels of production provided the market potential is developed and higher standards of living are established.

TABLE II

How Consumer Purchasing Power Has Increased Since 1940, 1947 and Opportunity for 1949

(In Billions of Dollars)

	1940	1947	Percent Change Over 1940	†1940 Opportunity	Percent Change Over 1940
Total United States:					
Total personal income	$78.3	$195.2	149%	$220.0	181%
Less personal taxes	2.6	21.6	731	20.0	669
Total disposable personal income after taxes	$75.7	$173.6	129	$200.0	164
*Less basic living costs to maintain 1940 standard of living	49.2	85.4	74	96.9	97
Surplus income for discretionary spending or saving	$26.5	$88.2	233	$103.1	289
Less personal saving	3.7	8.8	138	12.0	224
Net balance for discretionary Spending	$22.8	$79.4	248	$91.1	299
Average Per Capita:					
Population (thousands)	131,970	144,034	9	147,710 (Jan. 1, 1949, est.)	12
Per capita—					
Total personal income	$593.30	$1,355.20	128	$1,489.40	151
Less personal taxes	19.70	150.00	661	135.40	587
Disposable income	$573.60	$1,205.20	110	$1,354.00	136
*Basic living costs to maintain 1940 standard of living	372.80	592.70	59	656.10	76
Surp. income for discretionary spending or saving	$200.80	$612.50	205	$697.90	248

*Basic living costs for food, clothing and shelter in 1940. Includes all food and beverages, clothing and accessories (except jewelry), housing, household operation (including furniture, refrigerators, domestic service, telephone and telegraph, fuel, etc.) as reported under Personal Consumption Expenditures in July, 1947, National Income Supplement to Survey of Current Business. To maintain the 1940 basic standard of living for food, clothing and shelter, the average person in 1947 had to spend 59% more on the basis of the average level of the Consumer Price Index of the U. S. Department of Commerce for 1947. In 1949 the average person would have to spend 76% more (estimated index at 176). Expenditures beyond this for food, clothing and shelter would represent a discretionary improvement in the standard of living.

†Based on estimated annual rates at end of 1948.

Minnesota Group of IBA Elects Andrews Chairm.

MINNEAPOLIS, MINN.—The Minnesota Group of the Investment Bankers Association elected the following officers at their annual meeting:

Chairman: Rollin G. Andrews, J. M. Dain & Co., Minneapolis.

Vice-Chairman: Bernard B. Knopp, First National Bank of St. Paul.

Secretary-Treasurer: Walter G. Space, Woodard-Elwood & Co., Minneapolis.

Executive Committee: John H. Middlemis, Northwestern National Bank of Minneapolis; James S. Graham, Allison-Williams Co., St. Paul, and Douglas M. Warner, Paine, Webber, Jackson & Curtis, Minneapolis, all for two-year terms.

The Executive Committee at an earlier meeting had previously named G. James Caldwell, Caldwell-Phillips Co., St. Paul, as National Governor for three years.

TABLE III

Relation of Individual Debt to Individual Savings and Disposable Income

(In Billions of Dollars)

	1929	1940	1947	(Est.) 1948
Disposable Personal Income after Taxes (total year)	$82.5	$75.7	$173.6	*$190.0
Individual Savings (end of year)	49.7	68.4	195.4	*207.0
Individual Debt Total (end of year)	49.3	42.9	*58.4	*67.0
Long-Term:				
Noncorporate Urban Real Estate Mortgage	32.1	27.3	*40.0	*47.0
Farm Mortgage	9.6	6.5	*5.0	*5.0
Short-Term Consumer Credit	7.6	9.1	13.4	*15.0
Total Individual Debt as Per Cent of:				
Disposable Income	60%	57%	34%	35%
Savings	99%	63%	30%	32%

*Estimates by author.

NOTE—Individual savings (The Economic Almanac—National Industrial Conference Board) include government pension and trust funds, savings and loan association assets, U. S. savings bonds outstanding, time deposits of postal savings system—mutual savings banks—commercial banks, and life insurance reserves (plus dividends unpaid, less premium notes and loans). This does not include all forms of savings since it excludes equity in residential property and other forms of investment.

Consumer credit includes installment credit, loans, charge accounts and service credit.

Chart 1

1949 REAL CONSUMER PURCHASING POWER CAN BE 50% ABOVE 1940

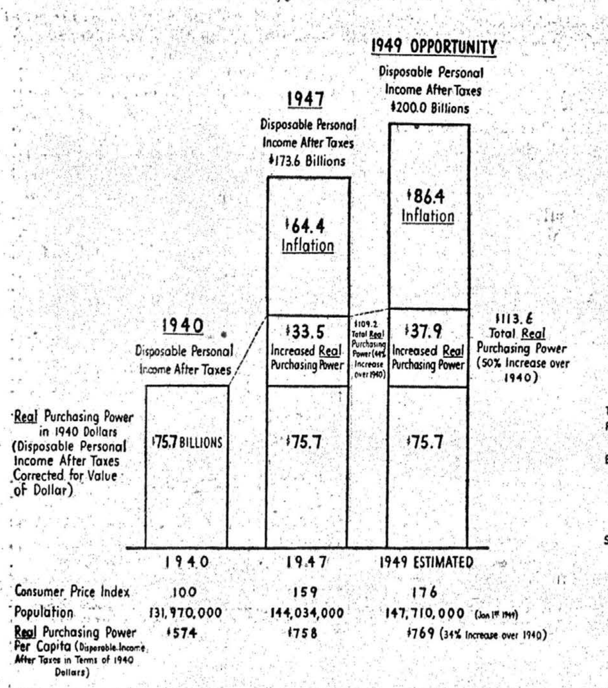


Chart 2

12 MILLION INCREASE IN CIVILIAN EMPLOYMENT SINCE 1940

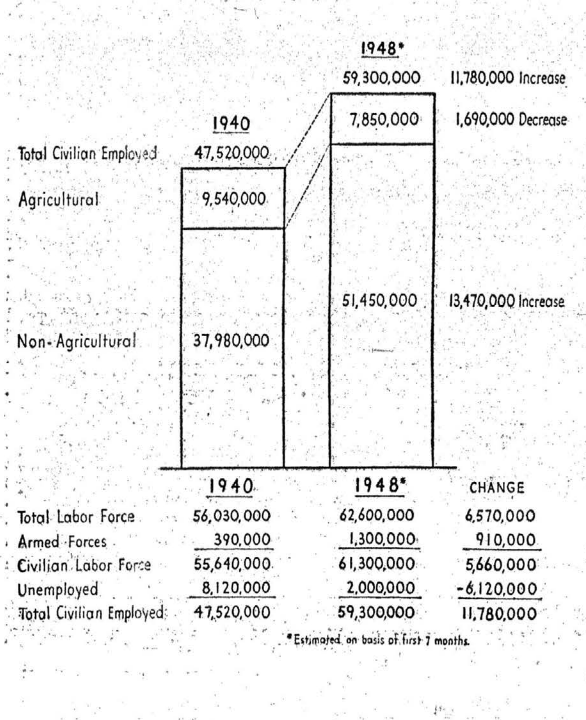


Chart 3

INCREASE IN CONSUMER PURCHASING POWER 1940-1949

(After Adjustment for Increased Cost of Living and Increased Taxes)

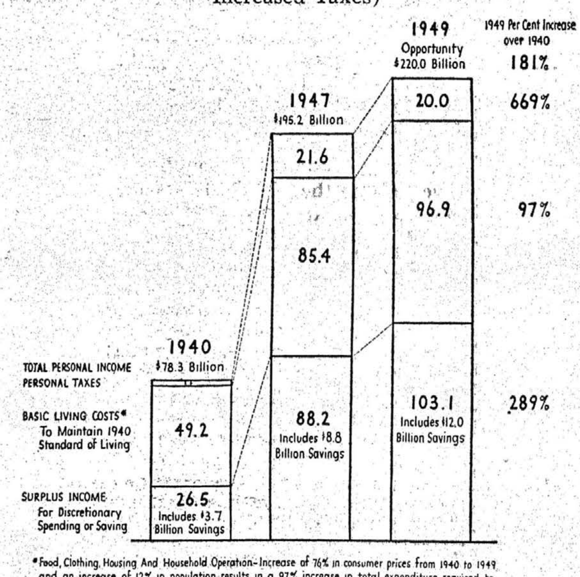


Chart 4

CONSUMER DEBT IS UNUSUALLY LOW IN RELATION TO DISPOSABLE INCOME OR INDIVIDUAL SAVINGS

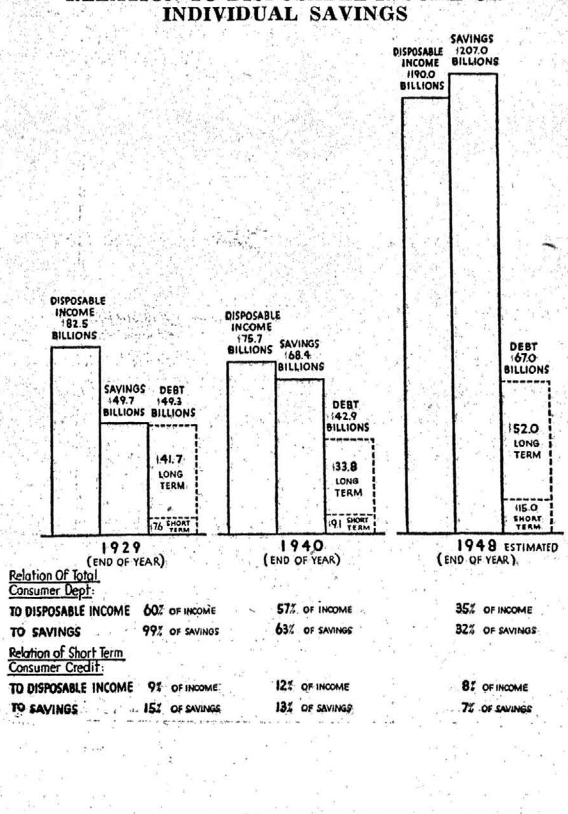


Chart 5

INCOME DISTRIBUTION OF CONSUMER SPENDING UNITS IN THE U. S.

There Were 5 Times as Many Buying Units With Incomes Over $2,000 in 1948 as There Were in 1935-1936

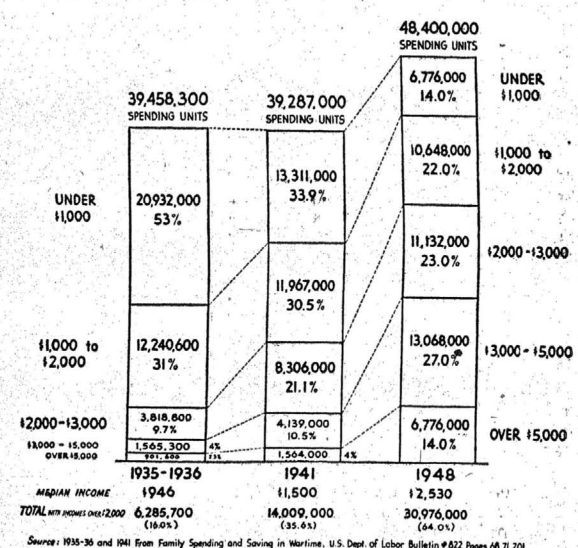
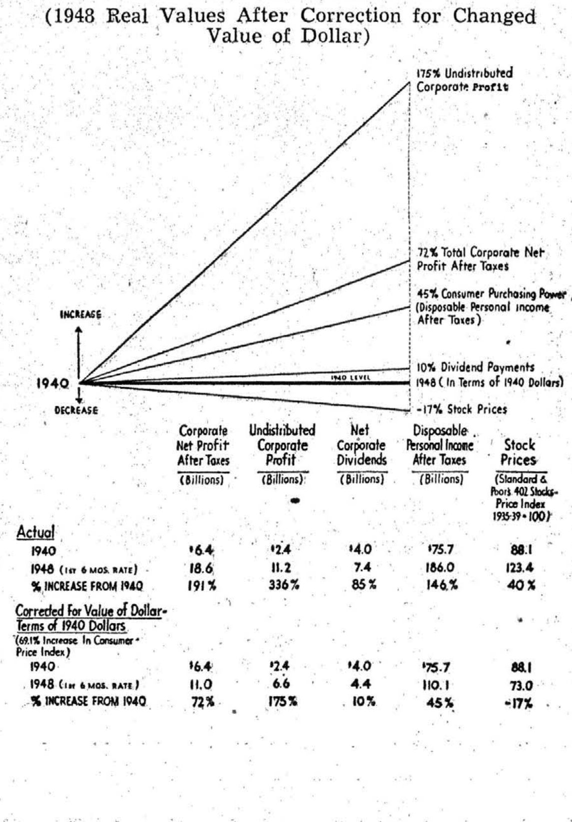


Chart 6

HOW PROFITS AND PURCHASING POWER INCREASED FROM 1940 TO 1948

(1948 Real Values After Correction for Changed Value of Dollar)



Should the U. S. Make Its Currency Redeemable in Gold?

By WALTER E. SPAHR

(Continued from page 7)

Reserve banks and United States Treasury in which these "reserves" cannot be paid out domestically?

What do "reserves" against Federal Reserve notes and deposits mean if they cannot be used domestically? What is the function of a reserve against a liability? Is it to be used or not? Does the concept of a reserve set up by an individual or corporation against his or its liabilities involve the principle that the reserve is not to be used to meet the liability? The answer is, of course, no.

By what process of reasoning do we reach the conclusion that the Federal Reserve banks must set up "reserves" which cannot be paid out to liquidate the liabilities against which these so-called "reserves" are held?

The same considerations arise in respect to all the gold reserves held by the United States Treasury.

Let the defenders of an irredeemable paper money explain the grounds on which the Reserve banks and Treasury are prohibited from using—that is, paying out—their "reserves" domestically although they are required to hold "reserves."

3. On what appropriate grounds may foreign governments and banks be authorized to convert into gold their claims against our gold while that privilege is denied our people?

The basic reason why we do not treat foreign claimants as we do our domestic claimants is that our government cannot force silver and paper on them, except at a discount in terms of gold; therefore our government must stand ready to pay out gold to keep our currency on a parity with it in foreign exchange. Our own people can be forced to accept silver and irredeemable paper money because of the coercive powers of our government; and this domestic paper and silver currency does not go at a discount in terms of gold because our people, unlike the foreigner, cannot exercise any choice in the matter.

The question arises as to whether, in respect to gold, there is any valid basis on which preference should be given foreigners as against our own people? Is it not true that all claimants should have the same rights and privileges? And would it not be appropriate to take the position that if there is to be any discrimination it shall be in favor of our own people since this is the common practice of nations?

Is there any defensible ground on which we can justify the fact that we have reversed this common practice of nations, thus putting our people at a disadvantage as against foreigners in exercising claims against our gold?

Let the defenders of this procedure meet these questions squarely and state precisely, so that the general public can understand, the grounds on which this discrimination is justified.

It is to be noticed that the principle that reserves are something to be used is applicable when foreign claimants for our gold demand some of these reserves. The United States citizen however must face the fact that none of these reserves is for him. A different standard is applied to him. It is that, while these reserves in Federal Reserve banks are ostensibly held against all Federal Reserve notes and deposits, these reserves are in fact usable only in behalf of foreign claimants.

II

If we give correct answers to these three basic considerations, most of the other questions and answers relating to an irredeemable paper money and a domestic gold coin or bullion system should fall into their natural places.

Since the general public has not been able thus far to separate the fundamental issues from various secondary and technical ones, popular debates have in general concentrated on the following aspects of the question on which brief comment will be made:

(1) **The contention that there is not enough gold to go around.** The answer to that is that there is not enough of anything to go around if it has value. Scarcity is a requisite of value.

The issue raised here is really that of the soundness of the principle of a fractional reserve system in our banks. For that system to work, we must have a well-organized banking structure and an efficient and nation-wide clearing and collection system. To the extent that clearing is effective, the need for reserves to meet demands for payment is reduced. No one can compute the volume of credit that can be supported by a given amount of gold if the clearing system is efficient.

Then it is to be noticed that if the scarcity argument in respect to gold has any validity, it is even more valid in respect to the only asset cash which Reserve banks can pay out. Today these banks can pay out, in cash assets, only United States notes, silver, silver certificates, and minor coin against demands arising from their Federal Reserve notes or deposits. As of June 30, they could have paid out only $252,000,000 of such money. Had their gold certificate "reserves" been in gold, and had they been able to pay this out, they would have had $22,257,813,000 to use, or approximately 90 times as much to meet demands arising out of their note and deposit liabilities.

It is a peculiar thing to see an argument of "scarcity of reserves" directed at an item that is approximately 90 times larger than the item composed of the only cash assets that the Reserve banks can pay out.

Still further, we should notice that the ratio of our gold stock to our paper money (omitting silver certificates) and deposits in Federal Reserve banks and in all commercial banks, savings banks, and trust companies was over 13% as of June 30, and that this compares with an average of less than 8% for the years 1915-1932, inclusive.

(2) **The contention that paper money is more convenient than gold and that people do not desire gold as money.** This argument confuses the convenience of paper money as a medium of exchange with the other functions performed by gold—namely, those of standard value, standard of deferred payments, storehouse of value, reserve against paper money and deposits, a clearing agent, and a means of settling adverse balances of payments.

These basic functions of gold, with their far-reaching implications, are poorly understood by the general public. Unfortunately, it seems to be widely, if not generally, supposed that the argument in respect to gold versus irredeemable paper money hinges upon whether paper money is more convenient than gold as a medium of exchange.

(3) **The contention that hoarding might and could exhaust the gold reserves of the Reserve banks and Treasury and cause an economic collapse.** The questions here are these: Why would people hoard and should they not be permitted to hoard?

Extensive hoarding arises when credit is mismanaged and when it is feared that promises to pay are too extensive to be met. Since people do overissue such promises, the question arises as to whether such procedure should not be brought to a halt by demands for settlement in a commodity having universal value and demand, such as gold.

Extensive hoarding does not provide proof of a defect in gold but of the promises to pay being employed.

On what appropriate grounds may we insist that people may not or should not hoard their savings in the form of gold should they so desire?

(4) **The contention that a domestic gold standard system does not prevent booms or business recessions.** The best standard of value and medium of exchange known to man cannot do that. A fine automobile cannot prevent a drunken driver from wrecking it; but despite that fact, it has many virtues not found in a cheaper car. So it is with gold as against an irredeemable paper money. Business booms and recessions arise from a multitude of causes—not merely from a monetary system.

An official of the Federal Reserve System recently misstated this issue in the usual manner when he said, in defense of our irredeemable paper money system, that our domestic gold standard did not prevent the business recession of 1929-1933. One of our common practices is to blame gold because it does not keep business and the economic world on an even keel regardless of how foolish we may be or how much we abuse the gold standard and system.

If fire destroys one's home and he is forced to resort to a tent, one does not blame houses for fires or contend that, since one is, as a consequence of a fire, living in a tent, tents are therefore preferable to houses.

Something closely akin to that species of logic has been applied in our arguments in recent years as to the virtues of irredeemable paper money as compared to those of gold. Paper is paper and gold is gold, and that fact cannot be altered in arguments regarding money or anything else.

(5) **The contention that a gold standard is not a panacea for economic ills.**

Apparently it needs to be emphasized that if a nation adopts the best monetary standard and system known to man, and if it be concluded that for us these must involve the domestic use of gold, the fact would still remain that many economic problems and ills, which people are prone to lay on the doorstep of money, would not thereby be solved. A good monetary standard and system is no panacea for all economic and political ills, but it is a vitally important factor in a nation's wellbeing.

(6) **The contention that access by the people to gold is contrary to the best interests of society.** A gold standard places in the people's hands an important and direct control over the government's use and abuse of the people's purse, and, as one studies the history of human freedom, it becomes clear that this particular relationship of gold to human wellbeing is a matter of very great importance to us all. It is an old and well-established fact in human experience that when a people lose control over the public purse their freedom is seriously impaired or lost. In large degree our Federal purse is in the hands of pressure groups; and a basic reason for this is to be found in our shift to an irredeemable paper money. A Congressman can expect to keep himself in office only by yielding to pressure groups; and he can freely grant their request because the government can meet these demands with irredeemable paper money.

This relationship of a gold standard to a people's control over their public purse, seems to be understood by very few indeed. It is perhaps above all else the most fundamental issue involved in a consideration of an irredeemable paper money, and it is one to which the people of this country should give their very best thought.

By E. M. BERNSTEIN

(Continued from page 7)

can only be the result of wise monetary policy, that is, good monetary management.

Is there anybody here who would be so reckless as to say that, having established a gold standard, whatever its special features, we can just sit back and let the monetary system run itself? I think every reasonable man would say that with the gold standard we still need the Federal Reserve System formulating monetary policy, we still want bankers using good judgment, limiting the creation of credit in boom, easing credit when things get bad. Wise policy is the key to a good monetary system, and that is just as true with the gold standard as without it.

Now we come to the question for tonight. Should the United States restore redemption of currency in gold coin? I want to make it clear that gold coin circulation is not essential to the gold standard. There are two features basic to the gold standard. The first is that the quantity of money in a country must be limited in one way or another by the quantity of gold the country has. Without an addition to its gold holdings, a gold standard country cannot keep expanding the supply of money. The second basic feature is to buy and sell gold freely at a fixed price for the settlement of international transactions. In this way with the gold standard a country maintains stability of the exchange rate for its currency in terms of the currencies of other countries also on the gold standard.

Have Right Kind of Gold Standard Now

We have that kind of gold standard now, the one I have just described. There are many additional trimmings that can be put on the gold standard. One is to give people gold coins for their currency whenever they wish and without regard to the use that is intended to be made of the gold coins. As I understand Dr. Spahr, he says there is something useful and wise in having redemption of currency in gold coins to add a touch of perfection to the gold standard. I want to express grave doubts as to whether that is so.

Some people will tell you that gold is a natural standard of value, and that standard money should circulate. I want to disabuse you of the notion that gold is a natural standard of value, or that it is a standard of value at all even in our country with the gold standard. The measure of value in a country is the unit of money. A dollar is the measure of value here. Gold is only something which in a gold standard system you can make money out of. A yard is the measure of length; wood is only the material out of which we make yardsticks.

I say that gold is not a measure of value but I say that dollars are a measure of value. Does anybody want to argue that between 1940 and 1948 the reason why the value of money fell was that the value of gold fell? Was gold a bad measure of value and is that why the value of money fell considerably? Not at all. The value of money fell because the monetary policies that were pursued made a unit of money worth less; and a unit of money being worth less, then gold—which measures quantities of money—became worth less.

Between 1940 and 1948 the value of gold fell by half. That is to say, in 1940, with a given quantity of gold, you could have bought a basket of goods. In 1948, with that same quantity of gold, the basket you could have bought would have contained half as much goods. Somebody objects that gold is not used to buy goods. People don't get gold for dollars. Lots of countries have used gold to buy goods here. But I will cite another period when people did use gold. In 1920 you could buy with a given amount of gold only 40% as much goods as you could buy with the same quantity of gold in 1914.

Monetary Policy, Not Gold, the Price Key

Does this mean that something happened to gold? Not at all. What happened is that between those two periods monetary policy forced prices up. In the meantime, gold, measuring a given number of units of money, bought less. What made the value of gold go up or down is monetary policy. It is the unit of money which is the standard of value. It is the policy of the monetary authorities in creating units of money that determines the value of money; and it is the value of money which then determines the value of gold. That is why we must not do anything that will increase the difficulty of getting good monetary policy.

Let us examine this point. When you consider any aspect of the gold standard, any feature to be added to the gold standard, there is only one reasonable test of its usefulness, and that is whether it is conducive to good or bad monetary policy. Because it is monetary policy that determines how well the gold standard will work. With bad monetary policy, the gold standard will not last. I will tell you why, in my judgment, the redemption of currency in gold coins would be a very bad feature to add to the gold standard we now have in the United States. Redemption in gold coins is a bad feature of the gold standard at any time; it would be an impossible feature in the kind of world in which we live today.

I want to argue that the essential element in any satisfactory monetary system, whether the gold standard or managed money, is good, sound, intelligent policy. And whether or not redemption of currency in gold coins is worth having depends entirely on whether it would be conducive to good monetary policy. I say further that redemption in gold coins is not conducive to good policy because it increases the difficulties in getting a wise policy in times of stress.

The fact is that the Treasury and the Federal Reserve Banks, the responsible bankers and the responsible businessmen of this country have found that redemption of currency in gold coins is a dangerous feature to add to the gold standard. They are against it now. The greatest students of monetary problems in the past have opposed the redemption of currency in gold coins. I am happy to enlist on my side David Ricardo, who was one of the ablest men to write on the gold standard at a time when the gold controversy was far more bitter than it is today. Ricardo said that gold coins were an undesirable part of a gold standard and he opposed their use in the new monetary system that England set up after the Napoleonic Wars.

David Ricardo was a member of Parliament, a landowner, and a very successful broker. He was one of the ablest students of monetary problems of his time. Ricardo did not propose that England go back to a gold coin standard. On the contrary, he said that would be a serious mistake. He thought of the function of gold as a regulator of the quantity of money, as a means of settling international payments, and he proposed that England establish the gold *bullion* standard. He was against letting every Tom, Dick and Harry take a five-pound note to the Bank of England and get gold coins for it. He thought gold bars worth 1700 or 1800 pounds would be satisfactory for international payments and prevent an internal drain of gold in times of uncertainty. As a matter of fact, even a gold bullion standard with domestic redemption would now have the same bad effects as redemption in gold coin.

Why was it that men like Ricardo were dissatisfied with the use of gold coins? Here is the reason: Ricardo had seen that when there were grave economic and political difficulties, people lined up in front of banks and drew out coins. When they drew out coins for their notes, the whole monetary and banking system was upset. And if people get scared enough they can bring on a financial collapse. We had that experience in this country in 1933, when people drew currency out of the banks and presented the currency for redemption in gold coins. The effect on our banking system was disastrous.

Detrimental to Banking System

Introducing redemption of currency in gold coins will inevitably have a bad effect on our banking system. It will increase the difficulties of the Federal Reserve Banks in giving us a good monetary system. Anybody who advocates it is going to force on this country a lot more management than we really want, and a lot more difficult management than we can wisely undertake. You must realize that with the gold standard our monetary system is an arch of currency, bank deposits, reserve deposits and gold. Gold is the keystone that keeps the arch firm and strong. Let irresponsible people in time of panic or fear chip away at the keystone, and the arch may collapse.

Suppose we take our country in 1893, 1907 or 1933, when the economic situation was very bad. People got worried about business, or the banks or the Treasury. These people having been told that they have a right to gold, began to draw out gold coins. What happened to our monetary system? Let us assume they did it quietly and the psychological fears did not grow. What was the effect, nevertheless, on our monetary system? In order to get the gold coins, they had to present currency notes. To get the notes, they had to draw out their bank deposits. To meet the withdrawal of deposits, the banks had to deplete their bank reserves. To meet the redemption in gold coin, the Federal Reserve banks had to deplete their gold reserves. When the gold reserves of the Federal Reserve banks went down and the bank reserves of the banking system went down, the whole monetary system had to respond by contracting the volume of currency and credit. And to do this, loans and investments had to be reduced quickly and considerably.

Remember that in the United States gold utlimately determines the quantity of money we have. But it is not the gold in the hands of the public, it is the gold in the hands of the monetary authorities —the Treasury and the Federal Reserve banks. And when the public draws out gold coins the quantity of money must be contracted. The Federal Reserve banks have to reduce the circulation of notes, not just the notes that they retired when they gave the gold, but other notes in addition. If they were just at the point of having the proper ratio of notes to gold, they have to call in two and one-half times as much in notes as they lost in gold. For each $10 note that has been redeemed in gold coin, the Federal Reserve banks have to get back $15 in notes through restriction of reserve credit. And as the banks lose deposits and bank reserves they in turn have to restrict credit. They have to call in loans, sell securities, bring down their deposit liabilities. And they may have to do considerable tightening of credit to restore their reserve position.

That is the kind of difficulty that David Ricardo had in mind. That is the kind of difficulty which ought to lead all bankers, especially the bankers in New York, all the Federal Reserve banks, and especially the Federal Reserve Bank of New York, to say that gold coins would be an abominably bad feature of our gold standard. It would make it impossible to get the right monetary policy at the very time when people have unreasonable fears. At the very time when the public is attacking the banking system in an irrational way, the monetary authorities, responding to the outflow of gold coin, would have to put the pressure on. I don't think it makes any sense.

Moral Issue Not at Stake

What function would the redemption of currency in gold coins perform, anyway? What does it do? You say there is a moral obligation to give people gold for their currency? It was no more immoral to give up the circulation of gold coins than it was to give up the free coinage of silver when silver had had a much longer history and tradition as money than gold. The test on the circulation of gold coins is the same as on the free coinage of silver: is it conducive to good or bad monetary policy? This is not a matter of morals, it is a matter of policy.

Now, some people who favor redemption of currency in gold coins agree that the proper test is the effect it would have on policy. Dr. Spahr takes this view. He tells us that restoring gold coin circulation will have a salutary effect on fiscal and credit policy; it will make the Treasury, the Federal Reserve banks, the commercial banks and businessmen all behave much better. When the public sees the authorities pursuing the wrong policies, they will call for the redemption of their currency in gold coins. And that somehow will make the Treasury balance the budget, induce the Federal Reserve Bank to tighten credit, compel the banks to restrict loans, and prevent businessmen from undertaking too much investment. The trouble with this is that it is all imagination without any basis in reality. That is not how the public has behaved, it is not how the public ever will behave.

We had redemption of currency in gold coins until 1933. Did the public withdraw gold coins when the stock market boomed? Did it withdraw gold coins when the Federal Reserve was trying to tighten credit in 1928? Not at all, the public joined in the boom. Never before or since has so large a part of the people actively participated in building up the boom. When did the public withdraw gold coins? In 1933, in the darkest hour of the depression. Then the public depleted our gold reserves, endangered the banking system, and almost destroyed the economy. The gold reserves of the Federal Reserve Bank of New York were brought down to within $100 million of the legal minimum. The New York Federal had to try to help from the Chicago Federal.

And that can happen again if we have redemption of currency in gold coin. Far from acting in concert with wise and conservative monetary policy, the public will do just the reverse. The gold coins will flow into the monetary system in boom time, and the public will participate in the boom. The task of keeping credit in check will be that much more difficult. In depression, a scare will drain the monetary system of gold; and the capacity of the banking system to keep itself liquid and to provide credit for business will be impaired. It will be infinitely harder to follow a proper monetary policy. That is what the circulation of gold coins has done, that is what it will do if we permit it again.

We have enough gold in the United States so that with or without redemption of currency in gold coin there is not any great danger that we would have a gold crisis even in bad times. But we could have a banking crisis. The banks could be pushed hard. I say that we are not going to solve any problem by giving people gold coins. I do say we are going to give the Federal Reserve banks and we are going to give the New York bankers and their colleagues all over the country a new headache: how to adjust the monetary system, the banking system, every time the public increases or decreases its holdings of gold coin.

Specific Answers to Dr. Spahr

Dr. Spahr: The audience has heard me, and if I may, and it is agreeable, I should like to have Mr. Bernstein first answer my three questions for the benefit of the audience. If there is time I will make comments on his statements.

Dr. Bernstein: Question number one: "On what appropriate ground may one defend the issuance of promises to pay that are irredeemable?"

If we are issuing currency notes which are promises to pay gold then let us change the words. But do our notes say that? I think they say "they are redeemable in lawful money." Some people seem to prefer to have the Treasury of the United States behind their money. That is why Federal Reserve notes are redeemable in lawful money and that is precisely what the notes state.

There is nothing on our currency which implies that notes are redeemable in gold. There is no implicit promise to pay gold. The public knows that. If there is anything abhorrent or illogical in redemption in lawful money, even that can be changed without instituting gold coinage. Simply say that Federal Reserve notes are legal tender and they will circulate just exactly as well as they do now or would with gold redemption.

Question number two: "On what appropriate grounds may one defend a so-called system of 'reserves' in our Federal banks and United States Treasury in which these 'reserves' cannot be paid out domestically?"

The purpose of our gold reserves is to give us an objective measure of the quantity of money the country should have. That is one purpose of the reserves, to tell the Federal Reserve banks when there is too much or too little money, to tell the commercial banks when there is too much or too little credit. Incidentally, that is also why we have bank reserve requirements and not merely to assure payment of currency to depositors.

Of course we do pay out reserves whenever that is necessary for settlement of international payments. The Federal Reserve Bank of New York sells gold regularly to central banks and treasuries for dollars. I favor paying out reserves for such a purpose. I oppose paying gold to people who want to draw gold out of the Federal Reserve Banks and the Treasury for hoarding. I oppose this because of the consequences on the banking system.

Question number three: "On what appropriate grounds may foreign governments and banks be authorized to convert into gold their claims against our gold while that privilege is denied our people?"

The reason we convert our currency into gold for other countries is because we want their currency in whatever amount we need at a fixed exchange rate. If any country is willing to give us its currency for dollars without converting our currency into gold, there is no conversion. Every country is perfectly free to give us currency for deposits in the Federal Reserve Bank of New York, and some do. But if a country doesn't want to give us its currency without conversion of dollars into gold, we quite properly give it gold. Otherwise the dollar would depreciate against that currency or limitations would have to be put on American demand for that currency.

Our monetary system does a better international job when the dollar is convertible into gold to settle international payments. Therefore, I favor it. Our monetary system would do a poorer domestic job if the dollar were convertible into gold for hoarding. Therefore, I oppose it.

The Government Bond Market

(Continued from page 4)

in the Reserve Cities to 24% and Country Banks to 18%. The steady increase in loans created additional deposits against which reserves must be carried, and this together with increased reserve requirements has exerted steady pressure on the Government bond market. As additional reserves became necessary, either through increased deposits resulting from loans or increased requirements, the banking system naturally liquidated Governments.

Consequently, in response to all of these factors, along with the pressure on bank reserves resulting from payment of Federal Reserve-owned debt, we saw the beginning of a decline in Government bond prices in the Fall of 1947. In November of that year the Federal Reserve System found it desirable to support the market and the Victory 2½s, which is probably the key issue and which had previously sold as high as 106½, were supported at 101, and the other issues, both eligible and ineligible, at prices in line therewith. On December 24 the Open Market Committee entered upon a more aggressive supporting operation but at a sharply lower level. the support price on Victory 2½s being dropped to 100¼; the 2¼s of 1962-59 to par and similarly lower levels for the various other issues.

In August of this year the Federal Reserve Board withdrew fixed support prices on the bank-eligible issues with the possible exception of 2¾s of 1959-56 and 2½s of September 1972-67, both of which are presently at or above the previous support prices. They made it known, however, that the ineligible issues would continue to be supported and the inference was that while no commitment existed with respect to short and intermediate bank-eligible issues, they would extend such support as might be necessary to protect the certificate rate as well as the long-term 2½% rate. This support of the market has continued steadily to this date with the result that the Federal Reserve System has expanded its holdings of bonds to a very large degree.

For example, as of Nov. 26, 1947, the System's holdings of bonds with a maturity of over five years amounted to $590 million. As of Dec. 30, 1947, this had risen to $2,272 million and currently is $8,243 million. The System's holdings of bonds of all maturities from Nov. 26, 1947 to Oct. 20, 1948 has risen from $928 million to $10,132 million, but by reason of payment of or sale of short-term obligations, their total portfolio in that period has shown an increase of only $952 million. While this amount in relation does not seem excessive, we must remember that it creates bank reserves of a like amount and therefore, the base for expansion of credit of about four or five times that figure. This brings us to the question which seemingly is uppermost in the minds of all of us; namely, can the Federal Reserve System continue to support the market?

Will Federal Support Continue

I have heard many expressions that the Federal could not continue its support, but I suspect that many people so expressing themselves have not explored the situation very carefully. Currently, the Federal Reserve System is required to maintain a 25% reserve in gold certificates against deposits and Federal Reserve notes outstanding, but actually such reserve is about 49%; so it is apparent that the System could purchase approximately $45 billion additional Governments and still maintain the required reserve. As of June 30, 1948, there were outstanding public marketable securities, other than those owned by U. S. Government agencies and Trust Funds and the Federal Reserve System, in the amount of $133,605 million, and it is certainly extreme to expect the Federal Reserve System would be called upon to absorb $45 billion of such amount. Furthermore, it seems to me that long before any such fantastic increase in the portfolio of the Federal Reserve System could take place, the reserves created by means of the supporting operation might well cause sufficient pressure in seeking profitable employment to develop a reversal of trend; that is, buying interest rather than further liquidation. Let us also remember that it is always within the province of Congress to lower the gold reserve requirement, if they so desire, so it would seem that the Federal Reserve System's ability to support the market is ample.

The question arises, however, as to how far such support may be continued without serious results to the economy. I have pointed out that the Open Market Committee has succeeded to date in supporting the market with but a relatively small increase in total holdings, but this was due in a large degree to the retirement of debt, as from July 31, 1947 to July 31, 1948 the Federal debt was reduced by about $6 billion, a large part of which was owned by the Federal Reserve System, and with little likelihood of a budgetary surplus for debt retirement from here on, it would seem that further substantial purchases by the Federal would result in expansion of bank credit, which is exactly the opposite of the objective in raising reserve requirements and the interest rate on short-term Governments. It seems to me that is clearly demonstrated by the fact that the recent increase in reserve requirements effective in September resulted in an increase of approximately $1,900 million, but in the two weeks following such change the portfolio of the Federal Reserve System increased $2,075 million. So it would seem that the purchases in that period completely nullified any deflationary effect of the increase in reserve requirements.

Insurance Company Selling

There has been much discussion of late regarding the selling of Governments by insurance companies for the purpose of acquiring other investments. As of August 31, 1947, 49 life insurance companies, representing 89.9% of the total admitted assets of all United States Life companies, showed holdings of Governments of $19,138 million; and as of Aug. 31, 1948, they reported a reduction in holdings of about $2¾ billion. Between August, 1947 and August, 1948 the yield on high-grade corporate bonds, as reported by the Federal Reserve Bulletin and

(Continued on page 38)

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Ability of stocks to make new highs or approach them, results in heightened optimism. Consider such periods as selling areas rather than buying points.

Between the writing of last week's column and this one the market managed to advance to the old highs as measured by the controversial Dow industrial averages, and now everybody is happy. The common talk now is that "this is just the beginning . . . From now on all stocks will go up."

* * *

From where I sit all this talk is just so much goose grease. I doubt if anybody knows if they're going higher or lower and how much. And that, dear readers, includes me. All I know is that I go by various precepts. If I make money, well and good; if I don't, I try again — if I have anything left.

* * *

Last week I wrote here that the averages looked like they would go up to 188 to 190. Before the end of the week was over they did just that. Volume picked up a little and the deserted board rooms regained a little of their life. There's nothing as encouraging to a bull as a rising market, so now the bulls are bellowing about how wonderful they are.

* * *

A word of warning here: Don't be bullish or bearish for more than short periods of time. You'll do better in the long run if you'll keep in the minority. Such a position means more taxes. Perhaps. But if you're going to worry about taxes, you have no place in the market.

* * *

Last week I said that volume as a market guide has outlived its usefulness; breadth of transactions has taken its place. This isn't a sudden process. It has taken years to develop and is based on the fact that the major buyers (and sellers) today are various organized investment groups who don't study charts or are concerned with the ability of any average to confirm action of another average. Such groups buy on statistical analysis over long periods of time. Oddly enough, however, most of this buying is limited to Dow stocks, not because they're in the averages but because they represent quality. So just as volume once showed near-tops or bottoms, it is the breadth of transactions today which point to the same thing. Belief is based on the theory that once a lot of stocks start moving the public is coming in and it constitutes a danger sign.

* * *

I can go into more details and give the operation of open end groups versus that of closed end outfits; activities of endowed institutions, etc., but I haven't the space or the inclination. So I'll go on to the daily market and your interest in it.

* * *

First of all I don't recommend any further buying at this point. If you have any of the oils, though none of them got low enough to come officially into the list, place stops a half point under Monday's lows. Same thing applies to Alleghany Ludlum, American Airlines and Loew's. Raise your stops to just under Monday's lows.

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.]

Inv. Dealers of Canada New Finance Course

TORONTO, ONT., CANADA—Applications for the new course in Principles and Practices of Investment Finance in Canada (Course II) are now being accepted by the Investment Dealers Association of Canada. The new course, which is more advanced than that previously offered, was drawn up by 60 executives from member houses across Canada. It is estimated that one evening a week for 40 weeks will be required. The fee for Course II is $50, either payable with the application, or $25 with application and $25 on Feb. 1, 1949. Applications should be sent to H. L. Gassard, Director of Education, Investment Dealers Association of Canada, 276 St. James St., West, Montreal, Que., Canada.

Included in the course will be Corporate Finance; Dominion, Provincial and Municipal Securities; An Accounting Approach to Statement Analysis; Business Cycle, Market Movements and Their Effects on the Investment Business; Portfolio Management; and Salesmanship.

The Government Bond Market

(Continued from page 37)

taken from Moody's, went from 2.51% to 2.86%; and on high-grade municipals, as reported by the Federal Reserve Bulletin and taken from Standard and Poor, went from 1.93% to 2.47%. Furthermore, with mortgages available in increasing amounts at attractive yields, together with direct loans to industry, it is obvious that with Governments being held at 2½%, there is continuing incentive for insurance companies and other investors to switch from Governments to other types of investment offering a more attractive yield. Thus one begins to wonder how effective increased reserve requirements are in the face of continued support of Governments at a 2½% level. Certainly, no one, in my opinion, can successfully argue the consistency in the two actions.

What May Be Expected

Possibly this would be a good time for me to make my position perfectly clear. I am not attempting to make a case for lowering the pegs on Governments, nor am I advocating their maintenance under any and all conceivable circumstances. I am endeavoring to illustrate conditions as they exist as a basis for forming some opinion as to what may properly be expected and its resultant effects.

We frequently hear comments that if the pegs were removed on Governments, the market would decline 10 to 20 points. Personally, I feel that any such comments are greatly exaggerated and made without any intelligent appraisal of the facts. With a debt the magnitude of ours, and with the absolute necessity of providing at all times a market for Government securities and keeping such market orderly, as well as the necessity of refunding our frequent maturities at rates consistent with the ability of the national income to pay, it is to me self-evident that we will always have, and necessarily must have, a managed market.

But a managed market and one maintained at a specific price level are not necessarily synonymous. We now have a managed market—but not a pegged one—in the early and intermediate bank-eligible issues and I am not convinced that a similar type of market in the ineligible list might not be possible without serious repercussions. I fail to see any sanctity in par, and so far as I am concerned, if in the judgment of the Treasury and the Federal Reserve System, it should ultimately become desirable in the best interests of the economy to permit long Governments to sell below par, I should not consider it any sign of weakness nor any reflection whatsoever on the faith and credit of the Government. I have expressed the opinion that the Treasury and the Federal Reserve System have ample reserves to maintain the market level at par if they so elect, and if such is the case, they certainly could do so at 99, 98 or whatever figure they might elect. It is my belief that we have a far greater obligation to the holders of E, F and G bonds to maintain the purchasing power of their dollar than we have in guaranteeing buyers of long-term 2½s against market depreciation.

Let us not overlook the fact that the Treasury issued securities of various types and maturities designed to meet the needs of the various investors. Corporations and banks, as well as others requiring a high degree of liquidity, were offered bills, certificates and notes and bonds of intermediate maturity. For those desiring full protection against market fluctuation the Treasury offered E, F and G bonds, and to those who presumably were in the category of permanent investors longer bonds were offered at a more liberal return than that available on short maturities; and few, I imagine were so naive as not to realize that the higher return must necessarily carry with it a proportionate degree of market hazard.

We hear remarks to the effect that if the pegs were removed, the results would be catastrophic to the banking system. Let us explore that a bit. The Treasury survey of ownership of Government securities as of June 30, 1948 shows 7,289 commercial banks owning $57,170 million United States Government public marketable securities, of which $47,260 million are due within five years, and $6,167 milliom between five and ten years, leaving $3,743 million with a maturity of over ten years. It is difficult for me, therefore, to visualize a sufficiently drastic decline in the Government bond market to jeopardize the solvency of our banking system. True, there are undoubtedly individual cases where an appreciable decline from the present level of long-term bonds, which have already experienced a sharp drop from their previous highs, would result in a very unpleasant and uncomfortable situation, but it is my belief that such situations will prove to be the exception rather than the rule and I, therefore, do not share the uneasiness of those who predict dire consequences to the banking structure if the Treasury should ultimately permit Governments to sell below par.

The argument is advanced that letting Governments go below par would not deter insurance company selling as the yields on other securities would decline proportionally and, therefore, the same incentive would remain. I am not so sure. The latest available figures indicate that on Dec. 31, 1947 all life insurance companies in the country had admitted assets of $51,743 million and liabilities of $48,307 million, or about 1.07 in assets to every dollar in liabilities which would indicate to me that the insurance companies might prove reluctant to take much of a loss on the sale of Governments in order to acquire other assets with a higher degree of credit risk. At just what discount insurance company liquidation might disappear. I do not presume to know. I have heard numerous estimates—99, 98 and as low as a 2.75% basis, which would be about 95½—but I, personally, do not share the opinion expressed by some that the decline might be comparable to that experienced after World War I.

What About Short Term Rates

I have devoted much time to the discussion of the long-term rate, now what about the short? I am inclined to look for a further hardening of short-term rates and anticipate that some time, possibly within the next six months, we may see the certificate rate upped to 1⅜%. The next certificate maturity will be Jan. 1, but I question whether the rate will be increased quite that soon and am more inclined to expect the increase in March or possibly June. A good barometer to that is the bill market, which is currently around 1.10% to 1.12% basis. There must be some relationship between the bill and certificate rates as obviously if the 91-day bill rate rose too sharply, the Treasury would be unable to successfully market a one-year 1¼%. My feeling is that about 1.15% is the top yield to which bills can go and still be in harmony with a 1¼% certificate rate. So if bills go through 1.15%, I would say be prepared for a higher one-year rate. If the inflationary trend persists, it would not be surprising to see at a later date a certificate rate of 1½%, but I doubt if we shall see it much, if any, above that figure. What would the effect of a 1⅜% certificate rate be on the remainder of the list? Obviously, it would not be bullish, but after all, I cannot see any factors at the moment which can properly be interpreted as bullish on the Government market.

It is my feeling that the market up to and including the 2s of Dec. 15, 1954-52 is, in all probability, adjusted to a 1¼% rate, and certainly there must be some spread in yields between certificates and issues of two, three or four-year maturity, otherwise the Treasury would be hampered in its refunding operations. Currently 2s of Dec. 15, 1954-52 are selling on about a 1.75% basis, and the yields between that issue and the one-year certificates seem to be in harmony. I have endeavored to chart prices for these same issues, assuming a 1⅜% certificate rate six months hence and assuming similar yield spreads, and I find, after allowing for the passage of time and the normal amortization, that based on a 1⅜% certificate rate, the 2s of Dec. 15, 1954-52 would show about 12/32nds depreciation in the six months and the earlier maturities, of course, would show even less. This does not seem to me to be any matter for serious concern, and while at a later date the certificate rate may well go above 1⅜%, remember that the several issues of 2s will be proportionately shorter. I cannot, therefore see any material degree of market hazard up to and including the 2s of Dec. 15, 1954-52, but issues of longer maturity, I believe, might be more vulnerable to market changes resulting from any possible change in policy.

I do not intend to convey the impression that I feel the various issues of 2s can necessarily be bought at this level with complete confidence. Not at all, for if the certificate rate is raised at an earlier date than I have mentioned and if we should shortly experience another increase in reserve requirements, the resultant effect on the market is obvious; but the thought I should like to impart is that within the maturity range I have mentioned, I cannot see the necessity for any great concern over present holdings. To those institutions with depreciation in portfolio holdings, there are frequent occasions where accelerated amortization might be preferable to liquidation at a loss.

For example, one of our bank customers recently asked our opinion as to the course to pursue with their holdings of 2¼s of 1959-56 wherein they had a very substantial loss. We told them that if their opinion of the market justified selling, they certainly would not be consistent in reinvesting in other Governments beyond one year in maturity which would produce a yield of about 1¼%. We suggested, therefore, that rather than absorb the loss which the sale would involve and take a lesser income return, they reduce the amount taken into current income to 1¼% and apply the additional amount to reduction of premium, which would bring their holdings to par in about four years. Of course, for tax purposes they would have to show the full income, but we felt that such a program might prove preferable to absorbing both a loss in income and a capital loss with little or no expectation of recovery.

Prospect of Scarcity of Higher Yield Issues

Certain of those optimistic individuals who favor the long term bank-eligibles, and who incidentally favored them equally a year or so ago at sharply higher prices, advance the argument that the continuing policy of refunding with short term paper will create a scarcity of the higher yielding issues. In the first place, I am not so sure that over a period of the next several years we may not see bank-eligible issues offered in the refunding of a maturity beyond the certificate range. In fact, it seems to me most desirable to do so, as our floating debt is already of too great proportions. Furthermore, between now and Sept. 15, 1953—a little less than five years—there are $21,302 million in issues presently ineligible that become eligible for commercial banks. In addition there are due or callable within the next five years, exclusive of bills, certificates and notes, $47,708 million, as well as about $15 billion Savings Bonds that mature. As to these latter, in the absence of patriotic incentive and unless there is a pronounced decline in the cost of living, it seems to me problematical as to how many of these holders will reinvest in similar issues at current rates. Likewise, with insurance companies and other investors displaying no great enthusiasm for 2½% governments, the problem of refunding may be a considerable one and it is difficult to visualize the Treasury's even attempting to roll over any such amount into one-year paper. Hence, I cannot become concerned over the scarcity of bank-eligible obligations in the next few years.

Summary

In summing up, it is my belief that the trend of short term rates is still upward, but the extent to which they will rise will in a major degree be determined by Treasury and Federal Reserve policy which, in turn, will be based largely on the trend of commercial loans and commodity prices.

I would recommend, therefore, that these two factors be watched closely for the key to the over-all picture, and the rate at which bills sell weekly as a key to any impending change in the certificate rate. Whether the long term 2½% rate will continue to be protected at par, I do not profess to know. Currently, the Treasury and the Federal Reserve System are committed to that level and I do not question their ability to maintain it if in their judgment it be desirable to do so, but it seems to me that if commercial loans continue to expand, commodity prices continue upward and liquidation of governments continues at its present rate, it may become necessary at some future date to re-appraise the entire situation. If, on the other hand, the few straws now in the wind significant of a levelling off of business in general should multiply and a pronounced decline in commercial loans develop, then it is my belief that credit restrictive policies would be discontinued, and the present problem would cease to exist. However, in view of the anticipated higher expenditures for armament purposes, it is difficult to foresee any material decline in general business for the immediate future.

The probability of further increases in the short term rate along with the uncertainty of the maintenance of the present long term one, as well as the possibility of further increases in reserve requirements, in my opinion, justify caution maturity-wise in portfolio management. However, under no circumstances which I can visualize is there any need for serious concern on the part of any banker who has based the management of his government portfolio on sound conservative banking practice, with maturities adjusted to his needs, and who has not been too eager for earnings to the extent of acquiring an undue proportion of long term bonds. With a sharply higher percentage of risk assets resulting from loan expansion, the prudent banker has considered his degree of exposure in his bond portfolio and made adjustments accordingly.

Let us not overlook the fact that we have a $250 billion debt to manage and a huge amount of refunding to be accomplished, all of which in my judgment, precludes the possibility of any such drastic changes in the interest rate structure or the level of government bond prices, as some extremists would lead us to anticipate. But let us realize that there is no substitute for competent management. Therefore, we should maintain our portfolio policy in keeping with the best banking traditions, to the end that those changes in interest rates which inevitably occur and any possible future change in policy which is unpredictable, may not find us unprepared.

The State of Trade and Industry

(Continued from page 5)

voluntary allocations. And finally, concludes "The Iron Age," came news that the United States might arm Western Europe.

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 98.9% of capacity for the week beginning Oct. 25, 1948, representing a decline from the preceding week of 0.2 point, or 0.2%. A month ago the indicated rate was 96.4%.

This week's operating rate is equivalent to 1,782,600 tons of steel ingots and castings compared to 1,786,300 tons one week ago, 1,737,600 tons a month ago, 1,697,400 tons, or 97.0% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

ELECTRIC OUTPUT REACHES ALL-TIME HIGH RECORD IN WEEK ENDED OCT. 23

The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 23, was 5,538,885,000 kwh., according to the Edison Electric Institute. This was an increase of 56,855,000 kwh. above output in the preceding week, an all-time high record, and 575,069,000 kwh., or 11.6% higher than the figure reported for the week ended Oct. 25, 1947. It was also 937,118,000 kwh. in excess of the output reported for the corresponding period two years ago.

CAR LOADINGS GAIN IN LATEST WEEK

Loadings of revenue freight for the week ended Oct. 16, 1948, totaled 913,832 cars, according to the Association of American Railroads. This was an increase of 22,021 cars or 2.5% above the preceding week this year. However, it represented a decrease of 40,317 cars, or 4.2% under the corresponding week in 1947, and a decrease of 17,934 cars, or 1.97% below the similar period in 1946.

AUTO OUTPUT FAILS BY NARROW MARGIN TO ATTAIN NEW POSTWAR HIGH RECORD

Production of cars and trucks in the United States and Canada advanced to within a narrow margin of a new postwar high level of 122,817 units from 123,185 (revised) units the previous week, according to "Ward's Automotive Reports."

The offsetting factor in this country was a strike at the Dodge main plant on Thursday, last, which cut an estimated 1,000 vehicles off last week's total.

Output in the similar period a year ago was 105,587 units, and 91,855 units in the like period of 1941.

This week's output consisted of 90,464 cars and 26,178 trucks made in the United States and 4,071 cars and 2,104 trucks made in Canada.

BUSINESS FAILURES TURN SHARPLY UPWARD IN LATEST WEEK

Commercial and industrial failures rose sharply to 124 in the week ending Oct. 21 from 94 in the preceding week, reports Dun & Bradstreet, Inc. This was more than in any week since February and exceeded the 81 and 33 which were reported in the comparable weeks of 1947 and 1946 respectively. Casualties were less than one-half as numerous as in the corresponding week of 1939.

Failures involving liabilities of $5,000 or more increased to 110 from 81 last week and 70 a year ago. Included in this total were 13 casualties with liabilities of $100,000 or more.

Retailing and manufacturing failures showed an increase over the previous week, while wholesaling, construction and commercial services were almost unchanged from last week and from a year ago.

In nearly all areas, a rise from the 1947 level was reported.

FOOD PRICE INDEX AT LOWEST POINT IN 15 MONTHS

Advances and declines in food prices largely offset each other in the past week, and the Dun & Bradstreet wholesale food price index on Oct. 19 remained unchanged from the previous week's level of $6.48. This was the lowest point to which the index has dipped since July 8, 1947, and it is well below the $6.90 of a year ago.

COMMODITY PRICE INDEX VIRTUALLY UNCHANGED FOR WEEK

While commodity prices fluctuated slightly during the week, overall price levels were almost unchanged. The Dun & Bradstreet daily wholesale commodity price index was 274.13 on Oct. 19. This was very close to the 274.05 reached on Oct. 13 of the preceding week and was noticeably lower than the 291.65 of a year ago.

Grain prices generally were steady during the week. The future prices for corn and wheat dipped slightly.

Marketings were limited as a result of the current shortage of box cars and there was little emphasis on selling while future prices continued below the loan level.

Cash prices for grains were sustained at a high level although a sharp drop in corn occurred during the week. The export demand for wheat helped to support prices. Recent estimates of wheat exports for the year ending July 1, 1949, were well above last year's level.

The demand for flour remained limited in the week. Bookings generally were restricted to small lots for nearby delivery. Many bakers have remained cautious with regard to price while flour mills are reluctant to grant concessions in light of the currently firm price level for cash wheat.

Cotton futures rose moderately following the report that consumption in September was close to that of a year ago. As both spot and future prices rose some mills withdrew, but the resulting lack of support did not cause any price decline.

It is likely that many mill buyers expect the huge crop this year to be reflected in lower prices.

The current upland cotton supply was estimated to be about 32% larger than the amount available at this time a year ago. Reported sales in the ten spot markets during the latest week were 325,600 bales as compared with 316,200 a week ago and 463,000 in the corresponding week in 1947.

Prices for livestock varied slightly, but in general remained close to the levels of the previous week. There was some decline in the receipts of cattle at Chicago markets while hog receipts doubled the past week and were well above last year's figure. A steady and high demand for pork continued and bolstered the current price level.

Trading in the Boston wool market, which has been at a very low level, was further curtailed during the past week by holiday closings. Prices remained at the high levels which have existed for the past five months. Buying was limited largely to small orders required to fill immediate and special needs. Some orders for carpet wools and oils were booked, but interest in woolen and worsted wools was negligible. There were moderate price increases reported in the Australian and South African markets, but buyers from the United States did not place any sizable orders. Average weekly consumption of domestic apparel wools was considerably above the 1947 level.

RETAIL AND WHOLESALE TRADE STIMULATED BY SEASONAL BUYING

Consumer buying during the period ended on Wednesday of last week continued to rise seasonally. Total retail dollar volume was slightly above the previous week's level and fractionally exceeded that of a year ago. Total unit volume was slightly below that of the corresponding 1947 week, according to Dun & Bradstreet, Inc., in its current summary of trade. Consumer interest continued to be centered largely in Fall and Winter apparel. Cool weather in most parts of the country stimulated the consumer interest in seasonal merchandise and food.

Retail volume of men's and women's Fall and Winter apparel continued to receive favorable response.

In women's apparel, items of chief interest were fitted untrimmed and fur-trimmed coats in broadcloth and wool suede. Zip-in lined coats were very popular. Women's tailored suits sold well in many localities. Men's Winter overcoats were frequently requested and suits in gabardine and worsted attracted favorable attention. Children's apparel for play and school was in fairly large demand.

Fresh fruits and vegetables were amply supplied in most parts of the country the past week and received a favorable consumer response.

The demand for meats increased noticeably although many consumers sought the low-priced cuts.

Frozen vegetables were in large demand and many canned foods continued to sell well. The retail volume of butter, cheese and other dairy products decreased moderately last week.

Furniture, home furnishings housewares and small electrical appliances continued to attract considerable consumer interest in the week. Fuel and heating equipment sold well as consumers in many parts of the country prepared for the Winter season. Retail hardware sales increased slightly and gift items were sought in increasing volume. Bric-a-brac and various decorative items such as pictures, mirrors, fine linens and fancy glassware sold well.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 6 to 10% above that of a year ago.

Regional estimates exceeded those of a year ago by the following percentages: New England and East, 6 to 10; South, 3 to 7; Middle West, 8 to 12; Northwest and Southwest, 3 to 7, and Pacific Coast, 1 to 5%.

Attempts of buyers to fill out some depleted seasonal lines in the past week boosted wholesale trading volume fractionally above the levels both of two weeks ago and of the corresponding week a year ago. Orders continued to be largely for current needs with order volume for November and December delivery slightly higher. Deliveries, it was noted, were somewhat more prompt the past week.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 16, 1948, advanced by 11% from the like period of last year. This compared with an increase of 10% (revised) recorded in the preceding week. For the four weeks ended Oct. 16, 1948, sales increased by 5% and for the year to date by 7%.

Seasonal apparel, accessories and housewares were in strong consumer demand here in New York the past week, resulting in an increase in department store sales of about 15% ahead of the corresponding week a year ago.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Oct. 16, 1948, increased by 13% from the same period last year. In the preceding week an increase of 11% (revised) was registered over the similar week of 1947. For the four weeks ended Oct. 16, 1948, an advance of 4% is recorded over that of last year and for the year to date, volume increased by 5%.

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. 31	98.9	99.1	96.4	97.0
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 31	1,782,600	1,786,300	1,737,600	1,697,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Oct. 16	‡5,586,350	‡5,534,800	§5,294,350	5,268,400
Crude runs to stills—daily average (bbls.)	Oct. 16	¶5,562,000	5,551,000	§4,680,000	5,167,000
Gasoline output (bbls.)	Oct. 16	17,424,000	17,045,000	§15,023,000	16,298,000
Kerosene output (bbls.)	Oct. 16	2,289,000	2,415,000	§1,984,000	2,176,000
Gas oil and distillate fuel oil output (bbls.)	Oct. 16	7,528,000	7,234,000	§6,401,000	6,217,000
Residual fuel oil output (bbls.)	Oct. 16	9,191,000	8,798,000	§6,025,000	8,542,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 16	91,483,000	91,411,000	§79,200,000	80,912,000
Kerosene (bbls.) at	Oct. 16	26,992,000	27,061,000	§24,613,000	22,516,000
Gas oil and distillate fuel oil (bbls.) at	Oct. 16	78,647,000	77,879,000	§59,567,000	61,312,000
Residual fuel oil (bbls.) at	Oct. 16	79,411,000	78,166,000	§36,808,000	57,776,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 16	913,832	891,811	909,733	954,149
Revenue freight rec'd from connections (number of cars)	Oct. 16	720,063	722,039	700,591	745,036
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 21	$129,003,000	$170,174,000	$100,303,000	$141,719,000
Private construction	Oct. 21	55,204,000	87,937,000	42,009,000	84,959,000
Public construction	Oct. 21	73,804,000	82,237,000	58,294,000	56,760,000
State and municipal	Oct. 21	62,528,000	58,628,000	37,922,000	50,306,000
Federal	Oct. 21	11,276,000	23,609,000	20,372,000	6,454,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 16	12,000,000	*11,850,000	11,835,000	12,737,000
Pennsylvania anthracite (tons)	Oct. 16	1,223,000	1,183,000	1,228,000	1,227,000
Beehive coke (tons)	Oct. 16	147,700	*150,600	146,800	133,700
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 16	333	*336	337	299
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 23	5,538,835	5,482,030	5,460,609	4,963,816
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Oct. 21	124	94	101	81
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 19	3.75255c	3.75255c	3.75255c	3.19541c
Pig iron (per gross ton)	Oct. 19	$46.82	$46.82	$45.07	$36.96
Scrap steel (per gross ton)	Oct. 19	$43.16	$43.16	$43.16	$41.83
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 20	23.200c	23.200c	23.000c	21.200c
Export refinery at	Oct. 20	23.425c	23.425c	23.425c	21.350c
Straits tin (New York) at	Oct. 20	103.000c	103.000c	103.000c	80.000c
Lead (New York) at	Oct. 20	19.500c	19.500c	19.500c	15.000c
Lead (St. Louis) at	Oct. 20	19.300c	19.300c	19.300c	14.800c
Zinc (East St. Louis) at	Oct. 20	15.500c	15.000c	15.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Oct. 26	100.69	100.69	100.70	103.14
Average corporate	Oct. 26	110.88	111.25	111.44	113.89
Aaa	Oct. 26	115.82	116.41	116.41	118.80
Aa	Oct. 26	114.08	114.27	114.27	117.00
A	Oct. 26	110.15	110.34	110.52	113.70
Baa	Oct. 26	103.97	104.31	104.83	106.39
Railroad Group	Oct. 26	106.74	106.74	107.09	108.70
Public Utilities Group	Oct. 26	111.62	112.00	112.00	115.43
Industrials Group	Oct. 26	114.66	115.04	115.24	117.60
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Oct. 26	2.45	2.45	2.45	2.29
Average corporate	Oct. 26	3.12	3.10	3.09	2.96
Aaa	Oct. 26	2.86	2.83	2.83	2.71
Aa	Oct. 26	2.95	2.94	2.93	2.80
A	Oct. 26	3.16	3.15	3.14	2.97
Baa	Oct. 26	3.51	3.49	3.46	3.37
Railroad Group	Oct. 26	3.35	3.35	[illegible]	[illegible]
Public Utilities Group	Oct. 26	3.08	3.06	3.06	2.88
Industrials Group	Oct. 26	2.92	2.90	2.89	2.77
MOODY'S COMMODITY INDEX	Oct. 26	404.6	405.2	416.4	452.4
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Oct. 23	236.9	236.5	244.8	238.6
Fats and oils	Oct. 23	211.9	210.1	213.0	238.6
Farm products	Oct. 23	258.8	259.4	267.6	270.7
Cotton	Oct. 23	298.3	297.1	295.6	315.3
Grains	Oct. 23	210.8	214.9	217.4	308.3
Livestock	Oct. 23	272.1	272.2	284.8	261.3
Fuels	Oct. 23	244.1	244.1	233.8	195.0
Miscellaneous commodities	Oct. 23	169.2	169.0	169.8	173.0
Textiles	Oct. 23	194.3	194.3	194.3	217.6
Metals	Oct. 23	188.1	188.1	187.3	159.5
Building materials	Oct. 23	230.5	233.6	235.4	232.7
Chemicals and drugs	Oct. 23	156.6	156.6	155.6	154.5
Fertilizer materials	Oct. 23	142.3	142.3	140.8	133.7
Fertilizers	Oct. 23	149.8	149.8	149.8	136.9
Farm machinery	Oct. 23	146.0	146.0	144.5	127.1
All groups combined	Oct. 23	222.8	232.2	225.6	217.2
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 16	185,610	214,291	173,044	162,060
Production (tons)	Oct. 16	192,539	192,340	192,334	185,868
Percentage of activity	Oct. 16	97	96	97	101
Unfilled orders (tons) at	Oct. 16	384,134	395,953	386,803	445,358
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Oct. 22	143.1	144.0	143.6	146.2
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Oct. 16	164.8	164.6	169.2	157.0
Farm products	Oct. 16	182.2	181.5	190.1	190.0
Foods	Oct. 16	178.0	178.0	189.9	178.5
Hides and leather products	Oct. 16	187.6	187.8	188.2	190.4
Textile products	Oct. 16	146.8	146.9	147.2	141.2
Fuel and lighting materials	Oct. 16	138.1	138.3	137.7	115.7
Metal and metal products	Oct. 16	172.5	171.9	171.5	151.1
Building materials	Oct. 16	203.6	202.7	203.2	184.0
Chemicals and allied products	Oct. 16	134.4	133.5	132.5	124.7
Housefurnishings goods	Oct. 16	148.6	148.5	147.8	132.7
Miscellaneous commodities	Oct. 16	118.7	118.4	120.3	116.5
Special groups—					
Raw materials	Oct. 16	177.2	176.7	182.0	176.0
Semi-manufactured articles	Oct. 16	158.3	158.3	158.6	152.4
Manufactured products	Oct. 16	160.6	160.5	165.5	151.1
All comodities other than farm products	Oct. 16	160.9	160.8	164.8	150.8
All commodities other than farm products and foods	Oct. 16	153.5	153.3	153.5	139.3

*Revised figure. ‡Reflects effect of strike in California. §Excluding California figures which were unavailable due to refinery strike. ¶Includes 370,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES)—			
Production of primary aluminum in the U. S. (in short tons)—Month of August	54,953	52,937	47,054
Stocks of aluminum—short tons (end of Aug.)	11,529	11,382	Not Avail.
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of August:			
Total shipments (thousands of pounds)	135,196	131,028	101,790
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of September	7,413,934	*7,437,608	6,797,457
AMERICAN TRUCKING ASSOCIATION— Month of August:			
Number of motor carriers reporting	288	*288	288
Volume of freight transported (tons)	2,826,583	*2,618,747	2,376,826
COMMERCIAL STEEL FORGINGS (DEPT. OF COMMERCE)—Month of August:			
Shipments (short tons)	111,097	97,455	93,009
Unfilled orders at end of month (short tons)	634,143	627,131	626,227
COPPER INSTITUTE—For Month of Sept.:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	83,071	*89,165	83,922
Refined (tons of 2,000 lbs.)	102,976	102,798	92,146
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	123,188	*107,496	95,640
Refined copper stocks at end of period (tons of 2,000 lbs.)	72,215	*79.579	80,113
FAIRCHILD PUBLICATIONS RETAIL PRICE INDEX 1935-39=100 (COPYRIGHTED) AS OF OCTOBER 1:			
Composite index	141.9	141.7	136.4
Piece goods	142.7	*143.2	135.9
Men's apparel	140.6	140.5	135.4
Women's apparel	137.4	137.3	131.4
Infants' and children's wear	130.7	130.7	126.7
Home furnishings	149.6	149.0	143.8
Piece goods—			
Rayons and silks	130.8	130.8	122.9
Woolens	139.7	139.7	134.1
Cotton wash goods	163.1	163.7	156.3
Domestics—			
Sheets	182.6	182.5	172.3
Blankets and comfortables	141.0	140.4	139.1
Women's apparel—			
Hosiery	108.2	108.1	105.4
Aprons and housedresses	146.9	146.9	145.2
Corsets and brassieres	132.5	132.5	132.2
Furs	162.3	162.9	149.5
Underwear	139.4	139.2	132.0
Shoes	141.4	140.9	131.1
Men's apparel—			
Hosiery	140.2	140.2	137.6
Underwear	155.8	155.5	145.3
Shirts and neckwear	132.9	132.9	129.4
Hats and caps	127.8	127.3	126.6
Clothing, including overalls	132.2	132.1	128.0
Shoes	169.6	169.5	159.7
Infants' and children's wear—			
Socks	131.5	131.5	127.9
Underwear	120.8	121.1	119.2
Shoes	144.9	144.5	139.7
Furniture	150.6	150.7	147.0
Floor coverings	157.6	156.7	149.3
Radios	123.7	123.4	125.0
Luggage	131.2	131.1	128.3
Electrical household appliances	143.5	142.3	135.8
China	133.8	133.2	129.6
GRAY IRON CASTINGS (DEPT. OF COMMERCE) — Month of August:			
Shipments (short tons)	1,050,948	914,464	951,859
For sale (short tons)	597,678	490,359	550,961
For producers' own use (short tons)	453,270	424,105	400,898
Unfilled orders for sale at end of month (short tons)	2,598,789	2,601,084	2,631,273
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of September (1935-39 average=100)	†129.2	†130.0	130.4
METAL OUTPUT (BUREAU OF MINES) — Month of August:			
Mine production of recoverable metals in the U. S.:			
Copper (in short tons)	73,589	*71,171	72,014
Gold (in fine ounces)	185,959	*179,273	204,638
Lead (in short tons)	22,510	*22,844	30,597
Silver (in fine ounces)	3,108,988	*2,980,392	2,926,772
Zinc (in short tons)	49,023	*46,448	47,700
NEW CAPITAL ISSUES IN GREAT BRITAIN—			
Midland Bank, Ltd.—Month of September	£5,373,000	£30,557,000	£5,101,000
NON-FERROUS CASTINGS (DEPT. OF COMMERCE) — Shipments, month of August:			
Aluminum (thousands of pounds)	32,136	28,944	30,441
Copper (thousands of pounds)	81,976	71,803	75,060
Magnesium (thousands of pounds)	703	554	523
Zinc (thousands of pounds)	37,519	32,459	28,137
Lead die (thousands of pounds)	1,120	861	1,000
PORTLAND CEMENT (BUREAU OF MINES)— Month of July:			
Production (bbls.)	18,721,000	17,757,000	16,342,000
Shipments from mills (bbls.)	20,994,000	21,426,000	20,099,000
Stocks (at end of month) (bbls.)	10,148,000	*12,422,000	13,337,000
Capacity used	90%	89%	80%
SOFTWOOD PLYWOOD (DEPT. OF COMMERCE)—Month of August:			
Production (M sq. ft. ⅜-in. equivalent)	174,062	122,386	139,398
Shipments and consumption (M sq. feet, ⅜-in. equivalent)	172,313	118,426	137,689
Stocks (M sq. ft., ⅜-in. equivalent) at end of month	46,571	44,397	37,036
Consumption of logs (M ft., log scale)	74,919	54,519	61,570
Stocks (M ft., log scale) at end of month	264,247	*196,613	189,123
STEEL CASTINGS (DEPT. OF COMMERCE)— Month of August:			
Shipments (short tons)	140,223	120,445	120,405
For sale (short tons)	107,538	87,927	88,719
For producers' own use (short tons)	32,685	32,518	31,686
Unfilled orders for sale at end of month (short tons)	472,481	497,410	478,649
TRAILER COACHES—HOUSING TYPES ONLY (DEPT. OF COMMERCE)—Month of June:			
Production (number of units)	6,769	5,881	6,333
Shipments (number of units)	6,936	6,011	6,205
Shipments (value of)	$12,411,885	$10,613,639	$10,032,503
TRUCK TRAILERS (DEPT. OF COMMERCE)— Month of August:			
Production (number of units)	3,622	*3,437	3,110
Shipments (number of units)	4,196	*3,773	3,665
Shipments (value in dollars)	$12,751,751	*$11,037,752	$10,120,415

*Revised figure. †Preliminary figure.

Television: Present and Future

(Continued from page 8)

end of the year it will be *well beyond the 500 mark.*

Already, an average of 40% of the time of operating stations is sponsored. New York City's seven stations range from 45 to 70%. Boston's own excellent stations also are high in this respect.

Now, some may ask, *why* are advertisers moving so rapidly into television? The old rule says the best advertising is that which reaches the greatest number of prospects with maximum effect, for the least number of dollars—in other words, circulation, effect and unit cost.

Sales Effect Tremendous

Measured by circulation and unit cost, television today falls well behind other national media. But measured by *effect*, its power is tremendous. In radio, 1% response to advertised offers is cause for rejoicing. 3% is outstanding. Many examples have shown *television* response running as high as *40%*.

Commercials on television result in sponsor identification up to 35% for a single program. Seventy and 80% are frequent figures for regular, weekly shows.

National advertisers, seeing this power demonstrated, and foreseeing its great potential, have two prize reasons for taking up television now.

Technique Differs

First, they want to learn how to make the most of the selling power television offers. Its whole technique is widely different from any other, including radio. Time and effort *now* may result in marked advantages later on.

Second, they want to be in position to secure the best broadcast hours as, for example in radio, the Jack Benny franchise on Sunday night, or the Lux Radio Theatre on Monday night. It now seems probable that, within the next year or two, *all* the favored night-time hours on major television stations will be taken.

Typical is a national meat packer who has invested $350,000 in programs. The return on the advertising investment has not approached that of other media. But the company has scheduled a still larger sum for the coming year. Experience has shown what the future can hold.

A motor car company, already a veteran sponsor, has set up a completely individual television department, with its offices taking up one entire floor of a New York office building. This company sees television as the ideal means of *demonstrating*, as against simply describing or showing, its new models to the mass market of the nation.

Especially significant in the field of distribution, I think, is the fact that, aside from national firms, *local* advertisers are moving into television in booming numbers. They are taking to television as they have never taken to radio.

A number of direct retailers have found television, even today, with its relatively modest coverage, to be a *profitable* medium for selling goods. Some have reported selling out their entire stock of an item by telephone after demonstrating the item in a one-minute presentation.

Apparently, one of the medium's most useful services is going to be that of enabling viewers to *shop*—to see, to see *demonstrated*, and to *buy* if they choose—from their own living rooms. Retailer programs featuring this service already are on the air in several places.

Distributors Are Sponsors

Distributors, too, are among the sponsors. Distributors for my company, who have programs, tell me their shows not only sell goods, but equally important, *sell* dealers on *them*—dealers they now have, and dealers they *hope* to have.

The medium has appealed, also, to suppliers of services, as well as goods. Of 42 general classes of television users, banks and insurance companies rank *tenth*.

It has always seemed to me that bankers and insurance investors, as a rule, are strangely averse to playing "long shots." They rather like to feel that a proposition is sound before they invest. Here, if it is needed, is ultimate proof of the soundness of television's future.

We can assess that future most clearly by multiplying the sales power it is now demonstrating by some conservative estimates of its scope a few years hence.

By 1951, annual receiver production can be expected to reach 2,000,000 units and be going up.

By 1953, the total sets in use may be more than 12,000,000, with some 50,000,000 persons in television's day-to-day audience.

By 1958—in 10 years—the number of sets can be at least $40,000,-000, with the total regular audience at 100,000,000.

These sets will be *in homes of every kind*, because lower prices, through volume production and engineering and manufacturing advances, will place them at the fingertips of the full mass market.

400 Stations by 1953

By 1953, at least 400 stations are expected to be on the air in 140 cities. This is the maximum possible in the present frequency band. The FCC is now considering a move which would make room for 1,000 stations—enough to put television in almost every city of 5,000 population or over. And, of course, these centers will cover thousands of square miles of rural areas and smaller towns around them.

Will Affect Economic Habits

Linking many of these centers together and furnishing them a great variety of programs, as now in radio, will be giant coast-to-coast networks. These networks, as we have noted, are already under way. In addition, film syndication will make it possible for the same, and other, good programs to be shown by hundreds of stations.

Constant technical programs will keep programing, transmission and reception in full step with these expansions in circulation and coverage.

A milestone in this progress will be color television. But this, like other advances, will *not* obsolete sets already in use. Current receivers will pick up color transmissions as black and white, and devices may be available, for installation at nominal cost, to convert existing receivers to color reception.

All this *multiplies* into this historic fact: *television is growing, conclusively, into an element of primary importance in our entire national economy. In the next few years, it will reach out and profoundly affect the economic habits of almost all the nation's population above the subsistence level.*

Radio's remarkable record in 25 years of service will be dwarfed. *Television, in fact, will take up where radio leaves off.*

It will do so by quickening the very bloodstream of American life—the distribution of goods and services.

By its power to sell, it will stimulate the key field of marketing to a new plane of activity, well above what we have known. And the accruing benefit will go to business, commerce, industry and agriculture alike—which is to say, to the entire public.

Television will do these things mainly by its welcome presence in the homes of millions of people. But there will be other important ways.

Closed Circuit Use to Grow

Constantly greater use will be made of "closed circuit" televisions; that is, for example, television within a department store, for sales promotion.

Since these telecasts are piped only from floor to floor by cable and do not go on the air, they are not regulated by the government, and users may install them as they wish. Hundreds of big stores across the country can, and probably will, take up this new aid to sales.

Experience to date has shown that intrastore television may increase store traffic by as much as 30%, of which 10% will be completely new customers.

It has promoted the sale of merchandise distant from the heavy traffic centers of the store and some items have shown sales increases up to 200% of normal. Twenty-five per cent of persons buying goods have purchased articles they had not planned to buy.

Among further ways in which television will mesh with our economy are industrial applications, transportation and teaching.

As an industry in itself, television comes as a complete new factor in the nation's business. While in time it may overlap radio to some extent, it actually replaces nothing. It is a *plus* value.

The public will continue to want millions of new radio sets each year, because radio will remain an important service. Even in areas having television, probably few persons will want, or will have the time, to watch television throughout the day—but at some hours *will* want unobstrusive radio music or other programs without sight.

It is likely to be many years before television service can be extended into some rural sections of the country, mainly because the sparse population would make unsound the building of stations to serve them. Since television signals tend to stop at the horizon, television is not able to provide long-range service similar to the clear-channel radio stations that have been of such great value and pleasure to the more remote rural areas. The homes in these areas will continue to rely on the radio programs that have become so essential to their better living.

Investment Estimate Is $250 Million

Investments of the television industry already are sizable and the rate of return so far is negligible. Only a very rough estimate can be made of the total sum expended to date in receiver engineering and manufacturing, plus broadcasting facilities and operations. This figure at a minimum would be $250 million—and *this* is only the beginning.

The expanding operations of most manufacturers and telecasters, as well as the flow of new entries into both fields, will keep increasing this figure in the future.

At present, there are some 60 firms making receivers. By the first of 1949, there will be over 100. Of these, 25 or so major producers will have expanded to account for 90% of the output.

Our Avco telecasting station in Cincinnati is growing rapidly. At the same time, we are building additional stations in Dayton and Columbus and have applied for a permit in Indianapolis. Such is the spirit throughout the field.

Million May Be Employed

It is not surprising, then, to arrive at the conclusion that by 1953—less than five years from now—television, in all its ramifications, will be giving employment to one million persons, and will have injected an investment of *at least $8 billion* into the economic bloodstream of America.

Actually, it is inadequate to say "America." For obviously, any development that contributes toward American prosperity contributes to the prosperity of much of the world as well.

Beyond our own country, England and France have public television, but on no such scale as our own.

In time, our own sight-and-sound programs will leap our borders as radio has done. Television, today, requires cable or relay units to travel long ways by land. The same facilities, technically, can bridge the sea. Trans-oceanic television is no more unlikely than were the trans-oceanic telephone and radio when they *seemed* impossible.

Within our nation, and eventually we may hope, *between* nations, television will take its place as a vital force in recreation, education and commerce. To all of us in business, the coming effect on our whole field of activity should be something of more than casual interest *now*.

If I can make a contribution to this conference, it is to urge you to make a study of television as it rises. Only by giving it serious, frequent attention can you really know it, because of the speed and breadth of its development.

Practically every change it will bring in our pattern of living will relate to your work in this great, basic field of distribution.

To be prepared for these changes is to be better equipped for the new era of business enterprise they are certain to help bring about.

Private Placement of Securities

(Continued from page 12)

ment in speculative or semi-speculative situations in the hope of capital gains, maintenance of large holdings of government bonds through the use of low-rate bank loans, large positions in tax exempt securities financed in the same manner and similar transactions.

Investment Banking Adversely Affected

In short, it is certainly true that if the business is to maintain its position in our economy and continue to attract thoroughly competent and conscientious personnel, it must have a stable volume of business and reasonable earnings. If the industry is doing a smaller volume of business and a large portion of that at a relatively low rate of compensation it is only natural that it should feel that earnings must be derived from other sources or from higher fees from negotiated transactions. In other words, someone must pay for these facilities if they are to exist. Broader use of them should logically result in underwriting costs being smaller for all with competition among the various houses serving to prevent unjust or inordinate spreads.

This is a subject which deserves consideration by those who, under different market conditions than have prevailed within recent memory, may some day require the services of the investment bankers in meeting their financial requirements.

The foregoing may seem somewhat out of place, but it deals with some aspects of only one of the problems of private placement of securities which has not received much attention and which is perhaps a way of saying that the industry may not have done the best possible public relations job. If and when you contemplate the issuance of securities, it is certainly proper that, from the standpoint of your own interest, you consider the possibility of using the facilities of a competent investment banking firm. If your financing plans call for the distribution of common stock to the public, you will need investment banking help. If you plan to obtain funds by any other type of security, you may, upon careful reflection of the problem, decide that investment bankers can be helpful in furnishing expert advice whether you ultimately decide to proceed via the public or private placement route.

If you and your associates and other business executives decide that investment bankers cannot be helpful in the development and execution of plans to obtain funds, then that fraternity has a real problem on its hands to reorganize and re-orient its operations so that it can perform a service for which it can justly and proudly claim reasonable compensation.

The investment of life insurance funds involves placing someone else's money at risk. The fact that a substantial portion of such funds are now invested in finance company securities is evidence of the fact that life insurance investment officers think highly of the inherent safety of your business.

Loans to Finance Companies

In the Mutual Life we have at the present time $64,851,000 invested or committed for in this industry in 15 companies. In prewar years, we had a considerably smaller investment in the industry and it was confined to two or three of the larger companies and was almost entirely liquidated during the war. The present investment was built up starting with an initial transaction in 1945 which followed a rather protracted study of the industry with particular reference to the experience of a large number of companies during the depression, the 1937-38 period and during the war. As a result of this study, we became sufficiently impressed with the inherent strength and stability of the business that consisted primarily of lending small sums of money to a large number of people in different walks of life on a proper contract, as well as on the inventories or receivables of relatively small businesses, that we were willing in most cases to take a position subordinated to the banks. At the present time, 37% of the Mutual investment in finance companies is in this form. This lending has been done under a contract by which a limit is placed on the amount of senior liabilities which the company may have and which requires the maintenance of an adequate amount of sound net worth calculated after adjustments for certain types of assets.

The above approach has been applied with various modifications to fit the type of business done by the individual company under consideration. The bulk of the lending by the life insurance industry to finance companies has been to companies engaged primarily in the sales finance and small loan fields, with loans to companies in the latter category in the minority. So far as I know, there has been only a relatively small amount of lending by the life insurance industry to companies engaged almost entirely in commercial receivables and inventory financing. This is due, I think, primarily to a feeling that the earnings of such companies, after proper provision for all losses actual and potential, have been somewhat less stable in periods of stress than has been

(Continued on page 42)

Private Placement of Securities

(Continued from page 41)

characteristic of the sales finance and small loan companies. I think also it stems from a lack of intimate knowledge and understanding of the manner in which both the receivables and inventory loans are made. Companies engaged almost exclusively in these fields wishing to obtain funds either directly or through an investment banking firm primarily from the life insurance industry should be prepared to spend a considerable amount of time and energy in educating prospective investors on the nature of their business. Particularly would this be true, I think, if such borrowing were contemplated by means of an instrument that would be subordinated to bank borrowings as there is a general feeling that inventories and accounts receivable are less desirable assets for ratio borrowing than are, for example, automobile and other prime sales finance and small loan paper.

The leverage factor in respect of subordinated debt by which it is possible to obtain additional bank credit several times the amount represented by such debentures made this type of transaction attractive to many finance companies and helped them obtain funds necessary to meet a steadily expanding volume of peacetime production following the surprisingly rapid and efficient reconversion. In recent months, however, in our lending practice, we have altered our thinking somewhat in respect of this type of transaction because of the relatively large amount we already have in this form of investment and because of two other important developments.

The first of these is the fact that the volume of consumer credit has reached the point where the industry may encounter difficulty in obtaining the necessary bank credit to expand at the same rate as in the recent past. Total capital funds of all commercial banks as of June, 1948, was about $10.3 billion while total loans were $39.7 billion. The practical result of an average this high is that many of the more active banks have loans from five to eight times their capital funds and are not too keen about adding to credit lines of finance companies where rates are low and balances small in contrast to accounts of many other businesses. Thus, the large part of the funds necessary to finance a large volume of future expansion of consumer credit must come from outside the banking field. Unless additional bank credit is available to provide the desired leverage, there is little incentive on your part to the payment of the higher interest rate which a subordinated loan requires and more reason to consider the advisability of a non-subordinated term loan which, from the viewpoint of the lender, constitutes a more desirable investment.

The reimposition of credit restrictions on Sept. 20 may serve to retard the rate of expansion of consumer credit, thereby easing the problem of obtaining additional funds. Somewhat lower commodity prices and increased production, while not necessarily forecasting a small volume of receivables and inventory financing, suggest the possible return of the kind of competition which is the signal for caution in sound lending.

Persistent Inflationary Trend

The second factor which has caused us to be reluctant to make subordinated loans at this time is the continued persistent inflationary trend which has become so disturbing and which has its roots in the substantial increase in the volume of bank deposits and currency arising in large part out of the successive deficits and the easy money policy of the thirties and the late war and in the various subsidies and price support programs which with successive rounds of wage increases have resulted in heated bidding for goods of various types during the war and postwar periods when such a large portion of our production has been called for abroad.

Thus, to place a major share of the blame for inflation upon the increasing volume of credit of all kinds, as has been done, is unfair and improper, but it is true that to a degree it has been a contributing factor. The mechanics by which the utilization of bank credit by your industry results in the creation of a bank balance is inflationary but no more so than the immediate results of a similar transaction by other businesses. The transfer of that bank balance to individuals who in turn purchase durable goods has resulted in the creation of purchasing power but no more so than the expenditure of other bank loan proceeds. The procedure by which a finance company borrows money on a subordinated basis or obtains equity and then uses this base to obtain several times that amount in bank credit is inflationary, but also fundamental in our economy, and a life insurance company in facing a decision of whether or not to advance money to a finance company on such a basis may well consider any possible inherent dangers in the continued expansion of such credit.

At this point, I am sure it would be well to refer to the long-range favorable aspects of consumer credit and to do so by stating simply what is obvious to us all, namely, that many of our large industries such as the automobile industry cannot market their output at a reasonable percentage of capacity without such credit.

The life insurance investing officer is always faced with the problem of analyzing the phase of the business cycle or the economic atmosphere surrounding a particular investment. At the present time, a prospective investment in the finance company field must be studied with particular reference to the entire banking and credit picture and the degree of inflation actual and potential which appears to be present. For several months now in viewing this situation, we have felt that the fundamentals were such that we should be most reluctant to provide leverage funds to the industry and instead should do our part in making it necessary for the companies to obtain proprietary capital for ratio borrowing purposes. We have in this period, however, made several term loans to finance companies as a part of their senior capital and we hope to continue to do so. Whether it shall be done on a private placement basis and with or without the help of investment bankers is a decision that we cannot make, but we can and do urge that you think of all the implications of the private placement, a few of which I have touched upon today.

Willis & Christy Formed

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL. — The firm of Willis & Christy is engaging in a securities business from offices at 411 West Fifth Street. Partners are Henry Paul Willis and Dean E. Christy, general partners, and James R. Brehm, Theodore T. Scudder, James N. White, Harwick Stires and Robert G. Wiese, special partners.

Our Economic Dilemma

(Continued from first page)

building-materials people, want easy credit so that they can readily dispose of, at inflated prices, the homes and materials they have to sell. But they certainly resist having any excess-profits taxes in order that the government might recapture some of the profits that are thus made.

"Labor has always wanted price control, but they have vigorously resisted wage control.

"The bankers want higher interest rates, but they do not want the Federal banking agencies to have increased power over the expansion of credit.

"You know the familiar pattern. And now, after three years, you have been called together to consider this problem which has been with the Congress constantly, and the American public constantly, and there has been little or no willingness to face up to it, realistically, either by the public or by the Congress, or by the Administration.

"This situation has gone so far that to stop the inflationary development could well bring about a deflationary development."

While nearly everyone has been fully conscious of inflation in our economy, there has been no general agreement or widespread understanding among the people as to why prices have risen. Some criticize organized labor for successfully demanding higher wages. Others point to the raising of prices by business and the resultant excessive profits; to the high prices of agricultural products, or to the activities of speculators in commodities and real estate. Government expenditures, high taxes, and many other things are singled out for blame. Such factors to be sure all have their relevance to inflation. But some of these are only symptoms or effects of inflation and not causes. Others are merely relatively minor factors that could never in themselves have developed an inflationary situation such as we have had.

Excessive Money Supply the Basic Cause of Inflation

The vital force that has been generating inflation in this country has been the excessively large money supply which was created by war financing. At the end of the war, demand deposits and currency held by the buying public were about three times their prewar volume. In addition, businesses and individuals increased their holdings of United States Government securities about $75 billion. While the wartime money growth was underway, prices were held in check by a comprehensive harness of controls, including allocations, construction permits, rationing, price and wage controls and high levels of taxation including excess profits taxes and the like. The fundamental economic adjustment we have faced in the postwar period has been to grow up to this much larger money supply. That is, to bring about a more normal balance between the supply of goods and services available to the public and the expanded supply of money.

For this postwar adjustment to have been accomplished with a minimum of inflation two things should have been done. First, some reduction should have been made in the money supply in the hands of the public. Second, the wartime harness of controls of the economy should have been retained until the full flow of peacetime production had been restored and some of the most urgent of the deferred demand had been satisfied.

But we did neither of these things. True, an attempt was made to cut the money supply by reversing the wartime process of money creation through a government budgetary surplus. Money was withdrawn from the people by taxation and by the sale of savings and other bonds and these funds were largely used to retire government debt held by the banks. From mid-1946 to mid-1948, Treasury operations had the effect of reducing the money supply in the hands of the public by $11 billion. But, notwithstanding these Treasury operations, the money supply was materially expanded. The contraction resulting from the Treasury cash surplus was more than offset by the very rapid and large expansion of bank loans and investments other than government securities and by the gold inflow.

Direct controls were quickly abandoned by the Administration immediately after the war largely at the behest of organized pressure groups. The failure to reduce the volume of money and to retain during the transition period the harness of direct controls to which I referred has resulted in the inflationary situation about which everyone has talked so much and done so little.

Remedies for Inflation

One way to combat inflation is to produce a greatly expanded volume of goods and services. This is a remedy we often hear proposed. It would be a gratifying way out indeed. But any realistic appraisal of the inflation problem will reveal that no such pleasant solution has been possible or is in immediate prospect. Our overall production is currently at record levels, with maximum utilization of our manpower and of many basic materials, notably steel. While further increases in production will certainly come with increases in productivity of our men and machines, it cannot come overnight. We cannot count on that as a solution to our present situation.

The only other way to strike at the core of the inflation situation is to reduce the flow of spending for goods and services. We must stop increasing the volume of money and in fact we should reduce it. We should encourage people to save and we should discourage any expenditures for consumption or capital goods that can be deferred, and particularly such as is done by the use of credit. However, it is not right for the government to advocate this unless it will take whatever steps are required to protect the purchasing power of these savings.

Since mid-1946, a date that might be taken as the end of the period of physical transition from war to a peace economy, we have had an increase and not a decrease in the money supply in the hands of the public. Demand deposits increased by $3 billion and time deposits by $6 billion. Currency has decreased $1 billion. The total has increased by $8 billion. This increase has been due to gold inflow, net selling by nonbank investors of government securities to banks, principally the Reserve Banks, and an expansion of commercial bank credit to businesses, real estate owners, consumers and public bodies. Of these, commercial bank credit expansion has been the largest. As I have said before, the expansion of deposits would have been greater had it not been for the use of the Treasury surplus to retire securities held by banks.

If we are merely to stop a further increase in the money supply we must not only stop but must reverse the expansion of bank credit. Gold production amounts to nearly $1 billion a year, and we may expect to get most of it. This not only directly increases our bank deposits by a corresponding amount but also adds to the volume of bank reserves which can be used as a basis for further multiple credit expansion. I commend to your attention the recent statement by Mr. Russell Leffingwell regarding the question of gold and its proper use.

I am fully aware of some of the difficulties that may be involved in a policy of credit restraint, in making that policy effective in stopping inflation. The rate of use or velocity of existing money has, as you know, been low in recent years as compared with previous experience, particularly in the twenties. This low velocity has been the result in large part of the cheapness as well as the abundant supply of money and credit.

Tightening bank credit and raising money rates tends to activate the existing supply of money. Investment institutions, such as savings and loan associations and savings banks, raise the rates they pay on savings deposits in order to induce holders of cash to make their funds available for investment. Commercial banks also raise their time deposit rates and other borrowers offer higher rates for money. Idle pools of deposits are thereby drawn into the spending stream. Attracted by the higher rates on other investments, some savings bond owners might be induced to cash their bonds, and purchases of new bonds are discouraged. Sales of marketable government bonds to the Reserve Banks are also encouraged.

In other words, to the extent that increased velocity results from credit restriction or contraction, it impairs the effectiveness of the policy of restriction. This does not mean that should the inflation continue it would be futile to restrict bank credit. What it does mean is that in a highly inflationary situation more restriction may not be enough. In such

Public Underwriting of Finance Companies

(Continued from page 13)

mission now provide that the public offering of securites in an amount of no more than $300,000 can be made without registration, and at considerable savings of time and money. Accordingly, where additional permanent capital may be required by one of these smaller companies a thorough discussion with the local investment dealer of the exemption provisions of the Act may prove to be fruitful.

It is clear that the considerations affecting the public underwriting of finance company securities are as varied as the companies themselves. When the addition of capital funds is contemplated and a satisfactory relation with an investment banker has already been established, naturally you will go to him for joint consideration of the matter. On the other hand, where no such relation exists and additional capital is indicated, my suggestion to you is that you seek out carefully the most competent and experienced investment banker in your territory and discuss your problems with him in complete frankness. Then together you can determine whether or not public funds can be introduced into the business on satisfactory terms or whether it appears that recourse must be had to the other alternatives mentioned.

Your industry is a growing one and performs important functions in our complex economic mechanism. It is the function of the investment banker to provide capital for the expansion of industry. Under those circumstances close cooperation between the two should prove mutually beneficial.

circumstances it might require a contraction of the money supply to overcome the inflationary effect of increased velocity.

Bank Credit Restraint

As I have stated earlier, we are confronted with an economic dilemma. We have in fact some very unpleasant alternatives. One of these is to do nothing at all even though inflationary pressures continue. Another is to adopt a strong policy of monetary restraint. A prerequisite for dealing successfully with monetary problems under inflationary conditions, however, is the adoption of fiscal policy which would insure a balanced budget or preferably a budgetary surplus so long as inflationary pressures continue. However, if fiscal policy should result in substantial deficit financing, it would not be possible to adopt a restrictive monetary policy under existing powers.

Monetary policy under present day circumstances must be reinforced by a fiscal policy and a debt management program consistent with it. In other words, fiscal and monetary policy should go hand in hand.

Our fiscal position in recent years has been favorable to credit restraint and has been a major factor checking monetary expansion. A further government surplus, however, is not now in prospect. We have had a $5 billion cut in taxes. Expenditures are up about $5 billion for military purposes and foreign aid. So the government surplus, heretofore, the principal monetary bulwark restraining inflation, has disappeared. Indications are that defense expenditures will be further materially increased. If there is no corresponding increase in taxes or reduction in other government expenses, there will be a budget which could add to our present inflation problems. This would be most unfortunate and should not be permitted to happen.

For achieving a condition of restraint on bank credit and monetary expansion, several proposals have been made. You are familiar with most of them I am sure. One instrument that would be effective is authority to increase primary reserve requirements of all banks, member and nonmember alike. This is a blunt and inflexible instrument which could be used to offset bank sales of government securities to the Reserve Banks. It could also be used to immobilize additional bank reserves resulting from gold inflows and from System purchases of government securities from nonbank investors, thus preventing multiple credit expansion on the basis of these reserves.

Another less onerous plan is the special or optional reserve method. This would immobilize a large part of bank portfolios of Treasury bills and certificates and greatly reduce the willingness and ability of banks to lend. It could also be used to tie up new bank reserves in these securities. The special reserve authority would be particularly applicable to a situation of a further government deficit that an enlarged military and foreign aid program may cause. With this authority should it be necessary to extend bank credit to the government, the deposits thus created could be tied to the securities issued and these securities could not provide a means of obtaining additional bank reserves upon which a multiple credit and money expansion could be based.

Even more effective as a program of credit control would be a combination of these two authorities. The position of the banking fraternity in general with respect to the monetary situation is an inconsistent one. Most bankers want the System to continue the present price support for government securities. But they oppose the System's request for any additional authority that would serve as a partial substitute for the use of traditional powers which the System is unable to use so long as it maintains the present support policy.

They even oppose the System's use of the small emergency powers to increase reserve requirements granted last August although these powers have been used only to absorb reserves created by the gold inflow and by the System's support purchases of government securities from nonbank investors. It was primarily for the purpose of absorbing any additional reserves that might become available to the banking system that the authority was given. The increase in reserve requirements of member banks has approximately offset the growth in reserves from these sources since the middle of the year, and earning assets of member banks are just as large as they were at the end of June. In the meantime short-term interest rates have been permitted to rise, thus improving bank earnings from this source. Accordingly, banks as a whole have not been adversely affected, but their earnings have been improved. Further additions to the supply of reserve funds available from whatever source would call for additional use of this authority so long as the present inflationary conditions exist. The bankers have proposed no solution of their own to this dilemma except the voluntary program which, though commendable, has not been adequate.

It is the commonly expressed view that authority to increase reserve requirements is a blunt instrument which places too much power in the hands of the Federal Reserve Board. The increases in reserve requirements early in 1937 have been cited as an example of the dangers in the use of this power. It is claimed that the Board's action was a principal factor precipitating the recession that began in that year.

This reference to the 1937 situation to discredit changes in reserve requirements as a credit policy instrument needs to be examined critically. You will remember at the beginning of 1937, excess reserves of member banks were about $2 billion, largely reflecting the substantial gold inflows of the time. The Board raised reserve requirements to immobilize as much of these unnecessary reserves as it could within its available authority, so as to keep them from becoming the basis for an excessive monetary expansion. At the same time, the Treasury, by borrowing money to do so, was sterilizing incoming gold to prevent further expansion in reserves.

Mr. Leffingwell, in his recent article in "Fortune," implies that this action made credit unavailable. Nothing could be further from the truth. Never during this period were excess reserves of member banks below $700 million. Credit was not only readily available but it continued to be exceedingly cheap. For example, rates on short-term commercial paper were not above 1%; on bankers' acceptances, ½ of 1%; on stock exchange call loans, 1%; and on Treasury bills, ¾ of 1%. Rates charged by banks on average business loans continued at very low levels. Does this sound like a shortage of credit?

The forces that turned the economy down in 1937 were the rapid and excessive inventory accumulations that began in the middle of 1936 and the abrupt balancing of the government's cash budget in 1937 following a period of substantial Federal deficits. The Board's action to increase reserves to bring the market within reach of the System's open market powers had nothing of substance to do with the recession that developed.

The gold inflows continued in such volume that by mid-1940 excess reserves were nearly $7 billion. The System had no means of absorbing these excess reserves since its holdings of government securities were only about one-third as large. This was the case even though reserve requirements were near the maximum levels permitted by law. In view of this situation, in December 1940, the Board, the Presidents of the Federal Reserve Banks, and the Federal Advisory Council, the only time in the history of the System submitted a joint report to Congress. This report called attention to the inadequacy of Federal Reserve powers to discharge its responsibilities. It recommended among other things that the System be given authority to raise reserve requirements to double the statutory maxima and to apply these requirements to all commercial banks, member as well as nonmember banks. This would mean that requirements could be raised to 12% on time deposits and to 52%, 40%, and 28% on net demand deposits for central reserve city, reserve city, and country banks, respectively. The Federal Advisory Council, the body representing the member banks, participated in the preparation of this report and unanimously favored its submission to Congress. At the present time, this Council opposes granting any additional authority to control credit expansion although the inflationary situation is far more serious.

"Flexible" Support of the Government Securities Market

What alternatives have been advanced to the System's proposals for restricting bank credit expansion? The principal alternative proposals relate to changes in the Federal Reserve System's policies with respect to support of the market for government securities.

Because of the importance in our economy of a $250 billion government debt, the Federal Reserve System has undertaken to continue its wartime task of maintaining orderly and stable conditions in the government securities market. This program involves the purchase of government securities by the Federal Reserve Banks whenever holders choose to sell and others are not in the market to buy at support level prices. Banks, insurance companies, and other lenders have taken advantage of this market support to sell government securities in order to extend credit to other borrowers. As I have said before this process creates additional amounts of bank reserves and money.

Much of the criticism of the support program for government securities has come from insurance company executives and from officials of large banks. Specifically, the System's support activities have been criticized by Mr. Parkinson, President of the Equitable Life Assurance Society, and by Mr. Russell Leffingwell, Chairman of the Board of J. P. Morgan & Co., as well as by the privately-sponsored Committee on Public Debt Policy, which is composed principally of persons associated with large commercial banks, insurance companies, and savings institutions.

I am not entering into a debate with these critics. However, I would like to help clarify the issues.

I agree with these critics that there is too much money and that it is too easy to create additional money.

Mr. Leffingwell and I are in agreement as to the need for measures outside the private credit field. Some of my views on this were expressed extemporaneously last August before a committee of Congress. I quote from that testimony:

"I do believe that everything within the power of the Administration and the Congress should be done to maintain a budgetary surplus.

"I do believe that the Federal Government should do everything within its power to encourage the State to postpone every expenditure that it is possible to postpone, and set an example to the States by doing likewise.

"I do believe that the Federal Government should not, for what seem to me political reasons, encourage a housing program in excess of the amount of labor and materials available, and encourage further inflation thereby.

"I do believe that the Federal Government should do everything within its power to bring down food prices, by encouraging more and not less production."

As part of a program for reestablishing effective control of the money supply, there is wide agreement that further steps should be taken toward greater flexibility in short-term rates. The Federal Reserve System believes in, has advocated, and has taken tangible steps toward this objective. Action in this field must of course take into account the Treasury's problem of public debt management. I personally feel, however, that action has moved unnecessarily slowly and that further steps are needed that would permit higher and more flexible short-term rates. Any such action would be accompanied by appropriate changes in the Federal Reserve Bank discount rate.

But the principal controversy is not relative to the short-term rate. The more controversial issue is whether or not the Federal Reserve should continue maintaining the rate of 2½% on the longest-term government securities.

The means for restraining monetary expansion which critics of the support program prescribe is to introduce flexibility into the long-term rate. Complete abandonment of the government bond market by the Reserve System is not generally advocated. As Mr. Leffingwell has put it, "The peg should come out, but the government bond market should not be abruptly left to itself." He also wrote, "The policy of supporting government bonds when necessary, without pegging, and of maintaining an orderly market in government bonds, would be continued until a normal market is reestablished. The authorities should, however, stop the automatic supply of money to the market to peg bond prices at par, and should let interest rates and bond prices gradually settle themselves; but not make money dear or scarce."

Now just what does this type of program actually contemplate? It seems to involve a continued willingness on the part of the Federal Reserve System to take government bonds and to supply Reserve Bank credit, but at yields higher than 2½%. Apparently, however, the System should follow a policy of gradually easing bond prices down and yields up, but buying aggressively, if necessary, to maintain orderliness in the market.

What would be the position of a government bond owner or a potential bond buyer under such circumstances? Would they have any confidence in the market? Holders would tend to sell and potential buyers to hold back, creating increasing downward pressure on bond prices. If yields should rise only ½% on the longest 2½% bonds, their price would fall to less than 93. But in a falling bond market, with general credit demand strong, rates on other securities and loans would tend to rise at least proportionately as much. Under these conditions, can it be expected that insurance companies or savings and loan associations or other institutional investors would act materially differently with the yield on governments at 3% than they do now at 2½%?

Loans or investments other than government securities would have as much if not more relative attractiveness to lenders and investors. Few, if any, borrowers would be priced out of the market for funds by rate increases of the size contemplated by advocates of this "flexibility" policy. Any moderate rise in long-term interest rates would not in itself reduce significantly the demand for money. Investing institutions which are now switching from long-term government bonds to private credit forms would still be motivated to do so by a continuing margin of return between the two kinds of investment.

Thus, under the "flexible" policy the Federal Reserve System would still be called upon to support the bond market and would thereby continue to create bank reserves. It is possible that the amount of support required under these conditions would be much greater than is now the case. Investors generally would lose confidence in the market and would rush to sell their securities before prices declined further. Money and reserves created by Federal Reserve purchases below present support prices would be just as high-powered as those created by support at existing prices, and the reserves thus made available could support nearly six times as much in bank loans.

If a program of dropping the support prices on government bonds is to have any meaning as an anti-inflation device under conditions such as exist today, it must effectively restrict credit expansion. This means denying the market new Federal Reserve funds. Merely reducing somewhat the prices at which the System buys securities and supplies the market with funds would not alter the fundamental conditions underlying the current expansion in the money supply.

If the System were to go any part of the way down the road of withdrawing support from the 2½% long-term government rate it should be prepared to go as far as necessary to place monetary expansion under adequate restraint by this device. Interest rates, under such a policy, would need to go high enough to discourage long-term borrowers, to restrain selling of government securities, to bring idle funds into the market for government securities and to increase savings. Prices of government securities would need to drop to the point where buying would about equal selling, without a significant increase in the System portfolio.

No one knows how much the prices of government bonds would drop before such a balance would be reached. No one knows, moreover, just what would be the consequences of such a policy not only upon our financial structure but upon the entire economy.

Certainly we would not expect that such action would increase the sales on balance of savings bonds, of which there is over $50 billion outstanding. It could have the opposite effect of causing many holders, not understanding the action taken, to cash in their present bonds. Other savings bond holders who are more familiar with the investment market might see an opportunity to profit by shifting out of E, F and G bonds and into marketable bonds if the prices of marketable issues go low enough. Either of these developments would put the Treasury in the market for new funds to redeem these securities and could require that the Reserve System give up its tight-money policy to assist the Treasury in meeting its obligation to savings bond owners and these could defeat the purposes of this anti-inflation program.

A program of credit control

(Continued on page 46)

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● **Allen Howe Electronics Corp., Salem, Mass.**
Oct. 19 (letter of notification) 200,000 shares (10¢ par) common stock. **Price**—$1 per share. No underwriter.

● **Amerex Holding Corp., New York**
Oct. 19 (letter of notification) 1,185 shares of capital stock (par $10). Stock will be sold at public auction through Adrian H. Muller & Sons, auctioneers.

● **American Bankers Insurance Co. of Florida**
Oct. 25 (letter of notification) 4,000 shares ($10 par) class A common stock and 15,000 shares of 8% cumulative ($10 par) preferred stock. **Offering**—To be sold in 1,000 units, each unit consisting of four shares of class A common and 15 shares of 8% preferred, at $290 per unit. No underwriting. For capitalization and creation of paid-in surplus.

American Bemberg Corp. (11/15)
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. in issue of Oct. 21, page 45.] Bids expected Nov. 15.

American Steel & Pump Corp. (11/8)
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.

● **Anchor Casualty Co., St. Paul, Minn.**
Oct. 22 (letter of notification) 10,000 shares ($10 par) capital stock. **Price**—$22.50 per share. No underwriter. For additional working capital.

● **Anderson (V. E.) Mfg. Co., Owensboro, Ky.**
Oct. 21 (letter of notification) 10,000 shares ($10 par) preferred stock and 10,000 shares of common stock (par $5). **Price**—Preferred par, common $7.50 per share. No underwriting. To help finance expansion program.

● **Appalachian Life Insurance Co., Huntington, W. Va.**
Oct. 25 (letter of notification) 40,000 shares of common, to be exchanged for stock of Alico Investment Co. at $8 per share, being $5 capital and $3 paid-in surplus. No underwriter. For capital and surplus.

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.

● **Baby's Haven Co., Minneapolis, Minn.**
Oct. 19 (letter of notification) 200 shares of 5% cumulative convertible preferred stock (par $100). Price, par. No underwriter. For additional working capital.

● **Boosters Iron & Metal Corp., Los Angeles, Cal.**
Oct. 18 (letter of notification) 20,455 shares of class "A" ($10 par) preferred and 20,455 shares of class "B" ($1 par) common. To be sold in units of one share of each class at $11 per unit. No underwriting. To make a prepayment on account of an option to lease real property which it has acquired, to purchase necessary equipment and to provide 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**—Offered for subscription by preferred and common stockholders of record Oct. 28 in the ratio of one new share for each four shares of preferred and common held. Rights expire Nov. 15. Stockholders shall also be entitled to the additional subscription privilege for such shares as shall have been unsubscribed for. **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.

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. **Underwriters**—Dillon, Read & Co., Inc.; W. C. Langley & Co.; The First Boston Corp.

● **Carroll Dunham Smith Pharmacal Co., New Brunswick, N. J.**
Oct. 21 (letter of notification) 11,800 shares of common stock (no par). **Price**—$12.50 per share. **Underwriting**—None. General working capital.

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.

● **Clinton Associates, Inc., Philadelphia**
Oct. 20 (letter of notification) 65,000 shares of common stock (par 10¢) of which 30,000 shares will be publicly offered and 35,000 will be issued to E. R. Clinton for certain considerations. **Price**—$1 per share. **Underwriting**—None. Development, etc.

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' Heating Co., Klamath Falls, Ore.**
Oct. 13 (letter of notification) 1,800 shares of common stock (par $50). Price, par. No underwriter. To install additional equipment.

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.

● **Cooper-Hewitt Electric Co., Hoboken, N. J.**
Oct. 25 (letter of notification) 3,000 shares 6% cumulative preferred stock (par $100) of which 2,571 shares will be issued for cash and 429 shares will be issued in exchange for notes payable at face value. **Price**—$100 per share. **Underwriting**—None. To be applied to second mortgage indebtedness, purchase of machinery, working capital, etc.

Deardorf Oil Corp., Oklahoma City (11/8-12)
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.

● **Dow Chemical Co., Midland, Mich.**
Oct. 22 filed 105,176 shares of common stock. **Offering**—To be offered to employees and subsidiaries and associated companies. **Price**—$45.42 per share. No underwriting. **Proceeds**—For general corporate purposes.

Dynacycle Manufacturing Co., St. Louis, Mo.
Sept. 3 filed 100,000 shares (80c par) common stock. **Underwriter**—White & Co., St. Louis. **Price**—$5 per share. Proceeds, plus an additional amount which may be obtained from the sale of franchises (estimated at $100,000), will be added to company's general funds. About $230,000 would be used to purchase equipment and $185,000 for working capital.

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.

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.

● **Fissure Vein Gold Mining Co., Inc., Billings, Mont.**
Oct. 11 (letter of notification) 20,000 shares of common stock (par $1). Price, par. No underwriter. For mining machinery and further development work.

● **Gioia Macaroni Co., Inc., Rochester, N. Y.**
Oct. 22 (letter of notification) 1,000 shares of cumulative preferred stock (par $100). Price, par. **Underwriting**—None. Development, etc.

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.

● **Hallicrafters Co., Chicago, Ill.**
Oct. 22 (letter of notification) 1,000 shares ($1 par) common stock. **Price**—$4 per share. **Underwriter**—Doyle, O'Connor & Co., Inc.

● **Harden Oil Co., Denver, Colo.**
Oct. 21 (letter of notification) 12,000 shares of class "A" non-voting common stock (par $1) and 3,000 shares of class "B" voting common stock (par $1). Price, par for each class. No underwriting. For purchase of casing and drilling expenses.

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.

● **Hay Harbor Realty, Inc., New York**
Oct. 25 (letter of notification) 7,500 shares of common stock (par $1), 3,000 shares of 5% non-cumulative preferred stock (par $10) and $112,500 4-year 3½% promissory notes. The notes, preferred and common stock are being offered in principal amount of $5,000, such units to be made up in the proportion of 250 common stock ($250), 100 preferred shares ($1,000) and $3,750 of notes. **Underwriting**—None. Working capital, etc.

NEW ISSUE CALENDAR

November 3, 1948

Chicago St. Paul, Minneapolis & Omaha Ry., Noon (CST) ----- **Equip. Trust Ctfs.**

November 4, 1948

New York, Chicago & St. Louis, Noon (EST) ----- **Equip. Trust Ctfs.**
Plywood, Inc. ----- **Bonds**

November 8, 1948

American Steel & Pump Corp. ----- **Class A Stock**

November 9, 1948

Associated Telephone Co., Ltd. ----- **Bonds**
Deardorf Oil Corp. ----- **Common**
Peninsula Telephone Co. ----- **Preferred**
Younker Brothers, Inc. ----- **Preferred & Common**

November 10, 1948

Hooker Electrochemical Co. ----- **Preferred**

November 15, 1948

American Bemberg Corp. ----- **Stocks**
Iowa Public Service Co. ----- **Bonds**
North American Rayon Corp. ----- **Stocks**

November 16, 1948

Northwestern Bell Telephone Co. ----- **Debentures**

November 22, 1948

Public Service Electric & Gas Co. ----- **Debentures**

November 29, 1948

Northern Natural Gas Co. ----- **Debentures**

December 13, 1948

American Telephone & Telegraph Co. ----- **Debentures**

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. (11/10)
Oct. 6 filed 50,262 shares of cumulative second preferred, series A $4.50 dividend. **Underwriter**—Smith, Barney & Co. **Offering**—Offered for subscription by common stockholders of record Oct. 25 on a basis of one new share for each 16 shares of common held at $100 per share. Rights expire Nov. 9. **Proceeds**—For capital additions to plants and facilities and to provide for changes in equipment and processes. Stock is convertible into common prior to Dec. 1, 1958, at conversion price of $30 per share.

● **Horizon Manufacturing Co., Canton, Mo.**
Oct. 22 (letter of notification) 500 certificates of stock. **Price**—$50 per share. No underwriter. For improvements and equipment.

● **Household Service, Inc., Clinton, N. Y.**
Oct. 20 (letter of notification) $5,000 5% sinking fund 10-year serial debentures, series C, due June 1, 1958. **Underwriter**—Mohawk Valley Investing Co., Inc., Clinton, N. Y. Price, par. Corporate purposes.

● **Huston Culver Fertilizers, Inc., Seaford, Del.**
Oct. 19 (letter of notification) 32,200 shares ($1 par) common stock. **Price**—$5.50 per share. No underwriter. To erect and equip a fertilizer plant, and for working capital.

● **Inland Service Corp., Charlottesville, Va.**
Oct. 19 (letter of notification) $150,000 bonds. **Underwriter**—City Mortgage & Insurance Co. To retire outstanding first mortgage bonds, to pay bank loans and for general corporate purposes.

● **Inter-Mountain Telephone Co., Bristol, Tenn.**
Oct. 20 filed 95,000 shares of common stock (par $10). **Underwriters**—Courts & Co.; Equitable Securities Corp.; Scott, Horner & Mason; Mason-Hagan, Inc.; Clement A. Evans & Co. **Offering**—Two principal stockholders will acquire 42,776 shares of the proposed offering. The remaining shares will be offered for subscription by stockholders of record Nov. 8 on a share-for-share basis. Price, by amendment. **Proceeds**—For expansion.

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.

● **Israel Corp. of America, N. Y. City**
Oct. 20 filed 250,000 shares of 80¢ dividend series (no par) cumulative preferred stock and 250,000 shares ($1 par) common. **Offering**—To be offered in units of one share of each at $25 per unit. **Underwriting**—None. **Proceeds**—For working capital.

● **Johnson Bronze Co., New Castle, Pa.**
Oct. 27 filed 125,000 shares (50¢ par) common on behalf of executors of the estate of P. J. Flaherty. **Underwriter**—McDonald & Co.

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.

● **Keystone Custodian Fund, Boston, Mass.**
Oct. 22 company filed five registration statements covering five different series of participating certificates, as follows: 200,000 shares of Series B-3 certificates of participation; 25,000 shares of Series B-4 certificates of participation; 100,000 shares of Series K-1 certificates of participation; 15,000 shares of series S-1 certificates of participation; and 600,000 shares of Series S-4 certificates of participation.

● **Livingston Mines, Inc., Seattle, Wash.**
Oct. 21 (letter of notification) 90,000 shares (5¢ par) common stock and $30,000 6% 2-year interest bearing promissory notes. **Underwriter**—Lobe, Inc. For operating and general corporate expenses.

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.

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.

● **Morgan Petroleum Corp., Akron, Ohio**
Oct. 20 (letter of notifiction) 10,000 shares of class "A" stock (par $10). Price, par. No underwriter. For purchase of drilling machinery, productive and non-productive leases and future drilling of same.

National Battery Co.
July 14 filed 65,000 shares ($50 par) convertible preferred stock. Price and dividend, by amendment. **Underwriters**—Goldman, Sachs & Co., New York; Piper, Jaffray & Hopwood, Minneapolis. **Proceeds**—To retire $3,000,000 of bank loans and general corporate purposes. Temporarily deferred.

● **National Fruit Product Co., Inc., Winchester, Va.**
Oct. 22 (letter of notification) 30,000 shares ($10 par) common stock. Price, par. No underwriter. For additional working capital.

North American Rayon Corp. (11/15)
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. [For proposed changes in existing stock, see under North American Rayon Corp. in issue of Oct. 21, page 45.] Bids expected Nov. 15.

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.; Harriman Ripley & Co. Inc.; Central Republic Co. and Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—For construction.

● **Northern Natural Gas Co., Omaha, Neb. (11/29)**
Oct. 21 filed $6,000,000 serial debentures, due 1966-69. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. **Proceeds** — To replenish working capital and for construction expenses. Expected Nov. 29.

Northwestern Bell Telephone Co. (11/16)
Oct. 15 filed $60,000,000 31-year debentures, due Nov. 15, 1979. **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.

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.

Peninsular Telephone Co. (11/9)
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. Expected about Nov. 9.

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) will pay company $1,000 for right to take any unsubscribed debentures. **Offering**—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. (11/4)
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.

● **Portersville Oil Co., Baltimore, Md.**
Oct. 19 (letter of notification) 10,000 shares of common stock class A ($1 par) and 40,000 shares of common stock class B ($1 par) to be sold in units of one share of "A" and four shares of "B" for $10 per unit. To carry on geophysical surveys for oil explorations and drilling for oil and gas.

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.

● **Rose Meta Beauty Products Co., Inc., N. Y.**
Oct. 19 (letter of notification) 25,000 shares of preferred stock (par $10) and 2,500 shares of common stock (par $10). Price, par for each class. **Underwriting**—None. Development and expansion.

● **San Jose (Calif.) Water Works**
Oct. 20 filed 15,913 shares ($25 par) common stock. **Underwriters**—Dean Witter & Co., Blyth & Co., Inc., Elworthy & Co. and Schwabacher & Co. **Proceeds**—To repay bank loans and to restore working capital used for extensions, 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.

● **Sheboygan (Wis.) Red Skins Inc.**
Oct. 19 (letter of notification) 5,000 shares of common stock (par $1). Price, par. No underwriter. For working capital.

● **Signature Recording Corp., New York**
Oct. 20 (letter of notification) 18,942 shares of common stock (par 25¢). To be issued to Ray Bloch as payment in full of royalties due ($4,735).

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. Effective Oct. 21.

Southern Colorado Power Co., Pueblo, Colo.
Oct. 8 (letter of notification) 34,067 shares of common stock (no par). **Offering**—Offered for subscription to holders of common stock of record Oct. 11, on basis of one new share for each 14 shares held. Rights expire Oct. 30. **Price**—$8.50 per share. **Underwriters**—Boettcher & Co., Bosworth, Sullivan & Co., Denver, Colo., and Hutchinson & Co., Pueblo, Colo. For company's construction program.

● **Southern Indiana Gas & Electric Co.**
Oct. 20 filed 600,000 shares (no par) common stock owned by the Commonwealth & Southern Corp. and 75,000 additional shares of stock for the benefit of the company. **Underwriter** — Smith, Barney & Co. Price, by amendment. **Proceeds**—Commonwealth will use its proceeds to reduce indebtedness and Southern Indiana will use its proceeds for property additions and betterments.

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. Stockholders of record Oct. 15 have the right to subscribe on basis of one new for each 2½ shares held. Rights expire Nov. 1. **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.

● **Spectronic Laboratories, Inc., Springfield, Mass.**
Oct. 11 (letter of notification) 3,000 shares of common stock. **Price**—$5 per share. No underwriter. For working capital.

● **Teichmann (Henry F.), Inc., Pittsburgh, Pa.**
Oct. 26 (letter of notification) 700 shares of common stock (par $10). Price, par. **Underwriting**—None. Additional capital funds.

(Continued on page 46)

(Continued from page 45)

● **Tele-Video Corp., Upper Darby, Pa.**
Oct. 20 (letter of notification) 115,480 common shares (par 5¢) and 57,740 preferred shares (par $5). **Price**—$5.10 per unit, consisting of two common shares and one preferred share. **Underwriter**—Gearhart & Co., Inc., New York. Additional working capital.

● **Televista Corp. of America, New York**
Oct. 18 (letter of notification) 200,000 common shares (par 10¢). **Price**—$1 per share. **Underwriting**—None. General corporate purposes.

● **Transcontinental Gas Pipe Line Corp., Dallas, Texas**
Oct. 26 filed 265,000 shares (no par) cumulative preferred stock and 265,000 shares (50¢ par) common stock, to be offered in units of one share of each issue; also filed 2,250,000 shares of common stock to be offered to outstanding common stockholders at $10 per share at the rate of three shares of common for each share held. **Underwriters**—White, Weld & Co. and Stone & Webster Securities Corp. **Proceeds**—For pipe line construction, working capital, and for payment of dividends on company's preferred stock before Dec. 31, 1950.

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**—George R. Cooley & Co., Inc., Albany, N. Y., and others to be named by amendment. 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.

● **United States Rabbit Corp., Chicago, Ill.**
Oct. 19 (letter of notification) pre-organizational subscriptions for 300 shares of 7% cumulative preferred to be sold at par ($100) and 700 shares (no par) common to be sold at 10¢ per share. No underwriting. For the general operation of the company.

● **Virginia Electric & Power Co.**
Oct. 22 registered an unspecified amount of ($10 par) common stock. **Offering**—To be offered for subscription by stockholders of record Nov. 12 at rate of one share for each four shares then held. Price by amendment. **Underwriter**—Stone & Webster Securities Corp. **Proceeds**—For construction.

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.

● **Wyoming Oil Co., Denver, Colo.**
Oct. 19 (letter of notification) 4,400,000 shares (5¢ par) common stock, of which 400,000 shares will be offered to Woodward Oil, Inc., and Morton Oil Co. for leasehold interests, 2,000,000 shares to the stockholders of Woodward Oil, Inc., and Morton Oil Co. at 5¢ per share and 2,000,000 shares to the public at 7½¢ per share. No underwriter. For drilling operations and working capital.

Younker Brothers, Inc. (11/9)
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. Expected about Nov. 9.

Youse (E. S.) Co., Inc.
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

● **Alabama Power Co.**
Oct. 22 company asked SEC permission to sell $12,000,000 30-year first mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Lehman Brothers; Harriman Ripley & Co.; Shields & Co.; Morgan Stanley & Co.; Drexel & Co.

American Telephone & Telegraph Co. (12/13)
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. Bids expected Dec. 13.

● **Boston Edison Co.**
The proposed sale of $23,000,000 unsecured promissory notes by private negotiation was opposed Oct. 22 by Halsey, Stuart & Co. Inc., at a hearing before the Massachusetts P. U. Commission. Halsey, Stuart proposed that the issue be opened for competitive bidding. Boston Edison wishes to sell 3% notes to be dated Nov. 15, 1948 and mature Nov. 15, 1973. Arrangements have been made under which John Hancock Mutual Life Insurance Co. will buy $12,500,000 of the notes, Aetna Life Insurance Co. $3,000,000, and Bankers Trust Co. $7,500,000.

● **Chesapeake & Ohio Ry.**
Oct. 29 directors will vote on a proposal to sell $40,000,000 new series of refunding and improvement bonds. Probable bidders include Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; The First Boston Corp.

● **Chicago St. Paul 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).

● **Clinchfield RR.**
Invitations have been sent out for bids on $1,320,000 equipment trust certificates, series C. Bids on the certificates, to be dated Nov. 1, 1948, and payable in 15 equal annual instalments, must be submitted by noon, Nov. 1. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Georgia Power Co.**
Oct. 20 company asked SEC permission to sell $12,000,000 30-year first mortgage bonds. Series due 1978. Probable bidders: Halsey, Stuart & Co.; The First Boston Corp.; Morgan Stanley & Co.; Shields & Co.; Lehman Brothers; Drexel & Co.; Harriman Ripley & Co.

● **Illinois Terminal RR.**
Oct. 21 company asked ICC permission to issue $1,000,000 equipment-trust certificates. Proceeds will be used in connection with the purchase of 300 box cars costing $1,281,750. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler.

● **New York Chicago & St. Louis RR. (11/4)**
Company will receive bids up to noon (EST) for the purchase of $4,600,000 serial equipment trust certificates, to mature in 20 equal semi-annual instalments, beginning on June 1, 1949 and ending on Dec. 1, 1958. Probable bidders include: Halsey, Stuart & Co. Inc.; Freeman & Co. and Wm. E. Pollock & Co., Inc. (jointly); Shields & Co., Gregory & Son and R. L. Day & Co. (jointly); Kidder, Peabody & Co. and Dick & Merle-Smith (jointly); R. W. Pressprich & Co., Inc., Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co., Inc., and Lehman Brothers (jointly); F. S. Moseley & Co.

● **Rochester Telephone Corp.**
Oct 26 reported corporation has plans for the sale, probably about Dec. 7, of $8,500,000 15-year debentures. Probable bidders include Halsey, Stuart & Co. Inc.

Our Economic Dilemma

(Continued from page 43)

made effective by withdrawal of System support from the government securities market could lead to a serious deflation. This, indeed, is a result that the sharpest critics of the support program say they are anxious to avoid.

Inflationary Role of Nonbank Institutional Investors

Representatives of some big investing institutions have freely criticized banks for their creation of new money through bank credit expansion. They complain about the effect of inflation on the value of savings and insurance benefits.

But some of these institutions are helping to create the very inflation about which they complain. They are helping to reduce the purchasing power of money by extending credit to real estate owners, to businesses and to State and local governments in amounts that exceed funds available from repayment of debt or the current flow of savings into their institutions. They are able to do this by selling to the Reserve Banks government securities they purchased to help finance the war. The Reserve Banks have to buy them unless we are prepared to take the dangerous road of withdrawal of support that I have just described. There would be no objection to their selling if there were a deflation situation, or if there were a market at present levels outside the banking system.

I suspect that some of those who are most vocal in advocating a drop in support prices have a very special interest in lower prices on long-term securities. It would be interesting and enlightening in this connection, I suspect, if we could see the maturity composition of their government security portfolios. We might find that they have few long-term securities, having never bought any or having previously sold at premiums what they did have.

There needs to be greater recognition on the part of our large nonbank institutional investors that commercial banks are not the only institutions that are expected to act in the public interest to maintain monetary stability. Insurance companies and other holders of the savings of the people have that responsibility as well. If they are unwilling to recognize and to meet their public responsibilities, then it would be necessary to include them as well as banks in a legislative program of adequate monetary and credit control.

In Conclusion

I should like to emphasize that further inflation is not inevitable. There are some soft spots in the economy. In quite a number of important areas production has been cut back as supply has overtaken demand at existing prices. Large crops have pressed down the prices of a number of agricultural commodities to support levels which, by the way, in my opinion are altogether too high and run counter to an anti-inflation program. There is also some evidence that private construction may be declining. Inventories generally are at an all-time high and pressures for their reduction are increasing. The need for credit control would be greatly lessened or temporarily disappear if deflationary factors should increase in importance.

Our economic objective should be to stabilize our economy at high levels of employment and production. It is easier to achieve this stability if we have a stable price level than if we have falling or rapidly rising prices. A stable price level, however, has come to be taken by some almost as a guarantee of long-run economic stability. I think it is appropriate to inject a few words of caution on this point.

We may achieve a form of temporary stability in the present general level of prices that could be taken to indicate that all was well, but that might hide a serious undercurrent of weakness. If we achieve a stability at the existing level of prices by the prop of a further sizable credit expansion, whether bank or otherwise, then I say we are storing up real trouble. We are borrowing against the future if to hold the economy at present prices we need heavy new borrowing by businesses, substantial buying on credit by consumers, large mortgage expansion at high housing prices and large State and local expenditures for public works. This would also be true if we permit a large Federal deficit. It would be better to bring about a more balanced situation now by having a downward adjustment in prices, even at the cost of some present slackening in our level of economic activity. I say this because I believe we should not to sustain the present price level. use the cushions that should be available to ease the next recession. If we do this, we shall be multiplying our problems in the time to come.

But if, in spite of some deflationary aspects in our economy, inflation continues or if prices are held at present levels by a further overall credit expansion, then effective monetary and fiscal control would be essential. I feel that Congress should deal realistically with this problem at the coming session no matter how unpleasant the task may be.

If credit growth continues, or if velocity of existing money increases significantly, and if no additional authority over bank credit growth is given to the System by Congress, or if because of the activities of nonbank investors further inflation cannot be stopped by such additional powers, then the authorities would have to face an unpleasant dilemma. Either they must permit further inflation to develop or they will have to adopt the full use if traditional methods of credit control. Only in this event would it be necessary to follow the extremely risky course of letting prices and interest rates on government securities go to the point where there will be a balance between buyers and sellers in the market, without significant Federal Reserve support.

I am fully conscious of the enormity of the world difficulties that affect our every domestic problem. Any fiscal, monetary or credit program designed to establish economic stability at home may be entirely upset by expanding military and world-aid programs without terminal point as to either time or amount. The alternative is to bring about a condition of world peace at an early date, even at the risk of war.

I agree with Mr. Churchill, when he recently said:

"The Western nations will be far more likely to reach a lasting settlement without bloodshed if they formulate their just demands while they have the atomic power and before the Russian Communists have got it too."

Shell Caribbean Petroleum Company Places $250,000,000 Bonds Privately

Shell Caribbean Petroleum Co., of New Jersey, a Royal Dutch-Shell Group Company of which Mr. George Legh-Jones is Chairman of the Board and Mr. H. Wilkinson is President, announced Oct. 19 that it has signed contracts for the sale at par to a group of American and Canadian insurance companies of an issue of $250,000,000 principal amount of its bonds bearing interest at 4% and maturing in 1968, effective upon the completion of necessary legal formalities. The loan was arranged through Morgan Stanley & Co. This is one of the largest loans ever negotiated in the history of corporate financing.

The insurance companies participating are Metropolitan Life Insurance Co., New York Life Insurance Co., The Prudential Insurance Co. of America, The Mutual Life Insurance Co. of New York, Sun Life Assurance Co. of Canada, The Northwestern Mutual Life Insurance Co., The Travelers Insurance Co., New England Mutual Life Insurance Co., Carnegie Corp. of New York and Provident Mutual Life Insurance Co. of Philadelphia.

The bonds to be issued will constitute the only funded debt of Shell Caribbean. The proceeds of the bonds will be used for oil development in the Western Hemisphere.

Observations

(Continued from page 5)

Possibly the whole truth does not lie in either the scientific relation of time series to market trend, or on the other hand, in the observation of a publisher who, wearied from examining submitted formulae for trend-prediction, wearily remarked to me that "all trend systems merely say in technical language that because the market has gone up it will continue to go up, and vice versa." But even if there be a scientific basis for defining momentum and trend, on the basis of the current of foreseeable gadgets therefor, the gauging of their *duration* to a useful degree is not discernible.

The Bad Empirical Results

In addition to the fundamental logical fallacies underlying trend-delineation, there are also the "empirical" shortcomings based on *results.* In the first place (whatever the reasons), only a small minority, if any, of the "players" have made real money out of such systems. As a matter of fact, if enough people ever get to using the same mechanical gadget, that in itself will negate its usefulness. In the second place, "empirical" failure is also, and more clearly, demonstrated by the confusions and contradictions in which even the expert interpreters periodically find themselves. Thus in mid-October 1947, when the market was nibbling at its previous upside penetration-point of 186, the Dow-ists disagreed among themselves whether a bull market had or had not been signaled. Again since last May, after the Dow bull-marekt signal had caused a stampede of the faithful and a price uprush from 187 to 193; which quickly relapsed into a decline below the penetration point; we onlookers have been immersed in complete confusion by the expert interpreters' conflicting pronouncements as to whether we are in a Dow bull or bear market. Also showing this system's empirical failure, is the Dow-ists *ex post facto* flight into assertions that their Theory after all is not susceptible of "rigid" interpretation; and that "good" Dow theorists dont wait for the prescribed *signals* and thus were individually right while their theory (or perhaps the market itself) unfortunately went off the track. So the Dow technique is not successful enough even to attain its derogatorily intended characterization as a means of "forecasting by definition."

"Explosion" Hindsight Easier Than Foresight

The *character-of-the-market-analysis* methods, as through volume and odd-lot behavior, likewise embody the fallacy of attaching inferences about the future to the historical record of past (or present) performance. Thus the picture-record of volume, with all its possible variations, may make a good *historial* account of what has already happened in the market, but this is really a far cry from making all manner of *predictions* therefrom based on characterizations like "Climaxes," "Explosions," "Suspended Position," "Falling Leaf Pattern," "Massive Base," etc., or of making assumptions, as do several popular services, of the *future* strength of a trend—under the guise of terminology like "the rise is meeting more resistance and hence the situation is that much weaker," or of making future deductions from chart-deduced buying or selling "pressure" on individual securities.

"Buying Power" or "Selling Pressure"?

Again turning to the "empirical" aspects, in the case of most of such popular systems, conclusions directly contradictory to those laid down by their rules are warranted by the experience of the market-place as well as by logic. Thus most volume-systems are based on the principle that "volume is the measure of demand in advance and of supply in a decline; that a bull market will continue if volume has increased on advances and decreased on price declines; a bear market being signaled by the converse behavior of the volume." *But* there is no explanation evidenced of why large volume on the way up may not just as likely be an indication of intelligent selling instead of buying, and hence be a bearish rather than a bullish signal and vice versa, during a price decline, why diminishing volume may not just as likely be manifesting buying as selling weakness, and hence bearish instead of "bullish."

As a matter of fact, two of the most popular services specializing in this technique for timing operations in individual stocks happen to be based on just the alternative conclusion which we have suggested. These particular systems measure "buying power" and "selling pressure" in inverse ratio to the accompanying volume of trading. Thus greater volume for the same amplitude of an upswing is deemed to denote greater selling, not buying, pressure.

Do not such directly contradictory popular conclusions, both being highly plausible, warrant the fear that chart-making perhaps merely provides an emotional support for individually devised mental gadgets? (One wise market veteran says that the chastised Mr. F. N. Goldsmith discovered a bull tip on Mission Oil in the comic strips because he was already bullish on the stock. And every music critic listening to a symphony obviously fashions his interpretation of the music according to his own individual pre-conceived emotional feelings.)

In any event, it should not be surprising that the "volume-players" along with the Dow theorists, so frequently get whip-sawed—a nasty "empirical" result.

Ratio Principle Equals Value Upside-Down

More than in the case of any other phase of market mechanics, does the *ratio* approach admit of directly opposite conclusions. In fact, in this writer's opinion, the disregarded conclusion is usually correct. Typical of the ratio-ist philosophy for mechanistic issue-selection is the dictum that "it is best to play the long side only of those issues that are in persistent ratio line uptrends, and to sell short only those in persistent downtrends." This advocacy of following and exaggerating a trend (consistent with Dow philosophy) surely is more likely than not, to accentuate rather than to minimize errors in valuation and hence to constitute a distortion not only of value-seeking but of businesslike common-sense. The simple *ratio-ist* principle, no matter how ornately dolled up in mathematical terminology, embodies the traditional run-of-the-traders' and tyro public's common error, of "buying them when (because) they act well" and vice versa, of inferring the existence of an all-omniscient "they" to be followed, and thus engaging in another form of trend-chasing.

Mere common-sense would dictate as more probably desirable the exactly opposite conduct. For example, if United States Steel should rise above the trend of all steel stocks, instead of inferring therefrom that U. S. Steel is thereby made a more attractive buy, it instead would be more probable that a switch from Big Steel to some Little Steel might be advisable, and that the greater the ratio discrepancy the more advantageous the *sale*—not purchase—of U. S. Steel might be.

Whatever the empirical verdict may be, surely the following completely-contradictory but practical market observation composing the initial paragraphs of a current Standard and Poor's Corporation has far greater justification:

> *"You can usually make much better market profits on a stock that is idling along near its bottom than by jumping at a stock that has already made spectacular gains.*
>
> *"Nine times out of ten, good stocks that are deeply deflated will eventually move upward more than the general market. Few stocks that have rocketed upward on the impetus of broad-scale public buying can be depended upon to maintain their pace. They may rise further, but their gains are usually no longer dramatic after interest in them becomes general.*
>
> *"That is why our analysts believe you ought to study their latest report on these nine deflated stocks. They are selling from 36% to 78% below their 1946 highs . . . they have been sadly neglected by investors. . . ."*

Following the "They" Away From Value

And similarly for groups of stocks, just as for the market as a whole, it is absurd to operate on the major premise of assuming that the lower a security goes the poorer the value that it offers. Such irrational behavior at best follows the traditional motivation of the legendary tape-watcher as well as the trend-chasing school, the first of which group consciously and the second unwittingly, embraces the credo that there is a sanctified "they" to be followed. **In any event, such conduct and reasoning unquestionably have not the slightest connection with investment.**

More Inter- and Intra-System Contradictions

Contradictions of a major and fundamental kind is revealed between the *formula plan* principle, in that it *"bucks"* the market swings, and the Dow and other trend-*following* techniques. Also, as between the formula plans, the Vassar and Yale techniques sell *against* the swings while, contradictorily, Burlingame partly buys on the way up and down.

Our Reporter's Report

The hazards of the underwriting business, and they are around all bends in these days of competitive bidding, according to those in the business, were brought home rather forcefully in the past week in connection with the marketing of Michigan Bell Telephone Co.'s big issue of 40-year debentures.

It is generally agreed that American Telephone & Telegraph Co., had no intention of upsetting the finely drawn calculations of the bankers when it announced plans for marketing another $150,000,000 of new securities before the end of the year.

The argument in banking circles naturally is that such an announcement would not have been made, just at that time, had the company been free to enjoy the advice and counsel of those who know the working of the markets.

The Michigan Bell's 3⅛s, on which the syndicate agreement had been dissolved, slipped down more than a point from the price paid the company. This meant that, if the banking group engaged in its distribution had been in a position where they might have been forced to liquidate, they faced a "potential" loss of upward of a million dollars.

Meeting the Situation

The tendency of the market to back up on several recent Telephone issues apparently is making for a disposition on the part of some constituent companies, having financing to do, to make adjustments to meet the situation.

For several years now, in fact since the end of the war and the reopening of the capital markets, these companies have been disposed to do their financing on a basis of 35 to 40 year maturities, the longer-term being favored.

But Northwestern Bell Telephone Co., presumably taking cognizance of the situation, has announced that its forthcoming $60,000,000 of debentures will be for 31 years rather than for 45 years as originally intended. This should quicken interest in the deal.

Big Rail Issue Looms

Chesapeake & Ohio Railway has joined the ranks of the railroads which find, despite previously set plans, that they will likely be forced to enter the money market for funds needed for improvements, etc.

C. & O. originally had laid out its building and rehabilitation program in a manner designed to avert debt financing except for the purchase of new equipment.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Should the day ever come when American industry finds itself compelled to convert to war production, it is likely to bless the advance planning of the National Security Resources Board.

This board is the highest mobilization planning agency of the government. It is civilian in make-up. It is not attached to the military. Its policies have a higher rating than the proposals of the services. Subject only to the concurrence of the President of the U. S. (or Congress where legislation is necessary), NSRB may make the policy determining how much and in what way the nation's manpower, machines, material, and money shall be directed into a war effort.

* * *

Congress, setting up NSRB in the course of creating the "unified" Military Establishment, directed the board to plan for the next war, if any. It was directed to plan the organization of government agencies to administer and operate the civilian side of the war. It was directed also to plan how much and under what circumstances the country's money, men, machines, and material should be diverted to a war effort.

Already the board has made substantial progress. If war came tomorrow, industry would find its path ahead with government almost as smooth as a paved road. At the opening of the last war, it was from two to three years before even some semblance of order was created among the agencies managing the civilian side of the war effort, and real unity of purpose was never achieved before the end of the war.

* * *

Greatest progress of any of NSRB's work has been made in planning the agencies which will administer the all-pervasive controls of another wartime. The first of these is the agency to manage production. An Office of Production is proposed as the first of the agencies to be created. Roughly this Office of Production would perform a similar function to the late War Production Board.

However, the Office of Production would both be broader in scope and simpler in organization than the late WPB. NRSB has got so far as to select key men who, if war burst upon the country tomorrow, would be requested at once to come to Washington to take over their respective commodity or industry jobs in the Office of Production.

Furthermore, each of these key men, an actual representative of the industry or business to be affected by mobilization of industry for war production, is vested with a concrete mobilization plan. What is more important, each has a definite responsibility.

During the past war one of the pathetic causes of confusion was the shadowy outlines of jurisdiction and function among not only different war agencies but different divisions within a single agency. Mature, balanced men inevitably found themselves squabbling with one another over whom should do what, because of the poor administrative organization of the last war.

Each of these key men is retained by NSRB for as long as his industry can spare him. Usually that is from six months to a year. This key man in the Production organization constantly reviews the mobilization plans for the industry he represents. He reviews them with an industry advisory committee. Whenever any industry pattern changes sufficiently to indicate a change in the mobilization plan, the plan is accordingly changed to make it up-to-date and in conformity with the realistic facts of the industry. And changes in government planning are communicated to the industry.

* * *

Mobilization of arms production is, of course, the first element in civilian mobilization for war. In addition, NSRB anticipates that it will be necessary to begin setting up shortly an Office of Human Resources. Already NSRB has begun to outline this organization. It will handle not only civilian manpower mobilization, but also problems of housing, medical services, and community or municipal services.

It will also be necessary to attempt to stabilize the civilian economy. Price control, rationing, and foreign economic warfare, all will be concentrated in this Office of Economic Stabilization, also being shaped up now into a preliminary organization.

Finally, the nation's transportation must be mobilized if war comes. This would all be concentrated in an Office of Transportation, which would deal with all transportation, rail, air, truck, and water. In addition the Office of Transportation would be in charge of the nation's storage facilities.

* * *

Thus NSRB's planning of government agencies to handle the civilian side of war mobilization plans for just four main, all-encompassing agencies—production, human resources (manpower), economic stabilization, and transportation. Gone is the idea of a separate Office of Defense Transportation, a separate rationing and price control agency, a separate set-up to conduct foreign economic warfare, no separate Office of War Mobilization and Reconversion, and so on. NSRB has set a pattern, and the pieces of the pattern fit in advance.

* * *

Within the pattern the most progress has been made in organizing the production agency because production would become the first problem. Within the field of production, moreover, NSRB has placed its first emphasis upon production of machine tools because a large pool of machine tools would become the first need of an industry converting its operation to making the goods of war.

So NSRB has sent out its "phantom orders" for 10,000 machine tools to 290 machine tool firms. The idea of these "let's play" orders is that the primary machine tool builders will get together with their parts people and find out just what each and every one would have to do and have to get in the way of materials to start going on this huge order.

The minute war broke out there would be no nonsense about these orders. NSRB would send telegrams at once asking these specific manufacturers to produce the tools specifically outlined in these at present, phantom orders. Upon the manufacturer confirming the order it would become a firm commitment.

Only the price would be up in the air. That would be negotiated later. Nevertheless, NSRB has reached a tentative agreement with prospective suppliers that they will get together on the basis of market prices as they existed at the time the orders were firmed at the outbreak of war.

* * *

Should war break out, NSRB's planning offices of Production, Human Resources, Economic Management, and Transportation, would be lopped of from NSRB at once. Immediately they would become operating agencies. The key men who are now doing the planning would become the operators, and they would fill out their organizational staffs with the men with whom they have tentatively, or are now tentatively, making arrangements.

Is there any chance this apparently felicitous advance planning might be junked? Of course, but probably not. The President who sits in the White House next January must accept it before it can be offered, for National Security Resources Board is only an agency to advise Congress.

And, of course, it would take statutory action to make a legal thing of this paper organization. With the President elected next Nov. 2 approving, NSRB is going to ask Congress in January to approve its proposed statutes on a stand-by basis. Hence a proclamation of war emergency could bring these agencies into force overnight, even with Congress away.

NSRB's planning job, of course, is much bigger than planning the mere governmental agencies to handle the mobilization of the war economy. NSRB must decide such significant policies as whether there shall be allocations and priorities, compulsory manpower mobilization, an excess profits tax, perhaps forced loans to the government, and so on.

The agency already has drafted an all-inclusive bill vesting the government with the powers it thinks will be needed in the event of war. NSRB, as the agent of the White House, is naturally reticent to discuss what might be in the bill at this time, before the voters have decided on the President.

Nevertheless, it is noted that the entire economy is now employed in the main at full capacity for peacetime consumption. Hence war goods will have to "come out of the hides," as it were, of the civilian economy. Such a drastic lowering of the standard of living, if a war were to be fought on any scale, would require controls more drastic than any seen in the late war. Allocations and priorities are a certainty, and NSRB is presently studying what modifications it will make in the Controlled Materials Plan of WPB. Manpower mobilization in one form or another is thought to be inescapable. There probably will be control over investments as well.

* * *

Governor Warren of California has endorsed Universal Military Training, also endorsed in the past by Governor Dewey. UMT will be one of the hardest legislative projects to put over with Congress, barring an intensification of the war scare.

* * *

If the Berlin crisis should be seemingly settled, its significance might be over-rated. It is said that any alleviation of that immediate issue of dispute would obviously be of wholesome, broad advantage, because so long as that crisis remained settled, it would eliminate the most pressing, immediate subject of danger of war between the U. S. and Russia.

On the other hand, if world opinion were to force Russia temporarily to retreat before Berlin, the Reds could be expected to put a dent in another segment of the peace rubber ball. Russia is expected to jostle the West until some such time as it becomes apparent the West can more than cope with a military adventure—at least that is the official size-up.

* * *

Road building is now going on at a mileage rate something like twice the construction during 1945. During that year state highway departments were constructing roads at the rate of $386 million. In 1948 this total, informed observers predict, will reach $1,700 million. However, it costs roughly twice as much to build a mile of road now as in 1945. Even with this price factor, actual road construction is probably twice that of 1945. These figures exclude county and municipal road projects.

BUSINESS BUZZ

"You just can't flatter some people!"