ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 168 Number 4748 — New York, N. Y., Thursday, November 4, 1948 — Price 30 Cents a Copy

Truman Beats Dewey By Wide Margin

President's surprise victory accompanied by Democratic party's capture of both the Senate and House of Representatives.

Upsetting almost unanimous pre-election forecasts, the Nov. 2 election makes President Truman his own successor as President of the United States, with Democratic majorities in both Houses of Congress. About noon on Nov. 3, Gov. Dewey, Republican candidate, conceded the election of his rival.

President Truman

According to the latest returns, President Truman has an indicated lead in 28 states with an aggregate of 304 electoral votes, more than the 266 necessary to be elected. In both Houses of Congress, Mr. Truman will have a comfortable working majority. In the House of Representatives, Democrats have already elected 245 representatives, with others still in doubt. The necessary number for a majority is 218. In the Senate, the former Republican majority of six has been translated into a Democratic majority of at least 12 members.

FTC—Monkey Wrench In Distribution Machine

By LOWELL B. MASON*
Commissioner, Federal Trade Commission

Commissioner Mason, disagreeing with majority of Federal Trade Commission, attacks decisions prohibiting sellers quoting delivered prices or use of quantity discounts as "snarling up distribution." Says, despite Federal Trade Commission's contention small business is being crushed by large aggregations of economic power, it still thrives. Calls on Congress to revamp Federal Trade Commission Act.

Charles Sawyer is a statesman and a diplomat in his own right. And it did my heart good to hear the Secretary of Commerce speak so well of business. Down in my shop it seems as though business is a pretty bad thing. In fact, it's so bad the Federal Trade Commission is going to have to step in and change practically the entire American system of distribution.

Lowell B. Mason

Looking over the Boston Conference program, I find the most outstanding authorities in this country giving us the benefit of their experience and training in the development of markets—"What's Ahead for Distribution," "Distribution's Phase in Our Economy," "Trends in Food Distribution," "The American Market Pattern," and others.

But these authorities in and out of government have learned their lessons in markets of free competition. I respect their judgment and would accept their advice, provided, however, they would assure me our American

(Continued on page 38)

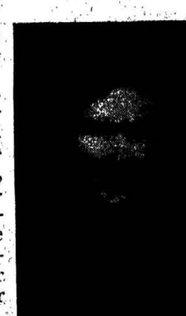
*An address by Commissioner Mason before Boston Conference on Distribution, Boston, Mass., Oct. 26, 1948.

Truman Victory Not Ruinous To the Stock Market

By HELEN E. DICKINSON
Vice-President, H. M. Gartley, Inc.

Market analyst maintains although unfavorable legislative program is now in prospect, basic inflationary aspects will not be changed. Believes steel, oil, metal and utility industries face long-continued boom and high earnings prospects remain unchanged. Concludes bull market will probably soon be re-confirmed.

There is no doubt that the stock market has sustained a severe shock in the unexpected outcome of the Presidential election. But investors would be making a mistake if they were to conclude immediately that a bear market will result. The longer-term implications are not necessarily bearish on stock prices.



Helen E. Dickinson

Naturally, the first reaction would be one of consternation, and the surface conclusion would be that substantially lower prices, under those of May, 1947 and February, 1948, were to develop. President Truman concentrated a great deal of his campaign attack on Wall Street. He is pledged to work for the repeal of the Taft-Hartley Law — the Democratic majorities in both Houses will undoubtedly cooperate fully with him in this move. He will work for inflation curbs, probably in some form of price control which might well hit directly at corporate profits. In ad-

(Continued on page 43)

EDITORIAL

As We See It

And, Now, Back to Our Knitting

The tumult and the shouting have died away. The gilded — and sometimes not so gilded — phrases of a Presidential campaign are now easily and sadly seen to mean but little. Indeed, one is almost ready to pray with the poet:

For frantic boast and foolish word
Thy mercy on thy people, Lord!

Our problems remain. For their solution only the vaguest of generalities have been offered. Indeed, sometimes frantic, and apparently sometimes politically needless promises have, during the past month or two, seemed to render our current difficulties the more troublesome in that what has been pledged either tends to add to or aggravate our ailments, or else would seem to rule out the only real remedies or cures.

At any rate, it is now time to get back to our knitting. The confused and exceptionally difficult situation by which we are confronted is, of course, a product of past misfortunes and past blunders. Whence the misfortunes or whose the blunders is not now particularly pertinent. What is important is that our leaders, and at least a substantial proportion of the people, recognize the origins of our problems and the nature of their solu-

(Continued on page 30)

The Problem of Rising Prices

By HON. RALPH E. FLANDERS*
U. S. Senator from Vermont

Asserting increasing disparity of real income between various groups is not only injustice but can be cause of breakdown of production and distribution of national wealth, Senator Flanders points out increased production as inflation check is hampered by restrictions on man-hour output along with worn-out and obsolete machinery. Sees need of judicial and rational examination of tax and investment policies and end of loafing, production restriction, limitation of working hours, and "feather bedding by workers and management." Holds corporate profits are exaggerated and opposes credit restrictions or end of cheap money policy.

Two or three years ago Sumner Slichter of Harvard remarked that the two great problems facing this country are (1) What to Do About Russia, and (2) How to Have Full Employment Without Inflation. As we shall see, the two problems are related, but let's start off with inflation.

Ralph E. Flanders

There are some who are not seriously worried by the continuous rise in the price of what they buy, simply because they have managed to have their income keep step, or keep a little ahead, of the price rise. But there are many millions who haven't been so successful. Among these are many who are engaged in intra-state occupations, especially those engaged in giving service rather than in manufacturing things. There are others who, even though engaged in interstate commerce, are members of weakly organized groups which have not had the success of the highly organized in keeping up with the upward climb in the cost of living. The same is true of the millions of government employees—Federal, State and local. While from time to time improvement is made in their condition, yet it remains too true that the salaries of teachers, firemen and policemen, for instance, tend to lag behind.

Another group that is having a very difficult time is composed of those whose livelihood depends on religious and charitable organizations of all sorts. A less and less proportion of the national income goes into these organizations. It is difficult, or impossible, to raise the salaries of their workers. For a young preacher to get married and start raising a family is only possible by grace of something like a miracle. Is it any wonder that so many of these men find it natural to accept radical points of view when they consider the importance of their mission in life and the shabby way in which society treats them.

This by no means completes the list of those who are left behind by the progress of inflation. There is, however, one other group which should be noted. It is composed of those who are living on a lifetime of savings which they believed sufficient to keep them in modest comfort for the remainder of their days. In similar circumstances are those living on pensions, whether governmental or private, and on retirement allowances which were calculated on a basis generous for the time in which they were set up, but which now prove to be seriously inadequate.

In total, there are many, many millions of fellow citizens who are suffering severe hardship as a result of the inflation.

Still, there are other millions who have successfully maintained, or even improved, their relative economic standing. Statisticians tell us that this is true for the nation as a whole, but to get the real picture in human terms, the statistics have to be broken down so that we can locate the relative number, location and circumstances of those who have fared well and those who have fared ill.

One of the unfortunate situations is that a group like those belonging to the aggressive and successful unions who do keep ahead of the price rise do so at the expense of their less fortunate associates. Of the available supply of goods and services, their success gives them a larger share, leaving a smaller share for the unsuccessful. Their advantage therefore is gained at the expense of the unfortunate.

Injustice Involved in Inflation

There is, therefore, a large element of injustice involved in the progress of inflation. We may raise the question as to whether we should not blind ourselves to injustice, since that has always existed in the world, and accept the situation if we happen to belong to the classes who have made effective adjustments.

The answer to this hard-boiled suggestion is an equally hard-boiled denial. Increasing disparity of real income between various groups in our society is not only injustice, but it is also the active cause of a coming breakdown in our processes of production and distribution of the national wealth. These depressed classes are needed as normal consumers if prosperity is to be maintained. Our society cannot long exist half protected and half submerged.

It is a generally accepted doctrine that inflation is followed by deflation and depression. It always has been. While it may be argued that by successful management we can avoid the historic catastrophe this time, yet we would do well not to be too sure, since a growing disparity of distribution of our national production is such an evident threat to its continuance on a high level.

What makes inflation? What is the cause of its most evident effect—a continuously rising cost of living? One can state the basic cause in a very few words that are easily understood. It is this: When the supply of money for buying things increases faster than the supply of things to be bought, prices rise because buyers bid them up in the face of a short supply. This simple and self-evident phenomenon I have been accustomed to call the "structure of inflation". This structure has been plainly visible to us for many months. There is enclosed within this structure a machinery for rising prices to which we give the name "The inflationary spiral." When we are near the limit under current conditions of our production of things and services to buy, then conditions are ripe for workers to ask higher wages and for businessmen to ask higher prices. One of the elements of our limits on production is the fact that in the country as a whole we have the highest percentage of gainfully employed to the total population that the nation has ever seen. This gives confidence to the wage earner in asking for a raise. He feels assured that if he is not granted such a raise, he can get work elsewhere. He also feels assured that in the active market for goods under inflationary conditions the employer will think twice before refusing such an increase. The employer on his part is the more ready to grant the increase since he feels assured that he can raise prices to meet the additional costs, or even raise them a little more than enough to keep even. This is the inflationary spiral, the mechanism of inflation, by which some incomes and all prices are raised within the basic structure of inflation already referred to.

An Unsolved Problem

It will be remembered that Mr. Slichter's remark, already quoted, indicated that the avoidance of inflation under this high level of employment was as yet an unsolved problem. This problem is made the more difficult of solution by the fact that full employment is one of the elements which sets a limit on production and prevents its expansion to meet expanded purchasing power. It is one of the things which sets a limit because, were there some added millions of unemployed, it would be the more easily possible to furnish them employment and increase the national output. But there are, practically speaking and over the country as a whole, very few new workers to be recruited for productive industry.

The inflationary spiral, therefore, raises prices without in-

(Continued on page 32)

*An address by Sen. Flanders before the Princeton Young Republican Club, Princeton, N. J., Oct. 25, 1948.

INDEX

Articles and News

Regular Features

*Not available this week.
**See article on page 5.

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, November 4, 1949

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.

When Do We Go From Here?

By RAYMOND RODGERS*
Professor of Banking, New York University

Contending there can be no question about inevitability of price and business readjustment, Dr. Rodgers looks for continuance of government bond market support as well as retention of parity farm prices. Holds these and other inflationary pressures, along with heavy Government spending, may lead to fourth round of wage increases, but points out large crops and inventory expansion may create some deflationary trend. Foresees little effect of election on basic forces.

Political campaigns create uncertainties. Politicians view with alarm and point with pride. People begin to worry about things which they took for granted before. Businessmen and bankers are particularly susceptible to the spirit of change which permeates the air during a campaign. This is as it should be—bankers, especially, should keep their eyes trained on long-range objectives and potentialities at all times. *But*, like all other good things, this can be overdone!

Raymond Rodgers

The behavior of the government bond market in recent months has caused many bankers to feel that we are on the threshold of momentous changes in government credit and debt policies. A few bankers (and some institutional investors, particularly certain life insurance companies) have gone so far as to put their convictions into practice by selling substantial quantities of long-term government bonds. These bonds, as you know, have largely been acquired by our Federal Reserve banks under their government bond price support program. In September, these sales, and the sales caused by the increase in bank reserve requirements and by Treasury operations, reached such large volume that the Federal Reserve banks were forced to purchase $2 billion of government securities in their market support operations.

Can Support Continue?

Obviously, this rate of market support cannot continue indefinitely. In view of this certainty, many students of the money market have concluded that the "pegs" on prices will have to be lowered while others believe that the "pegs" will have to be abandoned entirely. Let us analyze the probable effect of the election on basic economic conditions and on credit and debt policies to see whether we agree.

It must never be forgotten that the monetary authorities now have the dual responsibility of credit control and maintenance of an orderly government bond market. The conflicting nature of these responsibilities under the inflationary conditions now prevailing is what makes the problem of the monetary authorities so difficult. It is this dilemma which causes some economists to insist that one effort has to be abandoned; they say that both cannot be done. I say *both have to be done!* The only problem is *how*, and at what cost.

Well, what will be the effect of the election on the inflation pressures which beset our economy? Obviously, declining prices and declining business activity will reduce the demand for credit and cause a weakening of the interest structure, both of which will directly and favorably affect government security prices. In addition, the changed economic outlook will undoubtedly, and properly, cause a prompt reversal of the present credit restriction policies. Please note that I say "will" rather than "would." As I see it, there can be no question about the inevitability of a price and business readjustment. If I may paraphrase, the $64 question isn't *where* do we go from here, but *when* do we go.

The election can have no immediate effect on our swollen money supply. Our banks will still hold around $75 billion of government bonds, so there will be no deposit reduction from that quarter. Likewise, any consequential liquidation of business loans at the banks seems, at present, improbable. Nor is it probable that the election will start a heavy return flow of currency to the banks.

As for the maintenance of the low, yes, artificially low, interest rates on the long-term public debt, it is impossible for me to conceive of a politician with so little regard for votes that he would advocate a tax increase under present circumstances to pay a higher rate to holders of the bonds which financed the last war! It just doesn't make political sense. It inevitably follows that price support will be continued in the government bond market.

Farm Price Support

Government support of farm prices will be continued. Legislation is already on the books and both of the major parties favor the idea. I am afraid that we shall have to view these inflationary expenditures as Eugene Field, the poet, viewed a personal loan he made to an impecunious friend. Years afterward when he was reminded that it was still unpaid, he said he viewed it as a "permanent investment." Under present legislation, the agricultural price support program could conceivably cost us billions of dollars — one expert has placed the coming

(Continued on page 37)

*An address by Dr. Rodgers before the Passaic County Bankers' Association, New York City, Nov. 4, 1948.

The Role of Labor in Our Expanding Economy

By LEON H. KEYSERLING*
Vice-Chairman, Council of Economic Advisers

Presidential adviser states labor as well as other groups must perform rather than receive, and all groups must identify their respective interests with the national interest. Declares main difficulty lies in formulation, rather than execution, of nation-wide perspectives. States "if" there is recession, we will get over it without much trouble and move on to several years of high prosperity.

The purpose of these meetings, as I see it, is to fit a wide range of specialized knowledge and experience into the framework of our common problems and aspirations as citizens of the greatest Nation on earth. The framework is embodied in the theme, "Our Expanding Economy"; and under this general theme the planners of the program have wisely selected a series of topics including but not limited to the role of management, of labor, of education, and of government both state and Federal.


Leon H. Keyserling

I am particularly responsive to this approach, because I believe that it reflects a growing consensus about the true nature of the task that we shall all face in the years ahead. This task is not so much to sharpen and expand the highly specialized aptitudes in which we have long since acquired world preeminence — although we shall want to do that too—but rather to learn more about blending these specialties into a comprehension broad enough to encompass the sustained welfare of our country as a whole and to sense better our place in world affairs.

Only by this broader perception of relationships between the specific and the general can we achieve by voluntary methods that cooperation instead of conflict on large issues which is the essence of successful democracy. Only thus, while allowing for freedom of debate and differences in detail, can we achieve that basic unity of purpose which will hold us all together instead of tearing us apart.

It is a fortunate circumstance for me that the unifying general theme selected for these meetings has to do with our expanding economy. For about 20 years, the economic problems which have most challenged me have been those which arise from looking at the economy as a whole in an effort to discern principles whereby it may be encouraged to function even better; and my official duties during the past few years have necessarily intensified my concentration upon this subject.

Because the coverage of this conference embodies both the general and the specific, there are two methods of approach that might be employed. One would be to start with our expanding economy as the established general condition, and then to ask ourselves what problems this general condition creates for management, labor, education and government. The other method of approach would be to reverse the order, and to ask ourselves what **contribution** management, labor, education, and government can make toward maintaining an expanding economy of ever-improving health and vigor. How can each so exercise **its** responsibilities as to make a maximum contribution to our economic growth and our economic stability?

I shall apply the second of these two approaches to my assigned topic of the role of labor in an expanding economy. Instead of asking what an expanding economy can or should do for labor, I shall pose rather the question of what labor can and should do for an expanding economy. Needless to say, I believe that labor as well as other segments of the economy will benefit more in the long run by following this concept of **performing** rather than the concept of **receiving**.

This being my fundamental outlook, I need to begin by saying something about our expanding economy before I attempt to delineate the role of labor in it.

I shall not, in this connection, place much stress upon the immediate problem of inflation or upon those programs and policies which might accomplish results within the next few months. My first reason for this is that the immediacies of the situation have already been covered in the talks by Dean Carothers and in the discussion following those talks. My second and more compelling reason for not concentrating upon the immediate economic outlook is my profound conviction that our severest economic test lies not a few months ahead but a few years ahead, and that we can meet this test most successfully not by hasty improvisations to deal with the perplexities of the moment but rather by longer-range thinking and preparations adjusted to a longer span of years.

The Immediate Outlook

As to the immediate economic outlook, the consensus in the business world and elsewhere today, I think, shapes up something like this: There is a feeling that inflationary forces are still powerful but that a softening in some lines is appearing which may become of broader significance in 1949 and may culminate in some relatively slight recession in the general level of business activity and employment. There is also the feeling that basic economic conditions are so favorable that this recession, if it comes, will be of minor scope and short duration, and that after it is over we shall have several years of high prosperity.

I share the opinion that, if there is such a recession, we shall get over it without too much trouble and move on to several years of high prosperity. All this, of course, is predicated upon the assumption of progress toward the goal of genuine world peace. However, I do not regard such a recession as inevitable and, contrary to those who think that the longer it is postponed the more serious it will be, I think that the longer it is postponed the more likely we are to avoid this intermediate recession entirely. We have been remarkably fortunate on the whole, despite some difficulties, in our shift from war production to peace production; and it is well within the range of possibility that we may enjoy some further years of prosperity

(Continued on page 42)

*An address by Mr. Keyserling at First Annual Florida Business Conference, Gainesville, Fla., Oct. 15, 1948.

Economic Fallacies And Business Outlook

By G. ROWLAND COLLINS *
Dean, Graduate School of Business Administration, New York University

Commenting on the speed and spread of economic changes since 1939, Dean Collins stresses effects of inflationary trends intensified by both expanding money supply and insatiable consumer demands. Warns of persistent fallacious economic ideas, such as (1) workmen can continuously be paid more for less work; (2) business profits are too high; and (3) heavy government spending can maintain prosperity. Stresses danger to economy of shortage of equity capital and scores attacks on private capital and making commercial lenders the scapegoat. Concludes "economic visibility is low."

In terms of economic change, a thousand years have elapsed since 1939, a century's span since V-J Day. How else can one put it? The speed and spread of what has gone on can only be pictured with adequate vividness and vigor by resort to hyperbole. However, it is probably true that from ancient days until now, no single generation has passed without experiencing a deep sense of change and so it is that with all of us, as well, the sense of living in the midst of one violent crisis after another is often present. At times, indeed, it may appear that our very foundations seem about to disappear. Life seems suddenly to swing around and confront us with an alien face.


Geo. Rowland Collins

Yet, change did not begin with our discovery of it. Nor do we need to vex our souls over the alterations and transitions of these tremendous days. Between the extremes of despairing pessimism there is, I think, a place for continued confidence in our ability to build a highway that will bear our weight as we advance.

Three years and more have now elapsed since we began beating our swords back into ploughshares!

And for the most of that time, economically speaking, we have been on a binge. By now, certainly, most of us are conscious of the fact that we are experiencing a dangerous inflation, that its trend has been sharply upward, and that its end is not yet definitely in sight.

The prices of goods and services, therefore, constitute the dominant topic in the current economic scene.

Genesis of Inflation

Now, the genesis of this inflationary price situation undoubtedly goes back to the bewildered decade of the thirties.

It was then that we plunged into our extravagant experiments with pump priming and deficit financing. It was then that we built up our sprawling structure of Federal bureaucracies. It was then, to use a figure of speech, that we began to move our state capitols, our county court houses, and our city halls to Pennsylvania Avenue in the District of Columbia. It was then that we began to trust in the magic of Federal Aid which promised us falsely that a dollar taxed out of our pockets and sent to Washington would be bigger when it came back to us at home. And it was then that we sharply strengthened our tax structure by slapping upon the economy "soak the rich" taxes that did not meet our bills and by 1939 we accumulated a staggering national debt of $40 billion.

Upon this beginning we superimposed a World War that cost us in four months' time more than our total bill for World War I. Necessarily, we had to choose between guns and butter. And so we sharply "cabin'd and confined" the production of consumers goods. To provide the money for tools of destruction we upped the existing pot-pourri of taxes and sold billions of bonds to our commercial banks. Moreover, even after V-J Day our government's pathological preoccupation with a supposedly impending deflation continued to commit it to Federal spending and cheap money. We kept on with what used to be called an inflation of the currency but what is now more gently tagged as a "monetization of the public debt."

At this time, however, in the year 1948, I am inclined to think that it serves little effective purpose to assess the blame for our present inflation solely or mainly to the government's pumping up of the economy with new money during the 30's and during World War II. All that is pretty much ancient history. Moreover, it minimizes the part that has been played by demand, yes by too much demand, both domestic and foreign.

After all, in a business sense, inflation results from the competition of consumers who by means of savings, current earnings, and borrowings strive to maintain a definite or an improving living standard in the face of an inadequate supply of goods. The resulting struggle for goods will express itself in rising prices. Just so long as shortages and explosive demand persist high prices will prevail.

World Short of Goods

The world today is still short of goods. And it will be for some time to come—however rapidly,

(Continued on page 34)

*An address by Dean Collins at the Annual Convention of the Commercial Finance Industry sponsored by National Conference of Commercial Receivable Companies, Inc., New York City, Oct. 26, 1948.

Market Forecasting Mechanics: Ally or Foe Of Investment Rules?

By A. WILFRED MAY

(One of a series of articles on stock market practice)

The predicters' universal fiasco in having picked T. E. Dewey as a 1-20 odds-on choice for the Presidency gives additional justification for existing skepticism about forecasting in general; and stock marketwise may furnish a fillip to the flight to "de-emotionalized" mechanical gadgets for anticipating price movements.

A. Wilfred May

This lends additional interest to the question whether mechanical market systems and investment appraisal of individual issues are in fact mutually exclusive, or whether an individual can perhaps use them both simultaneously in a single over-all "speculative-investment" policy investment. Suggestions for such compromise are being offered increasingly now because of widespread disappointment over the results shown by the mechanical systems, and as a direct result of the uncertainty created in the minds of the investment community by the arguments vigorously advanced by both sides in the technical-versus-investment appraisal controversy.

It seems very important to this writer that this question be not "ducked" in appeasing compromise, because such indecision can only lead to the prevention of sound practical investing operations, and to confusion about the basic nature of investment.

The current habit of many of the market technicians to abdicate from their own systems' rules and to disclaim "blind" following of their technical gadgets only adds to the public's confusion. For example, if Dow followers must discretionarily adjust their own interpretations of their Theory in accordance with their individual opinions about the sanctity of "break-through points" and the degree to which they are flexible, or even with their subjective conclusions about "external" business conditions, or perhaps just in accordance with glandular market "feel"; there prevented not only judgment about the worth of the basic Dow-ist trend-philosophy, but also consistent long-term investment policy of *any* kind.

A true investment attitude of any sort is affirmatively undermined, and often entirely foresalled, by the injection of mechanical market techniques. Whatever may be the merits of the various methods for defining and predicting the *trend* of the market-as-a-whole or of individual issues, whether by ratio, or volume, or chart gadgets; they in any event assuredly have nothing to do with *investment*—under any reasonable definition. Wholly apart from whether it is possible or not successfully to "beat the market" with capital gains, this has absolutely no direct relation whatever to seeking asset-and-income value in individual properties. Market mechanics and investment appraisal as keystones of policy—the first for speculators and the second for investors—are mutually exclusive and their attempted combination can only prevent successful pursuit of either category of policy.

Trend-Finding and Value-Appraisal Aims Are Irreconcilable

More specifically: there is direct and complete contradiction between ratio and trend-momentum philosophy on the one hand, and value tests on the other. The former's basic premise that the past movement of the market for individual securities in a certain direction warrants conclusions about its continuance, or reversal, must be affirmatively excluded by seekers of value. The premise of value is that, other things being equal, a rise in price has reduced, not enhanced, a property's attractiveness; that a reduction in price presupposes buying advantage, not disadvantage. It thus denies the presumption of correlating investment buying with the good behavior (the "acting-well") of the market or individual securities—*ex post facto*. It recognizes such "acting-well" philosophy as merely a vestige of the tape-reading and manipulation days, when the axiom of every pool operator was that the public would fall over itself in the scramble to buy a stock *after* a ten-point advance had been generated; or conversely, that a bear raid with declining quotations would invariably shake out the longs, and entail accelerated liquidation.

In the same way, the trend-momentum philosophy, as for example embraced by the Dow followers, supposes that stocks are a more attractive purchase when the average is 195 than it was below 187 (the resistance point); and merely because it has so risen. In the case of ratio-ists' approach to individual stocks, they similarily act on the premise that a particular issue's decline below the group *per se* denotes a reason for selling instead of the more logical deduction that the relative decline of price might well present greater value and a buying—not a selling—opportunity. Surely at *some* point above zero nearly every security offers value; and conversely, at *some* price short of infinity, even trend momentum and ratio psychology must agree that a well-acting issue becomes overvalued; and perhaps that even in speculators' parlance the adage "the higher they go, the harder they'll fall" is better than the trend pursuers' "the higher they go, the further will they rise."

If it be conceded that at some point in a decline a "badly-acting" will become under-valued, only by implying that the sellers will permanently act stupidly, can technicians assume that value-price disparity will be widened? Such "technical" policy in effect tells investors that instead of looking to *buy* issues behind the market; stocks already behind the market will *continue* ever further behind.

Between such clearly-defined poles of policy as ratio and trend-momentum techniques on the one hand and security-analysis on the other, there are mechanical devices in more indecisive areas, but nonetheless interfering with genuine investing operations. Psycho-

(Continued on page 47)

The State of Trade and Industry

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

Over-all industrial output continued to operate at a high level the past week and reflected a moderate increase above that of the corresponding period a year ago.

During the week employment and payrolls held steady and high in most parts of the country with continued claims for unemployment insurance dropping about 1% and initial claims rising nearly 8% in the week ended Oct. 9. In the Pacific Coast region production continued to be hampered by strikes.

The resort by the Soviet Union to the veto for the 28th time in the Council meeting of the United Nations in Paris on Monday of last week, thus thwarting the efforts of this world organization to resolve the Berlin crisis, made for greater uncertainty with regard to the world situation and left the financial markets less buoyant, resulting in a slightly lower level of stock prices for the week.

* * *

On the labor-management front, Guy W. Knight of Philadelphia, counsel for the Carriers' Wage Committee and spokesman for the nation's railroads, asserted on Wednesday of last week, that the wage-hour demands of 1,000,000 workers in nonoperating jobs are "tremendous and utterly unjustified."

Addressing a Presidential fact-finding board, he stated further, the demands would cost the roads $1,500,000,000 a year, this sum being more than twice the railroads' expected total net income for 1948 and equal to "about one-fourth of the total annual payroll of the Federal Government."

The unions, representing such workers as telegraphers, clerks and shopmen, have demanded a five-day 40-hour work-week with 48 hours pay and an additional wage increase of 25 cents an hour, plus overtime pay.

* * *

Preliminary figures on automotive production for the month of October were estimated at 482,043 vehicles in the United States and 24,496 in Canada. The United States October production will include 377,366 passenger units which, according to Ward's Automotive Reports, will be a postwar high in that classification. It gave the previous single month's high in passenger-car output as 360,089 units built in December, 1947.

The auto industry, says the Automobile Manufacturers Association, is moving steadily toward the second 5,000,000 vehicle production year in its history. It built 5,358,420 units in 1929.

The Association reported September output in the United States totaled 413,618 vehicles and that for the year's first nine months factory sales numbered 3,837,860 cars, trucks and buses. This is an increase of nearly 10% over the same period of 1947.

Included in the nine months' total this year were 176,420 cars, 153,352 trucks and 1,548 coaches sold for export. In the same period last year exports were 196,730 cars, 192,923 trucks and 1,680 coaches.

* * *

Consumer buying increased slightly the past week in response to seasonal promotions and favorable weather in many parts of the country. Retail dollar volume fractionally exceeded the levels of both the previous week and the corresponding 1947 week. Consumer interest was largely in merchandise of good quality at moderate prices. Luxury items were in considerable demand with gift and novelty items selling well in many areas.

Wholesale order volume, too, generally continued near the high level of previous weeks although slight declines were reported in some regions. Many buyers emphasized prompt delivery. The order volume for Winter apparel continued high with some orders for Spring styles booked.

STEEL OPERATIONS CURRENTLY SCHEDULED RATE UNCHANGED FROM WEEK AGO

Steel demand, already far ahead of supply, continues to grow, and there are no indications of an immediate weakening, says "Steel," national metalworking magazine. One of the first signs of decline probably will be easing in demand for conversion ingots, but as yet the pressure for them is undiminished. They constitute an even more sensitive barometer than the gray market, for finished steel resulting from them is far above mill prices and it is mainly "blue chip" companies which also have mill sources of supply of finished steel that take the bulk of conversion ingots. Consequently, observes "Steel," it is logical to expect these companies to show buyer resistance first to conversion ingots, even before small consumers with only the gray market as a supply source can shun high-priced material.

With production in many instances failing to come up to expectations and with emergence of voluntary allocations programs a considerable tonnage will be represented in unfilled 1948 orders. In view of this and the uncertainty as to the future of voluntary alloca-

(Continued on page 36)

Robert Strauss & Co. Formed in Chicago

CHICAGO, ILL. — Announcement is made of the formation of the Chicago investment house, Robert Strauss & Co., with offices in the Board of Trade Bldg. Mr. Strauss, who has been Vice - President and Treasurer of Strauss Bros., Inc., New York and Chicago, recently resigned to organize the firm. Associated with him will be Joseph M. Lee, Vice-President, who will be in charge of the unlisted department, and John F. Schmitz in charge of real estate securities. They were both formerly with Strauss Bros., Inc., the entire Chicago staff of which will join the new company. The new firm will do a general securities business and maintain private wires to correspondent houses in New York, Kansas City and St. Louis.

Robert Strauss

Mr. Strauss entered the investment field in September, 1920, with Logan & Bryan in New York and was later in charge of their unlisted and institutional department. In 1933 he joined with his brother in forming Strauss Bros., Inc. and in 1942 came to Chicago to open its office. He is a past member of the Board of Governors of the Illinois Securities Dealers Association and at the present time is a Committeeman of the Bond Traders Club of Chicago. He is also a past member of the Board of Governors of New York Security Dealers Association.

With Walston, Hoffman Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Donald C. Holmes has become connected with Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges. He was formerly with King Merritt & Co., Inc.

Federal Reserve Is Free From Political Bias

By THOMAS B. McCABE*

Chairman, Board of Governors, Federal Reserve System

Asserting American people are determined to avoid centralized financial power, whether public or private, Chairman of Federal Reserve defends Federal Reserve as free of political bias and profit motivation. Says burdensome reserve requirements are not politically inspired, but arise from heavy gold imports and war finance. Deplores sale of government bonds by non-banks, and advocates applying reserve requirements to non-members of Federal Reserve. Pleads for all-out banking cooperation.

This annual meeting of the stockholders of the Boston Federal Reserve Bank is a distinctly New England custom. It is so favorably known throughout the Federal Reserve System that I was very happy to accept the cordial invitation of your Chairman and my good friend, Albert Creighton, to come here and participate in your discussions.

Thomas B. McCabe

During the six months that I have been in my present position, I have visited and attended meetings in seven of the twelve Federal Reserve districts. I expect to visit three districts within the next month. During most of my business career, it was my practice to make frequent trips throughout the country, for no man can follow the progress of his business except on the firing line. When I was Foreign Liquidation Commissioner in 1945 and 1946, I travelled 56,000 miles during a period of six months in order to obtain first-hand information of what was taking place in various countries of the world. My associates say that whenever I receive a call to go to a Federal Reserve district I am off on the run like an old firehorse who has heard the gong again. I have always relied to a great extent on personal contact with the people who are in daily touch with operating problems before making decisions.

Of course, it is no hardship for me to come to New England because I truly love this country. My family goes to Maine for most of each summer and I generally find plenty of excuses to join them.

I want to commend you for your record in exercising one of the most important responsibilities of the member banks to the System—the election of six of the nine directors of the regional Federal Reserve Bank and, through them, the selection and guidance of its management. Each Board of Directors also elects a member of the Federal Advisory Council, a most important body in the development of Federal Reserve policy. The Boston Bank has been noted for its distinguished presidents. One of them, Ralph Flanders, your good friend and mine, was drafted by the citizens of Vermont to go to the United States Senate. Your latest president, Laurence Whittemore, has just been selected to run one of your great railroads. Two former Governors of the Federal Reserve Board, W. P. G. Harding and Roy Young, who is now president of one of your leading banks, also typify the high character and ability of your past presidents. It is a tribute to your Board of Directors that these men were chosen for such positions and is the finest indicator of the public's high regard for the Boston Bank. Although the loss of good men creates temporary difficulties of replacement because it seems that in each instance they are indispensable, yet broadly speaking, there is compensation in the loss of some of our good men to the community because these ex-officers are helpful in giving the various segments of our economy a better understanding of the nation's monetary and credit policies, of which there is a grave lack of understanding.

When I implore you to value your stockholder's responsibility highly and discharge it with all the ability at your command, I do so from experience and deep conviction. As you know, I was on the Board of the Philadelphia Bank for more than 10 years before taking this assignment. Our Philadelphia directors were of invaluable aid not only in executive personnel matters but in advising the Bank on policies and procedure and in keeping it close to current economic and banking problems. The directors of the twelve banks, with their branch directors, are a representative cross-section of the leaders in finance, commerce and agriculture of their respective regions. Since going to Washington, I have found the directors' advice and judgment, expressed both directly and through their various officers and members of the Advisory Council, of the greatest help.

As a result of my experience, I cannot urge you too strongly to continue your vigilance in selecting and electing the most outstanding leaders. Some of the banks have followed the principle of rotation in order to acquaint more of their leaders with the problems of the System.

This meeting affords an excellent opportunity to discuss the significance of membership in the Federal Reserve System. Two-thirds of all commercial banks in New England, holding four-fifths of demand deposits, are members. Holders of 63% of the demand deposits of State banks have voluntarily chosen to become members. Those percentages speak for themselves and indicate pretty general belief in the importance of membership. It is especially noteworthy, I think, in this area of traditional Yankee shrewdness.

New England and Central Banking

As you men know, two of the earliest constructive plans to stabilize banking by cooperative effort were made in New England. I refer to the Suffolk System and the Bank of Mutual Redemption. These two were voluntary steps toward the establishment of more effective control over the issuance of money. So you might say that the seeds of the Federal Reserve System germinated here.

This System is a unique creation in the history of central banking. All economic societies, except the most primitive, have some form of money. In highly productive societies, such as ours, organized around personal enterprise and initiative, money will not manage itself. A positive provision for the proper exercise of the central banking function is therefore in-

(Continued on page 40)

*An address by Chairman McCabe at Annual Meeting of Stockholders of Federal Reserve Bank of Boston, Boston, Mass., Oct. 26, 1948.

LETTER TO THE EDITOR:

Claims Ratio Line Theory Has Been Misinterpreted by A. Wilfred May

Joseph Mindell writes "Chronicle" a sentence was lifted from his book, "The Stock Market," and that refinements, exceptions and interpretations given in the full text have been disregarded. Mr. May's reply.

Editor, The Commercial and Financial Chronicle:

I wish to correct a serious misstatement of my views by your columnist Mr. A. Wilfred May. Mr. May has made the misstatement four times: twice in his column, and twice in his lectures at the New School. I would like you to publish this letter of correction as a matter of public record.

Joseph Mindell

My views, right or wrong, are in print in my book, "The Stock Market," accessible to easy check. Mr. May has repeatedly quoted one sentence of mine through which he attributes to me the view that a ratio line mechanically projects its eternal continuation. For purposes of economy, I will disregard the travesty involved in Mr. May's reduction of my views to the ratio line and his disregard of my refinements on ratio line interpretation in the chapter where I discuss it technically.

If, instead of lifting this one sentence out of context, Mr. May had read the few prior and following sentences, he would have read the following statements controverting him:

On page 211: "The ratio line guides us to fruitful areas for study and inquiry. It enables us to confirm or disconfirm our notions of the dominant influences on a price."

On page 210: "The proper interpretation of the ratio line avoids using it like a mechanical gadget."

On page 212: "Always watch out for those ratio trends which have lasted for very long periods and have moved far away from average value levels, for they may be about to reverse. Ratio reversals are of especial significance when they occur on a large scale at far extremes away from average value levels."

Throughout my book, I indicated the use of ratio lines, not as mechanical projection gadgets, but as guides to inquiry, as selectors directing us to key areas for investigation at any one time.

On page 108: "When a ratio line establishes a clearly better-or-worse-than-market trend, it is well to study that situation."

On page 161: "Our ratio lines will give us clues to the point at which the earnings pull may cease being the dominant price-making force. This is a guide to investigation of the other relevant factors."

On page 157: "The relationship between earnings and market price is fundamental, but the ratio line may guide us to other factors that are becoming dominant in importance."

The problems of financial analysis are difficult and hazardous enough without the additional burden of misstatement.

JOSEPH MINDELL.

Oct. 31, 1948
Marcus & Company
61 Broadway
New York City

Mr. May Answers Mr. Mindell

Editor, The Commercial and Financial Chronicle:

In my columns (including the one in this issue) and in lectures, I have devoted **several thousand** words to general discussion of the broad and important implications of *ratio* philosophy, which I consider one of the underlying motivations in stock market operations. My description of *ratio-ism*, as should be obvious, is not based on a sentence by Mr. Mindell. It is based on many years of first-hand market observation and literature, such as Mr. Garfield A. Drew's objective description in his newly-published book, "New Methods for Profit in the Stock Market."

May I constructively suggest to Mr. Mindell that to correct alleged misrepresentation of the true nature of *ratio-ism*, he affirmatively state its principle as he sees it, instead of confining himself to a series of contradictory "qualifications" and "refinements"?

A. WILFRED MAY.

Nov. 3, 1948

Strength of Banking System Still Grows

Holdings of Government Securities Decline

Substantial increases in total bank capital and surplus and undivided profits show greater strength in the banking system, according to the final 1948 Edition of the Rand McNally Bankers Directory, which reports a total of $12,512,931,000 in capital funds.

In this, the 145th edition of the "Blue Book," total deposits are reported as $157,000,502,000. Thus there is a dollar of bank funds for every $13 of deposits.

Holdings in U. S. Government securities declined during the six-month period from $81,623,083,000 at the close of last year to $76,541,169,000 on June 30, 1948. This significant change of $5,081,914,000 represents the second largest decrease in holdings in the past 12 years.

During the same period investments in "other securities" and "loans and discounts" showed sizable gains as banks continued to take advantage of sound investment opportunities. Reported totals for holdings of other than Government securities were $11,058,721,000 as compared with $10,608,572,000 in 1947. Loans and discounts were $45,694,362,000 against $43,660,329,000 for Dec. 30, 1947.

Edmund S. Lee Is With Stern & Co.

Edmund S. Lee has become associated with Stern & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, in their Bond Department. Mr. Lee for the past five years has been a partner of Garvin, Bantel & Co.

Realignment of the Franc

By PAUL EINZIG

Dr. Einzig points out recent partial devaluation of franc did not alter its gold value, but merely adjusted it in terms of sterling and some other currencies. Maintains franc is still overvalued, and French exports thereby handicapped.

LONDON, ENG.—After endless hesitation the French Government has now brought about a partial devaluation of the franc. It is officially described as "realignment," because the gold value of the franc is left unchanged, only its value in terms of sterling and a number of other currencies is reduced. What happens is that the official exchange rate of sterling and other currencies which are not quoted in the "free" market is adjusted to the "free" exchange rate of the dollar.

Dr. Paul Einzig

When in January 1948 the French Government decided to adopt a system of multiple exchange rates its action was met with much criticism. For one thing this was against the terms of the Bretton Woods Agreement of which France is one of the signatories. It was gravely prejudicial to British interests, because the discrepancy between the "free" dollar rate and the official sterling rate gave rise to transactions leading to the loss of dollars by the Sterling Area. It provided an opportunity for the purchase of Dominion products with the aid of undervalued sterling, and its resale to the dollar area, resulting in an abnormal profit thanks to the premium of the dollar over sterling in the Paris market.

Even from a purely French point of view the arrangement did not promise to be satisfactory. It was not of a nature as to inspire confidence in the franc, and therefore France had to continue to struggle with the difficulties due to universal distrust in the national currency. All warnings and pressure brought to bear on Paris to induce the Government to abandon the scheme were in vain. Once a currency crank gets it into his head that one particular solution is the best imaginable, he adheres to his quack remedy with the utmost fanaticism in face of all objectives and opposition. And even though the events of recent months have proved that the solution chosen was most unfortunate it was impossible to persuade the French Government to drop it.

Even now the perverted currency arrangement has not been abandoned, only modified and its most obvious anomalies remedied. France did not resort to a straightforward devaluation, with the franc definitely anchored to gold at a fixed parity. The "free" market in gold and dollars, in which prices are supposed to fluctuate freely, is maintained, even though in practice the fluctuations have for some time been maintained within relatively narrow limits. At the same time the official rates of the currencies which are not quoted in the "free" market are adjusted to the "free" rates. The formula chosen is that sterling rate is raised from 864 to 1,062, the latter rate corresponding to the average between the official and free rates of the dollar. This seems reasonable, for both importers and exporters have to buy or sell 50% of the dollars at the official rate, so that in practice the dollar rate for the purposes of foreign trade is the average between the official and free rates. Each time there is a wide movement of the free dollar rate the official sterling rate is readjusted accordingly.

This arrangement remedies the French system which gave rise to British grievance against the abuses indicated above. It also tends to encourage French exports to Britain and therefore to reduce the abnormal British export surplus to France. From this point of view, the change was warmly welcomed in London.

While it was undoubtedly an important step in the right direction, the new system also leaves much to be desired. For one thing, the franc remains a floating currency, and the absence of its stabilization is calculated to continue to inspire distrust in the French public. If even the French Government does not appear to believe in the possibility of maintaining the franc at its present level, how can the French public be expected to have faith in the franc? The present rates are looked upon as experimental, and changes are likely to be expected at any moment.

Moreover, the partial devaluation has not brought the franc to a level at which it would be obviously undervalued. On the contrary, prices in France remain rather too high, and French exports remain largely handicapped. What is even more important, the present level of the franc does not allow for a margin that would enable the French Government to meet the wage demands which threaten the economic, social and political stability of the country. It seems that once more the devaluation was "too late and too little." Had the franc been devalued to its present level in January it might have inspired the initial confidence necessary for consolidating the financial and economic situation. But in the meantime prices and costs have risen, so that at present the level at which the franc could be held easily is much lower than it was in January. And the industrial disputes arising from the determination to hold the franc at its present level continue. It seems that the French authorities, like the Bourbons after their restoration to the throne, have learnt nothing and have forgotten nothing.

John H. Newby With Bourbeau & Douglass

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—John H. Newby has become associated with Bourbeau & Douglass, 510 South Spring Street. He was recently with First California Company. In the past he was an officer of Nelson Douglass & Co.

Stephenson, Leydecker Add

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF. — Warren S. Carter has become affiliated with Stephenson, Leydecker & Co., 1404 Franklin Street.

Government Financial Powers and Banking

By EVANS WOOLLEN, JR.*

President, American Bankers Association, Chairman of the Board, Fletcher Trust Company, Indianapolis, Ind.

Newly elected ABA President sees fundamental conflict between private enterprise and socialism arising from centralization and growth of economic and financial powers of government. Says we now have a hybrid of individualism and collectivism, and defends banking and credit as field of private enterprise. Characterizes government lending as wasteful and unjust to taxpayers. Contends chartered banking is aware of its responsibilities and can furnish needed flexibility in credit extension. Denies centralization of control creates greater economic efficiency.

For many years, I have been a believer in banking progress through organized effort. Cooperation among bankers through state and national associations has made possible many of the outstanding advances banking has achieved in recent years. It has enabled the banking business to meet and overcome many of the problems we have had to face. Organized banking has also been a most useful tool, in that meetings such as this give us an opportunity to examine the basic issues with which we must deal, and to reach a common philosophy and a unified conclusion on the best course of action for us to follow.

Evans Woollen, Jr.

One example of the advantages and benefits of organized banking effort has been dramatically demonstrated during last year. As every banker is aware, bank credit has recently been a central point of attack as a source of inflation. It has come in for close scrutiny and considerable attack in the national political arena. Had it not been for the united efforts of banking as a whole in undertaking a nationwide program of voluntary credit control, we should by this time probably have been subjected to a more drastic, governmentally dictated program of further and decisive controls over bank reserves and credit.

The point to be emphasized is the fact that the banks, through the banking organizations of which they are members, were able to take part in the program of voluntary credit control. The American Bankers Association instituted the program. The work of the Association was tremendously aided by the generous support and cooperation of the state associations. It would have been almost impossible to establish the program on a nationwide scale had it not been for the splendid cooperation of the state associations in carrying the program to the banks in virtually every city and rural area of the nation.

For a number of years, bankers have followed closely a significant social and political development. In future years, the era in which we live will be pointed to as a critical moment in history. Our interest in it, as bankers and citizens, is not academic. We are well aware that the future of the banking business and of our personal lives as citizens is being shaped by it. The development to which I refer is the centralization and growth of economic and financial powers in the hands of the government. The importance of those powers transcends the practical day-to-day considerations of doing business. It reaches out into the very vitals of our national life. It is shaping the society in which we must work and live.

A Fundamental Conflict

A fundamental conflict is involved. It is not a conflict that can be resolved by a simple choice of ideas and methods. I know that I share the views of almost every one of you when I state that, for my part, I should like to live in a society where the functions of the national government in domestic affairs would be confined to keeping money sound, to regulating natural monopolies, and to prohibiting other monopolies. This would, of course, be the free enterprise system in pure form. I believe that such a regime would offer the best promise for the good life. It would be conducive to the highest development of the exceptional man, and to the greatest happiness and wellbeing of the mass of men.

I believe that we shall never see such a society as that, and I believe that neither our children nor our grandchildren will see it. I am free to hope that it might come to pass in the life of some of our remote descendants. Such a society would presuppose two conditions which do not exist. The first of these conditions would be stable and peaceful international relations. Now that geographic distances are telescoped by speed, we shall have big government; and we shall have restricted freedom so long as we have international anarchy. I think we shall have international anarchy, regardless of what contrivances of international amity we may devise, so long as we fail to build confidence between nations.

The second of the conditions demanded by the ideal state of a free enterprise society would be an electorate more seriously dedicated to good government. I think it can be truthfully asserted that the more careless of government the citizenry may be, the more pervasive of the citizen's life the government will be. We shall never have very good government so long as "politics" is a term of contempt in our daily speech.

Hybrid of Individualism and Collectivism

If I believe in a pure free enterprise system, and if I think that I shall never see one, there would seem to be a choice of only two logical conclusions. One of these would be an admission of defeat, and the other would be an attempt to appraise what we have and to measure its possibilities. What we have now, I believe, is a hybrid of individualism and collectivism. This appears to be what we are going to have for a long time to come. While this is far short of the ideal situation, I feel that it has possibilities for a decent life if we deal wisely with it.

If these conclusions are correct, then our part is to cultivate moderateness in outlook, and to beware the doctrinaire. One hears, in various forms, the statement that the world cannot go on partly free and partly regimented. The answer to this is that it has been going on that way for some time, and it will probably go on that way for some time to come. One hears, also, that we can't have in our own country a system of enterprise that is partly free and partly socialized. Well, we have had it for a long while. For instance, a socialized postal service is so permanently established with

(Continued on page 39)

*An address by Mr. Woollen before 62nd Iowa Bankers Convention, Des Moines, Ia., Oct. 26, 1948.

Signs of Mighty Shift in the Economy

By PAUL MAZUR*

Partner, Lehman Brothers
Members, New York Stock Exchange

Investment banker, ascribing current sellers' market to economic shortages instead of depreciated currency, sees evidence of change from emphasis on production to emphasis on sales. Holds increased mechanization and more intensified mass production are creating need for greater marketing efforts and larger domestic markets. Looks for continued improvement in consumer living standards.

Some time ago, I defined the task of Distribution as the delivery of a standard of living. That was an obvious over-simplification — but in my opinion, it was in general, an economic truth. In days like these, when the problem is still one of producing sufficient goods to maintain the established standards of living — the task of finding sales seems of no great importance. In days when the backlog of autos is estimated at 7½ million, a backlog which will require 6 years of 4 million car production to eliminate, there seems to be no problem of distribution, unless that of allocation can be called one of distribution. When housing shortages are measured in millions of homes for a population that has increased 12 million since 1937, and 20 million since 1929—there seems to be no problem of sales. When the real savings of the nation are estimated at nearly 200 billions for urban and rural dwellers together — distribution appears to offer little in the way of problems. When America, in farm and factory, is the producer for the world as the consumer—mostly by gifts — there seems to be little need for analyzing "distribution", unless one makes "distribution" synonymous with storing, moving and shipping.

Paul M. Mazur

Economic Shortages

There is a shortage of goods in the world, and in the United States, and there is presently a shortage of capital and capacity for its production. Out of these factors are made the high pressures of serious inflation. For men will compete in white, grey, or black markets for the material out of which they would maintain those standards of living to which they believe they have properly become accustomed. And unlike the situation in other countries, inflation in the United States is not a matter of depreciated currency, or fear of the dollar, or flight from it. There are too many proofs of this to deny its validity. The simple fact is that there aren't enough goods or sufficient workers and machines to produce enough goods for the fulfillment of the established American standards of living.

There are many reasons — assumed and real—for the existence of the miracle economy called "America". Natural wealth, climate, rivers, people—all contribute. But other places too have wealth and climate and rivers—and Americans are people from other places.

Back of the ingenuity of management which makes mass production possible, lie mass markets. Through the sales of millions of units, domestic markets offered our industries the opportunity to use the mass produced, machine precisioned parts that were assembled into the products of American industry. It was this development of standardized and interchangeable parts — and not the Cotton Gin — that was Eli Whitney's great contribution to his country. With the miracle of mass production came low cost production and low prices, high productivity, and high wages. It explained why dollar wage rates in the century from 1840 to 1940 increased 800%, while the prices of the goods those wages bought showed no increase.

*An address by Mr. Mazur before Boston Conference on Distribution, Boston, Mass., Oct. 25, 1948.

Such a growth in real wages, combined with a rapidly expanding population, created an American domestic purchasing power of unprecedented dimension. It was the task of Distribution to convert that power into an actual domestic market that allowed about 6% of the world's population to possess 54% of its telephones, 80% of its automobiles, and over 40% of its total production.

It is the market and demand inherent in this standard of living which, in turn, have supplied the volume of sales that gave the genius of American management the opportunity to develop almost microscopic division of labor, the modern assembly lines, and the resulting magic of high wages and low cost.

These markets represent billions and billions of dollar volume for American industry—and the highest standard of living ever evolved for the average American family.

Factors in Domestic Market

What created this domestic market with its high wages and low prices, is unquestionably a combination of many factors. The way America grew was probably an important factor. Labor was scarce, materials plentiful. Industry learned to economize the former, and be profligate in the use of raw materials. To do this, it was essential to develop highly mechanized production. Large capital investments were required for the development of industry.

This mechanized development of American industry and the favorable position of labor contributed to the creation of our fantastically great domestic markets. Social theories of equality and the political promise of equality inherent in the Bill of Rights created a fertile area for the development of consumer desires and the conversion of those desires into demand.

For this conversion of desire and need into demand, the machinery of mass distribution was developed by American Industry and Commerce. Advertising became a force that measured its power in billions of lines and billions of dollars applied to millions of people. Newspaper and magazine advertising was followed by radio. And now a new giant, television—perhaps greater than all of its predecessors—begins to take tentative steps before it attempts its seven league strides.

Distribution developed increasingly intensive selling methods, selling agencies, and selling devices. Small stores became department stores, mail order added department stores to its arsenal. Independent stores were met by chain store operation—particularly in the fields of food and drugs. Then the chain units sought to grow in the size of the individual units. The departmental store unit seemed, by history and logic, to be the device which Distribution has adopted as its chief tool for selling contact with the consumer.

Today's traffic conditions and changes in population are calling for a "new deal" in store location. Shopping areas away from the city centers are growing up. The traffic problem, the need of parking space for an America that travels on rubber wheels, and the huge increase in the cost of multiple story buildings, will combine to change both the face and the form of American distribution. The process of centralization that came with the growth of good roads and the conversion of small specialized units into larger departmental stores in concentrated shopping areas seems likely to change into one of decentraization under the negative pressure of problems of traffic, costs, delivery, and the positive force of changes in the living habits resulting from new hours of work and new areas of home developments.

Fiscal devices, too, served as instruments and weapons for effective "Distribution." During the 20's, there was developed to an important degree, the installment method of buying or "selling." Basically, the instrument was used as a mean of selling. By the simple process of arithmetic fractionalization, it made possible for millions of people, the purchase of high unit priced autos, radios, television, refrigerators, etc. Just prior to the War (late 1941), consumer installment credit totalled $6.5 billions, as compared with total personal income of $95 billions of dollars. It is most likely, indeed, that the use of fractional selling (or installment buying) is one of the really significant means which "Distribution" used to develop the huge domestic markets and the mass volume that make possible the magic of low cost mass production.

Change From Production to Sales

In the past, the tools of Distribution have been powerful and effective in creating sales volume and the low cost of production that came as a result, in spite of the constantly higher wages which created the financial base for huge domestic markets.

It was in the middle 20's that the emphasis of industry's problems changed from production to sales. With World War II and the $300 billion expenditures by the U. S. government, the sales problem of industry became simple; it was only one of finding supplies for a population that had huge funds for expenditure and too few goods to purchase. The end of the War did not change this basic situation. The resources of urban and rural dwellers were enormous—production was inadequate. The government planned its "regular" budget at nearly $40 billion and the world found it essential that food and goods of the United States be supplied for its survival.

The national income increased from $72 billion in 1939 to around $250 billion in 1948. In terms of 1939 dollars, the 1948 national income will total about $145 billion. Capital and production are short, and Europe's appetite for American goods bought with American credit or gifts seems insatiable. Has a seller's market become something permanent—or only as permanent as the expected indefinite period of prosperity of the late 20's?

There is already evidence of a change from seller's markets to those in which buyers may once

(Continued on page 13)

Dealer-Broker Investment Recommendations and Literature

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

Business Conditions in Southern California — Brochure — Security First National Bank of Los Angeles, Los Angeles, Calif.

Market—Leaflet—Oppenheimer, Vanden Broeck & Co., 40 Exchange Place, New York 5, N. Y.

Notes on Airlines — Circular containing data on **American Overseas Airlines, Continental Airlines, Delta Airlines,** and **Mid Continent Airlines**—Schwamm & Co., 50 Broadway, New York 4, N. Y.

Outlook for Fire Insurance Stocks — Circular — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Outlook for Railroad Earnings—Analysis—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are leaflets on **American Gas & Electric, American Light & Traction, American Republics, Chicago & Northwestern, Dixie Cup, Missouri Pacific, National Distillers, Socony Vacuum, Standard of Indiana,** and **Wheeling Steel.**

Public Utility Holding Companies—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Railroad Equipment Certificates—Valuation and appraisal—Stroud & Company, Inc., 123 South Broad Street, Philadelphia 9, Pa.

Also available is a valuation and appraisal of **City of Philadelphia Bonds** and price-earnings ratios and yields on 123 **Public Utility** common stocks.

Securities—List with comments—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

* * *

Acadia Atlantic Sugar Refineries Ltd.—Analysis—Gairdner & Company Limited, 320 Bay Street, Toronto 1, Ont., Canada.

Also available is an analysis of **Canada & Dominion Sugar Company Ltd.**

American Hardware Co.—Circular—Shields & Co., 44 Wall Street, New York 5, N. Y. Also available is a circular on **Detroit Harvester Co.** and **H. H. Robertson.**

Arrow Hart & Hegeman Electric Co.—Circular—Day, Stoddard & Williams, 95 Elm Street, New Haven, Conn.

Avco Manufacturing Corporation — Analysis — Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is a leaflet on **Arkansas Natural Gas Corporation, a discussion of Hugoton Production Company** and **Southwest Gas Producing Co., Inc.,** and an analysis of **Chesapeake & Ohio Railway.**

Axelson Manufacturing Company — Detailed circular—Quincy Cass Associates, 523 West Sixth Street, Los Angeles 14, Calif.

Also available is a bulletin on **Ducommon Metals and Supply Company.**

Black, Sivalls & Bryson—Circular—H. M. Byllesby & Co., Stock Exchange Building, Philadelphia 2, Pa.

California Packing Corporation — Summary and analysis — J. Barth & Co., 482 California Street, San Francisco 4, Calif.

Court & Remsen Building—Circular—Amott, Baker & Co., 150 Broadway, New York 7, N. Y.

Also available are circulars on **Carnegie Plaza Apt. Corp., 165 Broadway Building,** and **Savoy Plaza, Inc.**

Crosley Motors, Inc.—Circular—Emanuel, Deetjen & Co., 52 William Street, New York 5, N. Y.

Du Mont Laboratories, Inc.—Investment appraisal—Kalb, Voorhis & Co., 25 Broad Street, New York 4, N. Y.

Also available is a bulletin on **Public Utilities.**

First Bank Stock Corp.—Circular—Woodard-Elwood & Co., Rand Tower, Minneapolis 2, Minn.

Also available is a circular on **Northwest Bancorporation.**

Long Island Lighting Company—Discussion of speculative possibilities—Carreau & Company, 63 Wall Street, New York 5, N. Y.

Lonsdale Co.—Analysis—C. D. Robbins & Co., 810 Broad Street, Newark 2, N. J.

Maine Central Railroad—Special report—A. G. Woglom & Co., Inc., 53 State Street, Boston 9, Mass.

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

Missouri Pacific Railroad—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a leaflet on **Philadelphia & Reading Coal & Iron Co.**

Mountain Fuel Supply—Analysis—Write for copy attention of R. H. Burton—Edward L. Burton & Company, 160 South Main Street, Salt Lake City 1, Utah.

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

Old Ben Coal Corporation—Descriptive brochure — Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Pacific Coast Aggregates, Inc.—Discussion and summary—Mitchum, Tully & Co., 405 Montgomery Street, San Francisco 4, Calif.

Pharis Tire & Rubber Co.—Analysis—Peter P. McDermott & Co., 44 Wall Street, New York 5, N. Y.

Pittsburgh Consolidation Coal Company—Circular—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

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

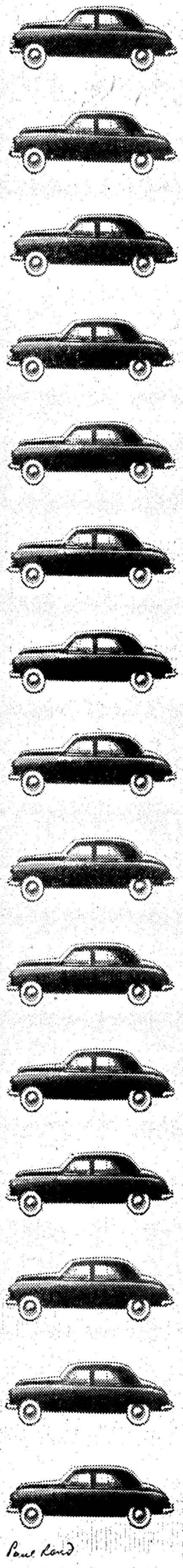
Puget Sound Power & Light Co.—Memorandum—Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

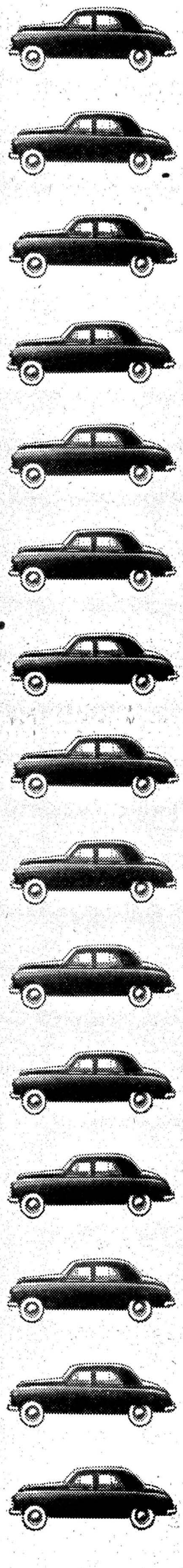
Superheater Company — Circular—Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

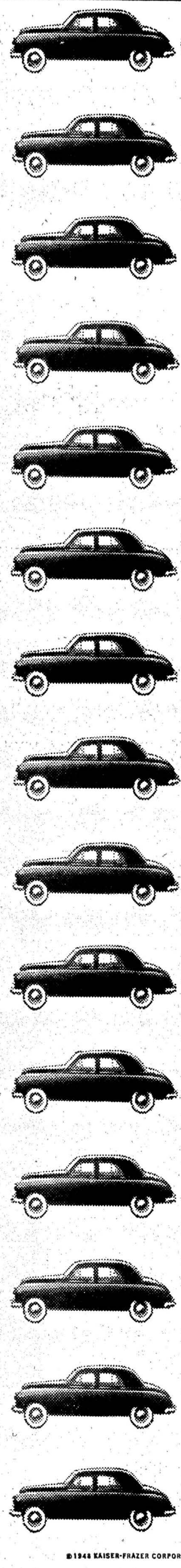
Webster-Chicago Corporation—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

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

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







Pennsylvania Brevities

Philadelphia Company Submits Plan

For more than a year, Philadelphia Company, subsidiary of Standard Gas & Electric Co., and an intermediate holding company supplying gas, electricity and transportation service to the metropolitan Pittsburgh area, has been under Securities & Exchange Commission order to simplify its capital structure or, in the alternative, to liquidate and dissolve.

Within the last two years, the parent company, Standard Gas & Electric Co., has taken long strides in complying with the provisions of Section 11, Holding Company Act of 1935. Some $60,000,000 of debt has been extinguished and the resultant bank loans have been reduced to less than $27,000,000. Through the sale of additonal portfolio securities, Standard plans to pay off its remaining loans and end up owning only the common stock of its principal subsidiary, Philadelphia Company.

But Philadelphia Company's own capital structure, consisting of a bond issue, a note issue, four classes of preferred stock and its common stock, comprises, according to the SEC, "unnecessary complexities, against the public interest." Motivated by the "or else" attitude of the SEC, Standard Gas & Electric, under date of Oct. 20, has proposed a voluntary simplification plan for Philadelphia Company, which, it is hoped, will meet with the Commission's approval.

The purpose of the plan, according to an official release, is to retire Philadelphia Company's bonds and serial notes and its preferred and preference stocks, leaving the company with only one class of stock and bank loans outstanding.

Philadelphia Company's principal subsidiary is Duquesne Light Co. The plan proposes that, through changes in Duquesne's capital structure, a new issue of Duquesne $1 dividend preference stock will be created to be exchanged for the outstanding preferred and preference stocks of Philadelphia Company. Bonds and notes would be retired by the application of the proceeds of bank loans and other funds.

Basis for exchanges are:

For 491,140 shares Philadelphia Company 6% preferred, par $50; 2.5 shares Duquesne preference stock per share, plus cash equal to accrued and unpaid dividends.

For 100,000 shares Philadelphia Company $6 preference stock, no par; 4.8 shares Duquesne preference stock per share, plus cash equal to accrued and unpaid dividends.

For 53,868 shares Philadelphia Company $5 preference stock, no par; four shares Duquesne preference stock per share; plus cash equal to accrued and unpaid dividends, plus the further sum of $8 per share in cash.

For the preferred stock of Consolidated Gas Co. of Pittsburgh (a wholly-owned subsidiary): 1.8 shares Duquesne preference stock, plus cash equal to accrued and unpaid dividends.

For 1,580 shares Philadelphia Company 5% preferred, par $10: $11 in cash, plus cash equal to accrued and unpaid dividends.

Pittsburgh Railways By-Passed

The Pittsburgh Railways Co., wholly owned subsidiary of Philadelphia Co., has been operated under trusteeship since 1938. Philadelphia Company's net investment in street railway companies, after a reserve of $28,522,012 set up for revaluation of assets, is carried at $26,654,740. Ultimate recovery by Philadelphia Company may be more or less than this amount, depending upon the outcome of reorganization proceedings now in progress. Reorganization of the Railways system and divestment by Philadelphia Company of its interest therein had been ordered by the SEC.

Last week, however, the U. S. Court of Appeals in Washington ruled that Pittsburgh Railways Co. is not now subject to the provisions of the Public Utility Holding Company Act. The decision reversed the earlier SEC order. In the opinion of security analysts, the Court's action is taken to mean that reorganization of the Pittsburgh Railways system, operated under Trusteeship since 1938, will be completed in the bankruptcy court and will not be subject to review by the SEC Public Utilities Division. It is believed that this may expedite present proceedings.

With or without SEC supervision, however, the Pittsburgh Railways reorganization will be reflected in the equity value of Philadelphia Company common stock, but has no immediate bearing on the steps proposed for the simplification of Philadelphia Company's capital structure.

High Bridge

PHILADELPHIA, PA.—The Commonwealth of Pennsylvania and the State of New Jersey are more than a little concerned with the quick, presto-change transfer of title of two interstate bridges from private hands to the newly-created Burlington County (N. J.) Bridge Commission late last month.

On Friday, Oct. 22, the Burlington County Board of Freeholders announced the acquisition of the Tacony-Palmyra Bridge and the Burlington-Bristol Bridge for a total of $12,400,000. It immediately developed that the State of New Jersey had plans for acquiring both spans for $4,900,000. Governor Alfred E. Driscoll has instructed Walter D. Van Riper, Attorney General of New Jersey, to conduct an immediate investigation of the deal.

The Delaware River Joint Commission has joined in calling upon Van Riper and Attorney General T. McKeen Chidsey of Pennsylvania to nullify the bridge sales if any legal means can be found for doing so.

Actually, it appears that negotiations leading to the sale have been in progress for about two years, that two enabling acts of legislation necessary to complete the sale were duly introduced in the New Jersey legislature and passed and that all legalities have been met. To all intents and purposes, the sale of the bridges is an accomplished fact.

Simultaneously with its announcement of the purchase, the Burlington County Bridge Commission stated that it had sold an issue of $12,400,000 Bridge Revenue bonds to the Chicago underwriting house of Ketcham & Nongard.

* * *

Alan Wood Steel Earnings

PHILADELPHIA—J. T. Whiting, President of Alan Wood Steel Co., in a letter to stockholders, reports revenues of $33,579,154 for the nine months ended Sept. 30, compared with $26,683,401 for the like period of 1947. The 1948 nine months' earnings were equivalent to $4.38 per common share.

The President's letter concludes: "The improved earnings for the third quarter reflect the increasingly high level of sales and the sustained high rate of operations of all departments. Production for the quarter was at an average of 95.4% of rated capacity. Construction work on the 30-inch hot rolled strip mill is now well under way."

* * *

Kellet Aircraft

Last week, Federal Judge James P. McGranery discharged the trustees who had conducted the affairs of Kellet Aircraft Corp. since October, 1946, and returned the corporation to private ownership.

Company was ordered to deposit $225,000 with the Girard Trust Co., Philadelphia from which creditors are to be paid a dividend of 40% of their claims. Company was also ordered to file quarterly reports of its operations. Kellet recently sold its rights in the XH jet-propelled helicopter to the Hughes Tool Co. for $150,000.

* * *

Coal-to-Oil Tests to Start

According to the Philadelphia "Inquirer," Pittsburgh Consolidation Coal Co.'s $300,000 model pilot plant installations are ready for experimental operation. The processes deal with the conversion of coal into gasoline, fuel oils and gases. Cooperating with Pittsburgh Consolidation are Standard Oil Development Co. and Hydrocarbon Research, Inc.

It is conceded that the process poses many questions which can be answered only by experience. A spokesman for Pittsburgh Consolidation believes that it will be necessary "to operate these plants as continuously as possible for many months, then bring our operating calculations and estimates up to date, and then finally make an engineering construction estimate of a full-scale plant on a specific site."

If it can be demonstrated that coal conversions to liquid and gaseous fuels can be accomplished on a commercially practicable basis, it is contemplated that the cooperating companies will erect a $120,000,000 plant at a site yet to be selected.

Western Pacific Case—An Extraordinary Lawsuit

By VINCENT C. SMITH

With Winslow, Douglas & McEvoy, Members of N. Y. S. E.

Mr. Smith reviews lawsuit having as much as $17½ million at stake, which has come about through claim of Western Pacific R. R. Corporation, as sole stockholder of the Western Pacific Railroad, to the proceeds of tax refund. Holds, since case is unprecedented, Federal District Court "will have a hard nut to crack."

With as much as $17,500,000 at stake, one of the most extraordinary lawsuits in the annals of finance is scheduled for trial next January. A holding company which, during the war, had filed consolidated Federal tax returns with its operating subsidiary is claiming the amount of taxes saved by the subsidiary as a result of the deductible loss on the consolidated return of the holding company's entire stock interest in that same subsidiary.


Vincent C. Smith

Such a peculiar situation may, at first, appear quite improbable, but it actually has arisen from a series of equally peculiar circumstances, and lawyers are of the opinion that no legal precedent exists for the case.

From 1916, until its reorganization in 1944, the entire capital stock of the Western Pacific Railroad, operating between Salt Lake City and San Francisco, was owned by a holding company, the Western Pacific R. R. Corporation. The operating subsidiary, the railroad, went into bankruptcy under Section 77-B in 1935. In 1939 the Interstate Commerce Commission filed a plan of reorganization which held that the railroad's stock, owned by the holding company, lacking equity, was worthless and made no provision for it. This plan successfully survived the tedious processes of law and was finally confirmed by the U. S. Supreme Court on Oct. 11, 1943.

Meanwhile, the war had stimulated the railroad's traffic to such an extent that, in spite of its insolvency, large profits were reported for 1942, 1943 and 1944. The Federal tax returns for 1942, according to past practice, were consolidated with those of the holding company, which had no income of its own, and income and excess profits taxes amounting to $4,201,821 were paid by the railroad through its parent.

In 1943, after its subsidiary's reorganization plan had been finally confirmed, the holding company, which was still solvent, but in process of liquidation, agreed to turn over its stockholding for cancellation upon request of the railroad's reorganization committee, This was done on April 30, 1944 and, until that time, the railroad and the holding company continued to file consolidated tax returns.

The return for 1943 reflected the holding company's tremendous loss of $75 796,400 in the subsidiary's stock due to the Supreme Court's decision and consequently, although the subsidiary's profit had been even larger than in the previous year, no taxes were paid. In March, 1944, however, under court order, a reserve of $7,100,000 was set up by the trustee of the railroad as a contingency against possible tax assessments on 1943 earnings. Subsequently, a claim for refund of $4,201,821 of the 1942 taxes paid was filed under the provisions of the law which allowed losses to be carried back. The remainder of the loss could be carried forward and this was done in filing for the period Jan. 1, to April 30, 1944, the date when the affiliation of the two companies was considered ended. The reserve fund was then increased by $3,000,000 to $10,100,000 in order to cover possible tax assessments on earnings in the 1944 period.

On March 28, 1946 the Court terminated the reorganization proceedings. A few months later, an independent group of the holding company's preferred stockholders entered suit for $14,301,821 as the amount of taxes saved by the railroad due to the holding company's loss in 1943. This amount evidently was calculated by adding the prospective $4,201,821 refund to the $10,100 000 tax reserve. Later in the year, the holding company itself started suit for the tax savings which its accountants subsequently calculated at $17,-511,065, not including the refund. The two suits have now been consolidated in the Federal District Court at San Francisco.

Meanwhile the tax returns, themselves, were being contested by the Bureau of Internal Revenue. Conversations took place, however, not with the holding company, but with the railroad, its former subsidiary, which had prepared the returns and had merely passed them over to the holding company for signature as the parent corporation. A tentative agreement was reached which provided that if the claim for refund of 1942 taxes paid was withdrawn, the government would accept the 1943 and 1944 returns. It was necessary that this compromise be ratified by the holding company which objected on the grounds that, if the refund were granted that amount would come directly into its own possession as the parent which had filed the returns. It being advisable to settle with the government as soon as possible, the railroad, in order to obtain the holding company's ratification of the settlement, agreed to a stipulation that $4,-201,821 of its funds, or the amount of the refund claimed, be held subject to court order and that this amount should be deemed to have been constructively received by the holding company, pending the determination of the lawsuit between the two companies. The government then formally accepted the settlement which became final on June 30, 1948.

To which company do the tax savings belong? The holding company, among other things, maintains that since the consolidated returns were filed *after* its stock in the subsidiary had become worthless, it is entitled to an accounting and allocation of the benefits of its loss which, if separate returns had been filed, it would have been able to carry forward to offset possible future profits. It did not, in fact, have any profits in the subsequent years but it is doubtful whether or not this is important since the affiliation ended in 1944.

The railroad, on the other hand, claims that the Supreme Court order terminating the reorganization proceedings predated the suit and bars any recovery. The Court can reopen the proceedings although this will probably not be necessary as the $7,100,000 reserve fund which was set up during the period of receivership is still intact. Certainly, if the government had assessed taxes on the old railroad company, it could collect them from the new. The railroad further claims that an allocation of the tax benefits would be a purchase and sale of deductible losses and of the privilege of filing consolidated returns which would be contrary to the income tax laws.

It is interesting that a somewhat different situation between two companies, both in receivership, does exist in which taxes have been adjusted voluntarily. The Gulf Coast Line files consolidated returns with its subsidiary, the International-Great Northern. In 1946, after the prosperous war years, the I.-G. N. had a sizable deficit which offset a large part of the parent's income on the consolidated return, thereby reducing income taxes considerably. If separate returns had been filed, the I.-G. N. would have been entitled to carry back its 1946 loss to the war years and would have been able to secure a refund of taxes paid amounting to $1,861,555. Under the provisions of the Court order authorizing the companies to file a consolidated return, however, the Gulf Coast Lines paid the I.-G. N. that exact amount which, otherwise, the I.-G. N. would have been refunded, i.e., $1,861,555.

Although this I.-G. N. case is not strictly comparable, it does illustrate that tax benefits have been allocated without challenge and under the direction of a court. In the Western Pacific case, the parent, not the subsidiary, sustained the loss against which it would not have been entiitled to any carryback refund, had separate returns been filed, as it had no profit in the years preceding 1943.

But, is there essentially any difference whether it is the parent which suffers a deductible loss or its subsidiary? And, is there any difference in principle whether the loss could be carried backward or forward as the regulations allow? In the Western Pacific case, the holding company might have carried *forward* its loss had separate returns been filed. The fact that the holding company actually had no income to offset in the years succeeding April 30, 1944 may not be pertinent. The affiliation ended on that date and it would appear that the holding company would have been unable to secure any relief from the new corporation in succeeding years.

At any rate, the lawyers are having a field day with 5,000 pages of testimony and more than 1,000 exhibits already received in evidence. The Federal District Court will have a hard nut to crack.

Joins Pacific Co. Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Everett J. McGovern has joined the staff of the Pacific Company of California, 623 South Hope Street, members of the Los Angeles Stock Exchange. He was formerly with Gross, Rogers & Co.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Insurance Stocks

With corporation earnings at record levels and the outlook generally favorable for next year, a growing number of companies have been increasing the return to stockholders through larger cash payments or stock dividends.

However, fire insurance companies, with one or two exceptions have not as yet participated in this trend. Despite a considerable growth in investment income which in some cases has more than doubled, dividend rates have continued practically unchanged since before the war.

The need for additional capital to handle the growth in premium volume has been one of the most important factors tending to restrict larger payments. The relationship between asset values and the market prices of shares has not been favorable during the past few years to obtain additional funds in the capital market. While a few companies have sold stock to existing shareholders and the public, conservative dividend policies have been continued as a means of increasing capital funds.

Another factor which has tended to prevent larger dividends has been the underwriting record. Since 1944 this phase of the business has been generally unprofitable on a statutory basis. Although investment earnings have more than covered disbursements, the underwriting losses have undoubtedly had a psychological effect on dividend policies. Payments could not be increased while substantial losses were being experienced.

There are indications that these factors are in the process of being corrected. First of all, premium volume shows signs of leveling off. For the first half of 1948 a tabulation of 75 insurance companies by Alfred M. Best Company showed a 16% increase in premium volume as compared with a 30% increase for the first half of 1947. Thus while the strain on capital funds has not been completely eliminated, the pressure has been somewhat reduced.

Another factor and one that may be more important in the determination of dividend policies, is that rates during the past two years have been raised and are now attaining a relationship to losses which should permit the companies to show a profit in underwriting. This was the case in the first half of this year when there were indications that underwriting had turned profitable for the first time in several years. At the same time investment income is continuing to gain and should be considerably higher this year than in previous periods.

As a result of the foregoing it is possible that a moderate increase in dividend payments may be made within the near future by some of the better managed companies. The recent announcement by St. Paul Fire & Marine of a 25 cent special is believed to be the first of such extra dividends.

For purpose of comparison, the dividend record of the past three years, together with the investment income for 1947, current price and yield are presented in the following tabulation of 24 leading companies:

	Current Annual Dividend*	Dividend Paid 1947	Dividend Paid 1946	Investment Income 1947	Bid Price Nov. 1, '48	Yield on Present Dividend
Aetna (Fire)	$1.80	$1.80	$1.80	$2.93	$49	3.67%
Agricultural Ins.	3.00	3.50	3.50	5.44	67	4.48
American Insurance	0.70	0.70	0.70	1.03	17⅜	4.03
Boston Insurance	2.40	2.20	2.55	3.54	60¼	3.98
Continental	2.00	2.00	2.00	3.61	62	3.22
Fidelity-Phenix	2.20	2.20	2.20	4.18	67½	3.26
Fire Association	2.50	2.50	2.50	4.63	60	4.17
Firemans Fund	2.60	3.00	3.00	6.62	76½	3.39
Firemans (Newark)	0.50	0.50	0.50	1.42	14⅝	3.42
Glens Falls	1.60	1.60	1.85	2.25	46½	3.44
Great American	1.20	1.20	1.20	2.13	32¼	3.72
Hanover Fire	1.20	1.20	1.20	2.23	29½	4.07
Hartford Fire	2.50	2.50	2.50	5.40	119½	2.09
Home Insurance	1.30	1.20	1.20	1.97	29½	4.41
Ins. Co. of No. America	3.00	3.00	3.00	6.21	106½	2.82
National Fire	2.00	2.00	2.00	3.79	48½	4.13
New Hampshire	2.00	2.15	2.05	2.89	43	4.65
North River	1.00	1.00	1.00	1.42	24¾	4.04
Phoenix Insurance	3.00	3.00	3.00	4.61	88	3.41
Providence-Washington	1.40	1.40	1.40	1.80	33½	4.18
St. Paul Fire & Marine	2.25	2.00	2.00	3.80	78	2.88
Security Insurance	1.40	1.40	1.40	2.52	30½	4.59
Springfield Fire & Mar.	1.90	1.90	1.90	2.20	44¾	4.25
U. S. Fire	2.00	2.00	2.00	3.27	56½	3.54

*Including extras.

The above figures have been adjusted for stock dividends and split ups but because of the fact the same companies have sold stock through the issuance of rights the per share figures are not exactly comparable because of the larger number of shares outstanding in the more recent periods.

While dividend payments for this year have already been largely determined, practically all of the above companies will meet for dividend action within the next two months.

A considerable number of the companies declare regular quarterly and extra dividends at this time for payment during January and February. It is possible that stock dividends may be used in some cases as a means of conserving capital.

The fire insurance stock group generally has been making new highs recently and the next few months should prove to be interesting from the standpoint of the stockholder.

Mason, Moran Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Donald S. Johnson is with Mason, Moran & Co., 135 South La Salle Street.

Banking in a Period of Confusion

By GLENN K. MORRIS*

President, National Bank of Germantown and Trust Company

Contending banks are being pinched in their earnings while their competitors are free from such restrictions, Pennsylvania banker criticizes recent reserve requirement imposed by Federal Reserve. Cites selling of government bonds by insurance companies as offsetting curbs on bank credit, and criticizes enlarged guarantees of mortgage credit granted by last Congress. Urges banks be more vocal and energetic in educating public regarding their unfavorable position.

Banking is a sensitive business. It deals in promises—promises of individuals, corporations, governments, local and national, plain promises and promises often tied in with promises of others. Anything that happens in the world which affects the promissor affects banking. Some few years ago a book was published entitled "The Promises Men Live By." It is a book on economics written for the lay mind and records the experiences with different types of promises during the depression of the thirties. It is easy reading, very interesting and helpful. I am sure you would all enjoy reading it.

Glenn K. Morris

What Banking Faces Today

It is not only confused thinking but actual conflicts in actions that we in banking are called upon to face today. The conflicting actions, primarily in government and by the so-called money managers, are a result of the confusion in thinking and produce our day to day problems.

I would like to limit my remarks to just a few of these conflicts which have a direct impact on banking.

First—Let us consider the low interest rate policy, born in a depression to stimulate business, retained in the war period to aid in sale of securities on a fixed pattern, and retained in the postwar period when efforts are supposed to be being made to combat a boom and inflationary period. Here certainly is a conflict. It can hardly be the right policy in both depression and boom.

Second—Our system of taxes which makes it impossible for corporations to retain earnings to expand production facilities or for the individual to risk funds in new productive enterprises in a period when the President of the United States advises Congress that "$50 billion are needed to increase the productive facilities of the United States to offset shortages and high prices."

Third—Political conflicting actions such as action of special session of Congress granting power to increase reserve requirements of member banks and in practically the same breath liberalizing provisions for mortgage credit through guarantees and secondary markets; speeches against high prices and the continuance of subsidies and price floors which undo the acts of nature in providing large crops of foodstuffs this year; inability of politicians to realize that this is not a stock exchange boom but a wage increase boom based on expansion of money supply through creation of government debt and not expansion of private debt.

That should be enough confused thinking for one evening.

Easy Money Theory

Now let us revert to the easy money theory. I am sure we all remember that an abundance of money at low rates was to stimulate business, to create borrowers, in fact it appeared that the cost of money was the greatest item of cost in all types of business. Well, it just didn't work that way. A large government debt was created with an increase in the money supply but little increase in demand for money. Then came the defense program followed by World War II. It was argued that rates had to be stabilized in order to avoid the difficulties of World War I financing when long-term rates increased with the various issues of bonds reaching a maximum of 4¾% for long-term and 6% for short-term borrowings. There is much to be said in favor of assurance to investors as to rate on future issues but I wonder how much of the policy was based on a determination to hold down the earnings of banks and other investors during the war period. I suppose we will never get the real answer to that. Finally the war ended and then came the dire predictions as to unemployment and business recession. In such a period, it was argued, low interest rates must continue. We all know what happened—no unemployment but rather labor shortages and higher wages; no recession but a boom and ever-increasing prices. Then low interest rates were needed not to stimulate business but because of the large national debt and the effect upon the poor taxpayer if cost of servicing debt was permitted to increase. Then followed a period of easier compared to easy money. Government debt was unfunded by refinancing high coupon bonds with one year ⅞% certificates of indebtedness. All this in a period of expanding business. Someone has called that period the "most distrusted boom." Probably easy money was to cushion the "bust" just around the corner. Less than a year ago some effort was made to increase interest rates but only short-term rates. Then prices for government bonds were reduced by announcement of the Federal Reserve banks as to lower prices they were ready and eager to pay. With it all no fundamental change in the easy money policy but retention of the long-term rate at 2½%. All of this in a period of boom even though "since the memory of man runneth not to the contrary" increase in cost of credit has been a fundamental tool in combating inflation. While we may not like to admit it, it is fact that we are again caught in the vise of interest rate controversy. Higher rates, which tradition calls for in a period such as the present, mean lower prices for investments. A moment's reflection tells us what that would mean to all holders of high-grade, long-term investments. It has even been rumored that the sudden lowering of pegged prices for government bonds last Christmas Eve was to give the advocates of a free market in interest rates a taste of what could happen if all supports were removed and rates found their normal level.

This interest rate problem is of prime importance to banking and banking finds itself in a situation not of its own making and one which because of its present position it can do very little about.

How much longer the easy money policy will continue is a moot question. I do not pretend to have the answer. I do believe that this policy is slowly but surely putting the banks in the position of being the future "whipping boy," if one is needed. But more about that when we discuss recent conflicts due to legislative action in the recent session of Congress.

Tax System and Banking

Next let us take a look into the effect of the present tax system on the problems of banking. We, as bankers, have always advocated the retention of earnings in the business of our customers, especially our borrowing customers. A good credit risk must be a steady earner of profits and a good portion of those profits should be retained in the business to improve working capital and facilities. Furthermore, we have always looked for a proper balance between capital invested in the business and debts of the business. Our tax system makes it very difficult for businesses to comply with those standards.

Prior to the depression of the '30s taxes were considered only as a means of raising revenue by governments. That is no longer true. They are now considered an instrument to control spending, prices and the distribution of wealth. That is truly a new concept of taxation. High individual taxes during war were for the purpose of contracting the gap between income available to spend and the supply of goods. Corporations were subject to Excess Profits taxes even though renegotiation of contracts was supposed to eliminate all undue profits on war contracts. Today we have an excess profit tax when in the opinion of the taxing authorities there is undue retention of profits in a business. In addition, the profits of a corporation, including banks, are subject to double taxation, first to the corporation and then to the stockholders on dividends paid out of profits after taxes.

What are the results? Sale of stock in both new and established business is very difficult. The incentive to risk has been eliminated. The individual has turned to U. S. bonds and life insurance for investment. It affords greater protection and nearly as much return. Corporations have been forced to revert to increased debt in the form of debentures or long-term loans for funds which should be provided by equity financing. Debt structure becomes heavy and credit risk deteriorates.

Management and owners of smaller business find debt preferable to invested capital from a tax standpoint. Interest on debt is an expense of doing business, dividends paid are not. Also the retirement of debentures held by the owner of a business or others do not involve capital gain taxes to the same extent as sale or redemption of stock issues. There are many cases today of creation of closed corporations with a small capital stock and large debenture issue all in the hands of the owners of the business.

Such policies create more and more problems for the banker in dealing with his customers. Naturally, management is tax conscious and expects us to overlook its unbalanced financial condi-

(Continued on page 33)

*An address by Mr. Morris before the Lycoming-Clinton Bankers Association, Lockhaven, Pa., Oct. 13, 1948.

Signs of Mighty Shift In the Economy

(Continued from page 8)

again have some respect and consideration shown to them. The channels of trade are being filled. Inventories have been at least rehabilitated—in a few cases, inflated. Soft lines show evidence of a balance in supply and demand, and even the effect of competition from other consumer items. Radios are in plentiful supply. Textiles are at least in adequate supply; and their exports have decreased. And basic farm prices are showing the signs of recovery of production elsewhere in the world.

Surely, there are signs of a mighty shift in the economy. The forces of distribution, scattered and disorganized by nearly a decade of war and postwar activity, are being slowly reassembled. The weapons of distribution are gradually being taken from the attic and cellar where dust and rust have been accumulating. The tools must be cleaned and oiled; and their users must learn again how to use them—for industry's forces have forgotten a great deal of the tactics and methods that they and their elders used so long ago in the '30s.

A Greater Pressure on Distribution

And what about the future? What does the need look like? It seems to me that the pressure upon distribution in the economy will be greater, not less, than in the past.

Since 1939 dollar wage rates have risen 106%. Labor efficiency has moved but little above the 1939 level. Therefore, most, if not all of the increased labor cost has been translated into an increase in price, and to that extent, represents a cancellation of an increase in real wages. 100 years of American history says that industry will strive with limitless energy to cancel at least part of the increased wage by increased productivity and efficiency.

Historically, the heart of the methods of reducing price has been increased mechanization and increased volume which will allow greater specialization of labor, and in turn, greater mechanization. Reduced overhead and increased mechanization alike demand greater unit volume, and that the economy asks of "distribution." Even the needs of survival will demand more of "distribution." The break-even point of industry has increased with higher costs of building and machinery (and therefore depreciation), greater costs of management, overhead, and labor. All spell the need of more volume in order to bring the necessary gross profit to offset expense. Our exports to foreign markets at their present levels cannot be assumed to be permanent features of our economy.

Therefore, the demand of industry will be for even greater *domestic* markets than the past methods made available. Advertising will grow in media and intensity. High wages and high rural income, it is hoped, will exert their force. But the real catalytic agent that converts purchasing power into purchases is the rising standard of living of the average American family.

It will be the increase of this standard of living that "distribution" must deliver in order to satisfy the increased needs of industry for sales volume. And for the future, it will have to use all the devices of the past and some new ones as well.

Presently, the chief means to control inflation, presumably acceptable to both Congress and the President, is the limitation of consumer credit. The time will come when this restriction will be removed in order to stimulate business—and with a recognition that an annual personal income of $210 billion can and must support a larger figure of instalment credit than the $4 billion of 1939, when personal income was $73 billion.

There is one other device that offers much as a potential factor to improve the standard of living: that is the inevitable change in the habits of living and consumption that will come from the fuller development of the 5-day work week.

It is a fundamental change that has taken place from the days when the idea of a 5-day work week was first advanced as an economic stimulus to consumption. Today, the 5-day week has been adopted for a large percentage of the employees of the United States—as a social and labor measure.

With the adoption of the 5-day work week has come the inevitable corollary of two days of leisure in which to live, have family existence, and to consume. Two days of leisure can increase consumption to a dramatic degree. Moreover, it means a fundamental change of living areas. Suburbs develop; and decentralization of shopping follows. Utilities, streets, services, new schools and new homes, new furniture and furnishings—all make up the parade of new needs. In the past, automobiles and new roads contributed greatly to the centralization of shopping areas, and now they are stimulating the decentralization of living and shopping areas. And decentralized living areas intensify the very necessity of automobile transportation and good roads.

The relationship between automobiles, days of labor, living habits, and the economic stimulus to industry is real and direct. All of it plays its part in the changing standards of living that "distribution" converts from the potential of demand of men and women into the fact of sales volume for industry. In the future, that conversion will take place with quickened tempo—because people *will change* and improve their standards of living, and industry *must have* greater sales volume if it is to continue in America an economy that combines higher dollar wages and constant finished goods prices—and advancing standards of living for the American family.

Yet, it seems to me that the demands upon "distribution" as a factor in the American economy of tomorrow will be heavier and more burdensome even than those of the past.

Herbert E. Scott Now With Tripp & Co. Inc.

Tripp & Co., Inc., 40 Wall Street, New York City, dealers in municipal bonds, announce that Herbert E. Scott is now associated with the firm. Mr. Scott formerly was associated with H. E. Scott & Co. and more recently was with A. E. Ames & Co.

H. C. Marshall Opens

WASHINGTON, D. C. — H. C. Marshall will engage in a securities business from offices at 4704 Huron Avenue. He was formerly with L. D. Sherman & Co. of New York.

With Barclay Investment

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Clarence R. Scholz is now with Barclay Investment Co., 39 South La Salle Street. He was formerly with Clement, Curtis & Co.

No Business Collapse Near, but Prepare For Buyers' Market!

By DR. ROBERT C. SHOOK*
Vice-President and Director of Research,
International Statistical Bureau, Inc.

Though denying American economy is stronger and more stable than ever, Dr. Shook holds we won't have depression like 1929. Says defense expenditure is only one factor maintaining business level and foresees no war for few years, but looks for mild jolt next year "that will bring us to our economic senses." Concludes, therefore, in view of high material costs and labor's uncooperative attitude, business outlook demands aggressive selling policies.

I wish I could begin my remarks like a prominent economist recently ended his, by saying that "the American economy is stronger and more stable than it has ever been." That is the kind of talk we all like to hear. I could even argue that from the long viewpoints the statement might be true. But I know from direct and personal contact with a great many businessmen that there are many parts of our economy, right now, that are neither very strong nor very stable. Many of these businessmen are among your customers, and I feel reasonably certain that their troubles, to some extent, have already become your troubles.

Robert C. Shook

Let's approach this from a practical viewpoint. When your customers have troubles, it is bound to be more difficult next year than it has been this year, for your own industry and your own companies to produce at a profit and to sell at a price commensurate with your costs.

There may be a continuing boom for the economy as a whole, but more and more businesses will have their own little depressions regardless.

No Collapse Near

Don't let this statement frighten you. I am not suggesting that a business collapse is right around the corner. A lot of little individual depressions don't mean that there needs to be a big depression, with bank failures, business failures, a major and protracted decline in production, and a great and rising volume of unemployment.

In fact, let me take a moment to list some of the things that I feel we won't have in 1949, or in 1950 either, for that matter.

We won't have a financial panic. Credit is not over-extended, as it has been sometimes in the past.

We won't have a collapse in production. There is too great a potential demand for durable goods to allow that.

We won't have a collapse in prices. Government support of farm prices and the strength of labor unions will prevent that.

In short, we won't have a depression like we had in 1929, or a deflation like we had in 1920-21.

In the first case production went down 54% within a period of three years, unemployment skyrocketed, there was a great wave of bank failures and bankruptcies and both businessmen and consumers became as hopeless as they have been in this generation.

In the second case prices dropped 42% within a period of ten months and again there were many bankruptcies and financial difficulties as operating profits were turned into losses, as credit was pulled in and as businessmen dumped inventories in order to unfreeze their capital.

Inflation Near End

On the other hand, we won't have further marked inflation in 1949.

I am convinced that the extremes of inflation are almost a thing of the past. Too many industries are running into price resistance and declining unit volume.

Defense Not the Only Factor

Right at the moment there is a great deal of talk about increased defense spending and military lend-lease for Europe. The theory is advanced by many speakers that this will be enough to keep inflation going indefinitely, or at least through 1949.

Possibly this conclusion is right. I question, however, that it would be practical for businessmen to bet on it. The damage if they were wrong would outweigh the benefit if they were right.

The argument of the inflationists seems to be this—

Increased defense will create shortages of steel, nonferrous metals, durable goods of all sorts, and manpower. Prices in these fields will advance, and so will wages and income generally. With higher income, the soft-line industries that have been having little depressions will recover, and prices will go up there too. Thus there would be another wave of inflation.

That is the argument. Now let's look at the record.

Let's take steel, because it is steel on which most of the ultra-inflationists pin their hopes, or their fears.

Let me take a tip from the radio people and conduct a short quiz program. There will be no grand prizes, but the answers are the facts that every well-informed businessman should know about.

Question: *How much steel is under direct allocation for defense purposes?*

This amounts to 1,390,000 tons, if a one-time allocation for atomic construction of 160,000 tons is included.

Question: *How does this compare with total finished steel production?*

Current rate of finished steel production is about 66 million tons annually.

Question: *How much will finished steel production increase next year?*

Best guess at the moment is two million tons.

Question: *Aren't there other allocations, however, that cut into the civilian supply?*

Yes, there are other allocations, amounting to 4,374,000 tons. It is

(Continued on page 35)

*A talk by Dr. Shook before the National Office Furniture Convention, New York City, Oct 28, 1948.

Securities Salesman's Corner

By JOHN DUTTON

In the final analysis the foundation for every lasting business relationship rests upon "confidence." Confidence in a securities salesman rests upon the two pillars of belief—in his integrity and his ability.

Integrity and sincerity are not synthetic products of a man's personality. They cannot be assumed. They must be inherent. It is what we say, and do, that marks us. Bluster, bragging and bluff never built a solid reputation for any man. But on the other hand, neither can sincerity and honesty be hidden. The man who doesn't know all the answers, yet is big enough to admit it, always wins confidence. The man who has made a mistake and acknowledges it, meanwhile offering to do his best to correct the situation, will win the confidence of others. The man who would not sell anything unless he believed that it was suitable for his client doesn't have to trumpet his creed—his actions will speak for him. The man who lives by the golden rule is found out. He cannot fail to win confidence. His friends will build his road ahead of him.

When it comes to confidence in a man's ability to advise the proper securities for his customers, so that they will be satisfied clients over a period of years—that is another matter. Here is where the investment business runs a cropper. Sincerity and integrity are not enough. Sometimes the best salesmen who have done everything humanly possible to build a solid investment business discover that all it takes to upset years of effort is one bear market.

Here is where proper selection of securities is absolutely vital if a permanent clientele is to be established. One reason the investment fund has taken hold so strongly among dealers who are concerned with keeping their customers is that this form of investment seems to offer stability of income and a minimum of price fluctuations. The investment fund (especially the balanced open end fund) is an investment. If you sell this type of security you are forced to talk income, stability, marketability. You are not going to offer price appreciation as an inducement to your customers and that is where the investment business has always run into trouble. Price appreciation is something we all hope for, seldom achieve it, and when we are successful our customers take all the credit, but if there are losses instead of profits, the seller must take the blame.

The only answer to this problem lies in proper education of the customer. You cannot sell securities the same as other products. In other lines there is always a possibility that a good salesman can overload a customer—in other words sell too much. But as a general rule high sales volume is a desirable objective. In the securities business it is absolutely imperative that you not only sell the proper securities that are suitable to the client but also that you do not sell them too much of the speculative stuff even IF THEY WANT IT. There is something about human nature that makes us all brave when things look good. It is the fuel for every bull market. You cannot give the public what they want, when they want it, IN THE QUANTITIES THAT THEY WANT. Most of the headaches that plague the investment security salesman today are the result of selling too many promotional, speculative securities during 1945 and 1946.

Selling is only a half of the battle—research, constant supervision of your client's accounts, elimination of weak situations is imperative if you want to keep your customers. The best salesman without a solid statistical organization behind him cannot build a substantial and satisfied following of clients. The best salesmen need supervision. In this business the immediate dollar must come last instead of first. It is the customer's welfare that is the first consideration of every progressive investment firm—no other basis for lasting success is available to the merchandiser of securities.

COMING EVENTS

In Investment Field

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.

P. R. Manning Opens

LOS ANGELES, CAL.—Phil Richard Manning is engaging in a securities business from offices at 756 South Broadway.

Arthur Reiss Joins Ogden Wechsler Co.

Arthur Reiss, formerly Manager of the Mortgage Certificate Department at Lanice & Co., is now with Ogden, Wechsler & Co., 39 Broadway, New York City, in the same capacity.

Business Man's Bookshelf

Causes of Industrial Peace Under Collective Bargaining—The Libbey-Owens-Ford Glass Company and the Federation of Glass, Ceramic and Silica Sand Workers of America—Frederick H. Harbison and King Carr—National Planning Association, Washington, D. C.—paper—$1.00.

Corporation Finance—Hiram L. Jome—Henry Holt & Co., New York, N. Y.—cloth—$4.

How to Live Within Your Income—J. K. Lasser and Sylvia F. Porter—Simon and Schuster, New York, N. Y.—paper—$1.

Financial and Economic Survey of the Meat Packing Industry Supplement II—Federal Reserve Bank of Chicago—paper.

Gatx—History of the General American Transportation Corporation 1898-1948—Ralph C. Epstein—North River Press, New York—cloth.

Labour-Management Cooperation in United States War Production — International Labour Office, 3450 Drummond Street, Montreal 25, Canada, and 1825 Jefferson Place, Washington, D. C.—paper, $2.25; boards, $3.00.

New Directions in Sales Management, Marketing and Packaging—Checklist of A. M. A. Publications — American Management Association, 330 West 42nd Street, New York 18, N. Y.—paper—free.

New Methods for Profit in the Stock Market—Garfield A. Drew—Metcalf Press, Boston, Mass.—cloth—$4.50.

Principles of Organization, The—James D. Mooney—Harper & Brothers, New York, N. Y.—cloth—$3.00.

Program of Community Anti-Communist Action—Chamber of Commerce of the United States of America, Washington 6, D. C.—paper, 50¢ (lower rates for quantity orders).

Silver as Money—Francis H. Brownell—American Smelting and Refining Company, 120 Broadway, New York 5, N. Y.—paper.

Small Business: Its Place and Problems—A. D. H. Kaplan—McGraw-Hill Book Co., Inc., 330 West 42nd Street, New York 18, N. Y.—cloth—$3.25.

NSTA Notes

THE SECURITY TRADERS ASSOCIATION OF NEW YORK

The following candidates have been nominated for officers of the Security Traders Association of New York for the year 1949:


James F. FitzGerald


John M. Mayer


Richard H. Goodman


John J. Meyers, Jr.


Wellington Hunter

President—James F. FitzGerald, W. L. Canady & Co., Inc.

First Vice-President — John M. Mayer, Merrill Lynch, Pierce, Fenner & Beane.

Second Vice-President, Richard H. Goodman, Cohu & Co.

Secretary—John J. Meyers, Jr., Gordon Graves & Co.

Treasurer—Wellington Hunter, Hunter & Co.

Directors (Two Year Term)—Alfred F. Tisch, Fitzgerald & Co., Inc.; James F. Musson, B. J. Van Ingen & Co., Inc.; Arnold Wechsler, Ogden, Wechsler & Co.; George L. Collins, Geyer & Co., Inc. (One Year Term)—Charles H. Jann, Estabrook & Co.

Trustees of Gratuity Fund (Two Years)—Lewis H. Serlen, Josephthal & Co.; John C. Blockley, Harris, Upham & Co.

National Committeemen—Stanley Roggenburg, Roggenburg & Co.; John F. McLaughlin, McLaughlin, Reuss & Co.; Michael J. Heaney, Joseph McManus & Co.

National Committeemen Alternates—Henry Oetjen, McGinnis, Bampton & Sellger; Charles Zingraf, Laurence M. Marks & Co.; Carl Stolle, G. A. Saxton & Co., Inc.; Edward J. Kelly, Carl M. Loeb Rhoades & Co.; Abraham Strauss, Strauss Bros., Inc.

Nominating Committee (Four members to be elected)—James A. Donnelly, Jr., Reynolds & Co.; D. Frederick Barton, Eastman, Dillon & Co.; Louis A. Gibbs, Laird, Bissell & Meeds; John S. French, A. C. Allyn & Co., Inc.; Nathan A. Krumholz, Siegel & Co.; Bernard J. Conlon, P. F. Fox & Co.; Thomas Greenberg, C. E. Unterberg & Co.; Arthur Burian, Strauss Bros., Inc.; Horace W. Wells, Blyth & Co., Inc.; Theodore E. Plumridge, J. Arthur Warner & Co., Inc.

Nominations other than those selected by the Nominating Committee can be made by a petition presented to the Secretary endorsed by 15% of the members eligible to vote for candidates. All nominations shall close 15 days prior to the Annual Election.

Members of the Nominating Committee presenting the slate were—Michael J. Heaney, Jos. McManus & Co., Chairman; Thomas S. Evans, Lee Higginson Corp.; P. Fred Fox, P. F. Fox & Co.; T. Frank Mackessy, Abbott, Proctor & Paine, and Wilbur R. Wittich, Maxwell, Marshall & Co. Bertran L. Burbank, White, Weld & Co. was alternate.

TWIN CITIES SECURITY TRADERS ASSOCIATION

The Twin Cities Security Traders elected the following officers:


Bernard Decheine

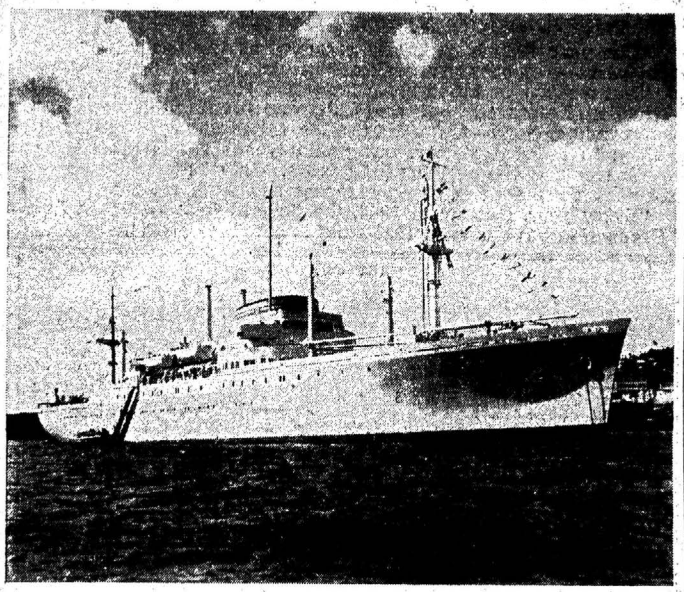

John Delaney


Robert S. McNaghten

President—Bernard Decheine, J. M. Dain & Company.
Vice-President—John Delaney, Delaney & Company.
Treasurer—Henry Hennings, Northwestern National Bank.
Secretary—Kenneth Joas, Holley, Dayton & Gernon.
National Committeeman — Robert McNaghten, Williams-McNaghten Company.

NEW ORLEANS SECURITY TRADERS ASSOCIATION

As a climax to the NSTA Convention in Dallas a post-convention trip to New Orleans, America's perennial playground, has been arranged. Here, too, a splendid schedule has been prepared by the New Orleans Security Traders Association to make the two-day stay a treat long to be remembered. There will be a Cocktail Party and Buffet Supper aboard the S. S. Del Norte, the latest word in cruising



pleasure, on the evening of Friday, Nov. 19, but this is only the headliner to the program. Sightseeing trips to the French Quarter (Vieux Carre) with experienced guides and a trip on the mighty Mississippi will further add to the festivities. The Louisiana Port Commission's boat, the "Good Neighbor," has been placed at the disposal of the Traders and everyone can look forward to an experience, not only educational but also decidedly enjoyable.

It is certainly going to be a great week, next week, for the members of the National Security Traders Association and stay-at-homers will be missing the time of their lives. It is not too late now to take advantage of the offering—just call Ed Welch of Sincere & Company in Chicago or Walt Saunders of Dominion Securities Corp. in New York, who are handling the two Special Trains. All that is necessary is to say that you want to go along, then pack your bags and head for Dixie. If you can't tie up with either of the Specials, then just hop any old rattler that passes through Dallas.

Next week it's "Dinner in Dallas and Dessert in New Orleans."

SECURITY TRADERS ASSOCIATION OF CONNECTICUT

The Security Traders Association of Connecticut unanimously elected the following officers for the ensuing year:

Robert Bligh   Leslie B. Swan   Donald Jacobs   Don E. Hungerford

President—Robert A. Bligh, Fahnestock & Co., Torrington.

First Vice-President—Leslie B. Swan, Chas. W. Scranton & Co., New Haven.

Second Vice-President—Donald Jacobs, Conning & Co. and Ballard, Hartford.

Secretary-Treasurer—Donald E. Hungerford, Robert C. Buell & Co., Hartford.

Governors—John Graham, Brainard, Judd & Co.; Holbrook Bradley, Edw. M. Bradley & Co., New Haven; Geo. A. Dockham, Hincks Bros. & Co., New Haven, and James P. English, Cooley & Co., Hartford.

Edward Leinss Joins Sutton

CHICAGO, ILL. — Edward A. Leinss has become associated with Sutton & Co., 120 South La Salle Street. Mr. Leinss was formerly with Harriman Ripley & Co. and Stifel, Nicolaus & Co.

Forms Hines & Co.

BOSTON, MASS. — Frank A. Hines, member of the Boston Stock Exchange, has formed Hines & Co., with offices at 53 State Street. Mr. Hines was formerly a partner in Hines Robertson & Co.

Charles H. Mills Dead

Charles Henry Mills, senior partner of the brokerage firm of Charles H. Mills & Co. for 50 years, died of a heart condition at his home after a brief illness.

Two With J. M. Wilmans

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—Robert E. Redman and William T. Savage are now with John M. Wilmans Co., Ltd., Russ Building.

Two With Herrick, Waddell

(Special to The Financial Chronicle)

CHICAGO, ILL.—Loris A. Hoyt and Earl D. Jorgensen, Jr., are with Herrick, Waddell & Reed, 332 South Michigan Avenue.

With R. E. Hall & Sons

(Special to The Financial Chronicle)

FRESNO, CAL. — Nellie S. Acker has been added to the staff of Raymond E. Hall & Sons, Helm Bldg.

Should "Delivered Price" Quotations Be Restored?

By MELVIN T. COPELAND*

Director of Research, Harvard University Graduate School of Business Administration

Chairman, Advisory Council, Senate Trade Policies Committee

Dr. Copeland criticizes principles and arguments on which "delivered price" system of selling has been rejected by Federal Trade Commission and the Supreme Court. Holds rulings have led to confusion and disruption of markets, have limited competition, and have put salesmen in class of "economic bootleggers." Points out furnishing free delivered service or absorbing delivery costs regularly to meet prices of competitors has been constructive factor in American industry, and calls upon Congress to enact legislation to clarify situation.

From the statements which I have received from members of the Advisory Council, it is clear that there is quite general agreement among them as to the urgent need for clarification of the law regarding the right of a manufacturer or merchant to meet competition regularly by paying all or part of the cost of delivering his merchandise to his customers. I am in accord with the view that prompt clarification of the law is essential, and I wish to take a few minutes of the time of the Council to state my reasons.

Dr. M. T. Copeland

In the first place, in the interest of prosperity and fair play, it is necessary of businessmen to know the rules under which they are to operate. There are some persons in government positions and elsewhere, who apparently would prefer to keep the rules indefinite, to keep businessmen guessing as it were, even though they thereby handicap the business management of private enterprise. From my own observations and experience, however, I am convinced that the great majority of businessmen intend to be law-abiding and are law-abiding when they know what the law means. If we genuinely believe in the merits of private business rather than in state socialism, the rules should be made as clear as possible, and the clarification should come promptly.

Uncertainty regarding the law on the use of delivered prices is not conducive to energetic prosperity. As the members of this Advisory Council are of course well aware, the successful management of a business enterprise calls for careful planning. But the directors and executives of many a company are handicapped in looking ahead and laying their plans when there is uncertainty as to what the law permits in pricing their products under competitive conditions. This uncertainty raises big question marks regarding the scale on which it will be possible to conduct operations and tends to cause hesitation or deferment of action. This uncertainty works against the interest of stockholders, employees, customers, and the public at large.

For example, the managers of a company estimate that by reaching out for wider markets, they can secure a larger and steadier volume of orders and thus provide for better utilization of equipment, more regular employment, and lower costs. In order to reach the wider markets, in the face of competition, it may be necessary for the company to pay part of the costs of shipping goods to those markets. If there is uncertainty regarding the company's right to engage in that sort of competition, the contemplated expansion of operations may be prevented or at least delayed. Such delay is not conducive to prosperity.

It is true, of course, that competitors may be making similar moves, and that the first company's home territory may, in turn, be invaded, as it were. But I am convinced that that sort of competition stimulates progress, encourages competitive resourcefulness, and is beneficial to the public.

Let me cite a second example. Since some enterprises inevitably go out of business, their places must be taken by the expansion of existing enterprises and by the establishment of new businesses. With a growing population, we can have a vigorous economy and real prosperity only when industrial growth is taking place. If there is uncertaintly as to how far marketing operations are to be circumscribed by such confused interpretations of the law as have occurred in the Cement Case and in other rulings by the Federal Trade Commission, industrial growth may be handicapped. Industrial growth takes place chiefly because some one is willing to invest money and brains in new enterprises and in larger enterprises. Unless those who have money and brains to invest can look ahead with some assurance for a period long enough to warrant the investment, it will not be made. Clarification of the law thus has a direct bearing on the maintenance of prosperity.

If the conclusions which I have just stated are correct, as I believe them to be, it follows that the public has a large interest at stake in this confusion over the right of manufacturers and merchants regularly to meet competition, if they choose to do so, by selling at delivered prices. The removal of handicaps to the attainment of energetic prosperity is a matter which concerns general public welfare.

On this subject of delivered prices, the rules are not clear. In his excellent statement at the first meeting of the Advisory Council, Mr. Simon pointed out many of the conflicts in the statements emanating from the Federal Trade Commission and the Court. The Supreme Court has stated, in the Cement Case, that the members of the Federal Trade Commission are "experts," whose findings virtually are not subject to judicial review. The "experts," however, seem to be in rather wide disagreement among themselves. And those disagreements apparently are becoming more rather than less confusing. Congressional action seems to offer the only means of attaining clarification.

As I size up the situation, the major question to be dealt with is this. In meeting competition, can a manufacturer sell regularly at delivered prices which yield varying mill nets? Or, can a wholesale merchant, in competition with other wholesale merchants, sell regularly at delivered prices which yield varying store nets?

What Constitutes Competition

In undertaking to deal with that question, we immediately come up against the problem of determining what constitutes competition. The view of the dominant members of the staff of the Federal Trade Commission who successfully handled the basing point cases is revealed, I take it, in the statements which they elicited from the Commission's expert witnesses in the Cement Case. A review of those statements reveals a concept that genuine competition occurs only when groups of sellers and buyers get together to bargain over prices. Such a concept derives, presumably, from some of the 18th century agricultural markets in England. In accordance with that concept, one of the Commission's expert witnesses, for example, on page 15,693 of the record of the hearings in the Cement Case, referred to "cost-raising types of competition which do nobody any good." He was then asked by counsel for the Commission: "What kind of cost-raising types of competition do you refer to?" His reply (page 15,694): "I refer to restraining competition, to competition in selling effort, in the form of salesmen and advertising and the number of outlets and so forth which raise the cost of the product without giving to the consumer a better commodity or one whose greater part to him is a tolerant proportion to the increased expense on the selling effort."

From another expert witness for the Commission, counsel for the Commission elicited the following statement (page 17,762): "The fact that there is no permissible competition in price causes a sort of bootlegging competition in the form of high selling costs, greatly complained of in the basing point industries, and this is purely salesmanship and no substantial gain to the community." Enough other statements of the same general tenor were made by expert witnesses for the Federal Trade Commission in the hearings on the Cement Case to demonstrate that that is the kind of theory on which the Commission has built its case against the use of basing point prices. According to such a theory of competition, salesmen are economic bootleggers; advertising is an economic imposition on consumers; and the regular payment of delivery costs by sellers is evidence of conspiracy. Those are the sort of "expert" views which the Supreme Court, in effect, has held to be not subject to judicial review.

That primitive concept of competition, however, does not at all gibe with the industrial and economic progress of the last century and a half. With the growth of industry in the 19th and 20th centuries, manufacturers and wholesale distributors in many instances have found it advantageous to send out salesmen, to utilize advertising, and to employ other means of sales promotion. Thus competition has been spread over wider and wider market areas. Its form has been modified, but competition by the employment of traveling salesmen, advertising, and sales promotion is not less aggressive or less intense than that of the 18th century marketplace. Nor does competition by the use of modern marketing methods necessarily raise prices. On the contrary, it should not take much observation by the "experts" to ascertain that modern marketing methods have contributed substantially in many industries to a lowering of prices.

Competing in Many Markets

In seeking to compete over a wide market area, a manufacturer oftentimes has found that he has to pay part of the delivery costs—that is, that he has to "absorb

(Continued on page 36)

*Statement by Dr Copeland at meeting of the Advisory Council of Senate Trade Policies Committee, Chicago, Ill., Oct. 21, 1948.

New "Fundamental" Dir.

W. Emlen Roosevelt, a partner in the New York Stock Exchange firm of Dick & Merle-Smith, was recently elected a director of Fundamental Investors and of Investors Management Fund, Inc. He is one of the 10th generation of Oyster Bay Roosevelts in America and of the sixth generation to assume a financial post identified with the activities of the 150-year-old firm of Roosevelt & Son.

W. Emlen Roosevelt

Mutual Funds

By HENRY HUNT

The "Investors Mutual" Way

Investors Mutual, the nation's largest balanced fund which is sponsored by **Investors Syndicate of Minneapolis**, has small liquidations in relation to sales. This situation is probably due to three factors:

(1) They sell only through their own retail organization and thus are not subject to dealer "trade-outs." Incidentally, they charge no "load" on a switch from one of their three funds into another thus killing any salesman's inclination to switch an account to make a further commission for himself.

(2) They train their salesmen to sell in dollar amounts for long-term holding rather than in terms of so many shares. In other words, each client is setting up a small trust fund for himself.

(3) They do not quote their shares in any newspaper. Thus the holder does not watch his holdings fluctuate in value and start itching to take a profit as soon as the asset value advances two or three points.

Investors Syndicate's 1,400 salesmen have been called the "Fuller Brush" men of the business but they are doing a good job. They are, in effect, raising millions of dollars of new capital each year from people who for the most part don't invest in common stocks or, for that matter, in corporate bonds or preferred stocks.

Some sponsors are loath to enter the retail field for fear of antagonizing their dealer organizations who might feel that they were both competing for the same business.

Perhaps the dealers and sponsors will get together on a plan to train salesmen to work on mutual funds for the dealer with expenses, including possibly a six months subsidy for the salesman, to be shared by both.

Growing

Vance, Sanders now has a small retail sales organization selling "MIT" and their other funds in the vicinity of Boston. Mighty oaks can grow from little acorns.

Outlook for Television Promising

"Television has captured the interest of the American public with its visual presentation of programs in the home and a complete revolution in the entertainment field is to be anticipated. After many years of research and experimentation, television has reached a highly practical commercial stage and present expansion plans suggest that future growth will be rapid. Industry executives are predicting that television will become a $6 billion a year business, one of the 10 most important in the economy.

"Progressive newspaper, radio station and motion picture executives realize that television may bring about a decline in revenue for their respective industries and are acquiring a stake in television stations and telecasting. The number of stations increased from nine at year-end 1946 to 33 in August 1948. Approximately 60 stations should be operating by year-end 1948 and applications have been filed for every available channel in major cities. Relay stations and AT&T's coaxial cable systems will provide cross-country networks.

"Television receivers are being produced by some 40 manufacturers with retail prices ranging from $99.95 to several thousands of dollars for large custom-made cabinet units. Receiver sales have increased from 6,476 units in 1946 to 178,000 in 1947. Production for 1948 is estimated at more than 750,000 telesets and approximately 1,500,000 should be built next year. Despite these phenomenal gains, interest in television is mounting so rapidly that we would not be surprised to find a shortage of telesets over the months ahead.

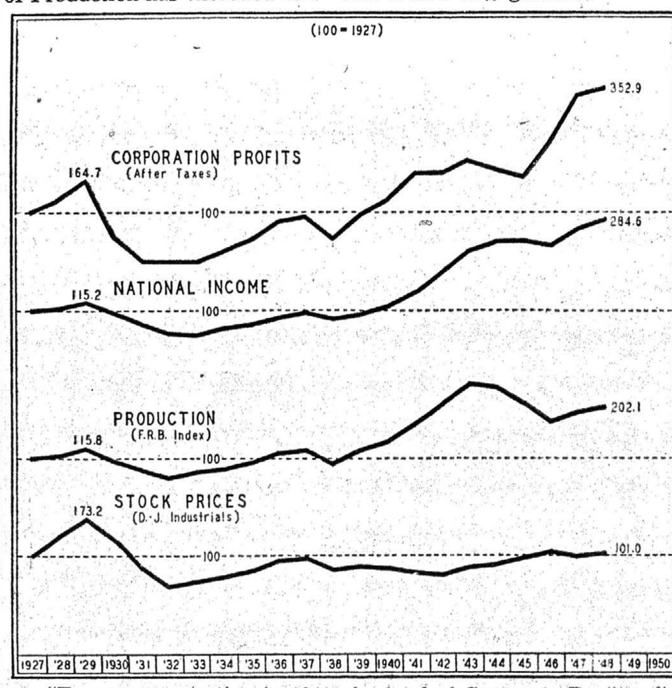
"The anticipated development of television into a major influence in our economy should rival the earlier growth of the automobile, radio and motion picture industries."—Quoted from a report prepared by **Kerr and Company**, engineers for **Television Fund, Inc.**

America's Dynamic Growth Trend

"The year 1929 is generally regarded as the boom year of all boom years—a momentary peak of prosperity never since regained.

"But a study of broad basic factors in our economy—Industrial Production, National Income and Corporate Profits, illustrated in the accompanying chart—shows that, after experiencing the worst depression in modern history, our economy has resumed its normal growth trend of the past hundred years. Only 11 years after their 1929 peak these indices began entering new high ground.

"Every year, starting in 1940, the Federal Reserve Board Index of Production has exceeded 1929—and is now 74% greater.



"Every year, starting in 1941, the total of Corporate Profits after taxes has exceeded 1929—and is now 114% greater.

"Every year, starting in 1941, the total of National Income has exceeded 1929—and is now 147% greater.

"Some of these years were war years and therefore reflect abnormal pressures. All three of these indices suffered declines in the late years of the war or shortly after—but now, three years after V-J Day, they are all showing a resumed upward trend.

"While the above indices have long since passed their previous peaks and are now twice the 1929 figures, Security Prices as measured by the Dow-Jones Industrial Average are only about half their peaks of that year. At the same time, bonds, preferred stocks and common stocks today are in a tremendously strengthened position as a result of our economy's continued broad growth."—From "Keynotes," published by the **Keystone Company of Boston.**

A Bostonian Comments

William A. Parker, President of **Incorporated Investors**, has the following to say in his report to stockholders:

"During the past year the American economy has shown remarkable soundness and stability, with few if any of the events forecast by those relying on 'historic parallelism' coming to pass. The prices of raw materials have remained strong and seem likely to continue at high levels for some time to come because plant capacity has increased substantially throughout the world during the last 20 years, while, on the other hand, accessible supplies of raw materials were consumed at an abnormal rate during the war and new sources of supply are not being discovered and developed at a rate equal to the growth in demand. Government deficits are inflationary and, in view of the state of the world and our own commitments, unbalanced budgets would not come as a surprise. The power of trade unions to force wages upwards is a factor operating against a decline in prices.

"There is evidence that the postwar expansion is levelling off, but that is a totally different thing from a recession. In fact, with practically all plant capacity in use, and with full employment, further expansion is necessarily curtailed. The current prosperity has not been attended by the excesses which have characterized some previous booms. There has been little speculation in inventories and little speculative increase in plant capacity. Short-term indebtedness is relatively low and debt to carry securities is remarkably low. Business policies continue cautious.

"Because your management believes that the high level of business activity will continue, and that government policy will run to anti-inflationary rather than deflationary measures, the portfolio of **Incorporated Investors** remains fully invested in stocks."

City of Antwerp Bonds Drawn for Redemption

Holders of City of Antwerp external loan sinking fund 5% gold bonds due Dec. 1, 1958, are being notified that $237,000 principal amount of these bonds have been drawn by lot for redemption through the sinking fund on Dec. 1, 1948, at par. Redemption will be made at the head office of The National City Bank of New York.

Austin Fox Now With Sutro in Los Angeles

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Austin Fox has become associated with Sutro & Co., Van Nuys Bldg. Mr. Fox was formerly Beverly Hills manager for Buckley Brothers. Prior thereto he was with Fewel & Co., Barbour, Smith & Co. and in the past was an officer of Luxford & Co.

The Case for Electric Utility Securities

David W. McKnight, of G. H. Walker & Co., points out uncertainty of future industrial earnings may warrant shift to power and light securities. Lists favorable electric utility factors.

Stock investors thinking along protective lines should give greater attention to the electric power and light industry which is still growing rapidly, and in the recent past has proven itself immune to recession influences, according to David W. McKnight, partner and Director of Research of G. H. Walker & Co., members New York Stock Exchange.

David W. McKnight

"Despite the record high level of total corporate earnings many industrial companies are not maintaining profits, a fact that is causing numerous stock investors to seek 'defensive' situations," Mr. McKnight stated in a recent analysis of the electric power and light industry outlook. "The drawback, however, is that most so-called defensive stocks represent companies in matured industries; those which have seen their best days in that the use of their product is merely going along with population growth. In cases where this is true, the stocks are far from defensive if one misjudges the duration of the cycle and carries them into a recession period. They are poor long-term investments. Although I believe the defensive stock theory is basically fallacious as applied to industrial shares, it is possible for the investor who is thinking along such lines to reduce his risk by going outside of the industrial stock group into the electric power and light industry." Basic considerations affecting the industry, according to Mr. McKnight, are as follows:

Growth: During the past decade the output of electric power has increased 115% as compared with a rise of 58% in the preceding 10 years. Rates have steadily declined, but even so the actual revenue gains have been 78% and 30%, respectively. The current revenue trend is stronger, with the last 12 months recording a 12% increase over a year previous. This growth is impressive enough, but assumes greater importance when it is noted that domestic demand, the major earnings determinant, has increased faster in the past decade than it did in the prewar year; nearly 9 million new residential customers have been added in the last 10 years. Expansion in home-building and appliance sales suggests a continuation of this strong showing, or, more likely, an enlargement of the rate of increase.

Price of Product: In sharp contrast to advancing industrial prices, the price of electric energy has fallen steadily over the entire war and most of the post-war inflation period. Average residential rates in 1947 were 3.09¢ per kwh. and 4¢ in 1939. However, rate declines have been slowed in the past two years and some outright increases have been allowed very recently. Greater rate stability seems probable, and this will aid the revenue showing in view of the gains in energy use, and since the 3¢ plus rate is competitively very low, sales promotion should not be penalized.

Cost Factors: Since 1939 there has been a rather steady rise in the cost of fuel and labor to the industry which has found a partial offset in higher revenues. Nevertheless, the 11.2% gain in first half 1948 revenues did not compensate fully for rising costs, and net income declined nearly 5%. Year-to-year comparisons, however, are becoming more favorable and there is in prospect stability, or possibly price reductions for coal and oil. Another major consideration favorably affecting costs is the efficiency which is accruing from the new capacity being installed. It is estimated that by 1952 some $6 billion will have been spent by the industry on plants which will require less manpower and less fuel per kwh. produced, and these will be long-term savings. Already it should be noted that the industry has realized a 36% gain in power output per man-hour as compared with prewar. All in all, I would venture the opinion that the utilities have already absorbed the major cost shock of the current inflation period.

The industry's expansion program of $6 billion is necessitated by the fact that reserve capacity is now inadequate and will become increasingly so as demand continues to gain. Of the 1947 expansion outlay of $1.2 billion, about half was secured by new capital issues. Most of this has been bond money which has tended to increase common stockholders' equity in earnings.

Recession Record: For those investors thinking in terms of earnings resistance to depression or recession influences, it should be noted that the growth of the higher-rate domestic electric sales might well offset whatever decline would occur in the industrial load. Moreover, under recession influences costs would undoubtedly recede, so it is doubtful that any important earnings setback would take place, unless a truly severe recession were encountered. The year 1938 affords an example; electric utility revenues did not change much that year despite the business recession, because domestic demand continued to increase.

Earnings Trend: One of the restraints on investment in electric power and light stocks of late has been a flat-to-declining earnings trend and an increasing supply of "new name" stocks arising from holding company dissolutions. The latter trend will continue, but marketing should be facilitated by an improved general background. The earnings trend deserves special mention and is recorded in the following tabulation of net income (after all charges and taxes, but before preferred dividends) for a group of operating electric companies embracing some 95% of the industry.

(In Millions of Dollars)

Year	Net Income
1947	$652
1946	647
1945	534
1944	507
1943	502
1942	490
1941	527
1940	548
1939	535

This tabulation is subject to many interpretations, but I consider it important that the industry, in the face of a great inflation, solely because of the enlarged demand for its product—electric energy—was able to record, in 1946-1947, a net income 21% above the prewar level. The year-to-year drop in quarterly earnings that took place during both 1947 and 1948 was mild and occurred despite the revenue gains referred to. During the second quarter of 1948, net income of $156 million compared with $166 million a year ago in the like period. The turning point in earnings, however, appears to have been reached in the third quarter just ended, with a gain of some 5% to 7% probable. Ever increasing revenues (due only in part to better rates), coal price increase adjustment clauses, and comparatively better water conditions, were all contributing factors.

Wall Street and Public Relations

By WESTON SMITH*

Vice-President, "Financial World"

Director, N. Y. Chapter, Public Relations Society of America

Mr. Smith lauds increasing attention investment bankers, brokers and dealers are giving to public relations policies. Says Wall Street has changed, and opinion of it can be still further improved through constructive handling of public relations. Says means should never be employed to whitewash any industry and points out "there has been a real housecleaning in world center of finance." Urges community of interest between all segments of financial district.

Having been employed for more than 20 years in the "Street" and having survived both its greatest bull market and deepest depression, I feel that it is no exaggeration to say that the New York financial community has had just about the worst public relations of any segment of the American economy. This is not my opinion but a consensus of the views of some of the leaders of the public relations profession.

Weston Smith

There is no question but that Wall Street still has a bad name on the Main Streets of almost every town and village in the United States. Some 16 years of New Dealism, and two generations of cartoons of New York investment bankers as paunchy, silk-hatted tycoons, surrounded by piles of bulging money bags, have implanted in the public mind that we—you and I—are a lot of selfish, conniving schemers who are interested only in linging our own pockets with fat profits. In one of the recent political speeches of the gentleman from Missouri, who is running for election, he gave the impression that he also had this "Main Street viewpoint."

Wall Street Different Today

But I know, and most of you know, that the Wall Street of today is quite different from the Wall Street of two decades ago. While the so-called "Truth in Securities Act" of 1933 is given credit for bringing about many of the changes in routine and practice, we in Wall Street know that much progress in correcting abuses and eliminating fraudulent promotions had been accomplished before this code of rules was enacted.

Isn't it strange, however, that when anyone of us travels out to a small town only four or five hundred miles west or south of Manhattan, we will find that the average "man-in-the-street" still thinks of Wall Street as some sort of a grand canyon of iniquity, peopled by a queer variety of vultures who live in ease on the hard-earned cash of workers, farmers, widows and orphans.

These beliefs are attested by the findings of independent and impartial opinion research organizations, which as recently as 1947 discovered that more than one-third of our citizens still think that a handful of capitalists, like the Morgans, Rockefellers and duPonts, own most of America's big corporations. And just as alarming, it was found that almost half the people in the United States do not believe the income statement and balance sheet figures in corporation annual reports, or have a suspicion of their trustworthiness even when certified by independent auditors.

How can the people who are Wall Street — the investment bankers, brokers and dealers, the managers, buyers, salesmen and clerical help — contribute to changing this generally unwholesome opinion about their place of business? How can we as representatives of Wall Street business firms and as members of financial associations work to earn a favorable opinion for the New York financial district in millions of homes in thousands of communities across the nation? It is not my intention to answer these questions, as they are too big for anyone of us. But they can be answered, and the problem can be solved, by the brains and talent we have in Manhattan if properly coordinated and applied.

One primary means of changing the almost nationwide misunderstanding of true function of Wall Street, and to win for New York's financial district a high appreciation of its real contribution to a healthy industrial economy, is through "public relations." How many of you have some conception of what the term, "public relations," means?

What Are Public Relations?

It is not surprising that so few of you here do not have much of an idea about this new profession which has become known as "public relations." There are many thoughtful people, even at the top management level in our biggest banks and corporations, who have not yet grasped the true meaning of public relations. Some look upon it as an improved form of press agentry, while others consider it as a new industrial fad, somewhat like "Technocracy" which attracted a cult of followers a number of years ago.

Getting down to the bare facts, and eliminating the glamour and window-dressing with which public relations has been surrounded in recent years, it should first be understood that public relations is simply "the constructive handling of relations with the public"—the people in its countless segments, such as intelligence levels, trades, political parties, age and income groups, sexes, customers, stockholders, employees, etc.

Very briefly, public relations can be easily explained as the direct or indirect relationship of the individual, the corporation, the investment firm, the trade association, the government, or any organized group with the respective "publics" of each, or with the people as a mass. Public relations can be good, bad, or indifferent, but under proper guidance a good public relations program on the part of an individual, corporation or any business or social organization will help to mold and maintain favorable opinion toward the sponsor of the program.

It was Abraham Lincoln who voiced the broad concept of public relations in 1860—almost ninety years ago—when he said:

"Public sentiment is everything. With public sentiment nothing can fail. Consequently, he who molds public sentiment goes deeper than he who enacts statutes (the lawmaker) or pronounces decisions (the judge)."

This means that the public relations practitioner though his available techniques and methods can make laws possible or impossible to execute or enforce.

I could quote many good definitions of public relations, and you can find these in several books on the subject recently published, but I like this one: Public relations provides the means through which public sentiment, or public opinion, is swayed, influenced and changed—or, in other words, it is a science through which facts and ideas can be impressed on the public mind as a whole, or in its many segments, to produce beliefs and opinions. Of course, it also can be utilized to foster misunderstandings and suspicions, and to distort or suppress the truth.

A Strict Code of Ethics

We, of the public relations profession, and particularly those who have qualified for membership in the Public Relations Society of America, Inc., are pledged to a strict code of ethics. We are convinced that the only proper application of public relations principals and techniques should be on the constructive side. The ethical public relations counsel will not employ the damaging techniques that smear his opponent or competitor in the minds of the public. Nor will he resort to practices that are both unfair and poor sportsmanship, such as mud-slinging, whispering campaigns, and what I like to call "im-propaganda."

It often has been said that "public relations begins at home," and thus I would like to take a moment to give you a homey illustration. You are the father of a family, for example. It is through your character, reputation and earning power that your wife and children are judged in the eyes of neighbors, friends, and the community. Through day-to-day training in the home, the parents inculcate the children with the traditions of the family and their place in society, the community or neighborhood, with the objective that these growing youngsters will become worthwhile citizens. In effect the father provides an unwritten creed of beliefs, responsibilities and objectives which the children learn to respect and support. And as a result the family becomes known in its community or neighborhood as "respectable" — a group of persons living in one household who enjoy a high esteem among those on the same street, in the same parish or congregation, in the school, around the shopping district and in the community as a whole. These people are not "publicity seekers," but you will find their names often mentioned in the local newspapers because they are identified with activities in the neighborhood, the church the school, the club or chamber of commerce. You all know the tangible results: more business for father, more invitations for mother, more opportunities for the children, more credit with the butcher, more favors from the neighbors.

Must Be Worthy of Public Favor

In essence, this is public relations on the family level, and the same policies and techniques can be applied with equal effectiveness by the corporation, the trade association, the investment banker, the brokerage firm, or any other organized group. The basic

(Continued on page 28)

*An address by Mr. Smith before the Monthly Luncheon Meeting of the Investment Association of New York, New York City, Oct. 27, 1948.

Canadian Securities

By WILLIAM J. McKAY

Canadian oil has now replaced gold as the most popular speculative investment medium on both sides of the border. In addition all the leading U. S. and Canadian oil interests are now actively pursuing ambitious development programs in the potentially oil-rich acreage of the Province of Alberta. Oil geologists have long been convinced concerning the existence of a major oil pool somewhere beneath the plains of the Western prairies and the North-West Territories.

Little more than 40 years ago the shallow Turner Valley field constituted the only tangible confirmation of these views. Then followed comparatively minor discoveries including the Vermilion, Taber, Princess, Lloydminster, Pincher Creek and Norman Wells fields and also the Viking and Kinsella natural gas-wells. It is only recently that the spectacular promise of the recent discoveries at Leduc-Woodbend and Redwater has provided sufficient evidence to suggest that Western Canada will soon enter the ranks of the leading oil territories of the world.

It would appear that drilling operations in Alberta are now being carried out in accordance with a predetermined plan. With Leduc as the starting point south of Edmonton the trend appears to be in a northeasterly direction through Redwater toward the site of the fabulous 30,000 square-mile area of the Athabasca tarsands which have been estimated to contain the world's greatest single reserve of petroleum products. During September alone over 15 million acres of virgin Crown lands situated to the North and East of the Redwater district was leased from the Alberta Government by an imposing array of U. S. and Canadian oil companies and also various independent interests.

The Imperial Oil Company of Canada which was responsible for bringing in the first Leduc and Redwater wells and thereby set in motion the current Albert oil-rush, has given ample confirmation of its faith in the future of Canadian oil. Its confidence was fully demonstrated by the recent sale of its holdings of International Petroleum stock in order to concentrate entirely on potential domestic sources of supply. The developments in Alberta are also being closely followed by the Dominion Government and the recent address at Edmonton by the Dominion Minister of Mines and Resources to the Canadian Chamber of Commerce was indicative of high confidence in official circles in the oil prospects of Western Canada.

Production of Alberta oil on a major scale is also of the greatest importance not only to Canada but also to this country. Its accessibility by comparatively short pipe-lines to Alaska and the Pacific seaboard would be of immense benefit during normal times, but in a wartime emergency its value would be incalculable. The lengthy sea-lines of communication from South America and the Near East on which the country is becoming increasingly dependent would in the event of war be highly vulnerable to submarine attack; on the other hand the ready availability of oil from Canadian sources would be tantamount to a major increase of the domestic supply. Thus the dawning of the new Canadian oil age will be hailed with deep satisfaction on both sides of the border. It will also bring a new measure of prosperity to the Canadian West and an increased flow of U. S. investment capital. It is to be hoped, however, that steps will be taken to avoid the extravagances that accompanied the Canadian gold-mining boom.

During the week there was a continuance of the sustained-demand for high-grade external bonds but in the absence of available supply turnover was on a negligible scale. The internals eased slightly in sympathy with the weakness of free funds and the corporate arbitrage rate. Stocks were active and strong with the Western oils again to the fore led by Home Oil which surpassed its highest point for 30 years. The industrials and base-metals made little headway but the golds showed a renewed tendency to break away from the depressed level at which they have stood over such a long period.

Pulliam to Visit NYC

Larry Pulliam, Weeden & Co. is leaving Los Angeles Thursday on "City of Los Angeles" for visit

L. S. Pulliam

to his New York office for a week. He will then pick the NSTA special and attend the Dallas convention. Mr. Pulliam is a member of the Executive Committee of NSTA.

Joins Needham Staff

(Special to THE FINANCIAL CHRONICLE)

PALO ALTO, CAL.—Leo J. Oligher has been added to the staff of Needham & Co., 470 Ramona Street, members of the San Francisco Stock Exchange.

With Hannaford & Talbot

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—Kathleen C. Wade has joined the staff of Hannaford & Talbot, 519 California Street.

What Has Happened to Excess Reserves?

By PAUL W. McCRACKEN*

Associate Professor of Business Conditions, University of Michigan

Professor McCracken, after pointing out value of excess reserves to banks as earnings assets, traces development of excess reserves since inauguration of Federal Reserve System. Lays increase in excess reserves before 1940 to business depression and large gold importations, and decline thereafter to war financing. Advocates reform of reserve requirements by having banks retain a minimum fixed percentage of their deposits and give the Reserve Banks power to increase or decrease the total volume of member bank reserve balances. Sees little likelihood of large excess reserves as long as government bonds are pegged.

Regardless of the learned discussions of the experts, for the individual banker excess reserves mean a very definite thing. They represent that many dollars of investible funds. If, when he calculates his reserve requirements, his actual reserve balance is larger, the "excess" represents funds which can be converted into earning assets.

Paul W. McCracken

With these excess reserves, the banker is in a position to make more loans, or buy more bonds, or enlarge his portfolio of earning assets in some appropriate way. If he has no excess reserves, the banker knows that each added loan made or bond bought means liquidating some other earning asset, or borrowing from the Federal Reserve or a correspondent bank.

The Facts

What has happened to excess reserves? The question itself sounds like the teaser to an interesting story. It is.

I

During the early history of the Federal Reserve System, excess reserves were of negligible proportions. Indeed, one of the major purposes of the Federal Reserve System was to centralize reserves in order that they could thereby be more effectively used. Until the middle of the last decade, therefore, a speaker at one of these Forums would have been hard put to it to say anything very consequential on this subject. When the figures for the end of each successive year in the twenties were put together, no year turned in an excess reserve figure above roughly $100 million, excepting 1918. It was, in fact not at all unusual for the reserve position of all member banks in the aggregate to be deficient.

The emergence of excess reserves in any considerable volume began to develop with the decline in business activity destined to become the Great Depression. By mid-1932 excess reserves persisted around the $300 million mark, and by the end of that year aggregated $576 million. While this looked like a pretty sizable volume at the time, and did amount to a quarter of required reserves, subsequent developments were destined to make this figure almost look like a transaction from the petty cash fund.

Excess reserves increased steadily in volume until by Aug. 12, 1936, they were roughly equal to required reserves! Of the total of $6.1 billion of member bank reserve balances, only half were actually needed by member banks to meet reserve requirements.

At this point reserve requirements were increased, and excess reserves temporarily declined. But not for long. They soon started rising again, and by Oct. 23, 1940, excess reserves reached a record high of $6,940 million—in effect $6,940 million of uninvested funds, idle in the deposit balances of member banks at the Federal Reserve.

II

In the eight years from 1932 to 1940 member bank reserve balances had increased $11.5 billion. An expansion in commercial bank deposits against which reserves must be maintained absorbed part of this expansion. Increased reserve requirements absorbed some more. Even so excess reserves grew steadily from about a half billion dollars in 1932 to a peak of almost $7 billion in 1940.

The reason for this increase in member bank reserves is, of course, a familiar story to all bankers. It arose largely out of the increase during this period in our monetary gold stock: first through devaluation of the dollar: then through the tremendous gold imports just prior to the outbreak of the war. An increase in our gold supply, of course, increases member bank reserve balances by the same amount.

It may be worthwhile to trace this transaction through. Suppose a European, viewing skeptically developments in 1938, decided to convert his funds into gold and deposit them in an American bank. Commercial bank deposits rose accordingly. The commercial bank, since it could not retain gold, delivered it to a Federal Reserve Bank and received credit in the form of an equivalent increase in its reserve balance. The Federal Reserve Bank in turn exchanged the gold with the U. S. Treasury for gold certificates. Then the transaction ended.

Commercial bank deposits, member bank reserve balances, and gold reserves all went up by the amount of the transaction. And excess reserves were also created.

III

This huge volume of excess reserves in 1940 gradually melted away, and currently they are again of negligible volume relative to the total volume of member bank reserve balances. Once again the reserve position for most banks, as most of you know perhaps only too well, is comparatively tight.

The reason is, of course, obvious. Incident to financing the war, commercial banks purchased government securities in substantial volume. That this expanded bank deposits by an equivalent volume is thoroughly understood by you bankers. The bank paid for securities it purchased by crediting the U. S. Treasury's war loan account. Since the Treasury's account was increased, and the balance of no other depositor was reduced, total deposits were correspondingly enlarged. The Treasury's new deposit dollars then showed up in accounts of the banks' regular customers as the Treasury spent its funds.

Largely as a result of this process (plus a modest increase in bank loans, which has the same effect) bank deposits increased by almost $90 billion from 1940 to 1945. Additional reserve requirements incident to this deposit increase absorbed virtually all excess reserves. In fact, by the end of the war excess reserves were so small that any increase in loans virtually required liquidating a corresponding amount of other earning assets — usually lower-yielding U. S. Government securities.

IV

Why Reserve Requirements?

Now this development would really be of no compelling concern to bankers if they were not required to keep a certain proportion of their own deposits in an account at the Federal Reserve. Why not therefore just eliminate any specific reserve requirements? Then making additional loans would never raise the problem of having to liquidate other earning assets just because arithmetic showed that your bank had no surplus reserves. For that matter why have reserves at all?

Initially, of course, the purpose of bank reserves was that they serve as a reservoir of liquid funds to meet emergencies. It was to protect the bank and the depositor from the perils of an unforeseen demand for funds. That is obvious from the very term bank reserves.

Then some bright fellow had an idea. Booms and (particularly) the ensuing busts were painful affairs. Whatever their basic cause, these ups and downs always seemed to be accompanied by an expansion and contraction of bank credit. On the up-swing people borrowed from the banks, loans expanded, the money supply was enlarged—all working to increase an already rapidly expanding volume of demand for goods and services. In the process the price level gained an uncomfortable altitude.

When the break came people had to pay down their loans, the money supply was shrunk—all of this working to reduce a volume of demand already headed for depression lows.

Therefore the process of bank credit expansion, and corresponding changes in the money supply, seemed to accentuate the boom and make the down-swing more severe. Why not try to reverse this influence? If bank loan and deposit expansion could be restrained during the boom, its intensity could be damped down. Conversely, if banks had access to a source of funds on the down-swing, loan contraction would not so aggravate the depression.

How was this to be done? In theory the idea was simple. First, require banks to hold on deposit, at Reserve Banks, at least a certain fixed percentage of their own deposits.

Second, give the Reserve Banks the power to increase or decrease the total volume of member bank reserve balances.

And how was this to be done? Largely through the Federal Reserve's considerable powers to lend to member banks, and to purchase or sell U. S. Government securities in the open market. Both operations produce an exactly equivalent change in the volume of member bank reserve balances. We shall see in a moment how this has worked out.

V

The prospects for the reserve position of member banks depend

(Continued on page 29)

*Address by Dr. McCracken at Federal Reserve Forum sponsored by Federal Reserve Bank of Minneapolis, Minneapolis, Minn., Oct. 11, 1948.

Calls Market Situation "1929 Upside Down"

Writing in "Fortune" Magazine, Thomas W. Phelps, of Francis I. du Pont & Co., ascribes curbs on risk capital as (1) high taxes; (2) disappearance of foreign investment in stock market; (3) political discouragements; and (4) trend toward institutionalization of public's savings. Adds, also, Federal Reserve's drastic margin requirements. Says speculative funds are absorbed by horse betting.

Thomas W. Phelps, a partner of the investment firm of Francis I. du Pont & Co., members of the New York Stock Exchange, writing in the current issue of "Fortune," characterized the present stock market situation as "1929 Upside Down." Common stocks of leading companies, Mr. Phelps points out, are selling at a 20-year low point in relation to earnings. Yet today the public has three times as much money as it had in 1929; nearly twice as many shares are listed on the New York Stock Exchange now as then; but the total market value of listed common stock is about 25% less.

Thomas W. Phelps

Too little risk capital (as well as too much) can cause a depressions, warns Mr. Phelps. In his "Fortune" article Mr. Phelps lists several factors that have tended to increase demand for risk capital and reduce its supply in the last 20 years, and that offer obvious starting points for remedial action.

Why Risk Capital Is Held Back

Among the factors tending to reduce the supply of risk capital, Mr. Phelps notes the following:

(1) High corporate and individual income taxes (which have made it difficult for corporations and individuals to save for risk-capital creation), and tax exemption of state and municipal bonds. "Under the laws in effect in 1946," Mr. Phelps points out, "a tax-exempt bond yielding 2% was worth as much in spendable income to the man in the $100,000 surtax bracket as a common stock yielding 12%."

(2) Disappearance of foreign investment in our stock market.

(3) Discouragement of risk capital in certain politically vulnerable industries and investments under an administration that claimed to see a difference between human rights and property rights.

(4) The trend toward institutionalization of our savings. ("Unemployment insurance and old-age pensions are in effect compulsory savings plans with investment limited to government bonds," Mr. Phelps points out in "Fortune." "Life insurance premiums now amounts to 3.1% of the national income; total assets of U. S. life insurance companies exceed $50 billion. Almost the whole amount is invested in bonds and mortgages, either because of state laws or company policy, or both.")

(5) Redivision of the national income, with organized labor and farmers receiving a larger share than they used to have. (The Federal Reserve Board reports stock ownership relatively low in rural areas and among factory workers.)

(6) The Federal Reserve Board's drastic increase in stock margin requirements.

(7) The government's failure to recognize the need for higher depreciation charges in this period of increased costs, so that corporations must use part of their earnings after taxes for replacing worn-out plant and equipment instead of for expansion.

(8) The fact that an enormous amount of speculative money is being absorbed by betting on horse races. (Last year pari-mutuel turnover amounted to $1.7 billion, and unofficial estimates put the off-track betting at five to ten times that figure. Turnover on the New York Stock Exchange in August was $443 million.)

Increased Demand for Risk Capital

Meantime, Mr. Phelps continues in "Fortune," the demand for risk capital has been increased by the rising general price level; by the rapid growth of our population, which has demanded new and enlarged services; and by the liquidation of stocks for tax reasons.

"Risk capital is our self-starter, spark plug, and shock absorber," Mr. Phelps points out. "It provides the funds for new enterprises before their earning power, if any, can be demonstrated.

"A mere abundance of risk capital cannot prevent a depression. An overabundance of risk capital can go a long way toward causing one, as it did in the late 1920's. But a scarcity of risk capital can cause a depression too, and it is a scarcity and not a surplus facing us now.

"There is only one way to the more abundant life in America. It lies along a road lined with more and better tools more power, and more inventions. Safety-first money will not and should not take the chances involved in advancing down that road at the head of the column. Government funds can do so only at the price of socializing our industry. If we are to keep our system of democratic capitalism, risk capital must lead the way."

Thomas Graham Named To Sinking Fund Comm.

LOUISVILLE, KY. — Thomas Graham, Bankers Bond Co., was unanimously elected to the Sinking Fund Commission of Louisville by the Board of Alderman. Mr. Graham, a Democrat, succeeds Lawrence D. Baldauf, a Republican, whose term expired Oct. 1. Mr. Graham had been defeated by a 6-5 vote by the Board of Alderman when running for Mayor of Louisville last March.

Thomas Graham

Jos. McManus & Co. Admits T. J. Gildea

Joseph McManus & Co., 39 Broadway, New York City, members of the New York Stock Exchange, announce that Thomas J. Gildea, a member of the Exchange, has been admitted as a general partner in the firm. Mr. Gildea's admission to the firm was previously reported in the "Financial Chronicle" of Oct. 28.

With Merrill Lynch Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, CAL.—Richard K. Davis is with Merrill Lynch, Pierce, Fenner & Beane, 301 Montgomery Street.

Factors Affecting the Employment Outlook

By HERMAN B. BYER*

Acting Chief, Division of Employment and Occupation Outlook, Bureau of Labor Statistics

BLS executive, commenting on present and prospective employment outlook, estimates there will be a million more workers in job market within a year. Holds this number will be absorbed, and supply and demand for labor will be balanced, though specific labor shortages may occur. Does not look for "manpower squeeze" despite heavy foreign aid and war preparations expenditure. Says there are indications "bloom is off the boom," and mild recession may set in, but cites on optimistic side large backlog of demand for automobiles and housing.

Were I to discuss today the detailed economic record of the past year, it would sound, except for a few notable exceptions, as if I were merely re-reading one of my earlier talks. For instance, last year employment reached an unprecedented high of 60 million jobs. This year it is again at an unprecedented high — a million and a half above last year's mark. What was true a year ago is again true this year—more people have civilian jobs than ever before, unemployment continues to be quite low, and almost anybody who wants a job is able to find one in relatively short order.

Herman B. Byer

A glance at the other basic indicators of our economic health tells much the same story. In brief, our postwar economy still continues to be characterized by a heavy outpouring of goods and services, by record-breaking incomes, by substantial though reduced savings, by a huge volume of business generally. Industrial prices and consumers' prices too, are higher than a year ago, although many farm prices have turned downward in recent months as a result of extremely abundant crops.

In this general atmosphere of full-scale utilization of our industrial machinery and our labor force, veterans of World War II, with relatively few exceptions, have been able to readjust to civilian life not only promptly but also satisfactorily. In September, out of a total of some 14,400,000 male veterans, the Census Bureau estimated that only 440,000 were actually unemployed. Thirteen million had jobs and about a million were either attending school full-time or else were not in the labor force. The important role which the veteran plays in the economy today becomes clear when we realize that 3 out of every 10 jobs which are held by men are held by veterans of World War II.

Because of the abundance of job opportunities in the past few years, these veterans have been able to adjust through constructive work in an expanding economy rather than through handouts and made-work in an era of depression. The various benefits provided by Federal law have been extremely helpful and well worth their cost. While nearly 9 million veterans of World War II, or well over half, have filed at least one claim for readjustment allowances with respect to either unemployment or self-employment, only 1 in 10 of these stayed on the rolls long enough to exhaust the 8 to 52 weeks allowed them. This as well as other data, indicates rather clearly that the great bulk of these men used their benefits as had been intended—to assist in their readjustment—and were able to get into useful and satisfactory pursuits in an extremely short time. Today, the number on these rolls is quite low. At the end of September, there were only 320,000 veterans filing continued claims for unemployment allowances, as against 530,000 veterans in the comparable week a year ago and 1,300,000 in September 1946.

The educational benefits given the veterans of World War II have also been heavily utilized, and time will, no doubt, show how extremely valuable these benefits—which are far superior to most scholarships—have been in enhancing the store of skills in the American labor force. Altogether, the Veterans Administration has approved more than 8 million applications for training and education, and during last Spring's peak 2,700,000 veterans were in training status, with over a million of them at the college level and 600,000 taking on-the-job training.

Thus, as the result of a happy combination of liberal benefits, good vocational guidance and abundant opportunities for finding the right job, veterans of the past war have fared much better than many of us had dared to hope, and much better than was the lot of many of the veterans of the first World War.

The Outlook

Whether we can hold these gains and make further ones is the question. In seeking the answer it is both impossible and undesirable to disassociate the veteran from the rest of the economy, because he bulks so large in it. Today, he is already paying for much more of his own freight than most people realize—37% of the population, 3 out of every 8 American men, women and children, are either veterans themselves or are members of families headed by veterans. Obviously, the maintenance of the economy on an even keel will do more for all veterans than any paternalistic governmental device coming at a time of mass unemployment could possibly do. It is therefore pertinent and highly important for a group such as yours to be concerned with the economic outlook for the country as a whole.

The BLS, as you know, does not operate as a forecasting service. We collect facts which tell us what is currently happening—and many of these facts are valuable indicators of the future. Some of the facts which we know, some of the things about which we can be fairly positive, pertain very specifically to the outlook for employment in the year ahead.

Thus, on the supply side, we can estimate with a reasonable degree of assurance that, if present economic conditions continue, there will be about a million more workers in the job market this time next year than there are today. This estimate is based on a continuation of the normal trends of growth in the labor force, together with an influx of several hundred thousand veterans who will be leaving school.

On the demand side, we know that legislation passed earlier this year to expand our armed forces and to assist foreign countries will call for a considerable amount of manpower. As nearly as we can now estimate, it appears that before mid-1949 we will need, on a net basis, about a million additional people to take care of our expanding defense activities and foreign aid commitments. The armed forces are programmed to expand from roughtly 1,400,000 at the beginning of the present fiscal year to 2 million at the end. An additional half-million civilians will be needed under the presently-appropriated programs to service the increased military establishment and to produce munitions and other supplies.

Thus, if we assume no change in the civilian economy's current labor demand and no change in the present international situation, the new demands and the new labor supply may be expected to balance each other off, at least in the aggregate. Under these assumptions, we should continue as at present with a close, but roughly adequate balance between the supply of labor and the demand for it. Specific shortages, however, will very likely occur on a greater scale than has been true since the war years, and many employers will find themselves badly pinched for labor, especially certain types of skilled labor.

This general situation, coupled with the belief that expenditures for preparedness and for foreign aid will rise rather than decline, has led to talk of a "coming manpower squeeze" in 1949. Fortunately, however, the labor supply is still sufficiently flexible to expand much more than normally. There are substantial numbers of potential workers, particularly married women without young children, who can be drawn into the labor force once again if demand becomes strong enough. In addition, while the present level of unemployment is considered to be quite low for peacetime, it is still well above the wartime figure and is capable of being reduced. Lengthening of the workweek could also be resorted to in industries experiencing manpower shortages.

The Metal Industries

Regardless of whether we assume continuation or expansion of the present level of expenditures, the outlook for full employment in the metal industries is quite clear. As to the rest of the economy, however — soft goods manufacturing, construction and related activities, and trade and the services—there is, as has also been true in the past, considerable difference of opinion among seasoned observers. There are many factors in the economic situation which can be measured, weighed, charted, and projected; but there are also many important elements which are too intangible for measurement or for any precise timing as to their occurrence or effects. For instance, it is logical to expect that the market for high-priced homes will some day run out and that the housing industry will either have to shift to lower-priced homes or go through a recession. But there is no sure way of estimating whether this will occur in a few months or in a year or two years.

In analyzing the present situation, there are, on the one side, a number of indications that the bloom is off the boom, that the inflationary phase of the business cycle has reached its peak, and that the curve is flattening out and may soon be tending downward. I can hardly do more

(Continued on page 27)

*An address by Mr. Byer before the National Employment Committee, American Legion Annual Convention, Miami, Fla., Oct. 19, 1948.

Television: The Billion Dollar Boom

By J. R. Poppele*

President, Television Broadcasters Association

Mr. Poppele likens impact of rapid growth of television on modern living to atomic bomb. Says temporary halt on licensing by FCC merely put brake on speed that may have fouled industry. Says television is already one of country's prime industries with 50 stations in operation at end of year and 355 stations are likely by 1951. Looks for network expansion and development as advertising medium.

When the Atomic Bomb fell with fateful effect on the Island of Hiroshima on that historic day in August, 1945, observers in a bombing plane gazed with unbelieving awe at the spectacle that revealed itself before them. A gigantic cloud of smoke, curled into the shape of a massive mushroom, draped itself momentarily over the earth, then spread out in a tremendous circle and rose thousands of feet into the air.

J. R. Poppele

The impact of that ear-shattering roar was felt physically and morally at the farthest ends of the earth.

A mushroom of far less evil effect, but one that is as awesome in its impact on modern living, is rapidly engulfing the United States. It is called television! The electronic impulse that chases itself dizzily across the face of a cathode ray tube with the speed of light is a harmless sprite compared to the devastating neutron in Atomic energy, but the tremendous effect it will have on our way of living in the many tomorrows that lie ahead is of Atomic proportions.

Television — in the past 18 months—has not only lived up to the expectations of its most ardent supporters, but its phenomenal spread across the nation has all but bowled over the Federal Communications Commission.

Thirty-nine television stations are now spreading eye-compelling programs and commercial messages to millions of television set owners in 20 cities of 18 states. Eighty-five other stations are in various stages of construction and will be transmitting additional programs in the coming months. And over 300 applicants are besieging the FCC with requests for television licenses.

Is it any wonder that the Commission a few weeks ago wallowed its way out of the inundation of applications that buried it during the past year and literally cried out for help!

Temporary Halt in Licensing

That, in essence, sums up the temporary halt in the licensing process through which the FCC grants authority to new broadcasters. The action did not halt the advance of television, it merely put the brakes on an industry that is zooming full speed ahead and may get itself fouled up in the process.

The situation, though less perilous, is analogous to the command issued by the gallant "Ike" Eisenhower to the Allied forces back in December, 1944, when the victorious armies of the west were swarming through Europe on all fronts. Then, as now, a full scale offensive was moving forward.

Suddenly an obstacle appeared ahead. During the war it became the "Battle of the Bulge." In television, the obstacle may be characterized, with some humor, as the "terror of tropospherics." A high-sounding word that, brought down out of engineering fog, means nothing more than "interference."

General "Ike" met the situation with alacrity by consolidating the positions of his armies and crushing the bulge forthwith. "General" Wayne Coy, top-kick of the FCC and his aggregation of governmental strategists, has summoned a council of engineers to crush the tropospheric menace.

It will take a matter of months to find out how to better space television stations in the future so that interference will not be an element to conjure with. As it is now, the Federal Government has allocated twelve channels of television. These channels can be utilizied co-channel-wise every 150 miles and adjacent-channel-wise every 75 miles. At least, that is the theory that served as a measuring stick when the standards for television operation were adopted in 1945. But like many other theories, the principal doesn't always stand up under operating conditions.

Yet the march of progress in television moves ceaselessly forward. What it all means is that the 39 stations now operating and the 85 under construction are in no way halted while the tropospheric riddle gets untangled. And the net result will be that better, interference - free reception for millions of viewers will result.

Among Prime Industries

Television is not only going to be a tremendous bulwark in the economic well-being of our nation in the years ahead, but it is already moving into the billion dollar class among the prime industries of America.

Pioneering television has been a costly venture for free enterprise, but the pay-off for all concerned is due to come and come sooner than most expect. For example, the 39 television stations now active represent, without question, a $750,000 investment per broadcaster. That's the price one must pay for pioneering.

The 85 stations coming up will cost on the average $593,000 allowing for some economies based on the errors of the early operators. And when the FCC removes its ban on new licenses, it can be expected that additional savings will accrue to those just getting started. I estimate that the average station of tomorrow, comprising the remainder of the 303 unassigned allocations, (currently frozen), will represent an investment of about $325,000 per unit.

If we total the investment of all parties concerned in this costly picture, we find that a mere $189,591,000 has been and will be poured into television between now and, let us say, 1950.

Will Spread to Smaller Communities

Once the primary market areas are covered, television will spread its tentacles into communities of smaller size and, of course, into the vast rural sections of the United States. These so-called "satellite" stations—I say "satellite" because their life-blood will come from the transfusion given them by the network connections to principal cities—will not be as costly as the big-budget stations of the key markets. At a cost of about $90,000 each it can be assumed that 600 satellite stations or, as one manufacturer refers to them—"acorns" will be erected within the decade. This tags an additional $54,000,000 investment onto television, and all through our great free enterprise system.

These 600 stations, plus the other key stations mentioned previously, will make television broadcasting a $243,591,000 industry—pretty close to a quarter of a billion dollars. And when you consider the millions of dollars being poured into television manufacturing, you can readily understand where the "billion-dollar class" fits television to a T.

Taking a long-range view of the situation, and becoming prophetic for the instant, I would say that by the end of this year of 1948, a total of about fifty stations will be transmitting television programs. The potential market area for these stations alone, based on the 1940 census, which is outmoded, adds up to 43,802,377 individuals. Unfortunately, despite the best efforts of 75 television manufacturers to supply the ever-widening market, they are unable to keep pace with the frantic demand for receivers. And television sets are rolling off the production lines at the rate of better than 70,000 a month now—probably will reach 100,000 by the year's end.

Glancing further into the crystal ball I would say there will be 134 stations on the air by the end of 1949; 235 by the end of 1950, and about 355 television stations by the end of 1951.

Network Operation

Television's future is inevitably entwined with network operation. As in radio broadcasting, syndication of programs is economically essential. Like the great press associations that service thousands of American newspapers instantaneously—far more economically than they could obtain the news through privately owned channels — television networks will bring the very best in news, entertainment and information to hundreds of affiliated stations, at a fraction of the cost of individual programming efforts.

A. T. & T. Facilities

The American Telephone and Telegraph Co. whose vast landlines have made radio networks possible, is pioneering with the television industry in providing facilities for network television service. The components required for television networks are considerably more complex, embodying as they do either special concentric or coaxial cables, or microwave relay circuits.

At the moment, A. T. & T. has two regional network circuits open for television operation. One circuit runs from Boston through New York, Philadelphia, Baltimore, Washington and Richmond, Va. The second stretches from Buffalo through Cleveland, Toledo, Detroit, Chicago, Milwaukee and St. Louis. Within the next 60 days a new link between New York, Pittsburgh and Cleveland will provide the element to tie-in both the Eastern and Mid-Western networks. Less than 60 days to go and we'll have television networks stretching all the way from the City of New York to St. Louis. Amazing, isn't it?

Plans of the A. T. & T., recently announced, call for additional circuits to these cities between now and 1952. St. Louis to Memphis, New Orleans, Shreveport, Dallas, Fort Worth, Houston, El Paso, Phoenix and Los Angeles. Circuits from Chicago to Davenport, Des Moines, Minneapolis, Omaha, St. Joseph, Kansas City, Denver, Salt Lake City, Sacramento, and San Francisco. Links from Sacramento to Portland, Tacoma, Seattle and Spokane.

On the Eastern Sea-Board, circuits are contemplated from Richmond to Charleston, Atlanta, Jacksonville, Tampa and Miami. And northward from New York to Waterbury, Hartford, Springfield, Worcester, Lowell and Providence.

Other connections of A. T. & T. will provide television network circuits to Schenectady, Utica, Syracuse, Rochester and Buffalo. Cities in Pennsylvania like Scranton, Allentown, Reading, Lancaster, Altoona, Johnstown, and York are all set for television network facilities.

It can be seen that within a four year span, television will have accomplished network-wise what it took radio more than a decade to establish.

Medium of Advertising

Television is today an important medium of advertising. The yardstick of a successful media is public response, and despite an audience that is just beginning to expand, the results to advertisers contained in scores of success stories already recorded at television stations is an amazing commentary on the future worth of this fabulous new industry. Is it any wonder, then, that advertisers everywhere are turning to television—the miracle media of the century!

*An address by Mr. Poppele before the Association of National Advertisers, Inc., New York City, Oct. 26, 1948.

National Monetary Commission Favored By Chamber of Commerce of United States

Earl O. Shreve, its President, cites work of similar body created by Congress in 1908 which resulted in establishment of Federal Reserve.

Creation by Congress of a national monetary commission to review the entire field of currency, credit and related matters in the light of present-day problems has received the endorsement of the Board of Directors of the Chamber of Commerce of the United States.

Earl O. Shreve

Announcing the Board's action, Earl O. Shreve, Chamber President, said:

"The Chamber board of directors has given general approval to the idea of a national monetary commission on the recommendation of our Committee on Economic Policy. Questions as to the exact scope and emphasis of the work of a commission and the manner of its appointment will receive further attention by Chamber committees having to do more specifically with banking, monetary and other matters which are pertinent to the general subject.

"In its recommendation to the Chamber board, the Committee on Economic Policy stressed issues arising from a Federal government debt of over $250 billion with about one-fifth coming due every year, a budget of over $40 billion per per year, interest rates which are artificially controlled and incapable of performing their normal functions, and a monetary unit of fluctuating purchasing power. Manifestly, it is desirable that a fundamental reexamination of monetary and banking problems be instituted promptly.

"Our Committee on Economic Policy regarded it as especially important that such a commission include outstanding citizens with extensive experience in and knowledge of the basic problems in the fields of money, credit, interest rates, debt management, financial institutions, and other factors involving in economic stability.

"The earlier national monetary commission, which was created by Congress in 1908 to report on 'changes which are necessary or desirable in the monetary system of the United States or in laws relating to banking and currency,' made a notable contribution toward a solution of the particular problems of that period through laying the foundation for legislation creating the Federal Reserve System.

"While the problems today are quite different, a somewhat similar commission should be of inestimable value in appraising them and in developing a proper program for their solution. Both to meet present conditions and for long-range peacetime purposes, there should be a review of monetary and banking laws enacted during the depression years and subsequent changes to meet war necessities. Authoritative findings are needed in view of the highly complex nature of matters at issue and wide differences of opinion."

World Bank Reports on Operations

Quarterly report ending Sept. 30 shows net income for period of $2,317,723.

The International Bank for Reconstruction and Development has issued its financial statements for the three months ended Sept. 30, 1948, showing gross income for this period amounted to $6,292,023. After deducting expenses amounting to $2,767,989 and amounts for the Special Reserve aggregating $1,-206,311, the net income for the period was $2,317,723. Operations for the similar period in 1947 resulted in a net loss of $877,686.

During the quarter the subscribed capital stock of the bank increased $50,000,000 as a result of the subscription to 500 shares by Austria, which joined the bank on Aug. 27, 1948. The total subscribed capital of the bank is now $8,336,000,000.

The total loans of the bank at Sept. 30 amounted to $509,000,000, of which $490,776,505 had been disbursed. Of the undisbursed amount aggregating $18,223,495, at Sept. 30, Denmark had available an unused balance of $15,012,487 and Luxembourg, $3,-211,008. In addition there are outstanding commitments of $16,-000,000 to Chile, subject to ratification by the Chilian Government.

During this quarter the bank made loans of $12,000,000 to four Dutch shipping companies. The loans are in the form of 2½% one to ten-year serial mortgage notes guaranteed by the Kingdom of the Netherlands. A group of 10 U. S. commercial and savings banks purchased $8,100,000 of these notes, which were guaranteed by the bank. The remaining $3,900,000 of the notes were retained in the bank's portfolio. With this loan, the bank made its first mortgage loan and for the first time used its guarantee powers.

Spahr Reviews Gold Standard Controversy

Concludes an important issue centers on decision whether nation's gold belongs to people or "to the monetary authorities."

"Which system will best serve the people of the United States—An international gold bullion standard with right for foreigners, but not for Americans, to convert paper dollars into gold, or a gold coin dollar standard permitting both foreigners and Americans on demand to exchange 35 paper dollars for one ounce of gold?" Dr. Walter E. Spahr, Vice-President of Economists' National Committee on Monetary Policy, New York, N. Y., says the decision will rest with the Administration elected to office in Washington on Nov. 2.

Walter E. Spahr.

"There are prominent advocates," he points out "for both systems," of which the various phases are analyzed at length in the November issue of "Monetary Notes," the monthly bulletin of the office of the Economists' National Committee on Monetary Policy.

"A proponent of a 'restricted international gold bullion standard,' says that a gold coin dollar standard cannot prevent 'booms or busts.' An advocate of an all-around gold coin standard replies that no monetary system yet devised, including our present one, can prevent faulty human judgments resulting in oversupplies or scarcities of given commodities when gauged by consumer desires or purchasing abilities. The gold coin standard, however, can hold down an over-extension of credit and, because of soundness of the money, encourage long-term commitments.

"The statement is made by a defender of our international gold bullion system that our gold reserves are sufficient now to maintain a sound currency, if they are limited to support in meeting our external obligations. An opponent says that under this principle our gold reserves may be used to meet demands of foreign governments but not those of the people of this country. The 'reserves' in our Federal Reserve banks are supposed to be held as backing for all Federal Reserve notes and deposits. Actually, today, only foreign banks can exercise their claims against these reserves. Our people cannot.

"A further issue is expressed in the hope of a supporter of the international gold bullion standard that other currencies will ultimately be based on dollar exchange standard and that our gold reserves would become in effect the world's gold reserve. An opponent raises the question of whether it is not best for foreign banking systems, which manage their own credit structures, to keep their own reserves since otherwise our reserves would be placed at the mercy of foreign central banks and their governments.

"A proponent of the international gold bullion standard claims that our present currency system has proved itself able to meet the gold export demands of the greatest war of all times. An opponent says that no real test was made of our present monetary system because we exported an unprecedented amount of our wealth, because gold came here for safety and to pay for some of our goods and services, and because our buying abroad did not begin to match our exports.

"Another claim is made in behalf of the international gold bullion standard that the result of paying gold out of our reserves, into the hands of the people for domestic circulation, might be to create, in panic or wartime, an insufficiency of reserves in our Federal Reserve banks. An opponent of this view says that logic would warrant the same apprehensions in the event of payment of our gold reserves to foreign banks."

Some points of difference, Dr. Spahr concludes, with respect to the two monetary systems, really involve the steps that should be taken to make our fractional reserve system function properly under highly adverse conditions. Another and a most important issue centers on the decision as to whether the gold of this nation belongs to the people or whether it can properly be withheld from them as the property of the monetary authorities.

Goodman Conducts Seminars on Coast

LOS ANGELES, CALIF.—Gerald M. Goodman, Vice-President of Lord, Abbett & Co., Inc., Los Angeles, Calif., is conducting a series of sales seminars, or clinics, for Southern California investment firms. Sessions have been conducted in Los Angeles, Beverly Hills, Long Beach and Pasadena. There have been two sessions in each city—the subject of session No. 1 being "The Psychology of Selling and Human Relations," and No. 2 "Sales Methods and Ideas."

Gerald Goodman

Well over 300 salesmen and partners have attended these sessions, including some of the oldest and largest investment firms in Southern California. Firms having representatives attending these seminars are:

J. Barth & Co., Bartling & Co., Bateman, Eichler & Co., Bingham, Walter & Hurry, Bogardus, Frost & Banning, Bourbeau & Douglass, G. Brashears & Co., F. H. Breen & Co., Buckley Bros., Quincy Cass Associates, Conrad, Bruce & Co., Crowell, Weedon & Co., Dempsey, Tegeler & Co., J. B. Dunbar & Co., Fabian & Co., Fairman & Co., Fewel & Co., First California Co., Halbert, Hargrove & Co., Herrick, Waddell & Reed, Holton, Hull & Co., Hill, Richards & Co., E. F. Hutton & Co., Mason E. Kight & Co., Lester & Co., Marache, Sims & Co., Maxwell, Marshall & Co., King Merritt & Co., Geo. R. Miller & Co., Revel Miller & Co., Mitchum, Tully & Co., Morgan & Co., Oechsel, Mudge & Co., Pacific Company of California, Leo Schoenbrun, Morton Seidel & Co., Wm. R. Staats & Co., Sutro & Co., Stern, Frank & Meyer, Turner, Poindexter, Walston, Hoffman & Goodwin, Witherspoon & Co., Dean Witter & Co. The investment fraternity is very appreciative of the efforts extended by Mr. Goodman in conducting these seminars.

Frank Wood Pres. of Burr & Co., Inc.

Frank A. Wood, executive Vice-President of the investment firm of Burr & Company, Inc., 57 William Street, New York City, has been elected President, succeeding Frederick C. Rummel.

Exchange Controls Threaten World Trade Collapse

By FRANCIS ADAMS TRUSLOW*
President of the New York Curb Exchange

Mr. Truslow attacks foreign exchange controls and multiple foreign exchange rates as perversions of functions of money. Holds assigning artificial values to currency to fit international ambitions threatens continuation of world trade on monetary basis, and cites case of Britain's overvaluation of sterling as subsidizing the British consumer at expense of foreign exporter. Sees world trade rapidly becoming a system of barter between governments of nations.

We are met here beneath the high Andes, those vertebrae of stone which form the backbone of our New World. Our host is the beautiful city of Santiago and, as we have already discovered, its unselfishly hospitable and wholly charming people. All about us cling the memories of Bernardo O'Higgins who, like Bolivar, San Martin and Washington fought for and won political freedom for the people of the New World.

Francis A. Truslow

In these surroundings, expressive of the beauties of our world, its geographic bonds and its common memories of our people's fight for freedom from ancient tyranny, we gather as men of finance. In our times and on the agricultural, mining, financial and industrial battlefields behind and before us, we too have fought and must continue to fight in the great tradition of the Liberators. But our enemies are unseen, complex and elusive. They are the ideas which can take away our freedom.

We cannot meet these enemies with sabers and cannon and flying horsemen like an O'Higgins or a San Martin. Our weapon must be the forces which lie hidden in the brain and in the spirit. Our attack must be the unbannered, unromantic onslaught of sound thinking and productive work. It must be a sustained attack, for ideas cannot be destroyed as easily as armies and no weapon can blast them out of existence.

The War of Ideologies

Today a war is being waged in the world between two concepts of how men should live and work. This war is not like the clash of two armies, each clear cut in its allegiance and each fighting for the ambitions of its nation. Between the extremes of these conflicting ideas are all graduations of compromise. But these extremes become clearer in our minds as the war advances. At one extreme is the belief that a group of men called "The State" should plan the lives and order the existence of the people within their control. At the other extreme is the conviction that individual freedom is a human right and that government may only be established and maintained with the freely expressed and continuing approval of the people to which it belongs.

It is inherent in the nature of this war that the proponents of state supremacy can easily confuse "The State" with themselves and that they invariably achieve and sustain their power by physical force, whereas the proponents of individual liberty are opposed to the use of brute force and are inclined to grant freedom of expression even to the avowed enemies of that freedom.

It is a strange twilight war that we are waging, but a more important one in the long history of man's fight for freedom than any which our patriots fought in the past.

This struggle is essentially a battle for the bodies and the minds of the millions of people who live in the world. It is poetry to assume that every man, from the greatest scholar to the least educated laborer, is equally capable of understanding the issues that are being fought out; but it is a fact that both will be profoundly affected by which side wins.

In this struggle we will not win the allegiance of mankind unless the ideal of individual freedom is combined with an economic system which offers a real opportunity for a majority of mankind to attain economic freedom.

We are each of us central figures in our own countries in the operation of an economic system which, I am deeply convinced, does offer such an opportunity to attain both economic freedom and individual liberty to those who will work to raise themselves toward those ideals. In our work of running the market places, where the paper which represents the savings of our people and the ownership of our industries is bought and sold, we have a double duty. We have the duty of seeing that our customs and our rules are such that our markets will function in an honest, effective orderly manner, so as to make capital freely interchangeable and so as to retain the respect of our people, not only for our markets, but also for the economic system of which we are a part. We also have the duty of watching from these central observation posts where we are placed and of raising the alarm when we see the enemies of our free system creeping forward.

It is this duty of watchmen that I want to dwell on today. More particularly, as one of the watchmen, I want to shout a warning.

Perverted Use of Monetary Function

It is not necessary for any one in this hall to be reminded that money is nothing more, and nothing less, than a useful token that an owner of some piece of property will accept in exchange for his property because he knows that he can use it to acquire other property when he wants it. It is equally unnecessary to remind you that without these reliable little tokens called money our world would cease to function. But it is necessary for you and I and all others who have thought about these simple facts to alarm our world as to what is happening to this essential token called money.

Strange and dangerous things have been happening to money since early in 1930 when the Nazis first began to use their money not as a medium of internal and external exchange, but as an instrument of international economic warfare. We have won the physical war against the Nazi threat to our freedom, but we have become infected with the evil virus of their fiscal policies which can so disease our economic system as to endanger it and the freedom which it supports.

What the Nazis taught us about money has been adopted as national policy by many countries which suffered most from the Nazi lessons. Unfortunately, the doctrine is so insidious that many thousands of good men follow it without being aware either of its origins or its dangers. It is equally unfortunate that while all of us are affected by these policies few of us have sufficient knowledge or confidence to oppose them, and that in this field the experts are particularly "expert" and hazy in their theories.

Perhaps it is because I am not an expert on world monetary problems, but merely an individual with some understanding of the character of money and property and how men deal in each, that I dare raise my voice against the system of false money which is growing in our world. But driven by my opinions, and the opinions of others of like mind, I must speak out against the Nazi system of assigning artificial values to currency to fit particular international ambitions and even assigning several values to the same currency to accomplish diverse domestic as well as foreign objectives, to set exporters against importers, to fatten one area by deluding another.

If I can stay close to simple thoughts in this speech, perhaps I can dispel the fog of detail which obscures what is happening.

Until the millenium when there is only one government in the world and only one currency, world trade will require some method for valuing the currency of one country in terms of the currencies of all other countries. In the absence of some acceptable method of inter-currency valuation, trade would be reduced to the direct exchange of goods. Barter would replace our international financial system, which permits the existence of international credit for the movement of goods between nations, just as a nation's money system facilitates trade within its territories. There might still be investment by nationals of one country within the area of another, but such international investment would be limited to production for barter. Without negotiability, the volume of such investment would dry up to a trickle.

Basic Exchange Problem

It is fair to say that the basic problem in world trade and finance today is the problem of how to value any particular currency in terms of any other currency. Unless this problem can be solved, we must abandon all hope of international trade in securities.

Prior to the general financial disintegration of 1929-1931, this problem was commonly solved by valuing each currency in terms of gold. In effect, an interchange of monies in foreign trade involved the conversion of a currency into its gold equivalent and, in turn, the conversion of that gold into its equivalent in the other currency. The automatic corrective to over-valuation or undervaluation in this system was the loss or gain of gold reserves.

This system did not stand the strain of breakdown in world trade. Gold was drawn out from behind the currencies of the world which had become overvalued in terms of gold and gold was abandoned as a method of international currency evaluation.

It was in this period of financial disequilibrium that the Nazis devised their system for rationing their foreign exchange and assigning to their money an arbitrary value in terms of other cur-

(Continued on page 29)

*An address by Mr. Truslow at concluding dinner in honor of the delegates to the Second Hemispheric Stock Exchange Conference, Santiago, Chile Oct. 29, 1948.

Higher Family Earnings and Increased Market Potentials

Arno H. Johnson, Vice-President of J. Walter Thompson Company, asserts shift to higher incomes during 1941-1948 can lead to larger consumption, even at increased prices, and therefore creates larger market potential than is reflected in sales. Cites shoe industry as example.

Arno H. Johnson, Vice-President and Director of Media and Research of J. Walter Thompson Company, in a paper on the trend of consumer purchasing power, read before the Boston Conference on Distribution, in Boston on Oct. 25, called attention to the changed distribution of families by income groups as a factor in creating larger consumer demands and consequently increasing sales of important commodities. Concerning this point, Mr. Johnson stated:

Arno H. Johnson

Of all the factors which represent a changed market since pre-war 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 income 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 five times the 6,285,700 in 1935-36 and more than double the 14,009,000 there were in 1941.

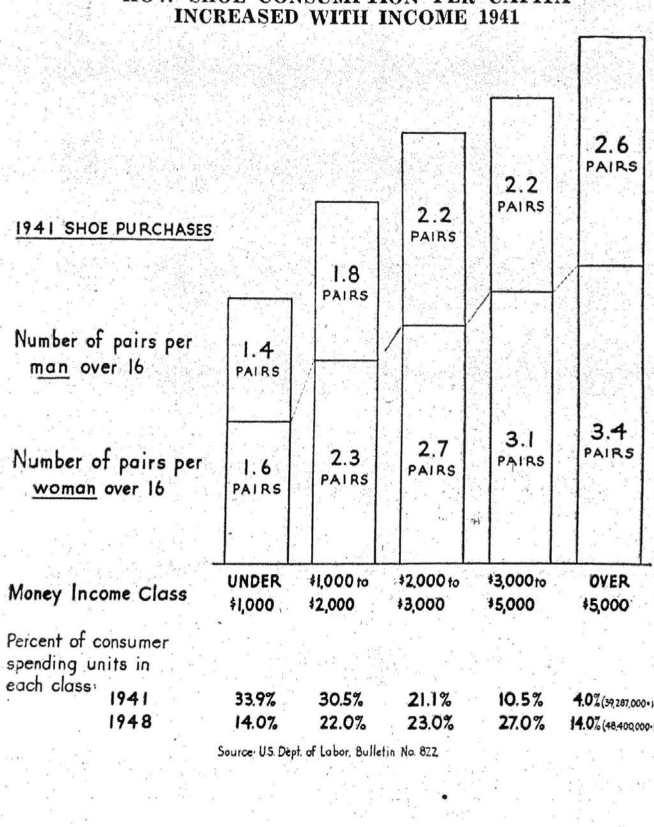
As these millions of families move up into the next higher income groups they can change enormously the potential markets for goods and services depending on the extent to which they take on the sandard of living of the income group into which they move. Between 1941 and 1948, for example, some 14,141,000 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 expenditure 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.

Let's take shoe consumption as an example of how shifts in income groups could increase per capita demand. A Department of Labor study showed that the number of pairs of shoes purchased during 1941 per man or woman over 16 years old increased with the family income. Also that the quality of shoes as measured by the average price paid stepped up with income.

	Money Income Group: Under $1,000	$1,000 to $3,000	Over $3,000	Total
Per Cent of Consumer Spending Units—1941	34%	52%	14%	100%
1948	14%	45%	41%	100%
*1941 Shoe Purchases:				
Pairs per man over 16	1.4	2.0	2.3	1.9
Pairs per woman over 16	1.6	2.5	3.3	2.4
Expenditures per man	$4.72	$8.51	$11.32	$8.15
Expenditures per woman	4.65	9.45	16.10	9.40
Average price per pair—men	3.26	4.28	5.35	4.32
Average price per pair—women	2.84	3.82	4.78	3.95

*(Based on U. S. Department of Labor Bulletin No. 822.)

HOW SHOE CONSUMPTION PER CAPITA INCREASED WITH INCOME 1941



This shift in income group from 1941 to 1948 would require the purchase of at least 15% more pairs of shoes per capita if the men and women were to take on the shoe consumption habits of the income group into which they moved, and there would be a further increase in average quality demanded. The level of discretionary income is high enough to supply sufficient purchasing power for this increased consumption at the increased shoe prices. The decision is up to the consumer and desire must be created before the increased market potential can be reflected in sales. Actually the shoe industry has shown little progress in developing this increased market potential. Per capita production of shoes is near the prewar levels, and in spite of much higher prices the shoe retailers are securing a smaller share of the total retail sales than pre-war.

Shoe Store Retail Sales Share of Total U. S. Retail Sales

1929	1.67%
1939	1.47%
1947	1.30%
1948 (1st 7 months)	1.19%

Demand Must Be Created to Provide a Continuing Market

World War II proved, beyond any shadow of doubt, that America has the productive ability—both in terms of materials, labor force, and the technical ingenuity to make that labor force productive — to produce goods and services far beyond what was dreamed possible in the days of the "mature economy." By utilizing our full labor force and supplying workers with improved tools of production we have been able to step-up our production so that it is possible to have much more goods available for consumption. Further, it is now evident that, provided investment capital is made available for new and improved equipment, the productivity of our population could be still further increased so that our potentiality for production—for increasing still further the amount of goods available for consumption — is still capable of large expansion. In other words, there is still a major opportunity for raising the standards of living in America even though standards in this country are now the highest of any major nation in the world.

Now that three years of postwar experience have indicated the possibilities for increased standards of living in peacetime, we must look carefully at the other side of the equation—that is, to the creation of sufficient demand to provide a market for the goods and services we have proved we can produce. This means looking beyond the temporary shortages — the rush to catch up with deferred demands and the temporary necessity of feeding and reconstructing a war torn world. We must consider the necessity of maintaining the high level of domestic consumption after these temporary factors affecting demand have passed—to the point where we once again return to the more normal situation of a "buyers' market." In many parts of our domestic economy this "buyers' market" already is upon us with its problems of creating a sufficient demand to keep the factories busy.

The mass of our population already lives at standards far above the bare "subsistence level" of food, shelter and clothing. They could, if necessary, get along and sustain life on very much less than they now buy. They could defer many purchases entirely or for long periods of time even though they have adequate purchasing power. This fact makes doubly important the psychological factors affecting desire and common wants and the translation of these wants into active buying demand.

By expanding these wants advertising and selling can become a major educational factor in building the demand for new and better products—a demand for stepping up from one standard of living to the next in such a way that markets for goods and services can be expanded to the point where they will sustain the high level of production and employment this country is capable of reaching.

Since the war our economy has operated on a very high level. It must be kept high because "break-even points" are, in most businesses, so much higher than prewar that any major recession in consumer demand would quickly make production unprofitable and lead to heavy unemployment. There is no need, however, for this serious drop in demand if the public is educated to accept and insist on the higher standards of living made possible by our productivity and by the increased real purchasing power resulting from increased productivity.

Ability to Consume

A study of different standards of living actually existing at different levels of income, prewar, shows clearly that the standard of living of the typical American family could be doubled over prewar levels without reaching what might be called excesses. Prewar, in 1941, the $25 a week family typified the American economy. Approximately half of the families in America had incomes above this level and approximately half had incomes below this level. In that same year a detailed government study of items purchased by families in different income groups showed that families with incomes of $50 a week were buying and consuming at the rate of almost double the $25 a week family for most items.

Certainly the standard of living of the $50 per week family in 1941 could not be called an excessive goal or a luxury standard of living in terms of our ability to produce, yet it could mean markets nearly double our best prewar levels in terms of units of physical goods and services or better quality.

We already have passed the point where our economy is typified by families with $50 per week money income, since, in 1948 approximately 31 millions or 64% of our consumer spending units had money incomes of over $2,000 per year compared with 14 million or only 35.6% in 1941. Unfortunately, inflation and taxes have taken such a large bite out of increased income that we have progressed only half way to the goal of doubling the real purchasing power and the resulting standard of living of our people compared to the best prewar levels.

But the fact that we have gone half way and already have a real purchasing power 50% higher than in 1940 is of major significance and presents a real challenge to business to maintain this level and to drive on to the attainable goal of double prewar in consumption and production. In terms of constant prices we would have to produce and consume one-third more than at present if we were to reach the standard of living typified by the $50 per week family in 1941.

Shearson, Hammill Opens Calif. Branches

Shearson, Hammill & Co. announced the opening of two branches in California. Located in Los Angeles and Pasadena, these offices were formerly operated by Bogardus, Frost & Banning, well-known California investment firm.

Murray D. Safanie

Darrell J. Bogardus, William J. Denman, William P. Banning and J. Lewis Gabel, all partners in Bogardus, Frost & Banning, have become associated with Shearson, Hammill, the first two as general partners and Messrs. Banning and Gabel as Resident Manager and Assistant Manager, respectively, of the West Coast offices.

Murray D. Safanie, managing partner in the New York office of Shearson, Hammill & Co., states that the firm's decision to expand its facilities to the West Coast is based not only on the company's confidence in the general economic outlook but in continued growth of that area in particular. Mr. Safanie pointed out that a survey conducted in 1947 by the New York Stock Exchange disclosed that California ranked second among states in the total volume of securities business transacted in the week under review.

Mr. Safanie declared further that the company's membership on the Los Angeles Stock Exchange, held through Mr. Bogardus, coupled with the firm's other nationwide facilities, will provide a faster and more efficient service for customers in the East interested in West Coast securities.

Bogardus, Frost & Banning, organized in 1941, was the outgrowth of one of the oldest brokerage houses in Los Angeles. From 1919 to 1925 the firm was known as Graves & Graves, members of the Los Angeles Stock Exchange. Succeeded by Francis P. Graves & Co., the firm obtained membership on the New York Stock Exchange in 1928 and became Graves, Banning & Co. Darrell J. Bogardus joined the firm as general partner in 1941 and the firm's name was changed to Bogardus, Frost & Banning.

Mr. Bogardus has been active in the securities business since 1915 and is a leading figure in western financial circles. Prior to joining Bogardus, Frost & Banning, he had been a partner in William Cavalier Co. for 21 years. He has held a seat on the Los Angeles Stock Exchange since 1935.

Mr. Denman was associated with Bogardus, Frost & Banning for 11 years. He will represent Shearson, Hammill & Co. on the floor of the New York Stock Exchange.

Kenneth Prince Lord Is Associated With Hirsch

Hirsch & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, announce that Kenneth Prince Lord has become associated with the firm in its main office. Mr. Lord is a retired Brigadier General of the U. S. Army.

With Inv. Service Corp.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — Horace L. Shoemaker has been added to the staff of Investment Service Corporation, Security Bldg.

Says Farm Price Decline Does Not Herald Slump

Edwin B. George, Dun & Bradstreet economist, sees lower agricultural prices as spur to city spending, along with export rise.

Speaking on the economic outlook, Edwin B. George, Economist of Dun & Bradstreet, Inc., at the Conference on Office Management of the American Management Association in New York City on Oct. 27, predicted that no major slump would result from a decline in prices of farm products, and it may even result in expanding consumer spending by city dwellers, accompanied by rising exports.

Edwin B. George

According to Mr. George, "the disturbance attracting the most attention over the last few months has been in agricultural prices. In all probability the decline in farm prices will in and of itself exert a new expansionary effect on consumer spending. This effect may be substantial for any marked fall in prices, not only because the farmers are likely to save more than the city dwellers out of the same cash income, but because they have had many years of extreme prosperity and are thus less likely to cut down their spending commensurately with a fall in income to the same degree that the city people will spend (on nonfood commodities) the money they save on food. In my judgment, there is not much doubt that farm income will fall, although by no means in proportion to prices."

Continuing, Mr. George stated: "The decline in major farm prices to support price levels will obviously have a marked stimulating effect. The fact that this stimulus shows itself in a larger rate of government expenditures for goods and services (support loans or purchases) than now forecast, tends to throw the analyst off if he assumes that the additional outlays will be offset by increased tax rates. Such a matching, of course, will not take place in the short run in any event as the new taxes, even if late, will not be collected for some time ahead. More to the point, we are not likely to have any immediate tax increase, at least for that express purpose.

"Now there is a possibility of some decline in farmers' expenditures for agricultural machinery and rural construction if and when farm incomes fall. Such a development, of course, would knock a hole in the 'construction' and 'producers' durable equipment' elements of G.N.P. helping to make up 'private domestic capital formation.' It is not likely, however, that slippage here will come anywhere close to offsetting the expansionary forces noted under point No. 1 above (increased city spending) and certainly not that under point No. 2 as well (Uncle Sam shelling out).

"We may look forward to a substantial rise in net exports as defined above during the latter part of 1948 and the forepart of 1949. So far this is one of the definite plus figures. The outlook for the remainder of 1949, however, is much more uncertain. Nevertheless, given sufficient anxiety in Congress over the significance to ourselves of Europe's great struggle, there is reason to think that additional ERP money on the order of $5 to $6 billion will be forthcoming in fiscal 1950—roughly the same amount as seems likely to be disgorged in fiscal 1949. This prospect disappoints the original expectation that the need for American money would diminish sharply and progressively under the program.

"My guess is that the total export surplus will fall between $10 and $11 billion (annual rate) in the last quarter of 1948 and the first quarter of 1949, probably tapering off mildly thereafter to a figure of $8.5 billion in the last quarter of 1949. I told you that we are interested principally in comparisons rather than absolutes. An annual rate of $10.5 billion compares with the peak of $12.5 billion reached in the second quarter of 1947 and the low of $8.2 billion in the second quarter of this year.

"We have seen efforts made to tighten reserve requirements, to persuade bankers to proceed more cautiously, and to raise interest rates slightly by dropping the support levels for government bonds with an implied threat of still further rises unless credit expansion is kept down.

"Purely as a matter of correct reporting, these moves will probably exercise a dampening effect upon capital investment—that is to say, a downward influence over and above that which would probably occur in any event. As a matter of degree, however, the extra pressure may not be of great moment.

"Consumer credit is a different kind of reagent. Prospects prior to the reinstitution of controls were that the rate of growth in this variable (and thus the stimulating effect it has upon dollar activity) would decline consistently throughout 1949. The growth up to the end of last year was awesome. The rate of increase rose from approximately $100 million per month ($1.2 billion per year) in July, 1947 to $700 million per month ($8.4 billion per year) or seven times as high, in December, 1947. During the first two months of this year the trend reversed itself, the volume outstanding of all forms of consumer credit falling at a rate of $2.4 billion per year. Since then the upward march has been resumed, pacing along at about $200-$300 million (averaging a $3 billion annual rate) per month. Seasonal factors account for the violence of the upward swing in late 1947 and the subsequent reversal, but the adjusted rate of increase has been greater in 1948. If you are interested in the risk element, it would take roughly from 1 to 1½ years at this rate for consumer credit to attain the same relationship to disposable income as prevailed in 1929 assuming that such income itself held steady at the second quarter 1948 level. Actually, I question whether (after seasonal adjustment) a rate of increase of more than $2.5 billion per annum was in the cards for next year even if controls had not been restored. This is not a small figure: but even so it would mean substantially less support than was lent to the boom in the last half of 1947 and somewhat less than in the second quarter of 1948. Clearly, however, the reimposition of controls will tend to hold the rate of increase below this figure in 1949."

J. Herzog With Gruntal

Gruntal & Co., 30 Broad Street, New York City, members of the New York Stock Exchange and New York Curb Exchange, announce that Jack J. Herzog has become associated with the firm as a registered representative. For the past 10 years Mr. Herzog had been associated with the New York Stock Exchange firm of A. L. Stamm & Co.

High Prices Threaten Auto Market

By ARTHUR J. MORRIS*

Chairman, Industrial Bank of Commerce of New York

Founder of Morris Plan banks asserts abnormal situation threatens auto industry and because of continuous and substantial price rises, there is possibility of ending its mass consumer market. Says unless sellers' market ends soon, result to motor car industry may be catastrophic in its consequences. Sees remedy in manufacturers and labor in auto industry getting together, and a reorganization in merchandising methods for used cars.

Because of the large financial interests with which I am associated from New York to California and from Maine to Texas I am compelled to make it clear to you gentlemen that what I say to you today is personal and not official. I do not speak for any of the banks, or any of the financial or motor car insurance companies with which I am associated. I am expressing my personal thoughts and my personal opinions for which I, alone, am responsible. No other person, firm, or corporation is responsible, directly or indirectly, for anything I say today. In fact, some of the interests with which I am associated may not only have opposite views but may express some surprise and disagreement concerning some of the ideas I propose to express here at this meeting. I am here to serve your interests to the best of my knowledge and ability. I am here to give you the best deductions I am capable of making from my extended knowledge, experience and association with the motor car industry, involving both new and used cars—experience and association extending over 40 years.

Arthur J. Morris

In the first place permit me to call your attention to the fact the abnormal situations threatening the automobile industry today should be briefly analyzed from their beginnings. The industry, involving both new and used cars, experienced one of its best years during the year 1941. Then came Pearl Harbor! This country was hurled into war with Japan. That, in turn, forced this, the greatest nation of civilization, to become an unwilling participant in the gigantic world struggle to save civilization. For more than four years no cars were manufactured and few were sold and delivered. When VJ-Day finally arrived in the summer of 1945, the automobile industry was confronted with the following abnormal situation:

There existed an inordinate demand for new motor cars. This extraordinary demand for new cars was intensified by the fact that hundreds of thousands of people were conscious of the fact they had accumulated more funds than they had ever before owned in their entire lives.

Their human needs and desires were unprecedentedly magnified. The first thing the young men wanted were wives. The second, houses. And not thirdly, but along with both the former desires, they wanted as never before new motor cars. This demand for new motor cars was naturally, instinctively and intelligently recognized by the motor manufacturing companies; and they set to work, even before Jan. 1, 1946, to get into mass production as fast as humanly possible.

Price Advances

At the beginning there was no advance in prices. On the contrary, the intelligence behind the motor car manufacturing industry was satisfied the larger demand and the larger production to fill that demand at existing prices was the better philosophy for the position and profit of the automobile industry which, as a result of mass production and mass consumption at mass production prices, had become the largest industry in the world.

But what followed? The first difficulty that loomed before this gigantic industry was a demand by labor for higher wages. Strikes after strikes were organized. The sitdown strike in Detroit was largely responsible for the subsequent death of that genius Walter P. Chrysler. As a man from the laboring ranks he was never able to recover from the chagrin, the humiliation, and the final resentment the sitdown strike dealt him. Weeks and months of idleness ensued. The General Motors strike extended over six months. The strikes were not confined subsequently to the manufacturers themselves. They spread among manifold suppliers of parts and materials upon which the motor car industry is dependent. As fast as one strike was settled, another followed. The best productive days of 1946 and part of 1947 were impaired as a result of the multiplicity of strikes intensified and superinduced by the shortage of materials. During these interims labor failed to realize or inventory the consequences of these strikes and delays. Demands for raw materials essential to the automobile industry became increasingly incessant from other industries. And it was not many months before there was a growing shortage of steel, iron and other metals electrical parts, rubber, textiles etc. And suppliers were unable to continue any regular schedule of deliveries. The extraordinary demand for cars, therefore, could not be met by the impaired volume of production. This shortage has continued to date. And from the beginning of these strikes and from the beginning of these conditions that have impaired complete mass production, *prices have begun to rise until today the automobile industry faces the catastrophic possibility of out-pricing its mass consumer market.*

What the Consumer Market Accomplished

Stop and analyze what the mass consumer market was in those days from 1903 through 1941 when you could buy a Maxwell roadster for $700 to a Packard or Cadillac for less than $2,500. I tell you gentlemen that during the period when the mass consumer market in the automobile industry—the largest industry in the world as a result of instalment financing begun by me 40 years ago—there was involved in that consumer market people who never before even had a horse and buggy. I can remember the day in North Carolina, where I was born, when the family horse and carriage, driven by the family footman with a top hat green from age and usage, was a sign of aristocracy and wealth. But from 1920 through 1941 people who could not afford to own a simple little house in which to live would buy on the instalment plan an automobile that sold around $1,000 to $1,200. The record of instalment payments during all those years of sacrifice and hardships shows, statistically, that above all other ownership desires the overpowering desire was to hold on to their cars and make the monthly payments regardless of sacrifices. I tell you gentlemen that from Jan. 1, 1910, through Dec. 1, 1941, I was associated with motor car financing throughout these United States and in 37 foreign countries, involving a volume of sales aggregating more than $500 million per annum, and the total losses during that period from instalment credits on both new and used cars never averaged as much as ¼ of 1%—the greatest credit record in the history of national or international banking.

But cannot you see that we were not only dealing with the masses of human agency that are fundamentally honest, but also you appreciate the obvious fact that this luxury of more convenient transportation in the hands of the clerk, in the hands of the factory employee, in the hands of the junior executive, in the hands of men and women employees—people far removed from the ownership of business enterprises—was only possible because of the range of prices involved and the liberal instalment terms offered? These terms created my first advertising slogan: "Pay out of income, not out of principal, as you ride."

Today's Car Prices

Compare those conditions, however, with the price of cars today, when the three most popular cars, Ford, Chevrolet and Plymouth, are selling for approximately $2,000, by the time you pay for freight, sales tax and accessories. The man who could afford to buy a car for $2,000 or more, compared with the man or woman who can afford to buy a car for $1,000 or less, is so reduced in numbers as to completely metamorphose what was formerly designated as a mass consumer market. Now when you apply these facts to the present price of cars above the three cheapest makes and where cars are now selling from $2,000 to $5,500 that formerly sold at approximately one-half that price, you simply tear the mass consumer market into catastrophic hazards.

Your first reply to me might be: "Why, Mr. Morris, what about all this publicity I read, that the booked orders make it impossible to meet the demand for cars until the end of 1951?" In fact I have read myself similar statements by one or more important officials of large manufacturing concerns. In my opinion the answer to such articles is they are the organized propaganda effort to keep alive the sellers' market in the face of and in the teeth of honest facts. I am not here to say on what date the sellers' market will end. "Prophecy is the most gratuitous form of error," and whether or not the extraordinary conditions that support the sellers' market will end by next July, or by next September, or by the end of 1949 or later, I am not in a position definitely to predict. But I do predict that if the present prices and the present conditions surrounding that sellers' market continue without abatement, the end can be forecast and the result to the motor car industry may be catastrophic in its consequences. Now, before I leave this particular subject and endeavor to show you how it affects the used car industry, let me say in advance regard-

(Continued on page 31)

*An address by Mr. Morris before the National Used Car Dealers Association, New York City, Sept. 28, 1948.

Commercial Bank Reserves—A Re-appraisal

By KARL R. BOPP*
Vice-President, Federal Reserve Bank, Philadelphia

After discussing technical characteristics and problems of bank reserve requirements, Federal Reserve Bank official reveals plan for a new uniform bank reserve proposed by group of banking experts, of which he was Chairman. Plan involves: (1) abolishing central reserve and reserve city designations of banks; (2) an assessment of reserve deposits on basis of demand, inter-bank, and time deposits; (3) allowance of banks to count vault cash in legal reserve; (4) permission of banks to count as reserve a portion of balances due from other member banks; and (5) authorization of Federal Reserve to change reserve requirements within established legal limits.

It may help in my discussion to keep the main points in mind if I ask three basic questions at the outset: Why should banks be required to maintain reserves against deposits? What amount of reserves should all banks collectively be required to maintain? How should each bank's share of the total be determined? It is easier, of course, to ask than to answer these questions. I do not expect all of you to agree with the answers I give. I have arrived at them after many discussions with commercial bankers, bank supervisors, central bankers, legislators, and college teachers. I expect my thinking to be influenced further by comments from this strategic audience.


Karl R. Bopp

I

Why Should Banks Be Required to Maintain Reserves Against Deposits?

The idea of requiring banks by law to hold at least a minimum of their deposits in reserves apparently developed from a desire to assure maintenance of the liquidity of banks. Governments once thought the obvious solution to a bank's inability to pay depositors on demand was simply to require every bank to hold at least a certain minimum of reserves at all times. In arriving at this solution, they apparently overlooked the fact that a bank cannot pay out reserves that it must hold. Required reserves can be used to meet a withdrawal only to the extent that they cease to be required or become freed by the withdrawal itself. The only way withdrawals could be met completely out of required reserves would be to fix requirements at 100% of deposits.

Under a fractional reserve system, a drain must be met primarily by selling assets or borrowing. If, for example, a bank is required to maintain a reserve of 20% and holds no excess reserves, it must either liquidate 80 cents of assets or borrow 80 cents for each dollar of deposits withdrawn. Thus, a bank's ability to pay its depositors depends mainly on the quality and marketability of its assets and its ability to borrow. So long as the withdrawals remain modest, other private buyers and lenders can usually be found directly or indirectly. But if withdrawals become widespread, panic may ensue.

As you know, the panic of 1907 had much to do with the creation of the Federal Reserve System. One reason for establishing the System was to provide an elastic money supply and thus prevent currency panics. The method adopted was to authorize the Federal Reserve Banks to create reserves and money. Unfortunately, however, the authors of the Act could not foresee future developments and imposed what proved to be inappropriate limits on the amount of notes the Reserve Banks could issue, on the amount of reserves they could create, on collateral for notes, and on the collateral against which the Reserve Banks could lend. These restrictions seriously aggravated our monetary problems in the Great Depression. Some of them have since been removed as in the Banking Act of 1935, which in effect made all sound assets of member banks a potential basis of advances by Federal Reserve Banks.

The founders of the System were interested in far more than the prevention of money panics. They charged the System with responsibility for influencing continuously the supply, availability, and cost of money, of which deposits are the largest element. Now, although a system of fractional required reserves does not provide liquidity, adequate control over reserve requirements is an indispensable tool in regulating the volume of money in a country with some 14,000 independent banks. Without such requirements, the commercial banks would have too wide a degree of freedom as to the amount of deposits they could create or maintain on a given amount of reserves. For example, $1 of reserves will support $5 of deposits if the reserve requirement is 20% but will support $10 of deposits if the reserve requirement is 10%. If banks were not required to maintain minimum reserves, they would be able to increase the supply of money by reducing their reserve ratios.

A short answer to our first question, therefore, is that *unless commercial banks are required to maintain at least minimum reserves against deposits, the country would be without a mechanism for regulating the supply of money in the general interest.*

II

What Amount of Reserves Should All Banks Collectively Be Required to Maintain?

Reserve requirements are one of the two factors which determine the ability of a banking system to create deposits. The other is the aggregate amount of reserves available to the banks. Control or influence over these two factors are complementary means of influencing the volume of money. Adequate administrative authority over both is needed to enable the Federal Reserve System to discharge its responsibility by developing a flexible policy adapted to changing conditions.

The System has been obliged to shift its emphasis as one or the other of these basic instruments appeared inadequate or inappropriate to existing circumstances. Until the Great Depression, the Reserve authorities operated entirely through changes in the amount of reserves, which they influenced primarily through open market operations and the discount rate. They had no authority to change reserve requirements, which were fixed in the statute. Authority to change requirements was first given in 1933. At about that time, banks began to acquire automatically several billion dollars of excess reserves as a result of imports of gold over which the System had no direct control. Although the System was pursuing an easy money policy at the time, it was clear that its power over the volume of reserves would be inadequate if the flood of gold continued and a strong inflationary movement developed. The System increased requirements to the legal maximum several years before we entered the war in order to absorb some of the excess reserves so that the System would again be able to use open market operations effectively. On Dec. 31, 1940, the Board of Governors, the Presidents of the Federal Reserve Banks, and the Federal Advisory Council jointly recommended the Congress give the System authority to increase requirements to double the level then existing. Such authority, however, was not granted.

During the war the System directed its efforts primarily to supporting government securities in order to assure success in financing the war. The most important decision was to maintain an established pattern of rates on such securities. The Reserve Banks paid for securities with deposits, thus creating member bank reserves. This meant in effect that the decision to support government securities implied loss of control over the volume of reserves. At the end of the war the System was confronted with the alternatives of (a) continuing support of the rate pattern at the expense of controlling the volume of reserves, (b) regaining control over the amount of reserves and making the necessary changes in its program of support of government securities, and (c) acquiring additional authority to immobilize reserves and thus make them unavailable for further expansion. As you know, it has done a little of each. Cooperation with the Treasury in using a large Treasury cash surplus to keep banks under the necessity of acquiring reserves has, of course, been the major factor. The resulting liquidation of securities by banks to meet reserve deficiencies has had some restraining effect on still further liquidation for the purpose of making loans. The System has continued to support the 2½% long-term yield level but has withdrawn some of the newly acquired reserves by allowing short-term rates to rise, thus making possible disposal of short-term issues. It also has used part of the limited additional authority secured in the special session of Congress to increase reserve requirements of all member banks and has increased requirements at central reserve city banks—which had been reduced in 1942. Increases in reserve requirements under the new authority may be expected to have effects similar to those achieved through the use to which the Treasury cash surplus was put in the last fiscal year.

I have recounted this experience to indicate that the monetary authorities can do a better job if they can change reserve requirements as well as the amount of reserves.

The amount of required reserves cannot, of course, be considered without reference to the assets

(Continued on page 30)

*An address by Mr. Bopp before the 47th Annual Conference of the National Association of Supervisors of State Banks, Louisville, Ky., Sept. 22, 1948.

See Possible Post-Election Business Upsurge

Robert C. Swanton, Chairman of Business Survey Committee of National Association of Purchasing Agents, reports consensus of opinion is business, though levelling off, will continue in substantial volume and may even have upsurge after election.

According to a report of the National Association of Purchasing Agents' Business Survey Committee, whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Corporation, the consensus of reporting industrial Purchasing Agents is that business may have passed the peak of the postwar boom; is leveling off, but will continue in substantial volume for the balance of this year and could react with an upsurge after election. In October, production has continued at a high rate; 70% of the reports indicate this condition; those showing decreases are offset by those reporting increases. Backlogs of orders are slightly improved over September, but much lower than the high point in January of this year. The improvement is attributed to seasonal demands and holiday goods. There are more soft spots developing in the markets, confirming earlier reports that supply is catching up with demand in many lines; in some, it has now overshot demand. Opinion is mixed as to whether a speed-up of defense and ECA buying will strengthen all of the current soft spots. The low spots of the past few months have been principally in soft and luxury goods. During October, slowing down of some heavy lines, such as machine tools, is mentioned.


Robert C. Swanton

Commodity Prices

In general, prices are leveling off, with more of a tendency to stabilize than to decrease, though he trend to lower prices is stronger than in any month since May. In some instances, the reports indicate prices are being held at the expense of profits, hopeful that increased worker productivity will open a gap between costs and prices. Falling farm prices are having a depressing effect on other goods. Talk of another inflationary wave of wage increases is not taken too seriously.

Inventories

Purchased industrial inventories are down again this month, with every indication that the rigid inventory control policy predominant in industry for several months will continue. Better availability of more items and the prevailing opinion that prices have reached their peak, prompt management to hold inventory investment to the lowest possible levels necessary to maintain current production schedules. Some liquidation of overstocks and slow-moving items coming into easier supply is reported.

Buying Policy

The short-range policy on commitments continues. Ninety-five percent are within the "hand-to-mouth to 90-day" category. Of these, 67% are under 90 days. With the boom probably passing its peak, production high, prices tending lower, Purchasing Agents are taking a very cautious attitude; reports indicate the trend toward competitive markets is developing faster than is generally realized.

Specific Commodity Changes

While a substantial number of price increases are reported in October, they are the lowest in number since May. About the same number of commodities were down.

On the Up Side: Detergents, diamond powder, electrical equipment, forging ingots, glass, instruments, iron, ammonia, antimony, burlap, cement, nickel, paint, rope, rosin, some steel, tin products, zinc.

Down: Coal, corn products, corrugated boxes, cotton, food, acetylene, alcohol, canvas gloves, casein, leather, lumber, oxygen, paper, imported pulp, starch, textiles, turpentine.

In Tight Supply: Steel, lead, copper, zinc, iron, nails, nickel, pipe, aluminum, cadmium, cement, coke.

Easing: Coal, corn products, several grades of lumber, steel lockers, vegetable oils, paper, white oil, screw machine products, plastic moldings.

Employment

Not much changed from the past month. Over-all, employment is slightly up, seasonal increases in some areas about balancing off seasonal decreases in others, contributing to a tighter labor situation in highly industrial localities and a surplus in the scattered manufacturing areas of the country. Skilled help and office workers are generally hard to obtain. The West Coast is still plagued by waterfront and petroleum strikes.

Canada

Back orders are reported slightly up, with production maintaining the previous high levels, though hampered by power shortages. Increased construction activity is reported in most parts of Canada. Prices are strong to leveling off, inventories falling, employment up, buying policy trend is from 90- to 60-day coverage.

Thompson & Taylor With Byllesby & Co.

H. M. Byllesby and Company, Inc., 111 Broadway, New York City, announce that Arthur F. Thompson, Jr. and Howard T. Taylor are now associated with the firm in its investment department.

Mr. Thompson formerly headed his own firm Arthur Thompson & Co. and prior thereto was an officer of Harvey Fisk & Sons.

Keith With L. B. Jackson

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Clyde H. Keith has become associated with L. B. Jackson & Co., Inc., of Bloomington, Ill. Mr. Keith was formerly with Shillinglaw, Bolger & Co. for many years.

Now A Corporation

BOSTON, MASS.—Shea & Co., 31 State Street, is now doing business as a corporation. Officers are John L. Shea, Jr., President and Treasurer; E. W. Shea, Vice-President.

W. E. Lemp Opens

SHORT HILLS, N. J.—William E. Lemp is engaging in a securities business from offices at 30 Hobart Avenue. He was previously with First Investors Corporation.

Two With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—William H. DePue and John O. Pini have been added to the staff of Herrick, Waddell & Reed, Inc., 332 South Michigan Avenue.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

H. John Simmen has been appointed Vice-President of **United States Trust Company of New York** in charge of its banking operations, it was announced Oct. 28 by Benjamin Strong, President. Mr. Simmen, formerly an Assistant Vice-President, joined the trust company in 1930, and during World War II served as a Lieutenant in U. S. Naval Reserve. Mr. Simmen is a graduate of Yale, class of 1927. During the war he served on a special research assignment directly under the Deputy Petroleum Administrator, Ralph K. Davies. He was in the investment department of the trust company until 1946, when he was transferred to the banking department.

H. John Simmen

* * *

At a meeting on Nov. 3 the Directors of **The National City Bank of New York** voted to recommend to the annual meeting of shareholders to be held on Jan. 11, an increase in the capital of the bank from $77,500,000 to $124,000,000 by a transfer from surplus. The number of shares of stock would remain at 6,200,000, but their par value would be increased from $12.50 a share to $20 per share. This change would restore the capital of the bank to the amount, and the stock to the par value, which existed prior to 1934, when the capital was reduced and preferred stock issued. The preferred stock was retired in 1937, and since then the capital funds of the bank have been augmented by increases in surplus and undivided profits from earnings and from recoveries. Thus, says the announcement, it is now possible to restore the capital to the former figure solely by the transfer of the necessary funds from surplus to capital, and without the sale of additional stock. The bank's advises further state:

"On Sept. 30, 1948, the surplus of the bank was $162,500,000 and the undivided profits $36,329,781. If the proposed restoration of the capital is approved it is the intention of the Board of Directors to bring the surplus to $126,000,000; so that total capital and surplus would be $250,000,000. If the proposed increase is authorized no exchange of stock certificates will be necessary, but new stock certificates eliminating reference to the par value of $12.50 per share will be available for issue for presently outstanding stock certificates either upon transfers or upon request of present stockholders."

* * *

Ralph Dawson, who retired in 1945 as a Vice-President of **Guaranty Trust Company of New York**, died on Nov. 2 after a brief illness. Mr. Dawson, who was 54 years of age, had devoted practically his entire business career to the banking business, having been associated with the Guaranty Trust Company since 1904. Previously he had been for two years with the Western National Bank and the National Bank of Commerce. With the Guaranty he served principally with the foreign department throughout his active career of more than 40 years. He had traveled extensively in the Far East and Russia. Mr. Dawson was born in Brooklyn, N. Y.

* * *

Jay E. Crane, director of Standard Oil Co. (New Jersey), has been nominated for election as a director of the **Federal Reserve Bank of New York.** Mr. Crane was formerly a Deputy Governor of that bank.

* * *

The appointment of James J. Mead, Jr., as Assistant Vice-President of the **Greenwich Savings Bank, New York,** at a recent meeting of the board of trustees, was announced by Earl Harkness, President. Mr. Mead, who will serve in connection with the bank's bond portfolio, has had considerable experience in investment work. He was Assistant Vice-President of Chemical Bank & Trust Company in the bond department, and was Assistant Vice-President doing investment portfolio work with Continental Bank & Trust Co. before its merger with Chemical. Prior to that he was connected with Guaranty Trust Co. for 15 years. He is a graduate of Princeton University and a veteran of World War II.

* * *

An exhibit of 11 paintings which outlines the story of the petroleum industry will be on display from Nov. 1 through Dec. 15 in the Rockefeller Center branch of the **East River Savings Bank of New York,** it was announced on Oct. 31 by the bank. The paintings develop the theme "Petroleum—From the Depths of the Earth to You." They have been loaned to the bank for the exhibit by the Esso Standard Oil Co. Artists whose works are included in the display are John Atherton, Harry Devlin, Robert Riggs, Peter Hurd, Thomas Benton, Glen Grohe, Francis Criss, James Bingham, Clarence Carter, John Clymer and Michael Raemus. The scenes which they have depicted were, for the most part, executed for reproduction in the Esso Standard Oil Co.'s annual calendar. The bank's Rockefeller Center branch occupies the southwest corner of the International Building. The paintings will be displayed in two windows on 50th Street and in four windows on Rockefeller Plaza.

* * *

Sterling National Bank & Trust Co. of New York announces that John F. Clyde, at its Forest Hills Office, has been elected an Assistant Cashier of the bank.

* * *

Richard A. Brennan, President of the **Brevoort Savings Bank of Brooklyn, N. Y.,** announced on Oct. 29 the election of Gilbert L. Young as Secretary of the bank, it is learned from the Brooklyn "Eagle." James C. Ryan was appointed Assistant Secretary and Luke A. Baione was appointed Assistant Controller.

* * *

Incident to the recent consolidation (effective Oct. 15) of the **National Rockland Bank of Boston** (capital $1,500,000) and the **Webster and Atlas National Bank of Boston** (capital $1,000,000) under the charter of The National Rockland Bank and under the title of **Rockland-Atlas National Bank of Boston,** the Comptroller of the Currency announces that the consolidated institution has a common capital stock of $2,225,000, divided into 111,250 shares of the par value of $20 each, and a surplus of $3,775,000.

The approval by the stockholders of the consolidation was referred to in these columns Oct. 21, page 1662.

* * *

The election of Caspar Wister as a Vice-President of the **Corn Exchange National Bank & Trust Co. of Philadelphia,** effective Nov. 1, occurred on Oct. 29. Mr. Wister had previously been Assistant Vice-President. The Philadelphia "Inquirer" reporting this also said:

"Ellis B. Ridgway, Jr., was promoted to Assistant Vice-President from Assistant Cashier, and Harry Enssler was named Assistant Cashier. Mr. Wister has been with the bank since April 21, 1946."

* * *

Following the approval on Oct. 22 by the stockholders of the **First National Bank in Ligonier, Pa.,** of the bank's acquisition by the **Mellon National Bank & Trust Co. of Pittsburgh,** the First National has become the Ligonier office of the Mellon. Plans to this end were referred to in our issue of Oct. 7, page 1449.

* * *

The **Duquesne City Bank,** located in **Duquesne, Pa.,** has become a member of the Federal Reserve System, it was announced on Oct. 29 by President Ray M. Gidney of the Federal Reserve Bank of Cleveland. Member banks in the Fourth Federal Reserve District now total 705. The Duquesne City Bank has been in continuous operation since 1903. It is capitalized with $125,000 common stock, has a surplus of $250,000 and deposits totaling approximately $5,470,000. The bank serves a trade area of about 30,000 people which includes employees of the Duquesne Works of the Carnegie Illinois Steel Co., a subsidiary of the United States Steel Corp. John C. Meighen is President of the Duquesne City Bank; William M. Ewing, Vice-President, and E. J. Schorr, Cashier.

* * *

Pursuant to a resolution adopted at a meeting on Oct. 15 of the directors of **The Kanawha Valley Bank of Charleston, W. Va.,** a special meeting of the stockholders will be held on Nov. 18 at which time they will act upon an agreement providing for the merger of the **Central Trust Company of Charleston** with the bank. At the same time the stockholders of the bank will also act upon a proposal to increase its capital from $1,000,000 to $1,500,000, divided into 15,000 shares (par $100). Under the plan the assets and liabilities of the trust company would be transferred to the bank, and the separate existence of the trust company would cease. The plans call for the declaration of a stock dividend by the bank, payable pro rata to its stockholders in the ratio of one share for each five held; each stockholder of the trust company would be entitled to exchange his stock for stock of the bank in the ratio of five shares of trust company stock for three shares of stock of the bank. The stockholders of the trust company will also act on the merger plans on Oct. 15.

* * *

With her election on Oct. 26 as an Assistant Cashier of the **Traders Gate City National Bank of Kansas City, Mo.,** Miss Katharine C. La Caille is the first woman officer in the 48 years of the bank, it was stated in the Kansas City "Times" of Oct. 27. The new Assistant Cashier entered the bank as a stenographer in 1928.

With Thomson, McKinnon

(Special to The Financial Chronicle)

ORLANDO, FLA.—Charles F. Rouls is with Thomson & McKinnon, 68-70 East Central Avenue.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Government bond prices remain at, or just slightly below, previous support levels, because uncertainty and confusion continue to envelop the money markets. . . . Speeches and reports indicate that Reserve Board members are for increasing interest rates in order to combat the inflationary forces. . . . Whether the Treasury is ready to go along with this idea, as well as larger reserve requirements, is another point of concern in the government market. . . . Of course, the question whether pegs will be continued or lowered is present as it has been for a long time. . . . The 2¼s due 1956-59 and the 2½s due 1956-58 slipped under former support levels. . . . This is casting clouds over the price protection policy of the longer bank issues. . . . There seem to be enough imponderables in the market to keep it under pressure. . . .

Savings banks and eleemosynary institutions have joined the parade as important sellers of the ineligible bonds, with the proceeds reportedly going into mortgages. . . . Thus the force of liquidation continues to weigh heavily upon the tap issues. . . . Orders are around for the long partially-exempts, with switches from taxable issues still going on. . . . Nonetheless bills and certificates are the big favorites. . . .

MONEY MANAGERS' DILEMMA

The monetary authorities, particularly members of the Federal Reserve Board, are keeping the money markets in the spotlight. . . . Much is being said about what could be done (financially) to combat the forces of inflation, but it all seems to boil down to this: Can we afford at this time to take the chances that seem to be embodied in a radical departure from present policies? Although the current program is a long way from being the solution of the problem, its results are at least known. . . .

On the other hand, the dropping or elimination of support prices means delving into the unknown, since the effects of such a substantial alteration of policy cannot be predicted. . . . What we do not know, we are inclined to fear, and this seems to be influencing the course of action of the money managers in the government bond market. . . .

MORE CONTROLS LIKELY

Uncertainty cannot be taken out of the money market until more is known about government expenditures. . . . This is the all-important item because it is necessary to know how the Treasury is going to operate in the future. . . . Credit control measures under existing conditions are dependent in no small measure upon the position of the Federal budget, that is, whether there will be a surplus or a deficit. . . . Without funds that can be used to retire debt the powers of the authorities are severely curtailed, unless there is greater control given them by the Congress to regulate the money markets. . . .

Many believe that the money managers, if need be, will ask for and quite likely receive new legislation that will enable them to control more adequately the money markets. . . . This would probably mean measures that would apply to those institutions which at present are not regulated like the commercial banks. . . . If it should be necessary to manage the economy more thoroughly because of defense needs, it is not probable that segments of the economy will be allowed to continue unregulated, so as to fan the flames of inflation. . . .

"DUAL RESERVES"

Mr. Szymczak, of the Federal Reserve Board, comes up with the "Dual Reserve Plan" which would freeze reserves of the member banks and thus prevent the multiple expansion of credit. . . . This idea is another form of the old 100% Reserve Banking. . . . Mr. Szymczak seems to be pulling an old, and rather well-done, chestnut out of the fire. . . . This plan seems to have less chance of being accepted than others that have been suggested and talked about. . . .

CURTAILING SWITCHING

Reports indicate that "Federal" is frowning upon the making of switches which involves selling of taps and the purchase of shorts, as a simultaneous operation. . . . Therefore, when these trades are being carried out now, the sale is put through one dealer, while the purchase is made through another dealer. . . . Evidently the powers that be, by this mildly restrictive measure, are trying to retard the forward selling of the ineligibles and the putting of the proceeds into bills, certificates or notes, pending the reinvestment of these funds in non-government obligations. . . .

The continued acquisition of long-term Treasury bonds, by the Federal Reserve Banks, is raising the question as to what the Central Banks will do if there should be further sizable demands for shorts. . . . The Federal Reserve Banks can turn the longs over to the Treasury at 100 and take bills or certificates in exchange for them. . . . There seems to be no reason to fear that the Central Banks will not be in a position to supply all the short-term securities that will be desired by investors, whether they be banks or other institutions. . . .

ELECTION RESULTS IGNORED

Unlike the stock market, which reacted sharply on the disclosure of the reelection of President Truman, the government bond market's immediate reaction was complete indifference to the surprise development. This, apparently, reflected the industry's belief that the problems of debt management, etc., would be essentially unchanged regardless of the outcome of the election.

Complete Maryland Bridge Bond Sale

Charles S. Garland, partner of Alex. Brown & Sons, is shown signing a check for $37,580,605.07 representing proceeds from the sale of $37,500,000 of State of Maryland Bridge Revenue Bonds (Series 1948) by an underwriting group headed by the Baltimore investment banking firm. The State will use the funds to construct the proposed Chesapeake Bay Bridge, together with its approaches.

Watching Mr. Garland (left) sign the check are Governor William Preston Lane, Jr. of Maryland (center) and Robert M. Reindollar, Chairman of the State Roads Commission (right).

Reports Economists' Views on Business in 1949

F. W. Dodge Corporation, in survey of outlook on prices, production, employment, wages and construction, finds majority of 112 economists polled expect only relatively mild changes in next year's economic trends.

A consensus of opinion among 112 leading economists polled by F. W. Dodge Corporation indicates moderate adjustments and only mild changes in current economic trends during the coming year. The group polled includes economists in business corporations, financial institutions, universities and economic research organizations.

Reporting results of the corporation's survey on wholesale prices, industrial production, employment and construction, Thomas S. Holden, President of the fact-finding organization, revealed that 64 economists anticipate a business recession in 1949. Fifty-one of them characterized the expected setback as mild, ten as moderately serious; only three men expected a recession of serious proportions or extended duration. A quite considerable minority, numbering 47, expects no recession at all in 1949. More than 70% of those who do expect a recession think it will start before the middle of 1949; some think it has already started.

A number of those replying made reservations to the effect that all estimates would become invalid in case of war.

Commodity Prices and Cost of Living

In the opinion of most of the economists the index of wholesale commodity prices, as compiled by the U. S. Bureau of Labor Statistics will change very little, if at all, between now and the end of 1948. Seventy-five out of 103 answering the question expect the wholesale price index to decline continuously throughout 1949, 15 expect a continuous rise, 12 expect a fluctuating trend and one expects a stable index through the year. Compared with 168, the level of the index at the time the questions were asked, the median expectation for December, 1948 is 167, for June, 1949, 165; for December, 1949, 160.

The economists expect somewhat mixed price trends among the several commodity groups. Large majorities indicated falling price trends for farm products, foods, hides and leather products, and textiles and textile products. A considerable minority expects wholesale prices of metals and metal products to increase; 46 replies indicated expectation of such rises, another 45 indicated approximate stabilization, and only 10 indicated declines. For building materials, 49 expected price stabilization, 27 expected declines, 24 expected increases. For chemical and allied products, stabilization is expected by 57 men, price declines by 27, rises by 14. For house-furnishing goods, a clear majority of 60 expect declines, 32 expect stable prices, 9 expect increases. For the miscellaneous group expectation is about evenly divided as between stable and declining prices.

Consistent with anticipated declining wholesale prices in major consumer goods groups, 46 economists expect the cost of living index to decline continuously through next year, 31 expect it to remain approximately stable, 21 expect it to rise during part of the year followed by a drop; only nine expect a continuous rise in cost of living throughout the year

Production, Employment, Wages

Preponderant expectation for the physical volume of production is that it will decline moderately; median expectation is for the Federal Reserve Board's index to average next year about 2% under the average for 1948. Fifty-nine men expect a production downtrend, 14 expect approximately the same volume as this year, 36 expect increased volume. Three-fourths of those answering expect production to average within 5%, up or down, of this year's total.

Corresponding to the preponderant expectation of declining production volume is the expectation on the part of 45 economists of a decline in volume of employment. However, 53 expect employment to remain approximately stable, and 12 expect an increase. A majority of those expecting an employment decline estimate the drop within the range of 2 to 5% from 1948 levels.

Wage stability is expected by 65 respondents; wage increases by 43; wage decreases by only three. A number of those expecting wage increases commented that they expected increases to be "moderate," "slight," or "less than the 1948 increases."

Construction

With respect to residential building volume. 67 expect a decrease next year, 28 expect an increase, and 13 expect approximately the same number of family units will be built as in 1948. Median expectation among all hose expecting a drop is a decline of 10% in total new dwelling units; median of all expectations that were indicated in figures, including those expecting stable or increased volume, would be a 5% decline.

A majority of 76 anticipate declining dollar volume of private nonresidential construction; 25 expect an increase, and 6 expect the same volume as 1948.

Public construction volume is expected to increase by 75 respondents, to decrease by 24, and to hold steady at 1948 levels by eight.

Fruehauf Trailer Sales Sells Debs. Privately

Arrangements with a life insurance company to borrow up to $30,000,000 have been concluded by Fruehauf-Trailer Sales, Inc., negotiating through Lehman Bros. and Watling, Lerchen & Co. The borrower is a new company formed for the purpose of financing truck-trailer installment purchase contracts of the Freuhauf Trailer Co. for periods as long as five years. Under the arrangement, loans will be evidenced by collateral trust 3½% debentures of the Sales Company, due Sept. 1, 1963, and proceeds will be used to acquire equipment installment notes from Fruehauf Trailer Co.

The amount received by Freuhauf Trailer Co. upon the initial sale of such notes under this arrangement, to the extent of $9,000,000, is to be applied to reduction of current bank loans. Reflecting this transaction, the pro forma balance sheet of Fruehauf Trailer Co., as of Aug. 31, 1948, showed current assets of $55,268,918 and current liabilities of $14,211,448.

Harvey C. Fruehauf, President of Fruehauf Trailer Co., stated: "That this type of long-term financing has become available for motor transport operators is an indication of both the stability and economic importance of over-the-highway freight transportation. This is the first time that life insurance funds are made available for loans with truck-trailer equipment as underlying security. It has a parallel in the railroad industry where the purchase of rolling stock equipment has long been financed through institutional capital. The fact that similar capital sources are now in effect available to customers of Fruehauf affords concrete evidence of the progress our business has achieved."

With Newburger, Loeb

Newburger, Loeb & Co., members of the New York Stock Exchange and other Exchanges, announce that William Denmark is now associated with the firm at its branch office at 57 West 57th Street, New York City, as registered representative.

T. Spencer Shore Pres. of Eagle-Picher Co.

T. Spencer Shore, partner in Goldman, Sachs & Co., New York City, has been elected President of the Eagle-Picher Co., manufacturer of paint products in Cincinnati.

Public Utility Securities

Southern Indiana Gas & Electric

Southern Indiana Gas & Electric Company is a wholly-controlled subsidiary of Commonwealth & Southern. As part of its broad program to comply with the Holding Company Act and also to help raise construction funds for other subsidiaries, Commonwealth plans to sell its entire holdings of common stock. The 400,000 shares outstanding as of Aug. 31 are being increased to 600,000 shares, which will be sold by Commonwealth; and at the same time the company itself currently plans to sell about 75,000 new shares for construction funds, making the total proposed offering 675,000 shares. Under an exemption from competitive bidding, the proposed offering may be undertaken by a syndicate headed by Smith, Barney & Company.

The Company serves an area of about 1,200 square miles in the southwestern corner of Indiana, adjacent to Evansville. The population served is estimated to be in excess of 170,000, of which 130,000 is in the city of Evansville. Industries in this area include important coal mining operations (principally stripping), oil production, automobile body and assembly plants, food processing, gas and electric refrigeration and air conditioning equipment, plastics, steel castings and stampings, and furniture. Agriculture is also considered important. Evansville is the trading center of an area about 150 miles in diameter (including substantial sections of Illinois and Kentucky not served by the company).

In July 1948 the company sold its transportation properties to the Evansville City Coach Line, Inc. Omitting transportation, revenues are made up approximately as follows: Electric 73%, natural gas 24%, and heating and water (plus non-operating revenues) 3%. In the 12 months ended Aug. 31, 1948 (on a pro forma basis) maintenance expenditures amounted to 6.2% of revenues, depreciation accruals 8.5% and amortization of plant acquisition adjustments 1.2% —a total of nearly 16%.

The capital structure of the company after the financing may be approximately as follows, including estimated proceeds from the sale of the additional common stock:

	Millions	Percentage
First Mortgage Bonds	$8.5	35%
4.8% Preferred	8.6	35
Common Stock	7.5	30
Total	$24.6	100%

Pro forma earnings available for the common stock (after adjustment for sale of the transportation properties) are estimated to have been as follows, after dividend requirements on the 4.8% Preferred Stock now outstanding:

	Amount	Amount Per Share*
12 months ended Aug. 31, 1948	$1,365,209	$2.02
Calendar year 1947	1,288,528	1.91
1946	1,010,523	1.50
1945	436,309	.65
1944	425,544	.63
1943	502,828	.74

*Based on 675,000 shares which it is anticipated will be outstanding after pending financing.

The big jump in earnings in 1946 was due to elimination of excess profit taxes. Net savings in total Federal taxes on income for 1946 as compared with the previous year approximated $842,000, equivalent to $1.25 a share on the new common stock.

It is anticipated that dividends will be initiated on the publicly-held common stock at the rate of $1.50 a share.

Plant account as of Aug. 31, 1948 (not including $892,200 plant acquisition adjustments which are being amortized at the rate of $86,400 per annum) was as follows (in millions of dollars):

	Original Cost	Depreciation Reserve	Net Amount
Electric Utility Plant	$19.7	$3.4	$16.3
Gas Utility Plant	3.7	.8	2.9
Heating, Water and Common	1.2	.3	.9
Total	$24.6	$4.5	$20.1

The company's construction program for the two calendar years 1948-9 has been estimated to exceed $9,500,000, of which about $2,000,000 was expended prior to Sept. 1, 1948. About $1,500,000 will have to be raised through security sales next year it is estimated. The construction program includes the installation of a sixth power unit at the Ohio River plant with nameplate capacity of 20,000 kw. A seventh unit is on order for installation in 1951. Because of the moderate gas shortage last winter and the indicated "tight" supply this winter the company is supplementing its natural gas supply by construction of a booster compressor and propane-air standby gas plant. Application may be made to the Public Service Commission for authority to adjust gas rates so as to absorb the additional cost of operating these standby facilities.

In common with other Commonwealth & Southern subsidiaries, the Company has a promotional electric rate structure for residential customers. Average usage by such customers has recently been at the rate of 1,492 kwh. per annum, and the average kwh. revenue was 2.94c, which is below the national average.

Fahnestock & Co. Enlarges Hartford, Conn., Office

HARTFORD, CONN. — Fahnestock & Co., members of the New York Stock Exchange, announce that their firm has taken over the office in Hartford, Conn., formerly occupied by Goodbody & Co. The entire personnel of the latter firm will be retained by Fahnestock & Co., with Clifton W. Wilson continuing as manager.

Naess, Thomas & Thielbar

The name of Naess & Cummings, investment counsel, has been changed to Naess, Thomas & Thielbar on the retirement of Francis H. Cummings from the firm as of Oct. 31, 1948.

McDonald & Co. Adds

KANSAS CITY, MO.—Elmer H. Plachte has been added to the staff of McDonald & Co., 1009 Baltimore Avenue.

Railroad Securities

As was to be expected, recent railroad dividend news has all been on the bright side. As a matter of fact, some of it has been of a surprising nature as indicated in the market response of a number of individual issues. One of the first indications of a possibly broader and more generous policy toward common stock holders was the declaration of a $2.00 extra by Atchison, Topeka & Santa Fe. With its streamlined debt structure, substantial financial resources, and probable 1948 earnings of at least $22 a share, the gesture was not too bountiful but it was still a step in the right direction. In the minds of many analysts this action has by no means ruled out the possibility of a stock split some time next year and the adoption of a larger regular rate.

More recently there have been two important increases in regular annual rates. Southern Pacific was first with a boost from $1.00 quarterly to $1.25. This also was not too surprising in the light of current and prospective earnings and the clearing up in recent years of the company's maturity schedule. Southern Railway followed early last week with an increase in the quarterly rate from $0.75 to $1.00. This had generally not been expected. The current earnings and the intermediate term prospects certainly justified such a move. However, Southern still has sizable maturities to meet in the 1951-1956 period and it had been expected that resources might be husbanded for this purpose. Unfortunately all of this debt is non-callable so that the road had not been able to take advantage of refunding opportunities a couple of years ago to the same extent as some other carriers.

In the middle of the week Great Northern declared a dividend of $2.00 a share, compared with the $1.50 semi-annual distributions it had been making for some time previously. It is generally assumed that this represents an increase in the regular rate although no such announcement was made at the time of declaration. It was announced, however, that henceforth dividends would be paid quarterly rather than only twice a year. One initial dividend, following a long drought, has also been declared in recent weeks. Pittsburgh & West Virginia will pay out $1.00 a share on Dec. 15, the first distribution since 1931.

It now seems fairly certain that carrier shares will get the benefit of further favorable dividend action during the current month. Two reorganized railroads are expected to initiate payments on their shares at November meetings. Seaboard Air Line is expected to declare $1.00 or $2.00, which would certainly be conservative enough in relation to current earning power. St. Louis-San Francisco directors, meeting fairly late in the month, will presumably make at least a token payment—perhaps $1.00.

The possibilities of another reorganized railroad, Chicago & North Western, have been the subject of much speculation among followers of railroad securities. The dividend record has been quite erratic. Last year only $0.50 a share was paid, compared with $1.00 in 1946 and $3.00 in 1947. More than most reorganized railroads the management appears to have recognized an obligation to the new stock as representing the old bonds. With indicated earnings of $5.00 a share, therefore, some analysts are looking for a 1948 dividend of $2.00 at least, with a possibility that $3.00 may be paid. Other possible increases over a year ago are seen as Erie, Gulf, Mobile & Ohio and Northern Pacific.

There is reason to expect on the basis of management statements as quoted in the press that one major railroad will return to the dividend column this year. New York Central paid $1.50 a year for 1943-1945, $1.00 in 1946 and nothing last year. Barring some drastic change in the picture a token payment is expected this year. Such action could have a major favorable psychological influence on the whole rail market. Kansas City Southern appears on the verge of dividend resumption but there is considerable question as to whether action in this case will be taken before the year-end. Nickel Plate is expected to make another year-end payment against preferred dividend arrears, perhaps quite substantial.

Ben Shankman Celebrating Baby's First Tooth

Benjamin Shankman of Carl Marks & Co. Inc., 50 Broad Street, New York City, is extremely proud of his son Jeffrey Stuart's first tooth. In fact, he was so pleased when this new look appeared, that his boss, Carl Marks, decided to surprise him with a public notice in the Brooklyn "Eagle" inviting friends and relatives to a private showing on Sunday, Oct. 31. The Shankmans Sunday may be imagined!

Joins Gross, Rogers Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL. — Michael J. Flannery has become affiliated with Gross, Rogers & Co. 458 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with G. Brashears & Co.

With Walston, Hoffman Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Ernest Howarth has become connected with Walston, Hoffman & Goodwin, 550 South Spring Street. He was formerly with John B. Dunbar & Co. and Cruttenden & Co.

Barrett Co. Admits Sholtz

Carl Sholtz, member of the New York Stock Exchange, became a partner in the Exchange firm of Barrett & Co., 11 Wall Street, New York City, on Nov. 1. Mr. Sholtz had been active as an individual floor broker.

Mason Brothers Add

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CAL.—Robert E Drew has been added to the staff of Mason Bros., Central Bank Bldg., members of the San Francisco Stock Exchange.

With J. M. Dain & Co.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Louis W. Scott is now with J. M. Dain & Co., Rand Tower, members of the Minneapolis-St. Paul and Chicago Stock Exchanges.

Gordon Brown Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Gordon D. Brown has opened offices at 634 South Spring Street, to engage in the securities business.

Halsey, Stuart Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Robert F. Doner is now with Halsey, Stuart & Co., 123 South La Salle Street.

Boston Bankers Visit Fruehauf Factories

A party of prominent Boston banking men left Detroit Tuesday morning for an inspection tour of four of Fruehauf Trailer Company's nine factories, escorted by E. G. Gove, Fruehauf treasurer. Members of the group included Richard Thorndike, Robert Hamlin and Donald Kneale, of F. S. Mosely Company; E. L. Savage of New England Trust Company; Frank Farwell of Liberty Mutual Insurance Company; H. F. Lawrence and G. N. Hansen of Keystone Custodian Funds; William Kirk of John P. Chase and Company; David Loveland of United Business Service, and H. F. Condon, Jr. of Scudder, Stevens & Clark.

The party arrived in Cleveland Tuesday forenoon to visit the Avon Lake factory, the largest truck-trailer manufacturing plant in the world. It is here that Fruehauf's largest volume of standard models is produced. The tour then proceeded to Fort Wayne, home of Fruehauf's tank-trailer and truck-tank plant. Visiting Kansas City, the party spent a night there and then inspected the Kansas City truck body plant. Wednesday afternoon was spent touring the Cedar Rapids Factory. Following this the party returned to Detroit for a brief stopover before the return trip to Boston.

The tour was part of the Fruehauf policy of accommodating financial men desiring to view the scope and variety of Fruehauf Trailer Company's current operations, Mr. Gove said. Due to the trailer firm's modernization program in many different fields of motor transport manufacturing, there is a growing interest on the part of business and financial men outside of the industry to refresh their knowledge of the over-all picture of Fruehauf's activities. Periodic tours of this nature will be made to accommodate interested groups, Mr. Gove stated.

Factors Affecting the Employment Outlook

(Continued from page 19)

than list a few of the more important points: The drop in agricultural prices can cause a reduction in buying all along the line, even in unrelated fields, since there is a tendency to buy on a falling market only when needs are immediate and urgent. Many families are seriously hurt by the price rises of the past few years and have dipped heavily into their savings or used their credit. A general feeling of uneasiness has arisen from the awareness that many things are out of line. The most urgent demands for goods are largely satisfied, and many items are no longer scarce relative to demand. Profits are still at record levels, but break-even points are so high that a moderate dip in volume could throw many companies into the red.

Even those who subscribe to this school of thought, however, must, it seems to me, agree that any "recession" in 1949 is likely to be really a relatively mild adjustment rather than something resembling our experience in 1920-21.

Auto and Housing Backlog

On the more optimistic side are many important factors such as these: The large backlog of demand for automobiles and housing, which is still enough to keep major industries running at capacity; the high level of individual income and savings—with real per capita disposable income one-third higher than in 1939 and with the savings rate running 50% greater; the expected increase in government construction expenditures next year—for schools, hospitals, and roads which cannot be longer delayed; the continued heavy spending by American business for new plant and equipment; and the cushioning effect of price supports, unemployment insurance, and veterans' benefits. All these in addition, of course, to the heavy federal spending for defense and foreign aid.

It is obviously impossible to do justice within the limit of one talk to any one of these factors and to many others which I have in mind, such as the money and credit situation. Suffice it to say that there are, indeed, danger signals in the wind today, and storm warnings might well be hoisted; a sudden decline in some industries is far from impossible. But we have had danger signals and storm warnings continously since the war's end. There are some who say that we would have been on the rocks long before this except for a series of fortuitous coincidences, such as the small corn crop of 1947, the terminal-leave bonds, the income-tax reduction, the Marshall Plan, and the like. But I prefer to believe that, despite some unhealthy aspects of the postwar inflation, our economic accomplishments of the past few years have resulted primarily from tremendous demands backed up by the ability to buy and by confidence in the future stability of our economy. It is my own opinion that the chances are greatly in favor of a continued dominance of these upward factors in 1949. Government price supports, foreign aid, and defense spending will help swing the balance, if any help is needed.

The veteran's stake in all this is a large one. While much has been accomplished in the three years since the war's end, much remains to be done. To cite but one well-known illustration: Too many veterans are still suffering from the mother-in-law problem resulting from the shortage of low-cost housing.

What the veteran wants above all else is exactly what every other citizen wants—a respectable place to live in, a chance to make a decent living in a good job or a successful business, a wholesome economic atmosphere in which he can make his own decisions and in which he can sell his own products and services and buy those of others. These homely aspirations constitute both the challenge and the hope for our economy.

New York Stock Exchange Weekly Firm Changes

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

William A. Forrester, Jr., retired from partnership in Lazard Freres & Co. on Oct. 21.

Carl I. Carlsen, limited partner in Foster & Marshall, withdrew from the firm Oct. 31.

William H. Hays, Jr., retired from partnership in Hardy & Co. on Oct. 31.

Transfer of the Exchange membership of Leo Kirsch to John E. Collins will be considered Nov. 10. It is understood that Mr. Collins will act as an individual broker.

New Orleans Bond Club

NEW ORLEANS, LA. — The Bond Club of New Orleans held its regular monthly luncheon at Arnaud's Restaurant on Thursday, Oct. 28.

U. S. Congressman F. Edward Hebert was guest speaker and conducted a forum on the Washington situation.

Boulanger With J. Dunbar

BEVERLY HILLS, CALIF.—John B. Dunbar & Co. announces that Henry A. Boulanger is now associated with their firm at their office at 443 North Camden Drive. Mr. Boulanger was formerly with Fewel & Co. and Maxwell, Marshall & Co.

With Stein Bros. & Boyce

(Special to THE FINANCIAL CHRONICLE)

LOUISVILLE, KY.—Wesley J. Rutledge, Jr., is with Stein Bros. & Boyce, Starks Bldg.

Says Profits Are Not Out of Line

November National City Bank Letter takes issue with Consumers' Union on magnitude of business profits, and points out corporate earnings are not swollen out of proportion to other elements of the national income.

The National City Bank of New York, in the November number of its "Monthly Bank Letter," citing publication by the Consumers' Union of the U. S. of a statement that "American business and industry are hitting an all-time profit jackpot in 1948," takes issue with the current popular notion that corporate earnings are swollen out of all proportion to other elements of the national income. Regarding this, the "Monthly Bank Letter" states:

"No one, of course, disputes that profits in general have risen spectacularly and are larger than ever before. This is a matter of record. But what statements like the above fail to bring out is the tremendous increase in other segments of the national income as well. With the national income total expanded to approximately triple prewar by inflated prices and the largest volume of peacetime employment the country has ever known, it is not surprising that corporate income is likewise running to big figures. Indeed, it could scarcely be otherwise.

"The Consumers' Union would have presented a fairer and more informative picture had its story given some suggestion of this background of greatly expanded national income. When the earnings figures are presented in this perspective, the 'magnitude of this profit take' becomes a good deal less 'astounding.' This is shown by the accompanying diagram, likewise based on Commerce Department data, covering the three years mentioned in the quotation.

"It will be seen that corporate earnings in 1948 have in truth increased largely over both 1929 and 1943. But when the figures are considered in relation to the continuing increase in total national income, the proportionate share of earnings is actually slightly lower than in 1929, though higher than in the war year 1943. In that year, corporations were operating to a large extent on government orders and earnings were held down by controls over selling prices, voluntary price reductions, renegotiation of contracts, and high excess profits taxes.

"In other words, the corporate share of the national income 'pie' has not increased, except as compared with the war period, but the size of the total 'pie' to be divided up has increased enormously. The accompanying long-term diagram comparing the ratio of corporate profits to national income by years back to 1909 might well be labeled — Puzzle: Find the 'Gold Rush, 1948.'

How Other Groups Have Fared

"In contrast with this showing for corporate income, it is interesting to see how other leading components of the national income have fared. This appears in the table giving the Department of Commerce breakdown of national income by distributive shares, both in dollars and percentages, for the three years in question.

"Here we see that compensation of employees, farm income, and business and professional income of individual proprietorships, partnerships, and other unincorporated enterprises (mostly small business) have been the heaviest gainers dollarwise, approximately trebling in each case between 1929 and 1948. At the same time all three of these groups also increased their proportionate shares of the income 'pie.' In the case of compensation of employees, the ratio is down in 1948 compared with 1943 when income payments under this heading were abnormally swelled by armed service payrolls and the wartime expansion of the civilian labor force.

"Rise in rental income was retarded by rent control, while interest income actually declined as interest rates were forced down by cheap money policies. Both landlords and bondholders have found their proportionate shares of the national income substantially reduced. The share of dividend payments in the national income was cut from 6.6% in 1929 to 3.3% in 1948, or by one-half.

"The question is who benefits from high corporate earnings. Most of them have not gone into the pockets of shareholders, for the proportion of earnings distributed as dividends has declined from 69% in 1929 to 43% in 1943, and an estimated 38% in 1948. The retained earnings are the means of buying more tools for industry, and so making possible higher wages and meeting more fully the needs of the American people.

"Certainly there is nothing in this showing to warrant pointing an accusing finger especially at corporate earnings in the general rise of the national income that has taken place. This statement, it should be noted, applies to the over-all total of corporate earnings, and not necessarily to individual companies, some of which show earnings increases much greater than the average. However, over-all profits are what the Consumers' Union is talking about, and it is in these terms that most of the controversy over whether profits are 'too high' or not is carried on.

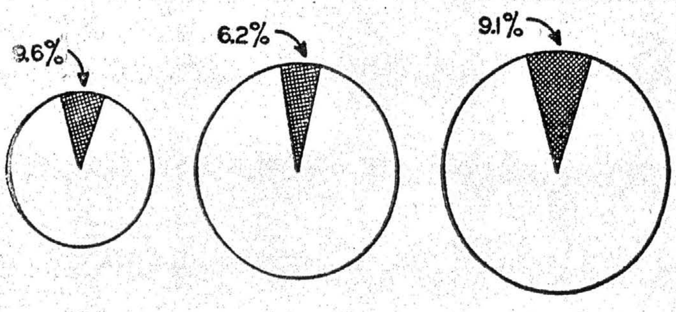
"The fact that total wages and salaries (including unincorporated business and government) exceed corporate net income this year in the ratio of over 6 to 1, and exceed corporate dividends by over 18 to 1, indicates the relative importance of these factors in general prices and cost of living.

"As for the observation in the last paragraph of the quotation that, while corporate profits increased sharply, 'by contrast, inflation reduced the purchasing power of the average consumer,' the fallacy of such comparison need hardly be pointed out. What does the Consumers' Union think has happened to the purchasing power of the corporate dollar, or of the dividend and interest dollars of the millions of men and women who have invested their money in American corporate enterprises?"

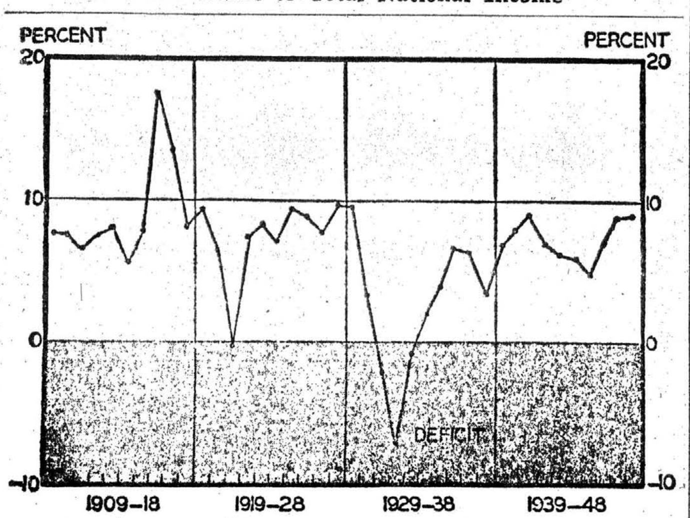
National Income by Distributive Shares

Dollar Totals in Billions:	1929	1943	*1948
Total national income	$87.4	$168.3	$218.3
Compensation of employees	50.8	109.1	133.8
Business and professional income	8.3	14.1	25.2
Farm income	5.7	11.8	18.5
Rental income of persons	5.8	6.2	7.6
Corporate profits before tax	9.8	24.5	32.4
Corporate tax liability	1.4	14.2	12.6
Corporate profits after tax	8.4	10.4	19.8
Dividends	5.8	4.5	7.3
Inventory valuation adjustment	.5	— .8	— 3.9
Net interest	6.5	3.4	4.7
Percentage Distribution of Totals:			
Total national income	100.0	100.0	100.0
Compensation of employees	58.1	64.8	61.3
Business and professional income	9.5	8.4	11.5
Farm income	6.5	7.0	8.5
Rental income of persons	6.6	3.7	3.5
Corporate profits before tax	11.2	14.6	14.8
Corporate tax liability	1.6	8.4	5.8
Corporate profits after tax	9.6	6.2	9.1
Dividends	6.6	2.7	3.3
Inventory valuation adjustment	.6	— .5	— 1.8
Net interest	7.4	2.0	2.2

*Annual rate, seasonally adjusted, for first six months.



Percentage of Corporate Net Income After Taxes to Total National Income



Percentage of Corporate Net Income After Taxes to Total National Income.

Wall Street and Public Relations

(Continued from page 17)

and fundamental essential is that that sponsor of any public relations program—little or big—must first be worthy of public favor. Public relations should never be employed to whitewash any industry, corporation or securities dealer that is basically unworthy of the public trust. If the sponsor of a proposed public relations program does not have a record of fair business practices, a satisfactory credit rating and a management which has served in the public interest, then a house-cleaning or reorganization is prerequisite to any plan to go before the public, or any segment thereof, with a claim, proposal or promise.

This is exactly what has happened in Wall Street. Whether we give full credit to the SEC, the New York State Blue Sky Laws and the New York Stock Exchange, or to the men of high character and integrity who manage the many firms in the "Street" there has been a real house-cleaning in this center of world finance. All is not perfect by any means, but such great progress has been made that it is high time for the people in all walks of life to know about it. When the facts are made known through the channels that run from Wall Street to the thousands of Main Streets throughout the country, public sentiment will change. It won't happen over night, but the proper public relations program started today will gradually foster an appreciation of the true function of the New York financial district, and a wholesome understanding of its valuable contributions to a healthy industrial economy in this country.

A Start Has Been Made

I have said that there is great encouragement in the prospects for Wall Street because constructive public relations is now being practiced here. The adoption of public relations programs by the New York Stock Exchange, the New York Curb Exchange, some of the financial associations, and a number of investment banking and brokerage firms is a good start in the right direction. But this is only a bare beginning in a crusade that should include every firm regardless of size, as well as all of the associations, society and clubs.

There is not time to review the efforts in public relations of such firms as Bache & Co., Blyth & Co., Smith, Barney & Co., E. F. Hutton & Co., Lehman Bros., First Boston Corporation, Arthur Weisenberger & Co., and others, which have special programs. Most of these plans, however, have been slanted to employees, customers, dealers or some other segment of the public. Of course, these individual programs have had a favorable effect on public opinion to a limited extent, but the approach had been on an indirect basis.

There is no doubt that the best public relations program in Wall Street is that sponsored by "We the People," Merrill Lynch, Pierce, Fenner & Beane, which has taken the initiative and blazed the trail to a better and more wholesome understanding of Wall Street in even the smallest communities throughout the land. Its "Investigate Then Invest" slogan has become a by-word with the investing public at large. Its external house magazine, "Investors Reader," is the leading publication of its kind, while its internal house organ, "We the People," has few equals in employee bulletins.

But more than these techniques, MLPF&B has won many new friends for Wall Street through its quarterly "Securities & Industries Survey," its periodic studies of specfic industries, its educational brochures and its radio and television programs. And not least among its public relations efforts is the firm's annual report to customers and employees which has won the Financial World's "Best-of-Industry" awards for the last five consecutive years. This firm, also, is one of the few which employs an outside public relations counsel.

Few other firms in Wall Street can afford to emulate MLPF&B in its many and sundry techniques, but there is no excuse why even the smallest investment banker, brokerage house and dealer cannot have its own public relations program, tailored to the size of its assets or dollar volume. As I have reiterated time and again, the annual report is the proper keystone for the public relations program of the corporation with its stockholders and employees. This same vehicle of information also could be the start of a public relations program for every investment banking firm, brokerage house and security dealer to customers and, employees and in the communities where branch offices are located.

Some of the old guard in Wall Street will never consider an annual report that reveals their financial standing and the profits or losses of a year, but I am talking today to partners of the investment banking and brokerage firms of tomorrow. It is on you that the future of Wall Street depends, and it is your responsibility today to find out all you can about public relations, its techniques, its objectives and its results. Those of you who become familiar with this new profession, although you may feel that it is not now a part of your present job, will likely enjoy the greatest progress in your firms in the years to come.

The biggest challenge to you younger men is to work through your various financial associations with the purpose of bringing about a community of interest between all segments and functions of the financial district. One idea would be to organize a cooperative council of financial associations, which would sponsor a public relations program for Wall Street throughout the country. This would include as a start officials of the Association of Stock Exchange Firms, the Investment Bankers Association of America (N. Y. Local), National Association of Securities Dealers, Inc., the New York Society of Security Analysts, the Bond Club of New York, the New York Financial Advertisers, and the Investment Association of New York. The cost of such a public relations program could be handled on a pro rata basis, or in accordance with the ability of each association to contribute.

But no matter what course is taken, individually or collectively, now is the time to apprize the American public of the "new look" in Wall Street. And we can all be assured that if the attitude of the public is changed, and Wall Street earns the reputation of being a great national benefactor, not only will you find more honor and satisfaction in our work, but the whole country will share in the fruits of these accomplishments. It is up to you young men of Wall Street today to set the course in public relations now in order to achieve a more wholesome understanding and a higher appreciation of Wall Street by the time you take over the helm.

What Has Happened To Excess Reserves?

(Continued from page 18)

largely on the answers to three questions:

First, to what extent, if any, is the volume of currency in circulation excessive? A decline of currency in circulation would, of course, increase reserve balances. There is obviously no precise answer to this question. Past experience, however, suggests that, with the current volume of business, roughly $5 billion of currency now in circulation may over the years just ahead gradually return to the Federal Reserve Banks. This would create just that volume of additional bank reserves.

Second, how large will gold imports be in the years ahead? This is a complex question. It depends fundamentally on international economic and financial developments and policies. It would seem to be a fair guess, in view of the substantial flow of gold into this country both before and since the war, that further increases in member bank reserves from this source will be of diminished significance in the period ahead.

Third, what about Federal Reserve open market purchases and sales of U. S. Government securities? This is the really tough question, and it is the really important one. The major method by which the Federal Reserve could create real pressure on the reserve position of member banks is by selling securities from their portfolio and reducing the volume of member bank reserves by a corresponding amount.

One of our major economic problems in recent years has been the persistently rising general price level. Wholesale prices jumped 25% in the last half of 1946, 16% in 1947, and are now about 7% above a year ago.

The reasons for this inflation, though complex, arise fundamentally out of our baptizing the community with liquid assets (war bonds, savings deposits) during the war — at the same time their demands were being whetted by the wartime attrition of our stocks of automobiles, radios, white shirts, electric motors, and other types of real capital.

It was inevitable that at the end of the war, and for some time thereafter, goods were going to look better than money.

Nevertheless, the rapid expansion in bank loans which began in 1946 came, it seems clear, at a time when there could be little further rise in production. No more unemployed resources were available which could be put to work. The major response of the economy was therefore an accelerated rise in the price level. Therefore, this, according to our theory, would have been the appropriate time for the Federal Reserve to contract member bank reserves, thus reducing bank credit expansion, thus reducing the upward pressure on prices.

VI

The Policy of Supporting Bond Prices

What went wrong? In recent years there has developed considearable public sentiment for Federal Reserve support of bond prices. This the Federal Reserve can do only by standing ready to purchase these securities at the stipulated support price, which purchases create bank reserves, which tend to induce credit expansion, which tend to create upward pressure on prices in general.

The public, therefore, by demanding that the price of its bonds be supported, has made it difficult for the Federal Reserve to pursue a heavily restrictive policy.

In view of this it must, I think, be said that the Federal Reserve has acted with great skill and considerable effectiveness in trying to restrain undue credit expansion, and at the same time support the price of U. S. Government bonds.

A careful program of raising short-term rates and using at the appropriate time budgetary surpluses to pay off Federal-Reserve-held debt has produced modest restraint without precipitating a recession or jeopardizing the policy of supporting bond prices. In the process Federal-Reserve-held debt has actually been reduced, although member bank reserve balances have increased slightly for other reasons—largely the inflow of gold. This has been no inconsequential achievement.

It is, however, by no means clear that the public generally understands the full significance of its demand that the price of its government bonds be held at (about) par. Such is, of course, no part of the bond "contract." This "contract" provides that the owner of a long-term $1,000 bond receive $25 per year (interest) plus $1,000 on the due date. A part of the reason for this interest is the market risk that all titles to income may rise or decline in price—depending on the demand for capital. An added requirement that the price be pegged virtually makes currency out of the bond. It will not be surprising if the question is some time raised as to whether 2½% is not a high rate of return on a security which is so nearly pure currency.

But the more serious problem is that, so long as the bond support policy continues, it will be difficult for the Federal Reserve to exert real pressure on the reserve position of banks in an inflationary period. For the public the cost of having the price of bonds pegged is inevitably therefore some added creation of bank reserves, some further credit expansion, some added inflationary pressure generally and some further deterioration in the real value of the bonds. We are forced to conclude, therefore, that in the period ahead the reserve position of banks will be kept under moderate pressure.

We are forced to conclude also that, while under present circumstances excess reserves nationally will be kept as low as possible, the reserve position of banks generally cannot become inordinately tight so long as the banks can sell more governments to obtain (if necessary) added reserves.

VII

For banks in the Ninth District it is well to remember that this area has been riding the crest of the economic wave in recent years. Weather conditions have been good. Crops have been large. Prices have been abnormally high. In this process there has been a persistent drain of deposits from other sections of the country to your banks. Some time this process may reverse itself and deposits start flowing the other way. If so, banks in this area may find themselves under considerable pressure for reserves to meet the outflow of funds — which in many cases could be quite substantial.

It is reassuring to note that most banks in the area are prudently not betting either that this problem cannot arise, or that the price of any earning asset is fixed inexorably and can never change.

San Francisco Stock Exchange Group Visits Plant of Columbia Steel Co.

J. L. Perry, President, O. L. Pringle, Vice-President in Charge of Operations, and other executives of Columbia Steel Co. were hosts to representatives of the San Francisco Stock Exchange, San Francisco Stock Exchange member firms, Bay Area banks and financial editors on Oct. 27, 1948. Ronald E. Kaehler, President of the San Francisco Stock Exchange, headed the group of visitors.

Not many of the visitors were familiar with the scope of operations of a large steel mill. The inspection tour began at the furnaces, then progressed through the foundry, the rod mill, the wire and nail mill and the wire rope mill. Luncheon was served in the employees' cafeteria and the entire afternoon was spent in the new sheet and tin mill recently completed at a cost of over $33,000,000.

Nine such inspection trips have been made this year, visiting 17 industrial plants. Mr. Kaehler stated that these tours enable the financial community to appraise management and to get first-hand information with respect to the securities of the various companies.

Exchange Controls Threaten World Trade Collapse

(Continued from page 21)

rencies. They bolstered their system with a complex array of internal controls and enforced those controls with the penalty of death. Herr Schacht was immensely adroit and utterly unscrupulous in weaving this system of monetary falsehoods. Through it he forced his country's goods on the rest of the world and effectively compelled his foreign creditors to cancel or pay off their own claims.

Our world abhorred what Schacht did, but today it seems to be following in his footsteps. What is happening today?

Case of the Dollar and Sterling

To find out, let us examine a single case—the U. S. dollar and the British pound. It will illustrate the limitations and the dangers of the present widely adopted method for establishing international rates of exchange through government decree.

The British Government says a pound is exchangeable for $4 regardless of the economic circumstances which clearly show that it is not worth $4. It is not worth $4 because Great Britain is not producing and exporting enough goods to dollar areas to pay for the things it imports from dollar areas. This demand for dollars, unlimited by any artificial restrictions, would place a pound's value in relation to a dollar at some figure substantially lower than $4.

There is no doubt that England has full power to force all its exporters to turn in the dollars they earn and accept pounds at the $4 rate. There is equally no doubt that England may force its importers to buy those dollars at the $4 rate, or any other rate it fixes. The exporters and importers are within its control and must obey. But what happens in the outside world which it cannot control?

The United States exporter who has spent dollars to produce his goods must get dollars, or their reliable equivalent, back to pay for his production. The United States exporter is not interested in exchanging $4 worth of goods for one pound unless he can get $4 for that pound. He is not impressed by England's own self-valuation of the pound. When he finds no economic justification for saying that a $3 pound is worth $4, what does he do? He ignores the falsely valued pound and demands an irrevocable dollar credit before he turns over his goods. This is no more than barter.

But let us look more closely at what has happened. The artificial valuation has, in effect, eliminated the pound as a medium of exchange. Goods thus move to England only against dollar payments, but these payments can only be made if goods have first moved out of England to produce the dollars. But today there is not a sufficient volume of such exports. Either the difference must be made up by dollar loans or grants, or England must curtail its imports.

Obviously, such a system can continue only so long as the seller finances a large part of the buyer's purchases, or until the buyer reduces his purchases, increases his exports, or turns to some other source of supply.

But let us suppose that not England, but the open market were the judge of the pound's dollar value. The British exporter would still receive the same amount of dollars, but when he converted them to pounds he would receive more in the currency in which he incurred production costs. He would be better able and more inclined to increase his production and produce more dollars than under the present articificial system. This increase in available dollars would increase the open market dollar value of the pound.

On the other hand, the importer would pay more pounds to obtain dollars and the goods he imported would consequently increase the cost to the British consumer. Actually, the British consumer is being subsidized today by the foreign exporter, or his government, through this artificial rate of exchange.

Results of Exchange Control

What then may we expect in theory from the system which the Nazis left us?

First: An arbitrary and artificial rate of exchange destroys a currency's usefulness as a medium of international exchange;

Second: When a currency ceases to be acceptable as a medium of exchange, the country which issues it must turn to a system of barter, or it must borrow from the country from which it buys;

Third: An arbitrary and artificial rate of exchange curtails the income of exporters and reduces their incentive and their ability to produce;

Fourth: The only benefit derived from an arbitrary overvaluation of a country's currency is that the people of that country can buy more cheaply the things they must import from abroad—but what a dangerous benefit this is since it depends on another country's willingness and capacity to continue to subsidize an artficial level of prices.

Fifth: By this artificial valuation system a country is able to hide the real extent to which inflation has grown within its borders and so put off the day when it must adopt unpopular measures to stop the underlying inflationary trend.

These are results which may be expected in theory. But it is no longer a question of theory. World trade is rapidly becoming a mere system of barter between the governments of nations. To meet the demands of an international system of barter, governments are taking trade out of private hands and are making it a matter of state, and to maintain their positions in the world of barter, governments must devise and impose additional controls on their people.

Unless this trend is reversed there will be no private international trade, there will be no private international finance, there will be no place for stock exchanges when true values are no longer welcome, and in the end there will be no freedom and the war will have been lost.

It will take courage to reverse this trend. It will take great political courage to release our system of artificial valuation and let the free market tell us what the true values are. But we must urge that our governments be courageous for the alternative will be a world in which we would not want our children and their children's children to live.

As We See It

(Continued from first page)

tion. Otherwise, we are likely to continue to pile further bungling on past errors until we are all but smothered under the load.

Foreign Affairs

Obviously, one of the leading problems by which we are now faced is the international situation. It is our sober judgment that the origins of this situation are to be found in mistaken policies beginning a good many decades ago. The effects of these early errors have now been greatly aggravated by a number of rather curious misconceptions bearing bitter fruit during and after two horrible world wars. What we did in effect in the latter of these two struggles was to kill off, or greatly aid in the killing off, of two of the three powerful, aggressive, ambitious world dictatorships which were, by their very nature, mutually antagonistic. This course inevitably destroyed a "balance of power" arrangement which had tended to hold each of these imperialists in check. The net result could hardly be other than to leave the third unbridled, except so far as other correspondingly powerful nations—of which, in point of fact, there is but one, the United States of America, left in the world—can and will hold it in check.

This series of blunders seems to many to leave us no alternative to the course of doing whatever may be necessary to replace the road blocks against Russia which Japan and Germany once constituted. Whether this state of affairs is as serious as some observers would have us believe, or whether it is more or less a passing phase which, when viewed in historical perspective, may prove to be much less menacing to the remainder of the world than now seems to be the case, it is impossible to say with confidence. But few will question an assertion that the menace confronting the Western Hemisphere is now greater than it was when President Roosevelt initiated his determined campaign against Hitler with the well-publicized "quarantine" speech in the late 'Thirties.

Extended Commitments

At any rate, we are now so far committed to the policy of "containing" the Kremlin that it is not easy to see how we can do other than continue at least in the same general direction in which we have been traveling—committed, that is, not merely by campaign utterances which might, perhaps, be taken with a grain of salt, but by our actions abroad and our policies regarding foreign affairs which we have again and again and again adopted and reiterated. These policies and programs naturally enough are unpleasing to the Kremlin. We should be foolish indeed to continue to prod that imperialistic and arbitrary group of tyrants without taking simultaneous steps to make ourselves ready for any consequences likely to flow from those actions on our part. It may well be that having launched upon a program of bribing Western Europe to keep out of the clutches of Russian directed communism, we shall presently find it senseless to abandon the ship to its fate while the storm still rages.

What we shall need to do in the premises, either as regards Western Europe or as respects our general attitude toward Russia in Berlin or elsewhere, constitutes a real problem. What its solution is, remains to be determined. Certainly, nothing will be solved by the vacillations which have characterized the policies of the Washington Administration during the past year or two—and little of substance is to be found in the outgivings of the campaign now come to a close. The time has now come when we as a people can not afford longer to defer some basic decisions in these matters and to give them consistent effect.

Domestic Problems

At home, too, unsolved problems abound. Obviously, the nation has been promised many things which no man and no government can provide. The very provision of some of them would automatically exclude others. It is self-evident that we can not continue to subsidize farmers to the tune of billions of dollars per year, spend even larger amounts on the veterans and carry through with all the other special considerations which have been promised Tom, Dick and Harry—and at the same time do very much toward reduction in the amount of the taxpayers' money spent each year by the Federal Government. Obviously, too, a continuation of the spending program precludes tax reduction and simultaneous removal of the underlying inflationary factors which now tend to drive prices higher and higher.

It is as evident that the really fundamental weaknesses in the current situation can not be corrected, without damaging effect upon the general state of affairs, in the absence of removal of many of the impediments which now definitely hold ambition in check and funds idle. These impediments run the gamut of socialistic or semi-socialistic nonsense. Income tax schedules have for years left the income brackets which normally supply funds for business growth and development without means for the purpose, and without incentive to risk what little they have left after the tax collector is through with them.

Pitfalls for Business

Labor-pampering legislation and politics have created, or helped create a situation in which it's virtually impossible to get a day's work for a day's pay from the wage earner. Moreover, the inflation which inheres in other public policies has added to the difficulties of the entrepreneurs or would-be entrepreneurs. Taxes and various liabilities which must be incurred by employers certainly do nothing to stimulate the founding of new businesses or encourage the expansion of old ones. It is no longer very unusual in small towns, where small business originates, to find the help making more than the proprietor.

Now that it is no longer necessary to rouse the rabble it would be a good thing if we—all of us, the politicians and the rest of us—began giving some really serious thought to all this. Unless we do, we shall not make good progress in the future, any more than we have in the past.

Commercial Bank Reserves—A Re-appraisal

(Continued from page 24)

that are counted as reserves. The definition of such assets should be related to the purpose that the requirements are supposed to serve; namely, limiting the volume of deposits. Obviously—to take an extreme example—the volume of deposits would be virtually unlimited if banks could count all assets as reserves.

In the United States, Congress has placed responsibility for the volume of money on the Federal Reserve authorities. To discharge that responsibility, it would be desirable if the only asset that a commercial bank could count as reserves would be a liability of a Federal Reserve Bank. For reasons that I shall give later, it isn't particularly important what form that liability takes or whether the commercial bank holds it directly or indirectly. But it is important that the proportion be uniform and that it be in the form of a liability of the central bank. I need not remind you gentlemen that some of the assets that many banks may now call reserves do not, in the final analysis, provide either control or liquidity.

This discussion provides a basis for a brief answer to our second question. *Banks should be required to maintain reserves at such a level that the reserves available to them will support the volume of money that is appropriate to existing economic conditions.*

III

How Should Each Bank's Share of the Total Be Determined?

Required reserves may be thought of as immobilized assets that cannot be further loaned or invested. The amount of such assets that a bank holds may be viewed as that bank's contribution to an effective national monetary policy. The question is: How much should each bank be required to contribute?

I suppose all agree that the basic standard should be equity—that each bank should be required to hold its fair share of the total. It is when we try to apply this principle that we run into disagreements. As a general proposition, it would seem to me that under an equitable system banks that are alike in general nature of business, size, and character of deposits should be subject to the same reserve requirements. As you know, this is not true under our present structure. Banks that are alike in the characteristics I have mentioned may have widely different requirements, depending exclusively upon their location, the authority that has granted them charters, and status of membership in the Federal Reserve System. I would be the first to admit that these characteristics are very important in many ways. At the same time, I must confess that I cannot see how they are relevant in determining the equitable contribution a bank should make to keeping the nation's monetary house in order. That is a very important responsibility for the safety of the country and its place in the world today. It is a responsibility which, as you all know, rests upon the banking authorities of the States as well as of the Federal Government.

In addition to being equitable, a structure of reserve requirements should be administratively feasible. Also, in the development of a new structure of requirements, attention should be devoted to conditions at the time of the changeover so that a smooth transition from the old to the new structure may be made without creating unnecessary hardships for individual banks. One might think of this standard as equity in the short run.

Views differ, of course, as to the precise structure that best meets these criteria. From time to time the System has had members of its staff work on the problem. As you know, I have been Chairman of the staff committee that suggested a plan of uniform reserve requirements. Your President has asked me to review that plan, which was presented to and published by the Joint Committee on the Economic Report. I should like to emphasize that the plan has not been approved by the policy-making officials of the System. Establishment of the plan would involve a number of changes in the Federal Reserve Act. Although the plan deals only with member banks, the staff committee feels that consideration should be given to the desirability of prescribing uniform reserve requirements for all commercial banks. Counsel has advised us that such an extension would clearly be constitutional. I have given you reasons for my conviction that such a system would be much more equitable than the present system or other alternatives that might be considered feasible from various points of view.

I should like to emphasize that the plan for uniform reserve requirements does not contemplate any change either in existing chartering authority, Federal or State, or with respect to membership in the System. I am not an expert in supervision, but I see no inherent reason why a provision of this kind could not be administered in the same way that the regulations concerning security and consumer loans—Regulations U and W — have been administered.

The plan itself consists of five interrelated points. *The first point* is negative in that it would abolish central reserve city and reserve city designations of banks. The Federal Reserve Act now classifies banks into three categories: central reserve city banks, reserve city banks, and banks not in reserve cities (so-called country banks) — and the Board of Governors establishes reserve requirements for each category within the limits prescribed by the Act. Classification of cities was a method of identifying banks that were eligible to receive reserve deposits of other banks under The National Bank Act. The obvious intent was to require reserve depositary banks to carry larger reserves. The law, however, subjected all eligible banks to the higher requirements, whether or not they actually held reserve deposits of other banks. This method of basing reserve requirements on the location of a bank rather than the character of its business has resulted in inequities. Inequities are bound to arise when some banks in a city hold substantial amounts of interbank deposits and others do not. The only choice before the Board of Governors is to classify the city as a reserve city or as a non-reserve city. If it does the former, it penalizes—relative to banks doing similar business elsewhere — the banks with little or no interbank deposits. If it does the latter, it favors—relative to banks doing similar business elsewhere — the banks with such deposits. Such inequities have been mitigated slightly by the qualification that the Board may designate outlying banks in central reserve and reserve cities as country banks; but not all inequities can be eliminated because the adjective "outlying" also relates to location, not to character of business. I need not remind you, who are bank supervisors, of the headaches involved in the administration of a law that is inherently inequitable.

The second point of the plan is that, for purposes of assessing reserve requirements, deposits be classified into interbank, other demand, and time deposits. Many theoretical hairs have been split in disputes over whether and how deposits should be classified. The compelling practical objection to treating all deposits alike is that, depending on the level set, launching such a system would create enormous excess reserves in central reserve city banks, enormous deficiencies in non-reserve city banks, or both. The compelling practical objection to a detailed system of classification is that it would be impossible to administer. Any classification is somewhat arbitrary. Advantages of the proposed classification are that, by and large, the three classes of deposits are used for different purposes, are readily identifiable, have traditionally been treated differently, and differential treatment would minimize initial disturbances while yet retaining effective over-all control.

The staff committee concluded that initial requirements might be established at 30% against all interbank deposits, 20% against other demand deposits, and 6% against other time deposits. Several factors were taken into account in selecting these particular ratios. They were chosen wholly on the basis of practical results after considerable discussion and observation of conditions as they existed several months ago. Many different combinations were tested. On the basis of tests made at the time, the suggested initial requirements seemed to be more appropriate than others in that fewer individual banks would need to make significant adjustments from present positions to meet the new requirements.

I should like to emphasize that the initial requirements of any new system should be established with particular reference to total existing requirements at the time and with respect to the impact of the change on individual banks rather than with reference to any preconceived or established ratios. It is likely, for example, that the exact ratios mentioned would be inappropriate today because of changes that have been made in requirements since those ratios were proposed. In general, the proposed requirements would hit banks now subject to "country" bank reserve requirements which nevertheless hold substantial amounts of interbank deposits. Banks that are "loaned up" and have relatively small amounts of vault cash and balances due from correspondents would also be deficient. Conversely, banks with relatively large amounts of vault cash and balances due from correspondents would experience reductions in their required reserves. In other words, the inequities which now exist would in large measure be eliminated.

The third point is that banks be allowed to count vault cash as legal reserve. The role of vault cash in the banking system has changed fundamentally in the past half century. Before the Federal Reserve System was established, vault cash was the ultimate reserve of the banking system, since it alone was available to meet cash withdrawals. The Federal Reserve Banks, however, have been empowered to create additional reserves or cash when needed. The use of vault cash as reserves would not impair the System's influence over the volume of bank credit, provided initial requirements are established at appropriate levels to offset the change. From the point of view of credit control, System authorities need not be concerned as to the form of Federal Reserve Bank liability — whether Federal Reserve notes or reserve deposits — that a member bank prefers to hold as reserves. The transition to the new system of reserve requirements would be facilitated by permitting banks to count vault cash as legal reserves. Establishment of the suggested uniform requirement against other demand deposits would increase required reserves of country banks. Since, however, such banks hold somewhat larger amounts of vault cash, relatively, the increase in their total requirements would be offset in part by permitting them to count vault cash as legal reserves.

The fourth point is that a bank be permitted to count as reserve that portion of its balances due from other member banks which those banks, in turn, are required to hold as reserves against such balances. The relationship between correspondent balances and reserves is a knotty problem with a long history. After many discussions the committee came to the conclusion that correspondent balances ought to be related to reserves in such a way that (a) a shift of funds by member banks into or out of "due from banks" would not affect the total volume of excess reserves in the system as a whole; (b) "reserve credit" would be allowed for precisely the portion of "due from banks" that is on deposit with Federal Reserve Banks (by way of the reserve requirement imposed on deposits due to banks); and (c) correspondent bank relationships and interbank balances would be recognized as an established part of our banking system. The fourth point is designed to accomplish this result. So long as the rate at which the depositing bank is allowed reserve credit for its "due from" balances is equal to the rate at which depositary banks are required to maintain reserves on interbank deposits, a given reserve will support the same volume of nonbank deposits irrespective of how the owner-bank distributed its reserve among deposits with its Federal Reserve Bank, with its correspondents, and cash in vault. In all cases, only vault cash and balances which are directly or indirectly on deposit with Federal Reserve Banks would constitute legal reserves.

The fifth and last point of the plan is that the appropriate System authorities should be authorized to change the requirements within limits established in the law. I have already discussed the desirability of enabling System authorities to change reserve requirements from time to time within prescribed statuory limits in order to prevent injurious credit expansion and contraction Although the chief purposes of authorizing changes in reserve requirements is to influence total reserves that all banks must hold, experience has demonstrated that discretion should be granted as to the requirement for each type of bank or deposit as well as to requirements as a whole. In this connection, it should be pointed out that different groups of member banks could be variously affected by selective use of changes in the requirements against different classes of deposits. Thus, combinations of changes in requirements on the three classes of deposits could be utilized to exert differential influence on banks doing different types of business. For example, because of the proposed new treatment of balances due from banks, an increase in the requirement against interbank deposits would result in increases in required reserves of banks with an excess of "due to other banks" over "due from other banks," while at the same time causing increases in excess reserves of banks with an excess of "due from other banks" over "due to other banks." If all commercial banks were subjected to the requirements, no change in the total amount of required reserves would result from an increase in the requirements against interbank deposits. An increase or decrease in the requirement for either nonbank demand deposits or time deposits would, of course, affect all banks alike in proportion to their holdings of such deposits.

We are now in position to give a brief answer to our third question. *A reasonably equitable, economically defensible, and administratively feasible system of reserve requirements can be based on the three major classes of deposits, irrespective of the location or the enfranchising authority of the individual bank, provided the reserve, whether held directly or indirectly, is a liability of the central bank.*

Concluding Comments

I regret that the necessities of the occasion have made these remarks rather technical. I want to repeat my sincere appreciation for the opportunity to expose these thoughts on reserve requirements to your critical judgment. Incidentally, I have no pride of authorship in the specific structure of requirements which contains no single item for which I could conscientiously claim credit. As chairman of a hard-working committee, I have collected praise for the work that others have done. It is only fair, therefore, that criticisms likewise be directed to me.

I shall conclude with a few general observations. A century ago Karl Marx predicted that our type of economic system could not last, that depressions would become increasingly severe until a final depression overwhelmed the entire system. We are all determined to prove Marx wrong. We will leave no stone unturned to maintain employment and real output at high levels. We cannot do this through monetary policy alone; but neither can we do it without a proper national monetary policy. It would be unfortunate, therefore, if we judged all proposals for changes in banking from the point of view of local versus national sovereignty rather than in terms of this common objective.

In banking, as in all phases of life, we are torn between the forces of continuity and of change. We want a banking system suited to our changing needs. We know from experience that we will not maintain such a system if we resist adamantly all change and yet we have become familiar with and adjusted to what we have. We hesitate to change also because our banking history includes numerous instances—such as the failure of reserve requirements to assure liquidity—in which seemingly obvious solutions have proved not to be solutions at all. Since we have no basis for assuming that we are noticeably more intelligent than our forebears, the study of banking history makes for humility of spirit. Humility, however, should not be confused with defeatism. History shows that we cannot be mere conveyors. We cannot—and we would not discharge our responsibilities if we could and did—merely pass on to our children what we have inherited from our parents. Instead, we should cultivate cooperatively the legacy of our forefathers so that we may pass on an enriched testament to posterity.

High Prices Threaten Auto Market

(Continued from page 23)

ing the motor car manufacturers I have reason to believe that the thinking men behind this industry have more experience than I have, and I have every reason to know they are as much concerned about the future of their industry as intelligent operators must be. Not alone are the executives of the large manufacturing concerns inventorying this situation day to day and week by week, but the millions of stockholders in the motor car industry (and I confess I am among those millions of investors) are likewise concerned over the future of the motor car industry as it affects their investments.

Manufacturers Must Find a Remedy

I am counting on those ingenious manufacturers to find a remedy. But the remedy must come by the manufacture and sale of lower-priced cars so as to preserve inviolate the wide comprehensive compass of that mass consumer market which made the motor car industry the largest industry in the world. *No remedy can permit the mass consumer market to be converted into a class consumer market.* The supremacy of the automobile industry is dependent upon mass consumption. The larger the volume of production the lower the price of the car and the more permanent is the volume of sales and volume of profits. In the automobile industry mass consumption must be in order that mass production may be. There is a great opportunity here for labor and capital to sit down at the table of mutual interest and accord to find a solution of this great problem.

America has become great because of its industrial supremacy. The automobile industry is the most magnificent illustration of American industrial supremacy over any other nation in the world. The automobile industry has afforded American labor the most magnificent illustration of how mass production and mass consumption can make possible the highest standard of living for the American worker. Is the American laborer going to defeat that achievement? Is he going to put in jeopardy the industrial supremacy of this great nation? Is he going to cut his own throat and insist that the manufacturer or capitalist die with him? These are big questions for the largest industry in the world to solve before it is too late; and I repeat this is the greatest moment in the history of American economics to prove that the American way of life and free enterprise are the greatest insurance to perpetuate our standards of living. And to do this it will be necessary for labor and capital to go to bed together in a manner that will insure absolute fairness to both sides of the family.

How is this situation going to affect the used car market? Now let me tell you gentlemen that if you organize the used car industry correctly and you manage your business with extraordinary fidelity and dependability, you are faced with the greatest opportunity that has ever existed in the used car business. If I am correct in my major premise, and assuming that the balance of 1948 and perhaps 1949 constitute the period of time within which the sellers' market of new cars can hope to last, then during that period and thereafter you have an extraordinary opportunity. There is hardly a day goes by, my friends, when I do not hear from all sides the frequent expression: "I cannot pay the present price of a new car, even if I could get it So I am compelled to buy a used car — if I only knew where I could go and safely buy a used car at a price that is fair and be sure I was getting one in good condition that was safe for my family and me to drive and that is in sufficiently good repair that it will not embarrass me by the cost of keeping it in running condition." In other words, gentlemen, do I not make it plain to you today that the very price conditions and the very conditions of shortages are building up for each and every one of you the opportunities to capture the largest part of this mass consumer market. I mean, and I repeat, that part of the mass consumer market that either cannot get or cannot afford to pay (either for cash or on credit) the high prices for new cars, constitutes your opportunity.

New Merchandizing Methods

But in order to take advantage of that extraordinary opportunity you have to reorganize your merchandising methods. You have to create standards of dependability; codes and ethics of representation, description of quality and kind of merchandise you are willing to sell to a public that must be educated and guaranteed that they can depend upon each and every representation you make. In other words, gentlemen, you have the greatest opportunity in the world to sell more cars at fair prices to more people than the manufacturers themselves can sell (after 1949) at present prices for new cars. You should also cooperate with manufacturers to install a system between their franchise dealers and the factory that will put an end to the black market in new cars.

It seems to me that a great organization like the National Used Car Dealers Association should get together in an unparalleled manner and start a system of zone remodeling and repair shops. It occurs to me that a group of used car dealers in each and every zone should get together and finance such repair shops which would enable them to take any car that deserves to be rebuilt, repaired, repainted and retired so as to put it in dependable running condition and could be offered a buyer as a used but dependable car and be sold at a price the mass market can afford to pay, either in cash or instalment credit. If I were one of these zone dealers I would not sell a car with my name on it, with my reputation for honesty and dependability behind it unless I knew it was in normal condition to give dependable service as a second hand used car. If it had any weakness that could not be repaired I would not sell it without calling the buyer's attention to such weakness. I had rather risk the buyer's taking the car at a lower price at his own risk than risk the loss of goodwill through lack of dependability. I have talked with hundreds of used car dealers and they have convinced me that the majority of cars can be put in dependable condition by which they can be sold for dependable use in daily running condition for one year or more and the few remaining cars that cannot be sold, repaired or rebuilt are not worth selling to unsuspecting people for daily operation. You should work out a U. U. C. A. guaranty, underwritten by an Indemnity Company, that will protect every buyer of every used car purchased from a registered member of your Association.

Used Car Dealer Essential

In conclusion, gentlemen, you and the manufacturers of new cars must appreciate the fact that the used car dealer is an absolute necessity to, and an important part of, the largest industry in the world. Your aggregate success is synonymous with the future success of the automobile industry. You are an inseparable part of its present and its future existence.

We in the financial world realize that if we finance your mass distribution successfully, we will then be contributing to mass production. Mass production insures mass employment. Mass employment at fair wages insures continued economic supremacy of this country over any other part of the world. And in spite of our chaotic conditions, mass employment at fair wages insures mass prosperity. This country is at the crossroads between peace and war. Every single one of us prays day and night for peace. None of us ever wants to see again the ravages of another world war. I am hopeful that a new administration will revolutionize our standard of government and will impel respect as distinguished from contempt for this our great country by foreign nations which now theaten the world of peace. If during the next four years from January next we can look forward to years of peace, I beg of each and every one of you to do your part during that era of peace to make permanent the great success of the automobile industry in its mass production, in its mass distribution of both new and used cars, to the everlasting supremacy of American industry.

The Problem of Rising Prices

(Continued on page 2)

creasing output. Our machinery for generating credit money has been all too efficient in producing the necessary funds to take these increasingly more costly goods off the market, by financing the higher incomes resulting from labor negotiations and expanded profits.

On the whole the high cost of food has not followed exactly the pattern described for services and other manufactured goods, though the process is basically the same. Farm production is limited not by the labor supply but by the acreage of productive lands and the vagaries of the weather. The demand has been augmented by crop failures the world over and postwar distress, which we have sought to ease by large-scale relief. There has also been involved a governmental policy of price support which on the whole has been enough below the open-market price so that it has not been a factor in raising the cost of living, except in a few such cases as potatoes and, at times, eggs. It may in fact be argued that so far as other products are concerned, the assurance of price support has encouraged an expansion of production so that the net result has been to lower prices to a point below what they otherwise would have been. The Aiken-Hope bill, passed by the 80th Congress, represents an intelligent attempt to preserve the advantages of price support while eliminating its abuses.

Can Production Be Increased?

We have gone briefly over the fundamental causes of inflation and the machine by which it works, and have satisfied ourselves that it must be brought under control if we are to avoid a continuance of social injustice and the risk of deflation and depression. That brings us to the question of what to do about it. Our definition of the structure of inflation indicates that we should be looking for ways to increase production and, alternatively or simultaneously, reduce the money supply. Either or both of these procedures would hold prices in line and tend to reduce them.

Increase in production seems on all accounts to be the most desirable remedy. It is inconceivable that so many of us should have the idea that we can raise the standard of living without producing more of the things which go into that standard of living. We can't eat, wear, or enjoy more than we produce. It is just impossible. Yet we are continuously acting as though this impossibility was a simple and normal means of improving our lot.

Among the things that were listed as setting limits to our production was the inefficiency of our existing equipment. This demands our intelligent understanding and early correction. The output per man-hour of a wide range of things is now held down by worn-out and obsolete machinery. The man-hour production can be raised materially if depreciation reserves and new capital are applied on a large scale to the installation of the best modern equipment and methods. Everyone has a stake in speeding up this procedure, for everyone has a stake in increasing the goods and services which can be distributed.

Needed Examination of Tax and Investment Policies

Here is where we run into the necessity for a judicial and rational examination of tax and investment policies. It may well be, for instance, that tax policies which politically are classed as being reactionary rather than liberal will in fact result in a more liberal distribution of the nation's wealth to the ordinary citizen.

The morale and working practices of all the productive group need also to be considered and revised. Again remembering that we cannot consume what we do not produce, we will see clearly that loafing, production restriction, and feather-bedding in any industry are against the interests of the workers in all industry. Feather-bedding of management and ownership is equally to be decried. The head of a firm who does not put anything he has into its management is feather-bedding as truly as it the most humble worker when he slacks on the job. As a corollary to this statement, nothing but the best trained, most successful business management of the individual business firm is in the interests of society as a whole, for good business management can make a large contribution to the increase of output per labor-hour on the part of the rank and file of the labor force.

Limitation on Hours of Labor

Finally, there is the limitation of the number of hours worked. The forty-hour week is well-nigh universal. When I was a boy, I worked sixty hours a week in the machine shop. The only thing that troubled me about it was not having Saturday afternoons in the Summer. When that relief had been gained, I was content with working hours for some years thereafter.

What has made possible the present forty-hour week? What has brought it about is, of course, the continued pressure of the organized workers to attain shorter hours, but this is not what has made shorter hours possible. They have been made possible by better management, better methods, and labor-saving machinery and equipment. The worker does not exert himself physically as he did when I was a boy. His work is easier. His hours, when I was a boy, were 50% longer than they are today. Evidently, were it not for improved management, methods and machinery this great reduction in hours and the easier physical conditions would have greatly reduced the things he was able to buy and enjoy. On the contrary, they have not been reduced. They have been increased. And again it is management, methods and machinery which have made this increase possible.

We may well have to do a little sober thinking as to whether we have not gone too far, too fast, in the reduction of hours. When we see that under full employment the total production as distributed is not enough to satisfy the wants of the ordinary man, the question must be raised as to whether the American citizen would not prefer more goods, even if he had to pay for it with some less leisure. It is not enough to call attention to the fact that overtime is permitted provided time-and-a-half is paid, for in most industries that would increase costs to the point where prices would have to be raised materially. Such action would not have a beneficial effect on inflation, since it would increase the money component faster than the units produced. This is not the answer.

Is not the time coming when the American workman will have to decide as between his desire for more things and his desire for leisure? May there not be many of them who are finding themselves more concerned about having more things to enjoy than they are about having more time to enjoy them in? This is a tremendously serious question. It has not, to my mind, been properly presented as yet. The decision should not be made by government or by industry, but by the workers themselves, for it is their choice which has to be put into practice; and it is their interests, as determined by themselves, which have to be served. This is a crucial decision which must be made.

Are Profits Too High?

But perhaps we are overlooking the most obvious way to redress the balance between money income and the supply of things to be bought with it. May we not properly suspect that the money income is going to the wrong people? To put it in more specific terms — aren't our profits far higher than they ought to be; and if those profits were more generously distributed in the form of lower prices or higher wages, would not inflation be arrested?

These are proper questions to raise. They are raised again and again, particularly in the President's economic reports to the Congress, where they are strongly intimated, even if not directly asked.

With regard to these questions, it can be said that we do not know enough to answer them surely. Indications are that about half of the $17 billion profits reported represent bookkeeping profits which are not real in any practical sense. They represent the results of inflation on the book values of inventories, work in process, and accounts receivable. They really represent an increased cost of doing business rather than increased profits. They cannot be paid out in dividends or higher wages or lower prices. They constitute a problem of industry rather than the profit of its operations.

There is another part of these profits which is under deep suspicion. It is the question as to whether reserves for depreciation of equipment are high enough. Perhaps a substantial part of the presently indicated profits should be apportioned to replacement, in view of the fact that depreciation is uniformly taken on purchase price, while the same equipment cannot be replaced for less than 25, 50, or 100% increase in cost. The assumption is that if book profits are treated to show how much is actually available for price reduction, wage increases, and dividends, it will be found that the total is very much less than has been common for business in previous times of prosperity.

We do not know enough about this subject. I am hopeful that during the coming session this question of the size, nature, and distributability of profits will have careful examination by economists, accountants, businessmen, and labor leaders, under present conditions which will permit each to present his point of view. There is, at the present time, too much *ex parte* pronouncement on these matters, and not enough sitting together for mutual consideration.

Having pretty well analyzed the possibility for controlling inflation through its mechanism and through the possible increase in production, let us return for a look at that other element in the structure—the money supply. Can we reduce the money supply, and thus reduce its inflationary pressure in the market? The answer is, we can. There are various means of doing it. The 80th Congress passed two measures directed to that end. One was the reinstatement of Regulation W of the Federal Reserve System, which puts limits on the extension of credit for installment buying. This has a definite deflationary effect, though not of a large amount as compared with the total of the money supply. It also increased the required reserves of member banks. This has had no immediate effect on the money supply, since the banks promptly turned government paper into cash through sale to the Federal Reserve System. In the long run this will have its effect, but there has been none as yet.

Fiscal Policy

There are fiscal means of reducing the money supply. If we can take in more money in the Federal Government than we pay out and use the surplus to retire the debt held by banks or the Reserve System, we do reduce the money supply to that extent. Decreased taxation and unbalanced budgets work the other way.

Finally it is possible for the government, through the Treasury and the Federal Reserve System, to completely end the government policy of cheap money, and the expansion of the supply and start a definite contraction. Many economists are urging that this should be done. With them I cannot agree.

It is too bad that economics is not a real science in the extreme sense that mathematics is a science. Instead of that, it is a study in human behavior which we approach as best we can by assuming human characteristics which may or may not hold true, and by checking our assumptions through statistical studies. In no field does the failure of economics as a science have more unfortunate connotations than in this question of how much deflationary influence to apply to the business world by monetary means. A slight application may produce no results. A slight application may produce unintended large results. A continuous policy of increasing application of monetary pressure may meet with resistance for a considerable time and then overflow the levees and flood the whole business and consumer world with deflation, depression, unemployment, and business failures. There is no measurable and discoverable relationship between cause and effect in this field.

Deflation Dangerous

It will be remembered that the problem we are discussing is how to control inflation under full employment. That is a hard problem. If we asked ourselves how can we control inflation by establishing unemployment, the answer would be easy. That, however, is a process which we are unwilling to initiate.

The sum and substance of this is that monetary controls are dangerous. I presently feel that we have gone about as far as we can go safely in the measures passed in the 80th Congress. Of the various possibilities for further action, it seems to me that the fiscal processes of balanced budget and debt retirement, though extremely difficult in the world conditions we now face, offer the safest means of controlling inflation by governmental action.

There is a final possibility which we have not yet examined. It is one which the administration has espoused wholeheartedly and which it accuses the Congress of neglecting. I refer to an attack on the symptoms of inflation, rather than its causes. The suggestion is that we should return in some degree to rationing, allocation, and price controls.

I was myself supporting meat rationing a year ago. The conditions under which it had my support I believe were warranted at that time. Briefly they were these. Last Winter we had finished the second round of the spiral of inflation. There was evidence that there was dissatisfaction with it, not only on the part of industry but on the part of organized labor as well. A number of firms felt that they ought to take a chance on reducing prices and see if they could not individually stave off any attempt at a third revolution of the spiral. Among them were the Ford Motor Company and International Harvester Company. Others which came along later were the General Electric Company on consumer goods, and the Weyerhaeuser Lumber Company on building materials. Many other smaller firms undertook similar reductions.

Tail Chasing

Among the rank and file of labor there was dissatisfaction with tail chasing which got them nowhere. President Green of the American Federation of Labor came out with a strong editorial, expressing his opinion that we should try to bring our economy into balance without another general increase in wages and prices.

With the stage thus set for more considered action, it seemed to me that we might solidify this sentiment into a definite stabilization if we could keep the cost of living from rising in the months ahead. The major element in the cost of living was the cost of food. A large percentage in the rise of the cost of food was attributable to the price of meat. It looked as though we might for a time, by artificial means, hold this price from rising and thus stabilize the whole economy; for if the cost of living were kept from rising by this means, the reasons for demanding a third round of wage increases would disappear. Encouragement would be given to businessmen for further price reductions and the whole footless movement might come to a standstill.

My associates and I were unable to convince Congress that this policy should be legislated. The cost of living continued to rise. Workers got tired of waiting for a stabilization which did not occur. Manufacturers found they could no longer hold the lower prices they had quoted, and we were off again on the third round. The atmosphere at the present time is very far indeed from that which existed at the time of my meat rationing proposals. I would by no means support them under these new conditions. Nor am I at the present moment supporting any proposals for the treatment of the symptoms of inflation rather than attempting to get at the causes.

It is appropriate here to refer to the fallacy which was taken for gospel truth by businessmen in general, including your speaker, at the time OPA was abandoned. I do not criticize the abandonment of the good ship OPA, for it was leaking badly and its deck was awash. What I criticize in retrospect was the childlike faith we had that a renewal of free-market competition would result in a lowering of prices. What we did not see was that we were already producing to the limit under existing conditions. There were no unemployed workers to direct into industry for an increase in production. The laws forbade an increase of hours without penalizing overtime. For the first time in our history we had bumped the ceiling on production, and inflation was the inevitable result. NAM, the National Association of Manufacturers, took the rap; but the whole of business, almost without exception, was similarly child-like in its faith. Not to be critical alone of the NAM, I would call your attention to the fact that this whole discourse is a criticism of a series of similarly child-like faiths on the part of the present Administration.

Just to make a difficult situation still more difficult, let me refer to the relationship between our two great problems—those of living with Russia and controlling an inflation which was mentioned in the beginning of this talk. These two problems are related.

Russia, with the expending of a few millions on propaganda and subversion, has put us in a position of expending billions in building up our defenses and those of our allies. I do not put in the same category the billions that are going to European recovery, even though our interest in that recovery has been stimulated by the military desirability of having the sixteen nations economically strong. The Marshall Plan would have been properly undertaken in our own national interests—Russia or no Russia. In getting us into this position of incredibly heavy expenditures, Russia is accomplishing a part of her officially announced purpose of disarming the capitalist nations economically and militarily. This is her effective bid for disarming us economically. Unless we can develop a high economy of means in our military expansion and unless we can step up effectively the political weapon, of which the Voice of America is an important part, to a degree of efficiency comparable to that of Russia, there is no possibility whatsoever of balancing our budget or controlling inflation, or ultimately keeping away from the control of the sysmptoms of inflation by the wartime measures of the OPA. We must learn to handle our cold war with the increasingly practical skill which will come from recognzing it as a chronic situation, rather than as a passing crisis. We must organize for it.

All that has been said so far would seem to make a confusing and perhaps an impossible job out of the task we have set our ourselves. To my mind, the most serious element in it is that which I have mentioned last — namely, the effect on our economy of the Russian cold war. Let us, however assume that we can become more experienced and skillful managers and keep our responsibilities there within the limits of our economic possibilities. With that assumption, let us list parts that government of the people as a whole can play in controlling our constantly rising price level.

Government Controls

The Government can with the utmost caution impose new elements of monetary control, always remembering that the results of that control may be out of proportion to the pressure applied.

The government can apply the gentler, but no less effective, means of fiscal policy. This sets limits on tax reduction, calls for great care in appropriations, and results in budget balances which can be applied to retiring bank and Federal Reserve held securities. Finally, the government can adopt such tax policies as will assure an adequate flow of funds into the provision of labor-saving machinery and equipment and into the expansion of productive capacity where such expansion is needed, always remembering the shortage of the labor supply. The emphasis must be on releasing labor by improved equipment to make it available for expansion of operation elsewhere.

This about completes the list of useful government activities, applying as they do to both the volume of money and the volume of goods and services.

Labor and Business Need Statesmanship

This does not, however, exhaust the list of remedies. A large share of necessary decisions and actions will be found to be a responsibility of business and of organized labor. It is my belief that there is little that the government can do that will solve the problem so long as the machinery of inflation is lubricated and actively operated by these two groups in industry. What is needed is a new standard of statesmanship on the part of business and organized labor. As to business, this will relate to prices and profits, and as to organized labor it will relate to wages, particularly of those already well paid. They must also seriously consider the social results of restrictive practices and give renewed thought to the choice between leisure and their material wants.

This requirement of statesmanship is one that is not easily come by and will not be developed quickly. It is not based on unselfishness; it is not based on the giving up of the best interests of the parties concerned. It is based firmly on shifting the attention from short-range and fallacious interests to long-range and solid ones. This being the case, it can be hoped that the longer view will gain in strength in both industry and labor.

But the consumer comes into this also. He is being artificially protected against his own unwisdom by the reinstatement of Regulation W. All arbitrary regulations work some unjustified hardship in particular cases, but it was not and is not advisable to let the expansion of installment credit continue unchecked. If consumers would develop good judgment of their own in this matter, arbitrary governmental regulations would not be necessary.

There is, of course, a general feeling that no individual is getting all he ought to, or can buy all that he should be able to with the income received at the current prices. The temptation to draw on the future under these conditions is strong. Some wage groups are left far behind as has been said and will almost be driven to mortgage an uncertain future for the sake of immediate necessity. But other groups have a better relationship between income and purchasable goods than they ever have had in the past, except under the artificial wartime conditions of long hours and heavy overtime, financed by government deficits. These are the ones who must develop wisdom in family budgeting and these are the ones who should be considering the question of whether their leisure is more valuable to them than higher production and higher income.

It is too bad that the problem of increasing prices cannot be solved by passing a law. It is too bad that it involves civilian action and restraints, as well as governmental action. It is too bad that the world is made the way it is—or is it too bad after all? Perhaps we ought to have to think hard and work hard and overcome difficulties as the price for enjoying the good things which our civilization is capable of providing.

York Affiliates Formed

BUFFALO, N. Y.—York Affiliates, Inc., has been formed, with offices at 1031 Ellicott Square, to engage in the investment business. Officers are Shelby C. Parker, President; Henry De Meester, Vice-President; W. C. Bingham, Treasurer and Assistant Secretary, and B. Paul Lapp, Secretary and Assistant Treasurer.

With McDonald & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—John B. Hopkins has become associated with McDonald & Company, Union Commerce Building, members of the New York and Cleveland Stock Exchanges. He was with Prescott & Co. in the past.

With McCourtney Firm

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—James S. McCourtney, Jr., is now with McCourtney-Breckenridge & Co., Boatmen's Bank Building.

F. P. Smith in Kingston

KINGSTON, N. Y. — Frederick P. Smith is engaging in the securities business from offices at 195 Wall Street. He was formerly with Childson, Newbery & Co.

Banking in a Period of Confusion

(Continued from page 12)

tion and continue to extend credit for current operations.

In addition to these problems related to tax policy is the long overdue change in the provisions for depreciation of machinery and equipment. No one will argue that present rates of depreciation allowable for tax reduction do not provide ample reserves for replacement and modernization at present day prices. Yet we, as bankers, realize that one of the most vulnerable of credit risks in a competitive business is the borrower with old and outmoded equipment.

Legislative Conflicts and Confusion

And now let us look at the legislative conflicts and confusion especially of the recent special session of Congress. We are familiar with the powers granted the Federal Reserve System to increase reserve requirements of member banks. Congress, it would appear, reluctantly granted only part of the increased powers requested. Then started the guessing game as to when and if such powers were to be used. We all know they have been used in part. That should not have been a surprise to anyone. After the strong plea of the authorities for such powers they would have looked foolish if they had not used them promptly.

At first glance this action would appear to herald the return to fundamental economic laws to combat inflation. But increasing reserve requirements was only part of the story. To maintain the interest rate pattern and protect the government bond market, the Federal with one hand reduced the reserves of banks, forcing them to reduce earnings assets to secure needed reserve funds, and with the other hand bought the assets of banks, government securities in the amount offered, thereby providing needed reserves. What actually happened: Earning assets of banks were reduced — investments of Reserve banks were increased. Such action did not cause any reduction in loans by banks and as long as we can raise the reserve funds by merely selling U. S. bonds to the Federal it is not likely that banks will call loans and reduce the money supply. One thing we, as bankers, will have to do and have been doing in recent weeks is increase the rate of interest on loans to offset the reduction in income brought about by reduction in our bond accounts. Higher interest rates on loans is desirable in a period like the present and is favored by the money managers.

But as so often occurs, some unexpected results appear. Banks are not the only lenders of credit. In recent years insurance companies have been active in the lending field. They also have been and are large holders of U. S. bonds. As rates for private credit increase insurance companies find t advantageous to sell low interest rate U. S. bonds and reinvest in loans to industry at the higher return. Who buys the U. S. bonds from the insurance companies? The Federal. In a period of less than two months ending about the middle of last month the insurance companies sold over $2 billion of U. S. bonds to the Federal.

It is well to remember that insurance companies are not required to maintain large legal reserves in form of uninvested funds such as banks must maintain. We bankers can be and are being pinched while our competitors in the extension of credit are subject only to the "Open Mouth Policy" of the Reserve authorities.

But, it seems to me, the most important angle of this problem is one we hear discussed very little. Think back for a moment to the War Loan Campaigns and the efforts we, as bankers, put forth, and rightly so, to place as many bonds outside the commercial banks as possible. Our efforts were crowned with a good measure of success. But now all that good work is being undermined by the policy of maintaining "pegged" prices for issues of U. S. bonds not eligible for commercial banks to purchase. Those issues are now finding their way into the Reserve banks, not the commercial banks, where they have a greater influence on the money supply than if sold originally to the commercial banks.

In spite of all these factors the restrictive legislation of the Special Session of Congress was directed against the commercial banks. That is difficult enough to understand but far more difficult to comprehend is other actions taken by the same Congress. I refer to enlarged powers to guarantee mortgage credit and the creation of secondary markets for mortgages. This regardless of the fact that mortgage credit has, in recent years, expanded far more than any other type of credit. It would seem that mortgage credit is not considered to be inflationary. We, as bankers, know that it is. We know, too, that price inflation in housing and real estate is probably greater than in most other fields of activity. We know, too, that there is still a housing shortage, due to shortages of materials and labor. Congress apparently felt that further liberalization of mortgage credits would increase the supply of raw materials and labor. We know it can do only one thing. Increase the demand without increasing the supply and still further inflate prices.

Controlling bank credit while liberalizing other types of credit, to say the least, does not appear to be consistent.

I am sure we will all agree that in a period such as I have been discussing the problems facing the individual banker are many and complexing. Probably our greatest concern should be with the tendency, evident today, to place the bankers in the position where they may be blamed for any difficulties which lie ahead even though they are not responsible for conditions which exist today in such a series of contradictions and apparent attempts to drive in opposite directions at the same time.

Responsibility of Bankers

Yet with it all we have a day to day job to do. We must attempt to understand the over all problems as well as the individual problems of our customers and our communities, not to overlook those who own our establishments and have a right to expect a fair and reasonable return on their investment.

In every decision we are called upon to make, and they are numerous, we must attempt to appraise the future. Past experiences are always helpful but we cannot rest too heavily on them in the confused conditions of the present.

I am sure that each of you, just as I do, spend much time in seeking enlightenment through the reading of opinions of economists both inside and outside the government. I am sure, too, that such reading brings to light one contradiction after another. We bankers may be confused but I am sure we are not as badly confused in our thinking as the great economists and experts of our day appear to be. Unfortunately, the economist seems to carry more weight in the molding of public opinion than the banker. That is probably our fault. It behooves us to be more vocal and more energetic in educating the public in the fundamental position of the banks and actual effects of our day to day activities.

At the outset of my talk I told you I would not take on the role of a prophet. What I wish to say in conclusion is not a prophecy but merely an expression of my own opinion for what it may be worth.

With respect to interest rates I do not look for much of an increase over present rates. Long-term rates are pegged and the pegs have had a severe test. Rather than lower the pegs, I look for a further increase in reserve requirements if any action is needed to halt the increase in money supply due to the purchase of U. S. bonds by the Federal.

Business conditions will have a lot to do with this problem. There is considerable evidence of a leveling off of prices and business activity. I agree with those who look for some moderate price reductions and slowing down of business activity by the first quarter of next year. If that occurs, bank loans will decrease and funds will again find their way into the Government bond market and eliminate the need for Federal support to the market. It may well be the Government bond market touched bottom this Fall and an improved price structure will be evident by the turn of the of the year.

Another looked for, and I think very desirable, move would be the refunding of the Government debt. I believe a large part of the one-year and less maturities could be refunded into three- to eight-year maturities with only a modest increase in the cost of debt service. Such an increased cost would be well justified by the advantage of the refunding.

A Free Market in Government Bonds?

While there are many who advocate a free market in Government securities, I do not believe such action is possible at this period. A free market might have been possible and practical right after the war ended. Such action was not taken then and now whatever opportunity existed at that time has long since disappeared. In other words, I believe the money managers have no choice now but to continue to support the market.

It seems to me that the proper program for us to follow today is to continue to carefully study all requests for loans and to have courage enough to grant those which are for sound production purposes for the economy as a whole. We must always remember that an increased supply of goods is still the only fundamental way to combat price inflation. As to our outside investments I do not advocate all short or all long maturities. I am old fashioned enough to believe that the spaced maturity policy will produce the maximum of income with the minimum of risk and leave us in a position flexible enough to meet changing conditions.

Above all, we, as bankers, must keep our feet on the ground. We must use every effort to solve our own problems right where they exist. We must avoid looking to Washington to solve our problems and we must try to educate our customers to do the same. We must direct our efforts to stopping the trek to Washington by business, farmers and labor for solution of the problems we all face in these confused times.

Economic Fallacies and Business Outlook

(Continued from page 4)

here and there, the pipe lines may be filling up.

Naturally, the war period of forced deprivation piled up huge backlogs of demand for **things**—for soft goods, durable goods, housing, and services.

Moreover, since 1939, our domestic population has increased by about 12,000,000. Economically, each new unit of population represents a demand factor in the purchase of food, clothing, and shelter for consumption and in the necessary investment in tools for the production of such goods.

Since V-J Day, too, we have had a very large number and high rate of marriages. And that means the beginning of a long span of accumulation by many new family demand units. And it means, too, given "the all but inevitable physiological processes of a man and a maid," another large number of marriages some 20 to 24 years hence and again in about 66 to 70 years and so on *ad infinitum*.

There is also in the present economic situation the important economic factor of the very large number of children that are currently arriving in our population and more important still the very large number that are surviving and surviving longer.

And then there is, as well, the steady and rapid increase in life expectancies which is prolonging the working years and years of retirement and which is boosting the proportion of the population that is aged 65 and beyond.

There is little question, then, but that what we have seen is a pyramiding and insatiable demand for things. There can be no doubt about the consumer's willingness to buy, his propensity to spend. Not only have the numbers of consumers increased, but they have been fully employed, and they have seized the opportunity to improve their standards of living. For example, we are told that the consumption of meat is now running at the rate of about 155 pounds as compared with 135 pounds in 1939. The economic problem for the typical American family, then, is in part a matter of the cost of living high as well as of the high cost of living.

By and large, that pyramiding demand has been effective demand. The consumer has had the money to spend. With a backlog of involuntary savings accumulated during the war and steady employment at high wages during and since, he has been able to lay the dollar on the line in the scramble for things.

Historically speaking, at least during periods of full employment, our American economic system has usually produced a rising standard of living in which all groups of the population have shared. Since the War, however, the widely-heralded increases in incomes have been by no means universal. Nor have they been uniform. Not everyone is prosperous. Only some are better off. Sharp contrasts in the real incomes of different groups have been created and have been accentuated by each successive round of wage increases.

The militant unionist and the farmer have been the principal beneficiaries of the postwar feast of higher incomes.

If we are to prolong high levels of economic activity we cannot expect to do it mainly or entirely through the purchasing power of the farmer and of the organized worker. The entire output of the consumers' goods industry cannot for long be bought primarily by the agriculturist and the unionist.

Moreover, for any prolonged prosperity, the entire consuming market must possess a considerable discretionary spending power to buy non-food products, or to put it more accurately, to buy goods other than indispensable necessities.

Further Inflationary Dangers

Successive rounds of wage increases merely compound existing maladjustments by lifting the smaller consumer groups already on the "up side" still further out of balance with the larger consumer goods that are on the "down side." Any further price inflation will require more dollars in the consumers hands, upside or downside. And at some time our disparities in current incomes, if further intensified, can and will cause trouble.

Whatever may be ahead in terms of a further skyrocketing of prices, the farmer seems relatively secure in his race with inflation. Certainly, he has been emphatically reassured by both major political parties.

Already, organized labor is preparing the way for a fourth-round wage boost. The pattern is forming. Come the robins again next Spring and the clamor for a fourth round is likely to burst upon us once more in full-throated chorus.

Within the past few days, the National Foreman's Institute, after an analysis of some 400 contracts signed during the last two months in the chemical, paper, textile, and metal-working industries, announced that the average new raise is now 9.4 cents per hour. Moreover, in many instances, these new contracts emphatically stress security plans rather than mere pay envelope boosts—security costs that become permanent overhead costs and that are difficult to reduce in a major downturn.

It is true, of course, that many economists believe that current talk about a fourth round is premature. The spectacular negotiations and the new contracts involving large numbers of workers in the steel, automobile, rubber and petroleum industries do not come up for renewal until next Spring. Nevertheless, it is easy, I think, to overlook the fact that by the time Big Steel, General Motors, General Electric, and our other giants get around to bargaining with their unions, the hands of their managerial negotiators have been pretty well tied by the 30,000 to 40,000 contracts already signed by smaller concerns all over the country.

Certainly a fourth round of widespread wage increases to organized workers in basic industries will distort still further the disparities in incomes and living costs among many groups of our domestic population.

And those disparities are presently great.

Savings Decline and Increased Consumer Credit

There is in the current picture, too, ample evidence of the fact that many consuming units can no longer live off the fat of accumulated savings in their scramble to acquire things. Personal savings have dropped from $34 billion in 1944 to an annual current rate of $12 billion. The Federal Reserve Board's latest study of consumer finances indicates that during 1947 more than one-fourth of all families spent more than they earned. One-twelfth of the spending units merely broke even. Moreover, the deficit families in 1947 drew on their savings not merely to buy durables but also to cover current living costs. Specifically, the one-third of our American families who drew down their accumulated liquid assets in 1947 by $15 billion spent a third of that sum, or $5 billion, for non-durable goods and services.

Certainly, the sharp increases in borrowings by consumers gives ample evidence of the fact that for some time now, new and additional funds, over and above current incomes and past savings, have been absolutely necessary to the maintenance of consumer demand at the higher price levels. At the midyear point, the amount of consumer credit outstanding was in excess of $14 billion, with installment credit making up about half of that amount and charge accounts, and single payment loans, the bulk of the remainder.

Such, then in very broad strokes indeed, is the consumer background against which our inflationary binge has been and is zooming along.

Fallacious Economic Ideas

In my own mind, at least, there is no question but that a large share of the responsibility for our present situation is the result of fallacious economic ideas that have been widely preached to the rank and file worker and that have not been effectively and persuasively met by business leaders.

I. One of these pestilent notions has been the idea that workmen can be paid more money for producing less and at the same time not have the purchasing power of their money depreciate in terms of prices.

The 40 hour week was born out of a depression psychology and a desire to spread work. Moreover, it has not the silghtest scientific physiological excuse for being. And in the face of both a domestic and foreign scramble for things and for services there has been and is a very real question whether the domestic economy can be maintained on 40 hours of work per week.

I yield to no one in my personal admiration for our Senior American Economic Statesman, Bernard Baruch. Every time he has said something about the current economic scene it has made sense and logic.

We need to recall, I think, that almost three years ago, namely in April of 1947, Mr. Baruch emphatically and prophetically called the turn! I quote:

"We might as well look facts in the face: we cannot achieve our purpose with the present hours and limitations on work. . . . Unless we work we shall see a vast inflation; unless we work we shall not be able to maintain our claim to power."

Production simply cannot be increased by paying more money for the same amount or for a lesser amount of work.

"Do what we will, we cannot have more than we are willing to produce."

That part of our swollen money supply that has come from the government printing presses has not been the only cause of monetary pressures upon the price structure. The payment of increases in wages and salaries **unaccompanied by increases in productivity** has had its effect.

"What we need to learn and to learn fast is that wage increases unaccompanied by increases in productivity are the equivalent of fiat money and are just as certainly the causes of inflation" as is any unregulated printing of greenbacks.

For the past seven years we have increased steadily the payment for an hour's work while the amount of work performed per hour has either remained unchanged or had actually declined. By the end of 1947 the unit labor cost in manufacturing was nearly 90% greater than pre-war.

Just the other day I turned the pages of the National Industrial Conference Board's monthly survey of average hourly earnings in 25 manufacturing industries. I found that in July average hourly earnings reached the highest level yet recorded for production workers. In spite of that fact, however, the Board reports that real weekly earnings have actually declined—0.1% since July, 1947.

The way out certainly does not lie in the direction of an attempt to lengthen the work week by resorting again to "suction wage rates and premiums for overtime" for any such action would merely compound the inflationary spiral.

When we recall, too, that the modern wage contract makes wage costs almost completely inflexible on the down side, we cannot expect lower costs and greater volumes through reductions in hourly wage rates. Nor can we lift ourselves production-wise by sharply expanding the size of the labor force. With labor fully employed at present, further gains must depend primarily upon a more efficient utilization of labor time.

And that means increased productivity—greater output per man hour.

Business Profits

II. A second pestilent notion that is widely-held by the rank and file is that business profits have been and are so high that through accumulated savings and ploughed-back earnings business can continue indefinitely to expand production-wise without dangerously increasing its debt structure.

Now, of course, it is true that for two years and more the boom that we have been enjoying has been based primarily upon huge capital expenditures by business generally.

The business community has made and is making a gigantic effort to meet effectively the new levels of consumer demand created by a fully-employed population and by the impact of unprecedented Governmental expenditures.

In the last two and a half years, business corporations have spent about $64 billion in financing plants and equipment, increased inventories, and accounts receivable in their effort to meet the expanded business demands.

More specifically, during 1947, all of our business corporations spent around $24 billion for the expansion of plant and working capital. They financed about 60% of this total out of retained earnings and depreciation allowances. They financed another $2½ billion by selling U. S. governments that they owned. They increased their own outstanding securities by about $4 billion, obtaining 73% of this new securities money by issuing bonds, 13% by issuing preferred stocks, and only 14% by issuing common stock. And they borrowed about $3 billion from the banks.

Retained corporate earnings in 1947 were simply not enough to meet the $15 billion in internal financing that was actually executed by our domestic corporations during the year. The difference had to be met out of past corporate savings.

The Securities and Exchange Commission has published figures for all corporations (except banks and insurance companies) showing that cash and equivalents held have dropped by more than $10 billion in two years. Because of the internal financing of capital expenditures that has gone on, corporate cash and governments have been drawn down to about 30% of current assets. Historically, of course, it has always been held that in the aggregate corporate business needs a cash, or equivalent position, approximately equal to 25% of its total current assets. Accordingly, at the moment, there seems to be only a rough 5% margin of accumulated fat left.

All in all, then, it would seem that corporate capital expenditures for the balance of the year and for next year face some very troublesome questions. If the corporate cost of living continues to climb, if profits shrink, our corporate capital expenditures may fail us because of an inability to finance internally in adequate amounts and because of a continued absence of available equity capital.

We could then be headed for very real difficulty.

Historically, whenever capital has sagged, the whole economy has sagged.

That is the record!

Shortage of Equity Capital

Our present shortage of equity capital stems directly from the economic sophistry of Keynesian exaggerators of partial truths who have stressed the idea of oversaving. Seized upon by the politician who always believes in prodigal spending, this pestilent notion that thrift is a sin, yes, a cardinal sin, has been frozen into our tax structure, designed during the thirties to discourage saving and to encourage consumption expenditures.

The emphasis upon the assumed necessity for spending has restricted our opportunity to accumulate savings and has weakened our disposition to invest in risk capital. Our individual savings in 1947 were largely non-venture savings. As individuals, we put our savings into bank deposits, currency, insurance, savings deposits and U. S. governments. The individual saver has certainly come close to disappearing as the source of new venture capital for private investment.

It is little wonder that the equity market is starved and that even the large corporation finds it almost impossible "to raise additional funds through offerings of share capital except on terms so costly in many cases as to necessitate deferment of plants."

The use of capital funds is based upon needs. And if business activity is to go on at present volumes and present levels, there will be a continuing need for large amounts of new capital funds, however secured, through equity and/or debt financing.

Government Spending

III. A third pestilent notion that is widely held by the rank and file is that the Federal Government must make spending a permanent governmental policy to maintain high levels of activity.

Now there is something—I think a good deal—to be said for a Federal compensatory fiscal policy. In the depth of a serious depression the government probably is justified in compensating for private demand that is lacking or absent by spending for useful public works. But such compensatory spending should be reserved for true depressions.

By their n a t u r e, cyclical changes in demand are in the main transitory. It is silly—is it not?—to say "that the soil has become sterile, because nothing grows in the Winter."

For a long time now, certainly, we seem to have said good-bye to the economic stagnation of the thirties. And yet, in the fiscal year 1948, our Federal Government expenses of about $39 billion were equivalent to 16% of our gross national product. Any comparison of this figure with say the prewar years of 1937-39, when Federal budget outlays amounted to about $8 billion per year and made up only 9% of our gross national product, is a disturbing comparison indeed. Certainly our current rate of public expenditures contributes heavily to inflationary pressures particularly at a time of zooming business activity.

Whether at the national, state or local level, public spending competes with individuals and business for materials and labor. It diverts resources that would would otherwise be available for consumption purposes.

And the pity of it all is that almost every economic proposal that comes out of the nation's capital suggests an expansion of spending programs and of governmental personnel.

The greatest need of the current moment is to hold the line against all new Federal spending programs proposed for social purposes. This is no time to indulge in sentimentality, paregoric or pap.

Next in importance is the need for a major operation on present governmental payrolls. We now have one governmental worker (federal, state and local) for every ten adult Americans. If half of them were laid end to end in the Atlantic Ocean they would reach from Puerto Rico to Africa—and, after all survivor benefits were paid, the taxpayers would save $7½ billion in yearly payrolls.

You will recall, perhaps, that during World War II, Mr. Winston Churchill made an observation that will go down in literature as one of the deathless sentences of all time. When he paid tribute to the RAF he said: "Never have so few done so much for so many."

Well, if Churchill were to walk the streets of Washington today, in the year of our Lord 1948, he would certainly reverse that statement and say: "Never have so many done so little for so much."

Attack on Private Credit

At the current moment, the sole governmental offensive in the battle against inflation is an attack upon private credit. The extra and special session of the Congress merely authorized the regulation of consumer installment credit and an increase in the reserve requirements of member banks of the Federal Reserve System of four points on demand deposits and one-and-one-half points on time deposits.

Once again the commercial lender is the scapegoat!

However, there seems to be very little real basis in the current situation for any implication that commercial lenders have unwisely expanded their credits by making speculative and non-productive loans. Despite the increase in over-all credit, bank loans, for example, are now only about 21% of the national income as compared with 48% in 1929.

The inconsistencies in the situation are downright amusing whatever may be the short- and long-term effect of the new controls.

So far as installment restrictions are concerned, the effect on general credit conditions seems bound to be slight. However, it is amusing, is it not, to have installment credit restricted for people who want to furnish and equip new homes at one and the same time that Congress authorizes extra inflationary credit for housing.

On the score of increased reserves for member banks, it is also amusing, is it not, to note that the major increase in member bank loans during the current years has been in mortgage loans that are backed by Federal government guarantees.

While it is, perhaps, too early to assess the probable effects of increasing the reserve requirements, it does seem likely that small banks in many parts of the country, some of whom already have more than 60% of their total deposits on loan, will have to tighten up. And hence it is that the small and medium-sized business may be adversely affected, may not be able to obtain the necessary accommodation at the commercial banks, may be obliged in greater numbers to turn to commercial financing companies for working capital needs.

The real danger to your business grows out of the bond pegging program which is inviting the sale of governments by non-bank lenders and the three-cornered dog-fight now going on among the spokesmen for the insurance companies, for the commercial banks, and for the Treasury.

Commercial bankers have not seen slow to point out the discriminatory nature of an effort to curtail credit solely by increasing the reserves of member banks of the Federal Reserve. Indeed, they have presented figures to show that during the year ending on June 30, 1948, insurance companies disposed of nearly $3 billion of U. S. governments and increased their loans and investments by $6 billion. Savings and loan associations, finance companies, mutual savings banks, and government credit agencies increased their loans and investments by $6½ billion. Non-member banks, too, increased their lending by $3 billion. In total that is $15 billion or two-thirds as much as the $5 billion increase in loans by member banks during the same period.

Indeed, even now, there is the open suggestion offered that if an increase in reserves is a sound method of restraining credit, then reserve requirements, by congressional action, should be visited upon non-member banks **and** upon insurance companies, and upon savings and loan associations, **and** upon finance companies.

It is still too early to attempt to say what present and possible future changes in the Reserve requirements may do to our fast-moving economy. As one of our elder financial sages, Mr. Leffingwell, has already pointed out: Unless neutralized, it could curtail the quantity of credit instead of merely increasing the cost. And so he reminds us of former Federal Reserve Governor Benjamin Strong's maxim that "you may make money dear but must never make it unavailable."

Certainly, the small and medium-sized business will be hit hardest by sharp contractions in credit. And as the pipe-lines fill up, the ineptly operated small business that could flourish while selling shortages obtained, will be hard put to survive. It well behooves the lender to step up and to offer more business counsel than ever to his clients, both financial and merchandising advice. Generally speaking, the successful and long-lived lender is not merely the one who makes only good loans. Rather, it is often the lender who most skillfully makes a poor loan good by guiding and helping his clients pull out of dangerous situations.

Now finally, I think I should and must say that, economically speaking, on the overall, the 64 dollar question — yes, for 1949, perhaps even the $64 billion question—is whether we will be able to implement our European Recovery Program, enjoy a tax reduction for long, and at one and the same time have both guns and butter.

Certainly, as has been well said, the economic visibility is low.

A domestic arms program like the present one could mushroom rapidly. Moreover, we could be drawn quickly and definitely into a gigantic program of rearming Europe. The course of international affairs is completely unpredictable. Nothing is foreordained.

With Gross, Rogers

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—James A. Keene is with Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange. In the past he was with Bankamerica Company.

With Stern, Frank & Meyer

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Albert J. Ghersen is now connected with Stern, Frank & Meyer, 325 West Eighth Street, members of the New York and Los Angeles Stock Exchanges.

No Business Collapse Near, but Prepare For Buyers' Market!

(Continued from page 13)

a question, however, how much these actually cut into the civilian supply.

The allocation for freight cars, for example, is 3 million tons. However, the rail transportation industry received practically 5 million tons last year. At the current rate it is only getting 5½ million tons.

The effect of the 3 million ton allocation, in other words, was to increase its supply by only ½ million tons.

All the industries receiving these allocations are civilian industries, which had already been receiving substantial supplies of steel even last year.

I will admit that there are other points to the steel argument. But these are the ones that are very seldom talked about, particularly by sellers. On the contrary, the question raised most frequently is this—

Where will the steel come from to meet next year's needs?

Sometime next year, I believe we may have a new question—*Where will the customers come from who will use all the steel?* In fact, maybe we should be asking that question now.

When Will Steel Reach a Buyers' Market?

A great many stores and appliance dealers have been told—You had better stock up now. There are going to be great shortages next year.

The implication seems to be that supplies of these items are only just beginning to recover and that the recovery will now be nipped in the bud.

I had believed that supplies of most of these items were already pretty good. Just to be sure, I looked again before I came up here.

They are:

With the exception of passenger cars, production of most of these items is way above prewar level. Even automobiles are a little higher, and for the other items gains range 25, 50, even 100%.

In most cases, this increase isn't due merely to a recent sudden spurt. Just to be fair, I added up what had been produced in the three years between September 1945 and August, 1948. That period contains at least one year in which output of most of these items was quite low.

Then I compared it, not with the *last* three prewar years, but with the *best* postwar years.

Even on that basis, which leans over backward in trying to be pessimistic about supplies, most of these items are way ahead—civilian trucks; tractors; oil burners; replacement batteries; electric washers; vacuum cleaners; radios; irons; and brass and bronze ingots, which are used in a million and one items too small to be reported separately.

Many of these metal finished items, in fact, have reached the point of supply balance, if not oversupply. There is probably a big potential demand yet, but it is limited now by high prices.

This doesn't answer the question—*When will steel enter a buyers' market?*

In fact, I won't try to answer that question. I'm morally certain that it won't enter a buyers' market in the next few months, or before Congress tells the industry sometime next spring what it can expect in the way of increased defense and military lend-lease.

But I could not at this time predict with any confidence that the sellers' market in steel will last all the way through 1949.

I have tried to imply so far that the business outlook, and the question of inflation versus deflation, may not depend quite so much on the foreign situation as many people seem to believe.

Nevertheless, it is an important factor. It would be a mistake to ignore it.

The basis of official policy is that there won't be a war between Russia and the United States during the next few years.

If that is correct—and I believe it is, because I don't believe Russia is ready for a war or could stand a war at this time—then there is one logical conclusion that must be drawn:

The foreign situation can't look much worse than it has looked recently. I can't say with assurance that it will look much better, but that possibility can't be ruled out entirely.

We are still in a period when war scares have been coming thick and fast. It is not impossible that we may soon enter a period during which peace scares will be more frequent than war scares.

I mention this only because what Congress does about defense and military lend-lease will be different if it acts under the pressure of a war scare than it will be if there has been some improvement in the foreign situation, either real or apparent.

If I may venture a mild suggestion, a spirit of skepticism about this question is in order. Anyone who tries to sell you on the details of what Congress will do sometime next spring no more deserves your trust and confidence than he would if he tried to sell you the Empire State Building.

Wishful Thinking

I am going to do something now that I have never done before at a meeting of this sort. I am going to tell you what I *hope* will happen sometime next year.

I wouldn't dare do this unless I believed that there was at least some chance that what I hope will happen actually will happen.

What I hope is that we get some sort of a mild but universal jolt next year, that will bring us all to our economic senses. I mean you, and me, and labor, and everyone else.

I hope it doesn't hurt any of us very much, but I hope it hurts enough to stimulate us, to help us break out of the vicious circle we are caught up in.

There is a big difference between real progress and inflation.

What we have had since the war ended is a great deal of inflation and very little real progress.

Labor has received wage increases, not because it produced more, but because the cost of living was going up.

Manufacturers received bigger profits, not because they were producing more efficiently, but because demand held up.

This is inflation pure and simple. It is not economic progress and it has not created a sound foundation. Prices have gone up but living standards have gone down. It is a one-way street that has to end sometime, and the sooner it ends the better.

When will this spiral be broken?

It cannot be broken until output per manhour begins to go up.

And human nature being what it is, I don't believe output per manhour will start up vigorously until labor has to put out to hold its job, and management has to work hard to make its profit.

I don't know whether you fully realize what this one little factor — output per manhour — could mean to you as buyers and sellers during the next two or three years. Here is what would happen if general efficiency would show the same increase as it did between 1919 and 1922—

Without any change in wage rates, and with no decline in raw materials, prices of finished products could decline by 25%, without any reduction in profits.

Or in terms of workloads, today's work force—which is working a 40-hour week—would only need a 30-hour week to turn out today's production.

Outlook Demands Aggressive Selling

Let me sum up briefly.

The general outlook has to be divided into two parts. One extends from now to the time Congress acts on defense and military lend-lease. The second period begins at that point.

During both periods the economy as a whole and the price structure as a whole will depend much more on the durable goods industries than it has for many years past.

During the first period, the current strength of many of these industries means that the psychological factor will continue to be important. In all probability, it will continue to be stimulating. Prices will advance further where supply-demand situations are strong; and where they are weak, price reductions and liquidation will be deferred or limited.

During the second period, a more analytical approach will be in order. Actual increases in defense needs will be checked off by purchase agents against the position of civilian industries, which are far more important customers of the durable goods industries.

The conclusion that the boom is bound to go on through 1949 may be right, but it is much too early to be sure.

The moral for your industry, I believe, is plain.

The buying function will be difficult. It will continue to be difficult until raw material prices ultimately stabilize at a lower level.

Producing at a profit and selling at a price in line with your costs will also be difficult. They will continue to be difficult as long as your customers have problems very similar to your own.

Now, you can't do anything about the raw material price trend or about raw material supply problems.

And you can't do as much as you would like to about efficiency in your plants and offices until there is a marked change in the average worker's viewpoint.

But you can put a great deal of vigor into your selling effort. And that is what I believe you *should* do.

In that sphere, there is room for a lot of improvement. Clerks in many cases have not yet been trained to be sales people. Most sellers could accomplish a great deal more, if they made an intelligent effort, by telephone, by direct mail, and by retail as well as trade advertising.

I notice from the program of this Convention that some very fine speakers will talk about this selling problem.

Let me close by making just one suggestion. Don't be afraid of using research as a tool in selling.

I hesitate to use the word "research"; it sounds so expensive and so academic.

What I mean by research, however, is entirely different. I mean for you to use well-organized information. That is all research is —applied common sense, so to speak.

For 1949, at least, the outlook demands more effective selling. And if I am right in believing that we will have a long period of high level activity *after* we have a moderate readjustment, then more effective selling next year will be well rewarded in the future.

Should "Delivered Price" Quotations Be Restored?

(Continued from page 15)

freight," in order to meet the delivered prices of competitors more favorably situated with reference to certain markets. As Justice Burton stated in his dissenting opinion in the Cement Case: ". . . a producer, for his own purposes and without collusion, often ships his product to a customer who, in terms of freight charges, is located nearer to one or more of the producer's competitors than to the producer himself. In selling to such a customer, this producer is at an obvious freight disadvantage. To meet the lower delivered price of his competitor, the producer, therefore, reduces his delivered price in that area by a sum sufficient to absorb his freight disadvantage. He might do this for many reasons. For example, this customer might be such a large customer that the volume of his orders would yield such a return to the producer that the producer, by distributing his fixed charges over the resultingly increased volume of business, could absorb the freight differential without loss of profit to his business as a whole and without raising any charges to his other customers. The securing of this particular business might even enable the producer to reduce his own basic factory price to all his customers. It might make the difference between a profitable and a losing business, resulting in the producer's solvency or bankruptcy. If the advantage to be derived from this customer's business were not sufficient, in itself, thus completely to absorb the freight differential, the producer might absorb all or part of such differential by a reductoin in his net earnings without affecting his other customers." I agree fully with that statement by Justice Burton.

"The Principle of Indifference"

In keeping with its theory of competition, the Federal Trade Commission has developed its so-called "principle of indifference" —namely, that under what it terms conditions of genuine competition, a manufacturer accepts money from one potential customer as readily as from another —that he is indifferent as to who his customers are. That theory is valid under some circumstances, perhaps, but under modern operating conditions the building of regular patronage, with carefully planned distribution, contributes to regularity of operations and maintenance of volume of output for many a manufacturing plant. In many industries it is sound and economical for a manufacturer to select certain firms, for example, to act as distributors in particular markets, and to establish as regular a clientele as possible. Such an arrangement is a means of intensifying rather than of weakening the struggle for consumer patronage. The development of such marketing methods, however, does not come about with indifference.

If the concept of competition, which has been promulgated by the Federal Trade Commission in the basing point cases, becomes deeply imbedded in the law, the effects can reach far beyond the cases currently under consideration. Many other marketing practices, now sanctioned by long and widespread usage, may be deemed illegal by the Federal Trade Commission, and the respondents will have no recourse to judicial review of the "expert" findings by the Commission. This Advisory Council may well consider whether it deems it advisable to recommend that Congress should at this time determine which concept of competition is to be embodied in the law.

Another FTC Novel Theory

Another novel theory promulgated by the Federal Trade Commission in the basing point cases is that any advantage of location "**naturally**" should accrue to the buyer. For example, in the "Circular to Counsel re Rigid Steel Conduit Association et at," the Trial Examiner of the Federal Trade Commission listed "tentative topics which appear . . . to be relevant in this case." Under Count II in that list of topics was the following question: "Does the method employed by Respondents cause each mill to receive a greater net amount from nearby customers and shipments, and deprive them of the **natural** economic advantage of nearness of point of supply? Similar phraseology appears frequently in other statements emanating from the Commission, and this theory seems to have been accepted by the Supreme Court in the Staley Case. In that case the Court said: "We cannot say that a seller acts in good faith when it chooses to adopt such a clearly discriminatory pricing system, at least where it has never attempted to set up a non-discriminatory system, giving to purchasers, who have the **natural** advantage of proximity to its plant, the price advantages which they are entitled to expect over purchasers at a distance."

This theory of **natural** advantage for the buyer seems to have been promulgated by the Commission to aid it in making out it case against basing point prices. Until this theory appeared in these basing point cases, I had always understood that enjoyment of the advantage of location is as much a prerogative of the seller as of the buyer. When the directors and executives of a business corporation are contemplating the location of a new plant, for example, they consider advantages from a marketing standpoint as well as favorable raw material and labor conditions. Outside of the dicta by the Federal Trade Commission, I know of no grounds, in fact or theory, by which the advantages of location are expected "**naturally**" to accrue to the buyer rather than to the seller. The enjoyment of advantages of location, whatever they may be, presumably should be the privilege of either the buyer or the seller, the outcome in each particular instance depending on the accuracy of the judgments which have been made in the choice of locations. A seller's right to such advantages as may pertain to the location in which he chooses to operate is one, it seems to me, which should not be abrogated by a government commission without express Congressional sanction.

Here again, the implications of the course taken by the Federal Trade Commission reach far beyond the particular cases under consideration. If the Federal Trade Commission, in order to bolster up its own case, can promulgate new "**natural**" laws, which are subject to little or no judicial review, then the numerous other administrative commissions which have been established in the government presumably may do likewise. Perhaps this Advisory Council may have some views to express on that subject.

Theory of Stable Prices

The theory of the Federal Trade Commission regarding the implications of stable prices also may deserve examination. When a manufacturer employs a crew of salesmen in a wide market area, as he commonly must do under the modern scale of productive capacity, the price-making procedure is quite different, but not necessarily less competitive than the making of prices by the higgling at an old-time agricultural market. Under modern industrial conditions, experience has shown that it is necessary for a company to have a price policy and a company price rather than to permit each salesman to bargin over price with each customer on each order. A company price policy is essential for effective managerial control and also for assuring fair treatment to each customer. Under such operating conditions, price changes occur less frequently than in the old agricultural markets, but the frequency with which price changes is not a measure of the intensity of competition. In the automobile industry the price of a Ford car, for example, does not fluctuate from hour to hour, or day to day, or even from week to week. Nevertheless the Ford car is in keen competition with other makes of cars. A manufacturer of men's shoes, to cite another example, offers shoes to his customers at a certain price at the opening of the season and that price may not be changed during the season. Yet the men's shoe industry is a thoroughly competitive one. In these instances and many others prices are adjusted periodically in accordance with a company's evaluation of trends of supply and demand factors and the competitive situation. Prices which are changed primarily with reference to longer-term factors are not necessarily less competitive than prices which change with day-to-day influences and rumors of influences. You may wish to consider whether this point needs clarification in the law.

Let me turn now to still another point of confusion. In his statement presented at the first meeting of the Advisory Council, Mr. Simon called attention to the manner in which the statutory exception permitting a seller to meet competition has been dealt with in these basing points cases. In its opinion in the Cement Case, the Supreme Court said that it is permissible for a seller to meet competition by absorbing freight only in "individual" situations." But, according to that opinion, a seller may not **systematically** absorb freight in order to meet the lower price of a competitor whose mill is located freightwise nearer to the customer. What **systematically** means has never been made clear by the Commission or the Courts, and therein lies one of the major causes of confusion.

Whenever transportation costs are an important element in the amounts which customers pay for merchandise at points of delivery, a denial to the seller of the right to meet the delivered prices of competitors regularly and systematically is virtually a circumscribing of the area within which he can operate. When the Federal Trade Commission and the Courts, following the lead of the Commission, say the statutory exception permitting sellers to meet competition is limited to "individual situations," but that the systematic absorption of freight contravenes the law, they are merely adding to the confusion which surrounds these cases.

In denying the right of a seller to quote delivered prices regularly and systematically, while recognizing his statutory right to meet the delivered price of a competitor occasionally, in individual situations, the Commission is consistently applying the theory which looks upon salesmen as economic bootleggers. Unless a manufacturer, for example, can regularly meet the prices of competitors in a particular district, there certainly will be little sense in his employing salesmen to solicit patronage in that district. Hence a ban on the regular or systematic quoting of delivered prices which yield varying mill nets in effect is a ban on the employment of salesmen in any but nearby market territories. To those who look upon salesmen as economic bootleggers, presumably the fewer salesmen employed the better.

From a practical standpoint, the concession which grants the right of a seller to meet the delivered price of a more favorably located competitor by absorbing freight occasionally but not regularly is a misleading legal technicality. It grants a permission which is practically of no value for operating purposes. That concession merely adds to the confusion. If competition cannot be met regularly and systematically, it cannot be met effectively.

Congress Should Clarify Situation

The Congress can clarify this situation by enacting appropriate legislation which will restore beyond future question the right of a seller in meeting competition to use regularly and systematically delivered-price quotations, which yield varying mill or store nets.

In conclusion, I wish to point out that in this country for many many years it has been customary for many manufacturers and wholesalers to pay all or a part of the cost of delivering merchandise to their customers. Manufacturers and merchants have pursued that practice as a matter of policy, offering such delivery terms or service freely to their customers. Thereby they have sought to broaden their markets, to stimulate demand, and to intensify competition over wide market areas.

In my opinion, it is not too much to say that this policy of furnishing free delivery service or absorbing enough of the delivery cost regularly to meet the delivered prices of competitors has been a constructive factor in the growth of American industry and trade. It has helped small industries to grow and expand. It has aided in providing employment in many scattered communities. And it has given buyers the benefit of choice between a greater number of competing sources of supply.

Now this practice of long standing has been called into question. Widespread confusion exists in industry. And that confusion is greater now than it has been heretofore.

This confusion can be eliminated only by the enactment of legislation by the Congress which will clarify the law. If the matter were to be left to the Federal Trade Commission, the hope for clarification within a helpful period of time would be slim. The Commission proceeds case by case, and one member of the Commission stated, in effect, at the first hearings of the Trade Policies Committee that the law regarding delivered prices can be fully interpreted and understood only after the Commission and the Courts have examined a large number of cases and rendered their decisions. So far, however, the more cases on delivered prices dealt with by the Commission, the more confused the situation has become. What state of confusion the law might be in with a dozen, or fifty, or one hundred more decisions is difficult to imagine.

The time factor, furthermore, is not unimportant. The Cement Case, for example, was before the Commission and in the courts for a period of about ten years, at a cost of millions of dollars to the government and to the companies in the industry. Proceedings in the Rigid Steel Conduit Case were started over seven years ago, and that case is now awaiting action by the Supreme Court. If the law on delivered prices cannot be settled until after numerous other industries have been subjected to that sort of treatment, we are in for a dishearteningly long period of confusion. In fact, if the law can be settled only by such long drawn out proceedings in many cases, I fear that it never will be settled. Hence the situation is one which seems clearly to call for action by the Congress.

The State of Trade and Industry

(Continued from page 5)

tions programs, the magazine notes, many producers are being cautious in opening books for next year, some booking orders for only a few products, and then for January only.

Meanwhile, however, there is conjecture as to whether the freight car builders, now taking half of all steel allocated, will ease their requirements if the low level to which new car ordering dropped in September continues.

Upward adjustments of prices continued last week. Reflecting the recent increase in the price of zinc, several companies advanced galvanized pipe $1 a ton and one producer raised hot-dipped and galvannealed sheets from 3 to 12c a hundredweight, depending on gage. Other producers are expected to follow suit, this trade paper concludes.

Lack of iron ore for the future, states "The Iron Age," national metalworking weekly, in its current release on the steel trade, is no longer a serious threat to the American steel industry.

Most large steel firms in this country, the magazine points out, have as much as 15 to 20 years reserve of high-grade Mesabi ores and maybe more. For many more years they have lean ore reserves which can and will be beneficiated, a process of separating rock from low-grade ore and concentrating the result into high-grade sintered iron ore. Costs of doing this will be high, but the main thing is that low-grade ores in the Mesabi will furnish the material for steelmaking long after many people now in the steel industry are dead and gone.

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 Nov. 1, 1948, unchanged from the preceding week. A month ago the indicated rate was 97.5%.

This week's operating rate is equivalent to 1,782,600 tons of steel ingots and castings against 1,757,400 tons a month ago and 1,681,700 tons, or 96.1% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

ELECTRIC OUTPUT ATTAINS NEW HISTORICAL PEAK IN WEEK ENDED OCT. 30

The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 30, was 5,555,254,000 kwh., according to the Edison Electric Institute. This was an increase of 16,369,000 kwh. above output in the preceding week, an all-time high record and 545,968,000 kwh., or 10.9% higher than the figure reported for the week ended Nov. 1, 1947. It was also 926,901,000 kwh. in excess of the output reported for the corresponding period two years ago.

CAR LOADINGS SHOW A FURTHER INCREASE IN LATEST WEEK

Loadings of revenue freight for the week ended Oct. 23, 1948, totaled 927,532 cars, according to the Association of American Railroads. This was an increase of 13,700 cars or 1.5% above the preceding week this year. However, it represented a decrease of 27,095 cars, or 2.8% under the corresponding week in 1947, and a decrease of 14,725 cars, or 1.6% below the similar period in 1946.

AUTO OUTPUT CURTAILED DUE TO INVENTORY TAKING

Production of cars and trucks in the United States and Canada declined to 116,413 units from 123,247 (revised) units the previous week, according to "Ward's Automotive Reports."

Last week's decline was attributed to inventory-taking by GM Truck and Coach, Ford and International Harvester and new model change-over shutdowns by Buick and Cadillac.

Output in the similar period a year ago was 107,240 units, and 92,879 units in the like period of 1941.

This week's output consisted of 88,511 cars and 21,732 trucks made in the United States and 4,050 cars and 2,120 trucks made in Canada.

BUSINESS FAILURES LOWER FOR WEEK BUT MUCH AHEAD OF 1947 WEEK

Commercial and industrial failures declined to 104 in the week ending Oct. 28 from the preceding week's total of 124, reports Dun & Bradstreet, Inc. Casualties were considerably more numerous than in the comparable weeks of 1947 and 1946 when 70 and 22 occurred respectively; they were only one-third as numerous as in the corresponding week of 1939.

Failures involving liabilities of $5,000 or more dropped to 84 from 110, but exceeded the 56 of a year ago; liabilities of $100,000 or more were incurred by 11 concerns. Failures with liabilities under $5,000 numbered 20 compared with 14 in both the previous week and a year ago.

Retail construction and manufacturing failures were lower for week with wholesaling failures unchanged and commercial service failures higher by one more than last week. More casualties occurred in all industry and trade groups than in the comparable week of 1947.

FOOD PRICE INDEX TOUCHES NEW 15-MONTH LOW

A decline of one cent in the Dun & Bradstreet wholesale food price index last week caused the index to reach $6.47 on Oct. 26. This was a new low for the year and was the lowest index since July 8, 1947, when it was $6.41. The index the past week was considerably below the $6.78 of the corresponding 1947 week.

COMMODITY PRICE INDEX AFFECTED BY FRACTIONAL DECLINES IN FOODSTUFFS

A slight decline occurred in the Dun & Bradstreet daily wholesale commodity price index during the week and reflected fractional dips in many foodstuffs. On Oct. 26 the index was 270.31 as compared with 274.13 a week ago and 288.55 a year ago. In recent weeks the index has been running about 5% below the corresponding 1947 level.

Grain prices last week were mixed as wheat advanced and corn continued to decline.

Wheat offerings remained limited as many holders waited further price developments. Cash prices, bolstered by a sustained government demand for wheat, rose moderately during the week, but no appreciable increases in offerings were reported. Wheat futures also rose and both cash and future prices were above the current loan levels in some markets. Increased receipts of corn and rather large offerings accompanied moderate cash price declines.

There was a marked increase in the domestic demand for flour which was partly reflected in the current interest in wheat. By the end of the week the flour demand had dropped with bookings limited largely to small lots for quick delivery. Many bakers held wheat supplies previously purchased at prices below the current levels. Large-scale buying is unlikely to occur while these supplies last or as long as prices remain above the previous purchase level.

Livestock prices dipped moderately during the week. Cattle receipts at Chicago markets on Monday reached a new high for this year, but this included numerous calves and yearlings that were being withheld for the cattle show in the latter half of the week.

Cotton futures advanced appreciably during the week, but a sharp drop on Monday reduced the previous gains considerably. Spot prices ended the week moderately below the previous week's level. Mill buying was limited and much of the recent drop followed an increase in hedging and the lack of steady buying. Reported sales in ten spot markets in the week ended Oct. 21 totaled 403,200 bales; in the preceding week it was 325,600 bales and a year ago it was 584,800 bales.

Trading in the Boston wool market continued to be close to the low levels that have prevailed during recent weeks. While more than 1,000,000 pounds of Texas wool was purchased the past week, trading in almost all other types was restricted. Wool prices generally were unchanged although some reductions were reported for 1943, 1944 and 1945 wools held by the Commodity Credit Corporation in order to help move them into trade channels.

No reductions were announced for the prices of 1946, 1947 and 1948 wools. Total 1948 wool appraised for purchase by the Commodity Credit Corporation by the middle of October was 40,157,621 pounds; a year ago the figure was 81,475,360 pounds. Prices in the Australian and South African markets were steady to slightly higher last week; there was almost no support from American buyers.

RETAIL AND WHOLESALE TRADE VOLUME AIDED BY PROMOTIONAL SALES AND INVENTORY BUYING

Increased seasonal promotional sales and continued clear weather in many parts of the country boosted retail volume in the period ended on Wednesday of last week. Total volume was fractionally above the levels of both the preceding week and the corresponding week a year ago, according to Dun & Bradstreet, Inc., in its current summary of trade. Consumer interest in women's and men's apparel increased slightly. There were frequent requests for gift and novelty items; small appliances continued to sell well.

Consumer response to promotions of women's Fall and Winter coats and suits was very favorable.

Interest centered chiefly on worsted and gabardine tailored suits, fur-trimmed and untrimmed coats and dresses in rayon crepe and taffeta. Men's apparel volume increased slightly during the week with interest largely in topcoats and overcoats. Men's suits and furnishings were in somewhat larger demand although total volume continued to be limited. Children's apparel volume, too, rose slightly.

Retail food volume was steady to somewhat higher than that of the previous week. The consumer demand for meats compared favorably with that of a week ago with many shoppers continuing to request low-priced cuts. Fresh fruits and vegetables were plentifully supplied in most parts of the country. Consumer demand for fresh produce declined fractionally. There were frequent requests for canned and frozen foods and canned citrus juices.

Fuel and Winter heating equipment continued in large demand the past week as householders prepared for cold weather.

Furniture and home furnishings sold well. Small electrical appliances and television sets were well received. Hunting equipment and automobile supplies were frequently requested. Many early shoppers continued to prepare for the coming Christmas holidays by layaway purchases of gifts and novelties.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 4 to 8% above that of a year ago.

Regional estimates exceeded those of a year ago by the following percentages: New England 5 to 9, East and South 3 to 7, Middle West and Northwest 7 to 11, Southwest 6 to 10, and Pacific Coast 0 to 4.

The efforts of merchants to restock diminished inventories of seasonal goods sustained total order volume near the levels of recent weeks. Wholesale volume in the week continued to be close to the high 1947 level. Many of the orders continued to be for current needs. Increases were reported in the demand for gift and novelty goods for both the Thanksgiving and Christmas holidays.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 23, 1948, advanced by 12% from the like period of last year. This compared with an increase of 11% recorded in the preceding week. For the four weeks ended Oct. 23, 1948, sales increased by 8% and for the year to date by 7%.

Retail trade here in New York the past week was again active, but percentagewise the increase in sales volume over the like period in 1947 was somewhat smaller.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Oct. 23, 1948, increased by 17% from the same period last year. In the preceding week an increase of 12% (revised) was registered over the similar week of 1947. For the four weeks ended Oct. 23, 1948, an advance of 8% is recorded over that of last year and for the year to date, volume increased by 6%.

When Do We Go From Here?

(Continued from page 3)

American carryover of wheat and corn at more than a billion bushels — so there may be some modification of the program when the Congress meets next January. But under any conceivable legislation the farmer will collect heavily—of that you may be sure.

Every effort will be made to maintain housing construction at a high level. All political groups favor this. It follows that mortgage credit expansion will continue.

The Economic Cooperation Administration expenditures are expected to increase. The Republicans are on record as favoring foreign aid spending, including a substantial increase in our aid to China.

Exports of farm products under the aid programs and government price support in the commodity markets may prevent a substantial drop in the cost of living, and thus lead to a fourth round of wage increases.

Military expenditures in the current fiscal year are now estimated at $15 billion. There is apparently no likelihood that they will be smaller; in fact, it will be almost a miracle if they are not larger. In the campaign, Mr. Dewey went on record for the Republicans as favoring a defense program to keep the United States "so strong that no foreign dictator will dare attack us again."

From this quick and summary analysis, it seems clear that the election will have little effect on the major inflationary pressures.

Election and Deflationary Pressures

Let us now examine the probable effect of the election on the deflationary pressures which are developing in the economy.

While the agricultural price support program was listed as an inflationary pressure a moment ago, we must not lose sight of the serious deflationary pressures created by the greatly increased physical volume of our bumper harvest. The bounty of nature and our modern agricultural methods have once more produced a crop so large that it is economically embarrassing—even in a hungry world! The Oct. 11 harvest-time report of the Department of Agriculture indicates that the total crop is some 13% greater than last year, that in fact, it is 8% greater than the previous all-time record high output of 1946. Taking but two of the price supported crops for example, we find that the corn crop is 47% greater than last year and 25% greater than the preceding 10-year average; similarly, cotton is 27% greater than last year and 26% greater than the 10-year average. The election cannot affect these crop yields—in fact, the crop is largely "in the barn"!

Inventory expansion has to come to an end **sometime**, elections notwithstanding. Total business inventories have now reached the almost fantastic total of some $53,000,000,000. Manufacturers' inventories alone reached the huge total of $30,400,000,000 at the end of August. The end of inventory accumulation, which has been expected for more than a year, will remove one of the strongest inflationary pressures. The election will not alter this economic fact.

Installment credit restrictions, especially the higher down-payments, have already adversely affected sales of consumer goods. I know of no reason to think that the election will be the signal to abandon consumer credit regulation.

High prices have already reduced sales in many lines and the process is continuing. Price, the great equalizer, is once more becoming effective. There is no longer an insistent pent-up demand which rides roughshod over price no matter how high. People, once more, are asking, "How much?" Price tags are again fashionable; in fact, they are *de rigeur*.

A survey made for the Federal Reserve Board shows that 28% of the nation's families spent $11 billion more than they made in 1947. This particular group did not have these excess expenditures because of the high cost of living. On the contrary, they called on their savings and credit to buy expensive consumer goods. Thus, three out of every five families spending more than they earned in 1947, bought household appliances, furniture, radios or automobiles.

In the same year, the 30% of families with annual income of less than $2,000 spent more than they earned in the aggregate. In their case, this was due, of course, to high prices for food, clothing and rent. (Parenthetically, in this connection, you may be surprised to learn that the median monthly rent in the United States at the beginning of 1948 was only $30 per month.)

The adverse effect of high prices on business volume will not be changed by the election.

In short, it is hard to visualize the election as stopping, even materially reducing, any of the basic forces of deflation.

Well, how will the election affect the necessity of an orderly government bond market? It seems to me that to ask this question is to answer it. We will still have nearly $50 billion of short-term securities outstanding in the market. We will still have nearly $55 billion of the non-marketable C, D, E, F and G bonds in the hands of our people. No political party is going to challenge this $100 billion argument for stability in government bond prices. Conceivably, they might disregard the effects of their actions on the banks and institutional holders of government securities, but they would not dare to hazard the refunding of the short-term issues or the possibility of the presentation for redemption of sizable portions of the non-marketable issues.

Or, to put it another way. The public debt will still be more than a quarter of a trillion dollars, and you just don't take chances with a quarter of a trillion dollars!

Necessity of Economic Equilibrium

Economic equilibrium is still an imperative necessity. The Russians continue to wait for the post-war depression which they think will so weaken us that we will be unable to oppose effectively their plans for expansion. It is difficult to conceive of any administration in Washington which would countenance a serious depression under such circumstances. You may rest assured that the full force of government will be marshalled to prevent an economic debacle.

In conclusion, let us look facts in the face. The present volume of business activity is being supported by about $15 billion of military expenditures, $6 billion of European aid, and many million in farm product subsidies, and some $9 billion in FHA guaranteed home mortgages. These expenditures will not decrease immediately—in fact, the best we can hope for is, "in the long run." The forces of deflation are, however, getting much stronger. As this survey has indicated, the election can have little immediate effect on any of these basic forces. As was well said in the campaign: "We can only master the question of swollen prices, debt and taxes in a world at peace."

Therefore, despite a lot of opinion to the contrary, I see but little change, if any, in our money, credit, and debt policies as an immediate result of the election.

Joins S. R. Livingstone

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Dwight W. Hostetter has joined the staff of S. R. Livingstone & Co., Penobscot Building, members of the Detroit Stock Exchange.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, OREG. — Leslie J. Bohrer is with Merrill Lynch, Pierce, Fenner & Beane, Wilcox Building.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Post-election market reaction likely to usher in good buying opportunities.

By the time you read this, the elections should be all over except the alibis, but the headaches are not. The shock to the so-called well-informed opinion of the Democratic result is bound to have repercussions. The chief of these will be the obvious one—a reaction. But what will happen after thinking processes return to normal should interest us from here on. Incidentally, the writer doesn't take any great credit. He also believed the Gallup and other polls and his major regret is that he did not take a 60 to 1 bet on Tuesday morning. However, that is neither here nor there.

* * *

Last week I warned that a top was in the making — in fact the warning went back a couple of weeks. I pointed to the 188-90 as the probable top and I didn't have any inside information about the election. So with the market acting the way it did, I am tempted to be quite modest about the whole thing and make noises of self-appreciation with the hope that not too many people will object.

* * *

The statement often expressed here that advancing markets feed on themselves can also be applied to reactionary markets. This is particularly true when a major piece of news like the election results comes as a complete surprise. With 80% of the newspapers in Dewey's corner and all the surveys giving him the nod, it isn't surprising that everybody, including professional politicians, were caught with their public polls down. The first reaction, therefore, to such a shock is a desire from traders to get out from under—to sell while the selling is good.

* * *

Actually, however, nothing has changed. The stock market indicated a top a few weeks before election and also pointed where the averages would probably go. There is now the probability that after this first burst of selling the market will go into dullness followed by another reaction. To offset this, there is a similar possibility that after the selling is over prices will turn up.

I lean toward the latter theory.

* * *

I will sum it up in one word "Buy." To elaborate, I think various groups might well be considered. These are, aircraft manufacturing, autos, auto accessories, tires, coppers, steels and rayons. Specifically the stocks in these groups, with their buying levels and stops are as follows:

Boeing, 24 or better; stop 22.

Chrysler, 58 or better; stop 54.

General Motors, 62 or better; stop 58.

Briggs, 32 or better; stop 29.

Anaconda, 36 or better; stop 34.

Inspiration Copper, 19 or better; stop 17.

Celanese, 32 or better; stop 30.

Goodyear, 46 or better; stop 42.

Among the steels, Bethlehem, U. S. Steel, and Youngstown should be included as suggested components of the group.

You still hold Allegheny-Ludlum and American Air lines. Stop the first at 27 and the second at 6¾. You will note that all the buying recommendations are under the present market but the reason for that is too obvious to elaborate on.

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.]

FTC—Monkey Wrench In Distribution Machine

(Continued from first page)

system of distribution was going to continue free and competitive. This I do not think they can do, for the camel of bureaucracy is pushing freedom of choice right out of the distribution tent.

Let it be understood here and now that I am critical of the system under which we operate; that for my colleagues and our fellow workers on the Commission, I hold the greatest respect and admiration. They are public servants of the highest integrity and character. I am proud to claim a common purpose with them in protecting and furthering the freedom of enterprise we are sworn to support. It is the method of accomplishing this wherein some of us have honest differences of opinion.

It is my belief that, as to one of the implications of the Five C decisions, the citizens of the little town of Hershey will hereafter gorge themselves on the million bars of chocolate they turn out every day, the Californians will suck oranges, Milwaukee sip its beer and Chicago chew its beef, but in the meantime we'll stop the vicious cross-hauling of toothpaste from one town to another. Now, of course, that statement is made for illustration and is not to be taken literally, but here is something I want you to take literally, and I mean every word of this.

Recently the courts approved five Federal Trade Commission cases concerning the distribution of five different commodities. I call these decisions the Five C cases, because the products involved all begin with the letter "C." You can remember them very easily with this little jingle:

"Cement, conduit, crepe, corn and calt
Every business call a halt."

(Excuse me for spelling salt with a "C.")

What these decisions do to our distributive methods is of vital importance to our welfare. For, in my opinion, snarling up distribution is bad for prosperity.

The defenders of the Five C cases point out with lofty sarcasm that they haven't thrown us into a major depression or deprived us of our foremost place amongst the nations of the world, to which I humbly reply—first, that with respect to those Five C decisions nobody, with the exception of the respondents, is obeying them. And, secondly, I am convinced that even if government were to revamp our distribution system, private enterprise will be able to withstand the shock long enough to get Congress to change the laws. For the American system of distribution is the soul of economic democracy.

I am convinced that Paul Mazur is right. I missed his talk yesterday but I keep his article in "Fortune," printed last November, always at hand, and I agree 100% with his postulate that the high standard of living which our mass production can support must rely on enlarging our domestic markets. This can be accomplished only through the intensive sales promotion and other distribution techniques of free enterprise. For it must be understood that higher material and labor costs make large volume the only way to keep up with the higher break-even points of operation.

In the abstract this sounds complicated, but let me give you a very simple illustration of what I mean.

Last Tuesday I spoke before the Hardware Manufacturers Association in Atlantic City. To get a glimpse at their problems, I went to Detroit the week before to study at first hand a hardware manufacturing operation. Here are some of the things I learned.

In 1914 this hardware manufacturer was paying shop wages of 35c an hour. Today he pays $1.56 and up per hour.

In 1914 he was buying his gray iron castings for 2¾c per pound. Today he pays 10½c a pound for the same material.

His shop machines cost $500 each in '14. Today, the shop machinery he uses costs him $15,000 each.

In 1914 his building cost $2.10 per square foot to erect. Today, the same building costs $7 per square foot.

In 1914 his plant produced a certain piece of hardware selling for $2.81. With the increased benefit to labor and in spite of the additional cost of raw materials, this company now sells that same piece of hardware (only greatly improved) for 6c less per item than what it charged in 1914.

This wasn't done with mirrors; it was done with distribution.

You can talk all you want about mass production and mass purchasing power, but neither of these factors could have given labor five times greater hourly wages in '48 than in '14, or delivered an article costing $2.81 in '14 for 6c less in '48 if the American system of distribution had not made it possible for production to find its way to the purchasers' dollars.

This distribution has developed under the American free enterprise system.

We ought to be pretty proud of this small hardware company for, during the period I have been talking about, it chipped in a million dollars in taxes to Uncle Sam. With a record of no labor trouble and a generous support of all charitable and community projects, it can be well said that this type of industrial operation forms the foundation-stone of our nation.

I would say the description of this plant's social utility and its value to our country fits most of the small manufacturers of America.

And I am sure every person in this room agrees this is the kind of businessman we like to see in our country. Is it any wonder that the Secretary of Commerce is proud of industry and that he openly boasts his Department is created to help American business?

It's grand to visit his Department.

But now let me take you by the hand and we shall leave the confines of the salubrious and beneficent Department of Commerce for another agency down the street.

We leave the Secretary of Commerce sitting in his office facing the park, for I would not have him know there is an agency in Government which doesn't think so highly of American business as he does.

Come with me to the roof of the Federal Trade Commission and look out upon a sea of business people. These are the thousands upon thousands who operate our economy.

Let us turn the Federal Trade Commission telescope in the direction of Detroit and pick out the little hardware manufacturer just described.

To operate the Federal Trade Commission telescope, you have to know it has only two lenses. No matter what you look at, you can see only two pictures.

One lens shows you small businessmen being crushed by large aggregations of economic power.

The other lens shows you large aggregations of economic power crushing small businessmen.

You adjust the viewfinder to observe the hardware manufacturer in Detroit. As he is a small businessman, you can be sure you will see monopoly astride his back like a phantom freight rate, absorbing quantity discounts out of his lifeless and bankrupt corporate structure.

But no! There is something wrong! This small manufacturer is doing marvelously well. His employees are making five times the earnings they made in 1914. Uncle Sam is taking his whack at the profits through income taxes, and stockholders are getting dividends. The public, a better article, cheaper. And everything is just like the Secretary of Commerce said it should be.

This can mean only one thing. The man must be violating Section 5 of the Federal Trade Commission Act!

Either that, or else he is using quantity discounts his grandfather used, or he is selling his goods on zone prices or absorbing freight, or doing some of the other things the Cement, Conduit, Crepe, Corn and Salt cases say he mustn't do.

Let's swing the Federal Trade Commission telescope around the horizon. Why! What is this? You see a whole nation of businessmen doing the same wicked things!

What to do?

We haven't the time or money to sue everybody. Which one shall we pick out? It's like playing tag. Everybody can't be "it," so you start out—

"Einie meenie minie dink
Throw a merchant in the clink,
Eenie meenie minie moe
Let the other merchants go."

Everybody naturally wants to know how not to be "it." Shall I tell you?

Perhaps you have already read the 9-page "Statement of Federal Trade Commission Policy Toward Geographic Pricing Practices for Staff Information and Guidance" recently issued by the Commission, explaining what these five decisions mean. I didn't subscribe to this explanatory statement because nobody told me just what the explanation meant. But at various times members of the Federal Trade Commission staff have offered some simple advice on how not to be "it." For the benefit of those who, like me, are not too clear about the official explanation, I shall pass on these pieces of advice.

First, don't conspire to fix prices. That's the first short sentence of two-syllable words I ever saw come out of a Government bureau. It makes sense. You can understand it and every man and woman in this room subscribes to it.

In fact, I don't know why anybody starts out a speech by saying he is against conspiracies and restraint of trade. It is so perfectly obvious and fundamental. One doesn't go around bragging about his patriotism or how much he is opposed to treason and murder. We in America just accept these things.

But now let's come to the next two pieces of advice, which are not so easy to follow. If any of your customers complain to you about your quantity discounts, watch out! It has been suggested you might bring in a flock of cost accountants to see if they could justify your quantity discounts by the differences in cost of manufacture or sale.

Personally, I wouldn't mess around with trying to defend your quantity discounts. Just come down to the Federal Trade Commission and lay your head on the block. It's much easier. Because, as Mr. Justice Jackson said in his Morton Salt dissent (that's the salt I spelled with a "C"):

"The law in this case, in a nutshell, is that no quantity discount is valid if the Commission chooses to say it is not."

Now here's the third piece of advice that's being passed around.

Be sure you don't know your competitors' prices! In other words, be careful not to find out what prices are being charged by the fellows that make the same rubber mounted shaving mugs you make. This is difficult.

What happens when one of your salesmen walks into a store and offers a retailer your 1948 model of rubber mounted shaving mugs at $13.75 the dozen? The first thing the purchasing agent says is, "Why, you poor so-and-so, Glutz is selling his mugs for $12.95."

This means the jig is up. For the minute you find out Glutz's price is $12.95, you know you are not going to sell any of your mugs unless you also come down to $12.95. And if you come down to $12.95, you are matching competitors' prices, and that, my dear friends, if carried out systematically, results in a conscious parallelism which, according to the

Five C decisions, is tantamount to a conspiracy.

There is, however, a way of getting around this difficulty. Equip all your salesmen with earmuffs. When the purchasing agent says, "Why, you poor so-and-so, Glutz is selling his—" then you have your salesman flop the earmuffs down over his ears and he'll be able to come back to you, clean, pure and innocent in the eyes of Government, for he won't know your competitor's prices.

Then after he has made the rounds of his sales territory, he'll be able to say in all candor and honesty, "Boss, the customers you used to have were certainly a nice crowd of fellows. Maybe I didn't get any orders but, believe me, I sure fixed it so the Federal Trade Commission can't sue you."

If I have introduced hilarity and ridicule in my attack on what these Five C decisions empower the Commission to do—

If I have kidded and joked—

My apparent flippancy is but the cry of a man who sees in these cases the seed of internal decay for our distribution system. It has been said the greatest tyranny often has its beginning in the hidden precedents of technical and obscure cases.

Professor John Jewkes of Manchester, England, carries in the foreword of his new book "Ordeal by Planning" this warning from a newspaper sold on the streets of London a hundred years ago:

"The greatest tyranny has the smallest beginnings. From precedents overlooked, from remonstrances despised . . . springs the tyrannical usage which generations of wise and good men may hereafter perceive and lament and resist in vain. . . . Let it alone and it stands on record. The country has allowed it and when it is at last provoked to a late indignation it finds itself gagged with the record of its own ill compulsion."

The defense against the development of such a condition here in American today is personified in the presence of the man who follows me on this program. This man is not a candidate for reelection to Congress so I can speak about him without fear of breaking over into politics, a taboo subject for a member of a quasi-judicial body.

I shall listen with a great deal of respect to Everett Dirksen's views on another non-political subject, the Marshall Plan, but I regret that the people will miss his aggressive presence in the halls of Congress next year. For, judicially and administratively speaking, the law as it is outlined in the Five C cases will stand unless Congress acts.

Under the Five C decisions the agencies of government dealing with the problems of business conduct have created a Tower of Babel. There is no work on the trestle board that industrialists can intelligently follow.

There is, as I see it, but one remedy for this dolorous condition—legislative action by the spokesmen of the people—the Congress of the United States.

Government Financial Powers and Banking

(Continued from page 7)

us that no one even questions it. William Graham Sumner, a disciple of private enterprise, believed and said that a privately operated postal system would be better. No doubt he was right. The point is that there is no use in debating it now. We have it; and there are other, more urgent topics to be debated.

Our task is not to wave our arms and to extol in broad generalizations the advantages of the free enterprise system, but to struggle all along a broad battlefront, making thrusts wherever the chances of success exist. Only in this way can we check the progress of socialization and liquidate it where it has not yet become firmly entrenched. Only by this means can a partly collectivist society be kept tolerable for individuals. The test must be more pragmatic than theoretical. We must show where private enterprise has not only served well but can continue to provide greater benefits for society than can be achieved through socialism. There is much to show.

Policy to Be Followed

In our own field, we have long since accepted supervision by various governmental agencies; and both we and the public have become thoroughly accustomed to it. It is, however, quite another case with regard to government lending and government guaranty of credit. I do not speak against these government lending activities in times of national emergency, but rather against making them a part of national policy, or making so-called emergencies a continuing routine. Here is the point at which we should attack with all our might.

Our attack should be threefold: (1) If any human enterprise should, by its nature, be in private hands, that enterprise is the extension of credit. (2) Chartered banking has been and is aware of the social responsibilities involved in money lending, and it is fulfilling the need for credit with those responsibilities foremost in mind. (3) Government lending is wasteful, and it confounds government fiscal policy, placing embarrassment upon the government itself in discharging its duties.

First, then: if any human enterprise should be in private hands, that enterprise is the granting of credit. As citizens, we are all satisfied that our government should have police powers and that it should determine the conditions under which antisocial individuals should be placed in jail. But no thinking individual can agree that the government should decide whether or not a citizen is worthy of credit or should have the privilege of borrowing.

In the first place, it is a fundamental wrong to society for the government to lend money that belongs to the taxpayers, or to abuse their credit. It not only is a disservice to the taxpayers, but also places the borrower in the position of being a public dependent. Creditors should deal with lenders who measure risks carefully, and who lend as a matter of business and for profit. This in itself is a protection for borrowers who might seek loans for unsound ventures that could cripple them financially.

If a borrower is denied credit, the denial ought to come from a lender from whose judgment there is another appeal to still another lender. There is no appeal from the authority of a government lending agency. If a borrower is denied credit, he ought to have the opportunity to take his request to a competitor of the lender who refused him. This gives the borrower assurance that he will not be denied because of his political beliefs. Finally, it is patently wrong for government to have the power to determine which borrower should have credit and which should not. The competitive aspects of business and industry make it imperative for all to have equal access to various sources of credit.

Government lending, in its ultimate aspect, is a one-way road to business and industrial monopoly as well as to the completely socialized state. It is a sad truth that in recent years the banking systems of 15 nations have been completely socialized and that plans are being studied providing for nationalization of banking in ten other countries. Socialization of credit is one of the less bloody techniques of collectivist revolution, but it is a vital one.

Pattern of Recent Revolution

The pattern of revolution in recent years has been fairly uniform. The first object of control by the collectivists is the police or military power. Second, such opponents as may remain in governmental offices after the boring-in technique has been applied are expelled or liquidated. Third, the banking system is nationalized. Fourth, the major industries are placed under government control. Finally, the educational system is totally taken over. The importance of fighting the nationalization of credit is obvious. Chartered banking is a bulwark against the nationalization of society, and we have an obligation to society as well as to ourselves to keep it strong, free, and stable.

Banking Aware of Its Responsibilities

Our second major method of attack is to demonstrate that chartered banking has been and is aware of the social responsibilities involved in lending money. Our social responsibilities lie in two directions: first, to the individual borrowers who want and need credit; and second, to the well-being of the national economy of which those individual borrowers are a part. Modern economic organization is vast, and the transfer points between the origin of raw materials and the sale of finished products are many. This has made credit an indispensable factor in production and distribution. No individual business or industry can operate today without ready access to credit. We have an obligation to fulfill the legitimate credit needs of borrowers. The charters under which we operate are granted on the premise that we will fulfill that obligation.

I believe it is fair to say that in no other part of the world have banks so consistently and faithfully satisfied the credit needs of borrowers. The industrial and agricultural development of this country, from the days of the frontier to the present time, offers adequate testimony to both the adequacy of bank credit and the efficiency with which it has been administered. Involved in that epic of economic growth and expansion have been the loans made by thousands of chartered banks to millions of individual borrowers.

Credit is essential to the success of both small and large business. There are today many thousands of business enterprises whose growth and development have depended largely upon adequate bank credit. One of the major postwar difficulties of business was successfully overcome by the effectiveness of the banks in making credit available to every worthy business borrower whose character and competence warranted credit. The lending record of the banks repudiates the statements of many so-called experts who declared the banks would be unable or unwilling to provide credit for the postwar reconversion and expansion of business and industry.

Credit for both small and large business has been adequate, but most of the loans were relatively small because they were made to small business. According to a survey made by the Federal Reserve Banks, 22.8% of bank loans in the immediate postwar period were for less than $1,000. Moreover, 88.05% of the loans were for less than $25,000.

What is so often overlooked is the fact that banking itself is, for the most part, small business. Of the 15,000 banks in the nation, some 12,000 of them are community-serving, country banks. They have less than $250 000 of capital. More than 4,000 of them have less than $50,000 of capital. Since most banking is itself small business, it is most certainly aware of the credit needs of small business. The figures I have cited show conclusively that it is fulfilling those needs.

Flexibility Needed in Credit

What is equally important is the fact that the present structure of American banking lends great flexibility to the extension of credit. The banks were competent in expanding credit when and where it was needed during and after the war. Today, they have initiated the present broad program calling for wise and productive use of credit as an anti-inflation measure. They thus demonstrate that they are able to meet one of the imperative requirements of credit—that it be extended when its use increases needed production, and withheld when during times of inflation its use adds only to demand for goods without increasing the supply. Decisions regarding credit, involving as they do an intimate knowledge of local and community business, cannot be wisely made by an agency of government centralized in Washington, whose edicts have all the rigidity of law.

A sound national economy cannot be brought about by government decree. It can be created and maintained only by intelligent, constructive use of capital, credit, labor, and management in thousands of separate industries and communities. I believe that efficient local credit administration provided by our chartered banks is a social responsibility that chartered banking has fulfilled not only satisfactorily but far better than any other means has ever or can ever fulfill it.

Government Lending Wasteful

The third avenue of attack upon socialized credit concerns the point that government lending to business and industry is wasteful—that it confounds government fiscal policy and places embarrassment upon the government. The incursion of government lending agencies into the credit field has come from two different directions: first, through direct loans to business, industry, and farmers; and second, through the much more subtle device of government guaranties or participations. Underlying both of these methods is the familiar technique of placing capital provided by the taxpayers at the disposal of government lending agencies, usually on an interest-free basis.

As we have long observed, the usual justification for a new or enlarged program of government lending is a so-called emergency, sometimes genuine, more often not. Agencies created for emergency purposes have almost always become self-perpetuating. This has been the history of the RFC, REA, RACC, the PCA's and many other agencies of agricultural and business loans. Once created, they not only seek perpetuation but also become unable to reverse their operations to conform with the realities of changing economic conditions. They are thus far less efficient than chartered banks.

The lending policies of chartered banking as a whole, and of individual institutions in particular, are flexible. Those of government lending agencies are not. For this reason, we now find the government lending agencies wastefully competing with chartered banking at the expense of taxpayers and in direct competition with the banks. This is true with regard to loan guaranties as well as direct loans by government. Under normal circumstances, there is no reasonable justification for government guaranty of loans. A loan is either sound and economically justifiable or it is not. Loan participations are another name for government guaranties. Both are a transfer of risk. If chartered banking were to surrender to government its function of taking business risks, then there could be no justification whatever for the existence of chartered banking. Bankers have aptly been termed "merchants of risk." When they transfer this responsibility to government, they are no longer in the banking business. In effect, they become an agency of government. They lose their right to the rewards for taking risks.

When bank credit was singled out several months ago as a causal factor in the spread of inflation, it was our contention that expansion of bank loans is largely a result and not a cause of inflation. Business and industry require more credit to carry inventories, meet payrolls, and to finance the other costs of doing business at higher prices during periods of inflation. Credit expansion is thus a secondary factor in the spread of inflation.

Yet, recently when the Federal Reserve Board was advocating new legislation which would curtail the expansion of bank credit, other agencies of government were seeking to expand credit through additional loans and credit guaranties. Even the Federal Reserve Board itself a few months previously had urged Congress to give it additional loan guaranty powers. Later, the RFC asked for and obtained an extension of its life; but I am happy to report that in part because of testimony presented to Congress by the American Bankers Association, some of the lending powers of this agency were curtailed.

Loans by government agencies are as inflationary as loans by chartered banks. The picture of some agencies of government seeking to expand their loans at the same time that other agencies of government advocate a general curtailment of credit is, to say the least, confusing. To say the most, it is absurdly embarrassing to the government itself.

One of the most powerful arguments for the nationalization of business and industry is the statement that centralization of control produces great efficiency and cohesion in a nation's economy. I believe that the facts, as we have observed them develop in recent years, point rather toward inefficiency and confusion. Laws and regulations beget more laws and regulations. Controls produce the need for still more controls. If human knowledge were perfect and complete, the socialized state might well be utopia. But our social, political, and economic knowledge is not perfect and complete. There is so little likelihood that we shall ever attain omniscience that we must do our best to preserve the useful practices and institutions we have developed thus far. We need to maintain a reassuring sense of direction in the turmoil and confusion of our very troubled world.

Walston Hoffman Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Kenneth N. Simons has joined the staff of Walston, Hoffman & Goodwin 550 South Spring Street. He was formerly with G. Brashears & Co.

With Robert G. Lewis

(Special to THE FINANCIAL CHRONICLE)

ROCKFORD, ILL.—Clayton C. Andrews has become affiliated with Robert G. Lewis, Central National Bank Building.

Federal Reserve Is Free From Political Bias

(Continued from page 6)

escapable. The problem of how to organize central banking functions, however, has no easy solution. Many experiments have been tried. Although central banking is a public function just as the administration of justice is a public function, experience has proved that central banks should be organized independently of the Executive and of the Treasury, just as Courts of Law are organized independently of the Executive and of the Department of Justice.

In Europe the solution to this difficulty long took the form of privately-owned central banks, operating under special charters from the sovereign. This type of organization has tended to insure relative freedom to central banks from political encroachment but it has left them vulnerable to accusations that they were operated for private advantage, at the expense of the public interest. Recently, the pendulum has swung away from this pattern in many countries. In order to accent the public nature of the functions which central banks perform and the public responsibilities with which they are entrusted, some governments have purchased the privately-held shares of their central banks and have made them wholly publicly-owned institutions. These central banks are still organized, however, as completely separate institutions.

The truth is that central banks must function solely in the public interest. In doing this effectively they must, of course, maintain close contact and cooperation both with the private financial community and with the Executive, including particularly the Treasury. Whatever their form of organization, they cannot escape this dual role.

The financial history of the United States before the creation of the Federal Reserve System illustrates repeatedly the difficulties of this problem. The First and Second Banks of the United States represented attempts to organize the central banking function in this country by chartering a privately-managed single central bank. In both cases, this type of organization proved politically vulnerable. It was politically suspect because the management was entirely in private hands and because the central bank, due to its eastern location, was felt to be out of touch with conditions nearer the frontiers. Both banks were allowed to lapse without regard to the effects such action would have on the financial stability of the country.

Centralized Financial Power to Be Avoided

These attempts taught one lesson that has conditioned our banking and financial structure ever since, namely, that the American people are determined to avoid centralized financial power whether it is public or private. It is in response to this determination that our dual banking system has evolved with its emphasis on individual unit banks. It is also because of this inherent characteristic of our people that the banks of this country operated for nearly three generations under the constant overhanging threat of recurrent money panic. The passage of the Federal Reserve Act put an end to this danger, and with its provisions for decentralization of power, organized the function of central banking in an ingenious combination of public and private management. I am thoroughly convinced that the authors of the Federal Reserve Act gave us a monumental piece of legislation—a system tailor-made for the economic expansion of our country. The System might be compared to a great pyramid with its base in the grass roots of our economy, and its apex in the Board of Governors. The breadth and strength of the pyramid is in its base, with the member banks and the Reserve Banks as elevations in the slope toward the top.

The history of the Federal Reserve is singularly free of political bias. Although in the light of hindsight there may not be agreement that the System has always done the right thing at the right time, there is general agreement that partisanship has had no place in its operations. For this, again much credit must be given to the framers of the Federal Reserve Act, who were meticulous in their efforts to safeguard the System from the pressure of special interests or partisan groups. The operation of the System is also free from profit motivation. Whether the Federal Reserve earns income over and above expenses has no influence on its policies. As you know, at present our earnings are large. Last year 90% of the System's net earnings were turned over to the Treasury.

The System is thus free of the two influences which might distract it from acting with impartial, studied judgment on matters of monetary and credit policy, solely in the public interest.

In addition to this great continuing responsibility for nonpolitical, non-profit administration of money in the public interest, the System is the lender of last resort with vast powers to extend credit in time of need. Its powers in this respect have been greatly liberalized so that the Reserve Banks may now lend on all sound assets of member banks.

Our banking and credit economy consists of an incredibly complex structure of interlocked assets and liabilities. No bank can operate that cannot convert its assets quickly into cash when depositors' use of funds results in a drain. Our markets are so organized that in normal times this conversion can take place in enormous magnitude without resort to the Reserve Bank. In periods of financial strain, however, there is no alternative but recourse to the Reserve System. This recourse to funds is always available to a member bank, with full assurance that the Federal Reserve will be in a position to meet its requirements, whatever they may be. Membership from this point of view may be thought of as that of a contributing member to a local volunteer fire company. So long as enough neighbors contribute, the protection will be adequate. Of course, in case of a conflagration noncontributors can also receive service. This is somewhat inequitable but is both humane and necessary to prevent spreading of the danger to the whole community. However, in the existence and majority support of the organization there lies great security.

I don't need to tell this audience of the day-to-day tangible advantages of Federal Reserve membership. These include the supplying of coin and currency as needed, collection of checks, collection of non-cash items, telegraphic transfers of funds, safekeeping of securities, purchase and sale of government securities, and examinations conducted in a helpful and practical spirit. It is the policy of the System constantly to improve all of these operations. Your suggestions as to improvement of any of these operations will be appreciated. One of the primary objectives of the Federal Reserve System when it was organized was to improve methods of check clearing and collection in this country. A great effort has been made to obtain this objective with the minimum of disturbance to correspondent and inter-bank relationships.

I know you also value highly the research services of the Federal Reserve, not only the regular services, but special studies such as the exhaustive one by Alfred Neal of the Boston Bank, which points out that the New England economy is far from static, as some sob-sisters would have you believe. On the contrary, it is still growing and has excellent opportunities for much further growth.

My first over-all impression of the System gave me a wholesome respect for the highly professionalized work of the research organizations of the banks and the Washington staff. Many of you have cooperated with the members of the research staffs and I know you will agree with me that the end product has established a new level of professional competence in this field. We must strive to increase their effectiveness still further. They supply the yardsticks of the present and are our eyes for the future.

Membership makes possible the performance of these services. You and I know, however, that members are subject to certain limitations relative to non-members. Members are prohibited from charging exchange on checks, are required to have larger capital to maintain out-of-town branches, are subject to greater restrictions on investments and loans of member banks, and on holding companies and interlocking directorates; are required to carry deposit insurance, and must carry large reserves with the Federal Reserve Banks.

Larger Reserve Requirements

These limitations have been developed out of experience, especially in periods of banking difficulty, and are in the interest of sound banking. By far the most serious and burdensome to you at this time is the requirement on reserves. Because of the large gold inflow of the 1930s and the legacies of war finance in the 1940s, reserves have had to be substantially increased.

It has been said that the recent increase of reserve requirements was politically inspired. That allegation does not deserve the dignity of a denial. The increase was one of the moves that we, in our best judgment, felt was necessary to restrain the growth of the money supply.

I fully realize that this instrument of monetary management has definite shortcomings. It is neither as flexible nor as selective as we would like. Especially, it is unfair under present conditions because it restricts the commercial banking system while leaving unfettered other segments of the credit system which have access to the Federal Reserve System through sales of government securities. It is also unfair in that the increases have not been made applicable to all nonmember banks. Some states, however, have been quick to respond to the action of the Federal Reserve by raising their requirements.

Quite naturally, a member bank may ask, "Why am I the goat when so many of my competitors go scot free?" There is no question but that many other agencies, public as well as private, are extending credit freely. But, gentlemen, we of the Federal Reserve have a grave responsibility to curb the rapid expansion of credit in the area in which we operate. As a member of the Board of Governors I could not be true to myself or my oath of office unless I fulfilled my responsibilities. You as members of the System also have a responsibility. If we live in a community where there are other citizens who do not accept their civic responsibilities, that does not excuse us from doing our duty. You who live in New England and carry the burden of a New England conscience will understand me, I am sure. I have frequently stressed that this inflation will not be cured by the action of one agency. The cooperative action of the American Bankers Association to persuade their members to restrain unnecessary lending has been very laudable, but in spite of it loans at commercial banks have increased over $6 billion in the year ending June 1948. In addition, commercial banks' holdings of securities, other than governments, have increased over $700 million during this period. This expansion of credit occurred at banks located in all sections of the country and at banks of all sizes, but particularly in rural areas and small cities.

Sales of Government Bonds by Non-Banks

One of the principal reasons for the increase in reserve requirements was to immobilize the reserves which have been created in the banking system during very recent months as a result of sales of government bonds to the Federal Reserve from nonbank portfolios. Since June these purchases have been far in excess of the recent increase in reserve requirements. In other words, this action has not reduced either the earning assets or the lending power of the member banks as a whole below what they were as late as midyear. In the meantime, the moves of Treasury and the Federal Reserve to raise short-term interest rates have had the incidental effect of increasing the earning power of bank assets. I fully appreciate, however, that in some individual cases the reserve increase has worked a temporary hardship and it will take expert management to adjust to the situation.

As I see it, reserves are each bank's contribution to an effective national monetary policy. It is unfortunate that this contribution is not made equally by all, for the benefits are enjoyed by all. I do not see that any threat to our dual banking system is involved in the request that reserve requirements apply equally to member and non-member banks. I am heartily in favor of the dual banking system, as I stated at the Louisville meeting of the National Association of Supervisors of State Banks. But I do think that in respect to a credit control instrument as powerful as reserves and one so vitally affecting the earning assets of banks, some degree of uniformity of application is essential to the strength and soundness of banking in this country. I do not feel that the need for preserving the respective authorities and jurisdictions of the State and national authorities in this matter presents any great difficulty. I am confident that it could be worked out satisfactorily in consultation with the State banking authorities.

Price Support of Government Bonds

There are many in this audience, I know, who would like me to say something about our price support of Government bonds which made it possible for nonbank bond sales to swell commercial bank reserves.

I will here repeat what I told the House Banking and Currency Committee on August 2nd, and said again in a talk just a month ago at Philadelphia:

"It is my view that the system is obligated to maintain a market for Government securities and to assure orderly conditions in that market, not primarily because of an implied commitment to wartime investors that their savings would be protected, nor to aid the Treasury in refunding maturing debt, but because of the widespread repercussions that would ensue throughout the economy if the vast holdings of the public debt were felt to be of unstable value."

When you consider that the public debt is one and a half times all other debt in the country combined, it seems obvious to me that the market for the Government debt securities must be one where investors can deal at all times with confidence. I remain of the conviction that for the foreseeable future the support program should be continued. This conviction is shared by all the members of the Board of Governors, the members of the Federal Open Market Committee, and by the Treasury. It is also supported by the weight of financial opinion in the country.

In the last 20 years monetary influences have assumed new prominence in the eyes of the people. Whether this is because such influences have indeed become more prominent or because the public, made more economically sophisticated by education, have come to realize the true significance, I will leave to the theorists. Suffice it to say that the boom of the late 20's, the disastrous collapse, war financing, the huge public debt, and our present inflation have all focused the attention of the public on the importance of money and credit.

So far I have dealt with the Federal Reserve System in its relation with its members in the past. In conclusion, let us turn the telescope toward the future. Admittedly, the horizon is low and the readings are very obscure. We can see, on the one hand, great promise for the American economy. Never has it had the potential that it has today. Our external relations, however, our place in the world environment that is emerging indicate responsibilities beyond the power of man to evaluate. What will be the role of the Federal Reserve System, of the Board of Governors, of the 12 Federal Reserve Banks, and of the member banks in that future? This much we can surely say, at present. The Board of Governors in Washington will continue to bear the major responsibility for the broad formulation of monetary and credit policies, adapted to the necessities of our domestic and foreign economic relations. The 12 Federal Reserve Banks, each in its region, will continue to bear the major operating responsibilities. They are the eyes, the ears, the hands of the System, adapting their operations to the regional requirements of our economy. They are also our principal advisers, providing wise counsel for System policies. They are staffed by an exceptionally competent group of individuals of the highest professional caliber. We must vigorously strive to raise the caliber even higher.

You, who are in charge of the member banks, will continue to be primarily responsible for the ultimate decisions that make an enterprise system operate. Specifically, you determine who is financed and for how much.

The responsibilities of the Board of Governors, the Reserve Banks and the member banks are inextricably bound together. No one of them can be performed successfully without parallel performance by the other two. Personally, however, I feel that your role is the most indispensable of all. Not least is your part in shaping the business leadership in this country. When you exercise your individual credit judgment, you really decide who, among all the applicants for credit, will be financed. In making that decision in the past, you have played a part in providing this country with the virile, enterprising, economic leadership for which it is famous. May you continue to play your role with wisdom, for in the days to come the world will need that leadership as never before.

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) Equivalent to—	Nov. 7	98.9	98.9	97.5	96.1
Steel ingots and castings (net tons)	Nov. 7	1,782,600	1,782,600	1,757,400	1,681,700
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Oct. 23	‡5,595,950	5,586,350	5,343,100	5,295,350
Crude runs to stills—daily average (bbls.)	Oct. 23	§5,556,000	5,562,000	§4,789,000	5,165,000
Gasoline output (bbls.)	Oct. 23	17,238,000	17,424,000	§15,100,000	16,529,000
Kerosene output (bbls.)	Oct. 23	2,077,000	2,289,000	§2,194,000	2,050,000
Gas oil and distillate fuel oil output (bbls.)	Oct. 23	7,331,000	7,528,000	§5,997,000	6,638,000
Residual fuel oil output (bbls.)	Oct. 23	9,227,000	9,191,000	§6,380,000	8,666,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines— Finished and unfinished gasoline (bbls.) at	Oct. 23	91,074,000	91,483,000	§78,669,000	82,003,000
Kerosene (bbls.) at	Oct. 23	27,329,000	26,992,000	§25,055,000	23,014,000
Gas oil and distillate fuel oil (bbls.) at	Oct. 23	80,291,000	78,647,000	§61,884,000	62,609,000
Residual fuel oil (bbls.) at	Oct. 23	80,751,000	79,411,000	§37,326,000	57,419,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 23	927,532	913,832	907,971	954,627
Revenue freight rec'd from connections (number of cars)	Oct. 23	726,864	720,063	715,334	741,803
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 28	$179,052,000	$129,008,000	$128,139,000	$82,237,000
Private construction	Oct. 28	103,421,000	55,204,000	59,530,000	33,509,000
Public construction	Oct. 28	75,631,000	73,804,000	68,609,000	48,728,000
State and municipal	Oct. 28	50,554,000	62,528,000	48,020,000	44,894,000
Federal	Oct. 28	25,077,000	11,276,000	20,589,000	3,834,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 23	12,070,000	*11,980,000	11,840,000	12,726,000
Pennsylvania anthracite (tons)	Oct. 23	1,185,000	1,223,000	1,200,000	1,234,000
Beehive coke (tons)	Oct. 23	145,500	*148,100	145,500	137,800
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 23	345	*331	319	306
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 30	5,555,254	5,538,885	5,448,554	5,009,280
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Oct. 28	104	124	112	70
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 26	3.75255c	3.75255c	3.75255c	3.19541c
Pig iron (per gross ton)	Oct. 26	$46.82	$46.82	$45.07	$36.9[illegible]
Scrap steel (per gross ton)	Oct. 26	$43.16	$43.16	$43.16	$42.5[illegible]
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper— Domestic refinery at	Oct. 27	23.200c	23.200c	23.200c	21.200c
Export refinery at	Oct. 27	23.425c	23.425c	23.425c	21.425c
Straits tin (New York) at	Oct. 27	103.000c	103.000c	103.000c	80.000c
Lead (New York) at	Oct. 27	19.500c	19.500c	19.500c	15.000c
Lead (St. Louis) at	Oct. 27	19.300c	19.300c	19.300c	14.800c
Zinc (East St. Louis) at	Oct. 27	15.500c	15.500c	15.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Nov. 1	100.69	100.69	100.70	102.71
Average corporate	Nov. 1	100.52	110.88	111.44	113.50
Aaa	Nov. 1	115.63	115.82	116.41	118.60
Aa	Nov. 1	114.08	114.08	114.46	116.80
A	Nov. 1	109.60	110.15	110.70	113.3[illegible]
Baa	Nov. 1	103.64	103.97	104.66	105.86
Railroad Group	Nov. 1	106.39	106.56	107.09	108.3[illegible]
Public Utilities Group	Nov. 1	110.88	111.62	112.00	115.24
Industrials Group	Nov. 1	114.66	114.66	115.24	117.40
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Nov. 1	2.45	2.45	2.45	2.32
Average corporate	Nov. 1	3.14	3.12	3.09	2.98
Aaa	Nov. 1	2.87	2.86	2.83	2.72
Aa	Nov. 1	2.95	2.95	2.93	2.81
A	Nov. 1	3.19	3.16	3.13	2.9[illegible]
Baa	Nov. 1	3.63	3.51	3.47	3.40
Railroad Group	Nov. 1	3.37	3.36	3.33	3.26
Public Utilities Group	Nov. 1	3.12	3.08	3.06	2.89
Industrials Group	Nov. 1	2.92	2.92	2.89	2.78
MOODY'S COMMODITY INDEX	Nov. 1	399.7	404.6	409.7	444.1
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Oct. 30	236.3	236.9	238.9	228.7
Fats and oils	Oct. 30	213.8	211.9	205.6	235.5
Farm products	Oct. 30	257.4	258.8	259.8	256.7
Cotton	Oct. 30	294.6	298.3	296.8	306.4
Grains	Oct. 30	205.9	210.8	209.9	288.2
Livestock	Oct. 30	272.2	272.1	274.1	246.5
Fuels	Oct. 30	244.1	244.1	233.8	195.0
Miscellaneous commodities	Oct. 30	171.2	169.2	170.1	172.9
Textiles	Oct. 30	192.9	194.3	194.1	217.0
Metals	Oct. 30	188.3	188.1	187.5	159.6
Building materials	Oct. 30	230.5	230.5	235.6	232.6
Chemicals and drugs	Oct. 30	156.6	156.6	157.5	154.5
Fertilizer materials	Oct. 30	142.4	142.3	142.2	133.6
Fertilizers	Oct. 30	149.8	149.8	149.8	136.9
Farm machinery	Oct. 30	151.3	146.0	146.0	128.3
All groups combined	Oct. 30	222.4	222.8	222.4	212.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 23	161,905	185,610	165,103	169,061
Production (tons)	Oct. 23	189,737	192,539	188,146	182,173
Percentage of activity	Oct. 23	95	97	94	101
Unfilled orders (tons) at	Oct. 23	359,739	384,134	358,586	431,860
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Oct. 29	143.0	143.1	143.9	147.9
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Oct. 23	165.3	164.8	168.7	158.0
Farm products	Oct. 23	183.8	182.2	190.8	190.7
Foods	Oct. 23	178.8	178.0	187.8	176.2
Hides and leather products	Oct. 23	186.0	187.6	187.9	191.3
Textile products	Oct. 23	146.2	146.8	146.7	142.1
Fuel and lighting materials	Oct. 23	138.1	138.1	137.8	117.4
Metal and metal products	Oct. 23	172.6	172.5	171.8	151.3
Building materials	Oct. 23	203.7	203.6	202.9	184.4
Chemicals and allied products	Oct. 23	133.2	134.4	133.5	126.9
Housefurnishings goods	Oct. 23	148.9	148.6	147.8	132.9
Miscellaneous commodities	Oct. 23	118.6	118.7	119.3	117.1
Special groups— Raw materials	Oct. 23	178.2	177.2	182.4	177.0
Semi-manufactured articles	Oct. 23	158.1	158.3	158.3	154.1
Manufactured products	Oct. 23	160.9	160.6	164.4	150.6
All comodities other than farm products	Oct. 23	161.1	160.9	163.8	150.9
All commodities other than farm products and foods	Oct. 23	153.4	153.5	153.3	140.2

*Revised figure. †Strike in California continues. §Excluding California figures which were unavailable due to refinery strike
‡Includes 352,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION—For month of September:			
Total gas (M therms)	2,145,464	2,084,864	1,984,486
Natural gas sales (M therms)	1,938,878	1,891,882	1,772,019
Manufactured gas sales (M therms)	145,239	136,264	142,193
Mixed gas sales (M therms)	61,347	56,718	70,274
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FED. RESERVE BANK OF NEW YORK — As of September 30:			
Imports	$135,686,000	$142,723,000	$140,078,000
Exports	37,395,000	39,877,000	41,940,000
Domestic shipments	8,576,000	9,118,000	9,210,000
Domestic warehouse credits	11,522,000	10,686,000	14,352,000
Dollar exchange	1,416,000	1,179,000	2,100,000
Based on goods stored and shipped between foreign countries	19,552,000	17,196,000	11,260,000
Total	$214,147,000	$220,779,000	$218,940,000
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. — U. S. DEPT. OF LABOR — Month of August (three 000's omitted):			
All building construction	$645,816	*$650,119	$567,983
New residential	358,815	*334,933	301,591
New nonresidential	193,374	*219,598	182,042
Additions, alterations, etc.	93,627	*95,588	84,350
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of September:			
New England	$22,878,345	$19,641,669	$15,900,563
Middle Atlantic	109,672,769	81,117,344	55,934,317
South Atlantic	31,608,333	29,000,958	33,178,826
East Central	73,555,475	78,650,851	68,282,995
South Central	48,206,677	41,474,487	43,990,713
West Central	20,640,496	20,812,364	20,361,413
Mountain	7,603,837	12,126,964	8,416,198
Pacific	55,394,396	94,256,501	61,495,415
Total United States	$369,560,328	$377,081,138	$307,560,440
New York City	80,586,824	49,784,960	33,267,078
Outside of New York City	288,973,504	327,296,178	274,293,362
COKE (BUREAU OF MINES)—Month of Sept:			
Production (net tons)	6,350,532	*6,454,717	6,020,500
Oven coke (net tons)	5,762,700	5,842,523	5,426,900
Beehive coke (net tons)	587,832	*612,194	593,600
Oven coke stocks at end of month (net tons)	1,286,884	1,123,055	1,029,088
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—As of September 30 (in millions)	$305,000	$309,000	$242,000
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES—			
Lint—Consumed month of September	739,139	728,732	728,606
In consuming establishment as of Sept. 30	1,282,404	1,246,848	1,139,357
In public storage as of Sept. 30	4,140,319	1,723,616	2,588,052
Linters—Consumed month of September	108,997	104,810	90,616
In consuming establishments as of Sept. 30	144,129	147,381	125,341
In public storage as of Sept. 30	65,628	69,228	53,521
Cotton spindles active as of Sept. 30	21,302,000	21,352,000	21,459,000
COTTON SEED — DEPT. OF COMMERCE —			
Received at mills (tons) Aug. 1 to Sept. 30	1,603,660	373,048	957,335
Crushed (tons) Aug. 1 to Sept. 30	707,521	173,060	451,852
Stocks (tons) Sept. 30	985,219	289,068	605,011
COTTON SPINNING (DEPT. OF COMMERCE)			
Spinning spindles in place on September 30	23,832,000	23,805,000	23,807,000
Spinning spindles active on September 30	21,302,000	21,352,000	21,410,000
Active spindle hours (000's omitted), Sept.	9,414,000	9,384,000	9,427,000
Active spindle hours per spindle in place, September	420	421	396
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935-39 AVERAGE=100—Month of September:			
Sales (average monthly), unadjusted	252	190	*238
Sales (average daily), unadjusted	257	187	*243
Sales (average daily), seasonally adjusted	252	256	*238
Stocks, unadjusted as of September 30	256	242	*228
Stocks seasonally adjusted as of Sept. 30	237	232	*211
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of August (000's omitted)	20,180,485	19,367,345	18,099,123
Revenue from ultimate customers—month of August	$356,618,700	$348,135,800	$315,590,400
Number of ultimate customers at Aug. 31	39,943,822	39,726,494	37,626,367
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—Month of August:			
All manufacturing	13,233,000	*12,974,000	12,928,000
Durable goods	6,700,000	*6,669,000	6,555,000
Nondurable goods	6,533,000	*6,305,000	6,373,000
Employment indexes— All manufacturing	161.5	158.4	157.8
Durable goods	185.5	*184.7	181.5
Nondurable goods	142.6	*137.6	139.1
Payroll indexes— All manufacturing	374.6	360.0	331.5
Durable goods	418.7	403.1	366.8
Nondurable goods	331.4	*317.9	297.0
Estimated number of employees in manufacturing industries— All manufacturing	16,451,000	*16,158,000	15,962,000
Durable goods	8,188,000	*8,153,000	7,987,000
Nondurable goods	8,263,000	*8,005,000	7,975,000
LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS—INSTITUTE OF LIFE INSURANCE—Month of August:			
Death benefits	$112,462,000	$116,083,000	$101,415,000
Matured endowments	30,378,000	32,185,000	28,367,000
Disability payments	7,581,000	7,711,000	6,358,000
Annuity payments	13,149,000	20,337,000	17,574,000
Surrender values	43,811,000	36,569,000	29,457,000
Policy dividends	39,898,000	40,555,000	35,218,000
Total	$247,279,000	$253,440,000	$218,389,000
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOC.)—Month of Sept.:			
Total number of vehicles	413,618	*461,313	420,269
Number of passenger cars	301,751	*348,782	307,942
Number of motor trucks	111,224	111,760	110,720
Number of motor coaches	1,143	771	1,607
NEW BUSINESS INCORPORATIONS—DUN & BRADSTREET, INC.—Month of September	6,955	6,723	8,561
PORTLAND CEMENT (BUREAU OF MINES)—Month of August:			
Production (bbls.)	18,961,000	18,721,000	17,480,000
Shipments from mills (bbls.)	20,704,000	20,994,000	20,365,000
Stocks (at end of month) (bbls.)	8,406,000	*10,149,000	10,452,000
Capacity used	91%	90%	86%

*Revised figure.

The Role of Labor in Our Expanding Economy

(Continued from page 4)

without first undergoing an intermediate recession.

But my main emphasis, as I have said, is not upon the fairly immediate economic outlook. My main emphasis relates to another opinion commonly held by businessmen and others. This is the opinion that after a few years of high prosperity, with or without an intermediate recession coming first, we shall be in for another big depression—as big or bigger than the one that started in 1929.

It is this fatalistic pessimism regarding the economic outlook 3 or 5 or 7 years hence that I desire most vigorously to challenge.

I believe that if we face-up to this long-range problem now, and commence to prepare for the future before we are up to our necks in difficulties, we can avert another catastrophic depression through moderate measures—provided that these measures are taken in time.

To ignore this long-range problem because the danger is 3 or 5 or 7 years away seems to me fundamentally inconsistent with the whole character and spirit of American enterprise. It seems to me utterly incongruous that people in their separate and individual undertakings should project their personal plans for 15 or 25 years ahead, while at the same time ignoring the potential of nationwide economic events which could sweep away the savings of a life-time—just because these events are not likely to occur in 1949 or 1950.

All that is needed to arouse us against this perilous apathy is a full realization of what another major depression would mean.

In our domestic economy, another major depression would bring untold human suffering, and losses of staggering billions of dollars. At the very least, it would incite more government intervention in the economy than any of us here would like to contemplate. At its worst, it could shake to the foundations both our form of enterprise and our form of government. Only those who secretly or openly would like to see these forms changed beyond recognition can view such a prospect with equanimity. The more conservative one is, in the best sense of that term, the more anxious one becomes to avert such a shaking-up.

When we think of the rest of the world, we become even more concerned about what a large depression in America would do. Whether or not we all agree on specific proposals, we must all be in agreement that America for its own safety and protection has a tremendous stake in the growth of free institutions rather than totalitarianism overseas. And whatever methods may be employed toward this end, nothing will be half so important as the example right here in America that our free enterprise system works successfully—without periodic breakdown or demoralization. That example would serve as a beacon light from pole to pole.

Those best informed of world events know that the avoidance of depression in America is absolutely central to the preservation and extension of free institutions in other parts of the world; and since I believe that freedom is as important as peace, and that peace cannot be maintained enduringly without freedom, it follows that maintaining American prosperity is a cornerstone of the edifice of world peace.

But these reasons for maintaining prosperity, urgent though they are, are after all on the negative side. There is an affirmative side as well. The individual businessman is not concerned solely with avoiding losses or bankruptcy. He is more generally concerned with expanding his sales, enlarging his prospects, and enhancing his earnings. The most important reason for maintaining prosperity is that to do so would assure levels of business prosperity and national progress far above historic analogy.

We have emerged from the recent war with increases in the size and capacity of our economy which exceed any flights of imagination 10 years ago.

We have a national income now running at more than $221 billion a year, contrasted with $72.5 billion in 1939 and $87.4 billion in the peak prosperity year 1929. Even after allowing for the changes in the price level, we are now producing about 50% more per capita than we ever did before the war.

We have now more than 61 million people employed, exclusive of the armed forces, contrasted with 45 million in 1939 and 47 million in 1929.

We have made gains in technology and invention during the war, the effects of which are not yet fully revealed, and we may be on the threshold of the utilization of new types of power which will create a vertible Twentieth Century industrial revolution.

It has been conservatively estimated that within 10 years we can increase our national output by more than one-third, provided that we maintain an economy which expands at a constant rate instead of swinging between the peaks of prosperity and the valleys of depressions. Whether we can achieve this stability might be called the $800 billion question; because it has been estimated that our total national income over the next 10 years will be about $800 billion higher if we maintain a constantly expanding economy than if we repeat the cyclical disturbances of the period between 1922 and 1932.

It is clear above all else that the merely technical productive capacity which we have achieved does not remove — on the contrary it accentuates — the problem of maintaining maximum employment and prosperity. For the more we increase our capacity to produce, the more realistically we must face-up to the problem of distribution—the problem of balancing productive capacity on the one side with a market for the products on the other. We want to avoid a seller's market with inflation, or a buyer's market with deflation. We want to stimulate and sustain maximum employment and maximum production through an adequate supply of purchasing power, so distributed throughout the economy that demand and supply are kept in balance at the highest feasible levels.

There is more agreement than is commonly supposed as to the core requirements for maintaining maximum production, maximum employment, and maximum purchasing power. Risking the danger of over-simplification, I would say that this core requirement is to maintain equilibrium in the flow of income between those who use it or want to invest it for additional production in order to earn still more income, and those who use it or want to use it as consumers for the satisfaction of the wants and niceties of life.

I think we would all agree that the main responsibility for the better solution of this problem of economic equilibrium does not rest with the government. It rests with our system of private enterprise, embracing the actions of businessmen, workers, farmers and consumers. It rests mainly in the area of price and wage policy, because the relationship between these two items mainly determines whether businessmen earn enough profits to stimulate productive initiative and whether consumers have enough income to buy the products as rapidly as they are produced.

We all know now that wages and prices no longer adjust themselves automatically in accord with the principles which Adam Smith derived from his observations of the much simpler economy of 175 years ago. Wages and prices are determined in large measure by the conscious and deliberate actions of business organizations, labor organizations, and others to a lesser degree. The future of our prosperity, the future of our free enterprise system, depend largely upon whether these price and wage policies are made with wisdom and foresight and temperance, and with a sound understanding of their profound effect upon general levels of economic activity—in the longer run and not only for the moment of quick but transitory gain.

Under our free system, there will never be complete agreement between management and labor regarding the wage-price-profit relationship, and some of these disagreements will continue to be settled by the relative strength of the parties. But the hope of the private enterprise system rests upon a diminishing use of force, and upon increasing knowledge and acceptance regarding those wage - price - profit relationships which will maintain production and consumption in balance at the highest feasible levels, and, therefore, contribute to the long-run benefit of management, labor, and the country at large.

I have no intention, and I do not believe that anyone has the capacity, to measure exactly the *relative* responsibility of management and labor for developing the kind of approach to price-wage adjustments which will best serve the purposes of an expanding economy. It is my view that management and labor should vie with each other in trying to make the largest possible contribution toward this end, and not contend with each other as to who is to blame when either falls short. What I shall now say lays stress upon labor's share of this responsibility only because that is my assigned topic; and opportunity will not be lacking to pass along a word to the wise in management as well.

I start with the proposition that strong and even expanding union organization is a fixed aspect of the American scene, and that practical people will turn their attention to how the power of labor organizations is to be exercised rather than to efforts to destroy or dissipate that power. Big unions, along with big business, are here to stay.

Even if it were possible to do so, I would not favor an attempt either to fragmentize business or to atomize labor unions. Under conditions of modern industrialism, this could be done only by an all-powerful government; and then the government would have to become all-pervasive to fill in the anarchic vacuum created by the destruction. The stabilization of an economy as complex as ours requires the application of specific policies at strategic points, and I would prefer to see industry and labor attain the wisdom and outlook to formulate and apply as many of these necessary policies as they can, instead of transferring too much of the responsibility by default to a monolithic governmental structure.

Organized labor, no less than organized business, has made a signal contribution to the strength and achievements of the American economy in peace and in war. The basic security programs, such as old age and unemployment insurance, have received the strong interest and support of labor, and the universally conceded benefits of these programs have not been limited to any one group. Labor's interest in better working conditions has, by sound objective analysis, contributed to the efficiency of American business. During the war, the voluntary cooperation of a well-disciplined labor movement made a compulsory manpower law unnecessary even in time of emergency. In the perspective of several decades, the more liberal wage policies that labor has helped to achieve have improved the distribution of purchasing power and are partly responsible for the better economic situation in which we now find ourselves than in the first years after World War I. There is no national undertaking of merit toward which labor has not extended invaluable assistance, and an important current illustration of this is labor's participation in the program for Eurepean Economic Recovery.

But the tasks thrust upon labor, as upon management, by our huge and complex economy leave room for still further progress. The further adaptation of labor organizations to the ever-improving performance of their role in an expanding economy cannot be achieved — as some harsh critics would seem to think—with an exterminator; it can be achieved only through the process of healthy improvement — mostly self-generated. There are many signs that much of this improvement is now under way in the ranks and leadership of labor, no less than in the ranks and leadership of business. I know that I will not be misjudged if, instead of singing the praise of what has been done, I point up some of the areas where still further progress should be sought. In identifying these paths to future progress, I want to stress most emphatically that encouraging steps have already been taken and that all we need now is a quickening of the pace.

(1) Labor should make still further progress toward abandoning the psychology of the weak sister in search of coddling and benign treatment. Whatever may have been the case a generation ago, labor has now come to exercise a powerful influence upon both economic policy and public policy. Labor is not strong enough by itself to stabilize the economy; but it is strong enough to **unstabilize** it considerably if it should pursue a mistaken course. With this strength, which no one should begrudge, labor has come to maturity and should voluntarily assume compatible responsibilities.

(2) Labor should make still further progress toward shedding the holier-than-thou attitude which implied that in any conflict of interest between workers and others the workers were always right because they represented "human rights" while others represented "property rights". This kind of comparison tended to conceal rather than to reveal real problems. The fact is that there are no property rights apart from the rights of human beings to acquire and use property; while even the right of a worker to job security may be treated as a "property right" in order to secure legal protection. We can all agree that the ultimate objective of human society is to advance human welfare; but many kinds of institutions, including those relating to property, play a part in this process.

(3) Labor should make still further progress toward discarding a unilateral approach toward the appropriateness of government regulation. It is clearly outmoded to argue that any step toward more regulation of action by business is "liberal", while any step toward more regulation of action by labor is "antiliberal." It cannot consistently be asserted that the consumer has so large an interest in prices that these should be regulated by government, but that the wage costs which enter into the making of prices should under no circumstances be affected with any kind of public interest. It cannot legitimately be argued that transportation should be subject to the most minute regulation because the nation cannot live without it, but that strikes which paralyze transportation are an unlimited right. This is not to say that all regulation should be applied in the same way to management and labor. But it is to say that labor, and management also, need to think through to a consistent and coherent philosophy of the respective roles of the free market and of government which rises above special pleading and is founded upon a case that public opinion will support.

(4) Labor should make still further progress toward stamping out artificial limitations upon production. In the long run, nobody benefits by restrictionism. Labor should concentrate increasingly upon an affirmative interest in those constructive measures which will make it profitable for all to produce fully during their working years and to retire securely at an appropriate age.

(5) Labor groups that have already become strong should make still further progress toward manifesting their concern for the problems and needs of workers who are not so favorably positioned in the bargaining process. Extreme inequities in the wage structure are not good for labor or for anybody else in the long-run. It would not be a healthy thing for America if conflict between employers and workers were to be succeeded by the banding together of rich industries and powerful unions against farmers, small business and the unorganized consumer.

(6) And finally, labor should show an ever-increasing interest, not only in the problems of labor as a whole, but in the problems of the economy as a whole—in the whole economic and social structure which is the source of labor's ultimate livelihood and the depository of labor's most precious liberties.

It is easier to preach a sermon than to lead a good life; and it is easier to tell labor what to do than to create an environment in which it will become feasible for labor to pursue even more rapidly than now the wise course outlined above. The road to be traveled involves a sustained process of education and cooperation, and little indeed can be accomplished through restrictive, punitive or exacerbating legislation. And let us always remember that nowhere outside the ranks of labor will be found a fairer recognition of progress yet to be made than within the ranks of labor itself.

All Groups Must Be Disinterested

Let us also remember this: It is of the very nature of our complex economy that a narrow and therefore shortsighted self-interest cannot be thrown aside by any one group in favor of the broader public good unless **many other groups** are willing to take similar steps at the same time. Consequently, for each of the principles that I have set down for further application by labor, there is a corresponding principle which needs at the same time to be further accepted and further applied by management and by the general public.

If labor is to get still further away from the psychology of the weak sister, then management must get still further away from the psychology of the superior or privileged big brother. Labor cannot stop acting defensively except as others stop acting aggressively. Labor cannot more fully live up to its Twentieth Century responsibilties unless management still more fully discards its Nineteenth Century prerogatives. If labor is to be asked never to push the idea of human rights above property rights too far, then others must recognize that there is a large kernel of truth in that idea when it is not pushed too far. For the idea is basically sound that "Ill fares the land, to hastening ills a prey, where wealth accumulates and men decay."

If labor is to accept even more fully the principle that the public interest may justify its submission to certain types of regulation, then that principle should not be invoked to impose restrictions or deny protections in a manner that is speciously fair in form but totally unfair in substance.

For example, labor has been hearing a great deal in recent years about how many laws have been enacted in its favor. But before passing judgment, we should also consider how many laws there already were on the statute books which extended favor or protection to others. The question is not simply what has happened recently. The fair question is whether, in the totality of the existing economy, labor is the fairhaired boy. I think not.

If labor is asked to redouble its efforts against any remaining restrictive practices which limit production in order to make the job last longer, then labor is entitled to ask whether management and the nation as a whole have developed the composite policies which will maintain full employment. Does not management also on occasion engage in restrictive practices in its own self-protection, and can either management or labor be expected to abandon these practices entirely until more is done to remove the genuine fear of industrial instability?

If labor is asked to consider even more carefully the effect of its wage demands upon prices and profits, then labor cannot in the same breath be told that the price and profit polices of business are none of labor's business. In those cases where labor is denied any share in managerial problems, it cannot fairly be asked to assume quasi-managerial responsibilites.

And finally, labor leaders and their followers cannot be asked to become supermen or angels. Whenever they are urged to adapt their policies to the national interest as a whole, they must have reasonable ground for believing that a change in their policies would serve the national interest as a whole and not merely advance the interests of some other group which wants labor to make the sacrifice play.

This leads to the conclusion that neither labor nor management can behave very differently from how they are behaving now, until some program beyond pretty words is put forward not only to convince them that they must all sink or swim together and that they all have a common interest in the welfare of the whole American economy—which they know already — but also to help them decide what is the right thing to do from this broader viewpoint.

That kind of program is now sadly lacking, and without it labor has insufficient guides for its wage demands and management insufficient guides for its price and profit policies to enable them to adjust these more exactly to the larger interests of the nation even where they have the finest desire to do so.

Such a program, furnishing the broad outlines of a nation-wide economic perspective, could serve as a guide and stimulus to labor not only in the making of its wage policies, but also in its attitude toward public issues that are decided by the force of public opinion. Labor is becoming increasingly conscious of its political as distinguished from its economic role. This merely means that labor recognizes that its economic welfare will be influenced by legislation and by national policies no less than by immediate wage decisions.

To expect that labor will stop thinking about its own self-interest when it enters the polling booth to help determine public policies is as naive as to expect that it will abandon its own self-interest at the collective bargaining table. The most that one can hope for is that labor, and other groups as well, will become wedded to a program which will serve to identify its own interests with the national interest in the field of public policy as well as in the field of collective bargaining.

Precisely the same type of nation-wide perspectives that would improve the attitude of labor and management at the bargaining table would improve their attitude in the determination of national policies. It would thus prevent the development within this country of political groupings based upon narrow class interests which could become infinitely more dangerous even than selfishly conceived collective bargaining practices or price policies.

The most difficult task before us lies in the formulation rather than in the execution of such a program based upon nation-wide perspectives. For I believe that labor, management and agriculture have the skill, the foresight, and the essential good will to put the program into practice if they knew what it ought to be. But each of them, alone looking at its own narrow segment of the economy, cannot possibly devise even the bare outlines of such a program.

Truman Victory Not Ruinous To the Stock Market

(Continued from first page)

dition, the huge bureaucracy which has been built up in the last 16 years will be continued and administration may not be much improved. (This includes such agencies as the Securities & Exchange Commission and the Federal Power Commission that have often seriously set back the interests of stockholders.)

Inflationary Aspects

On the other hand, the basically inflationary aspects of the present economy will not be changed. The huge Government spending program will be continued. Marshall Plan aid to Europe will be augmented by military lend-lease. Farm prices will be supported. High wages will insure large consumer demand, and as soon as there is a drop in employment, a Democratic Administration and Congress are more likely to embark upon large-scale public expenditures than the Republicans would be. Ceilings may again be placed over many prices, but that will result only in the return of the black market, which will set the real price of goods. Price control has been tried many times in history, but it has never worked.

The Basic Pattern

At such a time of uncertainty, it is well to look behind the immediate event at the recent market pattern and the basic factors which have been generating it. The Sept. 27 low marked the end of a 15-week decline which had begun in middle June. During the several weeks that preceded the turn, pessimism was rampant. Volume of trading was low; markets were thin and buy orders few; investors and traders could find no reason to buy stocks. To many of them, the end of the boom seemed imminent; deflation was soon to succeed inflation; war was just around the corner. The heartening facts consistently showing up in most sections of the economy were ignored, and emphasis was placed on the few divisions which showed lower sales and earnings trends; even greater emphasis was placed on predictions of trouble to come — predictions much like those which, for almost three years, have been repeatedly wrong.

The late September pessimism concerning the economic outlook of the country—much of which still lingers—was a natural consequence of three months of declining prices. Such a dark outlook has almost always accompanied the end of an intermediate decline.

Very little that the pessimists pointed to in August and September was not equally true in February and March of this year—yet in the three months that followed (April-June) it was possible for even moderately astute traders to realize profits amounting to 50-60-70% in a long list of good-quality issues.

In the face of all the pessimism surrounding the price trend in late September, the market turned up in a fresh advance which represented the beginning of the third upward "leg" in the bull market which began at the May, 1947 lows. In a period of only four weeks, the Industrial Average recovered more than four-fifths of the preceding 15-week decline. Volume expanded consistently as prices rose, indicating spreading interest in stocks. Leadership centered in the heavy-industry sections. Higher-quality issues led the way. The rise had all the characteristics of a substantial intermediate advance—it was more than just a pre-election rally discounting a universally expected outcome (regardless of the fact that that expected outcome did not develop).

The Background

What, then, was the background for the advance? Quite aside from election prospects, favorable factors were abundantly evident. Nor was it necessary to deny those factors which were pessimistic. It must, of course, be conceded that the present high rate of industrial activity, employment and national income cannot continue to rise or stay indefinitely high. But the question of timing the inevitable reversal is all-important. Currently there are so many strong phases of the economy that the present level — slightly higher in some divisions, slightly lower in others — could continue on a plateau for a good many months more.

The demand for Steel, the backbone of heavy industry, continues well in excess of supply. Other industries — Oil, Non-Ferrous Metal, Utilities — face high demand for an indefinite period. Added to the still unfilled domestic demand are the military orders given under letters of intent and the much greater orders which are to be expected when the 81st Congress acts upon military lend-lease. Price curbs will not alter this very substantial demand—and it is quite possible that, temporarily at least, they might bolster demand in those industries which are facing consumer resistance.

No Inflation in Stocks

If present-day stock prices were inflated in line with the prices of all other things, there would be more reason for a conservative attitude. But certainly, ever since early 1946, inflation has detoured the stock market. Numerous and detailed comparisons could be made between the present level of stock prices—or even the 1946 highs — and the price of almost any other commodity, in relation to prewar levels, to prove this.

In relation to their present earnings and dividends, stock prices are historically very low. At the end of 1939, the 30 Dow-Jones Industrials were selling at an average of 19 times earnings. At the 1946 high, the ratio was 20 times. At the end of September, 1948, although the average price of these shares was only 17% below the 1946 high, earnings had risen to such an extent that the ratio had fallen to 8.5. On nearly every occasion in the past, when such an abnormal price-earnings relationship has existed, the price level has not remained constant while earnings declined to a more normal relationship. The disparity has been rectified by a rise in the stock price level. Even assuming a sharp decline in earnings as a result of price ceilings—which at the worst are a number of months away—there is still room for some price improvement.

Take the matter of income return—an important subject in a time of inflation. Where else will capital buy so much present and potential income as in the stock market? Current yields are as abnormally high as price-earnings ratios are low.

An Intermediate Advance

With such a background for the recent strong advance in stock prices, the conclusion is that on Sept. 27 the price trend embarked upon a new intermediate advance. The logical expectation is for a further rise—once the current reaction is completed somewhere in the 175-178 range for the Dow-Jones Industrials — which will eventually carry beyond the Summer 1948 highs.

How Far?

Conceding that the rise from the Sept. 27 low is a new intermediate upswing in the bull market, then the question is — How far will it go? A study of all such moves in the past 50 years shows that only one-fourth have run less than 15%. More than half have accounted for gains exceeding 20%. A 15% rise from the September low at 175.99 would carry the Dow-Jones Industrial Average to 202—almost 10 points above the June, 1948 high. A 20% advance would take it to 211.

History also shows that an intermediate advance may be expected to extend anywhere from 4% to 49% above the previous intermediate high. Three-fourths of the cases have extended 8% or more—more than half, at least 18%. An 8% rise above 193.16 (the June high) would put the average at 208—an 18% advance would carry to almost 230.

If this empirical study of previous intermediate upswings in bull markets carries the weight its past accuracy deserves, then a rise to a level profitably above the 1948 highs and close to or above the 1946 highs may now be expected. In April of this year, when the average stood at 170, these same studies enabled us to project a further advance to 195—the extreme high in June was 194.49.

Applying these figures to the Rail Average, which made a low of 57.45 on Sept. 27, a 15% gain would take it to 66; a 20% advance to 69. Both these levels are comfortably above the July, 1948, high at 64.95; the latter figure is above the 1946 high at 68.31. Measured from the 1948 high of 64.85, an 8% further rise would carry the Rails to the 70 level; an 18% advance to 77.

Another question is: How long will this take? Bull market intermediate advances of the past have lasted anywhere from two weeks to more than a year. But the majority of cases range from two to four and one-half months; the median is about three months. It is reasonable, therefore, to look for generally rising prices at least to the end of 1948, before the next intermediate correction develops. (The more accurate cycle studies suggest that the first important decline is not to be expected until January or February.)

How Big A Bull Market?

We might also inquire: Will this advance mark the end of the bull market? Once a bull market has been confirmed, it is always necessary to look at each intermediate high as a possible major top. (For this reason, the market pattern of the next several months will be important in its relationship to the summer, 1948, highs.) The current upward major trend is already in its seventeenth month. But only one bull market in the past—the rather questionable one from 1921 to 1922—has lasted less than 21 months—more than half have endured for at least two years.

As for amplitude, an interesting way to examine a major trend is from the viewpoint of the further advance after the bull market has been confirmed. The current bull market was confirmed on May 14, 1948, when the Industrial Average closed at 183.60. Past experience shows that the logical minimum expectancy is for a gain over the confirmation level of 15% for the Industrials and 12% for the Rails —these estimates would suggest 215 for the Industrials and the already-exceeded level of 58 for the Rails. The median of all cases calls for a further advance of 78% (averaged they call for a 90% rise) for the Industrials, 40% for the Rails (their average is 58.5%). Thus the more probable expectancy is 330-350 for the Industrials, 72-78 for the Rails.

Today, when the Industrial Average stands at 182 and the Rails at 58, many readers will consider these projections fantastic. But in early 1944, the previous bull market had been carrying on for two years, and the Industrial Average stood at 140, up 50% from the 1942 low. Yet how many investors expected the bull market to go on for another two years and extend 70 points further? (Our projections at that time, based on the above techniques, indicated a further rise to 220 for the Industrials—the actual high was 212.50.)

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

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. Tentatively set for week of Nov. 8, depending on market conditions.

● **American Television Productions, Inc., Newark, N. J.**
Oct. 26 (letter of notification) 5,000 shares of 6% cumulative preferred stock (par $10) and 9,636 shares of common (no par). **Price**—Preferred, par; common $5 per share. **Underwriting**—None. Additional capital.

● **Argus, Inc., Ann Arbor, Mich.**
Nov. 1 filed 115,315 shares ($10 par) 5½% cumulative convertible preferred stock. **Offering** — To be offered initially for sale to stockholders at the rate of one preferred stock and purchase warrant for each 3½ shares of common stock held. With each share of preferred purchased company will issue a purchase warrant entitling the holder to buy 80/100 of a share of the company's ($1 par) common stock on or before Dec. 31, 1950. **Underwriters**—Leason & Co., Inc., and First Securities Co. **Proceeds**—For working capital.

Armstrong Rubber Co., West Haven, Conn.
June 30 (letter of notification) 1,000 shares of 4¾% cumulative convertible preferred stock, ($50 par) and 2,000 shares of class A common stock. To be sold at $44 and $11.75, respectively. This stock is being sold by James A. Walsh, President of the Company. **Underwriter**—F. Eberstadt & Co., Inc., New York.

Armstrong Rubber Co., West Haven, Conn.
July 8 (letter of notification) 1,000 shares of 4¾% cumulative convertible preferred stock ($50 par). To be sold at $44 each for Frederick Machlin, Executive Vice-President and Secretary of the company. **Underwriter**—F. Eberstadt & Co., Inc., New York.

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.

Booth (F. E.) Co., Inc., San Francisco, Calif.
Oct. 12 (letter of notification) $200,000 5-year 5% convertible notes. No underwriter. For working capital.

Bradshaw Mining Co., Tonopah, Nev.
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

Brockton (Mass.) Edison Co. (11/9)
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. **Bids**—Bids for purchase of bonds will be received up to 11 a.m. (CST) Nov. 9 at 49 Federal Street, Boston, Mass.

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 at $15 per share 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. (11/9)
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. Tentatively expected Nov. 9.

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.

● **Central Louisiana Electric Co., Inc.**
Oct. 26 (letter of notification) 12,100 shares ($10 par) common stock. **Price**—$24.75 per share. No underwriter. To reimburse the treasury of the company for past construction and to provide funds for future construction.

● **Central Maine Power Co.**
Nov. 1 filed 303,330 shares ($10 par) common stock. **Underwriter**—Coffin & Burr, Inc. **Offering**—To be offered initially to existing stockholders both preferred and common. **Proceeds** — To reduce outstanding short-term bank notes payable to The First National Bank of Boston.

Central Power & Light Co.
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Lehman Brothers; Glore, Forgan & Co.; Dewar, Robertson & Pancoast negotiated a purchase contract in April, 1948, but the SEC on July 27, 1948, concluded that financing by the proposed preferred stock issue is not necessary.

● **Central & South West Corp.**
Nov. 1 filed 659,606 shares ($5 par) common stock. **Offering**—To be offered for subscription to stockholders of record Nov. 18, 1948, and for a period of about 15 days, at the rate of one additional share for each 10 shares then held. **Underwriters**—Company will invite bids for unsubscribed shares. **Proceeds**—To invest in the common stocks of Central Power & Light Co. and Southwestern Gas & Electric Co., subsidiaries.

● **Chicago Dr. Pepper Bottling Co.**
Oct. 29 (letter of notification) 57,950 shares of Class "A" common stock ($5 par) and 2,050 shares of Class "B" common ($5 par). No underwriter. For additional working capital.

Chieftain Products, Inc., Brooklyn, N. Y.
Aug. 3 (letter of notification) 25,000 shares of common stock and 20,000 warrants. **Offering**—10,000 shares and 15,000 warrants to be offered in units (one common share and 1½ warrants) at $2.75 per unit, the balance of 15,000 shares being reserved for exercise of 15,000 warrants, purchasers of which will have the right for four years to purchase shares at $2.75 per share. General corporate purposes. **Underwriter**—Dunne & Co., New York.

Clarostat Mfg. Co., Inc., Brooklyn, N. Y.
Aug. 26 (letter of notification) 37,400 shares of 50¢ cumulative convertible preferred stock. **Underwriter**—Cantor, Fitzgerald & Co., Inc., New York. **Price**—$8 per share. Working capital, etc.

Cobalt Mines Corp., Newark, N. J.
July 26 (letter of notification) 290,000 shares of common stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. To meet obligations.

Coleraine Asbestos Co. Ltd., Montreal, Canada
Aug. 16 filed 200,000 shares of capital stock. **Price**—50 cents per share in Canadian Currency. **Underwriter**—P. E. Frechette. **Proceeds**—For drilling operations.

● **Colonial Candy Corp., Morgantown, W. Va.**
Oct. 25 (letter of notification) 149,750 shares ($1 par) common stock. **Price**—$2 per share. **Underwriter**—Grubbs, Scott & Co., Inc., Pittsburgh. To pay off debts and provide funds for 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. Rights expire Nov. 19. **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.

● **Cooperative Mines, Inc., Santa Fe, New Mex.**
Oct. 29 (letter of notification) 1,344½ shares of capital stock (par $10). Price, par. No underwriter. To finance the building and equipping of a plant.

● **Dayton (Ohio) Power & Light Co. (11/22)**
Oct. 29 filed $15,000,000 first mortgage bonds, Series A, due 1978. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. and W. E. Hutton & Co. (jointly); Blyth & Co., Inc. and The First Boston Corp.; Harriman Ripley & Co.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Union Securities Corp. and Salomon Bros. and Hutzler (jointly); Shields & Co. and Bear, Stearns & Co. (jointly). **Proceeds**—To repay $8,000,000 bank loans and to provide part of the funds for the company's construction program. Expected about Nov. 22.

● **Deardorf Oil Corp., Oklahoma City, Okla. (11/8-10)**
Oct. 26 (letter of notification) 181,800 shares (10¢ par) common stock. **Price**—$1.10 per share. **Underwriter**—Tellier & Co. For additional working capital.

Detroit Edison Co.
Oct. 19 filed $46,649,500 10-year 2.80% convertible debentures dated Dec. 1, 1948, due Dec. 1, 1958. **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 par (flat). **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.

● **Ekco Products Co., Chicago, Ill.**
Oct. 25 (letter of notification) 6,000 shares ($2.50 par) common stock. **Price**—$12.50 per share. No underwriter. For additional 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.

NEW ISSUE CALENDAR

November 4, 1948

New York Chicago & St. Louis Noon (EST) — Equip. Trust Ctfs.

November 8, 1948

American Steel & Pump Corp. — Class A Stock
Deardorf Oil Corp. — Stock
Younker Brothers, Inc. — Preferred & Com.
Youse (E. S.) Co. Inc. — Common

November 9, 1948

Associated Telephone Co., Ltd. — Bonds
Brockton Edison Co., 11 a.m. (CST) — Bonds
California Water Service Co. — Preferred
Peninsular Telephone Co. — Preferred

November 10, 1948

Detroit Edison Co. — Debenture
Hooker Electrochemical Co. — Preferred

November 15, 1948

American Bemberg Corp. — Stocks
Iowa Public Service Co. — Bonds and Common
North American Rayon Corp. — Stocks
Transcontinental Gas Pipe Line Corp. — Pref. & Com.

November 16, 1948

New York Bay RR., noon (EST) — Bonds
Northern Indiana Public Service Co. — Bonds
Northwestern Bell Telephone Co. — Debentures

November 17, 1948

Southern Indiana Gas & Electric Co. — Common

November 18, 1948

Illinois Terminal RR. — Equip. Trust Ctfs.

November 22, 1948

Dayton Power & Light Co. — Bonds
Public Service Electric & Gas Co. — Debentures

November 29, 1948

Northern Natural Gas Co. — Debentures

December 2, 1948

Peoples Gas Light & Coke Co. — Debentures

First Guardian Securities Corp., New York City
June 4 filed 36,000 shares of 5% cumulative convertible preferred stock ($25 par) and 172,000 shares ($1 par) common stock. (72,000 shares of common to be reserved for conversion of the preferred.) **Underwriter**—None. **Price**—$25 a share for the preferred and $10 for the common.

Forest Lawn Co., Glendale, Calif.
Oct. 12 (letter of notification) $295,000 of 3% debentures, series "C," due June 1, 1968. No underwriting. To make capital improvements or to pay corporate obligations.

● **Frantzhurst Rainbow Trout Co., Salida, Colo.**
Oct. 26 (letter of notification) 300,000 shares of stock (par $1). Price, par. No underwriter. To pay outstanding notes and accounts and provide working capital.

● **Gauley Mountain Coal Co.**
Oct. 28 (letter of notification) 1,200 shares of capital stock (par $10). To be sold in the "over-the-counter" market through broker-dealers in New York. Proceeds to selling stockholders.

● **Georgia Power Co., Atlanta, Ga.**
Oct. 29 filed $12,000,000 30-year first mortgage bonds. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co.; The First Boston Corp.; Morgan Stanley & Co.; Shields & Co. and Salomon Bros. & Hutzler (jointly); Lehman Brothers; Drexel & Co.; Harriman Ripley & Co. **Proceeds** — To reimburse company's treasury for construction costs.

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. Expected this month.

● **Griesedieck Western Brewery Co.**
Oct. 28 filed 50,000 shares of 5% cumulative convertible preferred shares ($30 par). **Underwriter** — Edward D. Jones & Co. **Proceeds**—Mostly to prepay a portion of the long term bank loan to Hyde Park Breweries, Inc., with which company will merge, and to finance expansion.

● **Gulfstream Aquarium Corp., New York**
Oct. 28 (letter of notification) 249 shares of capital stock (no par). **Price**—$1,000 per share. **Underwriting**—None. Development of land in Miami.

● **Harris Brothers Co., Chicago, Ill.**
Oct. 27 (letter of notification) 10,000 shares of common stock. To be offered present stockholders in direct proportion to their present holdings at $10 per share. No underwriters. For working capital.

● **Harwill, Inc., St. Charles, Mich.**
Oct. 27 (letter of notification) 125,000 shares of common stock (par $1). Price, par. **Underwriter** — Charles E. Bailey & Co. To pay current liabilities, purchase property, building and equipment and for working capital.

● **Hastings (Mich.) Manufacturing Co.**
Oct. 27 (letter of notification) 150 shares ($2 par) common stock. To be offered on behalf of Peter DePauolo at $10 per share. No underwriter.

Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.
June 25 filed 5,000 shares of class B common stock (par $100). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

Heyden Chemical Corp., New York, N. Y.
June 29 filed 59,579 shares of cumulative convertible preferred stock (no par) to be offered common stockholders in the ratio of one share of preferred for each 20 shares of common stock held. **Price**—By amendment. **Underwriter**—A. G. Becker & Co. will acquire the unsubscribed shares. **Proceeds**—To be used in part for improvement and expansion of manufacturing facilities. Offering postponed.

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.

● **Hy-klas Food Products, Inc., St. Joseph, Mo.**
Oct. 27 (letter of notification) $8,000 of 6% certificates of debenture, and 2,073 shares of common stock (par $10). No underwriter. To discharge indebtedness.

Idaho-Montana Pulp & Paper Co., Polson, Mont.
May 17 filed 100,000 shares of 4% cumulative preferred stock ($100 par) and 500,000 shares ($10 par) common stock. **Underwriter** — Tom G. Taylor & Co., Missoula, Mont. **Price**—$300 per unit, consisting of two shares of preferred and 10 shares of common stock. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

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.

● **Kay Jewelry Co. of Los Angeles, Calif.**
Oct. 26 (letter of notification) 10,000 shares ($1 par) common stock and $100,000 of debenture notes. No underwriter. To establish a jewelry store.

Lithium Corp., of America, Inc., Minneapolis
Aug. 13 filed 100,000 shares of common stock ($1 par). Stock will be sold to present warrant holders for $3 per share. No underwriting. **Proceeds**—For additional working capital.

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.

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.

● **Mineola (Texas) Farmers' Market, Inc.**
Oct. 22 (letter of notification) 26 shares (par $25). Price, par No underwriters. To install and maintain equipment.

Monarch Machine Tool Co.
Sept. 13 filed 26,000 shares of common stock (no par). **Underwriters**—F. Eberstadt & Co., Inc. and Prescott, Hawley, Shepard & Co., Inc. **Proceeds**—Stock being sold by certain stockholders. Offering indefinitely postponed.

● **Mt. Vernon Telephone Corp., Columbus, Ohio**
Oct. 25 (letter of notification) 3,000 shares of 4¼% cumulative preferred stock (par $100). Price, par. No underwriter. To reimburse the treasury for capital expenditures.

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.

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. (11/16)
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. Expected about Nov. 16.

Northern Natural Gas Co. (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.

● **Orangeburg (N. Y.) Manufacturing Co., Inc.**
Oct. 29 (letter of notification) 2,000 shares of common stock (par $10). **Price**—$16 per share. **Underwriter**—Kebbon, McCormick & Co., Chicago. Proceeds to selling stockholders.

● **Pacific Northern Airlines, Inc., Anchorage, Alaska**
Oct. 25 (letter of notification) 53,700 shares of common stock (par $1). Price, par. No underwriter. For working capital.

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. (12/2)
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.

● **Process Engineering Inc., Somerville, Mass.**
Oct. 28 (letter of notification) 2,300 shares (no par) Class "A" stock. **Price**—$50 per share. No underwriter. For general corporate purposes.

(Continued on page 46)

(Continued from page 45)

Public Service Electric & Gas Co.
June 11 filed 200,000 shares ($100 par) cumulative preferred stock. **Proceeds**—For property additions and improvements. **Underwriting**—The company rejected bids submitted Aug. 4. The SEC on Aug. 23 exempted the proposed sale from the competitive bidding rule. Sale on agency basis being discussed.

Public Service Electric & Gas Co. (11/22)
Oct. 18 filed $50,000,000 of debenture bonds, due 1963. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Morgan Stanley & Co., Kuhn, Loeb & Co. and Lehman Brothers (jointly). **Proceeds**—To retire $30,000,000 bank loans and for construction expenses. Bidding expected to be received Nov. 22.

Quebec Oil Development Ltd., Montreal, Can.
Aug. 4 filed 2,000,000 shares of capital stock, ($1 par Canadian funds). **Underwriter**—Hiscox, Van Meter & Co., Inc. Price, $1 per share (United States funds). For each 20,000 shares of stock sold, the company will deliver to the underwriter stock purchase warrants entitling the holder to purchase, on or before Sept. 1, 1950, 1,000 shares of capital stock of the company at $1.50 per share. **Proceeds**—For drilling operations.

• **Renaissance Films Distribution, Inc., Montreal, Que.**
Oct. 29 filed 40,000 shares (par $25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). **Underwriting**—None. **Offering**—Class B preferred will be offered at $25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. **Proceeds**—To pay balance of current liabilities and working capital.

St. Anthony Mines Ltd., Toronto, Can.
Aug. 6 filed 1,088,843 common shares (par $1). Price, 40 cents per share. **Underwriter**—Old Colony Securities Ltd. of Toronto. Proceeds for gold mining operations.

• **St. Elmo Mining Co., Inc., Porterville, Calif.**
Oct. 25 (letter of notification) 200,000 shares of stock (par $1). Price, par. **Underwriters**—Hyrum R. Archibald and John Pein. For mining expenses.

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.

Shoe Corp. of America, Columbus, O.
June 28 filed 25,000 shares of cumulative preferred stock (no par), with class A common share purchase warrants attached and 25,000 shares of common stock reserved for warrants. **Underwriter**—Lee Higginson Corp. **Proceeds**—For general corporate purposes. Indefinite.

Silver Ridge Mining Co., Ltd., Nelson, B. C., Canada
Aug. 24 filed 1,106,600 shares of common stock (50¢ par). **Underwriters**—Harry P. Pearson, managing director of company, and Richard K. Fudge and Victor Semenza, copartners of Pennaluna & Co. **Price**—30¢ per share U. S. funds. **Proceeds**—For exploration and other development work, to pay off loans and for other purposes.

• **Southern California Water Co.**
Oct. 27 filed 36,000 shares ($25 par) convertible preferred stock and 20,925 shares ($25 par). **Underwriters**—Harris, Hall & Co. (Inc.), and Smith, Polian & Co. **Offering**—The common will first be offered for subscription by common stockholders of record Nov. 16 at rate of one new share for each three shares held. **Proceeds**—To pay bank notes, to finance part of a construction project and to reimburse the company's treasury for past construction costs.

Southern Indiana Gas & Electric Co. (11/17)
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. Tentatively set for Nov. 17.

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.

Southwestern Associated Telephone Co.
Aug. 24 filed 22,000 shares of $2.60 cumulative (no par) preferred stock. **Underwriters** — Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp.; Rauscher, Pierce & Co. Price by amendment. **Proceeds**—To pay, in part, bank loans used for construction purposes. Indefinite.

• **State Loan & Finance Corp., Washington, D. C.**
Oct. 28 filed 60,000 shares of 6% convertible preferred ($25 par). **Underwriter**—Johnston, Lemon & Co. **Proceeds**—For additional working capital.

• **Stevens (L. C.), Inc., Oklahoma City, Okla.**
Oct. 25 (letter of notification) 2,500 shares of capital stock (par $10). Price, par. No underwriter. To purchase and drill certain oil and gas leases.

Tabor Lake Gold Mines, Ltd., Toronto, Canada
April 2 filed 300,000 shares (par $1) preferred stock. **Underwriter**—Mark Daniels & Co., Toronto, Canada. **Price**—60 cents a share. **Proceeds**—For mine developments.

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.

Tide Water Power Co., Wilmington, N. C.
July 30 filed 80,000 shares (no par) common stock. **Underwriters**—Union Securities Corp. and W. C. Langley & Co. Price by amendment. **Proceeds**—For construction

• **Times Square Stores Corp., Brooklyn, N. Y. (11/5)**
Oct. 28 (letter of notification) 10,000 units, each unit consisting of 1 share of preferred stock (par $25) and 1 share of common stock (par $1). **Price**—$25 per unit. **Underwriting**—None. Securities to be issued through directors and officers to finance expansion, etc.

Transcontinental Gas Pipe Line Corp. (11/15)
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. Tentatively scheduled for week of Nov. 15.

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 filed a maximum of 750,000 shares ((par $10) 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.

• **West Star Mining Co., Coeur d'Alene, Idaho**
Oct. 28 filed voting trust certificates for 814,017 shares of non-assessable common stock (1c par). **Proceeds**—To enable the present management to develop the property into a "commercially producing mine."

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.

Younker Brothers, Inc. (11/8-9)
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.

Youse (E. S.) Co., Inc. (11/9-10)
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. Tentatively expected Nov. 9-10.

Prospective Offerings

• **Bangor & Aroostook RR.**
Nov. 1 company asked the ICC for permission to issue $2,100,000 equipment trust certificates. Proceeds from the sale will be used to purchase 14 new diesel electric locomotives and 100 steel box cars at a cost of $2,700,000. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly).

• **Chesapeake & Ohio Ry.**
Oct. 29 directors authorized the sale of $40,000,000 new series of refunding and improvement bonds. Probable bidders include Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.

• **Consolidated Edison Co. of New York, Inc.**
Nov. 1 company filed with New York P. S. Commission petition for approval of issuance of $50,000,000 in 30-year first and refunding mortgage bonds, dated Jan. 1, 1949. Proceeds will be used to repay company treasury for expenditures involved in company's construction program and its debt retirement during the past five years. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp. (jointly); Morgan Stanley & Co.

• **Illinois Terminal RR. (11/18)**
The company has asked for bids by noon Nov. 18 on $1,000,000 equipment trust certificates, maturing semi-annually to Nov. 1, 1958. Proceeds from the sale will be used to buy 300 steel box cars at an estimated cost of $1,281,750 from American Car & Foundry Co. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler.

• **New England Telephone & Telegraph Co.**
Nov. 1 reported company may be in market with a new issue to replace at lower cost its $35,000,000 outstanding first mortgage 5% bonds, series A, due June 1, 1952. The series A bonds will become subject to redemption on June 1, 1949, upon 60 days' notice. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.

• **New York Bay RR. (11/16)**
Pennsylvania RR. has issued invitations for bids to be received before noon (EST) Nov. 16 on $14,518,000 first mortgage bonds of New York Bay RR. The bonds will be dated Oct. 1, 1948, and mature Oct. 1, 1973. The issue will have the benefit of a $300,000 annual sinking fund. The bonds will be guaranteed by endorsement by Pennsylvania RR. as to principal, interest and sinking fund. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler.

New York Chicago & St. Louis RR. (11/4)
Company will receive bids up to noon (EST) Nov. 4 for 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.

• **Philadelphia Electric Co.**
Nov. 1 reported company contemplates $19,000,000 in new financing early in 1949 in connection with a projected expenditure of $47,000,000 for new construction. The financing, it is said, will take the form of common stock through issuance of rights to stockholders to subscribe to additional shares, provided market conditions are favorable. As an alternative company is said to be considering issuance of 3% debenture bonds, with a provision for conversion into common. In the event that market conditions preclude debenture financing, then the company will raise the $19,000,000 through short-term borrowing, it is stated.

• **Potomac Edison Co.**
Nov. 1 company asked the SEC to allow competitive sale of $5,500,000 of first mortgage and collateral trust bonds, due 1977, and 30,000 shares ($100 par) cumulative preferred stock, series B. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); W. C. Langley & Co. and The First Boston Corp. (jointly); Harriman Ripley & Co., Blyth & Co., Inc., and Union Securities Corp. (jointly on stock); Shields & Co.; Equitable Securities Corp.; Lehman Brothers; Kidder, Peabody & Co. and Alex. Brown & Son (jointly). Company also plans to sell 75,000 shares (no par) common stock to West Penn Electric Co. for a cash consideration of $1,500,000. Proceeds will be used to provide Potomac and its subsidiaries with funds for construction.

• **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.; The First Boston Corp.; Glore, Forgan & Co.; Shields & Co.; Union Securities Corp. and Kidder, Peabody & Co. (jointly).

• **Utah Power & Light Co.**
Oct. 30 reported company is expected to bring another $4,000,000 of bonds to market next spring to finance its plant expansion and with about $2,500,000 of common stock later in the year. Probable bidders for bonds: Lehman Brothers and Bear, Stearns & Co. (jointly); Halsey, Stuart & Co. Inc.; White, Weld & Co.; Harriman Ripley & Co., Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Blyth & Co., Inc.

Market Forecasting Mechanics: Ally or Foe of Investment Rules?

(Continued from page 5)

logical tests based on "coppering" the presumably ill-guided action of the odd-lotters, and similar action based on the sophisticated assumption that the majority opinion must be wrong; suiting stock market policy to the laying out of future patterns according to economic or emotional "rhythms" or in conformity with the behavior of sun spots, the weather, "waves of nature," or *sidereal radiation*—all of such patterns are projected with complete indifference to the concurrent economic events (including even an election slide-in-reverse), as well as in complete disregard of anything like investment-appraisal methods. It is said that such glamorous systems as well as picture charts, can be used as an adjunct along with investment-appraisal technique. But actually, to the extent that an individual's attention is devoted to them, is he diverted from concentrating on consistent long-term investing policy.

Falling Between Two Stools

Occupation with "technical" methods presupposes that an increment of value arises from the incidence of Exchange trading. Hence here is another collision with investment-pursuit aimed at over-the-counter issues. The Stock Exchange-liquidity concept, as embraced by technicians, attaches a premium to the price of Exchange-listed issues, and a penalty against over-the-counter securities—which, whether justified or not, are antithetical to investment-value policy.

Likewise there seems to be basic antithesis between emphasis on the historical element in a price-level on the one hand, and fundamental issue analysis on the other; compromising between use of the two in actual performance inevitably leads to befuddlement. **The individual attempting to bridge the gulf between market-pictures and value-scrutiny will only "fall between the two stools."**

Our Reporter's Report

After more than a decade of experience with competitive bidding in the public utility field and a somewhat shorter span in the case of railroad issues, some people in the business are of the opinion that the investment banking fraternity has not yet mastered the situation completely.

They point to the seemingly inherent tendency to overbid and the indication that the satisfaction of securing an issue frequently appears paramount to making certain that the venture will work out profitably.

Those who are critical of present methods are certain of only one thing at the moment, to wit, that the current situation cannot go on indefinitely for the simple reason that you have got to make a profit to stay in business.

They advocate the adaptation of the municipal underwriters' code, contending that the latter rarely overbid for a new issue. The latter, it is argued, proceed to feel out potential buyer interest in advance of bidding for a "deal" and seldom bite into a "vacuum," as one observer puts it, that is, take on an issue in which no real interest is discernible upon inquiry among prospective buyers.

The Street has had several recent experiences which have not been particularly pleasant, and it will be interesting to follow the course of events in the case of the next few big issues to appear, notably Northwestern Bell Telephone's debentures, to discern evidence of a change in attitude.

Consolidated Edison Plans

Consolidated Edison Co. will be in the market for new money, provided its plans win approval of the Public Service Commission. The latter now has before it a proposal covering issuance of $50,000,000 of new 30-year first and refunding mortgage bonds.

Proceeds would be used to reimburse the utility's treasury for expenditures already made in financing its huge construction program and in carrying through the refinancing plan of the last five years.

This issue could reasonably reach market between now and the close of the year if the State authority expedites its consideration and opens the way for registration with SEC.

Chesapeake & Ohio

At least two large banking groups will be in the field when the bidding for Chesapeake & Ohio Railway's projected offering gets under way.

The road, which has planned to limit its borrowings strictly to financing of new equipment, has found since setting its budget that conditions do not permit fullfillment of this aim if contemplated expansion plans are to proceed on schedule.

Accordingly, the $40,000,000 of new refunding and improvement bonds, approved by the board of directors last Friday, is expected to provide the necessary funds.

Voting on Municipals

Voters who went to the polls this week had before them propositions calling for an overall outlay of $1.7 billion for soldier bonuses and other purposes.

The total for veteran bonuses foots up to slightly less than half a billion dollars contrasted with $770 million last year. However, a multitude of issues for other State and municipal projects serves to bring the aggregate up to the aforementioned figure.

Notwithstanding that such financing is tax-exempt, and accordingly attractive to wealthy people, the fact remains that carrying through of these programs is certain to be much more expensive to the issuing agencies than would have been the case a few years ago.

The yield on a group of selected municipal issues currently is around the 2.45% mark, which contrasts with the low of around 1.35% set only about two years ago.

HELP WANTED

SENIOR TRADER
JUNIOR TRADER

Large, old established over-the-counter house expanding its organization, has opening for a Senior Trader fully experienced to handle positions and make primary markets; also Junior Trader to assist in Trading Department. Must have previous experience. Please give age and complete record.

Address Department 40
P. O. Box 226, Church St. Station
New York 8, N. Y.

DIVIDEND NOTICES

AMERICAN RADIATOR & Standard Sanitary
New York CORPORATION Pittsburgh

PREFERRED DIVDEND
COMMON DIVIDEND

A quarterly dividend of $1.75 per share on the Preferred Stock has been declared payable December 1, 1948, to stockholders of record at the close of business on November 24, 1948.

A dividend of twenty-five cents (25¢) per share and a special dividend of fifty cents (50¢) per share on the Common Stock have been declared payable December 24, 1948, to stockholders of record at the close of business on December 1, 1948.

JOHN E. KING
Treasurer

THE FLINTKOTE COMPANY
FLINTKOTE PROTECTION
30 Rockefeller Plaza
New York 20, N. Y.
November 3, 1948

Preferred Stock

A quarterly dividend of $1.00 per [illegible] corporation, payable on December 15, 1948 to stockholders of record at the close of business December 1, 1948

Common Stock

A regular quarterly dividend of $.50 per share has been declared on the Common Stock of this corporation, payable on December 10, 1948 to stockholders of record at the close of business November 24, 1948.

A year end dividend of $.50 per share has been declared on the Common Stock of this corporation, payable December 10, 1948 to stockholders of record at the close of business November 24, 1948.

* * *

Checks will be mailed
CLIFTON W. GREGG,
Vice Pres. and Treas.

INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company have declared quarterly dividend No. 121 of one dollar and seventy-five cents ($1.75) per share on the preferred stock payable December 1, 1948, to stockholders of record at the close of business on November 5, 1948.

GERARD J. EGER, Secretary

INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company have declared a quarterly dividend of thirty-five cents (35c) per share on the common stock, payable January 15, 1949, to stockholders of record at the close of business on December 15, 1948. The Directors have also declared a special dividend of thirty cents (30c) per share on the common stock payable at the same time as the quarterly dividend, that is, January 15, 1949, to stockholders of record at the close of business on December 15, 1948.

GERARD J. EGER, Secretary

DIVIDEND NOTICES

CANCO AMERICAN CAN COMPANY

COMMON STOCK

On October 26, 1948 a special dividend of one dollar ($1.00) per share was declared on the Common Stock of this Company, payable December 15, 1948 to Stockholders of record at the close of business November 24, 1948. Transfer books will remain open. Checks will be mailed.

EDMUND HOFFMAN, *Secretary.*

HARBISON-WALKER REFRACTORIES COMPANY
Pittsburgh Pennsylvania
November 1, 1948

Board of Directors have declared for quarter ending December 31, 1948, DIVIDEND of ONE and ONE-HALF (1½%) PER CENT or $1.50 per share on PREFERRED STOCK, payable January 20, 1949 to stockholders of record January 6, 1949. Also declared a DIVIDEND of FIFTY CENTS per share on the NO PAR COMMON STOCK, payable December 1, 1948 to stockholders of record November 12, 1948.

G. F. Cronmiller, Jr., Secretary.

HOOKER ELECTROCHEMICAL COMPANY

$4.25 Cumulative Preferred Stock Dividend

The Board of Directors of Hooker Electrochemical Company on October 25, 1948 declared a quarterly dividend of $1.0625 per share upon its $4.25 Cumulative Preferred Capital Stock, payable December 28, 1948 to stockholders of record as of the close of business December 2, 1948.

Common Stock Dividend

The Board of Directors of Hooker Electrochemical Company on October 25, 1948 declared a dividend of Thirty Cents ($.30) per share upon its Common Capital Stock ($5 Par Value), payable November 26, 1948 to stockholders of record as of the close of business November 4, 1948.

ANSLEY WILCOX 2nd

PEQUOT SHEETS

NAUMKEAG
Steam Cotton Company
SALEM, MASSACHUSETTS

DIVIDEND No. 222
October 27, 1948

The Board of Directors of Naumkeag Steam Cotton Company at a meeting held on October 27, 1948 declared a dividend of One Dollar ($1.00) a share, payable on November 26, 1948 to holders of record at the close of business November 17, 1948.

RUDOLPH C. DICK
President and Treasurer

Pequot sheets and pillow cases look better, last longer.

"The Nation Sleeps on PEQUOT SHEETS"

GROUP SECURITIES, INC.

50th CONSECUTIVE *DIVIDEND*

The following 4th quarter dividends have been declared payable Nov. 26, 1948 to shareholders of record Nov. 12, 1948.

Class	†Regular	*Extra	Total
Agricultural	.11	—	.11
Automobile	.11	—	.11
Aviation	.11	.02	.13
Building	.14	—	.14
Chemical	.075	.005	.08
Elec. Equip.	.15	—	.15
Food	.09	—	.09
Fully Admin.	.075	.025	.10
General Bond	.105	.015	.12
Indust'l Mach.	.14	—	.14
Institut'l Bond	.11	—	.11
Investing Co.	.08	.02	.10
Low Priced	.06	.03	.09
Merchandising	.08	—	.08
Mining	.07	—	.07
Petroleum	.09	.05	.14
Railroad Bond	.03	.01	.04
Railroad Equip.	.08	—	.08
Railroad Stock	.055	.015	.07
Steel	.075	.025	.10
Tobacco	.06	—	.06
Utilities	.025	.005	.03

†From net investment income
*From net profits

DIVIDEND NOTICES

MIDDLE STATES PETROLEUM CORPORATION

CLASS A AND CLASS B DIVIDENDS

Dividends of $1.20 per share on the Class A stock and 60 cents per share on the Class B stock of Middle States Petroleum Corporation have been declared. Such dividends are payable on December 22, 1948, to holders of voting trust certificates and stock certificates of record at the close of business on November 27, 1948. Transfer books will not be closed.

G. B. LEIGHTON, Secretary
October 30, 1948

UGI

A semi-annual dividend of 65¢ per share, and an extra dividend of 20¢ per share, on the Capital Stock, par value $13.50 per share, have been declared, payable Dec. 18, 1948, to stockholders of record Nov. 24, 1948.

THE UNITED GAS IMPROVEMENT CO.
JOHNS HOPKINS, Treasurer
October 26, 1948 Philadelphia, Pa.

VERNEY CORPORATION

Fabrics VERNEY

COMMON DIVIDEND

The Board of Directors has declared a quarterly dividend of forty cents ($.40) per share on the Common Stock of this Corporation, payable December 1, 1948 to stockholders of record November 12, 1948.

N. C. HAYWARD, *Secretary*
October 28, 1948

AMERICAN GAS AND ELECTRIC COMPANY

Preferred Stock Dividend

● THE regular quarterly dividend of One Dollar Eighteen and Three-quarter Cents ($1.18¾) per share for the quarter ending December 31, 1948, on the 4¾% cumulative Preferred capital stock of the Company, issued and outstanding in the hands of the public, has been declared out of the surplus net earnings of the Company, payable January 3, 1949, to holders of such stock of record on the books of the Company at the close of business December 3, 1948.

Common Stock Dividend

● THE regular quarterly dividend for the quarter ending December 31, 1948 of Twenty-five Cents (25c) and 2/100ths of a share of the Common Stock of Atlantic City Electric Company on each share of the Common capital stock of this Company, issued and outstanding in the hands of the public, has been declared out of the surplus net earnings of the Company, to be payable and distributable December 15, 1948, to holders of such stock of record on the books of the Company at the close of business November 10, 1948.

Extra Common Stock Dividend

● AN extra dividend of 1/100th of a share of the Common Stock of Atlantic City Electric Company on each share of the Common capital stock of this Company, issued and outstanding in the hands of the public, has been declared out of the surplus net earnings of the Company, to be distributable December 15, 1948, to holders of such stock of record on the books of the Company at the close of business November 10, 1948.

Common Stock Dividend

● THE regular quarterly dividend for the quarter ending March 31, 1949 of Twenty-five Cents (25c) and 2/100ths of a share of the Common Stock of Atlantic City Electric Company on each share of the Common capital stock of this Company, issued and outstanding in the hands of the public, has been declared out of the surplus net earnings of the Company, to be payable and distributable March 15, 1949, to holders of such stock of record on the books of the Company at the close of business February 9, 1949.

Extra Common Stock Dividend

● AN extra dividend of 1/100th of a share of the Common Stock of Atlantic City Electric Company on each share of the Common capital stock of this Company, issued and outstanding in the hands of the public, has been declared out of the surplus net earnings of the Company, to be distributable March 15, 1949, to holders of such stock of record on the books of the Company at the close of business February 9, 1949.

H. D. ANDERSON, Secretary
November 3, 1948.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—The strongest apparent reaction to Mr. Truman's surprise re-election is that the results constituted a definite left wing victory. This is particularly emphasized in the Democrats' remarkable upset in both Houses of Congress.

Superficially, the outcome of the election suggests that New Deal proposals would get a clear track in Congress in 1949. Almost anything that Truman might propose in the way of controls and spending would seem, by this initial reaction, to be in line for enactment.

First thing to bear in mind, however, is that much of what Mr. Truman proposed, both formally in the way of legislation this year in Congress and less formally in the way of legislation allurements, was for campaign purposes. It need not all necessarily appear on the Truman legislative agenda for 1949. There is not time to enact most of it, and not all were too serious proposals.

* * *

Certainly some things would seem clear. Foreign aid and foreign military aid will get through with less criticism and by safer margins. Probably something like the Taft-Wagner-Ellender Housing Bill will sail through, despite opposition. Social Security will be extended as to occupations and benefits. Perhaps even a medical aid and Federal aid to education program will get by in 1949. This is only an offhand expectation.

* * *

The greatest uncertainty rests with the conservative South. Should the President interpret his election as a mandate to push through a Federal FEPC law, the bitterness and opposition of the Southern conservatives would be boundless. It would precipitate a reaction which would solidify the old southern Democratic-northern Republican coalition.

Likewise, anything in the way of controls would have hard sledding. Can't believe tax increases, even on business, would prove an easy project. Labor will claim as much as it can of credit for the overwhelming Democratic victory, but repeal of the Taft-Hartley Law, despite the strong Democratic majority in Congress, would raise almost as much of a fuss as an FEPC Law, solidifying the conservatives.

* * *

So, net, the stage would seem to be set for clearing through a "moderate," relatively restrained New Deal program. Too much of an aggressive or sweeping New Deal program would provoke intense bitterness, perhaps even the realignment of parties, which is not now even in a discussion stage, but which would seem in a fair way to be forced at least upon the Republicans eventually by their defeat.

Washington, however, has not yet had its sober second thoughts. It will be a long time before these have been thoroughly sifted. The first thing is what Mr. Truman will do with his victory. After that watch to see what will be the reaction thereto.

* * *

From the torrent of words which has flowed from Federal Reserve pens and Federal Reserve mouths during the past couple of weeks is indicated the course of the streambed of Federal Reserve policy. At least three FR Board Governors have made speeches of major import. One of them has made two. The Federal Reserve "Bulletin" has come forth with a tome warning of the dangers of inflation and the difficulties of credit control. Altogether these many statements create the superficial impression that the Board has rung in a concerted campaign to get power from Congress next year to further raise commercial bank reserves. Off-hand, the oratorical barrage suggests even a touch of hysteria about the inflation problem.

* * *

Actually the bursting forth of statements bunched together within a couple of weeks was largely a coincidence. The members of the Board who made these speechehs made their engagements long ago, oblivious to the fact that they would bunch up, forgetting that they would occur on the eve of the election, and without any idea they would come in the midst of the Great New York Debate of 1948 on the bond pegs. The "Bulletin" piece, of course, was actually written only a week or so after the higher reserves ordered under the August law came into operation—before anything like an appraisal of the effect of these higher reserves could be made.

What was not a coincidence was, of course, the vehemence with which the Reserve Board members argued the Board's line of action. The vehemence directly was attributable to the Great Debate. Before the attack on the pegs, Gov. Eccles argued for support of the pegs like a youngster who knew papa was going to buy him a bicycle, and merely sought to keep papa in a favorable mood. In his speech at Des Moines, Mr. Eccles acted like the boy who had been slipped the word that maybe papa was not so sure. A bicycle would make him study harder, let him own a paper route and make money, make it possible to get mama's groceries for her, and cause him maybe to grow up and be President of the United States. Removal of the peg on the 2½% rate would cause serious deflation. It would also accent inflation. It might cause a run of E bond investors on the Treasury. And it would interfere with the financing of the next war.

So, one of the first things discernible about the Reserve "flow" is that criticism has apparently hardened the Board's position in favor of the pegs.

* * *

The impression that the Board favors asking Congress for further power to control commercial bank reserves is well-founded. Perhaps the Board did not mean to launch something which looked like a campaign of that character, and perhaps it did not mean to launch such a drive at this time. Some suggest that the timing might have been better if the election had been over and if those personable, convincing, and well-informed Board members had first tried some of their persuasion upon the new Administration in private, before breaking out in public.

* * *

From this outpouring it also is apparent that the members of the Reserve Board take the most pessimistic view of Treasury budgetary prospects both for the current year and fiscal 1950.

BUSINESS BUZZ

"I'd appreciate it, Miss Floogle, if you'd stop sitting on my stencils!"

There will, of course, be much loose talk of billions for defense, ECA, and lend-lease. Undoubtedly expenditures will go up substantially in '50, but not as much as it will look like from actual appropriations, and the latter will settle down much below the preliminary, lurid headlines. It's a good bet that Congress next year will avoid risking enough spending to require materials controls, an increase in taxes, or a budgetary deficit.

* * *

There was, in Mr. Eccles' Des Moines speech, a new slant on the interest rate question. While a little indirect in his language, the Governor indicated that he felt a rise in interest rates would increase the velocity of money and negate credit restriction thereby, through stimulating saving and lending.

* * *

When Chairman McCabe testified before Congress last Summer on the proposal to increase required reserves, he indicated its use was to prevent further bank credit expansion, NOT to contract outstanding credit. Mr. Eccles indicated, on the contrary, that the objective was contraction.

* * *

Gov. Eccles all but said to Congress last Summer that if Congress did not take action to shut off some of the other economic valves swelling the flood of inflation, it wouldn't be much use restricting credit. At Des Moines he emphasized the money supply as the fundamental cause of inflation and its contraction as the means of ending inflation.

* * *

Still another indication of the course of the stream-bed of Federal Reserve policy was the emphasis placed upon controlling the reserves of non-member banks. It was indicated that the Reserve Board was substantially concerned over the discrimination the existing arrangement works upon the members, without revelation as to what, if anything, can be done concretely about this situation.

* * *

At least two Board members gave a not too veiled hint that legislation would be sought restricting the capacity of insurance companies to lend in the face of curbs upon commercial bank reserves. In this field the Reserve Board is as potent as the black snake, which can curl up and hiss, but has neither fangs nor teeth. Not even the most ambitious of New Dealers could quite square up to the political danger of trying to have the Federal Government monkey with the insurance business.

* * *

Finally, as has received greater attention in the daily press, it is apparent that the Reserve Board is trying to sell the Treasury by public statement if not in private conference, that the 1-year government rate should go to 1⅜ths.

Many persons who vaguely oppose the idea of subsidized Federal power could acquire in a 15-minute perusal of the U. S. Chamber of Commerce's, "An Analysis of the Real Cost of TVA Power," some of the solid facts of the Tennessee Valley Authority's hidden costs.

This study, issued several days ago, unfortunately was buried under the election chatter and didn't get the space in the newspapers its contents suggest it deserves.

Basically, as to TVA it is explained that:

As compared to a privately-owned power company. TVA pays $155,287,363 less in taxes;

TVA's interest costs are $18,201,704 smaller than neighboring private utilities have to pay at the market rate;

TVA's actual operating costs are lowered fictitiously by $165,282,781 under operating costs of comparable privately-owned public utilities because of an arbitrary allocation of costs to other investment factors such as flood control, and these are costs which would not be allowed to private companies by government regulatory agencies.

Hence, even deducting TVA's power revenue, it operates with a loss of $279 million annually due to the hidden subsidies, or at a loss greater than its power revenues by 100%.

There is one difference between the beautiful Chamber of Commerce study and the equally beautiful if simpler government brochure contrarily in the form of a plea for money. The parlor maid probably couldn't understand the Chamber of Commerce analysis.